Name: ___________________________ Date: _____________

**1.** The Federal Reserve System was instituted in

**A.** 1776 as part of the U.S. Constitution to create a national banking system.

**B.** 1933 by the U.S. Treasury to deal with money shortages during the Great Depression.

**C.** 1929 by decree of the president to combat the stock market crash.

**D.** 1913 by an act of Congress to overcome repeated bank panics.

**E.** 1980 by the Depository Institutions Deregulation and Monetary Control Act to permit interstate banking.

**2.** The central bank of the United States consists of

**A.** one Federal Reserve bank for each state.

**B.** seven state banks and one Federal Reserve bank for each major city.

**C.** twelve Federal Reserve district banks.

**D.** one centralized Federal Reserve bank in New York.

**E.** the ten largest national banks in the United States.

**3.** For how long is the chairman of the board of governors of the Fed appointed and by whom?

**A.** Appointed for two years by all the other governors

**B.** Appointed for two years by the governor of the New York district branch

**C.** Appointed for two years by the president of the United States

**D.** Appointed for four years by all the other governors

**E.** Appointed for four years by the president of the United States

**4.** How long is the term for each member of the Board of Governors?

**A.** 2 years

**B.** 4 years

**C.** 6 years

**D.** 10 years

**E.** 14 years

**5.** Which of the following is *not* a function of the Fed?

**A.** Lending funds to private businesses

**B.** Making loans to banks

**C.** Regulating the money supply

**D.** Providing currency

**E.** Acting as a banker for the federal government

**6.** The ultimate goal of monetary policy is

**A.** interest rate stability.

**B.** economic growth with low inflation.

**C.** zero unemployment.

**D.** a favorable exchange rate of the dollar.

**E.** a stable money supply.

**7.** Monetary policy tools include all the following *except*

**A.** changing interest rate ceilings.

**B.** selling government bonds.

**C.** determining the discount rate.

**D.** buying government bonds.

**E.** changing the reserve requirement.

**8.** A decrease in the discount rate

**A.** increases reserve holdings.

**B.** reduces the cost of borrowing from other commercial banks.

**C.** lowers the cost of borrowing from the Fed.

**D.** causes an increase in the federal funds rate.

**E.** decreases the money supply.

**9.** To increase the money supply, the Fed could

**A.** increase the discount rate.

**B.** increase the reserve requirement.

**C.** decrease the federal funds rate.

**D.** try to increase the excess reserves of banks.

**E.** buy government bonds.

**10.** What does FOMC stand for?

**A.** Federal Open Market Committee

**B.** Federal Organization for Market Control

**C.** Fiscal Open Money Control

**D.** Fiscal Organization of Money Constraints

**E.** Fiscal Open Market Commission

**11.** The most commonly used monetary tool of the Fed is to change the reserve requirement.
**Choose: True or False**

**12.** The money supply can be increased when the Fed buys government bonds in the open market.
**Choose: True or False**

**13.** All members of the Federal Board of Governors are appointed by the president and confirmed by the Senate.
**Choose: True or False**

**14.** The monetary policy decisions made by the Federal Reserve must have approval by the Congress.
**Choose: True or False**

**15.** The federal funds rate is

**A.** the interest rate that one bank charges another for overnight lending.

**B.** the interest rate that the Federal Reserve Bank charges commercial banks for borrowing money.

**C.** the interest rate you earn in your saving account.

**D.** the interest rate the bank charges business firms for borrowing money.

**E.** the interest rate that a domestic bank charges a foreign bank for borrowing money.

**16.** If the reserve requirement is 5 percent and a bank has a deposit in the Fed of $20 million, the bank's required reserve is

**A.** $2 million.

**B.** $1 million.

**C.** $0.5 million.

**D.** $5 million.

**E.** $1.5 million.

**17.** The buying and selling of government bonds by the FOMC constitutes

**A.** an open market operation.

**B.** a federal funds adjustment.

**C.** a discount rate adjustment.

**D.** a change in the reserve requirement.

**E.** a sterilization of the money supply.

**18.** Economists always agree with the monetary policy conducted by the Fed.
**Choose: True or False**

**19.** If economic conditions deteriorate, the Fed usually lowers interest rates.
**Choose: True or False**

**20.** To decrease the money supply, the Fed can

**A.** increase the reserve requirement and the discount rate, and sell bonds.

**B.** increase the reserve requirement and the discount rate, and buy bonds.

**C.** decrease the reserve requirement and the discount rate, and sell bonds.

**D.** decrease the reserve requirement and the discount rate, and buy bonds.

**E.** increase the reserve requirement, decrease the discount rate, and buy bonds.