Study Questions for Walton & Rockoff Chapter 19

1. _____ What happened to the U.S. price level between 1865 and 1900?
   a. It ended up (1900) at the same level as it started (1865). However, there was tremendous year to volatility in the price level.
   b. The price level fell dramatically between 1865 and 1879. Then it rose dramatically, ending the period (1900) at the same level as it started (1865).
   c. With few exceptions, the price level fell over the entire period. It ended up (1900) much lower than it started (1865).
   d. With few exceptions, the price rose over the entire period. It ended up (1900) much higher than it started (1865).

2. _____ When were U.S. banks (other than the 1st and 2nd Bank of the U.S.) able to get charters from the national government (instead of just from the state governments).
   a. never
   b. always (well … since 1789)
   c. from 1863 to the present
   d. from 1789 until 1900
   e. from 1789 until 1917
   f. from 1900 until 1933

3. What did the U.S. federal government do regarding the U.S. money supply during the Civil War. Check and all that apply.
   _____ It refused to issue fiat money. Instead it relied solely on heavy borrowing and higher taxes to finance the war.
   _____ It issued greenbacks, or fiat money
   _____ It suspended the convertibility of existing U.S. dollars. These could no longer be traded for gold or silver at a guaranteed rate at the mint.
   _____ It declared notes from Southern banks to be legal reserves for a bank, but not legal tender.
   _____ It declared that notes from Southern banks were still legal tender, but only if issued prior to April 1860, and only at half their face value.

4. _____ What was the “Crime of ’73”?
   a. The Congress barred ex Confederate officers from serving on the board of banks.
   b. The Congress declared that all state bank charters would expire in 1878.
   c. The Congress no longer provided for the minting of silver coins.
   d. The House of Representatives gave the Presidency to Ulysses S. Grant even though Horace Greeley had more electoral votes.
5. _____ Which of the following did William Jennings Bryan propose?
   a. moving the U.S. solely to fiat money
   b. moving the U.S. solely to a gold standard (the “Cross of Gold”)
   c. moving the U.S. back to a gold and silver standard at approximately the pre-Civil war mint ratios.
   d. Creating a U.S. government central bank, but one under direct control of the Congress.
   e. Creating a U.S. government central bank that is very independent from the Congress.

6. _____ What was the proximate motivation for the establishment of the U.S. Federal Reserve?
   a. A “financial panic” in 1907.
   b. Three plus decades of unusually high inflation following the Civil war.
   c. The government’s difficulty in funding the Civil War.
   d. The government’s difficulty in preventing inflation during the Civil War.
   e. Strikes and violence by western farmers which shut down the western railroads for several months in 1902.

7. _____ What backed the U.S. money supply in the years after 1900?
   a. Gold
   b. Silver
   c. both Gold and Silver
   d. nothing other than faith in the government (it was fiat money)
   e. British Pounds (£) at a guaranteed rate
   f. The French Franc (₣) at a guaranteed rate

8. _____ What did the Federal Government do with respect to state chartered banks in the 1860’s?
   a. made them legal
   b. made them illegal
   c. did not change their legality, but taxed their notes
   d. did not change their legality, but greatly limited what they could count as reserves
   e. did not change their legality, but greatly increased their reserve requirement

9. _____ What backed the notes of federally chartered banks during and shortly after the Civil War (i.e. after the National Banking Act)?
   a. bonds, government bonds
   b. Bond, James Bond
   c. $.125 gold for every $1 notes
   d. $.33 1/3 gold for every $1 notes
   e. silver coins minted under the Silver Purchase Act
   f. Greenbacks recently retired from circulation
   g. nothing except the public’s faith, legal tender status, and a limit on the number of notes issued
10. What did the National Banking Acts attempt to do? Check each and any that apply.
   _____ give the U.S. a more safe and uniform money system
   _____ decrease federal government oversight of banking in the United States and leave more decisions up to states
   _____ make it very hard for the U.S. to ever transition to fiat money
   _____ make it very hard for the U.S. to ever return to a gold standard
   _____ eliminate state bank notes

11. What was the root cause of the post Civil war deflation?
   a. Changes in the mint ratio between gold and silver.
   b. The expansion of passbook or checking accounts.
   c. A desire, after the Civil War, to return U.S. money to metal base.
   d. Too much money chasing too few goods.
   e. Gold strikes in the Yukon and South Africa.

12. When was the U.S. on a gold standard (not bi-metal, not fiat)?
   a. 1789 – 1836
   b. 1789 – 1861
   c. 1866 – 1878
   d. 1866 – 1932
   e. 1900 – 1932
   f. 1789 – 1932

13 - 15. Assume that the country of Franklin adopts a bimetal standard. Franklin’s dollars are backed by both gold, or silver at the rate of 10 oz silver = 1 Franc = 1 oz gold. Currently, in private markets the two metals are trading at the rate of 8 oz silver = 1 oz gold.

13. Which type of coin is a business (not a gold or silver smith) more likely to receive from its customers? Which type of coin do people wish to use as a medium of exchange rather than keep for its gold or silver content?
   a. gold coins
   b. silver coins
   c. a business is likely to receive silver and gold in roughly equal $ amounts

14. Which type of coin is the government mint more likely to receive?
   a. gold coins (gold flows into the mint)
   b. silver coins (silver flows into the mint)
   c. the mint is likely to receive silver and gold in roughly equal $ amounts

15. Which type of coin is most likely to leave the government mint?
   a. gold coins (gold flows out of the mint)
   b. silver coins (silver flows out of the mint)
   c. silver or gold are likely to leave the mint in roughly equal $ amounts
16. _____ Which of the following banking “safety nets” was not present when the Federal Reserve system was first established?
   a. Check clearing. The Fed did not yet clear checks. Further, the Federal Reserve act prohibited private clearing houses.
   b. Required reserve ratios. The Fed did not yet have the authority to set the required reserve ratio.
   c. Nationwide deposit insurance.
   d. Any uniform currency. Banks still issued their own notes until after the Great Depression.

17. What are some issues/problems that banks and the banking system must somehow deal with? Check any and all blanks that apply.
   _____ If there are a lot of private banks competing, the need to earn profits forces them to raise the interest rate borrowers pay and lower what savers earn. Competition (vs. only one or a few banks) in private banking discouraging financial intermediation.
   _____ Since “parent banks” were responsible for minting gold and silver coins, and there are multiple parent banks, the possibility of inconsistent coinage arises.
   _____ Banks and the banking system are vulnerable to panics or runs. Even very sound banks do not carry enough money in their vault to back all their deposits.
   _____ Banks and the banking system are vulnerable to panics or runs. While sound banks carry enough money in their vault to back all their deposits, many banks will “cheat” the system.

18. _____ It is 1852 and government examiners are inspecting Altered State Bank (a private bank). They find that ASB has issued $24 million of its notes to customers. Each $1 notes says it is redeemable for $1 in gold or silver coin. ASB, however, only has $4.8 million of gold and silver coin in it vault. What is this an example of?
   a. a wildcat (i.e. law breaking) bank
   b. reverse lending
   c. an over leveraged, but still legal, bank
   d. a banking “holiday” in practice
   e. a fractional reserve bank operating normally

19. _____ Which of the following is a reason the Federal Reserve was less able and willing to lend to banks in 1929 to 1932 (the initial crash of the Great Depression), than it was in 2008 - today?