

## **Chapter 10 Practice Test**

*Indicate whether the statement is true or false. If it is false, change the identified word(s) to make the statement true.*

- \_\_\_ 1. Although banks are engaged in a number of different activities, the primary one is lending money, which they mainly get from investors who purchase stock in banks.
- \_\_\_ 2. The shareholders of a corporate bank are responsible for the bank's debts.
- \_\_\_ 3. Certificates of deposit actually are not deposits, but loans from consumers to banks.
- \_\_\_ 4. Certificates of deposit are also known as DDAs or “Demand Deposit Accounts.”
- \_\_\_ 5. The reserve requirement is the formula used to compute the amount of a depository institution’s required reserves.

*Indicate the answer choice that best completes the statement or answers the question.*

- \_\_\_ 6. The National Banking System was created in \_\_\_\_\_ to standardize currency and banking practices in the United States.
  - a. 1861
  - b. 1863
  - c. 1900
  - d. 1933
- \_\_\_ 7. The United States went on the gold standard in \_\_\_\_\_ and then went off the gold standard in \_\_\_\_\_.
  - a. 1787, 1811
  - b. 1863, 1876
  - c. 1900, 1933
  - d. 1941, 1945
- \_\_\_ 8. Which of the following is one of the three functions of money?
  - a. portability
  - b. scarcity
  - c. store of value
  - d. divisibility
- \_\_\_ 9. Which of the following terms best describes “greenbacks”?
  - a. legal tender
  - b. counterfeit currency
  - c. backed by gold
  - d. worthless

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- \_\_\_ 10. Accessing funds in time deposit accounts is
- a. restricted.
  - b. forbidden.
  - c. required on demand.
  - d. limited to bank employees.
- \_\_\_ 11. The technological development in banking called the \_\_\_\_\_ is replacing magnetic strip technology.
- a. EFT
  - b. ATM
  - c. smart card
  - d. credit union
- \_\_\_ 12. By 1861, about how many kinds of paper currencies were in circulation in the United States?
- a. one
  - b. dozens
  - c. hundreds
  - d. thousands
- \_\_\_ 13. Because of technological developments, the banking industry is steadily moving toward \_\_\_\_\_ banking.
- a. demand
  - b. electronic
  - c. creditworthy
  - d. reserve
- \_\_\_ 14. Which of the following is a DDA?
- a. a debit card
  - b. a credit card
  - c. a checking account
  - d. a savings account
- \_\_\_ 15. Which statement best explains why money was invented?
- a. Money was invented to facilitate the exchange of goods and services.
  - b. Money was invented to support a barter economy.
  - c. Money was invented to strengthen government power and control.
  - d. Money was invented to lift people out of poverty.

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- \_\_\_ 16. You can easily carry money in a pocket or purse. This reflects what characteristic of money?
- a. legal tender
  - b. limited supply
  - c. durability
  - d. portability
- \_\_\_ 17. Which of the following is a basic characteristic of money?
- a. portability
  - b. durability
  - c. divisibility
  - d. all of the above
- \_\_\_ 18. You pick up a \$1 bill. What are you holding?
- a. currency
  - b. a Federal Reserve note
  - c. fiat money
  - d. all of the above
- \_\_\_ 19. When did Congress print paper currency for the first time?
- a. at the beginning the Revolutionary War
  - b. when the Constitution was ratified
  - c. during the Civil War
  - d. when the country went on the gold standard
- \_\_\_ 20. Which of the following can cost you money in large interest payments?
- a. a debit card
  - b. a credit card
  - c. a checking account
  - d. a savings account
- \_\_\_ 21. What are M1 and M2?
- a. money supplies
  - b. specie
  - c. fiat monies
  - d. currency

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- \_\_\_ 22. Which is a good synonym for the word *barter* in the term *barter economy*?
- a. trade
  - b. fiat
  - c. specie
  - d. monetary
- \_\_\_ 23. Which of the following is an example of fiat money?
- a. tobacco
  - b. hemp
  - c. gold
  - d. wampum
- \_\_\_ 24. The Federal Reserve is the nation's \_\_\_\_\_ bank.
- a. only
  - b. first
  - c. oldest
  - d. central
- \_\_\_ 25. During the Civil War, Congress enacted the National Currency Act, which
- a. created a National Banking System.
  - b. raised money for the Union.
  - c. created a national currency.
  - d. all of the above.
- \_\_\_ 26. In the early 1800s, currency in the United States was issued by
- a. the Fed.
  - b. Congress.
  - c. banks.
  - d. a central bank.
- \_\_\_ 27. Most banks are established
- a. as corporations.
  - b. by local governments.
  - c. to be credit unions.
  - d. to fulfill reserve requirements.

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- \_\_\_ 28. What will your “creditworthiness” be based on?
  - a. your credit history
  - b. keeping up with payments
  - c. having a good financial relationship with a bank
  - d. all of the above
  
- \_\_\_ 29. The risk of ending up with the equivalent of a never-ending loan is one of the disadvantages of using
  - a. debit cards.
  - b. credit cards.
  - c. savings accounts.
  - d. checking accounts.
  
- \_\_\_ 30. Printed on a Federal Reserve note is this statement: “THIS NOTE IS LEGAL TENDER FOR ALL DEBTS, PUBLIC AND PRIVATE.” This reflects money’s function as
  - a. a medium of exchange.
  - b. a measure of value.
  - c. a store of value.
  - d. any of the above.

*Enter the appropriate word(s) to complete the statement.*

31. Money that has an alternative use as an economic good is called \_\_\_\_\_.

\_\_\_\_\_

\_\_\_\_\_

32. Money that has value by government decree is known as \_\_\_\_\_.

\_\_\_\_\_

\_\_\_\_\_

33. The \_\_\_\_\_ is the privately owned, publicly controlled, central bank of the United States.

\_\_\_\_\_

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34. \_\_\_\_\_ are paper currency issued by the Fed.

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35. \_\_\_\_\_ is money in the form of gold or silver coins.

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Match each item with the correct statement below

- a. central bank
- b. gold standard
- c. legal tender
- d. national currency
- e. state bank

- \_\_\_ 36. a bank that receives its charter from the state in which it operates
- \_\_\_ 37. currency that must be accepted for payment by decree of government
- \_\_\_ 38. currency backed by government bonds and issued by commercial banks in the National Banking System
- \_\_\_ 39. a system in which the basic unit of currency is equivalent to, and can be exchanged for, a specific amount of gold
- \_\_\_ 40. a bank that can lend to other banks in times of need, or a “bankers’ bank”

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Match each item with the correct statement below.

- a. central bank
- b. certificates of deposit (CDs)
- c. corporation
- d. Federal Deposit Insurance Corporation (FDIC)
- e. Federal Reserve System (Fed)
- f. fiat money
- g. gold standard
- h. national bank
- i. reserve requirement
- j. stock

- \_\_\_ 41. privately owned, publicly controlled, central bank of the United States
- \_\_\_ 42. money by government decree; has no alternative value or use as a commodity
- \_\_\_ 43. a commercial bank chartered by the National Banking System
- \_\_\_ 44. a system in which the basic unit of currency is equivalent to, and can be exchanged for, a specific amount of gold
- \_\_\_ 45. a bank that can lend to other banks in times of need, or a “bankers’ bank”
- \_\_\_ 46. the United States government institution that provides deposit insurance on the depositor’s account
- \_\_\_ 47. form of business organization recognized by law as a separate legal entity with nearly all the rights and responsibilities of an individual, including the right to buy and sell property, enter into legal contracts, sue, and be sued
- \_\_\_ 48. certificate of ownership in a corporation
- \_\_\_ 49. receipt showing that an investor has made an interest-bearing loan to a financial institution
- \_\_\_ 50. formula used to compute the amount of a depository institution’s required reserves