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

1) The Glass–Steagall Act, before its repeal in 1999,
   A) prohibited commercial banks from engaging in underwriting and dealing of corporate securities.
   B) prohibited commercial banks from purchasing any debt securities.
   C) prohibited commercial banks from issuing equity to finance bank expansion.
   D) prohibited commercial banks from selling new issues of government securities.

2) Rising interest–rate risk
   A) reduced the cost of financial innovation.
   B) increased the demand for financial innovation.
   C) reduced the demand for financial innovation.
   D) increased the cost of financial innovation.

3) The most significant change in the economic environment that changed the demand for financial products since 1970 has been
   A) the dramatic increase in competition from foreign banks.
   B) the dramatic increase in the volatility of interest rates.
   C) the aging of the baby–boomer generation.
   D) the deregulation of financial institutions.

4) Adjustable rate mortgages
   A) benefit homeowners when interest rates are falling.
   B) keep financial institutions' earnings high even when interest rates are falling.
   C) protect households against higher mortgage payments when interest rates rise.
   D) do only A and B of the above.
   E) none of the above.

5) New computer technology has
   A) increased the demand for financial innovation.
   B) increased the cost of financial innovation.
   C) reduced the cost of financial innovation.
   D) reduced the demand for financial innovation.

6) The most important source of the changes in supply conditions that stimulate financial innovation has been the
   A) dramatic increase in the volatility of interest rates.
   B) aging of the baby–boomer generation.
   C) the deregulation of financial institutions.
   D) dramatic increase in competition from foreign banks.
   E) improvement in computer and telecommunications technology.

7) Automated teller machines
   A) are more costly to use than human tellers, so banks discourage their use by charging more for use of ATMs
   B) are more costly to use than human tellers, so banks encourage their use by charging less for use of ATMs
   C) cost about the same to use as human tellers in banks, so banks discourage their use by charging more for use of ATMs.
   D) cost nothing to use, so banks provide their services free of charge.
   E) cost less than human tellers, so banks may encourage their use by charging less for using ATMs

8) Newly-issued high-yield bonds rated below investment grade by the bond-rating agencies are frequently referred to as

A) Yankee bonds. B) junk bonds. C) "fallen angels." D) municipal bonds.

9) The practice of creating marketable debt instruments that are backed by otherwise illiquid assets is known as

A) standardization. B) adverse selection. C) securitization. D) homogenization.

10) Bank managers look on reserve requirements

A) as a tax on loans.
B) as a tax on deposits.
C) as a subsidy on deposits.
D) as a subsidy on loans.

11) In this type of arrangement, any balances above a certain amount in a corporation's checking account at the end of the business day are "removed" and invested in overnight securities that pay the corporation interest. This innovation is referred to as a

A) sweep account.
B) stockman account.
C) share draft account.
D) removed-repo account.

12) The decline in profitability of traditional banking activities resulted in

A) banks increasing their off-balance-sheet activities.
B) consolidations by merger and acquisition.
C) bank failures.
D) increased risk taking by banks.
E) all of the above.

13) Nationwide banking will likely reduce bank failures due to

A) reduced lending to small businesses.
B) diversification of loan portfolios across state lines.
C) elimination of community banks.
D) reduced competition.
E) regulatory forbearance.

Answer Key
Testname: CHAPTER 10 PQ.TST

1) A
2) B
3) B
4) A
5) C
6) E
7) E
8) B
9) C
10) B
11) A
12) E
13) B