IFN 201 – INTERNATIONAL FINANCIAL MARKETS

STUDY QUESTIONS

Multiple Choices

1. The primary economic role of financial markets is to:

A) Eliminate all financial risk
- B) Channel funds from surplus units to deficit units

C) Increase government spending
D) Replace financial institutions

2. Which of the following best describes a primary market?

A) A market where used financial assets are traded among investors
- B) A market where new securities are issued for the first time

C) A market for short-term government debt only
D) A market run only by central banks

3. A secondary market mainly provides:

A) New capital to corporations
- B) Liquidity and price discovery for existing securities

C) Only foreign exchange services
D) Only long-term financing

4. Which statement about money markets is TRUE?

A) They trade instruments with maturity longer than one year
B) They are mainly used for long-term investment
- C) They are used for liquidity management and short-term funding

D) They only trade equity securities

5. Capital markets typically offer:

A) Low risk, very low return
B) Short-term deposits only
- C) Long-term financing with higher risk and higher return

D) Only government securities

6. Financial intermediation means that financial institutions:

A) Only print money
- B) Transform savings into productive investments and reduce transaction costs

C) Eliminate the need for regulation
D) Replace international trade

7. Which of the following is a key function of financial markets and institutions?

- A) Price discovery and information dissemination

B) Increasing inflation
C) Hiding risks from investors
D) Reducing competition

8. The main purpose of derivative markets in the financial system is to:

A) Issue new stocks
B) Finance government deficits directly
C) Replace banking services

- D) Transfer and manage financial risk

9. Regulation and supervision of financial markets are necessary to:

A) Increase speculation only

- B) Maintain stability, transparency, and investor protection

C) Ban secondary market trading
D) Remove all foreign investors

10. Globalization of financial markets mainly means:

- A) Capital can move more easily across borders, creating both opportunities and risks

B) All countries must use the same currency
C) Domestic markets become closed
D) Derivatives are no longer needed

11. Which of the following is a foreign exchange (FX) transaction that happens immediately at the current market rate?

A) Forward contract
B) Swap agreement

- C) Spot transaction

D) Securitized loan

12. The forward FX contract is primarily used to:

A) Borrow money in domestic markets

- B) Hedge currency risk in the future

C) Purchase stocks on foreign exchanges
D) Increase currency volatility

13. The main purpose of derivative markets is to:

A) Increase speculation in stock markets

- B) Transfer and manage risk among participants

C) Replace the need for regulation
D) Control inflation

14. Which of the following is NOT an example of a derivative security?

A) Futures contract
B) Option contract
- C) Certificate of deposit
D) Swap agreement

15. The 'shadow banking system' expanded before 2008 mainly because:

- A) Derivatives allowed excessive credit creation outside traditional regulation
B) Central banks restricted credit growth
C) There were no investors willing to buy derivatives
D) Housing prices were stable

16. The Securities Exchange Act of 1934 created which major regulatory institution?

A) Federal Reserve System
- B) Securities and Exchange Commission (SEC)
C) Bank for International Settlements
D) World Bank

17. Which of the following institutions is non-depository?

A) Commercial bank
B) Credit union
- C) Insurance company
D) Savings bank

18. Intermediated finance improves market efficiency because:

A) It eliminates the need for borrowers
B) It allows savers and borrowers to interact directly
- C) It reduces transaction and information costs
D) It removes all risks from the system

19. Which statement best describes the role of financial intermediaries as asset transformers?

- A) They change the maturity and risk characteristics of financial claims
B) They only act as brokers between investors
C) They issue only government bonds
D) They eliminate information asymmetry entirely

20. What was one major consequence of the 2008 financial crisis according to the lecture?

A) Increased public confidence in derivatives
- B) A 50% decline in U.S. stock markets and long-term recession

C) Rapid global recovery within months
D) Reduction in regulation and oversight

True/False Questions

1. Financial markets and institutions act like the 'circulatory system' of the economy by moving funds from savers to borrowers.   (TRUE)

2. In a secondary market, firms receive the proceeds from the sale of securities every time they are traded.   (FALSE)

3. Money markets are mostly used for short-term liquidity needs, so the instruments usually have maturities of one year or less.   (TRUE)

4. Capital markets are completely risk-free because they finance long-term projects. (FALSE)

5. Financial intermediaries help reduce information and transaction costs between savers and borrowers.   (TRUE)

6. Without financial institutions, all financing would have to be done directly between savers and borrowers, which is usually less efficient.   (TRUE)

7. Derivative securities always increase systemic risk and therefore have no role in risk management.   (FALSE)

8. Effective financial regulation increases trust in the financial system and supports market stability.   (TRUE)

9. Global financial integration can transmit crises from one country to another (contagion effect).   (TRUE)

10. Secondary markets are unnecessary because investors can always hold their securities to maturity.   (FALSE)

11. The foreign exchange market operates only during U.S. business hours.   (FALSE)

12. Forward FX contracts are agreements to exchange currencies at a future date using a rate fixed today.   (TRUE)

13. Derivatives derive their value from underlying assets like stocks, bonds, or currencies. (TRUE)

14. Exchange-traded derivatives are customized private contracts with no central clearing. (FALSE)

15. The 2008 crisis demonstrated that innovation without regulation can destabilize the financial system. (TRUE)

16. The Securities Act of 1933 and the Securities Exchange Act of 1934 established the foundation of modern U.S. securities regulation. (TRUE)

17. Financial institutions only act as brokers and never transform financial claims. (FALSE)

18. In a direct financing system, savers and borrowers transact without intermediaries, leading to higher costs and inefficiency. (TRUE)

19. An efficient financial system contributes to economic growth and global competitiveness. (TRUE)

20. Globalization of financial markets eliminates all financial risks. (FALSE)