Chapter 2
Financial Assets and Intermediaries.

TRUE-FALSE QUESTIONS

T 1. The structure of the modern banking system includes commercial banks, savings and loans, mutual savings banks, and credit unions.

F 2. Because of the Federal Reserve System, depository institutions play a small part in the management of the monetary system.

F 3. An investment bank accepts deposits, makes loans, and issues checking accounts.

F 4. Banks are not profit-motivated organizations.

F 5. Commercial banks are aggressive and often assume large amounts of risk.

T 6. Originally, the savings banks' emphasis was on thrift and the safety of savings, while the emphasis of the savings and loan institutions was on home financing.

T 7. Part of the reason that the Banking Act of 1933 was passed was in response to the large numbers of bank failures.

T 8. A universal bank can engage in both commercial banking and investment banking activities.

T 9. Credit unions are cooperative nonprofit organizations that exist primarily to provide member depositors with consumer credit.

F 10. The National Banking Act of 1864 established a system of central banks.

T 11. The National Banking Act of 1864 made it possible for banks to receive federal charters.

T 12. Savings banks and savings and loans are examples of thrift institutions.

F 13. Today, reserve requirements imposed by the Federal Reserve apply only to member banks.

T 14. The principal assets of all depository institutions are cash, securities, and loans.

F 15. A secured loan represents a general claim against the assets of the borrower.

F 16. The prime rate is the interest rate charged by banks for long-term unsecured loans to their highest quality business customers.

T 17. Savings and loans were first known as building societies.

T 18. The emphasis of savings banks was on thrift and the safety of savings while the emphasis of the S&Ls was on home financing.

F 19. Credit unions only provide consumer credit to member depositors, and do not make home mortgage loans.

T 20. Deposits are the principal liabilities of all depository institutions.

T 21. Branch banks are those banking offices that are controlled by a single parent bank.

F 22. The bank holding company may not engage in direct banking activities.

T 23. Credit unions are nonprofit organizations.

F 24. Branch banking is permitted on an interstate basis by all state banks.

T 25. Nonbank financial conglomerates are large corporations that offer various financial services, such as mortgage insurance, real estate management, and consumer finance.

F 26. The Federal Reserve System was established under the National Banking Act.

T 27. The main provisions of the Monetary Control Act of 1980 are deregulation and monetary control.

T 28. Regulation Q established interest rate ceilings on time and savings deposits.

F 29. The Monetary Control Act prohibited the Federal Reserve from controlling thrift institutions.

T 30. The Resolution Trust Corporation was established to take over and liquidate the assets of failed savings and loan associations.

T 31. Demand deposit is just another term for checking account.

F 32. Pension funds provide financial protection to individuals and businesses and protect them from uncertainty.

T 33. Pension funds receive contributions from employees and/or their employers and invest the proceeds on behalf of the employees.

F 34. Investment banking firms assist individuals in making personal investment decisions.

T 35. The Glass-Steagall Act was repealed with the passage of the Gramm-Leach-Bliley Act of 1999.

T 36. The Federal Reserve Act of 1913 created a system of central banks in the United States.

T 37. The 1988 Basel Accord established capital adequacy requirements for international banks – setting an 8 percent minimum risk-based capital ratio.

T 38. International banking exists when banks operate in more than one country.

T 39. Major types of financial institutions in the U.S. include commercial banks, mutual funds, insurance companies, and pension funds.

F 40. Major types of financial markets in the U.S. include commercial banks, mutual funds, insurance companies, and pension funds.

F 41. Major types of financial institutions in the U.S. include commercial banks, mutual funds, insurance companies, pension funds, and social security.

T 42. Investment companies sell shares in their firms to individuals and invest the pooled proceeds in corporate and government securities.

F 43. Pension funds sell shares in their firms to individuals and invest the pooled proceeds in corporate and government securities.

F 44. Insurance companies sell shares in their firms to individuals and invest the pooled proceeds in corporate and government securities.

F 45. Investment banking firms sell shares in their firms to individuals and invest the pooled proceeds in corporate and government securities.

F 46. Brokerage firms sell shares in their firms to individuals and invest the pooled proceeds in corporate and government securities.

T 47. Mutual funds are open-end investment companies that can issue an unlimited number of shares to its investors and use the pooled proceeds to purchase corporate and government securities.

T 48. Insurance companies provide financial protection to individuals and businesses for life, property, liability and health uncertainties.

F 49. Insurance companies receive contributions from employees and/or their employers and invest the proceeds on behalf of the employees for use during their retirement years.

T 50. Pension funds receive contributions from employees and/or their employers and invest the proceeds on behalf of the employees for use during their retirement years.

F 51. Pension funds are open-end investment companies that can issue an unlimited number of shares to its investors and use the pooled proceeds to purchase corporate and government securities.

T 52. Investment banking firms sell or market new securities issued by businesses to individual and institutional investors.

F 53. Investment banking firms make investment decisions for individuals and organizations.

F 54. Investment banking firms assist individuals to purchase new or existing securities issues or to sell previously purchased securities.

T 55. Brokerage firms assist individuals to purchase new or existing securities issues or to sell previously purchased securities.

F 56. Investment banking firms provide loans directly to consumers and businesses or aid individuals in obtaining financing of durable goods and homes.

F 57. Mortgage banking firms provide loans directly to consumers and businesses or aid individuals in obtaining financing of durable goods and homes.

T 58. Finance companies provide loans directly to consumers and businesses or aid individuals in obtaining financing of durable goods and homes.

T 59. Mortgage banking firms originate mortgage loans on homes and other real property by bringing together borrowers and institutional investors.

F 60. Commercial banks provide loans directly to consumers and businesses or aid individuals in obtaining financing of durable goods and homes.

T 61. Commercial banks accept deposits and makes loans to individuals and businesses.

F 62. Investment banks accept deposits and makes loans to individuals and businesses.

T 63. Three basic ways of clearing a check through the U.S. banking system include bank to bank, through a bank clearinghouse, and through a Federal Reserve Bank.

F 64. Three basic ways of clearing a check through the U.S. banking system include bank to bank, through a foreign depository, and through the international reserve system.

F 65. The U.S. banking system as it exists today is relatively unchanged since just before the Civil War.

T 66. Credit unions are cooperative nonprofit organizations that exist primarily to provide member depositors with consumer credit.

F 67. Savings and loan associations are cooperative nonprofit organizations that exist primarily to provide member depositors with consumer credit.

T 68. Savings and loan associations accept individual savings and lend pooled savings to businesses and individuals, primarily in the form of mortgage loans.

T 69. A dual banking system allows commercial banks to obtain charters either from the federal government or a state government.

F 70. A dual banking system regulates banks on the national level and state level to prevent both types from failing at the same time.

T 71. Primary reserves are vault cash and deposits held at other depository institutions and at Federal Reserve Banks.

F 72. Secondary reserves are vault cash and deposits held at other depository institutions and at Federal Reserve Banks.

T 73. Secondary reserves are short-term securities held by banks that can be quickly converted into cash at little cost.

F 74. Primary reserves are short-term securities held by banks that can be quickly converted into cash at little cost.

T 75. The total capital ratio (TCR) can be computed as total capital divided by total assets times 100.

T 76. The Basel Capital Accord was an agreement between major central banks to adopt capital adequacy requirements for internationally involved banks.

F 77. The Bretton Woods Agreement was an agreement between major central banks to adopt capital adequacy requirements for internationally involved banks.

T 78. The purpose of the International Banking Act of 1978 was to provide a level playing field for banks competing throughout the world.

F 79. Demand deposits are issued by commercial banks and savings banks, and do not earn interest.

T 80. A major objective of the Fed is to regulate and control the supply of money and the availability of credit.

T 81. One reason the Fed defines so many measures of money is that economists have different opinions as to which measure is most consistently related to spending and other economic activity.

F 82. Insurance companies and investment companies can create money.

F 83. Banks provide protection against financial loss in the event of premature death.

T 84. Finance companies provide loans to businesses and individuals.

T 85. The role of financial institutions in a country's financial system is to accumulate and invest savings.

T 86. The process by which savings are accumulated in depository institutions and then lent or invested is called financial intermediation.

F 87. The process by which savings are accumulated in depository institutions and then lent or invested is called monetary policy.

T 88. Securities firms accept and invest individual savings and also facilitate the sale between investors.

T 89. Finance firms provide loans directly to consumers and businesses and help borrowers obtain mortgage loans on real property.

F 90. The National Banking Act provides that national banks can issue their own notes only against U.S. government bonds that the banks held on deposit with large city banks.

F 91. A fixed money supply is essential to a well-operating financial system.

T 92. Because of the National Banking Act, the volume of national bank notes depends on the government bond market rather than the seasonal or cyclical needs of the nation for currency.

T 93. The National Banking Act provides a sound basis for holding of reserves and the issuance of notes by banks.

F 94. The United States was one of the earliest major-industrial nations to adopt a permanent system of central banking.

T 95. A central bank is a Federal government agency that facilitates operation of the financial system and regulates growth of the money supply.

F 96. Although a central bank does not necessarily operate for profit, it generally deals directly with the public.

T 97. A central bank is required to hold reserves, and it has stockholders and a board of directors.

F 98. The Federal Reserve Advisory Council provides advice and general information to the Secretary of the Treasury.

T 99. The members of the Board of Governors are also members of the Federal Open Market Committee.

F 100. The Federal Reserve System replaced the system that existed under the National Banking Act.

F 101. The Federal Reserve Act of 1913 provided that all national and state-chartered banks were to become members of the Fed.

T 102. The Federal Open Market Committee directs open market operations.

T 103. The Reserve Banks are private institutions owned by many member banks of the Fed.

F 104. All commercial banks are members of the Fed.

T 105. Open market operations involve the buying and selling of U.S. government securities.

F 106. Each Reserve Bank has a board of nine directors, who are appointed by the Board of Governors of the Fed.

T 107. In addition to the 12 Reserve Banks, 25 branch banks have been established.

F 108. The Fed Board of Governors is composed of seven members who are appointed for a term of 12 years.

F 109. The only bank asset that can be counted as reserve is deposits with the Reserve Banks.

T 110. The closer to the required minimum the banking system maintains its reserves, the tighter the control the Fed has over the money creation process through its other instruments.

F 111. The ability to change reserve requirement is a powerful tool the Fed uses frequently.

T 112. Discount policy is no longer a major instrument of monetary policy and is now regarded more as an adjustment or fine-tuning mechanism.

T 113. Banks are required by the Fed to hold reserves equal to a part of their deposits as part of the fractional reserve system of the U.S. banking system.

F 114. If excess reserves are near zero, then a reduction of reserves will cause the system to loosen credit.

T 115. Although not provided for in the original organization of the Fed, open market operations have become the most important and effective means of monetary control.

F 116. The Federal Reserve has no power to regulate the overseas activities of member banks and bank holding companies.

T 117. A substantial portion of the employees of the Fed hold jobs that are directly related to its role as fiscal agent for the U.S. government.

T 118. Total deposits can be contracted by holding the amount of reserves constant but raising the reserve requirement.

T 119. The money supply can be contracted by holding the amount of reserves constant but raising the reserve requirement.

F 120. The Fed prefers to change reserve requirements rather than to use open market operations.

T 121. When reserves are added to the banking system, depository institutions may expand their lending but are not forced to do so.

F 122. Banks with large transaction account balances hold the same percentage of reserves as all other banks.

F 123. Member banks of the Federal Reserve System may not borrow from the Fed.

T 124. A major weakness of the banking system under the National Banking Acts was that the money supply could not be easily expanded or contracted to meet changing seasonal needs and/or changes in economic activity.

T 125. The United States was one of the last major industrial nations to adopt a permanent system of central banking.

F 126. The Federated Requirement System (Fed) is the central bank of the United States and is responsible for setting monetary policy and regulating the banking system.

T 127. The Federal Reserve act required that ALL national banks were to become members of the Fed.

T 128. Alan Greenspan was chairman of the Fed prior to the appointment of Ben Bernanke.

F 129. A higher level of bank reserves required by the Fed would indicate more expansionary monetary policy.

F 130. Open market operations are similar to discount operations in that they increase or decrease bank reserves at the initiative of the Fed.

F 131. Empirical evidence shows that in countries where central banks are relatively independent from their governments, there has been higher inflation and lower economic growth rates than in countries where central banks are closely tied to their governments.

T 132. The essential requirements of a well-functioning financial system include an efficient national payments system, a flexible money supply, and a lending/borrowing mechanism to help alleviate liquidity problems when they arise.

F 133. The essential requirements of a well-functioning financial system are a strong and politically autonomous Federal Reserve Bank with a strong Federal Reserve Chairman.

T 134. A central bank is a federal government agency that facilitates the operation of the financial system and regulates money supply growth.

F 135. A regional charter bank is a federal government agency that facilitates the operation of the financial system and regulates money supply growth.

T 136. The Federal Reserve System is the U.S. central bank that sets monetary policy and regulates the banking system.

F 137. The U.S. Treasury Bank is the U.S. central bank that sets monetary policy and regulates the banking system.

T 138. The U.S. Federal Reserve System is comprised of 12 Federal Reserve Bank districts.

T 139. The Federal Open Market Committee directs open market operations by buying and selling government securities which are the primary instruments of exercising monetary policy.

F 140. The President's Council of Economic Advisors directs open market operations by buying and selling government securities which are the primary instruments of exercising monetary policy.

F 141. The Federal Reserve Chairman is solely responsible for the establishment of monetary policy.

T 142. The seven members of the Federal Reserve Board of Governors are responsible for the establishment of monetary policy.

F 143. The fifty members of the Federal Reserve Board of Governors are responsible for the establishment of monetary policy.

T 144. Federal Reserve actions that stimulate or repress the level of prices or economic activity are called dynamic actions.

F 145. Federal Reserve actions that stimulate or repress the level of prices or economic activity are called defensive activities.

T 146. Federal Reserve actions that offset unexpected monetary developments and contribute to the smooth everyday functioning of the economy are called defensive activities.

F 147. Federal Reserve actions that meet the credit needs of individuals and institutions, clearing checks, and supporting depository institutions are called defensive activities.

T 148. Federal Reserve actions that meet the credit needs of individuals and institutions, clearing checks, and supporting depository institutions are called accommodative activities.

T 149. The minimum amount of total reserves that depository institutions must hold are called required reserves.

F 150. The minimum amount of total reserves that depository institutions must hold are called fractional reserves.

T 151. The three primary means that the Fed can use to exercise monetary policy includes open market operations, changing reserve requirements, and influencing the Federal Discount Rate.

F 152. The three primary means that the Fed can use to exercise monetary policy includes closed market operations, stabilizing reserve requirements, and freeing the Federal discount rate.

F 153. Since the late 1970s, the Federal Discount Rate has generally exceeded the Prime Interest Rate by a few percentage points.

T 154. Since the late 1970s, the Federal Discount Rate has generally been below the Prime Interest Rate by a few percentage points.

T 155. The Fed would be practicing expansionary monetary policy if, through open market operations, it is a net purchaser of government securities.

F 156. The Fed would be practicing expansionary monetary policy if, through open market operations, it is a net seller of government securities.

T 157. The Fed would be practicing contractionary monetary policy if, through open market operations, it is a net seller of government securities.

F 158. The Fed would be practicing contractionary monetary policy if, through open market operations, it is a net purchaser of government securities.

F 159. The Fed would be practicing contractionary monetary policy if it caused a decrease in market interest rates.

T 160. The Fed would be practicing expansionary monetary policy if it caused a decrease in market interest rates.

T 161. The Consumer Credit Protection Act requires that lenders clearly explain consumer credit costs and prohibited them from charging overly high-priced credit transactions.

T 162. In the fractional reserve system, banks must hold, with the Fed, reserves equal to a certain percentage of their deposits.

F 163. The deposit of a check drawn on the Fed is a derivative deposit because it adds new reserves to the bank where deposited and to the banking system.

F 164. The U.S. Treasury is responsible for refinancing the outstanding debt of the government.

T 165. The money multiplier indicates the maximum increase in deposits (and money supply) that can result from a given increase in excess reserves.

F 166. If required reserves are larger than the total reserves of an institution, the difference is called excess reserves.

T 167. One of the reasons open market operations are conducted virtually every business day is to implement changes in the money supply called for by the Federal Open Market Committee.

T 168. The monetary base is the banking system reserves, plus currency held by the public.

F 169. The velocity of money is expressed as the average number of times each dollar is spend on purchases of goods and services, and it is calculated as real GDP divided by M1.

F 170. The Federal Reserve System was not able to regulate money and credit until after World War II.

F 171. The U.S. Treasury has little power to influence money markets.

F 172. The President of the United States has no influence over the Federal Reserve System nor exerts any pressure on the Fed.

F 173. The Fed plays a significant role in tax policy.

T 174. Required reserves is the minimum amount of total reserves that a depository institution must hold.

F 175. The velocity of money measures the rate at which wire transfers can be transmitted to overseas banks.

F 176. A life insurance company is an example of a depository institution.

F 177. Private pension funds are an example of a credit organization.

T 178. The Federal Reserve System controls the supply of money in the U.S. economy.

F 179. Financial intermediation is the process whereby individual depositors withdraw funds from banks and other financial intermediaries within a relatively short span of time.

T 180. Financial intermediation is the process by which savings are accumulated in depository institutions and then lent or invested.

F 181. Finance firms collect premiums and contributions from participants and provide insurance against major financial losses and retirement benefits.

T 182. Contractual savings organizations collect premiums and contributions from participants and provide insurance against major financial losses and retirement benefits.

T 183. Finance firms provide loans directly to consumers and businesses and help borrowers obtain mortgage loans on real property.

F 184. Securities firms provide loans directly to consumers and businesses and help borrowers obtain mortgage loans on real property.

T 185. Securities firms accept and invest individual savings and also facilitate the sale and transfer of securities between investors.

F 186. Contractual savings organizations accept and invest individual savings and also facilitate the sale and transfer of securities between investors.

T 187. A central bank defines and regulates the amount of the money supply in the financial system.

T 188. The faster the rate of circulation of the money supply, the greater the output of goods and services in an economy.

T 189. The faster velocity of money, the greater an economy's GDP.

T 190. Inflation reflects a rise in prices not offset by increases in quality.

F 191. Inflation reflects a rise in prices whether or not that rise in prices is offset by an increase in quality.

F 192. Inflation leads to an increase in the purchasing power of money.

F 193. Currency in the form of Federal Reserve notes are primarily backed by gold certificates and eligible paper.

T 194. In the fractional reserve system, banks must hold, with the Fed, reserves equal to a certain percentage of their deposits.

F 195. The deposit of a check drawn on the Fed is a derivative deposit because it adds new reserves to the bank where deposited and to the banking system.

T 196. The money multiplier indicates the maximum increase in deposits (and money supply) that can result from a given increase in excess reserves.

F 197. If required reserves are larger than the total reserves of an institution, the difference is called excess reserves.

T 198. One of the reasons open market operations are conducted virtually every business day is to implement changes in the money supply called for by the Federal Open Market Committee.

T 199. "Crowding out" caused by deficit financing can result in tighter credit conditions and higher interest rates.

T 200. Required reserves is the minimum amount of total reserves that a depository institution must hold.

F 201. The velocity of money measures the rate at which wire transfers can be transmitted to overseas banks.

T 202. Primary deposits are deposits that add new reserves to a bank while derivative deposits are deposits that were borrowed from the reserves of primary deposits.

F 203. Primary deposits are deposits that add new reserves to a bank while obtuse secondary deposits are deposits that were borrowed from the reserves of primary deposits.

T 204. The Federal Reserve float is a temporary increase in bank reserves from checks credited to one bank's reserves and not yet debited to another's.

MULTIPLE-CHOICE QUESTIONS

c 1. Which of the following institutions is not part of the modern banking system?

a. credit unions
b. savings and loan associations
c. mutual funds
d. mutual savings banks

a 2. The Bank of North America:

a. was the first incorporated bank in the United States
b. was patterned after the Central Bank of England
c. was established to assist in financing the Civil War
d. all the above
e. none of the above

d 3. The notes of the Bank of North America

a. served as a circulating medium of exchange
b. loaned liberally to the government
c. were redeemed in metallic coins upon demand
d. all the above
e. none of the above

d 4. Early chartered banks included:

a. the Bank of North America
b. the Bank of Massachusetts
c. the Bank of New York
d. All the above

c 5. Which of the following are not thrift institutions?
a. credit unions
b. savings and loan institutions
c. commercial banks
d. all the above

a 6. The National Banking Act of 1864 provided for:
a. federally chartered banks
b. the establishment of a system of central banks
c. deregulation and monetary control
d. the establishment of deposit insurance

b 7. The Depository Institutions Deregulation and Monetary Control Act:
a. established a system of central banks
b. has resulted in more competition among depository institutions
c. increased federal deposit insurance from $40,000 to $80,000 for each account
d. established minimum capital requirements for banks with federal charters

b 8. The Federal Deposit Insurance Corporation Improvement Act of 1991:
a. transferred the reserves and functions of the Federal Savings and Loan Insurance Corporation to the FDIC
b. required that failed banks be handled in such a way as to provide the lowest cost to the FDIC
c. increased federal deposit insurance from $40,000 to $100,000 for each account
d. extended federal deposit insurance to S&L depositors

d 9. The most basic functions of depository institutions are:
a. safekeeping for depositors
b. record keeping for depositors
c. efficient and economical transfer of payments
d. accepting deposits and granting loans

c 10. Which of the following is not an asset of depository institutions?
a. cash
b. unsecured loans
c. time deposits

d. U.S. government securities

b 11. The First Bank of the United States:
a. is still in operation in Massachusetts
b. transferred funds from region to region
c. was unchartered
d. all the above

d 12. Savings banks have nearly three quarters of their assets in the form of:
a. securities
b. cash
c. unsecured loans
d. real estate mortgages and mortgage-backed securities

b 13. The principal liabilities of all depository institutions are:
a. certificates of deposits
b. deposits
c. loans
d. all the above

c 14. The principal assets of savings banks are:
a. securities
b. vault cash and deposits at other banks
c. real estate mortgages
d. all the above

b 15. The first thrift institutions were:
a. The First and Second Banks of the United States
b. savings banks and Savings and Loans
c. credit unions
d. all the above

c 16. The Bank Holding Company Act of 1956:
a. established uniform standards to evaluate the legality of bank holding company acquisitions
b. allowed bank holding companies to acquire credit card companies
c. defined a bank holding company as one which owns 25% or more of the voting shares of each of two or more banks
d. included all the above

b 17. Credit unions are:

a. for profit organizations
b. made up of individuals who possess common bonds of association
c. institutions that derive funds from investment activities
d. all the above

b 18. NOW accounts:

a. are not subject to ceiling rates under Regulation Q
b. enable depository institutions to compete effectively for funds that were flowing in large amounts to nonblank money market funds
c. typically pay interest rates equal to that paid by money market funds
d. all the above

b 19. The Garn–St. Germain Depository Institutions Act, among other things:

a. extended the Fed's control to thrift institutions and to commercial banks that are not members of the Fed
b. enabled depository institutions to issue money market accounts with no regulated interest rate ceiling
c. was designed to assist the investment banking industry
d. all the above

c 20. The Resolution Trust Corporation was brought into existence to:

a. help savings and loan institutions invest funds in a wide range of higher yielding instruments
b. authorize savings and loan institutions to issue a new money market account with no regulated interest rate ceiling
c. take over and liquidate the assets of failed savings and loan institutions
d. all the above

a 21. The Federal Savings and Loan Insurance Corporation:

a. has ceased operations and has been replaced by the FDIC in its insuring operations
b. protects credit unions
c. insures money market accounts
d. is responsible for insuring deposits at savings banks

b 22. The First Bank of the United States ceased operations because:

a. it was superseded by the Second Bank of the United States
b. of the opposition of state banking interests
c. its charter had expired and there was no provision for its renewal
d. the need to provide financing for the Civil War was not supported by Congress

c 23. The Second Bank of the United States was created to:

a. replace the First Bank of the United States
b. appease political interests
c. restore order to chaotic banking conditions
d. all the above

a 24. During the colonial period in the nation's history, banks depended on:

a. their own issue of paper money
b. foreign sources for their loanable funds
c. deposits of foreign currency such as the Spanish dollar
d. the investment of their own stockholders

c 25. There is more of a need for international banking because of:

a. decreased international trade
b. a stable exchange of goods and services among nations
c. the large international trade deficit of the United States
d. national savings and investment rates that dictate small flows of capital among nations

d 26. Which of the following statements is most correct?

a. FDIC membership is required only for banks having national charter.
b. The First Bank of the United States was the first incorporated bank created along modern banking lines.
c. Secured loans represent the single most important activity of the commercial bank.
d. All the above statements are false.

c 27. Which of the following statements is most correct?

a. The National Banking Act of 1894 has long lost any relationships to modern bank regulation.
b. The Federal Reserve System was created in large measure to force state chartered banks into conformity with nationally chartered banks.
c. "Wildcat banking" during the first half of the 1800s referred to risky banking practices by many state banks, such as excessive note issues, lack of adequate bank capital, and insufficient reserves against their notes and deposits.
d. All the above statements are equally correct.

b 28. In 1989, the Financial Institution Reform, Recovery and Enforcement Act provided for all but which of the following?

a. strengthening the federal deposit insurance programs
b. the creation of the Resolution Trust Corporation
c. enhanced enforcing powers
d. stronger capital standards for thrift institutions

a 29. The Depository Institutions Deregulation and Monetary Control Act of 1980 did not:

   a. eliminate all Regulation Q requirements
   b. allow all depository institutions to borrow from the Fed on the same basis
   c. increase federal deposit insurance
   d. amend the Home Owner's Loan Act of 1993

b 30. The holding-company device to control two or more commercial banks:

   a. has diminished in importance in recent years
   b. has increased in importance in recent years
   c. is limited to state chartered banks
   d. is sometimes described as chain banking

b 31. One of the most significant advantages claimed by branch banking is:

   a. lower interest rates are usually available from branch bank
   b. convenience for customers
   c. banking operations are easier to regulate
   d. all the above

a 32. Legislation that permits depository institutions to compete with money market mutual funds on an equal basis with respect to interest rates offered to investors is the:

   a. Garn–St. Germain Depository Institutions Act
   b. National Banking Act
   c. Hunt Commission legislation
   d. Depository Institutions Deregulation and Monetary Control Act

d 33. The Federal Deposit Insurance Corporation:

   a. shares its operation with the Federal Reserve System by having the same board of directors
   b. is owned by member banks of the Federal Reserve System
   c. provides strength for insured banks by partial ownership of their stock
   d. has as one of its board members the United States Comptroller of the Currency

a 34. Unit banking means:

   a. a bank may have only one full-service office
   b. the bank is owned by a unit trust
   c. all branch offices are controlled by a central unit
   d. none of the above

a 35. Limited branch banking:

a. permits banks to located offices within a geographically defined distance of the main office
b. is controlled by the Federal Reserve system
c. means that banks may only engage in certain limited activities
d. none of the above

b 36. Statewide branch banking:

a. is prohibited in all 50 states
b. means that branch systems are less likely to fail than independent systems
c. permits banks to located within a geographically defined distance of the main office
d. none of the above

b 37. Legislation that provided for the separation of commercial banking and investment banking activities in the United States is called

a. Garn–St. Germain Depository Institutions Act
b. Glass-Steagall Act
c. Hunt Commission legislation
d. Depository Institutions Deregulation and Monetary Control Act

d 38. The National Banking Act of 1864:

a. established minimum capital requirements for federally chartered banks
b. regulated loans with respect to safety and liquidity
c. established minimum reserve requirements
d. all of the above

a 39. The Monetary Control Act:

a. extended the Fed’s control to thrift institutions and non-member commercial banks
b. has resulted in more competition among depository institutions
c. increased federal deposit insurance from $40,000 to $80,000 for each account
d. established minimum capital requirements for banks with federal charters

a 40. The primary purpose of this Act was to aid the savings and loan industry

a. Garn–St. Germain Depository Institutions Act
b. Glass-Steagall Act
c. Hunt Commission legislation
d. Depository Institutions Deregulation and Monetary Control Act

d 41. Our system of national banks:

a. was designed to destroy state banking
b. was an integral part of the Federal Reserve Act
c. was replaced by Federal Reserve banking
d. came into existence during the Civil War

d 42. Financial institutions include:
a. banks
b. pension funds
c. insurance companies
d. all of the above

c 43. Another name for an open-end investment company is a:
a. brokerage firm
b. finance company
c. mutual fund
d. investment bank

d 44. Major types of financial institutions include all of the following EXCEPT:
a. commercial banks
b. pension funds
c. insurance companies
d. brokerage firms

d 45. Major types of financial institutions include all of the following EXCEPT:
a. commercial banks
b. pension funds
c. insurance companies
d. all of the above are major financial institutions

a 46. An open-end investment company that can issue an unlimited number of its shares to investors and use the pooled proceeds to purchase corporate and government securities is called a (n)
a. mutual fund
b. pension fund
c. insurance company
d. brokerage firm

b 47. An organization that sells or markets new securities issued by businesses to individuals and institutional investors is called a (n)
a. mutual fund
b. investment bank

c. insurance company
d. brokerage firm

c 48. An organization that received contributions from employees and/or their employers and invests the proceeds on behalf of the employees for use during their retirement years is called a (n)

a. mutual fund
b. savings bank
c. pension fund
d. retirement fund

a 49. An organization that sells shares in their firms to individuals and others and invests the proceeds in corporate and government securities is called a (n)

a. investment company
b. investment bank
c. insurance company
d. brokerage firm

d 50. An organization that provides loans directly to consumers and businesses or aid individuals in obtaining financing for durable goods is called a (n)

a. commercial bank
b. investment bank
c. savings and loan
d. finance company

a 51. The ________________________ provided for separation of commercial banking and investment banking activities in the United States.

a. Glass Steagall Act
b. Gramm-Leach-Bliley Act
c. Garn-Saint Germain Act
d. Depository Institutions Deregulation and Monetary Control Act

d 52. The ________________________ was designed to reduce or eliminate interest rate limitations and increase access to various sources of funds available to banks and thrifts and expand the Federal Reserve's control over thrifts and non-member banks.

a. Glass Steagall Act
b. Gramm-Leach-Bliley Act
c. Garn-Saint Germain Act
d. Depository Institutions Deregulation and Monetary Control Act

c 53. The ________________________ was designed mainly to assist the savings and loan industry.

a. Glass Steagall Act

b. Gramm-Leach-Bliley Act
c. Garn-Saint Germain Act
d. Depository Institutions Deregulation and Monetary Control Act

b 54. The ________________________ made it possible for banks to receive federal charters and provided a basis for national banking laws.

a. Glass Steagall Act
b. National Banking Act
c. Garn-Saint Germain Act
d. Federal Reserve Act

d 55. The ________________________ established the U.S. central banking system and increased the effectiveness of commercial banking in general.

a. Glass Steagall Act
b. National Banking Act
c. Garn-Saint Germain Act
d. Federal Reserve Act

d 56. Crucial elements of the financial environment and well-developed financial system include:

a. financial institutions
b. financial markets
c. investment and financial management
d. all of the above

a 57. Which of the following are not depository institutions?

a. The Federal Reserve
b. credit unions
c. savings banks
d. commercial banks

b 58. All of the following are normally categorized as financial institutions EXCEPT:

a. S&Ls
b. brokerage firms
c. commercial banks
d. credit unions

d 59. Which of the following is an investment institution?

a. savings bank
b. mortgage banking company
c. investment bank
d. money market fund

b 60. Which of the following is not considered to be a depository institution?

a. credit union
b. money market fund

c. savings and loan association
d. savings bank

a 61. Which of the following types of companies specializes in installment loans for purchases of automobiles and other durable goods?
a. sales finance companies
b. commercial finance companies
c. credit unions
d. all of the above

c 62. An example of a depository institution is a:
a. money market fund
b. mutual fund
c. credit union
d. all of the above

d 63. The major types of financial institutions include all of the following EXCEPT:
a. savings institutions
b. consumer finance companies
c. tax accounting firms
d. securities firms

d 64. Which of the following types of claim to wealth would be considered a financial asset?
a. gold
b. land
c. building
d. demand deposits

b 65. To study finance at the micro level is to study of all but which of the following?
a. fund raising for business firms
b. financial institutions
c. asset management
d. financial planning

d 66. The accumulation and lending of savings by depository institutions is referred to as:
a. disintermediation
b. creating money
c. transferring financial assets
d. intermediation

b 67. U.S. dollars deposited in banks outside the United States are called:
a. Eurobonds
b. Eurodollars
c. bankers' acceptances
d. commercial paper

a 68. Which one of these financial intermediaries encourages international trade by providing long-term loans to developing countries?

a. the World Bank
b. the International Monetary Fund
c. commercial banks
d. none of the above

b 69. Which of the following statements is false?

a. Financial intermediaries are firms that engage in financial activities to aid the flow of funds from savers to borrowers.
b. Finance companies combine the relatively small amounts of savings from many individuals and invest the total in financial assets.
c. A major category of financial intermediaries is contractual savings institutions.
d. All of the above statements are correct.

a 70. Which of the following financial intermediaries was created after the end of the nineteenth century?

a. finance companies
b. organized securities exchanges
c. investment banking firms
d. insurance companies

c 71. Which of the following is not a characteristic of the World Bank?

a. provides loans to developing countries
b. sells bonds in developed countries to fund its loans
c. maintains orderly conditions in foreign exchange markets
d. encourages international trade

a 72. Which of the following financial intermediaries can be traced back prior to 1800?

a. life and property insurance companies
b. savings banks
c. savings and loan associations
d. organized securities exchanges

c 73. The value of money results from:

a. its backing
b. rates set by the Federal Reserve
c. its purchasing power
d. none of the above

c 74. Which of the following is not considered to be a contractual savings institution?

a. private pension fund
b. life insurance company
c. real estate investment trust
d. state and local government retirement fund

c 75. A significant disruption of funds moving through depository institutions to the credit market is referred to as:

a. intermediation
b. deflation
c. disintermediation
d. capital formation

b 76. Major depository institutions include:

a. credit-reporting organizations
b. savings banks
c. money market funds
d. all of the above

c 77. Which of the following types of companies specializes in loans to business firms?

a. savings banks
b. sales finance companies
c. commercial finance companies
d. investment companies

b 78. Investment institutions include:

a. life insurance companies
b. real estate investment trusts
c. private pension funds
d. investment banks and brokerage companies

d 79. Contractual savings institutions include:

a. money market funds
b. mortgage banking companies
c. credit unions
d. none of the above

a 80. In the United States, most money is created by:

a. depository institutions
b. the United States Treasury

c. the Federal Reserve System
d. None of the above

a 81. Which of the following financial institutions market "seasoned" instruments and securities?
a. brokerage firms
b. finance companies
c. mortgage lenders
d. none of the above

b 82. Brokerage firms do not perform which of the following functions?
a. handle shares of ownership
b. create money
c. market existing securities
d. they perform all the above functions

b 83. Securities market institutions include:
a. savings banks
b. government credit-related agencies
c. investment companies and mutual funds
d. none of the above

d 84. Finance companies include:
a. investment banks and brokerage companies
b. savings banks
c. real estate investment trusts
d. none of the above

c 85. Which one of these financial intermediaries focuses on maintaining orderly conditions in foreign exchange markets?
a. commercial banks
b. the World Bank
c. International Monetary Fund
d. commercial finance companies

b 86. Intermediaries that help the financial system operate efficiently and transfer funds from savers and investors to individuals, businesses, and governments that seek to spend or invest the funds are known as:
a. financial markets
b. financial institutions
c. securities markets
d. government organizations

a 87. Financial institutions that provide loans directly to consumers and businesses and help borrowers obtain mortgage loans on real property are called:

a. finance firms
b. securities firms
c. contractual savings organizations
d. money center banks

c 88. The process by which savings are accumulated in depository institutions and then lent or invested is called:

a. loadable funds theory
b. monetary policy
c. financial intermediation
d. none of the above

c 89. Under the authority of the Federal Reserve Act of 1913:

a. all national and state-chartered banks must become members of the Fed
b. only national banks were permitted to become members of the Fed
c. state-chartered banks were permitted to withdraw from membership with the Fed
d. a system of deposit insurance was created

a 90. Under the authority of the Federal Reserve Act of 1913:

a. member banks were required to purchase capital stock in the Federal Reserve Banks of their district
b. member banks may not borrow from the Fed
c. a formal open-market committee arrangement was established
d. national banks were permitted to become members of the Fed if they could show evidence of satisfactory financial condition

b 91. The primary function of the Federal Reserve System is to:

a. issue currency to member banks
b. regulate the growth of the money supply
c. serve as a fiscal agent for the U.S. government
d. regulate and conduct bank examinations

c 92. The members of the board of directors of each Federal Reserve bank are:

a. appointed by the Board of Governors of the Federal Reserve System
b. elected by the member banks
c. chosen by the Board of Governors and by the member banks
d. appointed by the President of the United States with the advice and consent of the Senate

c 93. Each member of the Fed Board of Governors is appointed for a term of:

a. 8 years
b. 12 years
c. 14 years
d. none of the above

b 94. The members of the Fed Board of Governors are:

a. elected by the member banks
b. appointed by the President of the United States with the advice and consent of the Senate
c. appointed by the Secretary of the Treasury
d. appointed by each of the Federal Reserve banks
e. none of the above

a 95. One of the major weaknesses of the banking system before the Federal Reserve System was set up was:

a. the arrangement for holding reserves
b. the lack of a deposit insurance system
c. a lack of currency and coin
d. an inadequate supply of government bonds

c 96. Before the Federal Reserve System was created, a large part of the reserves of commercial banks was:

a. in the form of state and federal government bonds
b. deposited with the United States Treasury
c. held as deposits with large city banks
d. held as cash in their vaults

a 97. The National Banking Act provided that:

a. national banks could issue their own notes only against U.S. government bonds the banks held on deposit with the Treasury
b. national banks could issue their own notes only against cash held in their vaults
c. national banks could issue their own notes only against U.S. government bonds the banks held on deposit with the Federal Reserve Bank
d. none of the above

b 98. The United States created its system of central banking:

a. earlier than such banks were established in other industrial nations
b. later than such banks were established in other industrial nations
c. to facilitate branch banking
d. to facilitate international exchange operations

d 99. Member banks of the Federal Reserve System:

a. must maintain all reserves with their Federal Reserve Bank

b. may include deposits held at large city banks as legal reserves
c. maintain levels of reserves based on the size of the city in which they are located
d. are permitted to count vault cash as part of their reserves

b 100. A central bank does not:

a. deal directly with the public
b. necessarily operate for a profit
c. have stockholders because it is a non-profit organization
d. hold reserve requirements

c 101. Under the Federal Reserve Act of 1913, the number of Federal Reserve districts established is:

a. 8
b. 10
c. 12
d. 25

d 102. For which of the following are member banks prohibited from borrowing at the Fed's discount window?

a. funds to meet reserve requirements
b. funds to meet depositor withdrawal demands
c. to meet business loan demands
d. all the above are permitted
e. none of the above are permitted

c 103. The discount rate is:

a. the rate charged a bank's best customers
b. the rate paid by large business with good credit
c. the rate a bank must pay to borrow from the Fed
d. none of the above

b 104. Which of the following statements would be false? The discount rate is

a. an instrument of monetary policy
b. frequently used as a tool of fiscal policy
c. regarded as a fine-tuning mechanism
d. all the above are true

c 105. Open market operations:

a. are used infrequently
b. are a prime source of income for the U.S. economy
c. are used by the Fed to alter bank reserves

d. none of the above

d 106. Each Federal Reserve Bank has a president and first vice-president who are appointed by:

a. the Board of Governors
b. the President of the United States
c. the President of the United States with the advice and consent of the Senate
d. its board of directors

c 107. The Board of Governors:

a. is elected by the member banks
b. is appointed by the Senate
c. has seven members appointed for 14-year terms
d. has seven members appointed for a term of 12 years

d 108. The Federal Reserve System exercises its most direct control of the money supply:

a. by the issuance of Federal Reserve notes
b. through reserve requirements
c. by setting the discount rates on loans to depository institutions
d. through open market operations

d 109. The principal examining activity of the Federal Reserve System is directed to:

a. all state-chartered banks
b. state-chartered member banks
c. all national banks
d. foreign banks operating in the United States

d 110. The Federal Reserve Banks are owned by:

a. commercial banks
b. the U.S. Treasury
c. national member banks of the Federal Reserve System
d. member banks of the Federal Reserve System

a 111. All Federal Reserve Banks have:

a. check clearance facilities
b. branch banks
c. directors who are elected for 14-year terms
d. directors who are appointed by the President of the United States

b 112. In addition to the clearing of checks through Federal Reserve Banks, the Fed accommodates check clearing through:

a. check clearinghouses it sponsors in major cities
b. its branches and a group of regional check-processing centers
c. electronic transfers of funds

d. the United Postal Service

a 113. The Federal Reserve is empowered to encourage depository institutions to help meet the needs of communities for housing and other purposes:

a. through the Community Reinvestment Act
b. through the Truth in Lending Act
c. by a provision of the Fair Housing Act
d. by strictly enforcing usury laws setting maximum interest rates

c 114. Bank holding companies are supervised and examined by:

a. the Comptroller of the Currency
b. the FDIC
c. the Federal Reserve
d. internal auditors only

d 115. The Federal Open Market Committee:

a. is comprised of members of the Federal Reserve board and representatives of all Federal Reserve Banks
b. came into being at the time the Federal Reserve System was created
c. is made up of the presidents of the 12 Federal Reserve Banks
d. was created under a provision of the Banking Act of 1935

a 116. The effect of an increase of required reserves by the Fed is:

a. a decrease in loanable funds of depository institutions
b. a decrease in interest rates
c. usually an increase in vault cash
d. to stimulate activity in the home construction field

b 117. The Federal Open Market Committee:

a. typically buys and sells long-term corporate bonds
b. is the most powerful and flexible monetary policy tool of the Fed
c. works out of Washington D.C.
d. deals with most of the commercial banks of the nation

b 118. It is generally agreed by the public that the Federal Reserve System:

a. should not engage in international exchange controls
b. carries out its functions reasonably well
c. is distrusted by business as well as by banking interests
d. should be under the control of the U.S. Treasury

a 119. The Federal Reserve Banks now hold reserves for:

a. branches of foreign banks
b. only commercial banks, savings and loan associations, and credit unions
c. all of the reserve requirements of member banks
d. all of the reserve requirements of all depository institutions

a 120. When the Federal Reserve System was created, it was thought that its most important influence over monetary conditions would be:

a. lending to banks to bolster their reserve positions
b. open market operations
c. the issuance of Federal Reserve notes
d. the changing of reserve requirements

b 121. The Fed shares its depository examining functions with:

a. the Federal Savings and Loan Insurance Corporation
b. the FDIC, Comptroller of the Currency, and state agencies
c. only the Comptroller of the Currency
d. National Credit Union administration and the FDIC

d 122. The accommodative activities of the Federal Reserve System are:

a. clearing checks
b. meeting the credit needs of individuals and institutions
c. supporting depository institutions
d. all of the above

c 123. Eligible paper that the borrowing institution can sell to the Reserve Bank includes:

a. common stock
b. corporate bonds
c. U.S. government bonds
d. all of the above

a 124. The purpose of Regulation Z is to:

a. make consumers aware of the costs of alternative forms of credit
b. prohibit garnishment
c. encourage depository institutions to help meet the credit needs of their communities for housing and other purposes

d. regulate the overseas activities of member banks of the Federal Reserve System

b 125. The Truth in Lending Act:

a. prohibits discrimination in the granting of credit on the basis of sex, race, color, and religion
b. limits liability on lost or stolen credit cards
c. prohibits unfair or deceptive acts or practices on the part of banks
d. requires prompt correction of errors on a revolving charge account

d 126. The dynamic actions of the Federal Reserve System:

a. contribute to the smooth everyday functioning of the economy
b. are designed to meet the credit needs of individuals and institutions
c. support depositories and other institutions
d. stimulate or repress the level of prices or economic activity

b 127. The Federal Open Market Committee:

a. is made up of the presidents of the 12 Federal Reserve Banks
b. consists of the seven members of the Board of Governors of the Fed, plus five presidents of Reserve Banks
c. is appointed by the Chairman of the Federal Reserve System
d. none of the above

d 128. The payment mechanism of the Reserve Bank includes:

a. processing and clearing checks
b. issuing currency and coins
c. wire transfers
d. all the above

b 129. The National Banking Acts of 1863 and 1864 were:

a. totally eliminated under the Federal Reserve Act of 1913
b. were modified to permit greater flexibility of operations under the Federal Reserve Act of 1913
c. were unaffected by the Federal Reserve Act of 1913
d. none of the above

d 130. The Board of Governors of the Federal Reserve System:

a. consists of 7 appointed members
b. sets reserve requirements
c. approves discount rates as part of monetary policy
d. all the above
e. none of the above

d 131. The Board of Governors of the Federal Reserve System:

a. oversee the supervision and regulation of member banks and bank holding companies
b. regulates reserve balance requirements for depository institutions
c. oversees the collection and clearance of checks for depository institutions
d. all the above
e. none of the above

e 132. The Federal Open Market committee:

a. establishes and administers protective consumer finance regulations
b. furnishes currencies
c. handles U.S. government debt and cash balances
d. all the above
e. none of the above

c 133. State-chartered banks:

a. automatically receive membership in the Federal Reserve System
b. are prohibited from membership in the Federal Reserve System
c. may be permitted to join the Federal Reserve system, given a satisfactory financial condition
d. none of the above

a 134. Members of the Federal Reserve System may include:

a. commercial banks with a national charter
b. credit unions
c. savings and loan institutions
d. all the above
e. none of the above

d 135. The chairman of the Federal Reserve System:

a. is appointed by the Secretary of the Treasury
b. serves a life term
c. is the president of the New York Federal Reserve Bank
d. none of the above

c 136. Three essential needs of a well-operating financial system include all of the following EXCEPT:

a. an efficient national payments system
b. an elastic or flexible money supply
c. a bank insurance system
d. a lending/borrowing mechanism

a 137. Which monetary policy tool does the Fed use most infrequently?

a. changing reserve requirements
b. changing the discount rate
c. open market operations
d. none of the above

b 138. One significant feature of DIDMCA was that it:

a. expanded the ability of the Fed to influence unemployment rates
b. expanded Fed control over the reserve requirements of non-member banks
c. created the FDIC
d. none of the above

a 139. During the past several years:

a. the discount rate has been lower than the prime rate
b. the discount rate has been higher than the prime rate
c. the discount rate has been unrelated to the prime rate
d. none of the above

d 140. The Fed has legal responsibility for administering:

a. the Bank Holding Company Act of 1956
b. the Bank Merger Act of 1960
c. the Change in Bank Control Act of 1978
d. all of the above

b 141. A central bank serves the nation:

a. as a source of consumer credit when otherwise not available
b. by regulating money supply growth
c. as a secondary source of funds for home financing
d. as the strong right arm of the U.S. Treasury

c 142. The capital stock of each Federal Reserve Bank:

a. is owned by the Board of Governors of the Fed
b. can be used in an emergency to provide funds for the Fed
c. is owned by members of the individual Federal Reserve Banks
d. has been reserved for purchase of the U.S. Treasury

b 143. Which of the following statements is true when describing Federal Reserve Banks:

a. they are located in each of the 50 states
b. every Federal Reserve Bank has at least one branch
c. they have been moved from city to city as the U.S. developed
d. two Federal Reserve Banks are located in the same state

d 144. The Federal Reserve System consists of all of the following components EXCEPT:

a. Federal Reserve District Banks
b. Board of Governors
c. Federal Open Market Committee
d. all of the above

a 145. The Federal Reserve System consists of all of the following components EXCEPT:

a. Monetary Policy Committee
b. Board of Governors
c. Federal Open Market Committee
d. all of the above

b 146. The seven-member board of the Federal Reserve that sets monetary policy is called

a. the Federal Reserve Open Market Committee
b. the Federal Reserve Board of Governors
c. the Federal Reserve Advisory Committee
d. none of the above

a 147. Federal Reserve actions that offset unexpected monetary developments and contribute to the smooth everyday functioning of the economy are called

a. defensive actions
b. dynamic actions
c. accommodative actions
d. none of the above

d 148. The basic policy instruments that the Fed uses to execute monetary policy include all of the following EXCEPT

a. changing reserve requirements
b. changing the discount rate
c. conducting open market operations
d. all of the above are monetary policy instruments

c 149. The basic policy instruments that the Fed uses to execute monetary policy include all of the following EXCEPT

a. changing reserve requirements
b. changing the discount rate
c. conducting closed market operations
d. all of the above are monetary policy instruments

b 150. The percentage of deposits that must be held as reserves is called

a. the bank reserve percentage
b. the required reserve ratio
c. the excess reserve ratio
d. the fractional reserve percentage

c 151. The interest rate that a bank must pay to borrow from its regional federal reserve bank is called

a. the National Discount Rate
b. the Prime Rate
c. the Federal Discount Rate
d. none of the above

a 152. The most used monetary policy instrument used by the Fed is

a. open market operations
b. changing the discount rate
c. changing the reserve requirement
d. none of the above

c 153. The least used monetary policy instrument used by the Fed is

a. open market operations
b. changing the discount rate
c. changing the reserve requirement
d. none of the above

a 154. ____________________________ requires disclosure of the finance charge and the annual percentage rate of credit along with certain other costs and terms to permit consumers to compare the prices of credit from differing sources.

a. Truth in Lending Act
b. Equal Credit Opportunity Act
c. Federal Trade Commission Improvement Act
d. Fair Credit Billing Act

d 155. ____________________________ sets up a procedure for the prompt correction of errors on a revolving charge account and prevents damage to credit ratings while a dispute is being settled.

a. Truth in Lending Act
b. Equal Credit Opportunity Act
c. Federal Trade Commission Improvement Act
d. Fair Credit Billing Act

b 156. ____________________________ prohibits discrimination in the granting of credit on the basis of sex, marital status, race, color, religion, national origin, age, or receipt of public assistance.

a. Truth in Lending Act
b. Equal Credit Opportunity Act
c. Federal Trade Commission Improvement Act
d. Fair Credit Billing Act

c 157. ____________________________ authorizes the Federal Reserve Board to unfair or deceptive acts or practices on the part of banks and to issue regulations to prohibit them.

a. Truth in Lending Act

b. Equal Credit Opportunity Act
c. Federal Trade Commission Improvement Act
d. Fair Credit Billing Act

a 158. The ____________________________ conducts monetary policy for the twelve European countries that adopted the euro as their common currency.

a. European Central Bank
b. Switzerland Central Bank
c. London Central Bank
d. British National Bank

b 159. The velocity of money measures:

a. the quantity of money in an economy
b. the rate of circulation of the money supply
b. the level of inflation caused by the money supply
c. none of the above

d 160. If the money supply for an economy is $3 trillion and the velocity of money is 4.5, then GDP is:

a. $0.67 trillion
b. $1.5 trillion
c. $7.5 trillion
d. $13.5 trillion

a 161. If the money supply for an economy is $3 trillion and GDP is $10 trillion, then the velocity of money is:

a. $3.33 trillion
b. $13.0 trillion
c. $7.0 trillion
d. $30 trillion

c 162. Inflation is:

a. an increase in the purchasing power of money
b. a decrease in the quality of goods and services
c. an increase in the prices of goods and services not offset by increases in the quality of those goods and services
d. a measure of the money supply

b 163. A rise in prices not offset by increases in quality is called:

a. deflation
b. inflation
c. stagflation
d. none of the above

b 164. Federal Reserve open market operations, setting reserve requirement, and lending to depositories are:

a. usually conducted simultaneously
b. all designed to have their effect by influencing the reserves of depository institutions
c. of equal importance in their effort
d. functions shared with the U.S. Treasury

c 165. Open market operations differ from discounting operations in that they are:

a. initiated by member depository institutions
b. designed to be of significance only to large city banks
c. initiated by the Federal Reserve
d. initiated by the U.S. Treasury

a 166. If the Fed wishes to stimulate the economy, it may:

a. lower the discount rate
b. raise reserve requirements
c. sell securities through open market operations
d. raise both the discount rate and the reserve requirements

d 167. Debt management of the federal government includes:

a. determining which types of refunding to implement
b. determining the types of securities to sell
c. deciding which interest rate patterns to use
d. all the above

a 168. Under required reserves of 20%, the maximum to which the money supply could be expanded by the banking system is:

a. four times a new primary deposit
b. five times a new primary deposit
c. six times a new primary deposit
d. until all of a new primary deposit has been converted to required reserves

d 169. One factor that decreases the volume of bank reserves is a decrease in:

a. bank holdings of loans and securities
b. time and savings deposits
c. life insurance company reserves
d. Federal Reserve float

b 170. Bank reserves are increased when the Treasury:

a. sells government bonds to individuals
b. decreases its holding of cash
c. increases its account at a Federal Reserve bank
d. increases its holding of cash

a 171. Which one of the following transactions or operations is entirely at the initiative of the Federal Reserve?

a. open market operations
b. change in float
c. change in bank borrowings
d. change in Treasury cash holdings

a 172. If a check is written for the full amount of a derivative deposit created by a bank loan and then is sent to a bank in another city for deposit,:

a. the lending bank would lose all of its excess reserves
b. the lending bank would still have reserves to lend
c. the full amount would be added to the receiving bank's excess reserves
d. both *a* and *c*

d 173. Total reserves in the banking system consist of:

a. vault cash held at commercial banks and other depository institutions
b. reserve deposits held at Federal Reserve banks
c. currency in circulation
d. both *a* and *b*

b 174. The multiplying capacity of primary deposits is reduced if:

a. no additional cash is withdrawn for hand-to-hand circulation
b. businesses increase their petty cash funds in U.S. banks
c. foreign countries deposit funds in U.S. banks
d. the U.S. Treasury deposits funds

c 175. When a customer demands additional currency and cashes a check for $500, all of the following occur except:

a. the deposits of the bank are reduced $500
b. required reserves are reduced
c. Federal Reserves notes decrease
d. additional reserves must be acquired if the bank has no excess reserves

a 176. Bank reserves are not affected by:

a. currency in circulation

b. changes in reserve requirements
c. open market operation
d. changes in the level of deposits of foreign banks at the Federal Reserve banks

b 177. In our financial system, the money multiplier:
a. is not affected by the Federal Reserve
b. can fluctuate over time
c. is not affected by the nonbank public
d. is not affected by the U.S. Treasury

b 178. The U.S. banking system has the ability to alter the size of the money supply because of the use of:
a. a 100% reserve system
b. a fractional reserve system
c. the Federal Reserve System's excess reserves
d. Federal Reserve notes issued by the U.S. Treasury

c 179. Assume that a bank receives a primary deposit of $1,000. If the reserve requirement is 25%, what will be the amount of excess reserves available for lending purposes?
a. zero
b. $250
c. $750
d. $1,000
e. none of the above

d 180. Assume that a bank receives a primary deposit of $1,000, and the reserve requirement is 15%. Which of the following would reflect the asset side of the balance sheet after a maximum loan amount has just been made?
a. reserves of $1,000
b. deposits of $1,000
c. reserves of $1,000 and loans of $150
d. reserves of $1,000 and loans of $850

b 181. Which of the following statements is most correct?
a. Bank reserves are not affected by transactions involving the Treasury.
b. Derivative deposits occur when reserves created from primary deposits are made available through bank loans to borrowers who leave them on deposit in order to write checks against the funds.
c. Total bank reserves in the banking system consist of bank's member bank deposits held in Federal Reserve Banks, plus non-member banks vault cash.
d. Federal Reserve notes have been increasingly backed by gold certificates and eligible paper in recent years.

c 182. Which of the following statements is most correct?

a. A monetary base of $5 million and a money multiplier of 5 means that the money supply will be $1 million.
b. The magnitude of the money multiplier today is in the 8 to 9 range.
c. The money multiplier is influenced by the public's switching between checkable and noncheckable deposits at their banks.
d. The monetary base multiplied by the money multiplier produces the M3 definition of the money supply.

d 183. Which of the following statements is false?

a. The multiplying capacity of primary deposits is hindered by cash leakages from the banking system.
b. The monetary base is defined as bank reserves plus currency held by the nonbank public.
c. In contrast to the other transactions that affect reserves in the banking system, open market operations are entirely at the initiative of the Federal Reserve.
d. All the above statements are correct.

b 184. If the reserve requirement is 25% and $5,000 is injected into the banking system, the maximum expansion in the money supply would be:

a. $1,250
b. $20,000
c. $6,667
d. none of the above

c 185. The Federal Reserve System cannot directly control:

a. Treasury security purchases
b. monetary base
c. the size of the money supply
d. all the above

b 186. If a customer makes new deposits of $10,000 to a bank and the reserve requirement is 15%, then excess reserves will be:

a. $1,500
b. $8,500
c. $10,000
d. none of the above

a 187. Total bank reserves do not include which of the following?

a. deficit reserves
b. excess reserves
c. required reserves
d. all the above are included in total bank reserves

b 188. A customer of a bank needs additional currency and cashes a check for $10,000. The reserve requirement is 20%. The bank has no excess reserves. It must:

a. refuse the check
b. get an additional $8,000 of reserves
c. get an additional $2,000 of reserves
d. none of the above

a 189. During the 1980s and 1990s, the United States primarily:

a. imported more than it exported
b. exported more than it imported
c. imported about as much as it exported
d. none of the above

c 190. The government entity responsible for fiscal policy is:

a. the U.S. Treasury
b. the Federal Reserve
c. the Congress
d. the Commerce Department

b 191. Automatic stabilizers include all of the following except:

a. unemployment insurance
b. social security
c. welfare
d. pay-as-you-go tax system

d 192. Debt management includes all of the following except:

a. the types of securities to sell
b. the interest rate patterns to use
c. the types of refunding to carry out
d. all of the above

b 193. Government financing of large budgetary deficits:

a. absorbs savings and decreases interest rates
b. may temporarily stimulate economic activity
c. is known as monetizing the deficit
d. reduces total consumer spending and demand

a 194. Deposits that add new reserves to the bank where they are deposited are called:

a. primary deposits
b. derivative deposits
c. secondary deposits
d. Special Drawing Rights

d 195. Transactions that affect bank reserves can be initiated by the:

a. nonbank public
b. Federal Reserve System
c. U. S. Treasury
d. all the above

b 196. Banking system reserves plus currency held by the nonbank public is referred to as the:

a. money supply
b. monetary base
c. monetary multiplier
d. monetary requirement

c 197. The percentage of deposits that must be held as reserves is called

a. excess reserves
b. required reserves
c. required reserve ratio
d. none of the above