ECON30150 (International Money and Banking)

MIDTERM EXAM

March 6, 2017

There are 50 questions in this exam. You have one hour to complete it. All questions have only one correct answer. There is no negative marking so you will get 2 points for each correct answer.

1. Which economist wrote about the introduction of money solving the problem of “the double coincidence of wants”?

(A) Charles Goodhart
(B) William Stanley Jevons
(C) John Maynard Keynes
(D) Adam Smith

2. What did the Germans do to the get the islanders of Yap to co-operate with improving the condition of the roads?

(A) Place marks on the Yap stones to claim ownership.
(B) Pay them with Deutsche Marks.
(C) Pay them with dollars
(D) Confiscate the Yap stones.

3. “The Economic Organisation of a P.O.W Camp” was written by

(A) R.A. Radford
(B) Milton Friedman
(C) John Maynard Keynes
(D) John Hicks

4. Charles Goodhart’s 1998 paper “Two Concepts of Money”

(A) Argues that governments have been critical in introducing monetary systems.
(B) Promotes the idea that money emerged gradually as an efficient alternative to barter.
(C) Was the first paper to outline “Goodhart’s Law”
(D) Put forward the idea of optimal currency areas.

5. “The Great Debasement” took place under which English monarch?

(A) Henry VII
(B) Henry VIII
(C) Elizabeth I
(D) James I

6. What happened in the UK during the “Great Restriction” period of 1797-1821?

(A) The Gold Standard was introduced.
(B) The Bank of England ceased swapping its notes for the equivalent amount of gold coins.
(C) The gold content of the Bank of England’s coins was reduced.
(D) The amount of credit in supply was greatly restricted relative to earlier periods.

7. A fiat currency system is one in which currency

(A) Can be directly exchanged for specific amounts of precious metals such as gold.
(B) Is issued by private banks.
(C) Can be ordered by banks in return for a debit to their reserve accounts.
(D) Has no intrinsic value beyond its use as a medium of exchange.

8. Which of the following is true about the average maturity of bank assets and liabilities?

(A) Bank assets tend to have shorter maturities than bank liabilities.
(B) Bank assets tend to have longer maturities than bank liabilities.
(C) Bank assets need to be managed so they have similar maturities to bank liabilities.
(D) Whether a bank’s assets have longer or shorter maturities than liabilities depends on which kind of bank they are.

9. Consider the following bank balance sheet:

Assets		**Liabilities and Equity**	
Cash	10	Deposits	200
Reserves	30	Bonds Issued	20
Loans	200	Equity Capital	X
Total	240	Total	Y

Which of the following is true?

(A) We can’t know what X or Y are given the information here.
(B) X = 30 because the bank’s reserves equal 30.
(C) X = 20 and Y = 240
(D) X = 0 and Y = 220

10. Which of the following is NOT true about a bank's equity capital?

(A) It equals assets minus liabilities
(B) It is an accounting concept whose value depends on methods used to value assets.
(C) It is a stock of high quality, liquid assets set aside for use when things go wrong.
(D) It is an estimate of the amount of money shareholders would receive if the bank was wound up, its assets sold and its creditors were paid off.

11. Which of the following actions would help a bank to boost its equity capital?

(A) Using proceeds from paid-off loans to reduce liabilities instead of making new loans.
(B) Re-allocating assets towards safer items like high-quality government bonds.
(C) Cancelling a planned payment of dividends to shareholders.
(D) Issuing bonds and using the proceeds to raise the level of working capital.

12. Consider the following bank balance sheet which was presented in the lecture notes:

Assets		**Liabilities and Equity**	
Cash and Reserves	1	Deposits	100
Loans	149	Equity Capital	50
Total	150	Total	150

How was this bank described in class?

(A) A bank with a liquidity problem but not a solvency problem.
(B) A bank with neither liquidity nor solvency problems.
(C) A bank with a solvency problem but not a liquidity problem.
(D) A bank with both liquidity and solvency problems.

13. In the years since the global financial crisis, most large banks have had

(A) A book value of equity greater than market value.
(B) A book value of equity less than market value.
(C) A book value of equity roughly equal to market value.
(D) There is no set pattern – the ratio of book to equity has moved around a lot.

14. Which of the following is a possible reason why the book value of a bank's equity as reported in its accounts differs from the market value of the bank's shares?

(A) The book value depends on the value of subordinated bonds.
(B) The value of the bank's assets may be lower than recorded in its accounts.
(C) The market value depends on the value of the bank's bad loan provisions.
(D) The book value depends on the expected future dividends.

15. The term fractional reserve banking refers to the fact that

(A) Only a fraction of a bank’s reserves are held with the central bank.
(B) Only a fraction of a bank’s deposits are held as cash or reserves.
(C) Only a fraction of a bank’s equity is in the form of reserves.
(D) Only a fraction of a bank’s liabilities are in the form of reserves.

16. The public should be concerned about a central bank losing money on its investments or loans it makes to banks because:

(A) Large losses by a central bank tend to lead to inflation.
(B) Large losses by a central bank could lead to the central bank becoming insolvent.
(C) Central banks return their profits to the fiscal authorities so these losses mean a loss of money for the taxpayer compared to if the central bank had been repaid.
(D) The value of a currency is backed by the central bank’s assets and a fall in the value of these assets tends to cause a fall in the value of the currency.

17. Which of the following now accounts for most of the “liabilities” recorded on the Federal Reserve’s balance sheet?

(A) Currency in Circulation
(B) The Treasury’s account with the Fed
(C) Mortgage-backed securities
(D) Reserve accounts of private banks

18. The period around the introduction of the euro coins and notes in 2002 saw:

(A) A big decline in currency in circulation in 2001 followed by a big increase in 2002.
(B) A big increase in currency in circulation in 2001 followed by a big decline in 2002.
(C) A sustained decline in the average value of bank notes in circulation.
(D) A big decline in money in bank accounts in 2001 followed by a big increase in 2002.

19. The monetary base is defined as

(A) Currency in circulation.
(B) Reserves held at the central bank.
(C) Currency in circulation plus reserves held at the central bank.
(D) Currency in circulation plus checking deposits.

20. The money multiplier is defined as

(A) The money supply divided by the monetary base.
(B) The monetary base divided by the money supply.
(C) The amount of times a bank can lend out a unit of deposits.
(D) The ratio of bank lending to bank capital.

21. Which of the following equations defines the money multiplier when r is the reserve requirement ratio, e is the ratio of excess reserves to deposits and c is the ratio of currency to deposits?

(A) 1/r
(B) (1 + c) / (r +e)
(C) (1 + c) / (r + e + c)
(D) (1 +e + c) / (r + e + c)

22. Friedman and Schwartz's analysis of the Great Depression found that

(A) The monetary base had grown faster than M1
(B) The money multiplier had significantly increased.
(C) Monetary velocity had become highly unpredictable.
(D) The money multiplier had significantly declined.

23. Milton Friedman recommendations for monetary policy were that central banks should:

(A) Target short-term interest rates.
(B) Target a steady percentage increase in a measure of the money supply such as M1.
(C) Target a steady percentage increase in the monetary base.
(D) Adjust the money supply to respond to cyclical economic fluctuations.

24. Milton Friedman believed that monetary policy:

(A) Had no effect on GDP in either the short or long run and it just affected inflation.
(B) Had a short-run on effect on GDP but central banks should not use monetary policy to affect the economy apart from in serious crises.
(C) Had no effect on GDP in the short run but did in the long run.
(D) Should be used to respond to cyclical fluctuations in the economy.

25. Which of the following equations defines the velocity of money:

(A) MY = VP
(B) MP = VY
(C) MV = PY
(D) M + V = Y + P

26. The velocity of money

(A) Tends to be lower in high inflation economies
(B) Tends to be higher in high inflation economies.
(C) Is defined to be unchanged with respect to inflation.
(D) No longer displays a relationship with inflation.

27. In the United States, the M1 velocity of money

(A) Was unpredictable until the late 1970s but then became more predictable.
(B) Was predictable until the late 1970s but then became unpredictable.
(C) Was unpredictable until the late 1990s but then became more predictable.
(D) Was predictable until the late 1990s but then became more unpredictable.

28. Who said "Inflation is always and everywhere a monetary phenomenon"?

(A) Paul de Grauwe
(B) Alan Greenspan
(C) Milton Friedman
(D) Paul Volcker

29. The government in Venezuala have recently done which of the following due to high inflation?

(A) Linked their currency to gold
(B) Introduced a new currency
(C) Introduced new higher denomination bank notes
(D) Passed a ban on increasing prices

30. The large amounts of money banks in the United States are keeping in reserve accounts with the Fed

(A) Shows that banks are not making many loans to firms and households.
(B) Is a sign that banks are concerned about coping with a run.
(C) Is a direct result of the creation of reserves by the Fed.
(D) Is likely to trigger inflationary pressures.

31. Which of the following was NOT a problem for the Federal Reserve from 1979 to 1982, when they pursued monetarist policies under Chairman Paul Volcker?

(A) They were unsuccessful in getting inflation under control.
(B) They found it difficult to predict the velocity of M1.
(C) They found it difficult to predict the money multiplier.
(D) The federal funds rate was highly volatile.

32. The legal basis for the ECB was first set out in:

(A) The Lisbon Treaty
(B) The Treaty of Rome
(C) The Frankfurt Treaty
(D) The Maastricht Treaty

33. The ECB Governing Council currently has how many members?

(A) 25
(B) 19
(C) 17
(D) 6

34. Assuming all the Board of Governor and District Bank President positions are filled, the Federal Open Market Committee (FOMC) has how many eligible voting members at its monetary policy meetings?

(A) 7
(B) 12
(C) 19
(D) 10

35. Which of the following is true about the Federal Reserve?

(A) It has always paid interest on reserves.
(B) It has never paid interest on reserves.
(C) It ceased paying interest on reserves in 2008.
(D) It started paying interest on reserves in 2008.

36. In a “corridor” system of monetary policy, which of the following is true?

(A) The interest rate paid on central bank reserves tends to be higher than both money market rates and the central bank’s lending facility rate.
(B) The interest rate paid on central bank reserves tends to be lower than money market rates and the central bank’s lending facility rate tends to be higher
(C) Money market rates tend to be lower than both the interest rate paid on central bank reserves and the central bank lending facility rate.
(D) Money market rates tend to be higher than both the interest rate paid on central bank reserves and the central bank lending facility rate.

37. The standard term for someone to serve as Chairman of the Federal Reserve Board of Governors is

(A) 14 years
(B) 4 years
(C) 5 years
(D) 10 years

38. After Paul Volcker's appointment as Chairman in 1979, the Federal Reserve

(A) Moved to targeting the federal funds rate.
(B) Announced a new lower target for inflation.
(C) Moved to targeting the money supply.
(D) Moved to targeting nominal GDP.

39. Who carries out the Eurosystem's monetary policy operations?

(A) The ECB
(B) The Bundesbank
(C) All of the participating national central banks.
(D) The Bundesbank, the Banque de France and the Banca d'Italia

40. The short-term interest rate that the ECB targets is called the

(A) EONIA rate.
(B) One-month Euribor rate.
(C) Bund rate.
(D) Libor rate.

41. The accession of Lithuania to the euro triggered a legal clause that means which of the following for the ECB Governing Council?

(A) All monetary policy issues must be settled by an explicit vote rather than by consensus.
(B) Voting rights rotate with ten countries each month not getting to vote.
(C) Only heads of central banks from smaller central banks will sometimes not get to vote.
(D) All countries will occasionally miss votes but smaller countries will miss more than others.

42. Which of the following is true about the interest rate on the ECB's deposit facility?

(A) It is currently zero.
(B) It is always one percentage point lower than the main refinancing rate.
(C) It is currently negative.
(D) It is currently 0.40%

43. Which of the following is NOT true about European interest rates such as EONIA, the ECB MRO rate and the ECB deposit rate?

(A) EONIA traditionally moved in line with the deposit rate.
(B) EONIA traditionally moved in line with the MRO rate.
(C) The deposit rate is traditionally lower than the MRO rate.
(D) EONIA previously moved in line with the MRO rate but now moves in line with the deposit rate.

44. The ECB's standing facilities (its marginal lending and deposit facilities)

(A) Are used every week to control money market interest rates.
(B) Provide an upper and lower limit for Euro area money market rates.
(C) Are rarely used, so have essentially no effect on money market rates.
(D) Are modelled on facilities that have long been used by the Federal Reserve.

45. Which of the following was NOT listed in the lecture notes as an explanation for the rise in non-deposit funding at banks

(A) Globalisation
(B) Deepening of financial markets
(C) Deregulation of the financial sector
(D) Stronger capital adequacy regulations

46. Non-deposit bank funding

(A) Is an increasingly important source of bank capital due to globalisation
(B) Tends to leave a bank more quickly during a banking crisis
(C) Tends to leave a bank less quickly during a banking crisis
(D) Is usually cheaper for a bank than deposit funding

47. Which of the following describes the moral hazard problem created by government insurance of bank deposits?

(A) It encourages banks to take too much risk.
(B) It encourages depositors to do risky things with their money.
(C) It leads to governments interfering in the running of banks.
(D) Government intervention makes banks too conservative, reducing their profits.

48. Subordinated bonds issued by banks

(A) Are an important bank asset that can be used when the bank gets into trouble.
(B) Rank equal to a bank's deposits for repayment when the bank is put into liquidation.
(C) Rank below a bank's deposits for repayment when the bank is put into liquidation.
(D) Rank above to a bank's deposits for repayment when the bank is put into liquidation.

49. In banking policy, the term "Bank resolution" refers to

(A) The process of closing a bank and using its assets to pay off its creditors.
(B) The process of resolving a bank's problems by recapitalising it.
(C) Nationalising a bank.
(D) Providing a bank with time to resolve its problems prior to it being closed.

50. What is the name of the directive that came into law in Europe in 2015 that allows for a common rulebook for "resolving" failing banks?

(A) The Bank Recovery and Resolution Directive (BRRD).
(B) The Financial Institution Resolution Directive (FIRD).
(C) The Bank Deposit Insurance Fund Directive (BDIFD).
(D) The Common Rulebook Directive (CRD).