

Chapter 26 Savings and Investment Practice Test

Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question.

- _____ 1. Savers
 - a. and borrowers demand money from the financial system.
 - b. and borrowers supply money to the financial system.
 - c. demand money from the financial system; borrowers supply money to the financial system.
 - d. supply money to the financial system; borrowers demand money from the financial system.

- _____ 2. When large corporations, the federal government, or state and local governments need to borrow to finance their purchases, they usually borrow
 - a. directly from the public by selling bonds.
 - b. directly from the public by buying bonds.
 - c. indirectly from the public by buying bonds.
 - d. None of the above are correct.

- _____ 3. Stock represents
 - a. a claim to the profits of a firm.
 - b. ownership in a firm.
 - c. equity finance.
 - d. All of the above are correct.

- _____ 4. Compared to bonds, stocks offer the holder
 - a. higher risk.
 - b. potentially higher return.
 - c. ownership in a firm.
 - d. All of the above are correct.

- _____ 5. Which of the following is not an important stock exchange in the United States?
 - a. New York Stock Exchange
 - b. American Stock Exchange
 - c. Chicago Mercantile Exchange
 - d. NASDAQ

- _____ 6. The single most important piece of information about a stock is the
 - a. price-earnings ratio.
 - b. dividend.
 - c. volume.
 - d. price.

- _____ 7. The amount of revenue a firm receives for the sale of its products minus its costs of production (as measured by its accountants) is the firm's
 - a. earnings.
 - b. retained earnings.
 - c. economic, or real, profit.
 - d. dividend.

- _____ 8. It is claimed that a secondary advantage of mutual funds is that
- an investor can avoid investment charges and fees.
 - they give ordinary people access to loanable funds for investing.
 - they give ordinary people access to the skills of professional money managers.
 - All of the above are correct.
- _____ 9. The slope of the supply of loanable funds curve represents the
- positive relation between the real interest rate and investment.
 - positive relation between the real interest rate and saving.
 - negative relation between the real interest rate and investment.
 - negative relation between the real interest rate and saving.
- _____ 10. If Congress reduced the tax on interest income,
- investment and saving would increase.
 - investment and saving would decrease.
 - investment would increase and saving would decrease.
 - investment would decrease and saving would increase.
- _____ 11. If the government currently has a budget deficit,
- it does not necessarily have a debt.
 - the debt is increasing.
 - government expenditures are greater than taxes.
 - All of the above are correct.
- _____ 12. An increase in the budget deficit would
- cause a shortage of loanable funds at the original interest rate, which would lead to rising interest rates.
 - cause a shortage of loanable funds at the original interest rate, which would lead to falling interest rates.
 - cause a surplus of loanable funds at the original interest rate, which would lead to rising interest rates.
 - cause a surplus of loanable funds at the original interest rate, which would lead to falling interest rates.
- _____ 13. Financial markets are
- the financial institutions through which savers can indirectly provide funds to borrowers.
 - the financial institutions through which savers can directly provide funds to borrowers.
 - the financial institutions that sell shares to the public and use the proceeds to buy a selection of various types of stocks and/or bonds.
 - None of the above are correct.
- _____ 14. The term of a bond is the
- interest rate of the bond.
 - credit risk rating of the bond.
 - principal amount of the bond.
 - length of time until the bond matures.

- _____ 15. Which bond would you expect to pay the highest interest rate?
- a bond of the U.S. government
 - a bond issued by a new restaurant chain
 - a bond issued by General Motors
 - a bond issued by New York state
- _____ 16. The sale of stocks
- and bonds to raise money is called debt finance.
 - and bonds to raise money is called equity finance.
 - to raise money is called debt finance, while the sale of bonds to raise funds is called equity finance.
 - to raise money is called equity finance, while the sale of bonds to raise funds is called debt finance.
- _____ 17. Stock indexes are
- reports in the newspapers that report on the price of the stock and earnings of the corporation.
 - measures of the risk relative to the profitability of corporations.
 - the average of a group of stock prices.
 - the average of a group of stock yields.
- _____ 18. A budget deficit is created when the government
- buys back more bonds than it issues.
 - spends more than it receives in tax revenue.
 - receives more tax revenue than it spends.
 - None of the above are correct.
- _____ 19. A higher interest rate induces people to
- save more, so the demand for loanable funds slopes upward.
 - save less, so the demand for loanable funds slopes downward.
 - invest more so the demand for loanable funds slopes upward.
 - invest less so the demand for loanable funds slopes downward.