

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) A bank's balance sheet
 - A) shows that total assets equals total liabilities plus equity capital.
 - B) lists sources and uses of bank funds.
 - C) indicates whether or not the bank is profitable.
 - D) does all of the above.
 - E) does only A and B of the above.

- 2) Which of the following statements are true?
 - A) A bank's balance sheet has the property that total assets equal the sum of total liabilities and equity capital.
 - B) A bank's liabilities are its sources of funds.
 - C) A bank's assets are its uses of funds.
 - D) Each of the above are true.
 - E) Only A and B of the above are true.

- 3) Which of the following statements is false?
 - A) The bank's assets provide the bank with income.
 - B) A bank issues liabilities to acquire funds.
 - C) A bank's assets are its uses of funds.
 - D) Bank capital is an asset in the bank balance sheet.

- 4) Which of the following are reported as liabilities on a bank's balance sheet?
 - A) Deposits with other banks
 - B) Loans
 - C) Checkable deposits
 - D) Reserves

- 5) The fraction of checkable deposits that banks are required by regulation to hold are
 - A) required reserves.
 - B) excess reserves.
 - C) vault cash.
 - D) all of the above.
 - E) both A and B of the above.

- 6) Which of the following are reported as assets on a bank's balance sheet?
 - A) Cash items in the process of collection
 - B) U.S. Treasury securities
 - C) Deposits with other banks
 - D) All of the above

- 7) Which of the following are not reported as assets on a bank's balance sheet?
 - A) Loans
 - B) Discount loans from the Fed
 - C) Reserves
 - D) Only A and B of the above

- 8) In general, banks make profits by selling _____ liabilities and buying _____ assets.
 - A) long-term; shorter-term
 - B) short-term; longer-term
 - C) risky; risk-free
 - D) illiquid; liquid

- 9) Asset transformation can be described as
- A) borrowing long and lending short.
 - B) making only high-interest loans.
 - C) borrowing short and lending long.
 - D) borrowing and lending only for the short term.
 - E) borrowing and lending for the long term.
- 10) When you deposit \$50 in currency at Old National Bank,
- A) its reserves increase by \$50.
 - B) its assets increase by \$50.
 - C) its liabilities increase by \$50.
 - D) each of the above occurs.
 - E) only A and B of the above occur.
- 11) A banker has the following concerns:
- A) to have enough ready cash to meet deposit outflows.
 - B) to acquire funds at low cost.
 - C) to acquire and maintain adequate capital.
 - D) to minimize risk by diversifying asset holdings.
 - E) each of the above.
- 12) If a bank has \$100,000 of deposits, a required reserve ratio of 20 percent, and it holds \$40,000 in reserves, then the maximum deposit outflow it can sustain without altering its balance sheet is
- A) \$25,000.
 - B) \$30,000.
 - C) \$10,000.
 - D) \$20,000.
- 13) If a bank has \$10 million of deposits, a required reserve ratio of 10 percent, and it holds \$2 million in reserves, then it will not have enough reserves to support a deposit outflow of
- A) \$1.2 million.
 - B) \$1 million.
 - C) \$1.1 million.
 - D) either A or B of the above.
- 14) A bank with insufficient reserves can increase its reserves by
- A) buying municipal bonds.
 - B) calling in loans.
 - C) buying short-term Treasury securities.
 - D) lending federal funds.
 - E) all of the above.
- 15) The goals of bank asset management include
- A) purchasing securities with high returns and low risk.
 - B) lending at high interest rates regardless of risk.
 - C) maximizing risk.
 - D) minimizing liquidity
 - E) all of the above.

- 16) A bank is insolvent when
- A) its capital exceeds its liabilities.
 - B) its liabilities exceed its assets.
 - C) its assets increase in value.
 - D) its assets exceed its liabilities.
 - E) its capital account increases.
- 17) A bank failure occurs whenever
- A) a bank cannot satisfy its obligations to pay its depositors and have enough reserves to meet its reserve requirements.
 - B) a bank suffers a large deposit outflow.
 - C) a bank is not allowed to borrow from the Fed.
 - D) a bank has to call in a large volume of loans.
- 18) Holding large amounts of bank capital helps prevent bank failures because
- A) it makes loans easier to sell.
 - B) it makes it easier to call in loans.
 - C) it means that the bank has a higher income.
 - D) it can be used to absorb the losses resulting from a deposit outflow.
- 19) Net profit after taxes per dollar of assets is a basic measure of bank profitability called
- A) return on capital.
 - B) return on assets.
 - C) return on equity.
 - D) return on investment.
- 20) Given the return on _____, the return to the owners of the bank is _____ for a _____ amount of bank capital.
- A) liabilities; higher; lower
 - B) assets; higher; lower
 - C) assets; lower; lower
 - D) assets; higher; higher
 - E) liabilities; lower; lower
- 21) Provisions in loan contracts that prohibit borrowers from engaging in specified risky activities are called
- A) liens.
 - B) restrictive covenants.
 - C) due-on-sale clauses.
 - D) proscription bonds.
- 22) When a lender refuses to make a loan, although borrowers are willing to pay the stated interest rate or even a higher rate, the bank is said to engage in
- A) credit rationing.
 - B) coercive bargaining.
 - C) strategic holding out.
 - D) collusive behavior.
- 23) All else the same, if a bank has more rate-sensitive liabilities than assets, then a(n) _____ in interest rates will _____ bank profits.
- A) increase; increase
 - B) decline; not affect
 - C) decline; reduce
 - D) increase; reduce

- 24) If a bank has more rate-sensitive assets than liabilities, then a(n) _____ in interest rates will _____ bank profits.
- A) decline; not affect B) increase; increase C) decline; increase D) increase; reduce
- 25) If the First National Bank has a gap equal to a negative \$30 million, then a 5 percentage point increase in interest rates will cause profits to
- A) increase by \$1.5 million. B) decline by \$1.5 million.
C) decline by \$15 million. D) increase by \$15 million.
- 26) Assuming that the average duration of its assets is five years, while the average duration of its liabilities is three years, then a 5 percentage point increase in interest rates will cause the net worth of First National to _____ by _____ of the total original asset value.
- A) decline; 10 percent B) decline; 15 percent C) decline; 5 percent D) decline; 25 percent
- 27) Examples of off-balance sheet activities include
- A) trading in financial futures.
B) loan sales.
C) foreign exchange market transactions.
D) all of the above.
E) only A and B of the above.

Answer Key

Testname: CHAPTER 9 PQ.TST

- 1) E
- 2) D
- 3) D
- 4) C
- 5) A
- 6) D
- 7) B
- 8) B
- 9) C
- 10) D
- 11) E
- 12) A
- 13) A
- 14) B
- 15) A
- 16) B
- 17) A
- 18) D
- 19) B
- 20) B
- 21) B
- 22) A
- 23) D
- 24) B
- 25) B
- 26) A
- 27) D