1. On a bank's balance sheet, the deposits it receives and the loans it issues are classified, respectively, as:

a. Both as liabilities
b. A liability and an asset
c. An asset and a liability

2. Some of a bank's demand deposits are a less attractive funding source than others mainly because the bank must:

a. Offer those depositors fee rebates and credit lines
b. Repay those deposits within twenty-four hours
c. Hold liquidity reserves against the less stable ones

3. Several sources can fund a typical bank. For most banks, the primary source of short-term funding is:

a. Household and commercial deposits
b. Unsecured borrowing in the interbank market
c. Large-denomination certificates of deposit sold to institutions

4. A deposit that has no stated maturity, serves transactional purposes, and pays little or no interest is best classified as a:

a. Saving deposit held for a stated term
b. Demand (checking) deposit
c. Negotiable certificate of deposit sold in the market

5. Holmwood Bank counts its demand deposits as stable funding even though they can be withdrawn at any time. This stability is best explained by:

a. Fee rebates, credit lines, and other services that keep commercial customers banking there
b. The conversion of demand deposits into term certificates of deposit
c. A regulatory rule that freezes demand balances for a set period

6. Marrow Pension Fund holds a non-negotiable certificate of deposit and needs cash before maturity. It can most likely:

a. Sell it to another investor in the open market
b. Transfer it to a new initial depositor at face value
c. Redeem it early, but only by paying a withdrawal penalty

7. Compared with a checking account, a certificate of deposit most distinctly:

a. Pays no interest and is used for daily transactions
b. Has a pre-set maturity and pays its interest at maturity
c. Can be withdrawn at any time without penalty

8. A negotiable certificate of deposit marketed to retail savers rather than to institutional investors is known as a:

a. Operational deposit
b. Large-denomination certificate of deposit
c. Small-denomination certificate of deposit

**9. Delcourt Bank and Ferano Bank arrange a secured transaction with each other in the interbank market. The most common form this takes is:**

a. A sale of negotiable certificates of deposit between the banks
b. An unsecured loan priced off a market reference rate
c. A repurchase agreement

**10. A reserve-short bank can borrow either from a bank with surplus reserves or directly from the central bank. Borrowing from the surplus bank instead means it:**

a. Pays the higher discount-window rate and posts collateral
b. Pays the central bank funds rate in the central bank funds market
c. Issues asset-backed commercial paper to the surplus bank

**11. Tisbury Bank uses discount-window lending only as a last resort partly because, relative to the central bank funds market, it:**

a. Is open only to non-financial corporations
b. Charges a higher rate and can bring restrictions on the bank's activities
c. Charges a lower rate and requires no collateral

**12. Oslund Financial funds some of its longer-term loans by issuing commercial paper. This practice most directly creates:**

a. Currency risk, because commercial paper is always foreign
b. Rollover risk, since the funding need outlasts the paper's maturity
c. No added risk, because the commercial paper is secured

**13. Asset-backed commercial paper is considered secured, unlike ordinary commercial paper, because its interest and principal are paid from:**

a. A government guarantee attached to each note
b. The general credit of the issuing bank, as with a deposit
c. The cash flows of loans or receivables held by a special purpose entity

**14. Gaining access to a loan portfolio they could not otherwise reach directly is, in an asset-backed commercial paper program, a benefit specifically to the:**

a. Investors who buy the paper
b. Sponsoring bank
c. Special purpose entity