Name_____
Date_____ Class_____

Before you read

Before reading this section, take a moment to read the Learning Target and vocabulary terms you will encounter.

Learning Target: Describe monetary policy and how the Federal Reserve uses the money supply to regulate the economy.

AP® Key Concepts

Federal Reserve System

monetary policy

While you read

Use the following table to take notes as you read the section.

Federal Reserve responsibilities	Characteristics of monetary policy	Impact on government

After you read

Once you've finished reading the section, answer the following questions.

1. How does inflation happen, according to monetary theory?
   A. Prices are set too high, driving wages up too fast.
   B. Demand increases the cost of production and the inefficiency of the economy.
   C. Some industries produce more than others, causing inequality in the cost of living.
   D. Too much money is available to purchase too few goods.

2. What is the central purpose of making the board of governors of the Federal Reserve unable to be removed without cause and their terms be nonrenewable?
   A. These restrictions prevent the board of governors from ever having too many vacancies.
   B. These restrictions ensure that the president and Senate are confident in the quality of their appointments.
   C. These restrictions on appointing and removing governors allow them to be independent.
   D. These restrictions on appointing and removing governors enables them to take control of the government if necessary.

3. Treasury securities are popular as investments because:
   A. their returns benefit directly from economic prosperity.
   B. they have the potential to pay very large amounts of interest.
   C. they are guaranteed to be repaid by the government with a set amount of interest.
   D. they are not subject to much government oversight, as far as investments go.

4. If the Federal Reserve wanted to make more money available for banks to lend, in order to encourage economic growth, it would:
   A. raise interest rates.
   B. lower the reserve rate.
   C. sell more Treasury bills.
   D. sell fewer Treasury bills.

5. If the Federal Reserve wanted to discourage spending by individuals and businesses during a runaway bubble in the economy, it would:
   A. raise the federal funds rate.
   B. lower the reserve rate.
   C. sell fewer Treasury bills.
   D. sell more Treasury bills.

6. Although often confused for one another, _____ policy involves controlling

the money supply, while _____ policy involves taxing and spending.

7. What was a major difference between the economic crisis of 2008 and the Great Depression in the 1930s?
   A. Before the Great Depression, there was rampant speculation in the stock market, which was not present in 2008.
   B. The economy was flourishing before the Great Depression, but recovering from a brief downturn in 2008.
   C. Unlike during the Great Depression, the Federal Reserve lowered interest rates in 2008, to prevent a crushing downturn in economic activity.
   D. Loans and credit were plentiful before the economic crisis in 2008, while they were in very short supply before the Great Depression.