1) Bank panics in the nineteenth and early twentieth centuries convinced many that
   A) the Federal Reserve needed greater authority to deal with problem banks.
   B) the Federal Reserve needed greater control over the banking system.
   C) a central bank was needed to prevent future financial panics.
   D) both A and B of the above.

2) The primary reason for the creation of the Federal Reserve System was
   A) the desire to increase the demand for government bonds.
   B) the desire to stabilize short–term interest rates.
   C) the desire to create a means to finance World War I.
   D) the desire to reduce or eliminate bank panics.
   E) the desire to eliminate state–chartered banks.

3) When the charter of the Second Bank of the United States expired in 1836
   A) the lack of a lender of last resort did not affect the banking system.
   B) the lack of a lender of last resort led to increased banking panics.
   C) the Treasury assumed the role of a lender of last resort.
   D) the incidence of banking panics declined.
   E) both A and D of the above.

4) The first two experiments in central banking in the United States in the early 19th Century, combined with financial panics that followed, convinced Americans that
   A) regulation of the banking system had proved to be too costly.
   B) the advantages of a central bank outweighed its disadvantages.
   C) regional Federal Reserve System banks needed to be created as a check on the power possessed by the Board of Governors of the Federal Reserve System.
   D) all of the above.

5) The unusual structure of the Federal Reserve System is perhaps best explained by
   A) Americans' fear of centralized power.
   B) the traditional American distrust of moneyed interests.
   C) Americans' desire to remove control of the money supply from the U.S. Treasury.
   D) all of the above.
   E) only A and B of the above.

6) Which of the following are entities of the Federal Reserve System?
   A) The FOMC
   B) Federal Reserve Banks
   C) The Board of Governors
   D) All of the above are Federal Reserve entities
   E) Only A and B of the above are Federal Reserve entities

7) Banks subject to reserve requirements set by the Federal Reserve System include
   A) all banks whether or not they are members of the Federal Reserve System.
   B) only nationally chartered banks.
   C) only state chartered banks.
   D) only banks with assets less than $500 million.
   E) only banks with assets less than $100 million.

8) The _____ Fed bank, whose president is the only permanent member of the Federal Open Market Committee, is the most important of the Federal Reserve Banks.
   A) Chicago
   B) Washington, DC
   C) New York
   D) Los Angeles
   E) Miami

9) The special status of the Federal Reserve Bank of New York stems from
   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.

10) The functions of the regional Federal Reserve Banks include
   A) clearing checks.
   B) "establishing" the discount rate.
   C) rationing discount loans to banks.
   D) all of the above.
   E) both A and C of the above.

11) While the discount rate is "established" by the regional Federal Reserve Banks, in truth, the rate is determined by
   A) the Federal Advisory Council.
   B) Congress.
   C) the Board of Governors.
   D) the president of the United States.
   E) the Senate.

12) An important function of the regional Federal Reserve Banks is
   A) setting margin requirements.
   B) clearing checks.
   C) setting reserve requirements.
   D) determining monetary policy.
   E) all of the above.

13) Which of the following functions are not performed by any of the twelve regional Federal Reserve Banks?
A) Setting interest rates payable on time deposits
B) Conducting economic research
C) Check clearing
D) Issuing new currency

14) Each Fed bank president attends FOMC meetings; although only _____ Fed bank presidents vote on policy, all _____ provide input.
A) five, twelve
B) three, twelve
C) four, twelve
D) three, ten

15) Members of the Board of Governors are
A) appointed by the newly elected president of the United States, as are cabinet positions.
B) chosen by the Federal Reserve Bank presidents.
C) never allowed to serve more than 7–year terms.
D) appointed by the president of the United States and confirmed by the Senate as members resign.

16) Each member of the seven–member Board is appointed by the president and confirmed by the Senate to serve
A) as long as the appointing president remains in office.
B) 14–year terms.
C) 4–year terms.
D) 6–year terms.

17) The Federal Open Market Committee consists of
A) the seven members of the Board of Governors and seven presidents of the regional Fed banks.
B) the seven members of the Board of Governors and five presidents of the regional Fed banks.
C) the five senior members of the seven–member Board of Governors.
D) the twelve regional Fed bank presidents and the chairman of the Board of Governors.

18) The Federal Reserve entity that determines monetary policy strategy is the
A) Shadow Open Market Committee.
B) chairman of the Board of Governors.
C) Board of Governors.
D) Federal Open Market Committee.

19) Within the Federal Reserve System, the power is located in
A) Washington, D.C.
B) New York.
C) Boston.
D) San Francisco.
E) Chicago.

20) The chairman of the Board of Governors of the Federal Reserve System exercises a high degree of control over the Board
A) through his ability to set the agenda of the Board and the FOMC.
B) through his role as spokesman for the Fed with the president and before Congress.
C) because he can veto decisions made by a majority of the other board members.
D) because of all of the above.
E) because of only A and B of the above.

21) Which of the following are true statements?
   A) The FOMC usually meets every six weeks to set monetary policy.
   B) Designers of the Federal Reserve Act did not envision the use of open market operations as a monetary policy tool.
   C) The FOMC issues a directive to the trading desk at the New York Fed.
   D) All of the above are true statements.
   E) Only A and B of the above are true statements.

22) Instrument independence is
   A) the ability of the central bank to set monetary policy goals.
   B) the ability of Congress to set monetary policy instruments.
   C) the ability of Congress to set monetary policy goals.
   D) the ability of the president to set monetary policy instruments.
   E) the ability of the central bank to set monetary policy instruments.

23) Goal independence is
   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.

24) Members of Congress are able to influence monetary policy, albeit indirectly, through their ability to
   A) withhold appropriations from the Board of Governors.
   B) propose legislation that would force the Fed to submit budget requests to Congress, as must other government agencies.
   C) withhold appropriations from the Federal Open Market Committee.
   D) do all of the above.

25) Although it enjoys a high degree of autonomy, the Fed is still subject to the influence of Congress because
   A) Congress can withhold the Fed appropriations.
   B) Congress can remove members of the Board of Governors on a whim.
   C) Congress can pass legislation that would restrict the Fed independence.
   D) of all of the above.

26) Factors that provide the Federal Reserve with a high degree of autonomy include
   A) a source of revenue free from the appropriations process.
   B) 14–year terms for members of the Board of Governors.
   C) a 4–year term for the chairman of the Board of Governors that does not coincide with the president's 4–year term.
   D) all of the above.
   E) only A and B of the above.

27) Although it enjoys a high degree of autonomy, the Fed is still subject to the influence of the president because
   A) the president can veto legislation that would limit Fed appropriations.
   B) the president can remove members of the Board of Governors on a whim.
   C) the president can veto legislation that would restrict Fed independence.
   D) of only A and B of the above.

28) The central bank which is generally regarded as the most independent in the world because its charter cannot be changed by legislation is the
   A) European Central Bank.
   B) Bank of Canada.
   C) Bank of Japan.
   D) Bank of England.

29) Regarding central bank independence,
   A) the European Central Bank is more independent than the Fed.
   B) the Fed is more independent than the European Central Bank.
   C) the trend in industrialized nations has been to reduce central bank independence.
   D) the Bank of England has the longest tradition of independence of any central bank in the world.
   E) none of the above are true.

30) The European Central Bank enjoys
   A) political independence from nation governments and the European Union.
   B) instrument independence.
   C) goal independence.
   D) all of the above.
   E) both A and B of the above.

31) The trend in recent years is that more and more governments
   A) have mandated that their central banks focus on controlling inflation.
   B) have required their central banks to cooperate more with their Ministers of Finance.
   C) have been reducing the independence their central banks to make them more accountable for poor economic performance.
   D) have been granting greater independence to their central banks.

32) Which of the following statements about central bank structure and independence are true?
   A) Both theory and experience suggest that more independent central banks produce better monetary policy.
   B) At one time the Federal Reserve was substantially more independent than other central banks, with the exception of those in Germany and Switzerland.
   C) In recent years there has been a remarkable trend toward increasing independence.
   D) All of the above are true statements.
   E) Only A and B of the above are true statements.

33) The theory of bureaucratic behavior suggests that the objective of a bureaucracy is to maximize
A) conflict with the executive and legislative branches of government.
B) the public's welfare.
C) profits.
D) its own welfare.

34) The theory of bureaucratic behavior when applied to the Fed helps to explain why the Fed
A) resists so vigorously congressional attempts to limit the central bank's autonomy.
B) sought greater control over banks in the 1980s.
C) is so secretive about the conduct of future monetary policy.
D) all of the above.
E) only A and B of the above.

35) According to the theory of bureaucratic behavior,
A) the bureaucracy will support legislation that gives it additional regulatory power.
B) the bureaucracy will fight vigorously to preserve its autonomy; thus, it will attempt to avoid conflict with the president and Congress.
C) the objective of a bureaucracy is to maximize its own welfare, meaning that it seeks additional power and prestige.
D) all of the above describe bureaucratic behavior.
E) only A and B of the above describe bureaucratic behavior.

36) Supporters of the current system of Fed independence believe that a less autonomous Fed would
A) pursue overly expansionary monetary policies.
B) adopt a short–run bias toward policymaking.
C) be more likely to create a political business cycle.
D) do each of the above.
E) do only B and C of the above.

37) Federal Reserve independence is thought to
A) lead to better fiscal and monetary policy coordination.
B) introduce longer–run considerations to monetary policymaking.
C) introduce a short–term bias to monetary policymaking.
D) do both A and B of the above.

38) The case for Federal Reserve independence does not include the idea that
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.

39) The case for Federal Reserve independence includes the idea that
   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) a Federal Reserve under the control of Congress or the president might make the so–called political business cycle more pronounced.
   C) political pressure would impart an inflationary bias to monetary policy.
   D) all of the above.

40) Advocates of Fed independence fear that subjecting the Fed to direct presidential or congressional control would
   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.

41) Putting the Fed under control of the president, as a part of the U.S. Treasury, may
   A) place too much pressure on the Fed to finance federal budget deficits.
   B) impart an inflationary bias to monetary policy.
   C) generate a political business cycle, in which just before an election contractionary policies are pursued to raise unemployment and interest rates.
   D) cause all of the above.
   E) cause only A and B of the above.

42) Critics of the current system of Fed independence contend that
   A) voters have too much say about monetary policy.
   B) the current system is undemocratic.
   C) the president has too much control over monetary policy on a day–to–day basis.
   D) all of the above are true.

43) Critics of Fed independence argue
   A) that it is undemocratic to have monetary policy controlled by an elite group responsible to no one.
   B) that the Fed, since it does not face a binding budget constraint, spends too much of its earnings.
   C) that an independent Fed conducts monetary policy with a consistent inflationary bias.
   D) only A and B of the above.

44) Recent research indicates that inflation performance (low inflation) has been found to be best in countries with
   A) political control of monetary policy.
   B) the most independent central banks.
   C) the least independent central banks.
   D) money financing of budget deficits.
   E) a policy of always keeping interest rates low.

Answer Key
Testname: CH15

1) C
2) D
3) B
4) B
5) E
6) D
7) A
8) C
9) D
10) D
11) C
12) B
13) A
14) A
15) D
16) B
17) B
18) D
19) A
20) E
21) D
22) E
23) E
24) B
25) C
26) D
27) C
28) A
29) A
30) D
31) D
32) D
33) D
34) D
35) D
36) D
37) B
38) B
39) D
40) D
41) E
42) B
43) A
44) B