

# Money and the Federal Reserve Practice Exam (Sample)

## Study Guide



**Everything you need from our exam experts!**

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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. Monetary policy actions aim to influence which variables?**
  - A. The government's fiscal spending and taxation**
  - B. Real GDP and inflation rate**
  - C. The interest rate charged to consumers at banks**
  - D. The regulation of trade policies**
  
- 2. Which property describes that money is accepted as a means to pay debts by government order?**
  - A. Durability**
  - B. Fiat money**
  - C. Acceptability**
  - D. Portability**
  
- 3. Which property helps determine your hourly pay rate?**
  - A. Medium of exchange**
  - B. Unit of account**
  - C. Liquidity**
  - D. Store of value**
  
- 4. In contractionary monetary policy, the money supply tends to**
  - A. Decrease.**
  - B. Increase.**
  - C. Remain unchanged.**
  - D. Be unpredictable.**
  
- 5. Which statement is true about the material's description of money's uniformity?**
  - A. The physical appearance of bills varies widely**
  - B. The same denomination may look different across years**
  - C. Any two units of money should have the same characteristics**
  - D. Money can be used only in the current year?**

- 6. Which term describes a property that allows us to compare the values of goods and services?**
- A. Medium of exchange**
  - B. Money supply**
  - C. Unit of account**
  - D. Durability**
- 7. If the Fed wants to raise the federal funds rate without changing other tools, what action would it take?**
- A. Buy government securities**
  - B. Sell government securities**
  - C. Lower reserve requirements**
  - D. Lower the discount rate**
- 8. What term describes money that has value in itself and can also be used as money?**
- A. Representative money**
  - B. Fiat money**
  - C. Bank money**
  - D. Commodity money**
- 9. What is the primary purpose of open market operations conducted by the Federal Reserve?**
- A. To influence the federal funds rate by buying or selling government securities.**
  - B. To directly set the federal funds rate.**
  - C. To issue new currency to the banking system.**
  - D. To determine required reserve ratios for member banks.**
- 10. Which describes identical coins minted in different years?**
- A. Uniformity**
  - B. Durability**
  - C. Portability**
  - D. Acceptability**

## Answers

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

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## **Explanations**

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## 1. Monetary policy actions aim to influence which variables?

- A. The government's fiscal spending and taxation
- B. Real GDP and inflation rate**
- C. The interest rate charged to consumers at banks
- D. The regulation of trade policies

Monetary policy actions influence macroeconomic outcomes by targeting real GDP and the inflation rate. The central bank uses tools like open market operations, setting the policy interest rate, reserve requirements, and the discount rate to change the money supply and short-term interest rates. When policy aims to stimulate the economy, it lowers rates and expands money supply, encouraging borrowing and spending, which raises real GDP and can push inflation toward the target. When it aims to cool demand, it raises rates and tightens money supply, reducing real growth and inflation. This focus distinguishes monetary policy from fiscal policy, which uses government spending and taxes, and from trade regulation, which is a different policy area. The rate charged to consumers at banks is an outcome influenced by policy, not the direct target.

## 2. Which property describes that money is accepted as a means to pay debts by government order?

- A. Durability
- B. Fiat money**
- C. Acceptability
- D. Portability

Money that is accepted as payment for debts because the government declares it legal tender is fiat money. The key idea is that its acceptance rests on a government mandate, not on being convertible to a physical commodity or backed by something tangible. This legal tender status makes it the official medium for settling debts, which is why fiat money best fits the description. Durability and portability describe physical traits, and acceptability can arise from general trust, but they don't by themselves capture the formal government decree that gives fiat money its obligatory role in paying debts.

## 3. Which property helps determine your hourly pay rate?

- A. Medium of exchange
- B. Unit of account**
- C. Liquidity
- D. Store of value

Expressing wages in a standard monetary unit is how money functions as a unit of account. Because you can quote an hourly wage as dollars per hour, you can compare offers, track how pay changes over time, and budget reliably. This standard measurement lets you translate value into a familiar price for each hour worked, which is exactly what determines the hourly rate you see in job offers or contracts. The other functions of money aren't about setting that rate: medium of exchange is about using money to buy things, store of value is about preserving purchasing power for the future, and liquidity concerns how quickly an asset can be turned into cash.

**4. In contractionary monetary policy, the money supply tends to**

- A. Decrease.**
- B. Increase.**
- C. Remain unchanged.**
- D. Be unpredictable.**

Contractionary monetary policy tightens liquidity in the economy. The central bank often sells government securities in the open market, pulling reserves out of banks. With fewer reserves, banks curb lending, and the money creation process slows, so the overall money supply falls. This is the intended effect—to reduce liquidity and help curb inflation. The other outcomes—money supply increasing, staying unchanged, or being unpredictable—don't align with the deliberate tightening of liquidity that this policy implements.

**5. Which statement is true about the material's description of money's uniformity?**

- A. The physical appearance of bills varies widely**
- B. The same denomination may look different across years**
- C. Any two units of money should have the same characteristics**
- D. Money can be used only in the current year?**

Uniformity means money of the same denomination is produced with the same essential features so any two units are interchangeable. This makes currency widely trusted and easy to use because a bill of that denomination will be accepted everywhere and counted the same way regardless of which specific note you have. The design may evolve over time, but the core characteristics that determine value stay consistent for that denomination, so one unit is worth another. The idea that appearance could vary widely or that a denomination might be valid only in the current year would undermine this interchangeability, and money is accepted for use beyond just the current year.

**6. Which term describes a property that allows us to compare the values of goods and services?**

- A. Medium of exchange**
- B. Money supply**
- C. Unit of account**
- D. Durability**

Unit of account is the measure that provides a common standard for valuing goods and services. It lets prices be quoted in the same unit, so you can compare how much different items cost and determine relative value. This is essential for deciding what to buy and for comparing offerings across the economy. In contrast, a medium of exchange is about facilitating transactions, the money supply is about how much money exists in the economy, and durability is a physical quality that helps money function over time.

7. If the Fed wants to raise the federal funds rate without changing other tools, what action would it take?
- A. Buy government securities
  - B. Sell government securities**
  - C. Lower reserve requirements
  - D. Lower the discount rate

The main concept is how open market operations influence the supply of bank reserves and, in turn, the federal funds rate. The federal funds rate is the interest banks charge each other for overnight loans of reserves. When the Fed wants to raise that rate without touching other tools, it reduces the amount of reserves in the banking system by selling government securities to banks. Payment for these securities comes out of banks' reserves, draining the system. With fewer reserves available, banks are less willing to lend overnight, and the rate rises to clear the market. Buying securities would do the opposite by adding reserves and lowering the rate. Lowering reserve requirements or lowering the discount rate would typically inject liquidity and also tend to lower the rate, so they wouldn't achieve a rise if used alone.

8. What term describes money that has value in itself and can also be used as money?
- A. Representative money
  - B. Fiat money
  - C. Bank money
  - D. Commodity money**

Commodity money describes money that has intrinsic value and can be used as money. The material itself is valuable—like gold or silver—so the currency is worth something even aside from its role as a medium of exchange. People accept it because the metal or commodity has real worth and can be traded for goods and services. This differs from representative money, which represents value but has little or no intrinsic worth itself; fiat money, which has value mainly because the government declares it legal tender; and bank money, which is money created by deposit balances and does not rely on intrinsic value.

9. What is the primary purpose of open market operations conducted by the Federal Reserve?
- A. To influence the federal funds rate by buying or selling government securities.**
  - B. To directly set the federal funds rate.
  - C. To issue new currency to the banking system.
  - D. To determine required reserve ratios for member banks.

Open market operations adjust banks' reserve balances to steer the overnight federal funds rate. When the Fed buys government securities, it credits banks' reserve accounts, increasing the supply of reserves and typically lowering the rate at which banks lend to each other overnight. When the Fed sells securities, it drains reserves, reducing the supply and pushing the rate higher. The Fed targets a range for the federal funds rate and uses these operations to move actual rates toward that target. This is why open market operations influence the funds rate rather than directly setting it, and why they're not about issuing currency or changing reserve requirements.

**10. Which describes identical coins minted in different years?**

**A. Uniformity**

**B. Durability**

**C. Portability**

**D. Acceptability**

Uniformity is the key idea here. Money is designed so that coins of the same denomination are the same in value and in their essential physical characteristics, no matter which year they were minted. When coins from different years share the same denomination, weight, size, and metal content, they are interchangeable in transactions. That consistent sameness across issues lets you pay the same amount with any coin of that denomination, preserving smooth commerce over time. Durability, portability, and acceptability are important aspects of money, but they don't capture the idea that coins from different years remain identical in how they function as the same unit of value.

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## 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](mailto:hello@examzify.com).**

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

**<https://moneyfederalreserve.examzify.com>**

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

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