

Practice Study Questions Chapter 13

Course: Macroeconomics: A Contemporary Introduction, 7e (McEachern)

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Instructions:

1. To say that money serves as a store of value is to say that money is a useful way to store wealth for future use.
 - a. True
 - b. False

2. The Miwok Indians of Yosemite Valley used seashells as money. The advantages of seashells as money for these people included all of the following *except* one. Which is the exception?
 - a. It was difficult for anyone to get shells except by trading.
 - b. The shells were easily identifiable.
 - c. The shells were easy to carry.
 - d. The shells provided a money supply that was easily divisible.
 - e. The shells were intrinsically valuable as commodities.

3. One characteristic of houses that makes them unsuitable as a medium of exchange is that they are not easily divisible.
 - a. True
 - b. False

4. Gresham's Law states that when different forms of commodity money circulate simultaneously (e.g., \$1 gold coins and \$1 silver coins),
 - a. the one with the more intrinsic ("commodity") value will disappear from circulation
 - b. the one with the lesser intrinsic ("commodity") value will disappear from circulation
 - c. both will eventually have to be withdrawn from circulation by the government
 - d. the resultant disruption in the money markets will cause inflation
 - e. the resultant disruption in the money markets will cause a recession

5. Seigniorage is
 - a. a retirement home for senior citizens
 - b. revenue earned from coining money
 - c. a fine paid by counterfeiters
 - d. the profits made by illegally "clipping" or "shaving" bits of precious metal from coins
 - e. the oldest known form of commodity money

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6. The currency of Camelot is the noble. King Arthur orders the minting of a ten-noble gold coin, but it costs only seven nobles to mine and process the amount of gold in the coin. Which of the following statements is true?
- a. Individuals outside the government will have an incentive to melt down the coin and use its contents, rather than its face value, in exchange.
 - b. King Arthur has an incentive to melt down the coin and use its contents, rather than its face value, in exchange.
 - c. The government loses seigniorage every time it spends new coins.
 - d. The government earns seigniorage every time it spends new coins.
 - e. The people of Camelot gain seigniorage on every private transaction.
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7. Under a fractional reserve banking system, banks may lend out only a fraction of their reserves.
- a. True
 - b. False
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8. The first checks were probably notes written to a goldsmith asking him to transfer ownership of some designated amount of gold from the writer of the note to its bearer.
- a. True
 - b. False
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9. Under a fractional reserve banking system,
- a. only a fraction of the banks in the system are allowed to create money
 - b. only a fraction of the banks in the system have reserves
 - c. the claims outstanding against the bank are only a fraction of the bank's total reserves
 - d. each bank must deposit a fraction of its reserves with the Federal Reserve Bank
 - e. bank reserves represent only a fraction of bank deposits
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10. Goldsmiths are considered to be the forerunners of modern banks because they
- a. had safes to keep gold secure
 - b. issued gold coins
 - c. created money by lending out gold reserves
 - d. created legal tender
 - e. verified the quality of money
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11. The first bankers were probably
- a. carpenters
 - b. stock brokers
 - c. goldsmiths
 - d. sea captains
 - e. grain merchants
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12. In the world of banking, checks are
- written instructions from a depositor to the bank
 - written instructions from one depositor to another depositor
 - a form of commodity money
 - token money
 - fiat money
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13. Bank notes created by a goldsmith in a fractional reserve system were
- not backed by anything of value
 - commodity money, since they were backed by gold
 - not commodity money fully, since not all the gold was there
 - representative of commodity money
 - fiat money
-
14. If money is acceptable because the government requires that it be accepted in payment for debt, the money is
- legal tender
 - commodity money
 - guaranteed to be a good store of wealth
 - convertible to a valuable commodity
 - subject to Gresham's Law
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15. Fiat money
- has value because people accept it
 - has intrinsic value
 - is backed by commodity reserves
 - is money because of its metallic content
 - is frequently "clipped"
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16. The value of money is fundamentally determined by the
- reputation of the bank that holds it
 - reputation of the person who holds it
 - gold or silver for which it can be redeemed
 - value of the commodities for which it can be traded
 - value of comparable stocks and bonds
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17. Money does not solve the double coincidence of wants problem unless it is generally acceptable.
- True
 - False
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18. One problem with fiat money, as compared to commodity money, is that
- more resources are used to create fiat money
 - there is frequently too little fiat money available
 - there is a greater potential for inflation with fiat money
 - fiat money must be turned in to the government to receive the commodity on which it is based
 - fiat money is less divisible than commodity money
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19. When a nation's official money fails to serve as a medium of exchange,
- nothing will replace money to help facilitate exchange
 - there will be an increase in economic efficiency
 - resources must be diverted from production to exchange
 - transactions costs of exchange will decrease
 - fewer barter exchanges will be completed
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20. All of the following are depository institutions *except one*. Which is the exception?
- commercial banks
 - savings and loan associations
 - stock brokers
 - mutual savings banks
 - credit unions
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21. Which of the following is *not* a thrift institution?
- a savings and loan association
 - a commercial bank
 - a mutual savings bank
 - an employee credit union
 - a college credit union
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22. Under the Federal Reserve System,
- there is one Federal Reserve Bank, located in Washington, DC
 - there is one Federal Reserve Bank, whose location changes every 14 years
 - there is a Federal Reserve bank in each Congressional district
 - there is a Federal Reserve bank in each state
 - there are 12 Federal Reserve banks
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23. Which of the following is true of the discount rate?
- a. It is the interest rate commercial banks charge their most creditworthy customers.
 - b. It is the interest rate that thrift institutions charge for home mortgages.
 - c. It is the interest rate at which depository institutions can borrow from the Federal Reserve.
 - d. It is the interest rate set in the market for U.S. Treasury Bills.
 - e. It is the prime interest rate.
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24. Which of the following did *not* contribute to the thousands of U.S. bank failures in the 1930s?
- a. Businesses failed, so loans were not repaid.
 - b. As the public grew concerned about the safety of its deposits, people withdrew more of their cash from banks.
 - c. Banks sold more securities.
 - d. The value of banks' assets declined.
 - e. The Fed loaned too many reserves to member banks.
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25. A lender of last resort is a financial institution that is willing and able to lend to
- a. individuals who have other debts outstanding
 - b. individuals who do not have a positive net worth
 - c. banks that are not members of the Federal Reserve System
 - d. fractional reserve system banks experiencing runs on their deposits
 - e. Federal Reserve System member banks experiencing runs on their deposits
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26. Between 1930 and 1933, many banks in the U.S. failed because
- a. the FDIC moved too slowly to prevent the bank failures
 - b. most bankers were either corrupt or incompetent
 - c. of excessive regulation by the federal government
 - d. people shifted their funds to take advantage of rising stock market prices
 - e. people lost confidence in them
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27. Deregulation of banks and other depository institutions did all of the following *except*
- a. allow all depository institutions to offer checking accounts
 - b. allow all depository institutions to offer money market accounts
 - c. allow thrift institutions more latitude in investing their assets
 - d. allow the FDIC to open branch banks of its own
 - e. tempt many depository institutions to take unreasonable risks
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28. Each member of the Federal Reserve's Board of Governors is appointed for life.
- a. True
 - b. False
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29. One of the first steps that President Roosevelt took to ease the U.S. banking crisis of the 1930s was to
- declare a bank holiday, which closed banks for a week
 - increase loans by the Fed to member banks
 - decrease the reserve requirement
 - increase the reserve requirement
 - appoint a new chairman of the Fed
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30. The chairman of the Fed serves
- a two-year term that coincides with that of members of Congress
 - a four-year term
 - a four-year term beginning and ending with that of the president who made the appointment
 - a fourteen-year term
 - a six-year term
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31. The Board of Governors consists of
- seven elected members
 - seven members appointed by the president
 - a representative from each of the 12 district banks
 - 12 elected members
 - 12 members appointed by the president
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32. The actions of the Fed
- must be approved by the president and the Congress
 - must be approved by the president alone
 - must be approved by the Congress alone
 - are not subject to approval by any branch of government
 - are subject to the approval of the electorate
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33. The FDIC insures deposits in
- all banks
 - Federal Reserve member banks only
 - state banks only
 - any banking institution that purchases FDIC insurance
 - any bank approved by the Fed
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34. Eileen puts \$10,000 in an *uninsured* savings account at the First National Bank. Norma borrows \$10,000 from the First National Bank, flies to a South Pacific island, and is never heard from again. Which of the following is true?
- a. Eileen will lose her \$10,000.
 - b. Eileen will lose her \$10,000 if she and Norma are related.
 - c. Eileen will lose her \$10,000 if the First National Bank makes all of its loans to people who run off to South Pacific islands.
 - d. Eileen will not lose her \$10,000 no matter what happens to the First National Bank.
 - e. Eileen will not lose her \$10,000 unless the Fed fails.
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35. All of the following have contributed to the problems of U.S. depository institutions during the last 20 years *except one*. Which is the exception?
- a. Interest rates rose during the 1970s.
 - b. Interest rate ceilings limited the ability of depository institutions to compete with other financial institutions.
 - c. Brokerage houses began offering money market mutual funds.
 - d. The loans made by thrift institutions tended to be short-term loans.
 - e. Many savers withdrew deposits from thrift institutions.
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36. The purpose of deregulating banks during the 1980s was to
- a. eliminate the risk that banks incurred
 - b. allow banks to compete with other financial institutions
 - c. allow U.S. banks to compete with foreign banks
 - d. help consumers
 - e. decrease the cost of banking regulation
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37. Money market mutual funds
- a. were originally introduced by the Federal Reserve Bank of New York
 - b. when they were introduced, constituted serious competition to banks and thrifts for the deposits of savers
 - c. were not originally offered by commercial banks and still are not offered by them
 - d. represent a pooling of cash assets from many countries, like dollars, francs, and pesos
 - e. are not able to offer their customers check writing privileges
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38. Insurance that protects individuals from the loss of their bank deposits
- a. makes bank officials especially careful about the loans and investments they make
 - b. makes it virtually impossible for a bank to fail
 - c. is so costly that few banks can afford it
 - d. makes depositors less concerned about the safety of their money than the interest rate it is earning
 - e. was introduced as a direct result of the financial problems of the 1970s and 1980s
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39. During the 1980s,
- a. better bank management resulted in the most stable U.S. banking system since the Great Depression
 - b. more U.S. banks failed than in any period since the Great Depression
 - c. U.S. banks became more conservative in the type of assets they held
 - d. economic conditions contributed to the stability of U.S. banks
 - e. there were no U.S. bank failures for the first time in U.S. history
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40. A bank holding company is
- a. a conglomerate that owns a bank to service the other businesses it owns
 - b. a loose federation of private banks that hold assets in common
 - c. a corporation that owns one or more banks
 - d. a bank that is owned by the depositors
 - e. a subsidiary of a major corporation
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ANSWER KEY

Question # Answer

| | |
|----|---|
| 1 | a |
| 2 | e |
| 3 | a |
| 4 | a |
| 5 | b |
| 6 | d |
| 7 | a |
| 8 | a |
| 9 | e |
| 10 | c |
| 11 | c |
| 12 | a |
| 13 | d |
| 14 | a |
| 15 | a |
| 16 | d |
| 17 | a |
| 18 | c |
| 19 | c |
| 20 | c |
| 21 | b |
| 22 | e |
| 23 | c |
| 24 | e |
| 25 | d |
| 26 | e |
| 27 | d |
| 28 | b |
| 29 | a |
| 30 | b |
| 31 | b |
| 32 | d |
| 33 | d |
| 34 | c |
| 35 | d |

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ANSWER KEY

| <u>Question #</u> | <u>Answer</u> |
|-------------------|---------------|
| <u>36</u> | <u>b</u> |
| <u>37</u> | <u>b</u> |
| <u>38</u> | <u>d</u> |
| <u>39</u> | <u>b</u> |
| <u>40</u> | <u>c</u> |