

DSST MONEY & BANKING PRACTICE EXAM (SAMPLE)

STUDY GUIDE



Prepare with structure. Pass with confidence



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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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- 1. What is the term used for forms of money such as gold and jewels, which derive their value from direct trading?**
 - A. Representative money
 - B. Fiat money
 - C. Commodity money
 - D. Digital currency
- 2. What type of fiscal policy aims to stimulate a struggling economy by increasing spending and decreasing taxes?**
 - A. Contractionary Fiscal Policy
 - B. Expansionary Fiscal Policy
 - C. Supply-side Fiscal Policy
 - D. Austerity Measures
- 3. What type of market is defined by an expectation that stock prices will increase in the future?**
 - A. Bear Market
 - B. Equity Market
 - C. Futures Market
 - D. Bull Market
- 4. What corporation utilizes global capital markets to provide support for low-cost mortgages?**
 - A. Fannie Mae
 - B. Freddie Mac
 - C. Ginnie Mae
 - D. Commercial Bank
- 5. What distinguishes preferred stock from common stock?**
 - A. Preferred stockholders have voting rights
 - B. Preferred stockholders receive dividends first
 - C. Common stockholders have guaranteed dividends
 - D. Preferred stock is a higher-risk investment

- 6. Which of the following describes the relationship between interest rates and economic decisions according to Adaptive Expectations?**
- A. Interest rates influence decision-making based on trends
 - B. Interest rates are irrelevant to decision-making
 - C. Interest rates determine economic growth rate
 - D. Interest rates only affect saving behaviors
- 7. What is the term for income after taxes that is available for consumers to spend?**
- A. Disposable Income
 - B. Net Income
 - C. Gross Income
 - D. Available Income
- 8. What kind of market is characterized by a relatively small number of sellers and high entry risks?**
- A. Monopoly
 - B. Perfect competition
 - C. Oligopoly
 - D. Free market
- 9. According to Classical theory, what is assumed about wage flexibility?**
- A. Wages are perfectly flexible
 - B. Wages are inflexible and stagnant
 - C. Wage levels impact all employment rates
 - D. Wages are set solely by market demand
- 10. What are selling and administrative expenses typically categorized as in a profit equation?**
- A. Variable costs
 - B. Fixed costs
 - C. Operating expenses
 - D. Direct costs

Answers

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1. C
2. B
3. D
4. B
5. B
6. A
7. A
8. C
9. A
10. C

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Explanations

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1. What is the term used for forms of money such as gold and jewels, which derive their value from direct trading?

- A. Representative money
- B. Fiat money
- C. Commodity money**
- D. Digital currency

The correct term for forms of money such as gold and jewels, which derive their value from direct trading, is commodity money. Commodity money has intrinsic value; this means its worth is based on the material it is made of. For example, gold and silver have been used historically as currency because they have value in themselves as precious metals, beyond just being a medium of exchange. This form of money contrasts with representative money, which is a claim on a commodity (like a gold certificate that represents a specific amount of gold) but does not have intrinsic value itself. Fiat money, on the other hand, has value because a government maintains it and people have faith in its worth, but it does not possess intrinsic value. Digital currency refers to money that is available only in digital form, often with no physical counterpart, and it is different from commodity money in that it does not derive value from physical goods or materials.

2. What type of fiscal policy aims to stimulate a struggling economy by increasing spending and decreasing taxes?

- A. Contractionary Fiscal Policy
- B. Expansionary Fiscal Policy**
- C. Supply-side Fiscal Policy
- D. Austerity Measures

Expansionary fiscal policy is designed to stimulate a struggling economy through increased government spending and reduced taxes. This approach is employed during periods of economic downturn or recession when a boost in demand is necessary to revitalize growth. By increasing government expenditures, more money enters the economy, which can lead to job creation, increased consumer spending, and overall economic activity. Simultaneously, reducing taxes leaves individuals and businesses with more disposable income, further encouraging spending and investment. In contrast, contractionary fiscal policy focuses on reducing government spending and increasing taxes to slow down an overheating economy. Supply-side fiscal policy emphasizes policies that benefit production, like tax cuts for businesses to stimulate investment and growth, rather than broad-based stimulus. Austerity measures involve cutting government spending and often raising taxes to reduce budget deficits, which can further inhibit economic growth rather than spur it. Thus, the correct response captures the essence of using fiscal policy as a tool to enhance economic activity during downturns.

3. What type of market is defined by an expectation that stock prices will increase in the future?

- A. Bear Market
- B. Equity Market
- C. Futures Market
- D. Bull Market**

A market characterized by the expectation that stock prices will increase in the future is referred to as a bull market. In this environment, investor confidence is high, leading to increased buying activity. As more participants enter the market anticipating higher prices, demand for stocks rises, which typically drives prices up even further. The notion of a bull market is pivotal because it reflects a period when the overall sentiment is optimistic, often fueled by strong economic factors or positive developments in specific sectors. It's a time when investors are more likely to take risks, as the prospect of gains outweighs concerns about potential losses. Understanding this concept is important because bull markets can influence investment strategies and overall market dynamics, shaping how individuals and institutions approach their asset allocation and portfolio management.

4. What corporation utilizes global capital markets to provide support for low-cost mortgages?

- A. Fannie Mae
- B. Freddie Mac**
- C. Ginnie Mae
- D. Commercial Bank

Freddie Mac, officially known as the Federal Home Loan Mortgage Corporation, plays a significant role in the global capital markets by purchasing mortgages from lenders, thereby providing them with liquidity. This process allows lenders to offer lower-cost mortgages to consumers, as they can sell off the mortgages they originate and use the funds to provide new loans. By facilitating this secondary mortgage market, Freddie Mac helps to stabilize the housing market and ensures that mortgage credit is available to consumers, which in turn supports homeownership across the country. The primary mission of Freddie Mac is to enhance the flow of credit to the housing market, and it achieves this by issuing mortgage-backed securities (MBS) that attract global investors. This enables the corporation to pool together a large number of individual mortgages, which not only diversifies risk but also lowers borrowing costs for homebuyers. In contrast, other options play different yet important roles within the housing finance system. For instance, Fannie Mae also works in the secondary mortgage market, but its specific mission and structuring differ slightly from Freddie Mac. Ginnie Mae is focused on guaranteeing the timely payment of principal and interest on mortgage-backed securities, primarily those backed by government loans. Meanwhile, commercial banks are more directly involved in the origination of loans rather than

5. What distinguishes preferred stock from common stock?

- A. Preferred stockholders have voting rights
- B. Preferred stockholders receive dividends first**
- C. Common stockholders have guaranteed dividends
- D. Preferred stock is a higher-risk investment

Preferred stock is primarily distinguished from common stock by the priority it holds in receiving dividends. When a company declares dividends, holders of preferred stock are paid before common stockholders. This means that if a company is distributing profits, preferred stockholders typically receive their fixed dividends before any dividends are paid to common stockholders. This characteristic makes preferred stock similar to a bond; it typically offers a set dividend rate and lacks the volatility of common stock, which can experience fluctuations in value and dividend payouts based on the company's performance. In contrast, common stockholders may benefit from increased dividends during profitable periods, but they are not guaranteed to receive any dividends at all. Additionally, common stockholders generally have voting rights and greater exposure to the company's growth potential, though they are last in line to be compensated in the event of the company's liquidation. Overall, the preferential treatment in dividends is a key factor that sets preferred stock apart from common stock.

6. Which of the following describes the relationship between interest rates and economic decisions according to Adaptive Expectations?

- A. Interest rates influence decision-making based on trends**
- B. Interest rates are irrelevant to decision-making
- C. Interest rates determine economic growth rate
- D. Interest rates only affect saving behaviors

The correct answer is based on the principle of Adaptive Expectations, which suggests that individuals form their expectations about the future based on past experiences and trends. In this context, interest rates play a significant role in shaping economic decisions because they influence how consumers and businesses perceive the future economic environment. When interest rates change, they are interpreted through the lens of past behaviors and trends. For example, if interest rates have been rising, individuals may expect higher rates in the future, causing them to adjust their spending and saving behavior accordingly. This can lead to increased savings when rates are higher, as consumers and investors seek better returns, and reduced spending on durable goods which are often financed through borrowing when rates are expected to rise. This relationship emphasizes that interest rates do not just have a mechanical effect but are interwoven with expectations shaped by previous patterns, leading to adaptive responses in economic decision-making. Thus, option A accurately encapsulates how interest rates influence economic decisions based on observed trends.

7. What is the term for income after taxes that is available for consumers to spend?

A. Disposable Income

B. Net Income

C. Gross Income

D. Available Income

Disposable income refers to the amount of money that households have available for spending and saving after income taxes have been deducted. It is a crucial economic indicator because it directly affects consumer spending, which is a significant component of overall economic activity. When consumers have more disposable income, they are more likely to spend on goods and services, thereby stimulating economic growth. This concept contrasts with net income, which reflects earnings after all deductions, including taxes and other withholdings, but might not directly relate to consumer spending capacity. Gross income represents total earnings before any deductions are accounted for, while available income is a less commonly used term but often used interchangeably with disposable income in a broader sense. Hence, the correct term is indeed disposable income, as it encapsulates the definition of money left after taxes, ready for consumer expenditure.

8. What kind of market is characterized by a relatively small number of sellers and high entry risks?

A. Monopoly

B. Perfect competition

C. Oligopoly

D. Free market

A market characterized by a relatively small number of sellers and high entry risks is known as an oligopoly. In this market structure, a few firms dominate the industry, leading to significant control over prices and output. Due to the limited number of competitors, each seller has a substantial influence on market conditions. Entry into an oligopolistic market is often hindered by high barriers to entry, which can include significant capital requirements, economies of scale, and regulatory challenges. These barriers make it difficult for new firms to enter the market and compete, reinforcing the market power of the existing firms. In contrast, a monopoly involves a single seller that dominates the market, offering no competition. Perfect competition describes a market with many sellers offering identical products, leading to no individual firm having any price control. A free market generally refers to an economic system with minimal government intervention, which can encompass various market structures, including oligopolies, but does not specifically denote low competition or high entry risks. Thus, an oligopoly is the correct characterization for a market with a few sellers and significant entry challenges.

9. According to Classical theory, what is assumed about wage flexibility?

- A. Wages are perfectly flexible**
- B. Wages are inflexible and stagnant
- C. Wage levels impact all employment rates
- D. Wages are set solely by market demand

In Classical economic theory, wage flexibility is a key assumption. The theory posits that wages are perfectly flexible, meaning they can easily adjust in response to changes in supply and demand for labor. This flexibility allows the labor market to reach equilibrium, where the quantity of labor supplied matches the quantity of labor demanded. When wages are perfectly flexible, if there is an excess supply of labor (unemployment), wages would decrease, encouraging employers to hire more workers until full employment is achieved. Conversely, if there is a labor shortage, wages would rise, attracting more workers into the market. Therefore, the assumption of wage flexibility is fundamental to the Classical view that markets, including the labor market, are self-correcting and always tend toward equilibrium. This belief underpins many Classical economic models and their projections about how economies function.

10. What are selling and administrative expenses typically categorized as in a profit equation?

- A. Variable costs
- B. Fixed costs
- C. Operating expenses**
- D. Direct costs

Selling and administrative expenses are typically categorized as operating expenses in a profit equation. Operating expenses encompass all the costs associated with running a business that are not directly tied to the production of goods or services. This classification includes expenses such as salaries for sales personnel, advertising costs, and costs for administrative support, which are essential for day-to-day operations. Operating expenses are a key part of the income statement and play a significant role in calculating net profit. By categorizing selling and administrative expenses as operating expenses, businesses can better assess their operational efficiency and overall profitability. This distinction helps in understanding the costs that affect a company's earnings but are not directly linked to production levels, unlike direct costs, which are directly tied to the creation of goods or services. Variable costs and fixed costs represent two different categories of costs associated with production. While some selling and administrative expenses can be variable, such as commissions, many are fixed, like salaries. Direct costs specifically refer to costs that can be attributed directly to a product or service being manufactured, which does not accurately describe the broader scope of selling and administrative expenses. Thus, classifying these expenses under operating expenses provides a clearer picture of the financial performance of the business.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://dsstmoneybanking.examzify.com>

We wish you the very best on your exam journey. You've got this!

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