Multiple Choice

1. The Federal Reserve
   a. is made up of 12 district banks and member banks.
   b. is made up of district banks that operate independently from one another.
   c. is managed by a 12-member board of directors.
   d. was established in the 1930s.

2. Based on the passage, Sacajawea dollars have disappeared because many people believe they are
   a. worth more as a commodity than as currency.
   b. worth less than a dollar.
   c. too numerous to have value as money.
   d. not real money.

3. What dollar amount should appear in place of the letter P in the table?
   a. $1,000,000
   b. $100,000
   c. $1,900,000
   d. $190,000

4. The Federal Reserve System was established in
   a. 1799.
   b. 1863.
   c. 1881.
   d. 1913.

5. Based on the passage, what type of money did the Aztec use?
   a. specie
   b. fiat money
   c. legal tender
   d. commodity money
Because Russian currency is not trusted, real money plays a fairly small part in Russia’s economy today. Most business is conducted by barter or with IOUs. For example, workers rarely receive wages in the form of cash. A bicycle factory outside the city of Perm pays its workers in bicycles! To get cash, the workers have to sell their “paychecks.” More often than not, they simply trade the bicycles for the products they want.

6. At the time this passage was written, most business in Russia was conducted without currency because Russian currency was not
   a. accepted.  c. divisible.
   b. portable.  d. durable.

United States Constitution

Article 1, Section 8:
The Congress shall have the power
   To coin money, regulate the value thereof, and of foreign coin, and fix the standard of weights and measures;
   To provide for the punishment of counterfeiting the securities and current coin of the United States;
   To make all laws which shall be necessary and proper for carrying into execution the foregoing powers, and all other powers vested by this Constitution in the government of the United States, or in any department or officer thereof.

Article 1, Section 10:
No State shall...coin money; emit bills of credit; make anything but gold and silver coin a tender in payment of debts....

7. These passages in the Constitution made which of the following statements true at that time?
   a. Only the states could make coins.
   b. Only the states could print paper money.
   c. The government could not print paper money.
   d. Only gold coins were acceptable money.

Like a driver applying a quick tap of the brakes, the Federal Reserve yesterday raised the cost of borrowing to keep the U.S. economy from running ahead too fast. As a result, consumers can expect to pay a little more when buying homes, cars, and other big-ticket items, as well as when carrying credit-card balances.

Source: The Columbus Dispatch, July 1, 1999.

8. Why will the Fed’s action in the passage cause the result described?
   a. Sellers of expensive items will raise their prices.
   b. Banks will raise their loan interest rates.
   c. Inflation will increase.
   d. Banks will have to meet a higher reserve requirement.

<table>
<thead>
<tr>
<th>Monetary Policy Tool</th>
<th>Fed Action</th>
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</thead>
<tbody>
<tr>
<td>Reserve Requirement</td>
<td>F Lower reserve requirement.</td>
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<tr>
<td></td>
<td>G Raise reserve requirement.</td>
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<tr>
<td>Open Market Operations</td>
<td>H Sell bonds.</td>
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<td></td>
<td>I Buy bonds.</td>
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<tr>
<td>Discount Rate</td>
<td>J Raise discount rate.</td>
</tr>
<tr>
<td></td>
<td>K Lower discount rate.</td>
</tr>
</tbody>
</table>

9. Which letter designations in the table mark Fed actions that will expand the money supply?
Chapter 14 Practice Test
Answer Section

MULTIPLE CHOICE

1. ANS: A   PTS: 1   DIF: Average
   REF: Learn more about this question in Economics Principles and Practices, page 400
2. ANS: A   PTS: 1   DIF: Average
   REF: Learn more about this question in Economics Principles and Practices, page 384
3. ANS: B   PTS: 1   DIF: Average
   REF: Learn more about this question in Economics Principles and Practices, page 403
4. ANS: D   PTS: 1   DIF: Average
   REF: Learn more about this question in Economics Principles and Practices, page 394
5. ANS: D   PTS: 1   DIF: Average
   REF: Learn more about this question in Economics Principles and Practices, page 384
6. ANS: A   PTS: 1   DIF: Easy
   REF: Learn more about this question in Economics Principles and Practices, page 387
7. ANS: C   PTS: 1   DIF: Challenging
   REF: Learn more about this question in Economics Principles and Practices, page 391
8. ANS: B   PTS: 1   DIF: Average
   REF: Learn more about this question in Economics Principles and Practices, pages 404-405
9. ANS: A   PTS: 1   DIF: Challenging
   REF: Learn more about this question in Economics Principles and Practices, pages 402-404