

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Bank panics in the nineteenth and early twentieth centuries convinced many that 1) _____
A) the Federal Reserve needed greater authority to deal with problem banks.
B) a central bank was needed to prevent future financial panics.
C) the Federal Reserve needed greater control over the banking system.
D) both A and B of the above.
- 2) The traditional American distrust of moneyed interests and the fear of centralized power helps to explain 2) _____
A) the failures of the first two experiments in central banking in the United States.
B) the decentralized structure of the Federal Reserve System.
C) why the Board of Governors of the Federal Reserve System is located in New York.
D) all of the above.
E) only A and B of the above.
- 3) Which of the following are entities of the Federal Reserve System? 3) _____
A) Federal Reserve Banks
B) The FOMC
C) The Board of Advisors
D) Only A and B of the above are Federal Reserve entities
- 4) Prior to 1980, member banks left the Federal reserve System due to 4) _____
A) the high cost of discount loans.
B) the high cost of required reserves.
C) a desire to avoid credit controls.
D) a desire to avoid interest rate regulations.
E) the high margin requirements.
- 5) The special status of the Federal Reserve Bank of New York stems from 5) _____
A) the fact that the New York Fed holds more gold than Fort Knox.
B) the fact that open market operations are conducted in New York.
C) the New York Fed's membership in the Bank for International Settlements.
D) all of the above.
E) both A and B of the above.

- 6) Which of the following functions are not performed by any of the twelve regional Federal Reserve Banks? 6) _____
- A) Issuing new currency
 - B) Setting interest rates payable on time deposits
 - C) Check clearing
 - D) Conducting economic research
- 7) The Board of Governors 7) _____
- A) effectively sets the discount rate.
 - B) establishes, within limits, reserve requirements.
 - C) sets margin requirements.
 - D) does all of the above.
 - E) does only A and B of the above.
- 8) The research document given to the Federal Open Market Committee that contains information on the state of the economy in each Federal Reserve district is the 8) _____
- A) blue book.
 - B) beige book.
 - C) black book.
 - D) green book.
 - E) red book.
- 9) Which of the following are true statements? 9) _____
- A) The FOMC usually meets every six weeks to set monetary policy.
 - B) The FOMC issues a directive to the trading desk at the New York Fed.
 - C) Designers of the Federal Reserve Act did not envision the use of discount lending as a monetary policy tool.
 - D) All of the above are true statements.
 - E) Only A and B of the above are true statements.
- 10) Goal independence is 10) _____
- A) the ability of Congress to set monetary policy goals.
 - B) the ability of the central bank to set monetary policy instruments.
 - C) the ability of the president to set monetary policy instruments
 - D) the ability of Congress to set monetary policy instruments.
 - E) the ability of the central bank to set monetary policy goals.

- 11) The Fed may feel implicit pressure to support the president's policies since the President 11) _____
A) can veto legislation that might limit the Fed's discretionary authority and power.
B) can abolish the Fed by presidential announcement.
C) both A and B of the above.
D) neither A nor B of the above.
- 12) The Fed enjoys a high degree of independence for a government agency; however, it feels pressure 12) _____
from the president and Congress because
A) Congress could limit the Fed's powers through legislation.
B) Fed governors desire reappointment every three years.
C) the Fed must have its operating revenues approved annually by Congress.
D) of all of the above.
E) of both B and C of the above.
- 13) Of the major central banks of the world, the most independent is 13) _____
A) the European Central Bank.
B) the Federal Reserve System.
C) the Bank of Canada.
D) the Bank of England.
E) the Bank of Japan.
- 14) Which of the following statements about central bank structure and independence are true? 14) _____
A) Before the Bank of England was granted greater independence, the Federal Reserve was the most independent of the world's central banks.
B) In recent years, with the exception of the Bank of England and the Bank of Japan, most countries have reduced the independence of their central banks, subjecting them to greater democratic control.
C) Both theory and experience suggest that more independent central banks produce better monetary policy.
D) All of the above are true statements.
E) Only A and B of the above are true statements.
- 15) Which of the following actions are consistent with the theory of bureaucratic behavior? 15) _____
A) The Fed blames high interest rates on budget deficits rather than on inflationary money growth.
B) The Fed delays the release of Federal Open Market Committee directives.
C) The Fed reports its target paths for more than one monetary aggregate.
D) All of the above are consistent with the theory of bureaucratic behavior.
E) Only B and C are consistent with the theory of bureaucratic behavior.

- 16) The case for Federal Reserve independence does not include the idea that 16) _____
- A) a politically insulated Fed would be more concerned with long-run objectives and thus be a defender of a sound dollar and a stable price level.
 - B) policy is always performed better by an elite group such as the Fed.
 - C) political pressure would impart an inflationary bias to monetary policy.
 - D) a Federal Reserve under the control of Congress or the president might make the so-called political business cycle more pronounced.
- 17) Advocates of Fed independence fear that subjecting the Fed to direct presidential or congressional control would 17) _____
- A) force monetary authorities to sacrifice the long-run objective of price stability.
 - B) make the so-called political business cycle even more pronounced.
 - C) impart an inflationary bias to monetary policy.
 - D) do all of the above.
 - E) do only A and B of the above.
- 18) Which of the following statements concerning an independent central bank are true? 18) _____
- A) Politicians in a democratic society may be shortsighted because of their desire to win reelection; thus, the political process may generate a political business cycle, in which just before an election expansionary policies are pursued to lower unemployment and interest rates.
 - B) Putting the Fed under control of the president, as a part of the U.S. Treasury, may place too much pressure on the Fed to finance federal budget deficits, thereby imparting an inflationary bias to monetary policy.
 - C) Politicians may prefer an independent central bank, as it can be used as a "whipping boy" or "scapegoat" for poor economic performance.
 - D) All of the above are true statements.
- 19) Countries with the most independent central banks have low inflation 19) _____
- A) but have higher output fluctuations than countries with less independent central banks.
 - B) and have lower rates of unemployment than countries with less independent central banks.
 - C) but have no higher unemployment or output fluctuations than countries with less independent central banks.
 - D) but have higher unemployment than countries with less independent central banks.
 - E) both A and B of the above.
- 20) The president from which Federal Reserve Bank always has a vote in the Federal Open Market Committee? 20) _____
- A) Philadelphia
 - B) Boston
 - C) New York
 - D) San Francisco

Answer Key

Testname: PRACTICE_CH14

- 1) B
- 2) E
- 3) D
- 4) B
- 5) D
- 6) B
- 7) D
- 8) B
- 9) E
- 10) E
- 11) A
- 12) A
- 13) A
- 14) C
- 15) D
- 16) B
- 17) D
- 18) D
- 19) C
- 20) C