Section 1: Guided Reading and Review
Money

A. As You Read
As you read Section 1, supply the requested information in the spaces provided.

Describe the three uses of money.
1. ____________________________________________________________
2. ____________________________________________________________
3. ____________________________________________________________

Define the six characteristics of money.
4. ____________________________________________________________
5. ____________________________________________________________
6. ____________________________________________________________
7. ____________________________________________________________
8. ____________________________________________________________
9. ____________________________________________________________

B. Reviewing Key Terms
Match the definitions in Column I with the terms in Column II. Write the letter of the correct answer in the blank provided.

Column I
   10. something that keeps its value if held
   11. objects that have value because the holder can exchange them for something else of value
   12. money that has value because the government says it is acceptable for paying debts
   13. anything that is used to determine value during the exchange of goods and services
   14. exchange of one set of goods or services for another
   15. coins and paper bills used as money
   16. way to compare the value of goods and services relative to each other
   17. anything used as a medium of exchange, a unit of account, and a store of value
   18. objects that have value in themselves as well as for their use as money

Column II
   a. barter
   b. store of value
   c. fiat money
   d. currency
   e. money
   f. medium of exchange
   g. commodity money
   h. unit of account
   i. representative money
Section 2: Guided Reading and Review
The History of American Banking

A. As You Read
As you read Section 2, fill in two supporting facts or details under each main idea by answering each question.

Main Idea: Before the Civil War, banking in the United States shifted between a centralized system and independent state and local banks.

1. What were the first two attempts to centralize U.S. banking, and when were they in operation?

2. What problems were associated with the Free Banking Era (1837–1863), dominated by state-chartered banks?

Main Idea: Reforms of the late 1800s stabilized the banking system.

3. How did the National Banking Acts of 1863 and 1864 promote stability?

4. How did the gold standard promote stability?

Main Idea: Banking reforms early in the twentieth century helped strengthen and centralize American banking.

5. How did the Federal Reserve System, established in 1913, begin to manage the money supply?

6. What guarantee was made available to bank customers in 1933?

B. Reviewing Key Terms
Complete each sentence by writing the correct term in the blank provided.

7. One advantage of the ________________ was that the government could only issue currency if it had gold in the treasury to back it.

8. The ________________ was a paper currency printed with green ink that was issued by the U.S. Treasury during the Civil War but not backed by gold or silver.

9. A(n) ________________ receives, keeps, and lends money.

10. The nation's central banking system is the ________________.
Section 3: Guided Reading and Review

Banking Today

A. As You Read
As you read Section 3, supply the requested information on the lines provided.

Define M1.
1. ----------------------------------------------------------
   __________________________________________________________
Define M2.
2. __________________________________________________________________
   __________________________________________________________

List five services that banks offer.
3. __________________________________________________________________
4. __________________________________________________________________
5. __________________________________________________________________
6. __________________________________________________________________
7. __________________________________________________________________

Describe four types of financial institutions.
8. __________________________________________________________________
9. __________________________________________________________________
10. __________________________________________________________________
11. __________________________________________________________________

B. Reviewing Key Terms
Define the following terms.
12. money supply ________________________________________________
13. liquidity ______________________________________________________
14. demand deposit ________________________________________________
15. money market mutual fund _______________________________________
16. fractional reserve banking _______________________________________
17. default ________________________________________________________
18. mortgage ______________________________________________________
19. credit card ____________________________________________________
20. interest ________________________________________________________
21. debit card ____________________________________________________
22. creditor ______________________________________________________
Section 1: Quiz

The Federal Reserve System

A. Key Terms

Briefly define or identify each of the following.

1. Board of Governors

2. Federal Reserve Districts

3. Federal Advisory Council (FAC)

4. Federal Open Market Committee (FOMC)

B. Main Ideas

Write the letter of the correct answer in the blank provided.

5. What does "monetary policy" mean?
   a. political policies pursued by the federal government
   b. actions the Federal Reserve takes to influence the economy
   c. Federal Reserve policies on creating new banks
   d. decisions about how much the Federal Reserve charges members

6. Why does the Federal Reserve System have a high degree of political independence?
   a. the system has only advisory power
   b. it is divided into geographical districts
   c. the governors are appointed for life terms
   d. the system is owned by the banks

7. Who appoints the members of the Board of Governors of the Federal Reserve?
   a. the U.S. President
   b. the U.S. senate
   c. the state governors
   d. the state legislatures of the states represented

8. How many Federal Reserve Districts are there?
   a. 8
   b. 12
   c. 24
   d. 52

9. What banks must join the Federal Reserve system?
   a. all nationally chartered banks
   b. all state-chartered banks
   c. all banks of any kind
   d. no banks must join; membership is voluntary

10. What is the subject of Federal Open Market Committee decisions?
    a. appointment of members of the Federal Reserve's Board of Governors
    b. chartering of new banks and other lending institutions
    c. level of interest rates and growth of the money supply
    d. scheduling of banking days and hours for member banks
A. Key Terms

Briefly define or identify each of the following.

1. check clearing

2. bank holding company

3. federal funds rate

4. discount rate

5. net worth

B. Main Ideas

Write the letter of the correct answer in the blank provided.

6. What does a “fractional reserve banking system” mean?
   a. one that uses fractional paper currency as well as coins
   b. one that is required to report daily deposits to the Federal Reserve
   c. one that must keep most deposited money in reserve
   d. one that keeps only a small part of customers' deposits on hand

7. Who issues U.S. paper currency?
   a. the Treasury Department
   b. the U.S. Mint
   c. the district Federal Reserve Banks
   d. the U.S. bank examiners

8. In the United States, what does the general level of a family’s income have to do with the amount of cash the family is likely to hold?
   a. The higher the real income, the more cash the family will hold.
   b. The higher the real income, the less cash the family will hold.
   c. The lower the real income, the more cash the family will hold.
   d. The two factors are not related to each other.

9. What is the function of a bank examiner?
   a. to make sure banks are obeying laws and regulations
   b. to respond to banks about their daily reports to the Fed
   c. to carry on day-to-day functions within the bank
   d. to oversee decisions about major loans by each bank

10. Why does a high interest rate discourage people from holding their money in cash?
    a. They cannot be sure that cash will hold its value.
    b. They are more concerned that it will be stolen.
    c. They are fearful of inflation.
    d. They can get interest for it when it is invested.
Section 3: Guided Reading and Review
Monetary Policy Tools

A. As You Read
As you read Section 3, answer the following questions.

1. If you deposit $1,000 of borrowed money in a bank checking account, by how much do you increase the money supply?

2. Why does the Federal Reserve establish a required reserve ratio?

3. What three tools could the Federal Reserve use to adjust the money supply?

4. What two effects, leading to an increased money supply, could a reduced RRR have?

5. Why does the Fed seldom, if ever, change bank reserve requirements?

6. How do banks respond to a lowered discount rate?

7. How does a raised discount rate affect bank loans and the money supply?

8. What effect does the Fed's purchase of government bonds have on the money supply?

9. How does the Fed's sale of bonds reduce the money supply?

10. Which of its monetary policy tools does the Federal Reserve use most often?

B. Reviewing Key Terms
Rewrite each statement below as needed to make it correct.

11. *Money creation* is the process by which money is manufactured.

12. The *required reserve ratio* is the ratio of reserves to loans required of banks by the Federal Reserve.

13. The size of loans created with each demand deposit is measured by the *money multiplier formula*.

14. *Open market operations* refers to the buying and selling of banks by the Federal Reserve.
Section 4: Guided Reading and Review

Monetary Policy and Macroeconomic Stabilization

A. As You Read
As you read Section 4, complete the following sentences.

1. The cost of borrowing or having money is the ________________.
2. If the money supply is high, interest rates will be ________________.
3. Lower interest rates give firms more opportunities for ________________.
4. The Fed may follow an easy money policy when the macroeconomy is experiencing a ________________.
5. The Fed may follow a tight money policy when the macroeconomy is experiencing a ________________.
6. The goal of stabilization policy is to smooth out fluctuations in the ________________.
7. If expansionary policies take effect while the macroeconomy is already expanding, the result could be higher ________________.
8. One reason for inside lags is that it takes time to ________________.
9. A second reason for inside lags is that it can take additional time to ________________.
10. Monetary policy can be put in place almost immediately by the ________________.
11. The outside lag can be relatively short for ________________ policy.
12. Outside lags for monetary policy can be lengthy because they primarily affect ________________.
13. We rely more on the Fed to combat the business cycle because fiscal policy is often delayed by ________________.
14. Economists who usually recommend enacting fiscal and monetary policies believe that ________________.

B. Reviewing Key Terms
Define the following terms.

15. monetarism ______________________________________
16. easy money policy ______________________________________
17. tight money policy ______________________________________
18. inside lag ______________________________________
19. outside lag ______________________________________