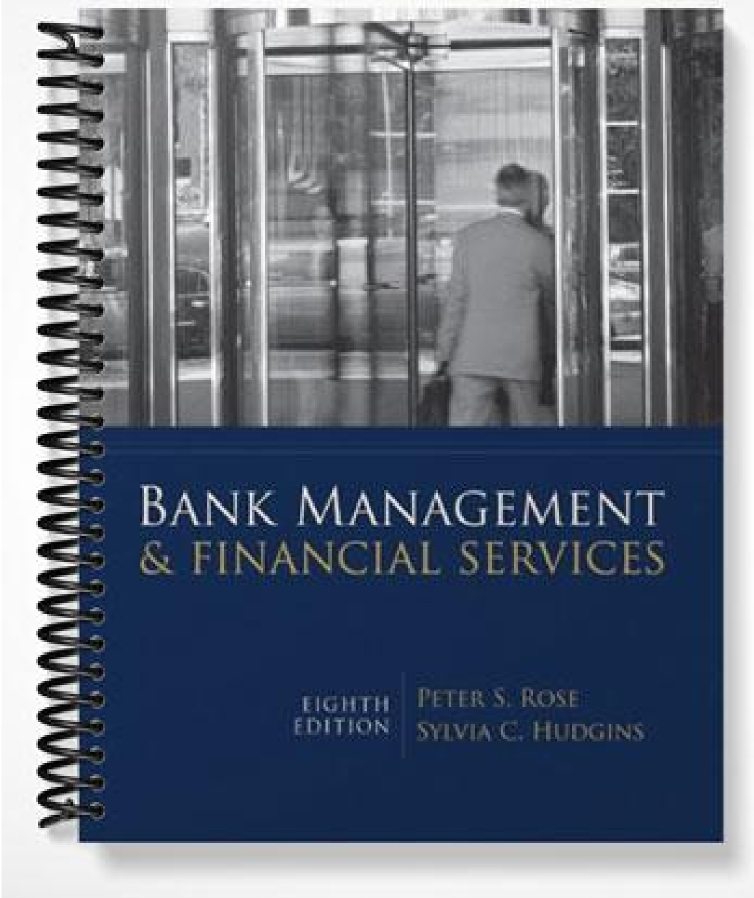
TEST BANK


BANK MANAGEMENT
& FINANCIAL SERVICES
EIGHTH EDITION
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Chapter 2
The Impact of Government Policy and Regulation on the Financial-Services Industry

Fill in the Blank Questions

1. The ________________________ was created as part of the Glass Steagall Act. In the beginning it insured deposits up to $2,500.
   Answer: FDIC

2. The_________________________ is the law that states that a bank must get approved from their regulatory body in order to combine with another bank.
   Answer: Bank Merger Act

3. One tool that the Federal Reserve uses to control the money supply is ____________________.
   The Federal Reserve will buy and sell T-bills when they are using this tool of monetary policy.
   Answer: open market operations

4. The___________________________ was created in 1913 in response to a series of economic depressions and failures. Its principal role is to serve as the lender of last resort and to stabilize the financial markets.
   Answer: Federal Reserve

5. The ___________________________ prevented banks from crossing state lines and made national banks subject to the branching laws of their state. This act was later repealed by the Riegle Neal Interstate Banking law.
   Answer: McFadden-Pepper Act

6. Because the FDIC levies fixed insurance premiums regardless of risk, this leads to a problem called the _______________________ among banks. The fixed premiums encourage all banks to accept greater risk.
   Answer: moral hazard

7. In 1980, ___________________________ was passed and lifted government ceilings on deposit interest rates in favor of free market interest rates.
   Answer: DIDMCA

8. One tool that the Federal Reserve uses to control the money supply is ___________________. The Federal Reserve will change the interest rate they charge for short term loans when they are using this tool of monetary policy.
Answer: changing the discount rate

9. The first major federal banking law in the U.S. was the __________________________. This law was passed during the Civil War and set up a system for chartering national banks and created the OCC.
Answer: National Banking Act

10. The_________________________ was passed during the Great Depression. It separated investment and commercial banks and created the FDIC.
Answer: Glass-Steagall Act

11. The__________________________ brought bank holding companies under the jurisdiction of the Federal Reserve.
Answer: Bank Holding Company Act

12. The__________________________ allows bank holding companies to acquire banks anywhere in the United States. However, no one bank can control more than 30 percent of the deposits in any one state or more than 10 percent of the deposits across the country.
Answer: Riegle-Neal Interstate Banking Act

13. The _________________________ allows banks to affiliate with insurance companies and securities firms either through a holding company or as a subsidiary.
Answer: Gramm-Leach-Bliley Act (Financial Services Modernization Act)

14. Customers of financial-service companies may _____________________ of having their private information shared with a third party such as a telemarketer. However, in order to do this they must tell the financial-services company in writing that they do not want their personal information shared with outside parties.
Answer: opt out

15. The federal bank regulatory agency which examines the most banks is the ______________.
Answer: FDIC

16. The _________________ requires financial service companies to report suspicious activity in customer accounts to the Treasury Department.
Answer: U.S. Patriot Act

17. The central bank of the new European Union is known as the _______________________.
Answer: European Central Bank or ECB

18. The _____________________ Act prohibits banks and other publicly owned firms from publishing false or misleading financial performance information.
Answer: Sarbanes-Oxley

19. One of the main roles of the Federal Reserve today is ________________. They have three tools that they use today to carry out this role; open market operations, the discount rate and legal reserve requirements.
Answer: monetary policy

20. The _________________________ is the center of authority and decision making within the Federal Reserve. It consists of seven members appointed by the president for terms not exceeding 14 years.
Answer: Board of Governors

21. The main regulators of insurance companies are __________________________ .
Answer: state insurance commissions

22. Federal Credit Unions are regulated and examined by ______________________.
Answer: the National Credit Union Administration.

23. The __________________________ makes it easier for victims of identity theft to file fraud alerts and allows the public to apply for a free credit report once a year.
Answer: Fair and Accurate Credit Transactions Act (FACT Act)

24. The ____________________________ makes it faster and less costly for banks to clear checks. It allows for banks to electronically send check images instead of shipping paper checks across the country.
Answer: Check 21 Act

25. The ____________________________ was created by the National Banking Act and is part of the Treasury Department. It is the primary regulator of National Banks.
Answer: Office of the Comptroller of the Currency (OCC)

26. The _________________________ proposes various regulations applying to the financial markets to combat the recent credit crisis. This "bail-out" bill granted the US Treasury the means to purchase troubled loans, allowed the FDIC to temporarily increase deposit insurance, and permitted the government to inject additional capital into the banking system.
Answer: The Emergency Economic Stabilization Act of 2008

True/False Questions

T F 27. Federal Reserve Act authorized the creation of the Federal Deposit Insurance Corporation.
Answer: False

T F 28. In the United States, fixed fees charged for deposit insurance, regardless of how risky a bank is, led to a problem known as moral hazard.
Answer: True

T F 28. Government-sponsored deposit insurance typically encourages individual depositors to monitor their banks' behavior in accepting risk.
Answer: False

T F 29. The Federal Reserve changes reserve requirements frequently because the affect of these changes is so small.
Answer: False

T F 30. The Bank Merger Act and its amendments requires that Bank Holding Companies be under the jurisdiction of the Federal Reserve.
Answer: False

T F 31. National banks cannot merge without the prior approval of the Comptroller of the Currency.
Answer: True

T F 32. The Truth in Lending (or Consumer Credit Protection) Act was passed by the U.S. Congress to outlaw discrimination in providing bank services to the public.
Answer: False

T F 33. The federal law that states individuals and families cannot be denied a loan merely because of their age, sex, race, national origin or religious affiliation is known as the Competitive Equality in Banking Act.
Answer: False

T F 34. Under the terms of the 1994 Riegle-Neal Interstate Banking law bank holding companies can acquire a bank anywhere inside the United States, subject to Federal Reserve Board approval.
Answer: True

T F 35. The 1994 federal interstate banking bill does <u>not</u> limit the percentage of statewide or nationwide deposits that an interstate banking firm is allowed to control.
Answer: False

T F 36. The term "regulatory dialectic" refers to the dual system of banking regulation in the United States and selected other countries where <u>both</u> the federal or central government and local governments regulate banks.
Answer: False

T F 37. The moral hazard problem of banks is caused by the fixed insurance premiums paid by banks and causes banks to accept greater risk.
Answer: True

T F 38. When the Federal Reserve buys T-bills through its open market operations, it causes the growth of bank deposits and loans to decrease.
Answer: False

T F 39. When the Federal Reserve increases the discount rate it generally causes other interest rates to decrease.
Answer: False

T F 40. The National Bank Act (1863) created the Federal Reserve which acts as the lender of last resort.
Answer: False

T F 41. FIRREA (1989) allowed bank holding companies to acquire nonblank depository institutions and, if desired, convert them into branch offices.
Answer: True

T F 42. The Sarbanes-Oxley Act allows banks, insurance companies, and securities firms to form Financial Holding Companies (FHCs).
Answer: False

T F 43. The Gramm-Leach-Bliley Act of 1999 essentially repeals the Glass-Steagall Act passed in the 1930s.
Answer: True

T F 44. Passed in 1977, the Equal Credit Opportunity Act prohibits banks from discriminating against customers merely on the basis of the neighborhood in which they live.
Answer: False

T F 45. The tool used by the Federal Reserve System to influence the economy and behavior of banks is known as moral hazard.
Answer: False

T F 46. One of the principal reasons for government regulation of financial firms is to protect the safety and soundness of the financial system.
Answer: True

Multiple Choice Questions

47. Banks are regulated for which of the reasons listed below?
A) Banks are leading repositories of the public's savings.
B) Banks have the power to create money.
C) Banks provide businesses and individuals with loans that support consumption and investment spending.
D) Banks assist governments in conducting economic policy, collecting taxes and dispensing government payments.
E) All of the above.
Answer: E

48. An institutional arrangement in which federal and state authorities both have significant bank regulatory powers is referred to as:
A) Balance of Power
B) Federalism
C) Dual Banking System
D) Cooperative Regulation
E) Coordinated Control
Answer: C

49. The law that set up the federal banking system and provided for the chartering of national banks was the:
A) National Bank Act
B) McFadden-Pepper Act
C) Glass-Steagall Act
D) Bank Merger Act
E) Federal Reserve Act
Answer: A

50. The federal law that prohibited federally supervised commercial banks from offering investment banking services on privately issued securities is known as:
A) The Glass-Steagall Act
B) The Bank Merger Act
C) The Depository Institutions Deregulation and Monetary Control Act
D) The Federal Reserve Act

E) None of the Above
Answer: A

51. The Gramm-Leach-Bliley Act (Financial Services Modernization Act) calls for linking government supervision of the financial-services firm to the types of activities that the firm undertakes. For example the insurance portion of the firm would be regulated by state insurance commissions and the banking portion of the firm would be regulated by banking regulators. This approach to government supervision of financial services is known as:
A) Consolidated regulation and supervision.
B) Functional regulation.
C) Services oversight.
D) Umbrella supervision and regulation.
E) None of the above.
Answer: B

52. The Federal Reserve policy tool under which the Fed attempts to bring psychological pressure to bear on individuals and institutions to conform to the Fed's policies, using letters, phone calls, and speeches, is known as:
A) Margin requirements
B) Moral suasion
C) Discount window supervision
D) Conference and compromise
E) None of the above.
Answer: B

53. The 1994 law that allowed bank holding companies to acquire banks anywhere in the U.S. is:
A) The Glass-Steagall Act
B) The Federal Deposit Insurance Corporation Improvement Act
C) The National Bank Act
D) The Riegle-Neal Interstate Banking and Branching Efficiency Act.
E) None of the above.
Answer: D

54. The federal law that allowed the Federal Reserve to set margin requirements is:
A) The National Banking Act.
B) The McFadden-Pepper Act.
C) The Glass Steagall Act.
D) The Federal Reserve Act.
E) None of the above.
Answer: C

55. Of the principal reasons for regulating banks, what was the primary purpose of the National Banking Act (1863)?
A) Protection of the public's savings
B) Control of the money supply
C) Providing support for government activities

D) Maintaining confidence in the banking system
E) Preventing banks from realizing monopoly powers
Answer: C

56. Of the principal reasons for regulating banks, what was the primary purpose of the Federal Reserve Act of 1913?
A) Protection of the public's savings
B) Control of the money supply
C) Preventing banks from realizing monopoly powers
D) Ensuring an adequate and fair supply of loans
E) None of the above.
Answer: B

57. The law that allows lifted government deposit interest ceilings and allowed them to pay a competitive interest rate is:
A) The National Banking Act.
B) The Glass Steagall Act.
C) The Bank Merger Act.
D) DIDMCA
E) None of the above.
Answer: D

58. The law that allows banks to affiliate with insurance companies and security brokerage firms to form financial services conglomerates is
A) The National Banking Act
B) The Glass Steagall Act
C) The Garn St. Germain Act
D) The Riegle Neal Interstate Banking Act
E) The Gramm-Leach-Bliley Act (Financial Services Modernization Act)
Answer: E

59. Of the principal reasons for regulating banks, what was the primary purpose of the Truth in Lending Law?
A) Protection of the public's savings
B) Control of the money supply
C) Preventing banks from realizing monopoly powers
D) Ensuring an adequate and fair supply of loans
E) None of the above.
Answer: D

60. Which of the following is an unresolved issue in the new century?
A) What should be done about the regulatory safety net set up to protect small depositors?
B) If financial institutions are allowed to take on more risk, how can taxpayers be protected from paying the bill when more institutions fail?
C) Does functional regulation actually work?

D) Should regulators allow the mixing of banking and commerce?
E) All of the above are unresolved issues
Answer: E

61. The law that made bank and nonbank depository institutions more alike in the services they could offer and allowed banks and thrifts to more fully compete with other financial institutions is:
A) The National Banking Act
B) The Federal Reserve Act
C) The Garn-St. Germain Act
D) The Riegle-Neal Interstate Banking and Branching Efficiency Act
E) The Gramm-Leach-Bliley Act (Financial Services Modernization Act)
Answer: C

62. The law that allowed bank holding companies to acquire nonbank depository institutions and convert them to branches is:
A) The National Banking Act
B) The Garn-St. Germain Act
C) FIRREA
D) The Riegle-Neal Interstate Banking and Branching Efficiency Act
E) None of the Above
Answer: C

63. The equivalent of the Federal Reserve System in Europe is known as the:
A) European Union
B) Bank of London
C) Basle Group
D) European Central Bank
E) Swiss Bank Corporation
Answer: D

64. The new financial organization created by Gramm-Leach-Bliley is the
A) Financial Holding Company
B) Bank Holding Company
C) European Central Bank
D) Financial Service Corporation
E) Financial Modernization Organization
Answer: A

65. The act which requires financial institutions to share information about customer identities with government agencies is:
A) The Sarbanes-Oxley Act
B) The U.S. Treasury Department Act
C) The 9/11 Act
D) The USA Patriot Act
E) The Gramm-Leach-Bliley Act

Answer: D

66. The 1977 law that prevents banks from “redlining” certain neighborhoods, refusing to serve those areas is:
A) The National Banking Act
B) The Garn-St. Germain Act
C) FIRREA
D) The Riegle-Neal Interstate Banking and Branching Efficiency Act
E) Community Reinvestment Act (CRA)
Answer: E

67. Common minimum capital requirements on banks in leading industrialized nations that are based on the riskiness of their assets is imposed by:
A) The National Banking Act
B) FIRREA
C) The International Banking Act
D) The Basel Agreement
E) None of the Above
Answer: D

68. The fastest growing crime in the U.S. is:
A) Financial statement misrepresentation
B) Bank robberies
C) Individual privacy violations
D) Credit card fraud
E) Identity theft
Answer: E

69. The oldest federal bank agency is the:
A) OCC
B) FDIC
C) FRS
D) FHC
E) BHC
Answer: A

70. The federal agency that regulates the most banks is the:
A) OCC
B) FDIC
C) FRS
D) FHC
E) BHC
Answer: B

71. Which federal banking act requires that financial service providers establish the identity of any customers opening new accounts?

A) Sarbanes-Oxley Act
B) USA Patriot Act
C) Check 21 Act
D) The FACT Act
E) Bankruptcy Abuse Prevention and Consumer Protection Act
Answer: B

72. Which federal banking act prohibits publishing false or misleading information about the financial performance of a public company and requires top corporate officers to vouch for the accuracy of their company's financial statements?
A) Sarbanes-Oxley Act
B) USA Patriot Act
C) Check 21 Act
D) The FACT Act
E) Bankruptcy Abuse Prevention and Consumer Protection Act
Answer: A

73. Which federal banking act reduces the need for banks to transport paper checks across the country?
A) Sarbanes-Oxley Act
B) USA Patriot Act
C) Check 21 Act
D) The FACT Act
E) Bankruptcy Abuse Prevention and Consumer Protection Act
Answer: C

74. Which federal banking act forces more individuals to repay at least part of what they owe and will push higher-income borrowers into more costly forms of bankruptcy?
A) Sarbanes-Oxley Act
B) USA Patriot Act
C) Check 21 Act
D) The FACT Act
E) Bankruptcy Abuse Prevention and Consumer Protection Act
Answer: E

75. Which federal banking act requires the Federal Trade Commission to make it easier for victims of identity theft to make theft reports and requires credit bureaus to help victims resolve the problem?
A) Sarbanes-Oxley Act
B) USA Patriot Act
C) Check 21 Act
D) The FACT Act
E) Bankruptcy Abuse Prevention and Consumer Protection Act
Answer: D

76. The _________ allows adequately capitalized bank holding companies to acquire banks in any state.
   A) Riegle-Neal Interstate Banking and Branching Efficiency Act
   B) Competitive Equality Banking Act
   C) Financial Institutions Reform, Recovery and Enforcement Act
   D) Federal Deposit Insurance Corporation Improvement Act
   E) Depository Institutions Deregulation and Monetary Control Act
   Answer: A

77. One of the earliest theories regarding the impact of regulation on banks was developed by George Stigler. He contends that:
   A) Firms in regulated industries actually seek out regulations because they bring monopolistic rents.
   B) Regulations shelter firms from changes in demand and cost, lowering its risk.
   C) Regulations can increase consumer confidence which increases customer loyalty to regulated firms.
   D) Depository institutions should be regulated no differently than any other corporation with no subsidies or special privileges.
   E) None of the above
   Answer: A

78. Samual Peltzman had an opposing view to George Stigler on the impact of regulation on banks. He contends that:
   A) Firms in regulated industries actually seek out regulations because they bring monopolistic rents.
   B) Regulations shelter firms from changes in demand and cost, lowering its risk.
   C) Regulations can increase consumer confidence which increases customer loyalty to regulated firms.
   D) Depository institutions should be regulated no differently than any other corporation with no subsidies or special privileges.
   E) None of the above
   Answer: B

79. There is an important debate raging today regarding whether banks should be regulated at all. George Benston contends that:
   A) Firms in regulated industries actually seek out regulations because they bring monopolistic rents.
   B) Regulations shelter firms from changes in demand and cost, lowering its risk.
   C) Regulations can increase consumer confidence which increases customer loyalty to regulated firms.
   D) Depository institutions should be regulated no differently than any other corporation with no subsidies or special privileges.
   E) None of the above
   Answer: D

80. The European Central Bank has the main goal of:
   A) Ensuring the economy grows at an adequate rate.
   B) Keeping unemployment low.

C) Ensuring price stability.
D) Ensuring an adequate and fair supply of loans.
E) All of the above
Answer: C

81. Which of the following has become the principal tool of central bank monetary policy today?
A) Open market operations
B) Changing the discount rate
C) Changing reserve requirements
D) Using moral suasion
E) None of the above
Answer: A

82. The Federal Reserve buys Treasury Bills in the open market. This will tend to:
A) Cause interest rates in the market to rise
B) Cause interest rates in the market to fall
C) Cause reserves held at the Federal Reserve to decrease
D) Cause a decrease in the growth of deposits and loans
E) All of the above
Answer: B

83. Which federal banking act extends deposit insurance coverage on qualified retirement accounts from $100,000 to $250,000 and authorizes the FDIC to periodically increase deposit insurance coverage to keep up with inflation?
A) Sarbanes-Oxley Act
B) The Gramm-Leach-Bliley Act
C) Check 21 Act
D) The FACT Act
E) Federal Deposit Insurance Reform Act
Answer: E

84. The Financial Services Regulatory Relief Act of 2006 does the following:
A) Adds selected new service powers to depository institutions
B) Loosens regulations on depository institutions
C) Grants the Federal Reserve authority to pay interest on depository institutions' legal reserves
D) All of the above
E) None of the above
Answer: D

85. The Emergency Economic Stabilization Act passed in 2008 during the global credit crisis allowed the following:
A) An emergency sale of "bad assets"
B) Temporary increase of FDIC deposit insurance to $250,000 for all deposits
C) Injections of capital by the government into banks and other qualified lenders
D) Closer surveillance of the mortgage market participants, such as brokers and lenders
E) All of the above
Answer: E