

Chapter 17

Commercial Bank Operations

1. Which of the following statements is incorrect?
 - A) Banks have expanded their business across services over time.
 - B) Acquisitions have been a convenient method for banks to grow quickly and capitalize on economies of scale.
 - C) The banking industry has become less concentrated in recent years.
 - D) All of these statements are correct.

ANSWER: C

2. _____ are offered to bank customers who desire to write checks against their account.
 - A) Time deposit accounts
 - B) CDs
 - C) Demand deposit accounts
 - D) Money market deposit accounts

ANSWER: C

3. Which type of savings account transfers funds to a checking account when checks are written?
 - A) ATS
 - B) passbook savings
 - C) CDs
 - D) MMDAs

ANSWER: A

4. A _____ account provides checking services as well as interest.
 - A) demand deposit
 - B) negotiable order of withdrawal (NOW)
 - C) passbook savings
 - D) time deposit

ANSWER: B

5. "Bull market" CDs reward depositors:
 - A) when interest rates rise.
 - B) if the stock market performs well.
 - C) when interest rates decline.
 - D) when the stock market performs poorly.

ANSWER: B

6. A _____ CD is a time deposit offered by some large banks to corporations, with a specific maturity date, minimum deposit of \$100,000 or more, and a secondary market.
- A) retail
 - B) negotiable
 - C) bull market
 - D) bear market

ANSWER: B

7. The level of large time deposits is _____ that of small time deposits.
- A) much less volatile than
 - B) much more volatile than
 - C) just as volatile as
 - D) none of these

ANSWER: B

8. Money market deposit accounts differ from conventional time deposits in that they:
- A) specify a maturity.
 - B) offer limited check writing privileges.
 - C) are less liquid.
 - D) none of these.

ANSWER: B

9. The intent of federal funds transactions is to:
- A) correct short-term fund imbalances experienced by banks.
 - B) correct long-term fund imbalances experienced by banks.
 - C) serve as a permanent source of bank capital.
 - D) serve as the primary depository source of funds.

ANSWER: A

10. The federal funds rate is generally _____ the Treasury bill rate.
- A) equal to
 - B) between .50 percent and 1.00 percent below
 - C) between .25 percent and 1.00 percent above
 - D) between 3.00 percent and 4.50 percent above

ANSWER: C

11. Obtaining funds through _____ is *not* a common way for banks to satisfy a temporary deficiency of funds.
- A) issuing bonds
 - B) the federal funds market
 - C) repurchase agreements
 - D) borrowing from the Federal Reserve

ANSWER: A

12. Which of the following is true?
- A) The primary credit lending rate is set by the President of the United States.
 - B) The federal funds rate is set by the President of the United States.
 - C) The primary credit lending rate is set by commercial banks.
 - D) The primary credit lending rate is now set at a level above the federal funds rate.

ANSWER: D

13. The Federal Reserve provides loans to banks in order to:
- A) resolve permanent shortages of funds experienced by banks.
 - B) resolve temporary shortages of funds experienced by banks.
 - C) finance the shortages of funds of finance companies.
 - D) do none of these.

ANSWER: B

14. When a bank in need of funds for a few days sells some of its government securities to a corporation with a temporary excess of funds, then buys them back shortly thereafter, this is a:
- A) federal funds loan.
 - B) discount window loan.
 - C) repurchase agreement.
 - D) commercial paper transaction.

ANSWER: C

15. When banks need funding for just a few days, they would *most likely*:
- A) issue bonds and then call them.
 - B) issue stock and then repurchase it.
 - C) borrow in the federal funds market.
 - D) issue NCDs.

ANSWER: C

16. Subordinated notes and debentures are examples of:
- A) primary capital.
 - B) secondary capital.
 - C) depository sources of funds.
 - D) repurchase agreements.

ANSWER: B

17. All other things equal, when banks issue new stock, they:
- A) increase reported earnings per share.
 - B) decrease their ability to absorb operating losses.
 - C) dilute the ownership of the bank.
 - D) do none of these.

ANSWER: C