

Chapter 9 Review

1. money

Anything that is generally accepted as a means of payment

2. Barter

the direct exchange of one good for another good without a standard money form passing from hand to hand

3. What is specie?

What economists refer to coined, metallic money

4. Face value

the asserted or surface value of money or goods

5. inflations – situation that occurs when market prices rise, usually caused by the presence of too much money in circulation

6. deflation – the situation that occurs when price levels drop and money increases in value

7. bullion – gold, silver or platinum, usually in the form of bars, ingots, or plates

8. fiat money – legal tender backed by nothing but a government's decree

9. assets that can be easily converted into M1 because they are highly liquid

10. monetarism – the theory that the variation in the money supply is the main source of economic fluctuation

11. Three (3) functions of money

1. to be a medium of exchange
2. to provide a measure of value
3. to provide a store of value

12. Type of money coined in the Massachusetts Bay colony – pine-tree shillings

13. Six qualities that an ideal money possesses -

Portability

Durability

Homogeneity

Divisibility

Constancy

Intrinsic Valuableness

14. Gresham's Law – "Bad money drives out good" or the idea that people save money that seems more stable and valuable, while spending the money that seems less valuable

15. Three main categories of United States money and what each one include:

M1 – part of the money supply consisting of the money in transaction accounts, traveler's checks
And all coins and currency held outside of banks

M2 - All M1 plus noncheckable savings deposits, money market mutual funds and similar deposits, and time deposits worth less than \$100,000

M3 – includes M2 and time deposits worth of \$100,000

16. Department responsible for printing and coining U.S. Money – United States Department of the Treasury

17. Difference between U.S. Mint and U.S. Bureau of Engraving and Printing

Mint – responsible for making coins

BEP – responsible for printing paper money

18. Main Components of the Federal Reserve

- Board of Governors

- Federal Open Market Committee

- Federal Reserve Banks

19. How does one become the Fed Chairman and how long does he hold the position?

20. Who is the current Fed Chairman?

21. What are some of the primary advantages and disadvantages of bartering?

22. Why is it beneficial for money to have intrinsic value?

23. For what reason have many government officials been responsible for debasing their national currencies? How could this policy be called a form of inflation or taxation?

24. Explain the fractional reserve system of banking.

25. Is there enough gold in the world to base each nation's currency on a gold standard?

26. Why are credit cards not considered a form of money?

27. What is the chief aim of the Federal reserve? What are its three main tools and how does the system use them in meeting its objective?

The chief aim of the Federal Reserve System is to form America's monetary policy and thereby control the money supply. Its three main tools are open market operations, reserve ratios and discount rates. The Fed uses these to expand and contract the nation's money supply.

28. Would the Fed likely pursue an easy money policy or tight money policy during a recession?

The Fed would pursue an easy money policy during a recession in an attempt to encourage expansion of the economy

29. Is money inherently moral or immortal?