###### **Chapter 12 -** Money and Banking in the Developing Economy

1. Near the end of the eighteenth century, the dollar

a. was a nickname for the Spanish Peso.

b. was more plentiful than any other coin.

c. was customarily used to reckon accounts.

d. All of the above are correct.

2. Thomas Jefferson argued that the U.S. should adopt the Spanish dollar as the official unit of account because

a. so many colonists came from Spanish-speaking nations.

b. it was based on the decimal system.

c. it was less prone to inflation than other units of account.

d. it was the unit of account used in most European countries.

3. Under the bimetallic standard of the 19th century

a. the amount of money in circulation increased.

b. the American dollar served poorly as a unit of account.

c. only one metal tended to circulate as money at any given time.

d. the government earned profits by selling gold.

4. Under the bimetallic standard of the 19th century,

a. gold was initially valued at about 15 times that of silver.

b. price fluctuations of gold and silver eased the adoption of the system.

c. price fluctuations caused hoarding of undervalued coins.

d. Both a and b are correct.

e. Both a and c are correct.

5. The Coinage Act of 1792

a. designated both gold and silver as the monetary standard for the U.S.

b. designated gold as the monetary standard for the U.S.

c. designated silver as the monetary standard for the U.S.

d. designated paper Treasury notes as the monetary standard for the U.S.

6. Under the Coinage Act of 1792

a. gold coins contained more metal than silver coins of the same denomination.

b. silver coins contained more metal than gold coins of the same denomination.

c. gold coins contained about the same amount of metal as silver coins of the same denomination.

d. gold coins were minted only in high denominations and silver coins were minted only in low denominations.

7. In 1790, there were only three banks in the U.S. By 1811, there were 88. Most of these new banks were

a. created and operated by the federal government.

b. created and operated by state and local governments.

c. private-sector, state-chartered banks.

d. branches of banks with English charters.

8. The main determinant of the discount rate on a privately issued bank note was

a. how long the issuing bank had been in operation.

b. who was on the issuing bank’s board of directors.

c. the general reputation of the issuing bank.

d. the distance of the issuing bank from the location where the note was being used.

9. Early attempts to establish paper money were hampered by

a. counterfeiting.

b. Constitutional prohibition against states issuing paper money.

c. currency valuations that varied from city to city.

d. All of the above are correct.

e. Only a and c are correct.

10. Alexander Hamilton argued for a “National Bank” that would

a. provide the increased money supply necessary to accommodate increased business activity.

b. lend money to the U.S. Treasury.

c. serve as fiscal agent for the U.S. government.

d. serve as a tax collection agency for the U.S. government.

e. All of the above.

11. Opponents of the First Bank of the U.S. argued that the bank

a. was unconstitutional.

b. created a “money monopoly.”

c. favored northern manufacturing more than southern agriculture.

d. opened the U.S. monetary system to foreign control.

e. All of the above.

12. Which of the following was *not* true of the First and Second Banks of the United States?

a. They had branches throughout the country.

b. They issued paper money.

c. They made loans to private individuals.

d. They set the bimetallic ratio.

13. The dollar volume of state-bank notes received by the First Bank of the United States was \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ the dollar volume of its bank notes received by the state banks.

a. greater than

b. less than

c. equal to

14. The Bank of the United States *did not*

a. act as a lender of last resort.

b. help collect customs bonds.

c. carry on foreign exchange operations.

d. hold most of the U.S. Treasury deposits.

e. The Bank of the United States engaged in all of these activities.

15. State bank notes usually had a face value that was \_\_\_\_\_\_ their market value, while the notes of the First Bank of the U.S. usually had a face value that was \_\_\_\_\_\_ their market value.

a. greater than; less than

b. less than; greater than

c. equal to; less than

d. greater than; equal to

16. The charter of the Bank of the United States was not renewed in 1811 in part because

a. Thomas Jefferson, who was president at the time, believed it to be unconstitutional.

b. of years of general instability in the value of currency.

c. of instability and uncertainty in the expansion of credit.

d. of fears of foreign ownership and manipulation.

17. What was *not* one of the primary reasons why people opposed the First and Second Banks of the United States?

a. They printed too much money and triggered a substantial inflation.

b. They had monopoly control over some banking activities.

c. They were unconstitutional.

d. They did not provide sufficiently generous lending policies.

18. The Second Bank of the United States rose to prominence under the leadership of

a. Alexander Hamilton.

b. Andrew Jackson.

c. Henry Clay.

d. Nicholas Biddle.

19. The reserve ratio of the Second Bank of the United States was \_\_\_\_\_\_\_\_\_\_\_ the reserve ratio of most state banks.

a. larger than

b. smaller than

c. about equal to

d. dependent upon

20. Actions by the Second Bank of the United States

a. reduced the discount rate on state bank notes.

b. increased the discount rate on state bank notes.

c. created inflation.

d. effectively ended the use of state bank notes.

21. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ was a vocally and actively opposed the re-chartering of the Second Bank of the United States.

a. Nicholas Biddle

b. Henry Clay

c. Andrew Jackson

d. Alexander Hamilton

22. President Jackson's reasons for vetoing the recharter the Second Bank of the United States did not include

a. fears that the bank was nearing insolvency.

b. questions of constitutionality.

c. concerns over foreign ownership.

d. fears that the bank could undo democracy itself.

23. In the mid-1830s, the U.S. entered an inflationary period that culminated in the depression of 1839-1843. Contemporary economic historians attribute this economic downturn to

a. the demise of the Second Bank of the U.S. in 1832.

b. over-issue of gold coins by the U.S. Mint.

c. over-expansion by the manufacturing sector.

d. external forces, including large inflows of specie from Mexico and Europe.

24. All of the following are examples of state regulations on banks except:

a. the Suffolk System.

b. the Safety Fund System.

c. required bond deposits with a state authority prior to chartering.

d. the Forstall System.

25. The Suffolk System

a. operated similarly to the modern Federal Deposit Insurance Corporation.

b. led to lower discount rates on the notes of country banks in New England.

c. was established by Nicholas Biddle.

d. was used primarily prior to 1863 in Louisiana.

e. All of the above.

26. The Forstall System was the antebellum banking regulation in

a. New England.

b. The old Northwest (Ohio, Indiana, Illinois, and neighboring states).

c. New York State.

d. Louisiana.

27. In the term "Free Banking," the "free" means

a. the freedom of any state legislature to charter a bank.

b. the freedom of banks to mint U.S. coins.

c. the freedom of anyone to start a bank.

d. None of the above are correct.

28. States that developed successful and sound commercial banking systems in the antebellum period included all of the following *except*

a. New York.

b. Ohio.

c. Michigan.

d. Louisiana.

29. The Safety Fund System

a. operated similarly to the modern Federal Deposit Insurance Corporation.

b. was a clearinghouse for banks.

c. was established by Nicholas Biddle.

d. was used primarily prior to 1863 in Louisiana.

e. All of the above.

30. What *best describes* the US experience with banking from 1785 until the Civil War?

a. There was a national bank for the entire time period.

b. The first two national banks were largely foreign owned.

c. Only gold was used to back currency.

d. Only national banks could print notes.

31. Which was a result of the California gold rush?

a. A substantial increase in the money supply.

b. A large increase in GNP.

c. both a and b