

## FED, Quiz

1. In what year was the Federal Reserve System created?
  - a. 1913
2. Why did Congress choose to have a private group of bankers in charge of the nation's money supply, as opposed to having Congress in charge? Explain.
  - a. Congress would be prone to inflate the money supply due to political pressures. Private bankers would be less likely to destroy their own commodity, money, by inflating it.
3. How many Federal Reserve banks exist? In which bank district do we live?
  - a. 12, 7th - Chicago
4. How does one become a board member?
  - a. appointed by President, approved by Senate
5. How many members are on the Federal Reserve Board?
  - a. 7
6. What is the length of a term on the Federal Reserve Board?
  - a. 14 years
7. Terms for board members are staggered. Explain.
  - a. New members begin terms every two years.
8. Who is the chairman of the Federal Reserve Board? (2021)
  - a. Jerome Powell
9. What is the general term for all regulations of money combined?
  - a. monetary policy
10. What are three major tools of monetary policy?
  - a. money supply (Open Market Operations), reserve rate, discount rate
11. What is the "**reserve rate**"?
  - a. the percentage of deposits that a bank must keep in reserve
12. Why must banks keep "reserves"?
  - a. in case depositors want their money
13. Why don't banks need to keep all their deposits in reserve?
  - a. not all depositors want their money at any given time
14. What is the actual, approximate, present reserve rate required by the FED?
  - a. 10%
15. What is the "**discount rate**"? What is the current rate?
  - a. rate at which the FED loans money to member banks, 2.75% (2021)
16. What is the name of the committee that buys and sells government securities?
  - a. Federal Open Market Committee
17. Why does the FED increase or decrease the nation's "**money supply**"? Explain.
  - a. increase to encourage more economic activity, decrease to discourage inflation

18. If the FED buys \$1,000,000 of government securities, and if the reserve rate were 10%, how much new money has been created by the time a 3rd bank receives its deposit? ( $\$2,729,000 = \$1,000,000 + \$910,000 + \$819,000$ )
- \$2,729,000
19. What happens if there is too much money? too little?
- inflation, recession (depression)
20. Define "inflation"?
- too much money chasing too few goods
21. In a single word, what creates money?
- borrowing
22. Positively, state the two goals of the FED in monetary policy. Negatively, what two situations does the FED attempt to avoid.
- stables prices, sustained economic growth; inflation, recession
23. Explain the tension between these two goals of monetary policy.
- more money means more economic activity and growth, but more money means inflation is more likely; less means means inflation is less likely, but means that economic activity is more difficult and growth is more slow
24. State the 3 attempts at a national banking system and the years attempted.
- First Bank, 1791-1811; Second Bank, 1816-1836; Federal Reserve, 1913-
25. What does it mean that the FED regulates member banks?
- insures that banks follow rules and regulations laid down by the FED
26. Explain how does the FED inspect currency.
- destroys currency in poor conditions, introduces new currency, finds counterfeit bills
27. Explain how the FED supervises electronic payments.
- oversees and facilities electronic transfers, such as utility bill payments, etc.
28. Explain how the FED acts as a check clearing center.
- receives, sorts, and delivers checks from and to appropriate banks
29. Explain how the FED acts as a financial agent to the federal government.
- sells or buys securities for the federal government, performs other economic services the government needs
30. How much does the FED hold in Treasury bonds (9/2021)?
- \$3.7 trillion