Chapter 2

An Overview of the Financial System

2.1 Function of Financial Markets

1) Every financial market has the following characteristic:

A) It determines the level of interest rates.

B) It allows common stock to be traded.

C) It allows loans to be made.

D) It channels funds from lenders–savers to borrowers–spenders.

Answer: D
Ques Status: Previous Edition

2) Financial markets have the basic function of

A) getting people with funds to lend together with people who want to borrow funds.

B) assuring that the swings in the business cycle are less pronounced.

C) assuring that governments need never resort to printing money.

D) providing a risk–free repository of spending power.

Answer: A
Ques Status: Revised

3) Financial markets improve economic welfare because

A) they channel funds from investors to savers.

B) they allow consumers to time their purchase better.

C) they weed out inefficient firms.

D) eliminate the need for indirect finance.

Answer: B
Ques Status: Revised

4) Well–functioning financial markets

A) cause inflation.

B) eliminate the need for indirect finance.

C) cause financial crises.

D) produce an efficient allocation of capital.

Answer: D
Ques Status: Revised

5) A breakdown of financial markets can result in

A) financial stability.

B) rapid economic growth.

C) political instability.

D) stable prices.

Answer: C
Ques Status: Revised

6) Which of the following can be described as direct finance?

A) You take out a mortgage from your local bank.

B) You borrow $2500 from a friend.

C) You buy shares of common stock in the secondary market.

D) You buy shares in a mutual fund.

Answer: B
Ques Status: Revised

7) Assume that you borrow $2000 at 10% annual interest to finance a new business project. For this loan to be profitable, the minimum amount this project must generate in annual earnings is

A) $400.

B) $201.

C) $200.

D) $199.

Answer: B
Ques Status: Revised

8) You can borrow $5000 to finance a new business venture. This new venture will generate annual earnings of $251. The maximum interest rate that you would pay on the borrowed funds and still increase your income is

A) 25%.

B) 12.5%.

C) 10%.

D) 5%.

Answer: D
Ques Status: Revised

9) Which of the following can be described as involving direct finance?

A) A corporation issues new shares of stock.

B) People buy shares in a mutual fund.

C) A pension fund manager buys a short–term corporate security in the secondary market.

D) An insurance company buys shares of common stock in the over–the–counter markets.

Answer: A
Ques Status: Previous Edition

10) Which of the following can be described as involving direct finance?

A) A corporation takes out loans from a bank.

B) People buy shares in a mutual fund.

C) A corporation buys a short–term corporate security in a secondary market.

D) People buy shares of common stock in the primary markets.

Answer: D
Ques Status: Revised

11) Which of the following can be described as involving indirect finance?

A) You make a loan to your neighbor.

B) A corporation buys a share of common stock issued by another corporation in the primary market.

C) You buy a U.S. Treasury bill from the U.S. Treasury.

D) You make a deposit at a bank.

Answer: D
Ques Status: Revised

12) Which of the following can be described as involving indirect finance?

A) You make a loan to your neighbor.

B) You buy shares in a mutual fund.

C) You buy a U.S. Treasury bill from the U.S. Treasury.

D) A corporation buys a short–term security issued by another corporation in the primary market.

Answer: B
Ques Status: Revised

13) Securities are ________ for the person who buys them, but are ________ for the individual or firm that issues them.

A) assets; liabilities

B) liabilities; assets

C) negotiable; nonnegotiable

D) nonnegotiable; negotiable

Answer: A
Ques Status: Previous Edition

14) With ________ finance, borrowers obtain funds from lenders by selling them securities in the financial markets.

A) active

B) determined

C) indirect

D) direct

Answer: D
Ques Status: New

15) With direct finance funds are channeled through the financial market from the ________ directly to the ________.

A) savers, spenders

B) spenders, investors

C) borrowers, savers

D) investors, savers

Answer: A
Ques Status: New

16) Distinguish between direct finance and indirect finance. Which of these is the most important source of funds for corporations in the United States?

Answer: With direct finance, funds flow directly from the lender/saver to the borrower . With indirect finance, funds flow from the lender/saver to a financial intermediary who then channels the funds to the borrower/investor. Financial intermediaries (indirect finance) are the major source of funds for corporations in the U.S.
Ques Status: New

2.2 Structure of Financial Markets

1) Which of the following statements about the characteristics of debt and equity is false?

A) They can both be long-term financial instruments.

B) They can both be short-term financial instruments.

C) They both involve a claim on the issuer's income.

D) They both enable a corporation to raise funds.

Answer: B
Ques Status: Revised

2) Which of the following statements about the characteristics of debt and equities is true?

A) They can both be long-term financial instruments.

B) Bond holders are residual claimants.

C) The income from bonds is typically more variable than that from equities.

D) Bonds pay dividends.

Answer: A
Ques Status: Revised

3) Which of the following statements about financial markets and securities is true?

A) A bond is a long-term security that promises to make periodic payments called dividends to the firm's residual claimants.

B) A debt instrument is intermediate term if its maturity is less than one year.

C) A debt instrument is intermediate term if its maturity is ten years or longer.

D) The maturity of a debt instrument is the number of years (term) to that instrument's expiration date.

Answer: D
Ques Status: Revised

4) Forty or so dealers establish a "market" in these securities by standing ready to buy and sell them.

A) Secondary stocks

B) Surplus stocks

C) U.S. government bonds

D) Common stocks

Answer: C
Ques Status: Previous Edition

5) An important function of secondary markets is to

A) make it easier to sell financial instruments to raise funds.

B) raise funds for corporations through the sale of securities.

C) make it easier for governments to raise taxes.

D) create a market for newly constructed houses.

Answer: A
Ques Status: Revised

6) Secondary markets make financial instruments more

A) solid.

B) vapid.

C) liquid.

D) risky.

Answer: C
Ques Status: Revised

7) The higher a security's price in the secondary market the _________ funds a firm can raise by selling securities in the _________ market.

A) more; primary

B) more; secondary

C) less; primary

D) less; secondary

Answer: A
Ques Status: Revised

8) An important financial institution that assists in the initial sale of securities in the primary market is the

A) investment bank.

B) commercial bank.

C) stock exchange.

D) brokerage house.

Answer: A
Ques Status: Previous Edition

9) A corporation acquires new funds only when its securities are sold in the

A) primary market by an investment bank.

B) primary market by a stock exchange broker.

C) secondary market by a securities dealer.

D) secondary market by a commercial bank.

Answer: A
Ques Status: Previous Edition

10) A corporation acquires new funds only when its securities are sold in the

A) secondary market by an investment bank.

B) primary market by an investment bank.

C) secondary market by a stock exchange broker.

D) secondary market by a commercial bank.

Answer: B
Ques Status: Previous Edition

11) Which of the following statements about financial markets and securities is true?

A) Many common stocks are traded over-the-counter, although the largest corporations usually have their shares traded at organized stock exchanges such as the New York Stock Exchange.

B) As a corporation gets a share of the broker's commission, a corporation acquires new funds whenever its securities are sold.

C) Capital market securities are usually more widely traded than shorter-term securities and so tend to be more liquid.

D) Because of their short-terms to maturity, the prices of money market instruments tend to fluctuate wildly.

Answer: A
Ques Status: Revised

12) Equity holders are a corporation's ________. That means the corporation must pay all of its debt holders before it pays its equity holders.

A) debtors

B) brokers

C) residual claimants

D) underwriters

Answer: C
Ques Status: New

13) Which of the following is an example of an intermediate–term debt?

A) A thirty–year mortgage.

B) A sixty–month car loan.

C) A six month loan from a finance company.

D) A Treasury bond.

Answer: B
Ques Status: New

14) If the maturity of a debt instrument is less than one year, the debt is called ________.

A) short–term

B) intermediate–term

C) long–term

D) prima–term

Answer: A
Ques Status: New

15) Long–term debt has a maturity that is __________.

A) between one and ten years.

B) less than a year.

C) between five and ten years.

D) ten years or longer.

Answer: D
Ques Status: New

16) When I purchase ___________, I own a portion of a firm and have the right to vote on issues important to the firm and to elect its directors.

A) bonds

B) bills

C) notes

D) stock

Answer: D
Ques Status: New

17) A financial market in which previously issued securities can be resold is called a ________ market.

A) primary

B) secondary

C) tertiary

D) used securities

Answer: B
Ques Status: New

18) When an investment bank ________ securities, it guarantees a price for a corporation's securities and then sells them to the public.

A) underwrites

B) undertakes

C) overwrites

D) overtakes

Answer: A
Ques Status: New

19) ________ work in the secondary markets matching buyers with sellers of securities.

A) Dealers

B) Underwriters

C) Brokers

D) Claimants

Answer: C
Ques Status: New

20) A financial market in which only short-term debt instruments are traded is called the ________ market.

A) bond

B) money

C) capital

D) stock

Answer: B
Ques Status: New

21) Equity instruments are traded in the ________ market.

A) money

B) bond

C) capital

D) commodities

Answer: C
Ques Status: New

22) Corporations receive funds when their stock is sold in the primary market. Why do corporations pay attention to what is happening to their stock in the secondary market?

Answer: The existence of the secondary market makes their stock more liquid and the price in the secondary market sets the price that the corporation would receive if they choose to sell more stock in the primary market.
Ques Status: New

2.3 Financial Market Instruments

1) A debt instrument sold by a bank to its depositors that pays annual interest of a given amount and at maturity pays back the original purchase price is called

A) commercial paper.

B) a negotiable certificate of deposit.

C) a banker' acceptance.

D) federal funds.

Answer: B
Ques Status: Previous Edition

2) Federal funds are

A) funds raised by the federal government in the bond market.

B) loans made by the Federal Reserve System to banks.

C) loans made by banks to the Federal Reserve System.

D) loans made by banks to each other.

Answer: D
Ques Status: Revised

3) Which of the following are short–term financial instruments?

A) A banker's acceptance.

B) A share of Walt Disney Corporation stock.

C) A Treasury note with a maturity of four years.

D) A residential mortgage.

Answer: A
Ques Status: Revised

4) Which of the following instruments are traded in a money market?

A) State and local government bonds.

B) U.S. Treasury bills.

C) Corporate bonds.

D) U.S. government agency securities.

Answer: B
Ques Status: Revised

5) Which of the following instruments are traded in a money market?

A) Bank commercial loans.

B) Banker's acceptances.

C) State and local government bonds.

D) Residential mortgages.

Answer: B
Ques Status: Previous Edition

6) Which of the following instruments is not traded in a money market?

A) Residential mortgages.

B) U.S. Treasury Bills.

C) Eurodollars.

D) Commercial paper.

Answer: A
Ques Status: Revised

7) Which of the following are long-term financial instruments?

A) A negotiable certificate of deposit.

B) A banker's acceptance.

C) A U.S. Treasury bond.

D) A U.S. Treasury bill.

Answer: C

Ques Status: Previous Edition

8) Which of the following instruments are traded in a capital market?

A) U.S. Government agency securities.

B) Negotiable bank CDs.

C) Repurchase agreements.

D) Banker's acceptances.

Answer: A

Ques Status: Revised

9) Which of the following instruments are traded in a capital market?

A) Corporate bonds.

B) U.S. Treasury bills.

C) Banker's acceptances.

D) Repurchase agreements.

Answer: A

Ques Status: Previous Edition

10) Which of the following are not traded in a capital market?

A) U.S. government agency securities.

B) State and local government bonds.

C) Repurchase agreements.

D) Corporate bonds.

Answer: C

Ques Status: New

11) U.S. Treasury bills pay no interest but are sold at a ________. That is, you will pay a lower purchase price than the amount you receive at maturity.

A) premium

B) collateral

C) default

D) discount

Answer: D
Ques Status: New

12) U.S. Treasury bills are considered the safest of all money market instruments because there is no risk of ________.

A) defeat

B) default

C) desertion

D) demarkation

Answer: B
Ques Status: New

13) The money market instruments that were created to assist in carrying out international trade are called ________.

A) negotiable CDs.

B) banker's acceptances.

C) repurchase agreements.

D) federal funds.

Answer: B
Ques Status: New

14) Collateral is ________ the lender receives if the borrower does not pay back the loan.

A) a liability

B) an asset

C) a present

D) an offering

Answer: B
Ques Status: New

15) Bonds issued by state and local governments are called ________ bonds.

A) corporate

B) Treasury

C) municipal

D) commercial

Answer: C
Ques Status: New

2.4 Internationalization of Financial Markets

1) Bonds that are sold in a foreign country and are denominated in the country's currency in which they are sold are known as

A) foreign bonds.

B) Eurobonds.

C) equity bonds.

D) country bonds.

Answer: A
Ques Status: Previous Edition

2) Bonds that are sold in a foreign country and are denominated in a currency other than that of the country in which it is sold are known as

A) foreign bonds.

B) Eurobonds.

C) equity bonds.

D) country bonds.

Answer: B
Ques Status: Previous Edition

3) If Microsoft sells a bond in London and it is denominated in dollars, the bond is a ________.

A) Eurobond

B) foreign bond

C) British bond

D) currency bond

Answer: A
Ques Status: New

4) U.S. dollar deposits in foreign banks outside the U.S. or in foreign branches of U.S. banks are called ________.

A) Atlantic dollars

B) Eurodollars

C) foreign dollars

D) outside dollars

Answer: B
Ques Status: New

5) One reason for the extraordinary growth of foreign financial markets is

A) decreased trade.

B) lack of savings in foreign countries.

C) the recent introduction of the foreign bond.

D) deregulation of foreign financial markets.

Answer: D
Ques Status: New

2.5 Function of Financial Intermediaries: Indirect Finance

1) The process of indirect finance using financial intermediaries is called

A) direct lending.

B) financial intermediation.

C) resource allocation.

D) financial liquidation.

Answer: B
Ques Status: Revised

2) In the United States, loans from ________ are far ________ important for corporate finance than are securities markets.

A) government agencies; more

B) government agencies; less

C) financial intermediaries; more

D) financial intermediaries; less

Answer: C
Ques Status: Previous Edition

3) Economies of scale enable financial institutions to

A) reduce transactions costs.

B) avoid the asymmetric information problem.

C) avoid adverse selection problems.

D) reduce moral hazard.

Answer: A
Ques Status: Revised

4) An example of economies of scale in the provision of financial services is

A) investing in a diversified collection of assets.

B) providing depositors with a variety of savings certificates.

C) spreading the cost of borrowed funds over many customers.

D) spreading the cost of writing a standardized contract over many borrowers.

Answer: D
Ques Status: Revised

5) The process where financial intermediaries create and sell low-risk assets and use the proceeds to purchase riskier assets is known as

A) risk sharing.

B) risk aversion.

C) risk neutrality.

D) risk selling.

Answer: A
Ques Status: Revised

6) Reducing risk through the purchase of assets whose returns do not always move together is

A) diversification.

B) intermediation.

C) intervention.

D) discounting.

Answer: A
Ques Status: Revised

7) The concept of diversification is captured by the statement

A) don't look a gift horse in the mouth.

B) don't put all your eggs in one basket.

C) it never rains, but it pours.

D) make hay while the sun shines.

Answer: B
Ques Status: Revised

8) The process of asset transformation refers to the conversion of

A) safer assets into risky assets.

B) safer assets into safer liabilities.

C) risky assets into safer assets.

D) risky assets into risky liabilities.

Answer: C
Ques Status: Revised

9) Risk sharing is profitable for financial institutions due to

A) low transactions costs.

B) asymmetric information.

C) adverse selection.

D) moral hazard.

Answer: A
Ques Status: Revised

10) Typically, borrowers have superior information relative to lenders about the potential returns and risks associated with an investment project. The difference in information is called ________, and it creates the ________ problem.

A) adverse selection; moral hazard

B) asymmetric information; risk sharing

C) asymmetric information; adverse selection

D) adverse selection; risk sharing

Answer: C
Ques Status: Revised

11) If bad credit risks are the ones who most actively seek loans and, therefore, receive them from financial intermediaries, then financial intermediaries face the problem of

A) moral hazard.

B) adverse selection.

C) free–riding.

D) costly state verification.

Answer: B
Ques Status: Previous Edition

12) The problem created by asymmetric information before the transaction occurs is called ________, while the problem created after the transaction occurs is called ________.

A) adverse selection; moral hazard

B) moral hazard; adverse selection

C) costly state verification; free–riding

D) free–riding; costly state verification

Answer: A
Ques Status: Previous Edition

13) Adverse selection is a problem associated with equity and debt contracts arising from

A) the lender's relative lack of information about the borrower's potential returns and risks of his investment activities.

B) the lender's inability to legally require sufficient collateral to cover a 100% loss if the borrower defaults.

C) the borrower's lack of incentive to seek a loan for highly risky investments.

D) the borrower's lack of good options for obtaining funds.

Answer: A
Ques Status: Revised

14) A professional baseball player may be contractually restricted from skiing. The team owner includes this clause in the player's contract to protect against

A) risk sharing.

B) moral hazard.

C) adverse selection.

D) regulatory circumvention.

Answer: B
Ques Status: Revised

15) An example of the problem of ________ is when a corporation uses the funds raised from selling bonds to fund corporate expansion to pay for Caribbean cruises for all of its employees and their families.

A) adverse selection

B) moral hazard

C) risk sharing

D) credit risk

Answer: B
Ques Status: Revised

16) In the early 1980s, a particular bank in Oklahoma developed a reputation of readily providing loans to borrowers for the purpose of exploring for oil deposits. Many of these loans were never repaid, because this bank failed to address the

A) adverse selection problem.

B) regulatory avoidance problem.

C) free-rider problem.

D) risk-sharing problem.

Answer: A
Ques Status: Revised

17) The countries that have made the least use of securities markets are ________ and ________; in these two countries finance from financial intermediaries has been almost ten times greater than that from securities markets.

A) Germany; Japan

B) Germany; Great Britain

C) Great Britain; Canada

D) Canada; Japan

Answer: A
Ques Status: Previous Edition

18) Although the dominance of ________ over ________ is clear in all countries, the relative importance of bond versus stock markets differs widely.

A) financial intermediaries; securities markets

B) financial intermediaries; government agencies

C) government agencies; financial intermediaries

D) government agencies; securities markets

Answer: A
Ques Status: Previous Edition

19) Studies of the major developed countries show that when businesses go looking for funds to finance their activities they usually obtain these funds from

A) government agencies.

B) equities markets.

C) financial intermediaries.

D) bond markets.

Answer: C
Ques Status: Previous Edition

20) Because there is an imbalance of information in a lending situation, we must deal with the problems of adverse selection and moral hazard. Define these terms and explain how financial intermediaries can reduce these problems.

Answer: Adverse selection is the asymmetric information problem that exists before the transaction occurs. For lenders, it is the difficulty in judging a good credit risk from a bad credit risk. Moral hazard is the asymmetric information problem that exists after the transaction occurs. For lenders, it is the difficulty in making sure the borrower uses the funds appropriately. Financial intermediaries can reduce adverse selection through intensive screening and can reduce moral hazard by monitoring the borrower.
Ques Status: New

2.6 Types of Financial Intermediaries

1) Which of the following financial intermediaries is not a depository institution?

A) A savings and loan association

B) A commercial bank

C) A credit union

D) A finance company

Answer: D
Ques Status: Revised

2) Which of the following is a contractual savings institution?

A) A life insurance company

B) A credit union

C) A savings and loan association

D) A mutual fund

Answer: A
Ques Status: Previous Edition

3) Contractual savings institutions include

A) mutual savings banks.

B) money market mutual funds.

C) commercial banks.

D) life insurance companies.

Answer: D
Ques Status: Revised

4) Which of the following are not contractual savings institutions?

A) Life insurance companies

B) Credit unions

C) Pension funds

D) State and local government retirement funds

Answer: B
Ques Status: Previous Edition

5) Financial institutions that accept deposits and make loans are called ________ institutions.

A) investment

B) contractual savings

C) depository

D) underwriting

Answer: C
Ques Status: New

6) Which of the following are investment intermediaries?

A) Life insurance companies

B) Mutual funds

C) Pension funds

D) State and local government retirement funds

Answer: B
Ques Status: Previous Edition

7) Which of the following is a depository institution?

A) A life insurance company

B) A credit union

C) A pension fund

D) A mutual fund

Answer: B
Ques Status: Previous Edition

8) Which of the following is a depository institution?

A) A life insurance company

B) A mutual savings bank

C) A pension fund

D) A finance company

Answer: B
Ques Status: Revised

9) Which of the following is not a contractual savings institution?

A) A life insurance company

B) A pension fund

C) A savings and loan association

D) A fire and casualty insurance company

Answer: C
Ques Status: Previous Edition

10) The primary assets of a mutual savings bank are

A) bonds.

B) mortgages.

C) commercial loans.

D) deposits.

Answer: B
Ques Status: Revised

11) The primary liabilities of a credit union are

A) bonds.

B) mortgages.

C) deposits.

D) commercial loans.

Answer: C
Ques Status: Revised

12) The primary assets of a pension fund are

A) money market instruments.

B) corporate bonds and stock.

C) consumer and business loans.

D) mortgages.

Answer: B
Ques Status: Previous Edition

13) The primary assets of a savings and loan association are

A) money market instruments.

B) corporate bonds and stock.

C) consumer and business loans.

D) mortgages.

Answer: D
Ques Status: Previous Edition

14) The primary assets of credit unions are

A) municipal bonds.

B) business loans.

C) consumer loans.

D) mortgages.

Answer: C
Ques Status: Previous Edition

15) The primary assets of a finance company are

A) municipal bonds.

B) corporate stocks and bonds.

C) consumer and business loans.

D) mortgages.

Answer: C
Ques Status: Previous Edition

16) The primary liabilities of a commercial bank are

A) bonds.

B) mortgages.

C) deposits.

D) commercial paper.

Answer: C
Ques Status: Previous Edition

17) The primary liabilities of depository institutions are

A) premiums from policies.

B) shares.

C) deposits.

D) bonds.

Answer: C
Ques Status: Revised

18) The primary assets of money market mutual funds are

A) stocks.

B) bonds.

C) money market instruments.

D) deposits.

Answer: C
Ques Status: Revised

19) Money market mutual fund shares function like

A) checking accounts that pay interest.

B) bonds.

C) stocks.

D) currency.

Answer: A
Ques Status: Revised

20) An important feature of money market mutual fund shares is

A) deposit insurance.

B) the ability to write checks against shareholdings.

C) the ability to borrow against shareholdings.

D) claims on shares of corporate stock.

Answer: B
Ques Status: Revised

21) Thrift institutions include

A) banks, mutual funds, and insurance companies.

B) savings and loan associations, mutual savings banks, and credit unions.

C) finance companies, mutual funds, and money market funds.

D) pension funds, mutual funds, and banks.

Answer: B
Ques Status: Revised

22) ________ institutions are financial intermediaries that acquire funds at periodic intervals on a contractual basis.

A) Investment

B) Contractual savings

C) Thrift

D) Depository

Answer: B
Ques Status: New

2.7 Regulation of the Financial System

1) Which of the following is not a goal of financial regulation?

A) Ensuring the soundness of the financial system

B) Reducing moral hazard

C) Reducing adverse selection

D) Ensuring that investors never suffer losses

Answer: D
Ques Status: Previous Edition

2) Savings and loan associations are regulated by the

A) Federal Reserve System.

B) Securities and Exchange Commission.

C) Office of the Comptroller of the Currency.

D) Office of Thrift Supervision.

Answer: D
Ques Status: Revised

3) Which of the following do not provide charters?

A) The Office of the Comptroller of the Currency

B) The Federal Reserve System

C) The National Credit Union Administration

D) State banking and insurance commissions

Answer: B
Ques Status: Previous Edition

4) The agency that was created to protect depositors after the banking failures of 1930–1933 is the

A) Federal Reserve System.

B) Federal Deposit Insurance Corporation.

C) Treasury Department.

D) Office of the Comptroller of the Currency.

Answer: B
Ques Status: Revised

5) An important restriction on bank activities that was repealed in 1999 was

A) the prohibition of the payment of interest on checking deposits.

B) restrictions on credit terms.

C) minimum down payments on loans to purchase securities.

D) separation of commercial banking from the securities industries.

Answer: D
Ques Status: Revised

6) A goal of the Securities and Exchange Commission is to reduce problems arising from

A) competition.

B) banking panics.

C) risk.

D) asymmetric information.

Answer: D
Ques Status: Revised

7) Asymmetric information is a universal problem. This would suggest that financial regulations

A) in industrial countries are an unqualified failure.

B) differ significantly around the world.

C) in industrialized nations are similar.

D) are unnecessary.

Answer: C
Ques Status: Revised

8) The purpose of the disclosure requirements of the Securities and Exchange Commission is to

A) increase the information available to investors.

B) prevent bank panics.

C) improve monetary control.

D) protect investors against financial losses.

Answer: A
Ques Status: Revised

9) The primary purpose of deposit insurance is to

A) improve the flow of information to investors.

B) prevent banking panics.

C) protect bank shareholders against losses.

D) protect bank employees from unemployment.

Answer: B
Ques Status: Revised

10) In order to reduce risk and increase the safety of financial institutions, commercial banks and other depository institutions are prohibited from

A) owning municipal bonds.

B) making real estate loans.

C) making personal loans.

D) owning common stock.

Answer: D
Ques Status: Revised

11) How do regulators help to ensure the soundness of financial intermediaries?

Answer: Regulators restrict who can set up a financial intermediary, conduct regular examinations, restrict assets, and provide insurance to help ensure the soundness of financial intermediaries.
Ques Status: New