

# **Testbank**

to accompany

# **Financial Markets, Institutions & Money 3<sup>rd</sup> edition**

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## Chapter 2 – The monetary authorities

### True False Questions

1. In the nineteenth century, the Bank of England became the sole issuer of notes for England.
- \*a. True
  - b. False

*Correct answer: a*

2. In the seventeenth century, the Bank of England became the lender of last resort for banks.
- a. True
  - \*b. False

*Correct answer: b*

3. The original role of the first central banks in the world was to raise funds for their governments.
- \*a. True
  - b. False

*Correct answer: a*

4. The Reserve Bank of Australia (RBA) is responsible for the conduct of monetary policy.
- \*a. True
  - b. False

*Correct answer: a*

5. A primary objective of the Reserve Bank of Australia (RBA) is to act as the lender of last resort.
- \*a. True
  - b. False

*Correct answer: a*

6. The Reserve Bank of Australia (RBA) can change the level of reserves held by Australian authorised deposit-taking institutions.
- \*a. True
  - b. False

*Correct answer: a*

7. The Reserve Bank Information and Transfer System (RITS) is exclusively used for the settlement of high-value transactions.
- a. True
  - \*b. False

*Correct answer: b*

8. Australian notes are manufactured by NPA, a subsidiary of the Australian Federal Government.
- a. True
  - \*b. False

*Correct answer: b*

9. The Reserve Bank of Australia (RBA) is responsible for prudential supervision of financial institutions including banks, credit unions, building societies, and insurance and superannuation companies.
- a. True
  - \*b. False

*Correct answer: b*

10. Authorised Deposit-Taking Institutions (ADIs) hold exchange settlement account (ESA) with the Reserve Bank of Australia for transactions settlement.
- \*a. True
  - b. False

*Correct answer: a*

11. The Reserve Bank of Australia (RBA) provides end -of-the-day repurchase facilities that are free of charge for ESA holders who need funds to close out their position.
- a. True
  - \*b. False

*Correct answer: b*

12. The Reserve Bank of Australia' s monetary policy can be described as the management of short-term interest rates in pursuit of domestic policy objectives.
- \*a. True
  - b. False

*Correct answer: a*

13. In a payment system, settlement takes place before clearance.
- a. True
  - \*b. False

*Correct answer: b*

14. Exchange settlement accounts (ESA) are accounts held by a commercial bank in another commercial bank.
- a. True
  - \*b. False

*Correct answer: b*

15. Low-value transactions made with payment instruments such as bank cheques or debit cards are settled in real time, transaction by transaction.
- a. True
  - \*b. False

*Correct answer: b*

16. Reserve Bank Information and Transfer System (RITS) settles high-value payments through the RTGS.
- \*a. True
  - b. False

*Correct answer: a*

17. The Australian Prudential Regulation Authority (APRA) is mainly funded by levies and penalties paid by the institutions that it supervises.
- \*a. True
  - b. False

*Correct answer: a*

18. Prudential supervision consists in controlling risk management of financial institutions in order to guarantee the stability of the financial system.
- \*a. True
  - b. False

*Correct answer: a*

19. The Australian Prudential Regulation Authority (APRA) supervises banks and other deposit-taking institutions while the Australian Securities and Investments Commission (ASIC) monitors the insurance and superannuation companies.
- a. True
  - \*b. False

*Correct answer: b*

20. The Australian Stock Exchange (ASX) settlement system for Australian equity trades is referred to as the Australian Securities and Investments Commission (ASIC).
- a. True
  - \*b. False

*Correct answer: b*

21. Misconduct by a financial institution that harms investors is addressed by the Australian Securities and Investments Commission (ASIC).
- \*a. True
  - b. False

*Correct answer: a*

22. Monitoring of capital levels in financial institutions is a responsibility of the Australian Securities and Investments Commission (ASIC).
- a. True
  - \*b. False

*Correct answer: b*

23. The Bank for International Settlements (BIS) provides banking services to private corporations with international business activities.
- a. True
  - \*b. False

*Correct answer: b*

24. The Bank for International Settlements (BIS) facilitates international cooperation among monetary authorities.
- \*a. True
  - b. False

*Correct answer: a*

25. In Hong Kong, central banking functions and regulatory functions are assumed by the same monetary authority.
- \*a. True
  - b. False

*Correct answer: a*

## Multiple Choice Questions

26. Which of the following functions was NOT a role performed by the Bank of England in the nineteenth century?
- a. Lender of last resort to banks
  - b. Facilitator of net settlement for banks' payment orders.
  - \*c. Prudential regulator of financial companies
  - d. Sole issuer of notes in England and Wales

*Correct answer: c*

*Learning Objective 2.1 ~ Describe the origins of the central banking system model*

*Feedback: The Bank of England was created in 1694 but initially was only the banker of the government. In the nineteenth century the role also included sole issuer of notes, facilitator in interbank payments, and lender of last resort. However the regulation of financial institutions came later. In the nineteenth century the Bank of England was just starting to collect information about banks as part of its role as facilitator of interbank payments.*

27. The central bank system has its roots in Europe
- a. in the sixteenth century.
  - \*b. in the seventeenth century.
  - c. in the eighteenth century.
  - d. in the nineteenth century.

*Correct answer: b*

*Learning Objective 2.1 ~ Describe the origins of the central banking system model*

28. In the nineteenth century, the Bank of England was changing the amount of money in circulation by
- a. settling payment orders between banks.
  - b. facilitating the payments system.
  - c. raising funds for the government.
  - \*d. issuing and buying back consols.

*Correct answer: d*

*Learning Objective 2.1 ~ Describe the origins of the central banking system model ~*

29. Which of the following is NOT currently an Australian monetary authority?
- a. The Reserve Bank of Australia (RBA)
  - \*b. The Commonwealth Bank of Australia (CBA)
  - c. The Australian Prudential Regulation Authority (APRA)
  - d. The Australian Securities and Investments Commission (ASIC)

*Correct answer: b*

*Learning Objective 2.1 ~ Describe the origins of the central banking system model*

30. Which of the following statements is NOT correct?  
The Council of Financial Regulators (CFR)
- \*a. supervises the RBA, APRA and ASIC.
  - b. reports to the Government on the adequacy of the financial regulatory system formed by the RBA, APRA and ASIC.
  - c. is a structure allowing cooperation and coordination among the RBA, APRA and ASIC
  - d. has a representative from the Government to interact with the RBA, APRA and ASIC.

*Correct answer: a*

*Learning Objective 2.1 ~ Describe the origins of the central banking system model*

31. The monetary authority responsible for monetary policy, financial system stability and the payments system in Australia is
- \*a. the Reserve Bank of Australia (RBA).
  - b. the Australian Prudential Regulation Authority (APRA).
  - c. the Australian Securities and Investments Commission (ASIC).
  - d. all of the above.

*Correct answer: a*

*Learning Objective 2.2 ~ Outline the history and understand the primary responsibilities of the Reserve Bank of Australia (RBA)*

*Feedback: APRA is responsible for prudential supervision of financial institutions while ASIC is responsible for enforcement of company and financial services laws, with the aim of protecting consumers, investors and creditors.*

32. One ultimate goal of the Reserve Bank of Australia (RBA) in implementing monetary policy is to
- a. print and issue Australia's currency notes.
  - b. facilitate a safe payments system.
  - \*c. control inflation rates within a target range.
  - d. change the money supply in the economy.

*Correct answer: c*

*Learning Objective 2.2 ~ Outline the history and understand the primary responsibilities of the Reserve Bank of Australia (RBA)*

*Feedback: All statements are indeed a function of the RBA. However the safety of the payment systems is not related to monetary policy. Printing notes and changing the money supply are indeed part of monetary policy but not a final goal, just means to reach the goals. In implementing monetary policy, the Reserve Bank of Australia's aim is to control inflation rates within a target range. The stability of the currency is not the only legal objective of the RBA as full employment in Australia is in the RBA's charter too.*

33. Which of the following is NOT a function of the Reserve Bank of Australia (RBA)?
- a. Banker for the Federal Government
  - b. Issuer of Australian notes
  - c. Monetary policy maker
  - \*d. Supervisor of the financial markets

*Correct answer: d*

*Learning Objective 2.2 ~ Outline the history and understand the primary responsibilities of the Reserve Bank of Australia (RBA)*

*Feedback: The financial markets are supervised by ASIC.*

34. Which of the following is NOT a function of the Reserve Bank of Australia (RBA)?
- a. Supervisor of the payments system
  - b. Lender of last resort
  - c. Monetary policy maker
  - \*d. Supervisor of financial institutions

*Correct answer: d*

*Learning Objective 2.2 ~ Outline the history and understand the primary responsibilities of the Reserve Bank of Australia (RBA)*

*Feedback: The financial institutions are supervised by APRA.*

35. The Reserve Bank of Australia (RBA) manages the liquidity of the financial system by
- a. borrowing from the Bank for International Settlements (BIS).
  - b. borrowing from the government.
  - \*c. by buying and selling government securities and other financial instruments from/to financial institutions.
  - d. borrowing from foreign banks.

*Correct answer: c*

*Learning Objective 2.2 ~ Outline the history and understand the primary responsibilities of the Reserve Bank of Australia (RBA)*

*Feedback: When the RBA buys a security from a financial institution, the balance in the ESA of the seller increases. When the RBA sells a security to a financial institution, the balance in the ESA account of the buyer decreases.*

36. Non-cash paper payment instruments include
- a. notes and coins.
  - \*b. bank checks.
  - c. debit cards.
  - d. credit cards.

*Correct answer: b*

*Learning Objective 2.2 ~ Outline the history and understand the primary responsibilities of the Reserve Bank of Australia (RBA)*

*Feedback: Notes and coins are cash as they have a materiality. Electronic funds in a deposit account is another form of money different from cash as they have no materiality. Notes, coins and demand deposits are forms of money (as defined by M1). The payment instruments like a bank check, a debit card or a credit card are used as a mean to pay with electronic money in check/demand/sight deposits accounts. The ways to mobilize the electronic funds in the deposit account can be paper (bank check) or non-paper (debit and credit cards and direct transfers).*

37. Which of the following statements is NOT correct?  
Real-Time Gross Settlement (RTGS)
- a. is fed by ESA holder's transactions, high value CHES transactions and Austraclear transactions.
  - b. settles transactions in the order they arrive in RITS.
  - \*c. requires the compilation by the national collator of all obligations that each institution participating to the payments system had that day against the other participants.
  - d. settles transactions one by one.

*Correct answer: c*

*Learning Objective 2.2 ~ Outline the history and understand the primary responsibilities of the Reserve Bank of Australia (RBA)*

*Feedback: The collation of exchange summary faxes are part of a netting system not a gross system.*

38. Which of the following statements is NOT correct?  
An exchange settlement account (ESA) is
- a. an account held by deposit-taking institutions at the Reserve Bank of Australia (RBA).
  - b. used to transfer funds to and from in order to settle transactions in the payments system.
  - c. an account whose balance represents bank reserves.
  - \*d. the account used by the Commonwealth government for its spending and its income.

*Correct answer: d*

*Learning Objective 2.2 ~ Outline the history and understand the primary responsibilities of the Reserve Bank of Australia (RBA)*

*Feedback: Institutions involved in the payments system hold ESA accounts with sufficient balances to meet the payments obligations on a daily basis. Funds are withdrawn from the account of one financial institution by the payments system and transferred to the ESA of another such that at the end of each business day all payments in the system are settled.*

39. The Reserve Bank of Australia (RBA)'s independence is guaranteed by
- a. the capacity of the RBA to finance its own activities.
  - b. the long terms of its governors.
  - c. the absence of consultation with the government.
  - \*d. both a and b.

*Correct answer: d*

*Learning Objective 2.2 ~ Outline the history and understand the primary responsibilities of the Reserve Bank of Australia (RBA)*

*Feedback: The RBA being financially independent from the government removes a means of pressure of the government on the central bank. Long terms for governors means that they do not change when the government changes. The benefit of independence is to guarantee that the monetary policy is not conducted with short term view with the goal of getting a party re-elected. Independence does not rule out consultation as in particular coordination is required between monetary policy and fiscal policy.*

40. Exchange summary fax is a statement of obligations accrued during the course of the day by a financial institution participating in the payments system against
- a. businesses and households holding deposit accounts in that institution.
  - b. the RBA.
  - \*c. other institutions participating in the payments system.
  - d. the national collator.

*Correct answer: c*

*Learning Objective 2.2 ~ Outline the history and understand the primary responsibilities of the Reserve Bank of Australia (RBA)*

41. When injecting reserves in the banking system through a repurchase agreement the Reserve Bank of Australia (RBA)
- \*a. buys specific types of securities from the ESA holders on the basis that the RBA will resell them back to them later.
  - b. sells specific types of securities to the ESA holders on the basis that the RBA will repurchase them back later.
  - c. buys and sells securities in the market on behalf of ESA holders.
  - d. buys and keeps specific types of securities in its portfolio for unspecified horizon.

*Correct answer: a*

*Learning Objective 2.2 ~ Outline the history and understand the primary responsibilities of the Reserve Bank of Australia (RBA)*

42. Which of the following is NOT correct?  
End-of-day Repurchase facility involves
- a. the Reserve Bank of Australia (RBA) providing funds on ESA.
  - b. making the ESA holders who benefits from the operation pay the cash rate target plus 25 basis points.
  - c. an ESA holder closing out a position at the end of the day.
  - \*d. the Reserve Bank of Australia (RBA) buying securities held by institutions on the basis that it will resell them back to the institutions the same day.

*Correct answer: d*

*Learning Objective 2.2 ~ Outline the history and understand the primary responsibilities of the Reserve Bank of Australia (RBA)*

43. Which of the following is NOT a function of the Reserve Bank of Australia (RBA)?
- a. Supervisor of the payments system
  - \*b. Provider of banking licenses
  - c. Banker of the Federal Government
  - d. Manager of the RITS

*Correct answer: b*

*Learning Objective 2.2 ~ Outline the history and understand the primary responsibilities of the Reserve Bank of Australia (RBA)*

44. Which of the following is NOT a function of the Reserve Bank of Australia (RBA)?
- a. Monetary Policy maker
  - \*b. Issuer of Australian coins
  - c. Lender of last resort
  - d. Manager of the Federal Government securities' registry

*Correct answer: b*

*Learning Objective 2.2 ~ Outline the history and understand the primary responsibilities of the Reserve Bank of Australia (RBA)*

45. When the Reserve Bank of Australia (RBA) buys government securities from a financial institution under a repurchase agreement,
- a. the ESA balances increase.
  - b. the ESA balances decrease.
  - \*c. the ESA balances increase and then later will decrease.
  - d. the ESA balances decrease and then later will increase.

*Correct answer: c*

*Learning Objective 2.2 ~ Outline the history and understand the primary responsibilities of the Reserve Bank of Australia (RBA)*

46. Which of the following statements is NOT correct?  
Australian notes
- a. are a form of money called cash.
  - b. are issued by the Reserve Bank of Australia (RBA).
  - \*c. are printed by the Treasury.
  - d. are legal tender.

*Correct answer: c*

*Learning Objective 2.2 ~ Outline the history and understand the primary responsibilities of the Reserve Bank of Australia (RBA)*

47. Which of the following statements is NOT correct?  
Debit cards
- a. are instruments of payment available to a deposit account holder.
  - b. are ways to use the electronic funds in a check deposit account.
  - \*c. are an alternative form of money to cash.
  - d. are non-cash non-paper instruments of payment.

*Correct answer: c*

*Learning Objective 2.2 ~ Outline the history and understand the primary responsibilities of the Reserve Bank of Australia (RBA)*

48. The Reserve Bank of Australia's independence refers to
- \*a. its ability to conduct monetary policy without recommendations from the Government or the Prime Minister.
  - b. its separation from the Commonwealth Bank of Australia in 1960.
  - c. its ability to conduct monetary policy without accountability to the Parliament.
  - d. its separation from the Bank of England.

*Correct answer: a*

*Learning Objective 2.2 ~ Outline the history and understand the primary responsibilities of the Reserve Bank of Australia (RBA)*

49. Which of the following is NOT a key role of the Reserve Bank of Australia (RBA) in the payments system?
- a. Promoting efficiency in the payments system.
  - b. Providing facilities for the final settlement of payment transactions
  - c. Acting in the payments system as the bank of the Australian Government and various other government and non-government entities.
  - \*d. Managing EFTPOS systems.

*Correct answer: d*

*Learning Objective 2.2 ~ Outline the history and understand the primary responsibilities of the Reserve Bank of Australia (RBA)*

50. The Reserve Bank of Australia (RBA) board is accountable to
- \*a. the Australian Federal Parliament.
  - b. the Governor and the Federal Treasurer.
  - c. the Australian Prudential Regulation Authority (APRA).
  - d. the Bank of International Settlements (BIS).

*Correct answer: a*

*Learning Objective 2.2 ~ Outline the history and understand the primary responsibilities of the Reserve Bank of Australia (RBA)*

51. The oversight of the Australian payments system is a responsibility of
- \*a. the Reserve Bank of Australia (RBA).
  - b. the Australian Securities and Investments Commission (ASIC).
  - c. the Australian Financial Institutions Commission (AFIC).
  - d. the Australian Prudential Regulation Authority (APRA)

*Correct answer: a*

*Learning Objective 2.2 ~ Outline the history and understand the primary responsibilities of the Reserve Bank of Australia (RBA)*

52. Which of the following is NOT currently a primary function of the Reserve Bank of Australia (RBA)?
- a. Conduct of monetary policy
  - b. Issue of Australian currency notes
  - c. Oversight of the payments system
  - \*d. Supervision of deposit-taking institutions

*Correct answer: d*

*Learning Objective 2.2 ~ Outline the history and understand the primary responsibilities of the Reserve Bank of Australia (RBA)*

53. Which of the following statements is NOT correct?  
High-value payments in the ASX are
- a. fed to RITS by CHES.
  - b. settled through the real-time gross settlement system.
  - c. trigger interbank transfers among ESAs.
  - \*d. processed through SWIFT PDS.

*Correct answer: d*

*Learning Objective 2.2 ~ Outline the history and understand the primary responsibilities of the Reserve Bank of Australia (RBA)*

54. 9 am batch refers to the batch settlement made to each institution's exchange settlement account at 9 am based on the
- a. today's single net obligation for each institution with respect to all other participating institutions combined.
  - b. the today's net obligation for each institution with respect to each other participating institution one by one.
  - \*c. previous day's single net obligation for each institution with respect to all other participating institutions combined.
  - d. the previous day's net obligation for each institution with respect to each other participating institution one by one.

*Correct answer: c*

*Learning Objective 2.2 ~ Outline the history and understand the primary responsibilities of the Reserve Bank of Australia (RBA)*

55. The role of lender of last resort is a responsibility of
- \*a. the Reserve Bank of Australia (RBA).
  - b. the Australian Securities and Investments Commission (ASIC).
  - c. the Australian Financial Institutions Commission (AFIC).
  - d. the Australian Prudential Regulation Authority (APRA).

*Correct answer: a*

*Learning Objective 2.2 ~ Outline the history and understand the primary responsibilities of the Reserve Bank of Australia (RBA)*

56. Which of the following is NOT an official goal of the RBA according to its Charter?
- a. The stability of the currency of Australia
  - \*b. The stability of Australia's balance of payments
  - c. The maintenance of full employment in Australia
  - d. The economic prosperity and welfare of the people of Australia

*Correct answer: b*

*Learning Objective 2.2 ~ Outline the history and understand the primary responsibilities of the Reserve Bank of Australia (RBA)*

57. The manufacturer of Australian notes is
- \*a. the Reserve Bank of Australia (RBA).
  - b. the Australian Securities and Investments Commission (ASIC).
  - c. the Australian Financial Institutions Commission (AFIC).
  - d. the Australian Prudential Regulation Authority (APRA).

*Correct answer: a*

*Learning Objective 2.2 ~ Outline the history and understand the primary responsibilities of the Reserve Bank of Australia (RBA)*

58. Which of the following is NOT connected to the RITS?
- a. CHES
  - b. Austraclear
  - \*c. PSB
  - d. SWIFT PDS

*Correct answer: c*

*Learning Objective 2.2 ~ Outline the history and understand the primary responsibilities of the Reserve Bank of Australia (RBA)*

59. Which of the following is NOT correct?  
The 9 am batch settlement is a
- a. differed system.
  - b. netted system.
  - c. multilateral system.
  - \*d. gross system.

*Correct answer: d*

*Learning Objective 2.2 ~ Outline the history and understand the primary responsibilities of the Reserve Bank of Australia (RBA)*

60. Which of the following is NOT correct?  
The RTGS is a

- a. real-time system.
- b. gross system.
- c. bilateral system.
- \*d. differed system.

*Correct answer: d*

*Learning Objective 2.2 ~ Outline the history and understand the primary responsibilities of the Reserve Bank of Australia (RBA)*

61. Which of the following functions is NOT the responsibility of the Australian Prudential Regulation Authority (APRA)?

- a. Oversight of banks
- b. Supervision of insurance and superannuation companies
- \*c. Monitoring of market operators
- d. Provision of banking business authorisations

*Correct answer: c*

*Learning Objective 2.3 ~ Explain the role of prudential regulation and how the Australian Prudential Regulation Authority (APRA) carries out its role as prudential regulator in Australia*

*Feedback: APRA is in charge of supervising financial institutions to make sure that they have good risk management practices and appropriate amount of capital to prevent bankruptcy and the contagion effect on other institutions. ASIC is in charge of the good operation of markets and the protection of consumers, investors and creditors.*

62. To become an authorised deposit-taking institution (ADI) a company must among other requirements

- a. seek approval from the Reserve Bank of Australia (RBA).
- b. apply in writing to the Parliament.
- \*c. meet a certain requirement in terms of capital.
- d. apply in writing to Australian Securities and Investments Commission (ASIC).

*Correct answer: c*

*Learning Objective 2.3 ~ Explain the role of prudential regulation and how the Australian Prudential Regulation Authority (APRA) carries out its role as prudential regulator in Australia*

*Feedback: The approval to conduct banking business (i.e. taking deposits and issuing loans) is delivered by APRA, not by the RBA, ASIC or Parliament. The candidates to become Authorised Deposit-Taking Institutions (ADIs) must meet several requirements. Among others, they need to give evidence that they have enough capital, appropriate risk management systems and audit processes.*

63. In the Australian banking industry institutions that are approved by the Australian Prudential Regulation Authority (APRA) to engage in banking business are known as
- a. Australian Saving Institutions.
  - \*b. Authorised Deposit-Taking Institutions.
  - c. Australian Depository Institutions.
  - d. Australian Financial Institutions.

*Correct answer: b*

*Learning Objective 2.3 ~ Explain the role of prudential regulation and how the Australian Prudential Regulation Authority (APRA) carries out its role as prudential regulator in Australia*

64. Authorised deposit-taking institutions are institutions that are approved by APRA to
- \*a. take deposits and issue loans in the financial system.
  - b. provide loans in the financial system.
  - c. trade in the financial markets.
  - d. raise funds from the markets.

*Correct answer: a*

*Learning Objective 2.3 ~ Explain the role of prudential regulation and how the Australian Prudential Regulation Authority (APRA) carries out its role as prudential regulator in Australia*

*Feedback: ADIs are all the institutions that do banking business, i.e. accept deposits AND issue loans. Note that not all ADIs are banks. Building societies and credit unions are ADIs but not banks. Finance companies are not ADIs as they issue loans but without taking deposits.*

65. Which of the following is a responsibility of the Australian Prudential Regulation Authority (APRA)?
- a. Consumer protection in superannuation, insurance, deposit taking and credit.
  - b. Lending of last resort.
  - c. Oversight of market operators.
  - \*d. Design of bank prudential regulation.

*Correct answer: d*

*Learning Objective 2.3 ~ Explain the role of prudential regulation and how the Australian Prudential Regulation Authority (APRA) carries out its role as prudential regulator in Australia*

66. The supervision of insurance and superannuation companies is the responsibility of
- a. the Reserve Bank of Australia.
  - b. the Australian Securities and Investments Commission.
  - c. the Australian Financial Institutions Commission.
  - \*d. the Australian Prudential Regulation Authority.

*Correct answer: d*

*Learning Objective 2.3 ~ Explain the role of prudential regulation and how the Australian Prudential Regulation Authority (APRA) carries out its role as prudential regulator in Australia*

67. The Australian Prudential Regulation Authority is mainly funded by
- \*a. the institutions that it supervises.
  - b. the Reserve Bank of Australia.
  - c. the Australian taxpayers.
  - d. shareholders.

*Correct answer: a*

*Learning Objective 2.3 ~ Explain the role of prudential regulation and how the Australian Prudential Regulation Authority (APRA) carries out its role as prudential regulator in Australia*

68. Which of the following is NOT a responsibility of ASIC?
- a. Consumer protection in superannuation, insurance and deposit taking and credit
  - b. Management of licensing
  - c. Oversight of market operators
  - \*d. Design of bank prudential regulation

*Correct answer: d*

*Learning Objective 2.4 ~ Explain the role and responsibilities of the Australian Securities and Investments Commission (ASIC) and how it cooperates with other regulators*

*Feedback: The prudential regulation is the responsibility of APRA.*

69. Which of the following is NOT a responsibility of ASIC?

- \*a. Oversight of the payment system
- b. Management of market licensing
- c. Oversight of market participants and stockbrokers
- d. Oversight of financial advisers

*Correct answer: a*

*Learning Objective 2.4 ~ Explain the role and responsibilities of the Australian Securities and Investments Commission (ASIC) and how it cooperates with other regulators*

*Feedback: The oversight of the payment system is the responsibility of the RBA*

70. The Australian Securities and Investments Commission (ASIC) is charged with responsibility for

- \*a. enforcing company and financial services laws to protect consumers, investors and creditors.
- b. maintaining stability in the financial market.
- c. monitoring the performance of the equity market.
- d. monitoring the performance of companies.

*Correct answer: a*

*Learning Objective 2.4 ~ Explain the role and responsibilities of the Australian Securities and Investments Commission (ASIC) and how it cooperates with other regulators*

*Feedback: Established in 1991, ASIC regulates financial markets, securities, futures and corporations. ASIC is also responsible for consumer protection in superannuation, insurance and deposit taking (since 1998) and credit (borrowing, from 2002).*

71. The Australian Securities and Investments Commission (ASIC) has been established as a supervisory authority since

- a. 1930.
- b. 1959.
- \*c. 1991.
- d. 1998.

*Correct answer: c*

*Learning Objective 2.4 ~ Explain the role and responsibilities of the Australian Securities and Investments Commission (ASIC) and how it cooperates with other regulators*

*Feedback: 1930 is the creation of the BIS; 1959 refers to the establishment of the RBA while 1998 refers to the establishment of APRA. 1991 is the date of creation of ASIC.*

72. Which of the following is a responsibility of ASIC?
- a. Oversight of the payment system
  - b. Banking services to the government
  - c. Implementation of monetary policy
  - \*d. Promotion of financial market integrity

*Correct answer: d*

*Learning Objective 2.4 ~ Explain the role and responsibilities of the Australian Securities and Investments Commission (ASIC) and how it cooperates with other regulators*

73. Which of the following is a responsibility of ASIC?
- a. Oversight of the payment system
  - b. Supervision of banks
  - \*c. Oversight of market participants and brokers
  - d. Promotion of cooperation among central banks

*Correct answer: c*

*Learning Objective 2.4 ~ Explain the role and responsibilities of the Australian Securities and Investments Commission (ASIC) and how it cooperates with other regulators*

74. Which of the following is a responsibility of ASIC?
- \*a. Detection of misconduct by market participants
  - b. Supervision of superannuation funds
  - c. Implementation of monetary policy
  - d. Banking services to central banks

*Correct answer: a*

*Learning Objective 2.4 ~ Explain the role and responsibilities of the Australian Securities and Investments Commission (ASIC) and how it cooperates with other regulators*

75. Which of the following is NOT a function of the Bank for International Settlements (BIS)?
- a. Facilitating central banking cooperation
  - b. Providing frameworks for international prudential regulation
  - \*c. Providing banking services to governments
  - d. Supporting central banks during financial crises

*Correct answer: c*

*Learning Objective 2.5 ~ Explain the role of the Bank for International Settlements (BIS) and the importance of the BIS's operations to the stability of the international financial system*

*Feedback: The BIS helps the monetary authorities across countries not the national governments. The IMF is the international organization providing support to governments.*

76. The Bank for International Settlements (BIS) provides banking services to
- a. governments.
  - b. international private companies.
  - \*c. central banks.
  - d. regulators.

*Correct answer: c*

*Learning Objective 2.5 ~ Explain the role of the Bank for International Settlements (BIS) and the importance of the BIS's operations to the stability of the international financial system*

77. Which of the following is NOT a function of the Bank for International Settlements (BIS)?
- a. Providing a framework for cooperation among monetary authorities
  - b. Providing banking services to central banks
  - c. Providing a meeting place for central banks and other monetary authorities
  - \*d. Supporting governments during financial crises

*Correct answer: d*

*Learning Objective 2.5 ~ Explain the role of the Bank for International Settlements (BIS) and the importance of the BIS's operations to the stability of the international financial system*

78. The Bank for International Settlements (BIS) was originally established to
- \*a. facilitate the reparation payments by Germany after World War I.
  - b. manage the Gold Standard international monetary system.
  - c. provide banking services to governments during World War II.
  - d. facilitate US financial aid to Western Europe recovery after World War II.

*Correct answer: a*

*Learning Objective 2.5 ~ Explain the role of the Bank for International Settlements (BIS) and the importance of the BIS's operations to the stability of the international financial system*

79. Which of the following is a function of the Bank for International Settlements (BIS)?
- \*a. Facilitating international cooperation among prudential regulation authorities
  - b. Conducting monetary policies in member countries
  - c. Providing banking services to governments
  - d. Supporting governments during financial crises

*Correct answer: a*

*Learning Objective 2.5 ~ Explain the role of the Bank for International Settlements (BIS) and the importance of the BIS's operations to the stability of the international financial system*

80. Monetary policy conduct and prudential supervision are performed by a unique monetary authority in
- a. China.
  - b. Australia.
  - \*c. New Zealand.
  - d. None of the above.

*Correct answer: c*

*Learning Objective 2.6 ~ Identify the differences and similarities between the structure of the Australian financial regulatory system and those of other nations, such as the United States, China, Hong Kong and New Zealand*

*Feedback: In China the monetary policy is the responsibility of the People's Bank of China while the supervision of the financial institutions is performed by the China's Bank Regulatory Commission. In Australia the monetary policy is conducted by RBA while the supervision of financial institutions is the responsibility of APRA. In New Zealand the Reserve Bank assumes both responsibilities.*

81. Which of the following statements is NOT correct?  
The Reserve Bank of New Zealand
- a. cooperates with the Australian Prudential Regulation Authority.
  - \*b. operates as a branch of the Reserve Bank of Australia.
  - c. is responsible for prudential regulation.
  - d. conducts monetary policy with an inflation target.

*Correct answer: b*

*Learning Objective 2.6 ~ Identify the differences and similarities between the structure of the Australian financial regulatory system and those of other nations, such as the United States, China, Hong Kong and New Zealand*

82. In China the supervision of the banking system is the responsibility of
- a. the People's Bank of China.
  - \*b. the China's Bank Regulatory Commission.
  - c. the State Development Bank.
  - d. the Import and Export Bank.

*Correct answer: b*

*Learning Objective 2.6 ~ Identify the differences and similarities between the structure of the Australian financial regulatory system and those of other nations, such as the United States, China, Hong Kong and New Zealand*

83. The US monetary policy is decided by
- \*a. the Federal Open market Committee.
  - b. the Federal Reserve bank of New-York.
  - c. the US government.
  - d. None of the above.

*Correct answer: a*

*Learning Objective 2.6 ~ Identify the differences and similarities between the structure of the Australian financial regulatory system and those of other nations, such as the United States, China, Hong Kong and New Zealand*

84. The day-to-day implementation of US monetary policy is performed by
- a. the Federal Open market Committee.
  - \*b. the Federal Reserve Bank of New-York.
  - c. the US government.
  - d. None of the above.

*Correct answer: b*

*Learning Objective 2.6 ~ Identify the differences and similarities between the structure of the Australian financial regulatory system and those of other nations, such as the United States, China, Hong Kong and New Zealand*

85. Monetary policy conduct and prudential supervision are performed by two separate monetary authorities in
- a. The United States.
  - \*b. China.
  - c. New Zealand.
  - d. Hong Kong.

*Correct answer: b*

*Learning Objective 2.6 ~ Identify the differences and similarities between the structure of the Australian financial regulatory system and those of other nations, such as the United States, China, Hong Kong and New Zealand*

## Essay Questions – Prepared by Christopher Gan

86. Discuss the role of a central bank in a market economy.

Answer: A central bank regulates a nation's money supply and financial institutions in an attempt to provide the nation with a stable economic environment and an effective payments system. It engages in arranging net settlement of payment orders between commercial banks in the payments system and regulates the financial system. It also acts as the 'lender of last resort' by lending to banks in financial crisis at a penalty rate.

87. Explain why it is so important for central banks to be independent of government intervention.

Answer: Independence from government intervention allows central banks to manage their countries' national economies better. This means that the central bank can take policy actions that may be politically unpopular but in the longer run benefit the economy's overall macroeconomic performance. For example, when inflationary pressures begin to build up in an economy during a period of rapid economic expansion, to dampen inflation, a central bank will raise interest rates to slow the rate of economic growth and thus dampen inflationary expectations. Raising interest rates to slow down an economy rarely wins population approval and therefore a government could prevent the central bank to take such a measure if the central bank was not independent.

88. Describe briefly the payments clearing mechanism.

Answer: Most payment settlements involve two or more financial institutions and require the payments to be 'cleared' between them prior to complete settlement of the transaction. This involves the verification that there are sufficient funds in the account of the payer to meet the transaction. For example, when an individual deposits a check, the check goes back to the issuing bank (the bank of the person who wrote the check) to verify that there are sufficient funds in that person's account before transferring the funds.

Difficult