Chapter 14
Structure of Central Banks and the Federal Reserve System

■ Multiple Choice

1) Americans' fear of centralized power and their distrust of moneyed interests explains why the U.S. did not have a central bank until the
(a) 17th century.
(b) 18th century.
(c) 19th century.
(d) 20th century.
Answer: D
Question Status: Previous Edition

2) The public's hostility to the existence of a central bank led to the demise of the first two experiments in central banking:
(a) the First Bank of the United States and the Second Bank of the United States.
(b) the First Bank of the United States and the Central Bank of the United States.
(c) the First Central Bank of the United States and the Second Central Bank of the United States.
(d) the First Bank of North America United States and the Second Bank of North America.
Answer: A
Question Status: Previous Edition

3) Bank panics in the nineteenth and early twentieth centuries convinced many that
(a) the Federal Reserve needed greater control over the banking system.
(b) the Federal Reserve needed greater authority to deal with problem banks.
(c) a central bank was needed to prevent future financial panics.
(d) both (a) and (b) of the above.
Answer: C
Question Status: Revised

4) The primary reason for the creation of the Federal Reserve System was
(a) the desire to reduce or eliminate bank panics.
(b) the desire to stabilize short-term interest rates.
(c) the desire to eliminate state-chartered banks.
(d) the desire to create a means to finance World War I.
(e) the desire to increase the demand for government bonds.
Answer: A
Question Status: Study Guide

5) The primary reason for the creation of the Federal Reserve System was
(a) the desire to have a lender of last resort.
(b) the desire to stabilize short-term interest rates.
(c) the desire to eliminate state-chartered banks.
(d) the desire to create a means to finance World War I.
(e) the desire to increase the demand for government bonds.

Answer: A
Question Status: New

6) When the charter of the Second Bank of the United States expired in 1836
(a) the incidence of banking panics declined.
(b) the lack of a lender of last resort did not affect the banking system.
(c) the lack of a lender of last resort led to increased banking panics.
(d) the Treasury assumed the role of a lender of last resort.
(e) both (a) and (d) of the above.

Answer: C
Question Status: New

7) The financial panic of 1907 resulted in such widespread bank failures and substantial losses to depositors that the American public finally became convinced that
(a) the First Bank of the United States had failed to serve as a lender of last resort.
(b) the Second Bank of the United States had failed to serve as a lender of last resort.
(c) the Federal Reserve System had failed to serve as a lender of last resort.
(d) a central bank was needed to prevent future panics.

Answer: D
Question Status: Previous Edition

8) Nationwide financial panics in the nineteenth and early twentieth centuries might have been avoided had
(a) the First Bank of the United States served its intended role of lender of last resort.
(b) the Second Bank of the United States served its intended role of lender of last resort.
(c) the Second Bank of the United States not been abolished in 1836 by president Andrew Jackson.
(d) the Federal Reserve served its intended role of lender of last resort.

Answer: C
Question Status: Revised

9) 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) the advantages of a central bank outweighed its disadvantages.
(b) regulation of the banking system had proved to be too costly.
(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.

Answer: A
Question Status: Previous Edition

10) 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.

Answer: E
Question Status: Previous Edition

11) The traditional American distrust of moneyed interests and the fear of centralized power helps to explain
(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 not located in New York.
(d) all of the above.
(e) only (a) and (b) of the above.

Answer: D
Question Status: Previous Edition

12) The traditional American distrust of moneyed interests and the fear of centralized power helps to explain
(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.

Answer: E
Question Status: Previous Edition

13) The many regional Federal Reserve banks resulted from a compromise between parties favoring
(a) establishment of a central bank and those opposed to its establishment.
(b) a private central bank and those favoring a government institution.
(c) establishment of the Board of Governors in Washington, D.C. and those preferring its establishment in New York City.
(d) none of the above.

Answer: B
Question Status: Previous Edition

14) Which of the following is not an entity of the Federal Reserve System?
(a) Federal Reserve Banks
(b) The FDIC
(c) The Board of Governors
(d) The Board of Advisors

Answer: B
Question Status: Previous Edition

15) Which of the following is not an entity of the Federal Reserve System?
(a) Federal Reserve Banks
(b) The Comptroller of the Currency
(c) The Board of Governors
(d) The Federal Open Market Committee
(e) None of the above

Answer: B
Question Status: Previous Edition

16) Which of the following are entities of the Federal Reserve System?
(a) Federal Reserve Banks
(b) The FOMC
(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

Answer: D
Question Status: Previous Edition

17) Which of the following are entities of the Federal Reserve System?
(a) Federal Reserve Banks
(b) The FDIC
(c) The Board of Advisors
(d) All of the above are Federal Reserve entities
(e) Only (a) and (b) of the above are Federal Reserve entities

Answer: A
Question Status: Previous Edition

18) Which of the following are entities of the Federal Reserve System?
(a) Federal Reserve Banks
(b) The FOMC
(c) The Board of Advisors
(d) Only (a) and (b) of the above are Federal Reserve entities

Answer: D
Question Status: Previous Edition

19) Which of the following is an element of the Federal Reserve System?
(a) The Federal Reserve Banks
(b) The Board of Governors
(c) The FDIC
(d) Each of the above
(e) Only (a) and (b) of the above

Answer: E
Question Status: Previous Edition

20) Which of the following is an element of the Federal Reserve System?
(a) The Federal Reserve Banks
(b) The Board of Governors
(c) The FOMC
(d) Each of the above
Answer: D
Question Status: Previous Edition

21) Member commercial banks have purchased stock in their district Fed banks; the dividend paid by that stock is limited to
(a) four percent annually.
(b) five percent annually.
(c) six percent annually.
(d) eight percent annually.
Answer: C
Question Status: Previous Edition

22) All _____ are required to be members of the Fed.
(a) state chartered banks
(b) nationally chartered banks
(c) banks with assets less than $100 million
(d) banks with assets less than $500 million
Answer: B
Question Status: Previous Edition

23) Of all commercial banks,
(a) about 15 percent belong to the Federal Reserve System.
(b) about 20 percent belong to the Federal Reserve System.
(c) about 33 percent belong to the Federal Reserve System.
(d) about 50 percent belong to the Federal Reserve System.
Answer: C
Question Status: Previous Edition

24) Prior to 1980, member banks left the Federal reserve System due to
(a) the high cost of discount loans.
(b) the high cost of required reserves.
(c) the high margin requirements.
(d) a desire to avoid interest rate regulations.
(e) a desire to avoid credit controls.
Answer: B
Question Status: New

25) Prior to 1980, member banks left the Federal Reserve System due to
(a) the high cost of discount loans.
(b) the high cost of required reserves.
(c) the high margin requirements.
(d) all of the above.
(e) both (a) and (b) of the above.

Answer: B
Question Status: New

26) The Fed's support of the Depository Institutions Deregulation and Monetary Control Act of 1980 stemmed in part from its
(a) concern over declining Fed membership.
(b) belief that all banking regulations should be eliminated.
(c) belief that interest rate ceilings were too high.
(d) belief that depositors had to become more knowledgeable of banking operations.

Answer: A
Question Status: Previous Edition

27) Banks subject to reserve requirements set by the Federal Reserve System include
(a) only state chartered banks.
(b) only nationally chartered banks.
(c) only banks with assets less than $100 million.
(d) only banks with assets less than $500 million.
(e) all banks whether or not they are members of the Federal Reserve System.

Answer: E
Question Status: Previous Edition

28) The Depository Institutions Deregulation and Monetary Control Act of 1980
(a) established higher reserve requirements for nonmember than for member banks.
(b) established higher reserve requirements for member than for nonmember banks.
(c) abolished reserve requirements.
(d) established uniform reserve requirements for all banks.
(e) did none of the above.

Answer: D
Question Status: New

29) While the Depository Institutions Deregulation and Monetary Control Act of 1980 required that all banks comply with the Fed's reserve requirements, it gave nonmember banks equal access to
(a) the Fed's check clearing services.
(b) the Fed's discount window.
(c) the Fed's dividend payments.
(d) all of the above.
(e) both (a) and (b) of the above.

Answer: E
Question Status: New

30) 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) Los Angeles
(c) Miami
(d) New York
(e) Washington, DC

Answer: D
Question Status: Revised

31) The president from which Federal Reserve Bank always has a vote in the Federal Open Market Committee?
(a) Philadelphia
(b) Boston
(c) San Francisco
(d) New York

Answer: D
Question Status: Previous Edition

32) The special status of the Federal Reserve Bank of New York stems from
(a) the New York Fed's membership in the Bank for International Settlements.
(b) the fact that open market operations are conducted in New York.
(c) the fact that the New York Fed holds more gold than Fort Knox.
(d) all of the above.
(e) both (a) and (b) of the above.

Answer: D
Question Status: New

33) The special status of the Federal Reserve Bank of New York stems from
(a) the fact that power within the Federal Reserve System is centered in New York.
(b) the fact that the president of the New York Fed chairs the Federal Open Market Committee.
(c) the fact that the New York Fed holds more gold than Fort Knox.
(d) all of the above.
(e) both (a) and (b) of the above.

Answer: C
Question Status: New

34) The functions of the regional Federal Reserve Banks include
(a) "establishing" the discount rate.
(b) rationing discount loans to banks.
(c) clearing checks.
(d) all of the above.
(e) both (a) and (c) of the above.

Answer: D
Question Status: Study Guide

35) While the discount rate is "established" by the regional Federal Reserve Banks, in truth, the rate is determined by

(a) Congress.
(b) the president of the United States.
(c) the Senate.
(d) the Board of Governors.
(e) the Federal Advisory Council.

Answer: D
Question Status: Study Guide

36) An important function of the regional Federal Reserve Banks is

(a) setting reserve requirements.
(b) clearing checks.
(c) determining monetary policy.
(d) setting margin requirements.
(e) all of the above.

Answer: B
Question Status: New

37) An important function of the regional Federal Reserve Banks is

(a) issuing new currency.
(b) collecting data on local business conditions.
(c) clearing checks.
(d) all of the above.
(e) both (a) and (c) of the above.

Answer: D
Question Status: New

38) An important function of the regional Federal Reserve Banks is

(a) setting reserve requirements.
(b) removing damaged currency from circulation.
(c) determining monetary policy.
(d) setting margin requirements.
(e) all of the above.

Answer: B
Question Status: New

39) Which of the following functions are not performed by any of the twelve regional Federal Reserve Banks?

(a) Check clearing
(b) Conducting economic research
(c) Setting interest rates payable on time deposits
(d) Issuing new currency

Answer: C
Question Status: Previous Edition

40) Each Fed bank president attends FOMC meetings; although only _____ Fed bank presidents vote on policy, all _____ provide input.

(a) three, ten

(b) five, ten

(c) three, twelve

(d) five, twelve

Answer: D
Question Status: Previous Edition

41) Which of the following are duties of the Board of Governors of the Federal Reserve System?

(a) Setting margin requirements, the fraction of the purchase price of the securities that has to be paid for with cash.

(b) Setting the maximum interest rates payable on certain types of time deposits under Regulation Q.

(c) Regulating credit with the approval of the president under the Credit Control Act of 1969.

(d) None of the above have been duties of the Board since the mid-1980s.

Answer: A
Question Status: Previous Edition

42) Which of the following are not duties of the Board of Governors of the Federal Reserve System?

(a) Setting margin requirements, the fraction of the purchase price of the securities that has to be paid for with cash.

(b) Setting the maximum interest rates payable on certain types of time deposits under Regulation Q.

(c) Approving the discount rate "established" by the Federal Reserve banks.

(d) Representing the United States in negotiations with foreign governments on economic matters.

Answer: B
Question Status: Previous Edition

43) Members of the Board of Governors are

(a) chosen by the Federal Reserve Bank presidents.

(b) appointed by the newly elected president of the United States, as are cabinet positions.

(c) appointed by the president of the United States and confirmed by the Senate as members resign.

(d) never allowed to serve more than 7-year terms.

Answer: C
Question Status: Previous Edition

44) Each member of the seven-member Board is appointed by the president and confirmed by the Senate to serve

(a) 4-year terms.

(b) 6-year terms.

(c) 14-year terms.

(d) as long as the appointing president remains in office.

Answer: C
Question Status: Previous Edition

45) The Board of Governors
(a) establishes, within limits, reserve requirements.
(b) effectively sets the discount rate.
(c) sets margin requirements.
(d) does all of the above.
(e) does only (a) and (b) of the above.
Answer: D
Question Status: Previous Edition

46) The Federal Open Market Committee consists of
(a) the five senior members of the seven-member Board of Governors.
(b) the seven members of the Board of Governors and seven presidents of the regional Fed banks.
(c) the seven members of the Board of Governors and five presidents of the regional Fed banks.
(d) the twelve regional Fed bank presidents and the chairman of the Board of Governors.
Answer: C
Question Status: Previous Edition

47) The Federal Reserve entity that determines monetary policy strategy is the
(a) Board of Governors.
(b) chairman of the Board of Governors.
(c) Federal Open Market Committee.
(d) Shadow Open Market Committee.
Answer: C
Question Status: Previous Edition

48) The majority of members of the Federal Open Market Committee are
(a) Federal Reserve Bank presidents.
(b) members of the Federal Advisory Council.
(c) presidents of member banks.
(d) the seven Federal Reserve governors.
(e) none of the above.
Answer: D
Question Status: Study Guide

49) In the United States monetary policy is determined by
(a) the Board of Governors.
(b) the district Federal Reserve banks.
(c) the Federal Open Market Committee.
(d) the Federal Advisory Council.
(e) the Comptroller of the Currency.
Answer: C
Question Status: Study Guide

50) Although neither _____ nor the _____ are officially set by the Federal Open Market Committee, decisions concerning these policy tools are effectively made by the committee.
(a) margin requirements; discount rate
(b) margin requirements; federal funds rate
(c) reserve requirements; discount rate
(d) reserve requirements; federal funds rate
Answer: C
Question Status: Previous Edition

51) Although the Federal Open Market Committee does not have formal authority to set _____ and the _____, it does possess the authority in practice.
(a) margin requirements; discount rate
(b) margin requirements; federal funds rate
(c) reserve requirements; discount rate
(d) reserve requirements; federal funds rate
Answer: C
Question Status: Previous Edition

52) 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
(a) red book.
(b) beige book.
(c) green book.
(d) blue book.
(e) black book.
Answer: B
Question Status: New

53) The Federal Open Market Committee's "balance of risks" is an assessment of whether, in the future, its primary concern will be
(a) higher exchange rates or higher unemployment.
(b) higher inflation or a stronger economy.
(c) higher inflation or a weaker economy.
(d) lower inflation or a stronger economy.
(e) lower inflation or a federal budget surplus.
Answer: C
Question Status: New

54) The designers of the Federal Reserve Act meant to create a central bank characterized by its
(a) system of checks and balances and decentralization of power.
(b) strong concentration of power in the hands of a few men.
(c) inability to function as a lender-of-last-resort.
(d) responsiveness to the electorate.
Answer: A
Question Status: Previous Edition

55) Designers of the Federal Reserve Act of 1913 had not intended for the Fed to use
(a) open market operations as a monetary policy tool.
(b) reserve requirements as a monetary policy tool.
(c) the discount rate as a monetary policy tool.
(d) either (a) or (b) of the above.
(e) either (a) or (c) of the above.
Answer: D
Question Status: Previous Edition

56) The designers of the Federal Reserve Act of 1913 intended the Fed to have one primary monetary tool:
(a) open market operations.
(b) discounting.
(c) setting reserve requirements.
(d) setting margin requirements.
Answer: B
Question Status: Previous Edition

57) Within the Federal Reserve System, the power is located in
(a) New York.
(b) Washington, D.C.
(c) Boston.
(d) Chicago.
(e) San Francisco.
Answer: B
Question Status: Study Guide

58) 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.
Answer: E
Question Status: Previous Edition

59) Which of the following are true statements?
(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 open market operations as a monetary policy tool.
(d) All of the above are true statements.
(e) Only (a) and (b) of the above are true statements.
Answer: D
Question Status: Previous Edition

60) Which of the following are true statements?
(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.

Answer: E
Question Status: Previous Edition

61) Which of the following are true statements?
(a) The Banking Acts of 1933 and 1935 set in motion a series of changes that gave the Board of Governors more control over Fed operations.
(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.

Answer: E
Question Status: Revised

62) Which of the following are true statements?
(a) The Banking Acts of 1933 and 1935 set in motion a series of changes that gave the Board of Governors more control over Fed operations.
(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 open market operations as a monetary policy tool.
(d) All of the above are true statements.
(e) Only (a) and (b) of the above are true statements.

Answer: D
Question Status: Revised

63) The power within the Federal Reserve was effectively transferred to the Board of Governors by
(a) the banking legislation of the Great Depression.
(b) Supreme Court decisions in the 1950s.
(c) the Depository Institutions Deregulation and Monetary Control Act of 1980.
(d) the Accord of 1951.

Answer: A
Question Status: Previous Edition

64) Instrument independence is
(a) the ability of the central bank to set monetary policy goals.
(b) the ability of Congress to set monetary policy goals.
(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 instruments.

Answer: E
Question Status: New

65) The ability of a central bank to set monetary policy instruments is
(a) political independence.
(b) goal independence.
(c) policy independence.
(d) instrument independence.
(e) target independence.

Answer: D
Question Status: New

66) Goal independence is
(a) the ability of the central bank to set monetary policy goals.
(b) the ability of Congress to set monetary policy goals.
(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 instruments.

Answer: A
Question Status: New

67) The ability of a central bank to set monetary policy goals is
(a) political independence.
(b) goal independence.
(c) policy independence.
(d) instrument independence.
(e) target independence.

Answer: B
Question Status: New

68) The Federal Reserve System enjoys
(a) instrument independence.
(b) political dependence.
(c) goal independence.
(d) all of the above.
(e) both (a) and (c) of the above.

Answer: E
Question Status: New

69) The Federal Reserve System enjoys
(a) instrument independence.
(b) political independence.
(c) goal independence.
(d) all of the above.
(e) both (a) and (c) of the above.
Answer: D
Question Status: New

70) Members of Congress are able to influence monetary policy, albeit indirectly, through their ability to
(a) withhold appropriations from the Board of Governors.
(b) withhold appropriations from the Federal Open Market Committee.
(c) propose legislation that would force the Fed to submit budget requests to Congress, as must other government agencies.
(d) do all of the above.
Answer: C
Question Status: Previous Edition

71) Although it enjoys a high degree of autonomy, the Fed is still subject to the influence of Congress because
(a) Congress can pass legislation that would restrict the Fed independence.
(b) Congress can withhold the Fed appropriations.
(c) Congress can remove members of the Board of Governors on a whim.
(d) of all of the above.
Answer: A
Question Status: Previous Edition

72) Which of the following have acted to limit the Federal Reserve's independence?
(a) The Full Employment and Balanced Growth Act of 1978.
(b) House Concurrent Resolution 133.
(c) Both of the above.
(d) Neither of the above.
Answer: C
Question Status: Previous Edition

73) Factors that provide the Federal Reserve with a high degree of autonomy include
(a) 14-year terms for members of the Board of Governors.
(b) a source of revenue free from the appropriations process.
(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.
Answer: D
Question Status: Previous Edition

74) Factors that provide the Federal Reserve with a high degree of independence include
(a) 14-year terms for members of the Board of Governors.
(b) a 4-year term for the chairman of the Board of Governors that is not coincident with the president's term of office.
(c) constitutional independence from Congress and the president.
(d) all of the above.
(e) only (a) and (b) of the above.

Answer: E
Question Status: Previous Edition

75) 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 veto legislation that would restrict Fed independence.
(c) the president can remove members of the Board of Governors on a whim.
(d) of only (a) and (b) of the above.

Answer: B
Question Status: Previous Edition

76) The Fed may feel implicit pressure to support the president's policies since the President
(a) can abolish the Fed by presidential announcement.
(b) can veto legislation that might limit the Fed's discretionary authority and power.
(c) both (a) and (b) of the above.
(d) neither (a) nor (b) of the above.

Answer: B
Question Status: Previous Edition

77) The Federal Reserve System is
(a) remarkably free of the political pressures that influence other government agencies.
(b) more responsive to the political pressures that influence other government agencies.
(c) severely constrained in its policy making by the congressional threat to reduce Fed independence.
(d) both (a) and (c) of the above.

Answer: A
Question Status: Revised

78) With regard to its decisions, the Fed is
(a) remarkably free of the political pressures that influence other government agencies.
(b) more responsive to the political pressures that influence other government agencies.
(c) probably somewhat constrained in its policy making by the congressional threat to reduce Fed independence.
(d) both (a) and (c) of the above.

Answer: D
Question Status: Revised

79) Regarding its operations,

(a) the Fed appears to be remarkably free of the political pressures that influence other government agencies.

(b) as the president can protect the Fed from Congress, the Fed may be responsive to the president's policy preferences.

(c) the Fed appears to be more responsive to the political pressures that influence other government agencies.

(d) both (a) and (b) of the above.

(e) both (b) and (c) of the above.

Answer: D
Question Status: Revised

80) With regard to the degree of independence of the Fed,

(a) as the president can protect the Fed from Congress, the Fed may be responsive to the president's policy preferences.

(b) the Fed is more responsive to the political pressures that influence other government agencies.

(c) the Fed is probably somewhat constrained in its policy making by the congressional threat to reduce Fed independence.

(d) all of the above are true.

(e) only (a) and (c) of the above are true.

Answer: E
Question Status: Revised

81) The Fed enjoys a high degree of independence for a government agency; however, it feels pressure from the president and Congress because

(a) Fed governors desire reappointment every three years.

(b) the Fed must have its operating revenues approved annually by Congress.

(c) Congress could limit the Fed's powers through legislation.

(d) of all of the above.

(e) of both (b) and (c) of the above.

Answer: C
Question Status: Study Guide

82) The chairman of the Board of Governors during the first two-and-one-half years of Ronald Reagan's first term in office was initially appointed by

(a) Jimmy Carter.

(b) Gerald Ford.

(c) Richard Nixon.

(d) Ronald Reagan.

Answer: A
Question Status: Previous Edition

83) The chairman of the Board of Governors during the first two-and-one-half years of Bill Clinton's first term in office was an appointee of

(a) Jimmy Carter.
(b) Gerald Ford.
(c) George Bush.
(d) Richard Nixon.

Answer: C
Question Status: Previous Edition

84) The chairman of the Board of Governors during the first two-and-one-half years of Bill Clinton's first term in office was initially appointed by

(a) Jimmy Carter.
(b) Gerald Ford.
(c) Richard Nixon.
(d) Ronald Reagan.

Answer: D
Question Status: Previous Edition

85) Which of the following statements are true of the Bank of Canada?

(a) The Bank of Canada was established in 1934.
(b) The governor and four deputy governors comprise the monetary policy making body.
(c) Although on paper the Bank of Canada is not as independent as the Federal Reserve, in practice the Bank of Canada is solely in control of monetary policy.
(d) All of the above are true.
(e) Only (a) and (b) of the above are true.

Answer: D
Question Status: Previous Edition

86) Which of the following statements are true of the Bank of Canada?

(a) The governor and four deputy governors comprise the monetary policy making body.
(b) Although on paper the Bank of Canada is not as independent as the Federal Reserve, in practice the Bank of Canada is solely in control of monetary policy.
(c) The government can overrule the Bank and set rates "in extreme economic circumstances" and "for a limited period."
(d) All of the above are true.
(e) Only (a) and (b) of the above are true.

Answer: E
Question Status: Previous Edition

87) Which of the following statements are true of the Bank of England?
(a) The Bank of England was established in 1919.
(b) The governor and four deputy governors comprise the monetary policy making body.
(c) Until 1997, the decision to raise or lower interest rates resided not with the Bank of England but with the chancellor of the Exchequer.
(d) All of the above are true.
(e) Only (a) and (b) of the above are true.

Answer: C
Question Status: Previous Edition

88) Which of the following statements are true of the Bank of England?
(a) The Bank of England was established in 1694.
(b) Until 1997, the decision to raise or lower interest rates resided not with the Bank of England but with the chancellor of the Exchequer.
(c) The government can overrule the Bank and set rates "in extreme economic circumstances" and "for a limited period."
(d) All of the above are true.
(e) Only (a) and (b) of the above are true.

Answer: D
Question Status: Previous Edition

89) The oldest central bank, having been founded in 1694, is the
(a) Bank of England.
(b) Deutsche Bundesbank.
(c) Bank of Japan.
(d) Federal Reserve System.

Answer: A
Question Status: Previous Edition

90) While legislation enacted in 1998 granted the Bank of Japan new powers and greater autonomy, its critics
(a) contend that its independence is limited by the Ministry of Finance's veto power over a portion of its budget.
(b) contend that its independence is too great because it need not pursue a policy of price stability even if that is the popular will of the people.
(c) contend that its independence is too great since the Ministry of Finance no longer has veto power over the bank's budget.
(d) contend that its independence is limited since the Ministry of Finance can dismiss senior bank officials.
(e) none of the above.

Answer: A
Question Status: Study Guide

91) Prior to the establishment of the European Central Bank, which of the following central banks had the greatest degree of independence?

(a) Bank of England
(b) Deutsche Bundesbank
(c) Bank of Japan
(d) Federal Reserve System

Answer: B
Question Status: Previous Edition

92) Prior to the establishment of the European Central bank, which of the following central banks had the greatest degree of independence?

(a) Bank of England
(b) Bank of Canada
(c) Bank of Japan
(d) Swiss National Bank

Answer: D
Question Status: Previous Edition

93) 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) Bank of England.
(b) Bank of Canada.
(c) European Central Bank.
(d) Bank of Japan.

Answer: C
Question Status: Previous Edition

94) Regarding central bank independence,

(a) the Fed is more independent than the European Central Bank.
(b) the European Central Bank is more independent than the Fed.
(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.

Answer: B
Question Status: Study Guide

95) Of the major central banks of the world, the most independent is

(a) the Federal Reserve System.
(b) the European Central Bank.
(c) the Bank of Canada.
(d) the Bank of England.
(e) the Bank of Japan.

Answer: B
Question Status: New

96) Prior to the creation of the European Central Bank, the most independent central banks were the German Bundesbank and
(a) the Federal Reserve System.
(b) the Swiss National Bank.
(c) the Bank of England.
(d) the Bank of Japan.
(e) the Bank of Canada.
Answer: B
Question Status: New

97) The European Central Bank enjoys
(a) instrument independence.
(b) goal independence.
(c) political independence from nation governments and the European Union.
(d) all of the above.
(e) both (a) and (b) of the above.
Answer: D
Question Status: New

98) The trend in recent years is that more and more governments
(a) have been granting greater independence to their central banks.
(b) have been reducing the independence their central banks to make them more accountable for poor economic performance.
(c) have mandated that their central banks focus on controlling inflation.
(d) have required their central banks to cooperate more with their Ministers of Finance.
Answer: A
Question Status: Previous Edition

99) Which of the following statements about central bank structure and independence are true?
(a) In recent years there has been a remarkable trend toward increasing independence.
(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) 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.
Answer: D
Question Status: Previous Edition

100) Which of the following statements about central bank structure and independence are true?
(a) In recent years there has been a remarkable trend toward increasing independence.
(b) In recent years, greater independence has been granted to the Bank of England and the Bank of Japan.
(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.

Answer: D
Question Status: Previous Edition

101) Which of the following statements about central bank structure and independence are true?
(a) 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.
(b) Before the Bank of England was granted greater independence, the Federal Reserve was the most independent of the world's central banks.
(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.

Answer: C
Question Status: Previous Edition

102) Which of the following statements about central bank structure and independence are **not** true?
(a) 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.
(b) Before the Bank of England was granted greater independence, the Federal Reserve was the most independent of the world's central banks.
(c) Both theory and experience suggest that more independent central banks produce better monetary policy.
(d) All of the above are false statements.
(e) Only (a) and (b) of the above are false statements.

Answer: E
Question Status: Previous Edition

103) Which of the following statements about central bank structure and independence are true?
(a) In recent years there has been a remarkable trend toward increasing independence.
(b) In recent years, greater independence has been granted to many central banks, with the exception of the Bank of England and the Bank of Japan, which are still subject to strict governmental control.
(c) In theory, central banks subject to government control produce better monetary policy, but experience suggests that more independent central banks have produced superior monetary policy results.
(d) All of the above are true statements.
(e) Only (a) and (b) of the above are true statements.
Answer: A
Question Status: Previous Edition

104) The theory of bureaucratic behavior suggests that the objective of a bureaucracy is to maximize
(a) the public's welfare.
(b) profits.
(c) its own welfare.
(d) conflict with the executive and legislative branches of government.
Answer: C
Question Status: Previous Edition

105) The theory of bureaucratic behavior suggests that the Federal Reserve will
(a) try to avoid a conflict with the president and Congress over increases in interest rates.
(b) try to gain regulatory power over more banks.
(c) devise clever strategies in an effort to avoid blame for poor economic performance.
(d) do each of the above.
Answer: D
Question Status: Previous Edition

106) Which of the following actions are consistent with the theory of bureaucratic behavior?
(a) The Fed reports its target paths for more than one monetary aggregate.
(b) The Fed delays the release of Federal Open Market Committee directives.
(c) The Fed blames high interest rates on budget deficits rather than on inflationary money growth.
(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.
Answer: D
Question Status: Previous Edition

107) 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) is so secretive about the conduct of future monetary policy.
(c) sought greater control over banks in the 1980s.
(d) all of the above.
(e) only (a) and (b) of the above.
Answer: D
Question Status: Previous Edition

108) 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) is so secretive about the conduct of future monetary policy.
(c) sought less control over banks in the 1980s.
(d) only (a) and (b) of the above.

Answer: D
Question Status: Previous Edition

109) When applied to the Fed, the theory of bureaucratic behavior explains why the Fed
(a) remains concerned about short-term interest rates.
(b) lobbied for legislation to expand the Fed's jurisdiction to impose reserve requirements on all commercial banks.
(c) has delayed making public FOMC directives to Congress or the public.
(d) has done all of the above.
(e) did both (b) and (c) of the above.

Answer: D
Question Status: Study Guide

110) 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) is so secretive about the conduct of future monetary policy.
(c) sought less control over banks in the 1980s.
(d) all of the above.
(e) only (a) and (b) of the above.

Answer: E
Question Status: Previous Edition

111) The theory of bureaucratic behavior when applied to the Fed helps to explain why the Fed
(a) is supportive of congressional attempts to limit the central bank's autonomy.
(b) is so secretive about the conduct of future monetary policy.
(c) sought less control over banks in the 1980s.
(d) is willing to take on powerful groups that may threaten its autonomy.

Answer: B
Question Status: Previous Edition

112) According to the theory of bureaucratic behavior
(a) the objective of a bureaucracy is to maximize its own welfare, meaning that it seeks additional power and prestige.
(b) the objective of a bureaucracy is to maximize consumers' surplus, meaning that it seeks additional regulatory powers.
(c) the objective of a bureaucracy is to protect the industry it regulates, meaning that it seeks additional regulatory powers.
(d) none of the above describe the objective of a bureaucracy.

Answer: A
Question Status: Previous Edition

113) According to the theory of bureaucratic behavior,
(a) the objective of a bureaucracy is to maximize its own welfare, meaning that it seeks additional power and prestige.
(b) the bureaucracy will fight vigorously to preserve its autonomy; thus, it will attempt to avoid conflict with the president and Congress.
(c) the bureaucracy will support legislation that gives it additional regulatory power.
(d) all of the above describe bureaucratic behavior.
(e) only (a) and (b) of the above describe bureaucratic behavior.
Answer: D
Question Status: Previous Edition

114) Supporters of the current system of Fed independence believe that a less autonomous Fed would
(a) adopt a short-run bias toward policymaking.
(b) pursue overly expansionary monetary policies.
(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.
Answer: D
Question Status: Previous Edition

115) Supporters of the current system of Fed independence believe that a less autonomous Fed would
(a) adopt a long-run bias toward policymaking.
(b) pursue overly expansionary monetary policies.
(c) be more likely to create a political business cycle.
(d) do only (b) and (c) of the above.
Answer: D
Question Status: Previous Edition

116) Federal Reserve independence is thought to
(a) introduce a short-term bias to monetary policymaking.
(b) lead to better fiscal and monetary policy coordination.
(c) introduce longer-run considerations to monetary policymaking.
(d) do both (a) and (b) of the above.
Answer: C
Question Status: Previous Edition

117) The case for Federal Reserve independence does not include the idea that
(a) political pressure would impart an inflationary bias to monetary policy.
(b) 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.
(c) policy is always performed better by an elite group such as the Fed.
(d) a Federal Reserve under the control of Congress or the president might make the so-called political business cycle more pronounced.
Answer: C
Question Status: Previous Edition

118) The case for Federal Reserve independence does not include the idea that
(a) political pressure would impart an inflationary bias to monetary policy.
(b) 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.
(c) a Federal Reserve under the control of Congress or the president might make the so-called political business cycle more pronounced.
(d) the principal-agent problem is perhaps worse for the Fed than for congressmen since the former does not answer to the voters on election day.

Answer: D
Question Status: Previous Edition

119) The case for Federal Reserve independence does not include the idea that
(a) the principal-agent problem is perhaps worse for the Fed than for politicians since the former does not answer to the voters on election day.
(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) both (a) and (b) of the above.

Answer: D
Question Status: Previous Edition

120) The case for Federal Reserve independence includes the idea that
(a) political pressure would impart an inflationary bias to monetary policy.
(b) 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.
(c) a Federal Reserve under the control of Congress or the president might make the so-called political business cycle more pronounced.
(d) all of the above.

Answer: D
Question Status: Previous Edition

121) 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) the principal-agent problem is perhaps worse for the Fed than for congressmen since the former does not answer to the voters on election day.
(d) only (a) and (b) of the above.

Answer: D
Question Status: Previous Edition

122) 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) the principal-agent problem is worse for politicians than for the Fed because politicians have fewer incentives to act in the public interest.
(d) all of the above.
(e) only (a) and (b) of the above.
Answer: D
Question Status: Revised

123) 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) putting the Fed under the control of the president could lead to Treasury pressure on the Fed to finance large budget deficits.
(d) all of the above.
Answer: D
Question Status: Previous Edition

124) Advocates of Fed independence fear that subjecting the Fed to direct presidential or congressional control would
(a) impart an inflationary bias to monetary policy.
(b) force monetary authorities to sacrifice the long-run objective of price stability.
(c) make the so-called political business cycle even more pronounced.
(d) do all of the above.
(e) do only (a) and (b) of the above.
Answer: D
Question Status: Previous Edition

125) Advocates of Fed independence fear that subjecting the Fed to direct presidential or congressional control would
(a) impart an inflationary bias to monetary policy.
(b) force monetary authorities to sacrifice the long-run objective of price stability.
(c) make the so-called political business cycle less pronounced.
(d) do all of the above.
(e) do only (a) and (b) of the above.
Answer: E
Question Status: Previous Edition

126) The strongest argument for an independent Federal Reserve rests on the view that subjecting the Fed to more political pressures would impart
(a) an inflationary bias to monetary policy.
(b) a deflationary bias to monetary policy.
(c) a disinflationary bias to monetary policy.
(d) a countercyclical bias to monetary policy.
Answer: A
Question Status: Previous Edition

127) Politicians in a democratic society may be shortsighted because of their desire to win reelection; thus, the political process can
(a) impart an inflationary bias to monetary policy.
(b) impart a deflationary bias to monetary policy.
(c) generate a political business cycle, in which just before an election expansionary policies are pursued to lower unemployment and interest rates.
(d) cause both (a) and (c) of the above.
Answer: D
Question Status: Previous Edition

128) Politicians in a democratic society may be shortsighted because of their desire to win reelection; thus, the political process can
(a) impart an inflationary bias to monetary policy.
(b) generate a political business cycle, in which just before an election expansionary policies are pursued to lower unemployment and interest rates.
(c) place too much pressure on the Fed to finance federal budget deficits.
(d) cause all of the above.
(e) cause only (a) and (b) of the above.
Answer: D
Question Status: Previous Edition

129) 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.
Answer: E
Question Status: Previous Edition

130) Which of the following statements concerning an independent central bank are true?
(a) Politicians may prefer an independent central bank, as it can be used as a “whipping boy” or “scapegoat” for poor economic performance.
(b) 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 contractionary policies are pursued to raise unemployment and interest rates.
(c) 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.
(d) Only (a) and (c) of the above are true statements.

Answer: D
Question Status: Previous Edition

131) Which of the following statements concerning an independent central bank are true?
(a) Politicians may prefer an independent central bank, as it can be used as a “whipping boy” or “scapegoat” for poor economic performance.
(b) 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.
(c) 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.
(d) All of the above are true statements.

Answer: D
Question Status: Previous Edition

132) Critics of the current system of Fed independence contend that
(a) the current system is undemocratic.
(b) voters have too much say about monetary policy.
(c) the president has too much control over monetary policy on a day-to-day basis.
(d) all of the above are true.

Answer: A
Question Status: Previous Edition

133) 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 an independent Fed conducts monetary policy with a consistent inflationary bias.
(c) that the Fed, since it does not face a binding budget constraint, spends too much of its earnings.
(d) only (a) and (b) of the above.

Answer: A
Question Status: Previous Edition

134) 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 independence seemingly does not always guarantee good monetary policy.
- (c) that its independence may encourage the Fed to pursue a course of narrow self-interest rather than the public interest.
- (d) all of the above.

Answer: D
Question Status: Revised

135) Recent research indicates that inflation performance (low inflation) has been found to be best in countries with
- (a) the most independent central banks.
- (b) the least independent central banks.
- (c) political control of monetary policy.
- (d) money financing of budget deficits.
- (e) a policy of always keeping interest rates low.

Answer: A
Question Status: New

136) Recent research has found that countries with the most independent central banks have experienced
- (a) the lowest average rates of inflation.
- (b) rates of inflation no different from countries with less independent central banks.
- (c) the highest average rates of inflation.
- (d) high inflation from financing deficits.
- (e) high inflation from stabilizing exchange rates.

Answer: A
Question Status: New

137) Countries with the most independent central banks have low inflation
- (a) but have higher unemployment than countries with less independent central banks.
- (b) but have higher output fluctuations than countries with less independent central banks.
- (c) and have lower rates of unemployment than countries with less independent central banks.
- (d) but have no higher unemployment or output fluctuations than countries with less independent central banks.
- (e) both (a) and (b) of the above.

Answer: D
Question Status: New

■ Essay Questions

1) Why does the Federal Reserve Bank of New York play a special role within the Federal Reserve System?

Answer: The New York district contains the largest banks in the country. The New York Fed supervises and examines these banks to insure their soundness and the safety of the nation's financial system. The New York Fed conducts open market operations and foreign exchange transactions for the Fed and Treasury. The New York Fed belongs to the Bank for International Settlements, so its president and the chairman of the Board of Governors represent the U.S. at the monthly meetings of the world's central banks. The New York Fed president is the only president of a regional Fed who is a permanent voting member of the FOMC.

2) Explain two concepts of central bank independence. Is the Fed politically independent? Why do economists think central bank independence is important?

Answer: Instrument independence is the ability of the central bank to set its instruments, and goal independence is the ability of a central bank to set its goals. The Fed enjoys both types of independence. The Fed is largely independent of political pressure due to its earnings and the conditions of appointment of the Board of Governors and its chairman. However, some political pressure can be applied through the threat or enactment of legislation affecting the Fed. Independence is important because there is some evidence that independent central banks pursue lower rates of inflation without harming overall economic performance.

3) Who are the voting members of the Federal Open Market Committee and why is this committee important? Where does the power lie within this committee?

Answer: The FOMC determines the monetary policy of the United States through its decisions about open market operations. It also effectively determines the discount rate and reserve requirements. The seven members of the Board of Governors, the president of the New York Fed, and four of the other eleven regional bank presidents are voting members on a rotating basis. Within the FOMC, the chairman of the Board of Governors wields the power.