

# GUIDED READING Activity 14-1

For use with textbook pages 367-371

## THE FUNCTIONS AND CHARACTERISTICS OF MONEY

### FILLING IN THE BLANKS

**Directions:** Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once.

fiat money  
barter  
commodity money  
transaction

money  
unit of accounting  
representative money  
dollar

exchange  
store of value  
legal tender  
inflation

### The Functions of Money

The basis of the market economy is voluntary **1** \_\_\_\_\_. Anything that is used as a medium of exchange, a **2** \_\_\_\_\_, and a store of value is considered **3** \_\_\_\_\_. Money is a medium of **4** \_\_\_\_\_ because a seller will accept it in exchange for a good or service. If money did not exist, people would have to **5** \_\_\_\_\_, or exchange goods and services for other goods and services. For bartering to work, each party to a **6** \_\_\_\_\_ must want exactly what the other person has to offer. Money that is used to compare the values of goods and services in relation to one another is a **7** \_\_\_\_\_. In the United States, the base unit of value is the **8** \_\_\_\_\_. Money also serves as a **9** \_\_\_\_\_, where it is held for later purchases. In periods of rapid and unpredictable **10** \_\_\_\_\_, money is less able to act as a store of value.

### Characteristics of Money

Anything that people are willing to accept in exchange for goods and services can be considered **11** \_\_\_\_\_. Cattle, salt, gems, and even tobacco have served as mediums of **12** \_\_\_\_\_ during various times in history.

### Types of Money

A medium of exchange that has value as a commodity or good, aside from its value as money, is called **13** \_\_\_\_\_. In the past, the United States government issued **14** \_\_\_\_\_, which was redeemable for silver and gold certificates. In today's society, all money is **15** \_\_\_\_\_, meaning that its face value occurs through a government order. This makes it **16** \_\_\_\_\_, or money that by law must be accepted for payment of public or private debts.

# GUIDED READING Activity 15-1

For use with textbook pages 391–396

## ORGANIZATION AND FUNCTIONS OF THE FED

### OUTLINING

**Directions:** Locate the heading in your textbook. Then use the information under the heading to help you write each answer.

#### I. Organization of the Federal Reserve System

##### A. What makes up the Federal Reserve System?

---

---

##### B. What is the Fed?

---

##### C. How does monetary policy affect businesses?

---

---

##### D. Board of Governors—Whom does the Board of Governors supervise and regulate?

---

---

##### E. Federal Advisory Council—What is the responsibility of the Federal Advisory Council?

---

---

##### F. Federal Open Market Committee—What large economic decision does the Federal Open Market Committee make?

---

---

#### G. The Banks

##### 1. How are the Federal Reserve Banks organized?

---

---

##### 2. Who is required to become a member of the Federal Reserve System?

---

---

#### II. Functions of the Fed

##### A. What are some of the main functions of the Federal Reserve?

---

---

##### B. How do the Fed's standards protect consumers?

---

---

# GUIDED READING Activity 15-2

For use with textbook pages 398-401

## **M**ONEY SUPPLY AND THE ECONOMY

### RECALLING THE FACTS

**Directions:** Use the information in your textbook to answer the questions.

#### Loose and Tight Money Policies

1. What is monetary policy?

\_\_\_\_\_

2. What happens to the quantity demanded for credit if the cost of borrowing increases or decreases?

\_\_\_\_\_

3. What happens if the Fed has a loose money policy?

\_\_\_\_\_

4. What happens if the Fed has a tight money policy?

\_\_\_\_\_

5. Why would a nation implement a loose money policy or a tight money policy?

\_\_\_\_\_

#### Fractional Reserve Banking

6. What is fractional reserve banking?

\_\_\_\_\_

7. What are reserve requirements for banks?

\_\_\_\_\_

8. How do banks make new money with the money left over after the reserve requirement is met?

\_\_\_\_\_

# GUIDED READING Activity 15-3

For use with textbook pages 402-407

## REGULATING THE MONEY SUPPLY

### FILLING IN THE BLANKS

**Directions:** Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once.

discount rate  
federal funds rate  
economy  
reserve requirement  
Treasury bills

prime rate  
open-market operations  
Federal Reserve  
interest rates

securities  
money supply  
deposits  
loans

#### Introduction/Changing Reserve Requirements

The main goal of the Federal Reserve is to keep the **1** \_\_\_\_\_ growing steadily and the **2** \_\_\_\_\_ running smoothly without inflation and recession. The **3** \_\_\_\_\_ can control the money supply by changing the reserve requirements of financial institutions. One option the Fed has is to raise the **4** \_\_\_\_\_ for bank deposits.

#### Changing the Discount Rate

If a bank finds itself without enough reserves to meet its reserve requirements, it can make a loan from a **5** \_\_\_\_\_ district bank. The rate of interest the Fed charges its banks is called the **6** \_\_\_\_\_. If the discount rate is high, banks may pass along the increased costs to its customers in the form of higher **7** \_\_\_\_\_ on loans. For example, it might raise its **8** \_\_\_\_\_—the interest rate it charges its best business customers. The interest rate the Fed charges to regulate monetary policy is the **9** \_\_\_\_\_, or the interest rate that banks charge each other on loans. If the Fed lowers the federal funds rate, banks will borrow more, making more **10** \_\_\_\_\_.

#### Open-Market Operations

The Fed buys and sells government securities, a practice known as **11** \_\_\_\_\_, in order to control the money supply. These **12** \_\_\_\_\_ are bought and sold in the open market through dealers who specialize in buying and selling government securities. If the Fed buys securities such as **13** \_\_\_\_\_, it pays for them by making a deposit to the dealer's bank. This deposit increases the bank's reserves, thus increasing the **14** \_\_\_\_\_. When the Fed sells securities, the dealer's bank must use its deposits to purchase the **15** \_\_\_\_\_. This leaves less money available for lending, decreasing the money supply. The Fed has often been criticized for its **16** \_\_\_\_\_. Some critics of the Fed have requested that the **17** \_\_\_\_\_ be increased at the same rate every year. The Fed's task is to consider all factors as it plots a course for the **18** \_\_\_\_\_.