ch18

Student: ____

1. To reduce liquidity risk an FI can efficiently manage the liability structure of its portfolio.
   True False

2. One method of reducing the risk of a liquidity crisis for an FI to efficiently manage liquid asset positions.
   True False

3. One reason FIs such as depository institutions and life insurance companies are exposed to liquidity risk is the relatively illiquid nature of their liabilities.
   True False

4. A liquid asset can be converted to cash quickly, but will require a discount from market value.
   True False

5. Holding small amounts of liquid assets could cause an FI to be unable to meet the claims of liability holders.
   True False

6. In the U.S., banks can hold cash and government securities to meet reserve requirements.
   True False

7. Excessive illiquidity can result in an FI's inability to meet required payments on liability claims and, at the extreme, in insolvency.
   True False

8. The establishment of minimum required reserves by regulators is a method of extracting taxes from FIs.
   True False

9. In most countries, regulators often set minimum liquid reserve requirements on FIs.
   True False

10. In the U.S., excess reserves held at the central bank pay interest to the DI.
    True False

11. In most countries, assets used to satisfy the liquid assets ratio may include liquid government securities.
    True False

12. Regulators in the U.S. do not allow government securities to perform the role of a required reserve.
    True False

13. In the U.S., cash reserves necessary to meet deposit reserve requirements typically include vault cash and cash deposits at the Federal Reserve Bank.
    True False

14. Managing a bank's reserve position requires knowing only the target reserve ratio and the period over which reserves must be maintained.
    True False

15. By definition, all transaction accounts at U.S. FIs allow account holders to make unlimited withdrawals.
    True False

16. The reserve computation period for determining required reserves covers the 14 days of a two-week period that runs from Monday to Monday.
True False

17. Under contemporaneous reserve accounting, there is a seven day reserve maintenance period.
True False

18. The minimum average daily reserves required in a maintenance period is a percentage of the daily average demand deposits held by a bank during the computation period.
True False

19. A strategy to lower deposits on Fridays can lower reserve requirements for a bank.
True False

20. A strategy to increase reservable deposits on a Friday and decrease reservable deposits on the following Monday is called the weekend game.
True False

21. The contemporaneous reserve accounting system requires the maintenance period to occur simultaneously with the computation period.
True False

22. Currently the reserve maintenance period begins 30 days after the end of the reserve computation period.
True False

23. The penalty for undershooting the minimum reserve requirements may include explicit interest rate charges as well as implicit costs in the form of more frequent monitoring and examinations.
True False

24. One method of increasing reserves to meet a reserve target is to sell liquid assets.
True False

25. The interbank funds market is a potential source for increasing reserves to meet required reserves.
True False

26. Up to six percent of excess reserves may be carried forward to the next reserve maintenance period.
True False

27. The Fed discount window is an appropriate place to borrow reserve shortfalls because of its lower than market rates.
True False

28. Federal Reserve primary credit loans available to DIs are generally at rates lower than the federal funds target rate.
True False

29. Excessive amounts of liquid asset holdings can penalize the earnings of a DI.
True False

30. Managing liabilities as a means of managing liquidity risk involves the tradeoff between lower funding cost and higher risk of withdrawals.
True False

31. Funding costs generally are positively related to the period of time the liability remains on the balance sheet.
True False

32. Demand deposits are a costless source of funds and have a high degree of withdrawal risk.
True False

33. Deposits with low withdrawal risk typically are the lowest cost deposits for a DI.
True False

34. Implicit interest involves the process of crediting the interest payment directly to a deposit account as opposed to sending an explicit interest check to the customer.
True False

35. If the fees charged on demand deposit accounts do not cover the cost of providing demand deposit services, the bank receives a subsidy or implicit interest payment.
True False

36. One cost of demand deposits to DIs is the reserve requirement placed on the bank by the Federal Reserve.
True False

37. NOW accounts are potentially less prone to withdrawal risk than demand deposits.
True False

38. The DI can influence the withdrawal rates of NOW accounts through explicit interest payments, implicit interest payments, or minimum balance requirements.
True False

39. NOW accounts allow the explicit payment of interest.
True False

40. The DI manager can change the pricing on NOW accounts by changing both implicit and explicit interest payments.
True False

41. Passbook savings accounts normally receive a lower interest rate than NOW accounts.
True False

42. Passbook savings accounts are less liquid than demand deposit accounts.
True False

43. The interest rate paid on money market deposit accounts by U.S. DIs must directly reflect the rates earned on investments in commercial paper, bankers acceptances, repurchase agreement, and T-bills.
True False

44. MMDAs are considered to be more liquid than demand deposits and NOW accounts.
True False

45. In the U.S., MMDAs typically are transaction accounts without limitations on the size or number of checks or transfers that can occur each month.
True False

46. Because MMDAs are in direct competition with MMMFs, the withdrawal rate is affected by the relative amount of explicit interest paid on these accounts.
True False

47. Because retail CDs have fixed maturities, FI managers always should have perfect information regarding the scheduling of interest and principal payments.
True False

48. Because of penalties imposed for early withdrawal, a CD depositor is unlikely to withdrawal the CD funds from the bank before maturity.
True False

49. Short-term CDs often are priced competitively with T-bills of similar maturity.
True False

50. The negotiable instrument characteristic of large wholesale CDs effectively eliminates the adverse withdrawal risk for the bank.
True False

51. Because the minimum amount of a negotiable wholesale CD is $100,000, holders of these CDs are fully covered by FDIC insurance.
True False

52. Federal funds are excess reserves held by the Federal Reserve Banks that are loaned to banks that have liquidity needs.
True False

53. Fed funds are short-term uncollateralized loans with maturities that typically do not exceed one day.
True False

54. Fed funds are subject to settlement risk, but have little or no early withdrawal risk.
True False

55. FIs participating in the fed funds market, either buying or selling, are usually able to do so without amount or maturity restrictions.
True False

56. The advantage to a lender in a repurchase agreement transaction versus a fed funds sale is the collateral of government securities or other acceptable liquid assets provided by the borrowing FI.
True False

57. Because of the collateral feature, RPs typically have a higher interest rate than fed funds.
True False

58. In the U.S., a subsidiary bank can issue commercial paper to meet short-term liquidity needs, but the bank's parent holding company cannot.
True False

59. Banks often convert on-balance-sheet bankers acceptances into off-balance-sheet letters of credit for the purpose of minimizing total assets and thus improving performance ratios such as ROA.
True False

60. Most large banks in the U.S. directly issue commercial paper to meet their liquidity needs.
True False

61. Although they are subject to reserve requirements, many DIs have begun to issue medium-term notes because they are a stable source of funds.
True False

62. The increased securitization of bank loans has reduced the liquidity of bank assets.
True False

63. Recently banks have changed the liability structure towards instruments that have less withdrawal risk and higher explicit interest costs.
True False

64. Reliance on purchased or borrowed funds will largely eliminate the liquidity risk faced by a bank.
True False

65. Property-casualty insurance companies typically have greater liquidity risk than life insurance companies.
True False

66. Property-casualty insurance companies can reduce their exposure to liquidity risk by diversifying coverage across different types of disasters.
True False

67. Because investment banks typically buy and sell securities on a regular basis; they have no need for a liability management plan.
True False

68. Which of the following observations is NOT true of a liquid asset?
A. It can be turned into cash quickly.
B. Conversion to cash entails low transaction costs.
C. Conversion to cash happens with little or no loss in principal value.
D. It is traded in an active market.
E. Large transactions may move its market price substantially.

69. Why do FIs face a return or interest earnings penalty by holding large amounts of assets such as cash, T-bills, and T-bonds to reduce liquidity risk?
A. These assets carry a reserve requirement tax.
B. These assets offer low returns.
C. These assets offer higher returns that reflect their risk.
D. Inflation increases the purchasing power value of these assets.
E. All of the above.

70. Which of the following is considered to be the most liquid asset?
A. T-notes.
B. T-bills.
C. Cash.
D. T-bonds.
E. Wholesale CDs.

71. The concept of constrained optimization facing an FI manager involving the minimum amount of liquid reserve assets required by regulators may
A. penalize the FI if the minimum amount is less than the amount warranted by the actual withdrawal risk.
B. benefit the FI if the minimum amount is more than is warranted by actual withdrawal risk.
C. lead to increased withdrawals by depositors that do not meet the minimum requirement.
D. assist the FI manager by providing an optimal target amount of reserves that will exactly match withdrawal expectations.
E. None of the above.

72. Which of the following is an outcome of an increase in the reserve requirement ratio?
A. DIs may hold fewer reserves against their transaction accounts.
B. DIs are able to lend out a greater percentage of their deposits.
C. Increased credit availability in the economy.
D. DIs are only able to lend a smaller percentage of their deposits than before.
E. A multiplier effect on the supply of DI deposits and thus the money supply.

73. Which of the following is an outcome of a decrease in the reserve requirement ratio?
A. DIs must hold more reserves against the transaction accounts on their balance sheets.
B. DIs are able to lend a smaller percentage of their deposits.
C. Decreased credit availability in the economy.
D. A multiple contraction in deposits and a decrease in the money supply.
E. A multiplier effect on the supply of DI deposits and thus, the money supply.

74. Requiring minimum reserves to be held at the central bank is the equivalent of
A. buffer reserves.
B. a reserve requirement tax.
C. the target reserve ratio.
D. contagious effects of liquidity risk.
E. None of the above.

75. Required reserve ratios in the U.S. for demand deposits are
A. 0 percent, 3 percent, and 10 percent.
B. 10 percent on all deposits.
C. 3 percent on all deposits.
D. 0 percent on all deposits.
E. 0 percent and 3 percent.

76. For a DI in the U.S with $200 in assets and $180 in deposits, a liquid assets ratio of 15 percent
A. would require $27.00 in cash and liquid government securities.
B. would require $27.00 in liquid government securities.
C. would require $30.00 in cash and liquid government securities.
D. would require $30.00 in liquid government securities.
E. None of the above.

77. Many states in the U.S. impose liquid asset ratios on insurance companies which may be met by
A. cash and excess reserves.
B. cash and municipal bonds from within the state of operation.
C. cash and government securities.
D. cash and policyholder reserves.
E. cash only.

78. Buffer reserves at DIs are
A. reserves in excess of the minimum required reserves.
B. government securities that do not qualify as required reserves, but that can be converted to cash quickly.
C. the portion of reserves that are calculated at a rate of ten percent of deposits.
D. non-government securities and loans that must be converted into cash.
E. the portion of life insurance company assets that require minimum reserves.

79. Managing the reserve position of a U.S. bank requires knowing
A. the target reserve ratio.
B. the time period over which average deposits are calculated.
C. the time period over which average reserves must be maintained.
D. the asset and liability methods that may be used to meet required reserves.
E. All of the above.

80. For reserve calculation purposes, the period that begins on a Tuesday and ends on a Monday 14 days later is known as
A. the reserve maintenance period.
B. the reserve allocation period.
C. the reserve computation period.
D. the contemporaneous accounting period.
E. None of the above.

81. For reserve calculation purposes, the period that begins on a Thursday and ends on a Wednesday 14 days later is known as
A. the reserve maintenance period.
B. the reserve adjustment period.
C. the reserve computation period.
D. the contemporaneous accounting period.
E. None of the above.

82. Under the lagged reserve accounting system, the
A. reserve maintenance period is two days longer than the reserve computation period.
B. reserve maintenance period starts two days after the start of the reserve computation period.
C. reserve maintenance period does not begin until seventeen days after the end of the computation period.
D. reserve computation period starts on the same date as the reserve maintenance period.
E. reserve computation period is two days longer than the reserve maintenance period.

83. Under contemporaneous reserve accounting the
   A. reserve maintenance period is two days longer than the reserve computation period.
   B. reserve maintenance period starts two days after the start of the reserve computation period.
   C. reserve computation period starts two days after the start of the reserve maintenance period.
   D. reserve computation period starts on the same date as the reserve maintenance period.
   E. reserve computation period is two days longer than the reserve maintenance period.

84. Which of the following observations is true of the contemporaneous reserve accounting system?
   A. The reserve computation and reserve maintenance periods do not overlap.
   B. The maintenance period does not begin until seventeen days after the end of the computation period.
   C. It results in a two-day window during which required reserves are known with certainty.
   D. It increases the accuracy of information on aggregate required reserve balances.
   E. It may be used instead of the lagged reserve accounting system.

85. The weekend game is
   A. a strategy to reduce bank interest rate risk exposure.
   B. a strategy to reduce bank liquidity risk exposure.
   C. a strategy to reduce the cost of meeting reserve requirements.
   D. the buying and selling of Fed funds late Friday afternoon.
   E. the triple witching effect on the third Friday of the month.

86. One method that may be employed by banks to lower required reserves is to
   A. transfer deposits offshore on Friday and to transfer them back on Monday.
   B. convert demand deposits into MMDA accounts on Friday and reverse the transfer the following Monday.
   C. rely more heavily on zero explicit interest-rate deposits.
   D. delay posting deposits made on Friday until the following Monday.
   E. do nothing, because reserve requirements cannot be avoided.

87. Another method that may be employed by banks to lower required reserves is to
   A. transfer deposits to another domestic bank on Friday and transfer them back on the following Monday.
   B. sweep demand deposits into higher interest-bearing accounts on Friday with a return sweep the following Monday.
   C. rely more heavily on zero explicit interest-rate deposits.
   D. delay posting deposits made on Friday until the following Monday.
   E. do nothing, because reserve requirements cannot be avoided.

88. Which of the following is the result of using "sweep accounts" in which high reserve ratio demand deposits are "swept" out of customers' accounts on Friday into higher interest-bearing savings accounts?
   A. Increased reserve requirements for the bank.
   B. Higher average balances in a DI's demand deposit.
   C. Lower required reserve holdings at the Federal Reserve.
   D. Lower interest burden for the bank.
   E. None of the above.

89. The minimum daily average reserve requirement is computed by
   A. multiplying the reserve ratio by the daily closing deposit balance.
   B. multiplying the reserve ratio by the daily average closing deposit balance.
   C. dividing the reserve ratio by the daily average closing deposit balance.
   D. dividing the reserve ratio by the daily closing deposit balance.
   E. adding up daily closing deposit balances and dividing by 14.

90. For reserve computation purposes, Friday balances
   A. are excluded from the calculations.
   B. are included in the calculations.
   C. receive triple weights in the calculations.
   D. receive double weights in the calculations.
   E. are averaged with Monday balances to get Saturday and Sunday balances.

91. The Federal Reserve allows the DI to make up to a _____ daily average error without penalty.
   A. 1 percent
   B. 4 percent
   C. 3 percent
   D. 10 percent
   E. 5 percent

92. In October 2008, the opportunity cost of holding excess reserves for U.S. DIs
   A. increased because new reserve requirements imposed by the Federal Reserve as a result of the financial crisis.
   B. decreased because subsidiary DIs were first allowed to issue commercial paper directly, rather than through the parent holding company.
   C. decreased because the Federal Reserve began to pay interest to DIs on excess reserves held at the Fed.
   D. increased because the Federal Reserve no longer accepted government securities as meeting excess reserve requirements.
   E. None of the above.

93. Demand deposits
   A. have the same amount of withdrawal risk as interest-bearing transaction accounts.
   B. have less withdrawal risk than interest-bearing transaction accounts.
   C. have more withdrawal risk than money market demand accounts.
   D. have less withdrawal risk than money market demand accounts.
   E. have the same amount of withdrawal risk as money market demand accounts.

94. Which of the following liabilities have a high degree of withdrawal risk?
   A. Passbook savings.
   B. NOW Accounts.
   C. Demand deposits.
   D. Time deposits.
   E. Wholesale CDs.

95. What is the average implicit interest rate on a $100,000 account if the bank's average management costs are $2,500 and annual fees average $1,750?
   A. 4.25 percent.
   B. 2.50 percent.
   C. 1.75 percent.
   D. 0.75 percent.
   E. -0.75 percent.

96. **96. An FI offers a $2,500 minimum balance NOW account paying 4 percent annual interest, and there are no service charges as long as the customer maintains the minimum balance. The customer maintains a balance of $5,000, and averages 750 checks per year. Each check has a processing cost to the FI of $0.15. What is the annual gross interest return on this account to the customer?**
   A. $112.50.
   B. $100.00.
   C. $312.50.
   D. $137.50.
   E. $212.50.

97. A DI offers a $500 minimum balance NOW account paying 5.5 percent annual interest. The account has a service charge of $0.05 per check, and processing costs per check are $0.15. The customer maintains a balance of $1,000, and averages 150 checks per year. What is the annual gross interest return on this account to the customer?
   A. $22.50.
   B. $70.00.
   C. $15.00.
   D. $55.00.
   E. $7.50.

98. What is the major distinction between NOW accounts and traditional demand deposits?
A. Minimum account balance requirement to earn interest for NOW accounts.
B. Zero explicit interest on NOW accounts.
C. Noncheckable nature of NOW accounts.
D. NOW accounts usually involve physical presence at the institution for withdrawal.
E. Legal power to delay payment on NOW accounts.

99. Which of the following rankings of liabilities is correct if they are ranked by withdrawal risk from riskiest to least risky?
A. Federal funds; demand deposits; certificates of deposit.
B. Demand deposits; money market demand accounts; certificates of deposit.
C. Repurchase agreements; money market demand accounts; certificates of deposit.
D. Certificates of deposit; federal funds; demand deposits.
E. Passbook savings accounts; money market demand accounts; certificates of deposit.

100. Which of the following is a mechanism used by DI managers to reduce demand deposit withdrawal rates?

A. Implicit interest payments.
B. Minimum balance requirements.
C. Explicit interest payments.
D. All of the above.
E. There is no way to mitigate withdrawal risk.

101. Which of the following is a mechanism used by DI managers to impact withdrawal rates of NOW accounts?
A. Implicit interest payments.
B. Minimum balance requirements.
C. Explicit interest payments.
D. All of the above.
E. There is no way to impact withdrawal rates.

102. Why are passbook savings generally less liquid than demand deposits and NOW accounts?
A. They are noncheckable.
B. They usually involve physical presence at the institution for withdrawal.
C. The DI has the legal power to delay payment for as long as one month.
D. They tend to pay higher interest rates than demand deposits and NOW accounts.
E. All of the above.

103. Wholesale certificates of deposit
A. are less than $100,000 in denomination.
B. cannot be rolled over prior to maturity.
C. can be resold on the secondary market.
D. are sold only to other financial intermediaries.
E. are covered by Federal deposit insurance.

104. Since 1998, interest rate variability in the fed funds market has decreased because
A. fewer institutions were allowed to participate in the fed funds market.
B. of the introduction of lagged reserve accounting.
C. new securities were approved that participants can use instead of fed funds to meet liquidity needs.
D. of the introduction of contemporaneous reserve accounting.
E. more participants were allowed to enter the fed funds market.

105. Which of the following observations concerning the federal funds rate is NOT true?
A. The cost of fed funds for the purchasing institution is the federal funds rate.
B. The federal funds rate is set by DIs that trade in the fed funds market.
C. The federal funds rate can vary considerably within the day.
D. The federal funds rate can vary considerably across days.
E. Rate variability has increased since the introduction of lagged reserve accounting.

106. Which of the following observations concerning repurchase agreements is NOT true?
   A. They can be viewed as collateralized federal funds transactions.
   B. The RP market is a highly liquid and flexible source of funds for DIs needing to increase their liabilities and to offset deposit withdrawals.
   C. Unlike fed funds, these transactions cannot be rolled over each day.
   D. It is difficult to transact an RP borrowing late in the day.
   E. Negotiations over the collateral package can delay RP transactions.

107. Which of the following rankings of liabilities is correct if they are ranked by funding costs from lowest cost to highest cost?
   A. Retail certificates of deposit; repurchase agreements; federal funds.
   B. Federal funds; demand deposits; certificates of deposit.
   C. Repurchase agreements; money market demand accounts; retail certificates of deposit.
   D. Certificates of deposit; federal funds; demand deposits.
   E. Demand deposits; federal funds; passbook savings.

108. In situations where the required reserve shortfall exceeds 4 percent, the bank may be
   A. assessed explicit monetary penalties by the Federal Reserve Bank.
   B. assessed implicit penalties in the form of more frequent monitoring and examinations.
   C. allowed to carry 4 percent of the required reserves to the next maintenance period.
   D. declared insolvent.
   E. Answers A, B, and C only.

109. Which of the following liability products does NOT include transaction privileges?
   A. Demand deposit accounts.
   B. NOW accounts.
   C. Passbook savings accounts.
   D. Money market deposit accounts.
   E. All of the above have transaction privileges.

110. Which of the following liability products does NOT have withdrawal risk?
   A. Wholesale CDs.
   B. Money market deposit accounts.
   C. Retail CDs.
   D. NOW accounts.
   E. All of the above have withdrawal risk.

111. The largest dollar volume of money market securities is
   A. negotiable CDs.
   B. commercial paper.
   C. bankers acceptances.
   D. U.S. T-Bills.
   E. repurchase agreements.

112. Over the past 30 years in the DI industry
   A. the loan portfolio has become more liquid because of increased securitization.
   B. lower amounts of very liquid assets need to be held to manage withdrawal risk.
   C. more opportunities exist for raising funds that are not deposit related.
   D. DIs have intentionally managed liabilities to reduce withdrawal risk.
   E. All of the above.

113. Medium term notes issued by a U.S. DI
   A. generally have a maturity of five to seven years.
   B. are a stable source of funds with low withdrawal risk.
   C. are not subject to reserve requirements.
   D. are not subject to deposit insurance.
   E. All of the above.

The following demand deposits and cash reserves at the Fed have been documented by a bank for the computation of reserve requirements (in millions). Reserves are vault cash and reserves at the Fed.

	Monday	Tuesday	Wednesday	Thursday	Friday
	6/12	**6/13**	**6/14**	**6/15**	**6/16**
D.Deposits	$300	$320	$280	$290	$270
Reserves	$28	$29	$29	$17	$18
	6/19	**6/20**	**6/21**	**6/22**	**6/23**
D.Deposits	$310	$305	$320	$340	$310
Reserves	$31	$29	$28	$29	$15
	6/26	**6/27**	**6/28**	**6/29**	**6/30**
D.Deposits	$240	$230	$250	$260	$270
Reserves	$19	$19	$21	$19	$24
	7/3	**7/4**	**7/5**	**7/6**	**7/7**
D.Deposits	$300	$320	$280	$290	$270
Reserves	$27	$26	$27	$24	$22
	7/10	**7/11**	**7/12**	**7/13**	**7/14**
D.Deposits	$310	$305	$320	$340	$310
Reserves	$21	$21	$20	$17	$18
	7/17	**7/18**	**7/19**	**7/20**	**7/21**
D.Deposits	$240	$230	$250	$260	$270
Reserves	$31	$29	$28	$29	$15
	7/24	**7/25**	**7/26**	**7/27**	**7/28**
D.Deposits	$300	$320	$280	$290	$270
Reserves	$19	$19	$21	$19	$24
	7/31	**8/1**	**8/2**	**8/3**	**8/4**
D.Deposits	$310	$305	$320	$340	$310
Reserves	$23	$22	$24	$22	$23

114. What are the average daily demand deposit balances over the reserve computation period beginning the week of June 12?
A. $286 million.
B. $296 million.
C. $306 million.
D. $326 million.
E. $352 million.

115. What is the average daily reserve required to be held by the bank for their demand deposits during the maintenance period? Suppose that the rules require no reserves for the first $5.5 million, 3 percent for amounts between $5.5 million and $42.8 million, and 10 percent thereafter.
A. $26.44 million.
B. $28.86 million.
C. $29.55 million.
D. $31.56 million.
E. $32.06 million.

116. Is the bank in compliance with the requirements?
A. No, it does not meet the minimum reserve requirements.
B. Yes, it meets the minimum reserve requirements.
C. Yes, it meets the minimum requirement only after using the 2 percent carryover allowance.
D. Yes, it meets the minimum requirement only after using the 4 percent carryover allowance.
E. No, it does not meet the minimum reserve requirements even after using the 4 percent carryover allowance.

A NOW account requires a minimum balance of $500 if annual interest of 5 percent is to be earned monthly on its deposits. An account holder has maintained an average balance of $300 for the first nine months of the year and $800 for the last three months of the year. She has written an average of 20 checks a month and is not charged for these services. However, it costs the bank $0.02 to process each check.

117. What is the average return earned (both explicit and implicit) by the account holder over the full year?

A. 2.98 percent.
B. 3.48 percent.
C. 4.28 percent.
D. 4.79 percent.
E. 5.35 percent.

118. What is the average return earned (both explicit and implicit) by the account holder over the full year if the minimum balance is reduced to $200?
A. 2.01 percent.
B. 2.65 percent.
C. 3.78 percent.
D. 5.35 percent.
E. 6.13 percent.

119. What is the average return (both explicit and implicit) earned by the account holder if the bank pays interest on only the amounts in excess of the required minimum of $200?
A. 2.01 percent.
B. 2.65 percent.
C. 3.78 percent.
D. 5.35 percent.
E. 6.13 percent.

120. The bank would like to limit the average return (both explicit and implicit) earned by the account holder to 5 percent per year. How much should it charge for processing each check to this account holder assuming that it will pay annual interest of 5 percent and minimum balances of $200 are maintained?
A. 1 cent per check.
B. 2 cent per check.
C. 3 cent per check.
D. 4 cent per check.
E. 5 cent per check.

Michelle has maintained an average balance of $300 per month for the first three months of the year, $800 per month for the next three months, and $1,000 per month for the final six months of the year in a NOW account. It requires a minimum balance of $500 to be maintained if annual interest of 5 percent is to be earned. She writes an average of 25 checks per month but the account does not have a service charge for checks although it costs the bank 10 cents to process each check.

121. What is Michelle's annual gross interest return?
A. $35.
B. $65.
C. $70.
D. $30.
E. $55.

122. What is the average return earned (explicit and implicit) by her over the year?
A. 6.33%.
B. 9.67%.
C. 8.39%.
D. 9.53%.
E. 7.01%.

123. What is the average return (explicit and implicit) earned by her if the bank pays interest only on the amounts in excess of the required minimum of $500?
A. 9.01%.
B. 7.56%.
C. 6.93%.
D. 5.97%.
E. 8.23%.

124. Suppose the minimum balance was lowered from $500 to $300 and she now pays a service charge of 5 cents per check. Note that it costs the bank 10 cents to process each check. What is her annual gross interest return?
A. $53.75.
B. $54.63.
C. $52.06.
D. $51.54.
E. $55.37.

A bank has an average balance of transactions accounts, August 10 to 23, of $824.46 million. The average balance in the cash account is $42.014 million over this period. The bank is carrying forward a deficit of $1.276 million from the last reserve period. The rules require no reserves to be maintained for the first $8.5 million, 3 percent for amounts between $8.5 million and $45.8 million, and 10 percent thereafter.

125. What is the gross reserve requirement?
A. $74.653 million.
B. $78.985 million.
C. $76.747 million.
D. $72.461 million.
E. $77.866 million.

126. What is the reserve to be maintained with fed?
A. $38.247 million.
B. $34.419 million.
C. $36.971 million.
D. $35.087 million.
E. $35.695 million.

127. If over the first 12 days of the current reserve maintenance period the average daily reserve held were $37 million, what does the bank need to hold as reserves over the last two days to exactly meet the reserve requirement?
A. $86.42 million.
B. $91.46 million.
C. $79.63 million.
D. $99.14 million.
E. $87.11 million.

128. The minimum reserves that may be maintained toward the next reserve maintenance period, September 23 to October 6, is
A. $33.3170 million.
B. $38.2470 million.
C. $39.0073 million.
D. $35.0876 million.
E. $41.4064 million.

129. If over the first 12 days of the current reserve maintenance period the average daily reserve held were $37 million, what does the bank need to hold as reserves over the last two days to meet the minimum reserve?

A. $33.92 million.
B. $41.23 million.
C. $51.19 million.
D. $47.23 million.
E. $46.05 million.

130. The maximum reserves that will count toward the next reserve maintenance period, September 23 to October 6, is

A. $44.565 million.
B. $42.406 million.
C. $45.565 million.
D. $40.406 million.
E. $41.406 million.

131. If over the first 12 days of the current reserve maintenance period the average daily reserve held were $37 million, what does the bank need to hold as reserves over the last two days to meet the maximum reserve?

A. $125.552 million.
B. $111.453 million.
C. $135.690 million.
D. $141.914 million.
E. $129.110 million.

ch18 Key

1. TRUE
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69. B

70. C

71. A

72. D

73. E

74. B

75. A

76. E

77. C

78. B

79. E

80. C

81. A

82. C

83. B

84. C

85. C

86. A

87. B

88. C

89. B

90. C

91. B

92. C

93. C

94. C

95. D

96. C

97. B

98. A

99. B

100. A

101. D

102. E

103. C

104. B

105. E

106. C

107. A

108. E

109. C

110. A

111. B

112. E

113. E

114. B

115. A

116. E

117. B

118. E

119. C

120. B

121. B

122. C

123. D

124. A

125. B

126. A

127. B

128. D

129. D

130. E

131. C

ch18 Summary

Category	*# of Questions*
Saunders - Chapter 18	135