***Economics of Money, Banking, and Fin. Markets, 8Ce* (Mishkin)**

**Chapter 1 Why Study Money, Banking, and Financial Markets?**

1.1 Why Study Financial Markets?

1) Financial markets promote economic efficiency by \_\_\_\_\_\_\_\_.

A) channelling funds from investors to savers

B) generating inflationary pressures

C) channelling funds to those who have a productive use for them

D) reducing investment spending

Answer: C

Diff: 1 Type: MC

Skill: Recall

Objective: 1.1 Recognize the importance of financial markets in the economy

2) Well-functioning financial markets are the source of \_\_\_\_\_\_\_\_.

A) inflation

B) deflation

C) unemployment

D) economic growth

Answer: D

Diff: 1 Type: MC

Skill: Recall

Objective: 1.1 Recognize the importance of financial markets in the economy

3) A key factor in promoting strong economic growth is \_\_\_\_\_\_\_\_.

A) to reduce foreign trade

B) well-functioning financial markets

C) high interest rates

D) stock market volatility

Answer: B

Diff: 1 Type: MC

Skill: Recall

Objective: 1.1 Recognize the importance of financial markets in the economy

4) Markets in which funds are transferred from those who do not have a productive use for them to those who do are called \_\_\_\_\_\_\_\_.

A) commodity markets

B) fund-available markets

C) derivative exchange markets

D) financial markets

Answer: D

Diff: 1 Type: MC

Skill: Recall

Objective: 1.1 Recognize the importance of financial markets in the economy

5) \_\_\_\_\_\_\_\_ markets transfer funds from people who do not have a productive use for them to people who do.

A) Commodity

B) Fund-available

C) Financial

D) Derivative exchange

Answer: C

Diff: 1 Type: MC

Skill: Recall

Objective: 1.1 Recognize the importance of financial markets in the economy

6) Poorly performing financial markets can lead to \_\_\_\_\_\_\_\_.

A) increased wealth

B) more poverty

C) financial stability

D) economic growth

Answer: B

Diff: 1 Type: MC

Skill: Recall

Objective: 1.1 Recognize the importance of financial markets in the economy

7) The bond markets are important because they are \_\_\_\_\_\_\_\_.

A) easily the most widely followed of the financial markets in Canada

B) the markets where foreign exchange rates are determined

C) where corporations and governments can borrow to finance their activities

D) the markets where all borrowers obtain funds

Answer: C

Diff: 1 Type: MC

Skill: Recall

Objective: 1.1 Recognize the importance of financial markets in the economy

8) A security is also known as \_\_\_\_\_\_\_\_.

A) a financial instrument

B) a contingent claim

C) the interest rate

D) a liability

Answer: A

Diff: 1 Type: MC

Skill: Applied

Objective: 1.1 Recognize the importance of financial markets in the economy

9) A bond \_\_\_\_\_\_\_\_.

A) is not as good an investment as stocks

B) pays interest sporadically

C) never pays interest

D) makes periodic payments for a specified period

Answer: D

Diff: 1 Type: MC

Skill: Recall

Objective: 1.1 Recognize the importance of financial markets in the economy

10) The fluctuation of interest rates \_\_\_\_\_\_\_\_.

A) never occurs because the central bank is responsible for setting the rate

B) is due to changes in stock prices

C) cannot occur because there is only one interest rate

D) impacts all Canadians

Answer: D

Diff: 1 Type: MC

Skill: Recall

Objective: 1.1 Recognize the importance of financial markets in the economy

11) The cost of borrowing funds is commonly referred to as the \_\_\_\_\_\_\_\_.

A) inflation rate

B) exchange rate

C) interest rate

D) aggregate price level

Answer: C

Diff: 1 Type: MC

Skill: Recall

Objective: 1.1 Recognize the importance of financial markets in the economy

12) Compared to interest rates on long-term bonds, interest rates on three-month Treasury bills fluctuate \_\_\_\_\_\_\_\_ and are \_\_\_\_\_\_\_\_ on average.

A) more; lower

B) less; lower

C) more; higher

D) less; higher

Answer: A

Diff: 1 Type: MC

Skill: Applied

Objective: 1.1 Recognize the importance of financial markets in the economy

13) The interest rate on long-term corporate bonds is \_\_\_\_\_\_\_\_, on average, than other interest rates. The spread between it and other rates \_\_\_\_\_\_\_\_ over time.

A) lower; remains constant

B) lower; fluctuates

C) higher; remains constant

D) higher; fluctuates

Answer: D

Diff: 1 Type: MC

Skill: Applied

Objective: 1.1 Recognize the importance of financial markets in the economy

14) Everything else held constant, a rise in interest rates will lead to \_\_\_\_\_\_\_\_ house sales.

A) increased

B) unchanged

C) either increases, declines, or unchanged

D) decreased

Answer: D

Diff: 2 Type: MC

Skill: Applied

Objective: 1.1 Recognize the importance of financial markets in the economy

15) High interest rates might \_\_\_\_\_\_\_\_ purchasing a house or car but at the same time high interest rates might \_\_\_\_\_\_\_\_ saving.

A) discourage; encourage

B) discourage; discourage

C) encourage; encourage

D) encourage; discourage

Answer: A

Diff: 2 Type: MC

Skill: Applied

Objective: 1.1 Recognize the importance of financial markets in the economy

16) An increase in interest rates might \_\_\_\_\_\_\_\_ people to save because more can be earned in interest income.

A) encourage

B) discourage

C) disallow

D) invalidate

Answer: A

Diff: 2 Type: MC

Skill: Recall

Objective: 1.1 Recognize the importance of financial markets in the economy

17) Everything else held constant, an increase in interest rates on student loans \_\_\_\_\_\_\_\_.

A) may increase the cost of education

B) may reduce the cost of education

C) has no effect on the cost of education

D) increases the cost of education for students with no loans

Answer: A

Diff: 2 Type: MC

Skill: Applied

Objective: 1.1 Recognize the importance of financial markets in the economy

18) A common stock \_\_\_\_\_\_\_\_.

A) cannot be purchased by individuals

B) is also known as a debt security

C) is a share of ownership in a corporation

D) pays interest when the company makes profits.

Answer: C

Diff: 1 Type: MC

Skill: Recall

Objective: 1.1 Recognize the importance of financial markets in the economy

19) A share of common stock is a claim on a corporation's \_\_\_\_\_\_\_\_.

A) debt

B) liabilities

C) expenses

D) earnings and assets

Answer: D

Diff: 1 Type: MC

Skill: Recall

Objective: 1.1 Recognize the importance of financial markets in the economy

20) Lower interest rates might create an incentive for a company to \_\_\_\_\_\_\_\_ building a new plant thus generating more jobs.

A) complete

B) postpone

C) consider

D) start

Answer: C

Diff: 1 Type: MC

Skill: Applied

Objective: 1.1 Recognize the importance of financial markets in the economy

21) Bonds of different maturities \_\_\_\_\_\_\_\_.

A) have no common features

B) have interest rates that tend to move together

C) have interest rates that can differ substantially

D) B and C only

Answer: D

Diff: 1 Type: MC

Skill: Recall

Objective: 1.1 Recognize the importance of financial markets in the economy

22) The stock market is important because it is \_\_\_\_\_\_\_\_.

A) where interest rates are determined

B) the most widely followed of the financial markets in the Canada

C) where foreign exchange rates are determined

D) the market where most borrowers obtain funds

Answer: B

Diff: 1 Type: MC

Skill: Recall

Objective: 1.1 Recognize the importance of financial markets in the economy

23) Stock prices, as measured by the S&P/TSX Composite Index, \_\_\_\_\_\_\_\_.

A) have not changed much over time

B) have risen smoothly over time

C) have been extremely volatile over time

D) have declined substantially since they peaked in the mid 1980s

Answer: C

Diff: 1 Type: MC

Skill: Applied

Objective: 1.1 Recognize the importance of financial markets in the economy

24) Stock prices are \_\_\_\_\_\_\_\_.

A) relatively stable and have trended upward at a steady pace over time

B) relatively stable and have trended downward at a moderate rate over time

C) extremely volatile over time

D) unstable and have trended downward at a moderate rate over time

Answer: C

Diff: 2 Type: MC

Skill: Recall

Objective: 1.1 Recognize the importance of financial markets in the economy

25) Changes in stock prices \_\_\_\_\_\_\_\_.

A) do not affect people's wealth and their willingness to spend

B) affect firms' decisions to sell stock to finance investment spending

C) are predictable

D) are unimportant to decision makers

Answer: B

Diff: 2 Type: MC

Skill: Recall

Objective: 1.1 Recognize the importance of financial markets in the economy

26) A \_\_\_\_\_\_\_\_ is an example of a security, which is a claim on a company's future income or \_\_\_\_\_\_\_\_.

A) bond; interest rate

B) bond; debt

C) stock; assets

D) stock; debt

Answer: C

Diff: 1 Type: MC

Skill: Recall

Objective: 1.1 Recognize the importance of financial markets in the economy

27) On \_\_\_\_\_\_\_\_, October 19, 1987, the market experienced its worst one-day drop in its entire history with the S&P/TSX Composite index falling by 11 percent.

A) "Terrible Tuesday"

B) "Woeful Wednesday"

C) "Freaky Friday"

D) "Black Monday"

Answer: D

Diff: 1 Type: MC

Skill: Recall

Objective: 1.1 Recognize the importance of financial markets in the economy

28) Fluctuations in stock prices \_\_\_\_\_\_\_\_.

A) have become less volatile since year 2000

B) since year 2000 are about the same as they were before year 2000

C) have become more volatile since year 2000

D) have been almost eliminated since year 2000

Answer: C

Diff: 1 Type: MC

Skill: Recall

Objective: 1.1 Recognize the importance of financial markets in the economy

29) The S&P/TSX Composite reached a peak of over 14000 in 2008 and then fell by \_\_\_\_\_\_\_\_.

A) 10%

B) 30%

C) 50%

D) 70%

Answer: C

Diff: 1 Type: MC

Skill: Recall

Objective: 1.1 Recognize the importance of financial markets in the economy

30) When I purchase a corporate \_\_\_\_\_\_\_\_, I am lending the corporation funds for a specific time. When I purchase a corporation's \_\_\_\_\_\_\_\_, I become an owner in the corporation.

A) bond; stock

B) stock; bond

C) stock; debt security

D) bond; debt security

Answer: A

Diff: 1 Type: MC

Skill: Recall

Objective: 1.1 Recognize the importance of financial markets in the economy

31) By 2020, the S&P/TSX Composite reached a new high of over \_\_\_\_\_\_\_\_.

A) 8000

B) 11000

C) 14000

D) 17000

Answer: D

Diff: 1 Type: MC

Skill: Recall

Objective: 1.1 Recognize the importance of financial markets in the economy

32) Why is it important to understand the bond market?

Answer: The bond market supports economic activity by enabling the government and corporations to borrow to undertake their projects and it is the market where interest rates are determined.

Diff: 2 Type: ES

Skill: Recall

Objective: 1.1 Recognize the importance of financial markets in the economy

33) What is a stock? How do stocks affect the economy?

Answer: A stock represents a share of ownership of a corporation, or a claim on a firm's earnings/assets. Stocks are part of wealth, and changes in their value affect people's willingness to spend. Changes in stock prices affect a firm's ability to raise funds, and thus their investment.

Diff: 2 Type: ES

Skill: Recall

Objective: 1.1 Recognize the importance of financial markets in the economy

1.2 Why Study Financial Institutions and Banking?

1) Channelling funds from individuals with surplus funds to those needing funds when the saver does not directly purchase the borrower's security is known as \_\_\_\_\_\_\_\_.

A) barter

B) redistribution

C) financial intermediation

D) taxation

Answer: C

Diff: 2 Type: MC

Skill: Applied

Objective: 1.2 Describe how financial intermediation and financial innovation affect banking and the economy

2) A financial crisis is \_\_\_\_\_\_\_\_.

A) not possible in the modern financial environment

B) a major disruption in the financial markets

C) a feature of developing economies only

D) typically followed by an economic boom

Answer: B

Diff: 1 Type: MC

Skill: Recall

Objective: 1.2 Describe how financial intermediation and financial innovation affect banking and the economy

3) Banks are important to the study of money and the economy because they \_\_\_\_\_\_\_\_.

A) channel funds from investors to savers

B) have been a source of rapid financial innovation

C) are the only important financial institution in the Canadian economy

D) create inflation

Answer: B

Diff: 1 Type: MC

Skill: Recall

Objective: 1.2 Describe how financial intermediation and financial innovation affect banking and the economy

4) Financial crises are characterized by \_\_\_\_\_\_\_\_.

A) surging employment

B) hyperinflation

C) a decline in asset prices

D) high profits in the financial sector

Answer: C

Diff: 1 Type: MC

Skill: Recall

Objective: 1.2 Describe how financial intermediation and financial innovation affect banking and the economy

5) Chartered banks, trust and mortgage loan companies, and credit unions and *caisses populaires* \_\_\_\_\_\_\_\_.

A) no longer provide financial intermediation services

B) since deregulation, now provide services only to small depositors

C) accept deposits and make loans

D) are the source of fluctuations in the stock market

Answer: C

Diff: 2 Type: MC

Skill: Recall

Objective: 1.2 Describe how financial intermediation and financial innovation affect banking and the economy

6) Banks \_\_\_\_\_\_\_\_.

A) are the smallest of the financial intermediaries in Canada

B) are the largest of the financial intermediaries in Canada

C) are barred from providing financial intermediation services

D) are limited to providing financial intermediation services to corporations only

Answer: B

Diff: 1 Type: MC

Skill: Recall

Objective: 1.2 Describe how financial intermediation and financial innovation affect banking and the economy

7) Financial institutions that accept deposits and make loans include \_\_\_\_\_\_\_\_.

A) stock exchanges

B) banks

C) investment banks

D) finance companies

Answer: B

Diff: 1 Type: MC

Skill: Recall

Objective: 1.2 Describe how financial intermediation and financial innovation affect banking and the economy

8) Which of the following are the largest financial intermediaries in the Canadian economy?

A) Insurance companies

B) Finance companies

C) Banks

D) Mutual funds

Answer: C

Diff: 1 Type: MC

Skill: Recall

Objective: 1.2 Describe how financial intermediation and financial innovation affect banking and the economy

9) The term "bank" generally includes all the following institutions except \_\_\_\_\_\_\_\_.

A) chartered banks

B) credit unions

C) trust and mortgage loan companies

D) finance companies

Answer: D

Diff: 1 Type: MC

Skill: Recall

Objective: 1.2 Describe how financial intermediation and financial innovation affect banking and the economy

10) The delivery of financial services electronically is called \_\_\_\_\_\_\_\_.

A) e-business

B) e-commerce

C) e-finance

D) e-possible

Answer: C

Diff: 1 Type: MC

Skill: Recall

Objective: 1.2 Describe how financial intermediation and financial innovation affect banking and the economy

11) Financial innovation can lead to \_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_.

A) phishing; financial gain

B) higher interest rates; higher inflation

C) higher profits; financial disasters

D) lower interest rates; lower inflation

Answer: C

Diff: 1 Type: MC

Skill: Recall

Objective: 1.2 Describe how financial intermediation and financial innovation affect banking and the economy

12) What crucial role do financial intermediaries perform in an economy?

Answer: Financial intermediaries borrow funds from people who have saved and make loans to other individuals and businesses and thus improve the efficiency of the economy.

Diff: 1 Type: ES

Skill: Recall

Objective: 1.2 Describe how financial intermediation and financial innovation affect banking and the economy

13) Why is the study of financial innovation important?

Answer: Financial innovation shows how creative thinking on the part of financial institutions can lead to higher profits.

Diff: 2 Type: ES

Skill: Recall

Objective: 1.2 Describe how financial intermediation and financial innovation affect banking and the economy

1.3 Why Study Money and Monetary Policy?

1) Money is defined as \_\_\_\_\_\_\_\_.

A) bills of exchange

B) anything that is generally accepted in payment for goods and services or in the repayment of debt

C) a repository of spending power

D) the unrecognized liability of governments

Answer: B

Diff: 1 Type: MC

Skill: Recall

Objective: 1.3 Identify the basic links between monetary policy, the business cycle, and economic variables

2) The cyclical upward and downward movement of aggregate output in the economy is referred to as the \_\_\_\_\_\_\_\_.

A) roller coaster

B) see saw

C) business cycle

D) shock wave

Answer: C

Diff: 1 Type: MC

Skill: Recall

Objective: 1.3 Identify the basic links between monetary policy, the business cycle, and economic variables

3) Sustained downward movements in the business cycle are referred to as \_\_\_\_\_\_\_\_.

A) inflation

B) recessions

C) economic recoveries

D) expansions

Answer: B

Diff: 1 Type: MC

Skill: Recall

Objective: 1.3 Identify the basic links between monetary policy, the business cycle, and economic variables

4) During a recession, output declines resulting in \_\_\_\_\_\_\_\_.

A) lower unemployment in the economy

B) higher unemployment in the economy

C) no impact on the unemployment in the economy

D) higher wages for the workers

Answer: B

Diff: 1 Type: MC

Skill: Recall

Objective: 1.3 Identify the basic links between monetary policy, the business cycle, and economic variables

5) Prior to all recessions, there has been a drop in \_\_\_\_\_\_\_\_.

A) inflation

B) the stock of money

C) the rate of money growth

D) interest rates

Answer: C

Diff: 1 Type: MC

Skill: Recall

Objective: 1.3 Identify the basic links between monetary policy, the business cycle, and economic variables

6) Evidence from business cycle fluctuations in Canada indicates that \_\_\_\_\_\_\_\_.

A) a negative relationship between money growth and general economic activity

B) recessions have been preceded by declines in share prices on the stock market

C) recessions have been preceded by a depreciation of the Canadian dollar

D) recessions have been preceded by a decline in the growth rate of money

Answer: D

Diff: 2 Type: MC

Skill: Recall

Objective: 1.3 Identify the basic links between monetary policy, the business cycle, and economic variables

7) \_\_\_\_\_\_\_\_ theory relates changes in the quantity of money to changes in aggregate economic activity and the price level.

A) Monetary

B) Fiscal

C) Financial

D) Systemic

Answer: A

Diff: 1 Type: MC

Skill: Recall

Objective: 1.3 Identify the basic links between monetary policy, the business cycle, and economic variables

8) A sharp increase in the growth of the money supply is likely followed by \_\_\_\_\_\_\_\_.

A) a recession

B) a depression

C) an increase in the inflation rate

D) no change in the economy

Answer: C

Diff: 2 Type: MC

Skill: Recall

Objective: 1.3 Identify the basic links between monetary policy, the business cycle, and economic variables

9) Inflation \_\_\_\_\_\_\_\_.

A) can be explained by changes in the price level and money supply

B) cannot be explained historically

C) is unrelated to monetary variables

D) changes in government policy

Answer: A

Diff: 1 Type: MC

Skill: Recall

Objective: 1.3 Identify the basic links between monetary policy, the business cycle, and economic variables

10) The average price level of goods and services in the economy is called \_\_\_\_\_\_\_\_

A) the aggregate price level

B) inflation

C) interest rates

D) deflation

Answer: A

Diff: 1 Type: MC

Skill: Recall

Objective: 1.3 Identify the basic links between monetary policy, the business cycle, and economic variables

11) It is true that inflation is a \_\_\_\_\_\_\_\_.

A) continuous increase in the money supply

B) continuous fall in prices

C) decline in interest rates

D) continually rising price level

Answer: D

Diff: 1 Type: MC

Skill: Recall

Objective: 1.3 Identify the basic links between monetary policy, the business cycle, and economic variables

12) Which of the following is a true statement?

A) Money or the money supply is defined as Bank of Canada notes.

B) The average price of goods and services in an economy is called the aggregate price level.

C) The inflation rate is measured as the rate of change in the federal government budget deficit.

D) The aggregate price level is measured as the rate of change in the inflation rate.

Answer: B

Diff: 2 Type: MC

Skill: Recall

Objective: 1.3 Identify the basic links between monetary policy, the business cycle, and economic variables

13) If ten years ago the prices of the items bought last month by the average consumer would have been much lower, then one can likely conclude that \_\_\_\_\_\_\_\_.

A) the aggregate price level has declined during this ten-year period

B) the average inflation rate for this ten-year period has been positive

C) the average rate of money growth for this ten-year period has been positive

D) the aggregate price level has risen during this ten-year period

Answer: D

Diff: 2 Type: MC

Skill: Applied

Objective: 1.3 Identify the basic links between monetary policy, the business cycle, and economic variables

14) From 1970-2020 the price level in Canada increased more than \_\_\_\_\_\_\_\_.

A) threefold

B) sixfold

C) sevenfold

D) ninefold

Answer: C

Diff: 2 Type: MC

Skill: Applied

Objective: 1.3 Identify the basic links between monetary policy, the business cycle, and economic variables

15) Complete Milton Friedman's famous statement, "Inflation is always and everywhere a \_\_\_\_\_\_\_\_ phenomenon."

A) recessionary

B) discretionary

C) repressionary

D) monetary

Answer: D

Diff: 1 Type: MC

Skill: Recall

Objective: 1.3 Identify the basic links between monetary policy, the business cycle, and economic variables

16) There is a \_\_\_\_\_\_\_\_ relationship between inflation and the growth rate of money \_\_\_\_\_\_\_\_.

A) positive; demand

B) positive; supply

C) negative; demand

D) negative; supply

Answer: B

Diff: 1 Type: MC

Skill: Recall

Objective: 1.3 Identify the basic links between monetary policy, the business cycle, and economic variables

17) Evidence from Canada and other foreign countries indicates that \_\_\_\_\_\_\_\_.

A) there is a strong positive association between inflation and growth rate of money supply over long periods of time

B) there is little support for the assertion that "inflation is always and everywhere a monetary phenomenon"

C) countries with low monetary growth rates tend to experience higher rates of inflation, all else being constant

D) money growth is clearly unrelated to inflation

Answer: A

Diff: 2 Type: MC

Skill: Applied

Objective: 1.3 Identify the basic links between monetary policy, the business cycle, and economic variables

18) The Covid-19 recession \_\_\_\_\_\_\_\_.

A) had little effect on the unemployment rate

B) led to a sharp rise in the unemployment rate

C) led to a small rise in the unemployment rate

D) led to a drop in the unemployment rate

Answer: B

Diff: 2 Type: MC

Skill: Recall

Objective: 1.3 Identify the basic links between monetary policy, the business cycle, and economic variables

19) Countries that experience very high rates of inflation may also have \_\_\_\_\_\_\_\_.

A) balanced budgets

B) rapidly growing money supplies

C) falling money supplies

D) constant money supplies

Answer: B

Diff: 2 Type: MC

Skill: Recall

Objective: 1.3 Identify the basic links between monetary policy, the business cycle, and economic variables

20) In the late 1970s, interest rates trended upward in Canada. During this same period, \_\_\_\_\_\_\_\_.

A) the rate of money growth declined

B) the rate of money growth increased

C) the government budget deficit (expressed as a percentage of GDP) trended downward

D) inflation fell

Answer: B

Diff: 2 Type: MC

Skill: Applied

Objective: 1.3 Identify the basic links between monetary policy, the business cycle, and economic variables

21) The management of money and interest rates is called \_\_\_\_\_\_\_\_ policy and is conducted by a nation's \_\_\_\_\_\_\_\_ bank.

A) monetary; superior

B) fiscal; superior

C) fiscal; central

D) monetary; central

Answer: D

Diff: 1 Type: MC

Skill: Recall

Objective: 1.3 Identify the basic links between monetary policy, the business cycle, and economic variables

22) What organization is responsible for the conduct of monetary policy in Canada?

A) Royal Canadian Mint

B) The Department of Finance

C) The Bank of Canada

D) The Superintendent of Financial Institutions

Answer: C

Diff: 1 Type: MC

Skill: Recall

Objective: 1.3 Identify the basic links between monetary policy, the business cycle, and economic variables

23) \_\_\_\_\_\_\_\_ policy involves decisions about government spending and taxation.

A) Monetary

B) Fiscal

C) Risk Management

D) Systemic

Answer: B

Diff: 1 Type: MC

Skill: Recall

Objective: 1.3 Identify the basic links between monetary policy, the business cycle, and economic variables

24) When tax revenues are greater than government expenditures, the government has a budget \_\_\_\_\_\_\_\_.

A) crisis

B) deficit

C) surplus

D) revision

Answer: C

Diff: 1 Type: MC

Skill: Recall

Objective: 1.3 Identify the basic links between monetary policy, the business cycle, and economic variables

25) A budget \_\_\_\_\_\_\_\_ occurs when government expenditures exceed tax revenues for a particular period.

A) deficit

B) surplus

C) surge

D) surfeit

Answer: A

Diff: 1 Type: MC

Skill: Recall

Objective: 1.3 Identify the basic links between monetary policy, the business cycle, and economic variables

26) Budget deficits can be a concern because they might \_\_\_\_\_\_\_\_.

A) ultimately lead to higher inflation

B) lead to lower interest rates

C) lead to a slower rate of money growth

D) lead to higher bond prices

Answer: A

Diff: 1 Type: MC

Skill: Recall

Objective: 1.3 Identify the basic links between monetary policy, the business cycle, and economic variables

27) What happens to economic growth and unemployment during a business cycle recession? What is the relationship between the money growth rate and a business cycle recession?

Answer: During a recession, output declines and unemployment increases. Prior to every recession in Canada the money growth rate has declined, however, not every decline is followed by a recession.

Diff: 2 Type: ES

Skill: Recall

Objective: 1.3 Identify the basic links between monetary policy, the business cycle, and economic variables

28) Describe the relationship between the aggregate price level and the growth rate in the money supply. Can this relationship explain inflation?

Answer: The price level and the money supply generally move closely together. There is a positive relationship between inflation and the growth rate of the money supply. Friedman says that "inflation is always and everywhere a monetary phenomenon."

Diff: 2 Type: ES

Skill: Recall

Objective: 1.3 Identify the basic links between monetary policy, the business cycle, and economic variables

1.4 Why Study International Finance?

1) Canadian companies can borrow funds \_\_\_\_\_\_\_\_.

A) only in Canadian financial markets

B) only in foreign financial markets

C) in both Canadian and foreign financial markets

D) only from the Canadian government

Answer: C

Diff: 1 Type: MC

Skill: Recall

Objective: 1.4 Explain the importance of exchange rates in a global economy

2) The price of one country's currency in terms of another country's currency is called the \_\_\_\_\_\_\_\_.

A) foreign exchange rate

B) interest rate

C) TSE index

D) inflation rate

Answer: A

Diff: 1 Type: MC

Skill: Recall

Objective: 1.4 Explain the importance of exchange rates in a global economy

3) The foreign exchange rate is \_\_\_\_\_\_\_\_.

A) determined by the banks

B) not important to most Canadians

C) the relative price of two currencies

D) the ratio of the foreign aggregate price level to the domestic aggregate price level

Answer: C

Diff: 1 Type: MC

Skill: Recall

Objective: 1.4 Explain the importance of exchange rates in a global economy

4) The market where one currency is converted into another currency is called the \_\_\_\_\_\_\_\_ market.

A) security

B) bond

C) derivatives

D) foreign exchange

Answer: D

Diff: 1 Type: MC

Skill: Recall

Objective: 1.4 Explain the importance of exchange rates in a global economy

5) Everything else constant, a stronger Canadian dollar will mean that \_\_\_\_\_\_\_\_.

A) vacationing in England becomes more expensive

B) vacationing in England becomes less expensive

C) French cheese becomes more expensive in the eyes of Canadians

D) Japanese cars become more expensive in the eyes of Canadians

Answer: B

Diff: 2 Type: MC

Skill: Applied

Objective: 1.4 Explain the importance of exchange rates in a global economy

6) Which of the following is most likely to result from a stronger Canadian dollar?

A) Canadian goods exported aboard will cost less in foreign countries, and so foreigners will buy more of them.

B) Canadian goods exported aboard will cost more in foreign countries and so foreigners will buy more of them.

C) Canadian goods exported abroad will cost more in foreign countries, and so foreigners will buy fewer of them.

D) Canadians will purchase fewer foreign goods.

Answer: C

Diff: 2 Type: MC

Skill: Applied

Objective: 1.4 Explain the importance of exchange rates in a global economy

7) Everything else held constant, a weaker Canadian dollar will likely hurt \_\_\_\_\_\_\_\_.

A) textile exporters in Quebec

B) wheat farmers in Saskatchewan that sell domestically

C) automobile manufacturers in Ontario that use domestically produced inputs

D) furniture importers in British Columbia

Answer: D

Diff: 2 Type: MC

Skill: Applied

Objective: 1.4 Explain the importance of exchange rates in a global economy

8) Everything else held constant, Canadians who love French wine benefit most from \_\_\_\_\_\_\_\_.

A) a decrease in the dollar price of euros

B) an increase in the dollar price of euros

C) a constant dollar price for euros

D) a ban on imports from Europe

Answer: A

Diff: 2 Type: MC

Skill: Applied

Objective: 1.4 Explain the importance of exchange rates in a global economy

9) Everything else held constant, a stronger Canadian dollar benefits \_\_\_\_\_\_\_\_ and hurts \_\_\_\_\_\_\_\_.

A) Canadian businesses; Canadian consumers

B) Canadian businesses; foreign businesses

C) Canadian consumers; Canadian businesses

D) foreign businesses; Canadian consumers

Answer: C

Diff: 2 Type: MC

Skill: Applied

Objective: 1.4 Explain the importance of exchange rates in a global economy

10) From 2002 to 2008, the Canadian dollar \_\_\_\_\_\_\_\_ in value.

A) appreciated by approximately 25% against the US dollar

B) appreciated by approximately 50% against the US dollar

C) depreciated by approximately 50% against the US dollar

D) depreciated by approximately 25% against the US dollar

Answer: B

Diff: 1 Type: MC

Skill: Applied

Objective: 1.4 Explain the importance of exchange rates in a global economy

11) When in 1985 a British pound cost approximately C$1.30, a Shetland sweater that cost 100 British pounds would have cost C$130. With a weaker Canadian dollar, the same Shetland sweater would have cost \_\_\_\_\_\_\_\_.

A) less than $130

B) more than $130

C) $130, since the exchange rate does not affect the prices that Canadian consumers pay for foreign goods

D) $130, since the demand for Shetland sweaters will decrease to prevent an increase in price due to the stronger dollar

Answer: B

Diff: 2 Type: MC

Skill: Applied

Objective: 1.4 Explain the importance of exchange rates in a global economy

12) Everything else held constant, a decrease in the value of the Canadian dollar relative to all foreign currencies means that the price of foreign goods purchased by Canadians \_\_\_\_\_\_\_\_.

A) increases

B) decreases

C) remains unchanged

D) increases initially but then decreases

Answer: A

Diff: 1 Type: MC

Skill: Recall

Objective: 1.4 Explain the importance of exchange rates in a global economy

13) Canadian farmers who sell beef to Europe benefit most from \_\_\_\_\_\_\_\_.

A) a decrease in the Canadian dollar price of euros

B) an increase in the Canadian dollar price of euros

C) a constant Canadian dollar price for euros

D) a European ban on imports of Canadian beef

Answer: B

Diff: 2 Type: MC

Skill: Applied

Objective: 1.4 Explain the importance of exchange rates in a global economy

14) If the Canadian dollar price of a euro increases from $1.00 to $1.10, then, everything else held constant, \_\_\_\_\_\_\_\_.

A) a European vacation becomes less expensive

B) a European vacation becomes more expensive

C) the cost of a European vacation is not affected

D) foreign travel becomes impossible

Answer: B

Diff: 2 Type: MC

Skill: Applied

Objective: 1.4 Explain the importance of exchange rates in a global economy

15) From 2002—2011, the dollar strengthened in value against other currencies. Who was helped and who was hurt by this strong dollar?

Answer: Canadian consumers benefitted because imports were cheaper, and consumers could purchase more goods from abroad. Canadian businesses and workers were hurt as domestic and foreign sales of Canadian products fell.

Diff: 2 Type: ES

Skill: Applied

Objective: 1.4 Explain the importance of exchange rates in a global economy

1.5 Money, Banking, and Financial Markets and Your Career

1) Students studying money, banking, and financial markets will learn \_\_\_\_\_\_\_\_.

A) critical thinking skills that will be useful in all careers

B) how to time the market

C) stock market tips

D) nothing of practical value

Answer: A

Diff: 1 Type: MC

Skill: Recall

Objective: 1.5 Explain how the study of money, banking, and financial markets may advance your career

1.6 How We Will Study Money, Banking, and Financial Markets

1) The basic concepts used in the analytic framework of this text include all of the following EXCEPT \_\_\_\_\_\_\_\_.

A) the not-for-profit nature of most financial institutions

B) a basic supply and demand analysis to explain the behavior of financial markets

C) an approach to financial structure based on transaction costs and asymmetric information

D) the concept of equilibrium

Answer: A

Diff: 1 Type: MC

Skill: Recall

Objective: 1.6 Describe how the text approaches the teaching of money, banking, and financial markets

2) Using a unified analytic framework to present the information in the text keeps the knowledge \_\_\_\_\_\_\_\_.

A) focused on theories that have little to do with actual behaviour

B) theoretical and uninteresting

C) abstract and not applicable to real life

D) from becoming obsolete

Answer: D

Diff: 1 Type: MC

Skill: Recall

Objective: 1.6 Describe how the text approaches the teaching of money, banking, and financial markets