

Test Review Unit 4

What is the main difficulty in a barter system?

What are the functions of money? Name and explain each.

- 1.
- 2.
- 3.

What are liquid assets?

What are the 3 types of money and definition of each?

- 1.
- 2.
- 3.

What are M1 and M2?

What is included in M2 but not M1?

Is using a credit card an M1 transaction? Why or why not?

Assume that an initial savings of \$500 occurs and the reserve ratio is 10%. Calculate the Deposit, Reserve and Loan for each of the 5 next potential transactions.

	Deposit	Reserve	Loan
Loan 1	500		
Loan 2			
Loan 3			
Loan 4			
Loan 5			
		Total Amount Loaned	

Use the money multiplier to determine the maximum amount of money that could be generated from the initial deposit, using the numbers from the problem above. _____

When was the Fed Reserve System implemented and who signed it into law?

Who is the current chairman of the Fed?

How long is a Fed chairman's term and who appoints him/her?

What is fractional reserve banking? What is the current reserve ratio?

How many Federal Reserve banks are there and where is ours located?

What geographic area does our Fed encompass?

What are the three main functions of the Fed?

What are the three tools of the Fed with regard to monetary policy?

Suppose the economy was in recession. What 3 things could the Fed choose to do to encourage economic growth?

Suppose the economy was overheated and experiencing high inflation. What 3 things could the Fed choose to do to encourage economic growth?

Explain the difference between the discount rate and the federal funds rate.

If Bank X is holding total cash reserves of \$10,000 on deposits of \$100,000 and if the reserve requirement is 5% percent, how much excess reserve is it holding?

If the reserve rate is 5%, what is the money multiplier?

What is a bubble?

What was the general trend in housing prices from 1950 to 2007?

What is a subprime loan?

Why did subprime loans become popular in the past 5 years?

What is the relationship between interest rates and the number of people applying for mortgages?

Why weren't banks worried about making risky mortgages?

How did speculation lead to an increased supply of houses?

What is a mortgage backed security?

What is a NINJA loan?

Explain how the following people/groups contributed to the recession of 2007-2009.

- a. People who bought homes
- b. Banks
- c. The Fed
- d. Financial markets for mortgage backed securities
- e. The federal government
- f. Securities ratings companies