



## Försättsblad Prov Original

Kurskod	Provkod	Tentamensdatum
N A O O 4 G	1 0 0 0	2 0 1 8 - 1 0 - 0 5
Kursnamn	Nationalekonomi GR (C), Finansiella institutioner och Mar...	
Provnamn	Examination	
Ort	Sundsvall	
Termin	H18	
Ämne	Nationalekonomi	

# EXAM ECONOMICS C NA004G 2018-10-05

MODULE: MONEY, BANKING AND FINANCIAL MARKETS NA004G  
DELKURS: FINANSIELLA INSTITUTIONER OCH MARKNADER NA004G

Examiner: Barbro Widerstedt, tel 010-142 83 22

## INSTRUCTIONS

This exam consists of 6 pages, including this cover sheet. Make sure that all pages are in your handout.

The exam comprises 3 sections (1) 20 Multiple choice questions (20 p), (2) 5 definitions (10p) and (3) 2 essay questions (20p) for a total of 50 points. In order to get a passing grade (E or above), you need to get at least 25 points.

- Answer multiple-choice questions on the provided answer sheet (page 6 of the exam).
- Definitions should be answered on one sheet. Mark the answer sheet of with your anonymization code.
- Essay questions should be answered on a separate sheet of paper. Do not answer more than one question on each sheet. Mark each sheet of paper with your anonymization code.

Read the questions carefully. **You can choose to answer open questions in Swedish or in English.**

### INSTRUCTION FOR ESSAY QUESTIONS:

Your answers should be clear and legible. Keep your answers to the point and easy to follow. Long-winded answers with a complicated outline are difficult to follow and there is a high risk that you will contradict yourself. Generally 200-300 words (1-1½ page) is enough to answer the question if properly outlined.

Support graphical illustrations and mathematical formulas with an explanatory text where needed. Label axes in diagrams and explain abbreviations and symbols in illustrations and formulas.

Consider the outline of your answer. If answering the question requires an assumption not mentioned in the question, explicitly state your assumption. **Your ability to discuss as well as give a plain and systematic formulation of the problem are part of marking and grading your exam.**

## GRADING

Course grades are marked on the following scale

Betyg	A	B	C	D	E	F
Poäng	45-65	40-44	35-39	30-34	25-29	< 25p

The grade F constitutes a failing grade and requires a new examination.

Passing grades on quizzes and participations points (max 15p) will adjust your starting points.

## ALLOWED RESOURCES AND DEVICES

Dictionary, calculator

GOOD LUCK!

## SECTION 1: MULTIPLE CHOICE QUESTIONS

Answer the following Multiple choice questions on the provided answer sheet (page 6 of the exam).

Q	Question text	
1	A person's house is part of her A) income. B) wealth. C) liabilities. D) money.	
2	Currency includes A) paper money and checks. B) paper money, coins, checks, and savings deposits. C) paper money and coins. D) paper money, coins, and checks.	
3	The currency component includes paper money and coins held in A) the central bank. B) the hands of the nonbank public. C) bank vaults. D) ATMs.	
4	What do you call the yield measure of payments to the owner plus the change in a security's value expressed as a fraction of the security's purchase price. A) yield to maturity B) rate of return C) yield rate D) current yield	
5	What do we call money that can be used for some other purpose other than as a medium of exchange. An example is gold coins, that could be turned into gold jewelry. A) Paper money B) Commodity money C) Fiat money D) Electronic money	
6	Which of the following are TRUE concerning the distinction between interest rates and returns? A) The rate of return will be greater than the interest rate when the price of the bond falls during the holding period. B) The return can be expressed as the sum of the discount yield and the rate of capital gains. C) The rate of return on a bond will not necessarily equal the interest rate on that bond. D) The return can be expressed as the difference between the current yield and the rate of capital gains.	
7	What is the yield to maturity on a discount bond that pays €1000 in 10 years if the price of the bond today is €800? A) 25 per cent B) 13.8 per cent C) 2.5 per cent D) 2.3 percent	



Q	Question text	
8	<p>What is the return on a 5 percent coupon bond that initially sells for \$1,000 and sells for \$900 next year?</p> <p>A) -10 percent            B) 10 percent            C) 5 percent            D) -5 percent</p>	
9	<p>How is the present value of an expected future payment affected by an increase in interest rates?</p> <p>A) The present value is unaffected            B) The present value is constant            C) The present value increases            D) The present value decreases</p>	
10	<p>In the Keynesian liquidity preference framework, what happens to the demand curve for money if the interest rate increases, everything else held constant.</p> <p>A) Nothing            B) The demand curve shifts to the right            C) The demand curve shifts to the left            D) The demand curve inverts</p>	
11	<p>What happens to the interest rate when real income in the economy increases?</p> <p>A) The demand for money increases, and interest rates rise            B) The demand for money decreases, and interest rates rise            A) The demand for money increases, and interest rates fall            B) The demand for money decreases, and interest rates fall</p>	
12	<p>Studies of mutual fund performance indicate that mutual funds that outperformed the market in one time period usually</p> <p>A) beat the market in the next three subsequent time periods.            B) beat the market in the next two subsequent time periods.            C) do not beat the market in the next time period.            D) beat the market in the next time period.</p>	
13	<p>Regulators attempt to reduce the riskiness of banks' asset portfolios by</p> <p>A) requiring collateral for all loans.            B) establishing a minimum interest rate floor that banks can earn on certain assets.            C) limiting the amount of loans in particular categories or to individual borrowers.            D) encouraging banks to hold risky assets such as common stocks.</p>	
14	<p>When a corporation announces a major decline in earnings, the stock price may initially decline significantly and then rise back to normal levels over the next few weeks. This impact is called</p> <p>A) the January effect.            B) the small-firm effect.            C) market overreaction.            D) mean reversion.</p>	

Q	Question text	
15	<p>A borrower who takes out a loan usually has better information about the potential returns and risk of the investment projects he plans to undertake than does the lender. This inequality of information is called</p> <p>A) noncollateralized risk.            B) adverse selection.            C) moral hazard.            D) asymmetric information.</p>	
16	<p>The free-rider problem occurs because</p> <p>A) information can never be sold at any price.            B) people who do not pay for information use it.            C) people who pay for information use it freely.            D) it is never profitable to produce information.</p>	
17	<p>A serious consequence of a financial crisis is</p> <p>A) financial globalization.            B) a contraction in economic activity.            C) an increase in asset prices.            D) financial engineering.</p>	
18	<p>Debt deflation occurs when</p> <p>A) rising interest rates worsen adverse selection and moral hazard problems.            B) lenders reduce their lending due to declining stock prices (equity deflation) that lowers the value of collateral.            C) corporations pay back their loans before the scheduled maturity date.            D) an economic downturn causes the price level to fall and a deterioration in firms' net worth because of the increased burden of indebtedness.</p>	
19	<p>The monetary base minus currency in circulation equals</p> <p>A) the borrowed base.            B) discount loans.            C) reserves.            D) the nonborrowed base.</p>	
20	<p>The monetary base declines when</p> <p>A) the Fed sells securities.            B) float increases.            C) Treasury deposits at the Fed decrease.            D) the Fed extends discount loans.</p>	

## SECTION 2: DEFINITIONS OF KEY TERMS

Give a short (1-2 sentences) explanation of the following terms:

1. Yield to maturity
2. Liquidity
3. Defensive open market operations
4. Instrument independence (of central banks)
5. Small-firm effect

### SECTION 3: ESSAY QUESTIONS

Choose any 2 questions If you answer all three, a random question will be left unmarked.

Your answer should be in the form of 200-300 word short essay. The answer should be complete and stand-alone: as an example you should define key terms used in your answer. You can use diagrams to support your argument if you wish. Start each essay on a new sheet of paper

Q1

Banks play an important role in moving funds to a more productive use through the financial markets, thereby improving the effectiveness of capital allocation. Describe the function of banks in the economy, and be sure to touch on the following topics

- a) Market imperfections typical in the financial market
- b) How banks improve the financial market through resolving these market imperfections
- c) The role of banks of banks in the money supply process.

Q2

Many countries has instituted an independent Central bank in recent decades. Explain what is meant by an independent central bank and discuss the advantages and disadvantages of central bank independence. Define the *political business cycle* and explain why the political business cycle is important for the argument for central bank independence.

Q3

Explain the *Efficient Market Hypothesis* and its implications for stock prices and the efficiency of the stock market. Also include at least 2 results from behavioral finance that contradicts the predictions of the Efficient Market Hypothesis.

CODE:

**ANSWER SHEET MULTIPLE CHOICE QUESTIONS**

Question no	Answer
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