Chapter 26 Savings and Investment Practice Test

Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question.

1. Savers
   a. and borrowers demand money from the financial system.
   b. and borrowers supply money to the financial system.
   c. demand money from the financial system; borrowers supply money to the financial system.
   d. supply money to the financial system; borrowers demand money from the financial system.

2. When large corporations, the federal government, or state and local governments need to borrow to finance their purchases, they usually borrow
   a. directly from the public by selling bonds.
   b. directly from the public by buying bonds.
   c. indirectly from the public by buying bonds.
   d. None of the above are correct.

3. Stock represents
   a. a claim to the profits of a firm.
   b. ownership in a firm.
   c. equity finance.
   d. All of the above are correct.

4. Compared to bonds, stocks offer the holder
   a. higher risk.
   b. potentially higher return.
   c. ownership in a firm.
   d. All of the above are correct.

5. Which of the following is not an important stock exchange in the United States?
   a. New York Stock Exchange
   b. American Stock Exchange
   c. Chicago Mercantile Exchange
   d. NASDAQ

6. The single most important piece of information about a stock is the
   a. price-earnings ratio.
   b. dividend.
   c. volume.
   d. price.

7. The amount of revenue a firm receives for the sale of its products minus its costs of production (as measured by its accountants) is the firm's
   a. earnings.
   b. retained earnings.
   c. economic, or real, profit.
   d. dividend.
8. It is claimed that a secondary advantage of mutual funds is that
a. an investor can avoid investment charges and fees.
b. they give ordinary people access to loanable funds for investing.
c. they give ordinary people access to the skills of professional money managers.
d. All of the above are correct.

9. The slope of the supply of loanable funds curve represents the
a. positive relation between the real interest rate and investment.
b. positive relation between the real interest rate and saving.
c. negative relation between the real interest rate and investment.
d. negative relation between the real interest rate and saving.

10. If Congress reduced the tax on interest income,
a. investment and saving would increase.
b. investment and saving would decrease.
c. investment would increase and saving would decrease.
d. investment would decrease and saving would increase.

11. If the government currently has a budget deficit,
a. it does not necessarily have a debt.
b. the debt is increasing.
c. government expenditures are greater than taxes.
d. All of the above are correct.

12. An increase in the budget deficit would
a. cause a shortage of loanable funds at the original interest rate, which would lead to rising interest rates.
b. cause a shortage of loanable funds at the original interest rate, which would lead to falling interest rates.
c. cause a surplus of loanable funds at the original interest rate, which would lead to rising interest rates.
d. cause a surplus of loanable funds at the original interest rate, which would lead to falling interest rates.

13. Financial markets are
a. the financial institutions through which savers can indirectly provide funds to borrowers.
b. the financial institutions through which savers can directly provide funds to borrowers.
c. the financial institutions that sell shares to the public and use the proceeds to buy a selection of various types of stocks and/or bonds.
d. None of the above are correct.

14. The term of a bond is the
a. interest rate of the bond.
b. credit risk rating of the bond.
c. principal amount of the bond.
d. length of time until the bond matures.
15. Which bond would you expect to pay the highest interest rate?
   a. a bond of the U.S. government
   b. a bond issued by a new restaurant chain
   c. a bond issued by General Motors
   d. a bond issued by New York state

16. The sale of stocks
   a. and bonds to raise money is called debt finance.
   b. and bonds to raise money is called equity finance.
   c. to raise money is called debt finance, while the sale of bonds to raise funds is
called equity finance.
   d. to raise money is called equity finance, while the sale of bonds to raise funds is
called debt finance.

17. Stock indexes are
   a. reports in the newspapers that report on the price of the stock and earnings of the
corporation.
   b. measures of the risk relative to the profitability of corporations.
   c. the average of a group of stock prices.
   d. the average of a group of stock yields.

18. A budget deficit is created when the government
   a. buys back more bonds than it issues.
   b. spends more than it receives in tax revenue.
   c. receives more tax revenue than it spends.
   d. None of the above are correct.

19. A higher interest rate induces people to
   a. save more, so the demand for loanable funds slopes upward.
   b. save less, so the demand for loanable funds slopes downward.
   c. invest more so the demand for loanable funds slopes upward.
   d. invest less so the demand for loanable funds slopes downward.