Chapter 10
Banking Industry: Structure and Competition

10.1 Historical Development of the Banking System

1) The modern commercial banking system began in America when the
   A) Bank of United States was chartered in New York in 1801.
   B) Bank of North America was chartered in Philadelphia in 1782.
   C) Bank of United States was chartered in Philadelphia in 1801.
   D) Bank of North America was chartered in New York in 1782.

   Answer: B
   Ques Status: Previous Edition

2) A major controversy involving the banking industry in its early years was
   A) whether banks should both accept deposits and make loans or whether these functions
      should be separated into different institutions.
   B) whether the federal government or the states should charter banks.
   C) what percent of deposits banks should hold as fractional reserves.
   D) whether banks should be allowed to issue their own bank notes.

   Answer: B
   Ques Status: Previous Edition

3) The government institution that has responsibility for the amount of money and credit
   supplied in the economy as a whole is the
   A) central bank.
   B) commercial bank.
   C) bank of settlement.
   D) monetary fund.

   Answer: A
   Ques Status: Previous Edition

4) Because of the abuses by state banks and the clear need for a central bank to help the federal
   government raise funds during the War of 1812, Congress created the
   A) Bank of United States in 1812.
   B) Bank of North America in 1814.
   C) Second Bank of the United States in 1816.
   D) Second Bank of North America in 1815.

   Answer: C
   Ques Status: Previous Edition
5) The Second Bank of the United States was denied a new charter by
   A) President Andrew Jackson.
   B) Vice President John Calhoun.
   C) President Benjamin Harrison.
   D) President John Q. Adams.
   Answer: A
   Ques Status: Previous Edition

6) Currency circulated by banks that could be redeemed for gold was called _______.
   A) junk bonds
   B) banknotes
   C) gold bills
   D) state money
   Answer: B
   Ques Status: New

7) To eliminate the abuses of the state-chartered banks, the _______ created a new banking system of federally chartered banks, supervised by the _______.
   A) National Bank Act of 1863; Office of the Comptroller of the Currency
   B) Federal Reserve Act of 1863; Office of the Comptroller of the Currency
   C) National Bank Act of 1863; Office of Thrift Supervision
   D) Federal Reserve Act of 1863; Office of Thrift Supervision
   Answer: A
   Ques Status: Previous Edition

8) The belief that bank failures were regularly caused by fraud or the lack of sufficient bank capital explains, in part, the passage of
   A) the National Bank Charter Amendments of 1918.
   B) the Garn–St. Germain Act of 1982.
   C) the National Bank Act of 1863.
   D) Federal Reserve Act of 1913.
   Answer: C
   Ques Status: Revised
9) Before 1863,
   A) federally-chartered banks had regulatory advantages not granted to state-chartered banks.
   B) the number of federally-chartered banks grew at a much faster rate than at any other time since the end of the Civil War.
   C) banks acquired funds by issuing bank notes.
   D) banks were required to maintain 100% of their deposits as reserves.

   Answer: C
   Ques Status: Revised

10) Although the National Bank Act of 1863 was designed to eliminate state-chartered banks by imposing a prohibitive tax on banknotes, these banks have been able to stay in business by
   A) issuing credit cards.
   B) ignoring the regulations.
   C) acquiring funds through deposits.
   D) branching into other states.

   Answer: C
   Ques Status: Revised

11) The National Bank Act of 1863, and subsequent amendments to it,
   A) created a banking system of state-chartered banks.
   B) established the Office of the Comptroller of the Currency.
   C) broadened the regulatory powers of the Federal Reserve.
   D) created insurance on deposit accounts.

   Answer: B
   Ques Status: Revised

12) Which regulatory body charters national banks?
   A) The Federal Reserve
   B) The FDIC
   C) The Comptroller of the Currency
   D) The U.S. Treasury

   Answer: C
   Ques Status: Revised
13) The regulatory system that has evolved in the United States whereby banks are regulated at the state level, the national level, or both, is known as a
   A) bilateral regulatory system.
   B) tiered regulatory system.
   C) two-tiered regulatory system.
   D) dual banking system.
   Answer: D
   Ques Status: Previous Edition

14) Today the United States has a dual banking system in which banks supervised by the ______ and by the ______ operate side by side.
   A) federal government; municipalities
   B) state governments; municipalities
   C) federal government; states
   D) municipalities; states
   Answer: C
   Ques Status: Previous Edition

15) The U.S. banking system is considered to be a dual system because
   A) banks offer both checking and savings accounts.
   B) it actually includes both banks and thrift institutions.
   C) it is regulated by both state and federal governments.
   D) it was established before the Civil War, requiring separate regulatory bodies for the North and South.
   Answer: C
   Ques Status: Study Guide

16) The Federal Reserve Act of 1913 required that
   A) state banks be subject to the same regulations as national banks.
   B) national banks establish branches in the cities containing Federal Reserve banks.
   C) national banks join the Federal Reserve System.
   D) state banks could not join the Federal Reserve System.
   Answer: C
   Ques Status: Revised
17) The Federal Reserve Act required all _______ banks to become members of the Federal Reserve System, while _______ banks could choose to become members of the system.
   A) state; national
   B) state; municipal
   C) national; state
   D) national; municipal
   Answer: C

Ques Status: Previous Edition

18) Probably the most significant factor explaining the drastic drop in the number of bank failures since the Great Depression has been
   A) the creation of the FDIC.
   B) rapid economic growth since 1941.
   C) the employment of new procedures by the Federal Reserve.
   D) better bank management.
   Answer: A

Ques Status: Previous Edition

19) With the creation of the Federal Deposit Insurance Corporation, member banks of the Federal Reserve System _______ to purchase FDIC insurance for their depositors, while non-member commercial banks _______ to buy deposit insurance.
   A) could choose; were required
   B) could choose; were given the option
   C) were required, could choose
   D) were required; were required
   Answer: C

Ques Status: Previous Edition

20) With the creation of the Federal Deposit Insurance Corporation,
   A) member banks of the Federal Reserve System were given the option to purchase FDIC insurance for their depositors, while non-member commercial banks were required to buy deposit insurance.
   B) member banks of the Federal Reserve System were required to purchase FDIC insurance for their depositors, while non-member commercial banks could choose to buy deposit insurance.
   C) both member and non-member banks of the Federal Reserve System were required to purchase FDIC insurance for their depositors.
   D) both member and non-member banks of the Federal Reserve System could choose, but were not required, to purchase FDIC insurance for their depositors.
   Answer: B

Ques Status: Previous Edition
21) The Glass-Steagall Act, before its repeal in 1999, prohibited commercial banks from
   A) issuing equity to finance bank expansion.
   B) engaging in underwriting and dealing of corporate securities.
   C) selling new issues of government securities.
   D) purchasing any debt securities.
   Answer: B
   Ques Status: Previous Edition

22) The legislation that separated investment banking from commercial banking until its repeal in 1999 is known as the:
   A) National Bank Act of 1863.
   B) Federal Reserve Act of 1913.
   C) Glass-Steagall Act.
   D) McFadden Act.
   Answer: C
   Ques Status: Previous Edition

23) Which of the following statements concerning bank regulation in the United States are true?
   A) The Office of the Comptroller of the Currency has the primary responsibility for state banks that are members of the Federal Reserve System.
   B) The Federal Reserve and the state banking authorities jointly have responsibility for the 1000 state banks that are members of the Federal Reserve System.
   C) The Office of the Comptroller of the Currency has sole regulatory responsibility over bank holding companies.
   D) The state banking authorities have sole regulatory responsibility for all state banks.
   Answer: B
   Ques Status: Revised

24) Which bank regulatory agency has the sole regulatory authority over bank holding companies?
   A) The FDIC
   B) The Comptroller of the Currency
   C) The FHLBS
   D) The Federal Reserve System
   Answer: D
   Ques Status: Previous Edition
25) State banks that are not members of the Federal Reserve System are most likely to be examined by the
   A) Federal Reserve System.
   B) FDIC.
   C) FHLBS.
   D) Comptroller of the Currency.

Answer: B

Ques Status: Previous Edition

10.2 Financial Innovation and the Evolution of the Banking Industry

1) Financial innovations occur because of financial institutions search for ______.
   A) profits
   B) fame
   C) stability
   D) recognition

Answer: A

Ques Status: New

2) _______ is the process of researching and developing profitable new products and services by financial institutions.
   A) Financial engineering
   B) Financial manipulation
   C) Customer manipulation
   D) Customer engineering

Answer: A

Ques Status: New

3) The most significant change in the economic environment that changed the demand for financial products since 1970 has been
   A) the aging of the baby-boomer generation.
   B) the dramatic increase in the volatility of interest rates.
   C) the dramatic increase in competition from foreign banks.
   D) the deregulation of financial institutions.

Answer: B

Ques Status: Previous Edition
4) In the 1950s the interest rate on three-month Treasury bills fluctuated between 1 percent and 3.5 percent; in the 1980s it fluctuated between _______ percent and _______ percent.
   A) 5; 15
   B) 4; 11.5
   C) 4; 18
   D) 5; 10
   Answer: A
   Ques Status: Previous Edition

5) Uncertainty about interest-rate movements and returns is called ______.
   A) market potential
   B) interest-rate irregularities
   C) interest-rate risk
   D) financial creativity
   Answer: C
   Ques Status: New

6) Rising interest-rate risk
   A) increased the cost of financial innovation.
   B) increased the demand for financial innovation.
   C) reduced the cost of financial innovation.
   D) reduced the demand for financial innovation.
   Answer: B
   Ques Status: Previous Edition

7) Adjustable rate mortgages
   A) protect households against higher mortgage payments when interest rates rise.
   B) keep financial institutions’ earnings high even when interest rates are falling.
   C) benefit homeowners when interest rates are falling.
   D) generally have higher initial interest rates than on conventional fixed-rate mortgages.
   Answer: C
   Ques Status: Revised
8) The agreement to provide a standardized commodity to a buyer on a specific date at a specific future price is
   A) a put option.
   B) a call option.
   C) a futures contract.
   D) a mortgage-backed security.
   Answer: C
   Ques Status: Revised

9) An instrument developed to help investors and institutions hedge interest-rate risk is
   A) a put option.
   B) a call option.
   C) a financial derivative.
   D) a mortgage-backed security.
   Answer: C
   Ques Status: Revised

10) Financial instruments whose payoffs are linked to previously issued securities are called ________.
    A) grandfathered bonds
    B) financial derivatives
    C) hedge securities
    D) reversible bonds
    Answer: B
    Ques Status: New

11) Both ________ and ________ were financial innovations that occurred because of interest rate risk volatility.
    A) adjustable-rate mortgages; commercial paper
    B) adjustable-rate mortgages; financial derivatives
    C) sweep accounts; financial derivatives
    D) sweep accounts; commercial paper
    Answer: B
    Ques Status: New
12) The most important source of the changes in supply conditions that stimulate financial innovation has been the
   A) deregulation of financial institutions.
   B) dramatic increase in the volatility of interest rates.
   C) improvement in computer and telecommunications technology.
   D) dramatic increase in competition from foreign banks.

Answer: C

Ques Status: Revised

13) New computer technology has
   A) increased the cost of financial innovation.
   B) increased the demand for financial innovation.
   C) reduced the cost of financial innovation.
   D) reduced the demand for financial innovation.

Answer: C

Ques Status: Previous Edition

14) Credit cards date back to
   A) prior to the second World War.
   B) just after the second World War.
   C) the early 1950s.
   D) the late 1950s.

Answer: A

Ques Status: Previous Edition

15) A firm issuing credit cards earns income from
   A) loans it makes to credit card holders.
   B) subsidies from the local governments.
   C) payments made to it by manufacturers of the products sold in stores on credit card purchases.
   D) sales of the card in foreign countries.

Answer: A

Ques Status: Revised
16) The entry of AT&T and GM into the credit card business is an indication of
   A) government’s efforts to deregulate the provision of financial services.
   B) the rising profitability of credit card operations.
   C) the reduction in costs of credit card operations since 1990.
   D) the sale of unprofitable operations by Bank of America and Citicorp.
   Answer: B

Ques Status: Previous Edition

17) A debit card differs from a credit card in that
   A) a debit card is a loan while for a credit card purchase, payment is made immediately.
   B) a debit card is a long-term loan while a credit card is a short-term loan.
   C) a credit card is a loan while for a debit card purchase, payment is made immediately.
   D) a credit card is a long-term loan while a debit card is a short-term loan.
   Answer: C

Ques Status: Revised

18) Automated teller machines
   A) are more costly to use than human tellers, so banks discourage their use by charging more for use of ATMs.
   B) cost about the same to use as human tellers in banks, so banks discourage their use by charging more for use of ATMs.
   C) cost less than human tellers, so banks may encourage their use by charging less for using ATMs.
   D) cost nothing to use, so banks provide their services free of charge.
   Answer: C

Ques Status: Revised

19) The declining cost of computer technology has made ______ a reality.
   A) brick and mortar banking
   B) commercial banking
   C) virtual banking
   D) investment banking
   Answer: C

Ques Status: Revised
20) Bank customers perceive Internet banks as being
   A) more secure than physical bank branches.
   B) a better method for the purchase of long-term savings products.
   C) better at keeping customer information private.
   D) prone to many more technical problems.

Answer: D

Ques Status: Revised

21) A disadvantage of virtual banks (clicks) is that
   A) their hours are more limited than physical banks.
   B) they are less convenient than physical banks.
   C) they are more costly to operate than physical banks.
   D) customers worry about the security of on-line transactions.

Answer: D

Ques Status: Revised

22) So-called fallen angels differ from junk bonds in that
   A) junk bonds refer to newly issued bonds with low credit ratings, whereas fallen angels refer to previously bonds that have had their credit ratings fall below Baa.
   B) junk bonds refer to previously bonds that have had their credit ratings fall below Baa, whereas fallen angels refer to newly issued bonds with low credit ratings.
   C) junk bonds have ratings below Baa, whereas fallen angels have ratings below C.
   D) fallen angels have ratings below Baa, whereas junk bonds have ratings below C.

Answer: A

Ques Status: Previous Edition

23) Newly-issued high-yield bonds rated below investment grade by the bond-rating agencies are frequently referred to as
   A) municipal bonds.
   B) Yankee bonds.
   C) "fallen angels."
   D) junk bonds.

Answer: D

Ques Status: Previous Edition
24) In 1977, he pioneered the concept of selling new public issues of junk bonds for companies that had not yet achieved investment-grade status.
   A) Michael Milken
   B) Roger Milliken
   C) Ivan Boskey
   D) Carl Ichan
   Answer: A
   Ques Status: Previous Edition

25) The rapid growth of the commercial paper market since 1970 is due to
   A) the fact that commercial paper has no default risk.
   B) improved information technology making it easier to screen credit risks.
   C) government regulation.
   D) FDIC insurance for commercial paper.
   Answer: B
   Ques Status: Revised

26) The process of transforming otherwise illiquid financial assets into marketable capital market instruments is know as
   A) securitization.
   B) internationalization.
   C) arbitrage.
   D) program trading.
   Answer: A
   Ques Status: Revised

27) ______ is creating a marketable capital market instrument by bundling a portfolio of mortgage or auto loans.
   A) diversification.
   B) arbitrage.
   C) computerization.
   D) securitization.
   Answer: D
   Ques Status: Revised
28) The driving force behind the securitization of mortgages and automobile loans has been
   A) the rising regulatory constraints on substitute financial instruments.
   B) the desire of mortgage and auto lenders to exit this field of lending.
   C) the improvement in computer technology.
   D) the relaxation of regulatory restrictions on credit card operations.
   Answer: C
   Ques Status: Previous Edition

29) According to Edward Kane, because the banking industry is one of the most _______ industries in America, it is an industry in which _______ is especially likely to occur.
   A) competitive; loophole mining
   B) competitive; innovation
   C) regulated; loophole mining
   D) regulated; innovation
   Answer: C
   Ques Status: Previous Edition

30) Loophole mining refers to financial innovation designed to
   A) hide transactions from the IRS.
   B) conceal transactions from the SEC.
   C) get around regulations.
   D) conceal transactions from the Treasury Department.
   Answer: C
   Ques Status: Revised

31) Bank managers look on reserve requirements
   A) as a tax on deposits.
   B) as a subsidy on deposits.
   C) as a subsidy on loans.
   D) as a tax on loans.
   Answer: A
   Ques Status: Previous Edition
32) The cost of holding reserves to a bank equals
   A) the interest paid on deposits times the amount of reserves.
   B) the interest paid on deposits times the amount of deposits.
   C) the interest earned on loans times the amount of loans.
   D) the interest earned on loans times the amount on reserves.

   Answer: D
   Ques Status: Revised

33) Prior to 1980, the Fed set an interest rate __________ that is a maximum limit on the interest rate that could be paid on time deposits.

   A) floor
   B) ceiling
   C) wall
   D) window

   Answer: B
   Ques Status: New

34) The process in which people take their money out of financial institutions seeking higher interest rates is called

   A) capital mobility.
   B) loophole mining.
   C) disintermediation.
   D) deposit jumping.

   Answer: C
   Ques Status: Revised

35) Money market mutual funds

   A) function as interest-earning checking accounts.
   B) are legally deposits.
   C) are subject to reserve requirements.
   D) have an interest-rate ceiling.

   Answer: A
   Ques Status: Revised
36) In this type of arrangement, any balances above a certain amount in a corporation's checking account at the end of the business day are "removed" and invested in overnight securities that pay the corporation interest. This innovation is referred to as a

A) sweep account.
B) share draft account.
C) removed-repo account.
D) stockman account.

Answer: A

Ques Status: Previous Edition

37) Sweep accounts which were created to avoid reserve requirements became possible because of a change in _______.

A) demand conditions
B) supply conditions
C) government rules
D) bank mergers

Answer: B

Ques Status: New

38) Sweep accounts

A) have made reserve requirements nonbonding for many banks.
B) sweep funds out of deposit accounts into long-term securities.
C) enable banks to avoid paying interest to corporate customers.
D) reduce banks' assets.

Answer: A

Ques Status: Revised

39) Since 1974, commercial banks' importance as a source of funds for nonfinancial borrowers

A) has shrunk dramatically, from around 40 percent of total credit advanced to below 30 percent by 2005.
B) has shrunk dramatically, from around 70 percent of total credit advanced to below 50 percent by 2005.
C) has expanded dramatically, from around 50 percent of total credit advanced to above 70 percent by 2005.
D) has expanded dramatically, from around 30 percent of total credit advanced to above 50 percent by 2005.

Answer: A

Ques Status: Revised
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40) Thrift institutions' importance as a source of funds for borrowers
   A) has shrunk from around 40 percent of total credit advanced in the late 1970s to below 30 percent by 2005.
   B) has shrunk from over 20 percent of total credit advanced in the late 1970s to below 6 percent by 2005.
   C) has expanded dramatically, from around 15 percent of total credit advanced in the late 1970s to above 25 percent by 2005.
   D) has expanded dramatically, from around 15 percent of total credit advanced in the late 1970s to above 30 percent by 2005.

Answer: B
Ques Status: Revised

41) Since 1980
   A) bank profitability has declined.
   B) banks have offset the decline in profits from traditional activities with increased income from off-balance-sheet activities.
   C) banks have offset the decline in profits from off-balance-sheet activities with increased income from traditional activities.
   D) bank profits have grown rapidly due to deregulation.

Answer: B
Ques Status: Revised

42) Financial innovation has caused
   A) banks to suffer declines in their cost advantages in acquiring funds, although it has not caused a decline in income advantages.
   B) banks to suffer a simultaneous decline of cost and income advantages.
   C) banks to suffer declines in their income advantages in acquiring funds, although it has not caused a decline in cost advantages.
   D) banks to achieve competitive advantages in both costs and income.

Answer: B
Ques Status: Previous Edition

43) Disintermediation resulted from
   A) interest rate ceilings combine with inflation-driven increases in interest rates.
   B) elimination of Regulation Q (the regulation imposing interest rate ceilings on bank deposits).
   C) increases in federal income taxes.
   D) reserve requirements.

Answer: A
Ques Status: Revised
44) The experience of disintermediation in the banking industry illustrates that
   A) more regulation of financial markets may avoid such problems in the future.
   B) banks are unable to remain competitive with other financial intermediaries.
   C) consumers no longer desire the services that banks provide.
   D) markets invent alternatives to costly regulations.
   Answer: D
   **Ques Status: Revised**

45) Banks responded to disintermediation by
   A) supporting the elimination of interest rate regulations, enabling them to better compete
      for funds.
   B) opposing the elimination of interest rate regulations, as this would increase their cost of
      funds.
   C) demanding that interest rate regulations be imposed on money market mutual funds.
   D) supporting the elimination of interest rate regulations, as this would reduce their cost of
      funds.
   Answer: A
   **Ques Status: Revised**

46) One factor contributing to the decline in cost advantages that banks once had is the
   A) decline in the importance of checkable deposits from over 60 percent of banks’ liabilities
      to under 15 percent today.
   B) decline in the importance of savings deposits from over 60 percent of banks’ liabilities to
      under 15 percent today.
   C) decline in the importance of checkable deposits from over 40 percent of banks’ liabilities
      to under 15 percent today.
   D) decline in the importance of savings deposits from over 40 percent of banks’ liabilities to
      under 20 percent today.
   Answer: A
   **Ques Status: Previous Edition**

47) The most important developments that have reduced banks’ cost advantages in the past thirty
    years include:
   A) the growth of the junk bond market.
   B) the competition from money market mutual funds.
   C) the growth of securitization.
   D) the growth in the commercial paper market.
   Answer: B
   **Ques Status: Revised**
48) The most important developments that have reduced banks' income advantages in the past thirty years include:
   A) the increase in off-balance sheet activities.
   B) the growth of the junk bond market.
   C) the elimination of Regulation Q ceilings.
   D) the competition from money market mutual funds.

Answer: B
Ques Status: Revised

49) One factor contributing to the decline in income advantages that banks once had is the increased competition from the commercial paper market which has grown from ______ percent of commercial and industrial bank loans to over ______ percent today.
   A) 10; 20
   B) 5; 13
   C) 10; 40
   D) 5; 40

Answer: B
Ques Status: Revised

50) Banks have attempted to maintain adequate profit levels by
   A) making fewer riskier loans, such as commercial real estate loans.
   B) pursuing new off-balance-sheet activities.
   C) increasing reserve deposits at the Fed.
   D) decreasing capital accounts.

Answer: B
Ques Status: Revised

51) The decline in traditional banking internationally can be attributed to
   A) increased regulation.
   B) improved information technology.
   C) increasing monopoly power of banks over depositors.
   D) increased protection from competition.

Answer: B
Ques Status: Revised
52) Why did the interest rate volatility of the 1970s spur financial innovation?

Answer: Banks were very vulnerable to interest-rate risk in the mortgage loans. To protect themselves, banks began to issue adjustable-rate mortgages whose interest rate will increase along with market interest rates. Additionally, financial derivatives were developed to help hedge against interest-rate risk.

Ques Status: New

10.3 Structure of the U.S. Commercial Banking Industry

1) The presence of so many commercial banks in the United States is most likely the result of

A) consumers’ strong desire for dealing with only local banks.
B) adverse selection and moral hazard problems that give local banks a competitive advantage over larger banks.
C) prior regulations that restrict the ability of these financial institutions to open branches.
D) consumers’ preference for state banks.

Answer: C
Ques Status: Revised

2) The McFadden Act of 1927

A) effectively prohibited banks from branching across state lines.
B) required that banks maintain bank capital equal to at least 6 percent of their assets.
C) effectively required that banks maintain a correspondent relationship with large money center banks.
D) separated the commercial banks and investment banks.

Answer: A
Ques Status: Revised

3) The legislation that effectively prohibited banks from branching across state lines and forced all national banks to conform to the branching regulations in the state in which they reside is the

A) McFadden Act.
B) National Bank Act.
C) Glass–Steagall Act.

Answer: A
Ques Status: Previous Edition
4) As a result of restrictive banking regulations, the United States
   A) has too few banks when compared to other industrialized countries.
   B) has banks that are quite large relative to those in other countries.
   C) has too many banks when compared to other industrialized countries.
   D) has a few dominant banks that hold most of the assets in the industry.

   Answer: C
   Ques Status: Revised

5) The large number of banks in the United States is an indication of
   A) vigorous competition within the banking industry.
   B) lack of competition within the banking industry.
   C) only efficient banks operating within the United States.
   D) consumer preference for local banks.

   Answer: B
   Ques Status: Revised

6) Lack of competition in the United States banking industry can be attributed to
   A) the fact that competition does not benefit consumers.
   B) the fact that branching has eliminated competition.
   C) recent legislation restricting competition.
   D) nineteenth-century populist sentiment.

   Answer: D
   Ques Status: Revised

7) Which of the following is a true statement concerning bank holding companies?
   A) Bank holding companies own few large banks.
   B) Bank holding companies have experienced dramatic growth in the past three decades.
   C) The McFadden Act has prevented bank holding companies from establishing branch banks.
   D) Bank holding companies can own only banks.

   Answer: B
   Ques Status: Revised
8) Which of the following are true statements concerning shared electronic banking facilities?

A) Most courts and states have held that electronic bank facilities are not subject to branching restrictions.

B) If an electronic facility is paid for on a transaction fee basis, it is not considered a branch bank, and is therefore not subject to branching regulations.

C) McFadden Act restrictions do not apply to electronic facilities owned outright by banks.

D) Electronic banking facilities have no impact on the size of a bank’s market.

Answer: B

Ques Status: Revised

9) A financial innovation that developed as a result of banks’ avoidance of bank branching restrictions was _______.

A) money market mutual funds

B) commercial paper

C) junk bonds

D) bank holding companies

Answer: D

Ques Status: New

10) What financial innovations helped banks to get around the bank branching restrictions of the McFadden Act?

Answer: The introduction of the automated teller machine allowed a bank’s customers to have access to funds from various locations not just the bank building and was not subject to the branching restrictions. Bank holding companies could own controlling interest in several banks and other companies related to banking.

Ques Status: New

10.4 Bank Consolidation and Nationwide Banking

1) The primary reason for the recent reduction in the number of banks is

A) bank failures.

B) re-regulation of banking.

C) restrictions on interstate branching.

D) mergers and acquisitions.

Answer: D

Ques Status: Revised
2) Bank holding companies that rival money center banks in size, but are not located in money center cities are
   A) superregional banks.
   B) bank clearing houses.
   C) international banks.
   D) local banks.
   Answer: A
   *Ques Status: Revised*

3) The ability to use one resource to provide different products and services is
   A) economies of scale.
   B) economies of scope.
   C) diversification.
   D) vertical integration.
   Answer: B
   *Ques Status: Revised*

4) The business term for economies of scope is
   A) economies of scale.
   B) diversification.
   C) cooperation.
   D) synergies.
   Answer: D
   *Ques Status: Revised*

5) The recent legislation that overturned the prohibition on interstate banking is
   A) the McFadden Act.
   B) the Gramm-Leach-Bliley Act.
   C) the Glass-Steagall Act
   D) the Riegle-Neal Act
   Answer: D
   *Ques Status: Revised*
6) The only country without a true national banking system in which banks have branches throughout the nation is
   A) Canada.
   B) France.
   C) Italy.
   D) the United States.

   Answer: D

   Ques Status: Previous Edition

7) Although it has a population about half that of the United States, Japan has
   A) many more banks.
   B) about 10 percent of the number of banks.
   C) about 5 percent of the number of banks.
   D) about 1 percent of the number of banks.

   Answer: D

   Ques Status: Revised

8) Experts predict that the future structure of the U.S. banking industry will have
   A) an increased number of banks.
   B) as few as ten banks.
   C) several thousand banks.
   D) a few hundred banks.

   Answer: C

   Ques Status: Revised

9) Bank consolidation will likely result in
   A) less competition.
   B) the elimination of community banks.
   C) increased competition.
   D) a shift in assets from larger banks to smaller banks.

   Answer: C

   Ques Status: Revised
10) Critics of nationwide banking fear
   A) an elimination of community banks.
   B) increased lending to small businesses.
   C) cutthroat competition.
   D) banks with economies of scale problems.

   Answer: A
   Ques Status: Revised

11) Nationwide banking will likely reduce bank failures due to
   A) reduced competition.
   B) reduced lending to small businesses.
   C) diversification of loan portfolios across state lines.
   D) elimination of community banks.

   Answer: C
   Ques Status: Revised

12) As the banking system in the United States evolves, it is expected that
    A) the number and importance of small banks will increase.
    B) the number and importance of large banks will decrease.
    C) small banks will grow at the expense of large banks.
    D) the number and importance of large banks will increase.

   Answer: D
   Ques Status: Revised

10.5 Separation of the Banking and Other Financial Service Industries

   1) The legislation overturning the Glass–Steagall Act is
      A) the McFadden Act.
      B) the Gramm–Leach–Bliley Act.
      C) the Garn–St. Germain Act
      D) the Riegle–Neal Act.

      Answer: B
      Ques Status: Revised
2) Under the Gramm–Leach–Bliley Act states retain regulatory authority over _______.
   A) bank holding companies
   B) securities activities
   C) insurance activities
   D) bank subsidiaries engaged in securities underwriting

   Answer: C
   Ques Status: New

3) In a _______ banking system, commercial banks provide a full range of banking, securities, and insurance services, all within a single legal entity.
   A) universal
   B) severable
   C) barrier-free
   D) dividerless

   Answer: A
   Ques Status: Revised

4) In a _______ banking system, commercial banks engage in securities underwriting, but legal subsidiaries conduct the different activities. Also, banking and insurance are not typically undertaken together in this system.
   A) universal
   B) British–style universal
   C) short–fence
   D) compartmentalized

   Answer: B
   Ques Status: Revised

5) A major difference between the United States and Japanese banking systems is that
   A) American banks are allowed to hold substantial equity stakes in commercial firms, whereas Japanese banks cannot.
   B) Japanese banks are allowed to hold substantial equity stakes in commercial firms, whereas American banks cannot.
   C) bank holding companies are illegal in the United States.
   D) Japanese banks are usually organized as bank holding companies.

   Answer: B
   Ques Status: Revised
10.6 Thrift Industry: Regulation and Structure

1) The regulatory agency responsible for supervising savings and loans institutions is the
   A) FSLIC.
   B) Fed.
   C) Comptroller of the Currency.
   D) Federal Home Loan Bank System.

   Answer: D
   Ques Status: Previous Edition

2) Unlike banks, _____ have been allowed to branch statewide since 1980.
   A) federally-chartered S&Ls
   B) state-chartered S&Ls
   C) financially troubled S&Ls
   D) technically insolvent S&Ls

   Answer: A
   Ques Status: Previous Edition

3) Thrift institutions include
   A) commercial banks.
   B) brokerage firms
   C) insurance companies.
   D) mutual savings banks.

   Answer: D
   Ques Status: Revised

4) Mutual savings banks are owned by __________.
   A) shareholders
   B) partners
   C) depositors
   D) foreign investors

   Answer: C
   Ques Status: New
5) An essential characteristic of credit unions is that
   A) they are typically large.
   B) branching across state lines is prohibited.
   C) their lending is primarily for mortgage loans.
   D) they are organized for individuals with a common bond.

   Answer: D
   Ques Status: Revised

6) ___________ are the only depository institutions that are tax-exempt.
   A) Commercial banks
   B) Savings and loans
   C) Mutual savings banks
   D) Credit unions

   Answer: D
   Ques Status: New

10.7 International Banking

1) The spectacular growth in international banking can be explained by
   A) the rapid growth in international trade.
   B) the 1988 Basel Agreement.
   C) the desire for U.S. banks to escape burdensome domestic regulations.
   D) the creation of the World Trade Organization.

   Answer: A
   Ques Status: Revised

2) What country is given credit for the birth of the Eurodollar market?
   A) The United States
   B) England
   C) The Soviet Union
   D) Japan

   Answer: C
   Ques Status: Previous Edition
3) Deposits in European banks denominated in dollars for the purpose of international transactions are known as
   A) Eurodollars.
   B) European Currency Units.
   C) European Monetary Units.
   D) International Monetary Units.

   Answer: A
   *Ques Status: Previous Edition*

4) The main center of the Eurodollar market is
   A) London.
   B) Basel.
   C) Paris.
   D) New York.

   Answer: A
   *Ques Status: Previous Edition*

5) Eurodollars are
   A) dollar-dominated deposits held in banks outside the United States.
   B) deposits held by U.S. banks in Europe.
   C) deposits held by U.S. banks in foreign countries.
   D) dollar-dominated deposits held in U.S. banks by Europeans.

   Answer: A
   *Ques Status: Previous Edition*

6) Reasons for holding Eurodollars include
   A) the fact that Eurodollar deposits are insured by the FDIC.
   B) the fact that dollars are widely used to conduct international transactions.
   C) the fact that minimum transaction sizes are very low, making Eurodollars an attractive savings instrument for consumers.
   D) the fact that Eurodollar deposits are heavily regulated.

   Answer: B
   *Ques Status: Revised*
7) An advantage to American banks from operating foreign branches is that Eurodollar deposits in offshore branches are
   A) not subject to reserve requirements.
   B) insured by the FDIC.
   C) subject to extensive regulatory supervision.
   D) all demand deposits that pay no interest.

   Answer: A
   Ques Status: Revised

8) U.S. banks have most of their branches in
   A) Latin America, the Far East, the Caribbean, and London.
   B) Latin America, the Middle East, the Caribbean, and London.
   C) Mexico, the Middle East, the Caribbean, and London.
   D) South America, the Middle East, the Caribbean, and Canada.

   Answer: A
   Ques Status: Previous Edition

9) A _______ is a subsidiary of a U.S. bank that is engaged primarily in international banking.
   A) Edge Act corporation
   B) Eurodollar agency
   C) universal bank
   D) McFadden corporation

   Answer: A
   Ques Status: New

10) _______ within the U.S. can make loans to foreigners but cannot make loans to domestic residents.
    A) Edge Act corporations
    B) International Banking Facilities
    C) Universal banks
    D) Euro banks

   Answer: B
   Ques Status: New
11) _______ of a foreign bank operates in the U.S. but cannot accept deposits from domestic residents.
   A) An agency office
   B) A universal corporation
   C) A McFadden corporation
   D) A Basel branch

   Answer: A
   Ques Status: New

12) Since the passage of the International Banking Act of 1978, the competitive advantage enjoyed by foreign banks has been
   A) reduced.
   B) mildly expanded.
   C) completely eliminated.
   D) greatly expanded.

   Answer: A
   Ques Status: Previous Edition

13) Discuss three ways in which U.S. banks can become involved in international banking.

   Answer: United States banks could open a foreign branch of their bank. A U.S. bank holding company could purchase controlling interest in a foreign bank in a foreign country. A U.S. bank could open an Edge Act Corporation. A U.S. bank could open an International Banking Facility in the U.S. which accepts time deposits from foreigners and makes loans to foreigners in the U.S.

   Ques Status: New