Please write on side 1 of your answer bubble sheet your FIRST AND LAST NAME together with your STUDENT ID NUMBER, and write ECON 353: FINAL EXAM on the top margin of side 1. Answer all 70 questions below by marking answers on your answer bubble sheet using a number 2 pencil **ONLY**. Each question is worth 1 point. Read each question carefully before answering.

USE OF ANY ELECTRONIC OR MECHANICAL DEVICE DURING THE EXAM IS STRICTLY PROHIBITED.

Questions Q1-Q33 focus on required materials covered on the first and second midterms, questions Q34-Q58 focus on required materials since the second midterm, and questions Q59-70 focus on several real-world applications discussed in the Q6 portions of take-home exercise assignments, in required readings, and/or in class lectures.

At the end of the exam, please turn in your bubble sheet and be prepared to show an official photo ID of yourself (e.g., student ID, driver’s license) if asked.

CAUTION: Do your own work, do not assist others in any way during the exam, and keep your eyes focused only on your own exam. Any behavior to the contrary will be considered cheating and will not be tolerated. Cheating will result in an automatic F on the exam, and further sanctions may be applied in line with university policy.

**OPPORTUNITY TO COMMENT ON QUESTIONS:** If you wish to comment on a question you believe is unclear or ambiguous, please do the following:

(1) Write your specific comments on the following pages along side the statement(s) of the question(s) about which you have concerns.

(2) Indicate here the numbers of the questions you have commented on:

(3) Write your name and student ID number where indicated below.

STUDENT NAME

STUDENT ID NUMBER

(4) At the end of the exam, give this exam question packet to the instructor for special handling.
Q1. In U.S. gross domestic product accounting, U.S. EXPORTS consist of all purchases by the _____ of final goods and services newly produced _____.

A. U.S.; using ROW-owned assets of production  
B. ROW; using U.S.-owned assets of production  
C. ROW; within the borders of the U.S.  
D. U.S.; outside the borders of the U.S.

Q2. Which of the following markets are organized as OVER-THE-COUNTER markets:

A. the New York Stock Exchange  
B. the Chicago Board of Trade (CBOT)  
C. the Foreign Exchange Market  
D. All of the above.  
E. None of the above

Q3. The _____ conducts INITIAL PUBLIC OFFERINGS of U.S. government securities through _____.

A. New York Stock Exchange; advertisement of dealer bid/ask quotes in newspaper bond tables.  
B. Security Exchange Commission; an over-the-counter market.  
C. U.S. Treasury; auction markets.  
D. Federal Reserve System (the “Fed”); open-market operations.

Q4. If U.S. citizens sell some of their U.S. Treasury bond holdings and subsequently use their bond sale receipts to purchase money market mutual fund shares, then

A. M1 and M2 both stay the same.  
B. M1 increases and M2 stays the same.  
C. M1 stays the same and M2 increases.  
D. M1 and M2 both increase.  
E. none of the above.
Q5. The ___ on an asset over a holding period is defined as the payments to the owner over the holding period plus the change in the asset’s value over the holding period expressed as a fraction of the asset’s purchase price.

A. yield to maturity
B. return rate
C. current yield
D. capital gains (or losses)
E. profit

Q6. Consider a coupon bond with an annual coupon payment \( C = $100 \), a face value \( F = $2,000 \), and a maturity date January 1, 2012. Suppose you BUY this bond on January 1, 2008 for $3000 and you SELL it on January 1, 2009 for $2500. Which of the following statements are TRUE for this bond for your holding period:

A. Your (annual) current yield is approximately 0.033 (1/30).
B. Your return rate is your current yield plus the rate of your capital gain or loss.
C. Your return rate is MORE than your current yield.
D. All of the above are true.
E. Only A and B are true.

Q7. Suppose a consol bond pays $1.00 at 11:59 P.M. on December 31 of each year in perpetuity. Suppose you purchase the consol bond for $100 at midnight on December 31, 2007, and you sell it for $109 at midnight on December 31, 2008. Suppose the inflation rate during 2007 is 4 percent. Then your NOMINAL return rate on the consol bond for 2007 would be ___ and your REAL return rate on the consol bond for 2007 would be ___.

A. 9 percent; 13 percent
B. 10 percent; 6 percent
C. 10 percent; 14 percent
D. 1 percent; 5 percent
E. 9 percent; 5 percent

Q8. Let \( B \) denote a bond whose maturity date is \( T+1 \), and let \( i(T) \) denote the yield to maturity on \( B \) at time \( T \). Then an INCREASE in \( i(T) \) at time \( T \) results in a _____ in the return rate to \( B \) over the holding period from \( T-1 \) to \( T \) because it implies a _____ in the sale price of the bond at time \( T \).

A. increase; decrease
B. increase; increase
C. decrease; increase
D. decrease; decrease
Q9. The U.S. TREASURY STRIPS seen reported in bond tables in major newspapers

A. are a major financial innovation introduced by Merrill Lynch in 1982.
B. were designed to help monetary policy makers have a way of measuring the real interest rate.
C. are formed by separating (“stripping”) coupon bonds into several separate zero-coupon bonds, one for the face value payment and one for each coupon payment.
D. all of the above.
E. only A and C.

Q10. The DEMAND CURVE for bonds in a PRIMARY bond market describes

A. the planned bond sales of lenders at each price.
B. the planned bond purchases of lenders at each price.
C. the planned bond sales of borrowers at each price.
D. the planned bond purchases of borrowers at each price.

Q11. Key factors that are likely to cause the SUPPLY curve for bonds to shift RIGHT (more bonds supplied for each bond price \( P \)) include

A. higher government deficits.
B. an increase in the expected profitability of capital investment
C. a decrease in the expected inflation rate.
D. all of the above
E. only A and B.

Q12. Key factors that are likely to cause the DEMAND curve for bonds to shift RIGHT (more bonds demanded for each bond price \( P \)) include

A. an increase in the expected inflation rate.
B. a decrease in default risk
C. an increase in the expected profitability of capital investment.
D. all of the above.
E. only A and C.
Q13. If the Fed Chair suddenly makes a credible claim that the YIELD TO MATURITY on bonds will be LOWER a year from now than previously expected, the Mishkin Chapter 5 theory predicts (all else equal) that this will lead people to _____ because _____

A. demand fewer bonds today; they now expect lower capital gains a year from now.
B. supply more bonds today; they now expect higher capital gains a year from now.
C. supply more bonds today; they now expect lower capital gains a year from now.
D. demand more bonds today; they now expect higher capital gains a year from now.

Q14. If the Fed Chair suddenly makes a credible claim that the INFLATION RATE will be LOWER a year from now than previously expected, the theory in Mishkin Chapter 5 predicts (all else equal) that this should lead in today’s bond market to ____ in the equilibrium price of bonds and ____ in the equilibrium quantity of bonds sold.

A. a definite rise; an ambiguous change
B. an ambiguous change; a definite rise
C. a definite fall; an ambiguous change
D. a definite fall; a definite rise
E. a definite rise; a definite fall

Q15. The theory developed in Mishkin Chapter 5 is considered to be a SHORT-TERM theory of bond markets because

A. only money-market bond instruments (maturities of less than a year) are considered.
B. predictions are obtained for movements in the bond market equilibrium price only in response to short-term changes in shift factors.
C. predictions are obtained for movements in the bond market equilibrium price in response to shifts in single factors while assuming that all other important shift factors remain constant.
D. the holding periods for bond buyers are assumed to be for short periods of time.

Q16. BEHAVIORAL finance supports the view that

A. stock prices are largely determined by the effects of the behavior of company managers on fundamental company financial conditions.
B. stock prices are strongly affected by group behavioral factors such as fads and the spread of rumors.
C. stock prices often exhibit price bubbles.
D. all of the above.
E. both B and C.
Q17. According to the FUNDAMENTAL view of stock valuation, the primary determinant of the share price of a company’s stock is

A. the general public consensus regarding the current profitability of the company.
B. the profitability of the company over its past history.
C. the expected future profitability of the company.
D. the expected default risk associated with the company.

Q18. By definition, a PRICE BUBBLE is said to exist on an asset if

A. the price of the asset exhibits high volatility over time.
B. the price of the asset differs from the discounted value of the asset’s expected future payments.
C. the price of the asset has sharply increased over the past few periods and is now suddenly in sharp decline.
D. the current price of the asset is higher than the average current asset price.

Q19. In the absence of a price bubble, the GENERALIZED DIVIDEND (VALUATION) MODEL described by Mishkin (Chapter 7) predicts that the share price of a stock will be equal to

A. the discounted value of the expected future dividend payments to the shareholder.
B. next period’s expected dividend payment divided by the required return on equity net of the dividend growth rate.
C. the expected future revenues (per shareholder) of the issuing corporation.
D. the present value of expected future profits (per shareholder) of the issuing corporation.

Q20. The GENERALIZED DIVIDEND VALUATION MODEL presented in Mishkin Chapter 7, EQUATION (2), implies that the price $P_n$ of a stock share in a distant time period $n$ will NOT have any significant effect on the current share price $P_0$

A. under any circumstances.
B. if investors have rational expectations.
C. if the price $P_n$ increases more slowly than the discount factor $(1 + k_e)^n$ as $n$ increases.
D. if the stock share pays a positive dividend in each period.
Q21. As discussed in class, if the GENERALIZED DIVIDEND VALUATION MODEL presented in Mishkin Chapter 7, EQUATION (3), is valid for a particular stock S, this implies

A. stock S will definitely pay positive dividends to its shareholders in future time periods.
B. there is no price bubble on stock S.
C. investors in stock S have strong-form rational expectations.
D. all of the above.
E. only B and C.

Q22. The Gordon Growth Model predicts the price of a stock share will DECREASE if

A. its dividend growth rate DECREASES.
B. its current dividend DECREASES.
C. its required return on equity INCREASES.
D. all of the above.
E. only A and B.

Q23. In its strongest form (as presented in Mishkin Chapter 7), the EFFICIENT MARKET HY-POTHESIS implies

A. stock share prices continually adjust to ensure market equilibrium (demand equals supply).
B. the price of each stock share equals the discounted value of its expected future dividend payments.
C. all investors have (strong form) rational expectations.
D. all of the above.
E. only B and C.

Q24. In its strongest form (as presented in Mishkin Chapter 7), the EFFICIENT MARKET HY-POTHESIS implies that

A. there are no price bubbles on stock shares.
B. security prices never fall in response to good news.
C. published reports of financial analysts are crucially important for investors to acquire and study carefully.
D. buy and hold is NOT a rational investment strategy.
E. all of the above.
Q25. Early evidence in FAVOR of the Efficient Market Hypothesis included

A. evidence that stock prices reflected all insider information even if not available to the public at large.
B. evidence that announcements confirming previously anticipated events resulted in substantial movements in stock prices.
C. evidence that technical analysis (predicting future prices on the basis of past price patterns) was unable to persistently beat the market.
D. evidence that all price bubbles were rational.

Q26. Later evidence (“anomalies”) UNFAVORABLE to the Efficient Market Hypothesis included

A. evidence that insider trading based on information not available to the public at large could be profitable.
B. evidence that technical analysis (predicting future prices on the basis of past price patterns) was unable to persistently beat the market.
C. evidence that stock prices could fall after the receipt of good news.
D. evidence of excessive fluctuation in stock market prices relative to the fluctuations in their dividend payment streams.

Q27. In financial economics, an ARBITRAGE OPPORTUNITY is said to exist if

A. regulators are able to increase social welfare by suitably applied rules and regulations.
B. a conflict arising between traders can be resolved by an arbitration process.
C. starting from nothing, people are able to engage in a sequence of transactions from which they can earn positive profits for sure.
D. investors have a chance to increase their profits by investing in projects with high expected returns.

Q28. The assumption that people exploit all available profit opportunities is frequently used in financial economics to derive conditions for prediction purposes. Examples of such conditions include:

A. bond market equilibrium (demand=supply) for prediction of movements in bond prices and quantities of bonds bought and sold.
B. purchasing power parity for prediction of movements in exchange rates and inflation rates.
C. interest parity for prediction of movements in exchange rates and interest rates.
D. all of the above.
E. only B and C.
Q29. In order to OFFSET an APPRECIATION of HC currency, the HC central bank could ____
HC currency in the Foreign Exchange Market, which would tend to shift _____.

A. sell; the supply curve for HC currency to the right
B. sell; the demand curve for HC currency to the right
C. buy; the demand curve for HC currency to the right
D. sell; the supply curve for HC currency to the left
E. buy; the demand curve for HC currency to the left

Q30. Given a world divided between HC and ROW, the PURCHASING POWER PARITY (PPP)
CONDITION asserts

A. the HC and ROW have the same aggregate price levels.
B. the HC and ROW have the same inflation rates.
C. the HC real exchange rate is equal to one.
D. the HC nominal exchange rate equals the ROW nominal exchange rate.

Q31. The basic motivation for the PURCHASING POWER PARITY (PPP) CONDITION is that,
in equilibrium, there should be no opportunities for arbitrage _____.

A. through currency swaps between HC and ROW.
B. through financial asset trades between HC and ROW.
C. through HC speculative investment in ROW stocks.
D. through trades in goods and services between HC and ROW.

Q32. Given a world divided between HC and ROW, INTEREST PARITY asserts that _____.

A. interest rates in the HC and ROW are equalized by the profit-seeking activities of HC
and ROW investors.
B. the HC savings rate must equal the ROW savings rate.
C. the demand and supply for HC bonds are equalized by the profit-seeking activities of
HC and ROW lenders.
D. the expected returns on HC and ROW deposit accounts are equalized by the profit-
seeking activities of HC and ROW investors.
Q33. Suppose the average nominal interest rate on bank deposit accounts across foreign countries who are major trading partners of the U.S. is 5 percent, and the U.S. effective exchange rate index for these countries (i.e., a weighted average of their exchange rates measured in foreign currency units per U.S. dollar) is expected to depreciate by 2 percent. Then INTEREST PARITY predicts that, on average, nominal interest rates on U.S. bank deposit accounts should be about

A. 3 percent.
B. 7 percent.
C. -3 percent
D. 3.5 percent
E. none of the above.

Q34. The U.S. CURRENT ACCOUNT CA keeps track of

A. net payments received by the U.S. from the ROW through current financial asset trades.
B. U.S. net exports + net factor payments to the U.S. + net transfer payments to the U.S.
C. net payments received by the U.S. from the ROW through trades of pre-existing real assets.
D. net payments received by the U.S. from ROW through current reserve currency transactions.

Q35. In a world divided between HC and ROW, the HC CURRENT ACCOUNT in any given time period T must, as an accounting identity, be equal to

A. ROW saving in period T multiplied by -1
B. HC national saving in period T minus HC total gross investment in period T
C. ROW saving in period T
D. Both A and B
E. None of the above.

Q36. A U.S. CURRENT ACCOUNT _____ indicates that the ROW is INCREASING its net claims on U.S. assets because the U.S. is _____ ROW.

A. surplus; a net borrower from
B. deficit; a net lender to
C. surplus; a net lender to
D. deficit; a net borrower from
Q37. Which of the items below would be directly entered as items in the U.S. CURRENT account:

   A. Purchases by Cubans of cigars newly produced within the U.S.
   B. A Mongolian citizen’s purchase of U.S. Treasury bonds
   C. Interest payments received by U.S. holders of a German bond issue
   D. All of the above.
   E. All but B.

NOTE: Questions Q38, Q39, and Q40 have been removed because they rely on older (now out of date) accounting conventions for the treatment of financial and secondary physical asset transactions in the U.S. Balance of Payments Accounts.
Q41. MORAL HAZARD problems can arise with newly issued securities because of

A. the security buyers’ lack of detailed information about the current financial situation (e.g., default risk) of those seeking to sell these newly issued securities.

B. the possibility that other investors will be able to gain information costlessly by observing the actions of the security buyers.

C. the inability of security buyers to monitor fully the future behavior of the security sellers after transactions are completed.

D. the time-varying nature of investors’ preferences for asset holdings.

Q42. ADVERSE SELECTION problems can arise with newly issued securities because of

A. the security buyers’ lack of detailed information about the current financial situation (e.g., default risk) of those seeking to sell these newly issued securities.

B. the possibility that other investors will be able to gain information costlessly by observing the actions of the security buyers.

C. the inability of security buyers to monitor fully the future behavior of the security sellers after transactions are completed.

D. the time-varying nature of investors’ preferences for asset holdings.

Q43. ECONOMIES OF SCALE are said to occur for investors in financial markets when

A. borrowers who intend to invest in high-risk projects are successfully able to convince lenders that they intend to invest in low-risk projects.

B. investors who do not pay for information take advantage of the information that other investors have paid for by observing the behavior of these informed investors.

C. ownership of assets is separated from the control of these assets.

D. the cost per dollar invested declines as the size (scale) of the investment transaction increases.

Q44. According to Mishkin Chapter 8, during 1970-2000 the single most important SOURCE of EXTERNAL FUNDS used by American businesses to finance their business activities was:

A. bonds and commercial paper issue.

B. foreign lending.

C. loans from financial intermediaries.

D. stock issues.
Q45. Owners of corporate BONDS generally face FEWER moral hazard problems than owners of corporate STOCK SHARES because

A. corporate bond owners generally are active participants in corporate management.
B. corporate bonds have pre-set payment obligations that are not dependent on corporate profit performance (except in extreme conditions such as bankruptcy).
C. corporate bonds are only issued by large well-established companies.
D. all of the above.
E. only B and C.

Q46. According to Mishkin Chapter 8, banks are generally BETTER able than securities dealers to prevent adverse selection problems because

A. bank loans are private (not publicly traded), so banks can profitably gather information about potential borrowers without worrying about free-rider problems.
B. banks can force borrowers to signal their true “type” (high or low risk) by putting special restrictions in loan contracts (e.g., collateral requirements).
C. bank loans are regulated by the Securities and Exchange Commission (SEC).
D. all of the above.
E. only A and B above.

Q47. According to Mishkin Chapter 8, a key reason why financial intermediaries are generally better able than security dealers to keep transactions costs low for small lenders and borrowers is:

A. personnel at financial intermediaries are not as well compensated as security dealers.
B. bank loans are typically made in private, which encourages banks to exert time and effort in gathering information about potential borrowers.
C. banks can spread their loan costs over large pools of depositors (lenders) and investors (borrowers).
D. all of the above.

Q48. Having standardized accounting principles make it easier to read and understand publicly issued corporate profit reports, which in turn helps to reduce ______ for ______.

A. principal-agent problems; owners of stock shares
B. free-riding problems; corporate bond purchasers.
C. adverse selection problems; corporate managers
D. adverse selection problems; stock owners
Q49. As discussed in “Notes on Mishkin Chapter 8: Part B,” a key DISTINCTION between an INSOLVENT firm and a BANKRUPT firm is that

A. an insolvent firm can no longer meet its legal obligations to its financial creditors.
B. an insolvent firm necessarily has a negative net worth (liabilities greater than assets).
C. an insolvent firm is necessarily suffering from debt deflation.
D. an insolvent firm in the U.S. is required to undergo reorganization under the “Chapter 11” bankruptcy law.

Q50. The separation of ownership and control in corporations can lead to higher risk for ___ because of ____.

A. corporate managers; low salaries
B. corporate shareholders; principal-agent problems
C. tax-payers; adverse selection problems.
D. employees; free-rider problems.

Q51. The ECONOMIC GROWTH of a country refers to changes in ___.

A. the infrastructure, organization, and governance of its economy
B. its balance of payments
C. its unemployment rate
D. the size of the country, typically measured by GDP
E. none of the above

Q52. The ECONOMIC DEVELOPMENT of a country refers to changes in ________.

A. its government fiscal (tax and expenditure) policy
B. its balance of payments
C. the growth rate of its GDP
D. the infrastructure, organization, and governance of its economy
Q53. The economic growth and development of a country are IMPEDED when the flow of funds from savers to borrowers is disrupted, which can result from

A. inadequate or inappropriate government regulation.
B. absence of standard accounting practices.
C. a weak legal system.
D. all of the above.
E. only A and B.

Q54. Mishkin (Chapter 8) argues that financial crises arise when disruptions to the financial system of a country ______ so that financial markets are unable to channel funds from savers to investors.

A. lead to a weakening of its legal system
B. lead to divergencies from generally accepted accounting principles
C. result in inadequate or inappropriate government regulation,
D. result in a surge in adverse selection and moral hazard problems
E. lead to the nationalization of financial institutions

Q55. According to Mishkin Chapter 8, key types of factors that often TRIGGER financial crises include

A. sudden increases in uncertainty that discourage lenders
B. sudden deteriorations in bank balance sheets leading to a decrease in bank lending
C. sudden increases in prices that cause debt deflation
D. all of the above
E. only A and B.

Q56. According to Mishkin Chapter 8, a key way in which financial crises in the U.S. (and other relatively well developed countries) have DIFFERED from financial crises in developing (or emerging market) economies is that

A. U.S. financial crises have typically not involved bank panics.
B. U.S. financial crises have typically not involved fiscal imbalances and foreign exchange crises.
C. U.S. financial crises have tended to be of far shorter duration.
D. U.S. financial crises have not resulted in substantial bank failures.
Q57. According to Mishkin Chapter 8 and “Notes on Mishkin Chapter 8,” an important factor that TRIGGERED the 1994-1995 Mexican financial crisis was

A. a decline in the net worth of Mexican banks and a contraction in their lending activity.
B. the failure of the World Bank to provide support for economic development.
C. the failure of Mexico to ratify the Free Trade Area of the Americas (FTAA).
E. the Chiapas uprising.

Q58. As discussed in Mishkin Chapter 8, a key factor that WORSENED AND PROLONGED the U.S. Great Depression was _____, which resulted in _____.

A. a sharp increase in inflation; a sharp decrease in the real money supply.
B. a sharp increase in real government spending; a sharp drop in real GDP.
C. a sharp drop in the aggregate price level; severe debt deflation.
D. a sharp contraction in the real money supply; a sharp drop in interest rates.

Q59. As discussed in class (Ex 2, Q6; Ex 7; Ex 12), the NEW YORK STOCK EXCHANGE has undergone the following dramatic change in its organizational form over the past several years:

A. As a result of major expansion and decentralization, it is now the premier over-the-counter trader of stocks in the world (NYSE-OTC).
B. As a result of several key mergers, it is now an international company (NYSE-Euronext) that supports both electronic trading and auction floor trading of stocks.
C. As a result of a key merger, it is now the most diverse futures and options exchange in the world (NYSE-CME).
D. As a result of consolidation with the American Stock Exchange (NYSE-AMEX), it now has a near-monopoly position in the trade of premier blue-chip U.S. company stocks.

Q60. As discussed in class (Chapter 7, Exercise 4, Q6), behavioral financial economists such as Robert Shiller believe a primary cause of the current SUBPRIME MORTGAGE CRISIS is

A. financial deregulation in the early 1990s, following the Savings and Loan crisis, that has led to increased moral hazard problems.
B. irrational bank lending to unqualified mortgage firms with a high risk of default.
C. irrational exuberance on the part of both borrowers and lenders that led to a price bubble on new housing starting around 1998 and bursting in 2005.
D. the sharp decline in household net worth resulting from the dot.com bubble burst in 2000.
Q61. As discussed in Exercise 4 (Q6), a key reason why many people who financed house purchases through SUBPRIME MORTGAGERS are in serious trouble in the U.S. is the

A. recent slow-down in economic growth indicating the possibility of near-term recession.
B. sharp rise in subprime mortgage payment delinquencies leading to a sharp drop in lender net worth.
C. sharp rise in subprime mortgage payment obligations in accordance with adjustable rate mortgage “reset” features.
D. use of deceptive advertising by borrowers.
E. the persistently sharp rise in the price of new housing over the past year.

Q62. As discussed in Exercise 5 (Q6), the COLLEGE COST REDUCTION AND ACCESS ACT OF 2007 enacts major reforms in the student loan process, including:

A. income-based repayment, i.e., the size of the monthly or annual loan repayments required of student loan borrowers will be limited to a certain percentage of their income.
B. increased federal support of private student loan lenders (e.g., reductions in their required loan fees) to induce more lending.
C. a speeding up of student loan repayments for active service members to reduce their paperwork.
D. a pegging of student loan interest rates to the prime interest rate to reduce uncertainty regarding interest payments.

Q63. As discussed in Exercises 7 and 12, the RETURN RATE ON A PORTFOLIO OF STOCKS from day D to day D+1 is typically measured in practice as

A. the change from day D to day D+1 in the present value of all future expected dividend earnings on the stocks held in the portfolio.
B. the log-difference \([\ln PV(D + 1) - \ln PV(D)]\) in the portfolio value PV from day D to day D+1, where PV denotes the total market value of all stocks held in the portfolio.
C. the total amount of dividends earned from the portfolio from day D to day D+1 plus the capital gain (or loss) on the portfolio from day D to day D+1.
D. the yield-to-maturity on the portfolio from day D to day D+1.
Q64. As discussed in Ex 9 (Q6) and in “Notes on Mishkin Chapter 18,” when the INTERNATIONAL MONETARY FUND (IMF) was originally established in 1945 its principal envisioned role was ____. Over time, however, the role of the IMF has changed; it is now principally _____.

A. the encouragement of floating exchange rates; a provider of construction loans to IMF member countries for the development of their technology and infrastructure.

B. the enforcement of the pegging of exchange rates to the U.S. dollar; a provider of loans to IMF member countries to help them fight inflationary pressures.

C. the continual adjustment of IMF currency reserves to ensure a balance of IMF payments; a provider of loans to IMF member countries experiencing trade deficit problems as long as these countries abide by IMF rules and stipulations.

D. the setting of rules for the maintenance of fixed exchange rates; a “lender-of-last-resort” that provides loans to IMF member countries experiencing balance of payments difficulties as long as these countries abide by IMF rules and stipulations.

Q65. As discussed in Ex 9 (Q6) and in “Notes on Mishkin Chapter 18,” upon joining the IMF each member country must contribute a certain sum of money called a QUOTA SUBSCRIPTION. Critics have argued this unfairly penalizes poorer countries because the IMF uses quota subscriptions

A. to limit which countries can become members of the IMF.

B. to determine borrowing rights (size of permitted loans) of IMF member countries.

C. to determine voting rights (determination of who gets loans and on what terms) of IMF member countries.

D. all of the above.

E. only B and C.

Q66. As discussed in online “Notes on Mishkin Chapter 17,” the European Union (EU) is a complicated organization with many different aspects. These include:

A. Only 13 member countries of the 27-member EU have currently adopted the euro as their only currency.

B. All 27 member countries of the EU have currently adopted the euro as their only currency, but they are not yet politically integrated.

C. In recent years the EU has accepted as members a number of countries not traditionally considered to be part of Europe.

D. Only B and C.

E. Only A and C.
Q67. As discussed in “Notes on Mishkin Chapter 17,” to be eligible to join the European Union a country must satisfy the requiring a number of conditions, such as ___.

A. Copenhagen Criteria; a functioning market economy and the existence of institutions to preserve democratic governance and human rights.

B. Maastricht Convergence Criteria; an inflation rate no more than 1.5 percentage points above the average of the three member EU countries with the lowest inflation rates.

C. Global Legal Settlement Act; enactment of settlement laws permitting free migration of labor and the legal right to purchase housing without discrimination.

D. EU Constitution; the integration of all local political bodies into a centralized EU government.

Q68. The Enron scandal discussed in Mishkin Chapter 8 and the online notes for Chapter 8 is now extensively used to illustrate the empirical importance of the following type of issue:

A. adverse selection problems.

B. principal-agent problems.

C. free-riding problems.

D. financial repression problems.

Q69. As discussed in Mishkin Chapter 8 and in the online Enron notes, key provisions of the SARBANES-OXLEY ACT OF 2002 meant to reform U.S. accounting practices include:

A. Audit Committees must now be independent of senior company management.

B. Chief Executive Officers and Chief Financial Officers must now certify the accuracy of the periodic financial statements and disclosures of their companies.

C. It is now illegal for Registered Public Accounting Firms to provide “nonpermissable” audits of a company at the same time they are providing nonaudit (e.g., consulting) services to this same company.

D. All of the above.

Q70. Major problems revealed by the bankruptcy of Enron that are NOT addressed by the Sarbanes-Oxley Act of 2002 include:

A. use of stock options to compensate Audit Committee members and senior company personnel, which increases incentives to withhold information from stockholders that might negatively impact stock prices.

B. increased use of difficult-to-track off-balance sheet activities that can be used to hide risky investments and bad debts from public view.

C. focus by senior personnel on short-term profits and get-rich-quick schemes to the long-run detriment of a company.

D. All of the above.