

DSST MONEY & BANKING PRACTICE EXAM (SAMPLE)

STUDY GUIDE



**SAMPLE STUDY GUIDE
WITH LIMITED QUESTIONS**

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THE FULL VERSION STUDY GUIDE**

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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 characteristic distinguishes near money from regular money?**
 - A. It can be easily converted into cash
 - B. It is always held in foreign currency
 - C. It cannot be spent directly
 - D. It has a fixed value over time
- 2. Which act allowed the Federal Reserve to establish 12 regional banks?**
 - A. Financial Services Modernization Act
 - B. Federal Reserve Act
 - C. Federal Reserve-Treasury Accord
 - D. Banking Reform Act
- 3. Which theory relates money supply and the velocity of money to overall price levels?**
 - A. Quantity Theory of Money
 - B. Monetary Policy Theory
 - C. Price Level Theory
 - D. Demand-Supply Theory
- 4. Which type of deposits can be withdrawn immediately at the discretion of the depositor?**
 - A. Savings deposits
 - B. Time deposits
 - C. Demand deposits
 - D. Certificate of deposits
- 5. The expectation that money will retain its value over time represents which concept?**
 - A. Medium of exchange
 - B. Store of value
 - C. Unit of account
 - D. Standard of deferred payment

- 6. Which terms are used to characterize essential goods and luxury goods in terms of income elasticity?**
- A. Price-sensitive and price-insensitive
 - B. Essential and non-essential
 - C. Income Inelastic and Income Elastic
 - D. Core and non-core goods
- 7. Which type of demand is characterized by a substantial change in quantity demanded with a small price adjustment?**
- A. Price Inelastic Demand
 - B. Price Elastic Demand
 - C. Fixed Demand
 - D. Linear Demand
- 8. Why is the monetary base critical for economic stability?**
- A. It controls stock market prices
 - B. It ensures a stable supply of high-risk loans
 - C. It facilitates efficient monetary policy implementation
 - D. It influences foreign exchange rates directly
- 9. What does the acronym 'PPP' stand for in economics?**
- A. Purchasing Power Parity
 - B. Public Policy Program
 - C. Private Partnership Project
 - D. Primary Production Process
- 10. What does FOREX refer to in the financial market?**
- A. Foreign Exchange Market
 - B. Financial Exchange Market
 - C. Federal Reserve Market
 - D. Open Exchange Market

Answers

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

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Explanations

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1. What characteristic distinguishes near money from regular money?

- A. It can be easily converted into cash**
- B. It is always held in foreign currency
- C. It cannot be spent directly
- D. It has a fixed value over time

Near money refers to financial assets that can easily be converted into cash but are not a medium of exchange themselves. This includes instruments like savings accounts, certificates of deposit, and Treasury bills. The defining characteristic of near money is its liquidity—in that it can be quickly and conveniently transformed into cash without a significant loss of value. The correct understanding centers around the ease of conversion. While near money can be converted into cash smoothly, it differs from regular money, which is directly used for transactions. This aspect makes near money a useful instrument for holding and managing wealth while retaining the ability to access cash when necessary. The other choices present concepts that do not accurately capture the essence of near money. For instance, while foreign currency can sometimes be considered near money, it is not a defining characteristic. Some entities might hold near money in their domestic currency as well. The idea that near money cannot be spent directly is correct, as it emphasizes that while it is not used for day-to-day transactions like cash, it can still be converted into cash for spending purposes. Lastly, the suggestion that near money has a fixed value over time is misleading; values of savings instruments can fluctuate due to interest rates and economic conditions, in contrast to cash, which has a more stable purchasing

2. Which act allowed the Federal Reserve to establish 12 regional banks?

- A. Financial Services Modernization Act
- B. Federal Reserve Act**
- C. Federal Reserve-Treasury Accord
- D. Banking Reform Act

The Federal Reserve Act, passed in 1913, was crucial in creating the Federal Reserve System, which included the establishment of 12 regional Federal Reserve Banks. This act was designed to provide the nation with a safer and more flexible monetary and financial system, responding to the banking panics of the early 20th century. By dividing the country into 12 districts, each with its own Federal Reserve Bank, the act aimed to ensure that the banking system would be more accessible and better managed on a regional level while still being part of a central regulatory framework. The act also emphasized the importance of coordinating monetary policy, supervising and regulating banks, and providing financial services. The establishment of these regional banks allowed the Federal Reserve to maintain local oversight while facilitating national financial stability. Therefore, the Federal Reserve Act is the correct answer as it lays the foundation for the structure of the Federal Reserve System as it exists today.

3. Which theory relates money supply and the velocity of money to overall price levels?

A. Quantity Theory of Money

B. Monetary Policy Theory

C. Price Level Theory

D. Demand-Supply Theory

The Quantity Theory of Money is fundamentally linked to the relationship between money supply, the velocity of money, and overall price levels in an economy. According to this theory, the equations can be expressed as $MV = PQ$, where M represents the money supply, V represents the velocity of money (the rate at which money is exchanged), P is the price level, and Q is the quantity of goods and services produced in the economy. This theory posits that an increase in the money supply will lead to a proportional increase in the price level if the velocity of money and the quantity of goods and services remain constant. Essentially, if there is more money in circulation and the same amount of goods and services, prices must rise. This foundational concept is significant in understanding inflation and the effects of monetary policy on the economy, making the Quantity Theory of Money a key principle in monetarist economic theory. The other theories provided do not directly connect the dynamics of money supply and velocity with price levels in the same systematic way as the Quantity Theory of Money does, which is why they are not the correct answer in this context.

4. Which type of deposits can be withdrawn immediately at the discretion of the depositor?

A. Savings deposits

B. Time deposits

C. Demand deposits

D. Certificate of deposits

Demand deposits are the type of deposits that can be withdrawn immediately at the discretion of the depositor. They are typically held in checking accounts, allowing individuals to access their funds whenever they choose, without prior notice or penalties. This characteristic provides flexibility and liquidity to the depositor, making these funds readily available for transactions. In contrast, savings deposits offer a bit more limitation, often promoting savings over immediate access due to withdrawal restrictions or limited transfers. Time deposits and certificates of deposits require the depositor to commit their funds for a specific period; early withdrawal usually incurs penalties. Therefore, the immediate availability of funds is a key distinguishing feature of demand deposits.

5. The expectation that money will retain its value over time represents which concept?

- A. Medium of exchange
- B. Store of value**
- C. Unit of account
- D. Standard of deferred payment

The concept that money will retain its value over time is best represented by the idea of a store of value. A store of value is an essential function of money, which allows individuals to save and retrieve purchasing power in the future without significant loss of value. This characteristic is crucial for individuals and businesses, as it provides the opportunity to plan and save for future expenses or investments, knowing that their money will still have value when they need to use it later. In economic terms, money should ideally be able to withstand inflation or other economic factors that could erode its value over time. When money functions well as a store of value, it instills confidence in its use, encouraging people to hold onto it rather than spending it immediately. This distinction becomes even more significant when analyzing the other options. A medium of exchange refers to the role of money in facilitating transactions, while a unit of account provides a standard numerical measure for pricing goods and services. The standard of deferred payment deals with the ability of money to be used for future payments or debts. While all these functions are vital to the overall utility of money, the specific expectation that money will hold its value accurately aligns with the concept of a store of value.

6. Which terms are used to characterize essential goods and luxury goods in terms of income elasticity?

- A. Price-sensitive and price-insensitive
- B. Essential and non-essential
- C. Income Inelastic and Income Elastic**
- D. Core and non-core goods

The correct answer highlights how essential goods and luxury goods are characterized in terms of income elasticity. Income elasticity of demand measures how the quantity demanded of a good responds to changes in consumer income. Essential goods, which are necessary for basic needs (like food and basic clothing), tend to have low-income elasticity, meaning they are considered income inelastic. This indicates that when consumer incomes rise or fall, the quantity demanded for these goods does not change significantly. People need these goods regardless of their income level, which is why they are termed income inelastic. Conversely, luxury goods, which are not necessary but desired for their inherent quality or prestige, have high-income elasticity and are classified as income elastic. For these goods, demand increases significantly as consumer incomes rise, reflecting that as people have more disposable income, they tend to spend more on luxury items. Understanding this distinction is vital in economics, as it helps analyze consumer behavior and market trends based on economic changes. The other terms in the choices provided do not accurately encapsulate the economic concepts of responsiveness in demand concerning income changes, which is why they do not fit the context of income elasticity as clearly as the correct answer does.

7. Which type of demand is characterized by a substantial change in quantity demanded with a small price adjustment?

- A. Price Inelastic Demand
- B. Price Elastic Demand**
- C. Fixed Demand
- D. Linear Demand

Price elastic demand refers to a situation where the quantity demanded of a good or service changes significantly in response to a small change in its price. This means that consumers are very sensitive to price changes; even a slight increase in price can lead to a notable decrease in the quantity demanded, or vice versa. This characteristic is typically seen in non-essential goods or services where substitutes are available, making consumers more likely to alter their purchasing behavior based on price fluctuations. For example, if the price of a popular brand of shoes increases slightly, consumers may quickly switch to a cheaper alternative brand, demonstrating price elasticity. In contrast, goods that are considered necessities, such as basic food items or utilities, tend to show price inelastic demand, where changes in price do not significantly alter the quantity demanded. This understanding of price elasticity is crucial for businesses in setting prices and for policymakers in assessing the impact of taxes and subsidies on consumer behavior.

8. Why is the monetary base critical for economic stability?

- A. It controls stock market prices
- B. It ensures a stable supply of high-risk loans
- C. It facilitates efficient monetary policy implementation**
- D. It influences foreign exchange rates directly

The monetary base is critical for economic stability primarily because it facilitates efficient monetary policy implementation. The monetary base, which includes the total amount of a country's currency in circulation plus the reserves held by banks at the central bank, serves as a fundamental tool for the central bank in managing the economy's money supply and overall liquidity. When the central bank adjusts the monetary base, it influences interest rates, which affects borrowing and spending by consumers and businesses. This, in turn, impacts inflation rates and economic growth. An effective and responsive monetary policy can help stabilize the economy by mitigating fluctuations and ensuring that the financial system operates smoothly. The other options, while they may relate to aspects of the economy, do not capture the primary role of the monetary base. Controlling stock market prices is more about investor sentiment and market conditions, rather than a direct function of the monetary base. A stable supply of high-risk loans is influenced by various factors, including credit risk and lending guidelines, rather than just the monetary base. Lastly, while the monetary base can have an indirect effect on foreign exchange rates, its primary purpose is not to influence these rates directly, but rather to serve as a foundation for monetary policy actions.

9. What does the acronym 'PPP' stand for in economics?

- A. Purchasing Power Parity**
- B. Public Policy Program
- C. Private Partnership Project
- D. Primary Production Process

The acronym 'PPP' in economics stands for Purchasing Power Parity. This concept is a theory that compares different countries' currencies through a market "basket of goods" approach. The principle behind PPP is that in the absence of transportation costs and barriers to trade, identical goods should have the same price when expressed in a common currency. This creates a benchmark for evaluating the relative value of currencies and helps in economic analysis by providing insight into how currencies are valued based on the cost of living and inflation rates in various countries. Purchasing Power Parity is crucial for assessing the economic strength and living standards of countries. It allows economists to make more accurate comparisons across different economies by taking into account the varying costs of goods and services. This makes it an essential tool for international economics, trade analysis, and developmental economics, helping policymakers and analysts to understand purchasing capabilities effectively.

10. What does FOREX refer to in the financial market?

- A. Foreign Exchange Market**
- B. Financial Exchange Market
- C. Federal Reserve Market
- D. Open Exchange Market

FOREX, short for Foreign Exchange Market, refers to the global marketplace for trading national currencies against one another. It is the largest and most liquid financial market in the world, where currencies are bought and sold, and exchange rates are determined. This market enables international trade and investment by allowing businesses and individuals to convert one currency into another. The functioning of the FOREX market is vital for the smooth operation of the global economy, as it facilitates transactions across various countries, enabling travel, commerce, and investment to occur seamlessly. The term 'FOREX' itself emphasizes the nature of this market, focusing specifically on foreign currencies, as opposed to other financial activities or markets that might involve stocks, bonds, or commodities.

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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