

JA Economics®

Quiz: Post-Theme 3.3: The Role of Money and Banking

Circle the best answer for each question.

1. Which action represents one of the tools of monetary policy for the U.S. government?

- a. raising taxes
- b. changing required reserves
- c. borrowing from banks
- d. making new coins

2. Which phrase best describes the structure of the U.S. Federal Reserve Banking system?

- a. central
- b. local
- c. regional-local
- d. central-regional

3. Which statement is true about the U.S. Federal Reserve Banking system?

- a. It is the central bank of the United States.
- b. It is the safest place to deposit your personal savings.
- c. It houses all of the gold that backs the U.S. currency.
- d. all of the above

4. If the nominal rate of interest is 5% and the expected rate of inflation is 2%, what is the real interest rate?

- a. 0%
- b. 3%
- c. 7%
- d. 10%

5. Which factor should you consider when deciding if you should borrow money?

- a. special program fees and benefits
- b. rates of return on item being purchased
- c. rates of interest
- d. all of the above

6. Which statement best describes how the Federal Reserve (the Fed) uses monetary policy to influence behaviors?

- a. The economy is in a downturn, and the Fed wants to motivate people to buy and sell more. They lower the discount rate.
- b. The economy is growing too fast, and the Fed wants people to save more and spend less. They lower the discount rate.
- c. The economy is growing too fast, and the Fed wants people to buy and sell more. They raise taxes.
- d. The economy is in a downturn, and the Fed wants to motivate people to increase personal savings. They lower the discount rate.

7. What is one consequence of inflation?

- a. Borrowers lose purchasing power because they may gain less than they lose to inflation.
- b. Imported goods become less attractive.
- c. The standard of living can decline for those on a fixed income.
- d. Savers and lenders gain purchasing power because they may gain more than they lose to inflation.

8. For \$5, you used to be able to buy enough gas to drive to work for a week. Now you can only get two or three days' worth for the same \$5. In this scenario, this change in the value of \$5 is called inflation, and it is caused by a decline in _____.

- a. interest rates
- b. purchasing power
- c. deficit spending
- d. consumer saving

9. If the Fed were to use monetary policy tools in order to increase the money supply which led to high inflation, which statement would be true?

- a. The Fed achieved its intended consequence while causing unintended consequences.
- b. All consequences were positive.
- c. All consequences were negative.
- d. none of the above