

## CHAPTER 31

# Money and Banking

1. To say money is socially defined means that:
- A) money has been defined in a Constitutional amendment.
  - B) whatever performs the functions of money extremely well is considered to be money.
  - C) the money supply includes all public and private securities purchased by society.
  - D) society, acting through Congress, specifies what shall be included in the money supply.

Ans:

2. Money functions as:
- A) a store of value.
  - B) a unit of account.
  - C) a medium of exchange.
  - D) all of the above.

Ans:

9. When economists say that money serves as a medium of exchange, they mean that it is:
- A) a way to keep wealth in a readily spendable form for future use.
  - B) a means of payment.
  - C) a monetary unit for measuring and comparing the relative values of goods.
  - D) declared as legal tender by the government.

Ans:

10. When economists say that money serves as a unit of account, they mean that it is:
- A) a way to keep wealth in a readily spendable form for future use.
  - B) a means of payment.
  - C) a monetary unit for measuring and comparing the relative values of goods.
  - D) declared as legal tender by the government.

Ans:

12. The paper money used in the United States is:
- A) National Bank Notes.
  - B) Treasury Notes.
  - C) United States Notes.
  - D) Federal Reserve Notes.

Ans:

16. The money supply is backed:
- A) by the government's ability to control the supply of money and therefore to keep its value relatively stable.
  - B) by government bonds.
  - C) dollar-for-dollar with gold and silver.
  - D) dollar-for-dollar with gold bullion.

Ans:

63. Other things equal, an excessive increase in the money supply will :

- A) increase the purchasing power of each dollar.
- B) decrease the purchasing power of each dollar.
- C) have no impact on the purchasing power of the dollar.
- D) reduce the price level.

Ans:

68. The basic policy-making body in the U.S. banking system is the:

- A) Federal Open Market Committee (FOMC).      C) Federal Monetary Authority.
- B) Board of Governors of the Federal Reserve.      D) Council of Economic Advisers.

Ans:

69. The twelve Federal Reserve Banks:

- A) are owned and operated by the U.S. Treasury.
- B) were created in 1776.
- C) hold the reserve deposits of commercial banks.
- D) are also known as national banks.

Ans:

70. The Federal Reserve System was created in:

- A) 1926.    B) 1946.    C) 1895.    D) 1913.

Ans:

71. In the U.S. economy the money supply is controlled by the:

- A) U.S. Treasury.      C) Senate Committee on Banking and Finance.
- B) Federal Reserve System.      D) Congress.

Ans:

82. The members of the Federal Reserve Board:

- A) serve seven-year terms.
- B) are appointed by the American Economic Association.
- C) are elected by votes of the 12 presidents of the Federal Reserve Banks.
- D) serve 14-year terms.

Ans:

83. An important routine function of the Federal Reserve Bank is to:

- A) supervise the liquidation of the assets of bankrupt state banks.
- B) help large commercial banks develop correspondent relationships with smaller commercial banks.
- C) advise commercial banks as to the most profitable ways of reinvesting profits.
- D) provide facilities by which commercial banks and thrift institutions may collect checks.

Ans:

84. Which of the following statements best describes the twelve Federal Reserve Banks?
- A) They are privately owned and privately controlled central banks whose basic goal is to provide an ample and orderly market for U.S. Treasury securities.
  - B) They are privately owned and publicly controlled central banks whose basic function is to minimize the risks in commercial banking in order to make it a reasonably profitable industry.
  - C) They are privately owned and publicly controlled central banks whose basic goal is to control the money supply and interest rates in promoting the general economic welfare.
  - D) They are privately owned and publicly controlled central banks whose basic goal is to earn profits for their owners.

Ans:

85. The seven members of the Board of Governors of the Federal Reserve System are:
- A) appointed by the President with the confirmation of the Senate.
  - B) elected by Congress from a slate of nominees provided by the President.
  - C) appointed by the Senate Finance Committee.
  - D) appointed by the presidents of the twelve Federal Reserve Banks.

Ans:

106. Credits cards are:
- A) the fastest growing component of the *M1* money supply.
  - B) near-monies that are part of the *MZM* money supply but not part of the *M2* or *M1* money supplies.
  - C) not money, officially defined.
  - D) also known as time deposits.

Ans:

102. The Financial Services Modernization Act of 1999:
- A) set limits on the fees that banks can charge for automatic teller machine (ATM) withdrawals.
  - B) established a new dollar coin that will replace the dollar bill in 2008.
  - C) permitted banks, thrifts, pension companies, and securities firms to merge and to sell each other's products.
  - D) outlawed "payday loans" that are advanced against forthcoming payroll checks.

Ans:

26. What are the seven functions of the Federal Reserve System? Which one is most important?

6. What is the difference between the *M1* and *M2* definitions of the money supply?