

DANTES

Subject Standardized Tests

Fact Sheet Study Guide

MONEY AND BANKING

TEST INFORMATION

**Approximate
Percent**

This test was developed to enable schools to award credit to students for knowledge equivalent to that which is learned by students taking the course. The school may choose to award college credit to the student based on the achievement of a passing score. The passing score for each examination is determined by the school based on recommendations from the American Council on Education (ACE). This minimum credit-awarding score is equal to the mean score of students in the norming sample who received a grade of C in the course. Some schools set their own standards for awarding credit and may require a higher score than the ACE recommendation. Students should obtain this information from the institution where they expect to receive credit.

CONTENT

The following topics, which are commonly taught in courses on this subject, are covered by this examination.

	Approximate Percent		
I. The Role and Kinds of Money	5%		
A. Alternative definitions of money			
B. Money and other assets			
II. Commercial Banks and Other Financial Intermediaries	31%		
A. Deposit deregulation			
B. Structure of the banking industry			
C. Operation and management of financial markets and intermediaries			
		D. Deposit insurance	
		E. International banking	
		III. Central Banking and the Federal Reserve System	18%
		A. Structure and organization	
		B. Historical framework	
		C. Current monetary management	
		IV. Money and Macroeconomic Activity	21%
		A. Basic classical and Keynesian economics	
		B. Monetarism and rational expectations	
		C. Money and inflation	
		V. Monetary Policy in the United States	18%
		A. Conducting monetary policy	
		B. Targeting of monetary aggregates vs. interest rates	
		C. Policy effectiveness	
		D. Monetary vs. fiscal policy	
		VI. The International Monetary System	7%
		A. International monetary institutions and the debt crisis	
		B. International payments and exchange rates	
		C. Monetary policy in conjunction with flexible exchange rates	



Questions on the test require candidates to demonstrate the following abilities.

- Knowledge of basic facts and terms (about 35-40% of the examination)
- Application of concepts and principles (about 40-45% of the examination)
- Analysis of specific cases, situations, or issues (about 20-25% of the examination)

SAMPLE QUESTIONS

1. A deficit in a country's balance of payments tends to produce
 - (A) a fall in the exchange value of that country's currency
 - (B) a gold flow into that country
 - (C) an increase in the supply of foreign exchange in that country's market
 - (D) deflation in that country
2. The major purpose of the Federal Deposit Insurance Corporation (FDIC) is to
 - (A) absorb any excess profits made by insured banks
 - (B) provide subsidies to weaker banks
 - (C) protect insured banks against loss caused by actual or threatened withdrawals
 - (D) give prior approval to insured banks for any loans of \$1 million or more
3. Under the National Bank Act of 1863, the supply of National Bank notes was dependent on which of the following?
 - (A) Decisions of the Board of Governors of the Federal Reserve
 - (B) The market value of certain types of United States government bonds
 - (C) Restrictions set by the Federal Deposit Insurance Corporation (FDIC)
 - (D) Annual decisions by Congress
4. Which of the following would be included in the Gross Domestic Product (GDP) accounting for the current period?
 - (A) Personal consumption of goods acquired by families in prior periods
 - (B) Government purchases of goods and services produced in the current period
 - (C) Business investment in financial instruments in the current period
 - (D) Personal saving in the current period
5. Which of the following is a component of Gross Private Domestic Investment?
 - (A) Household savings
 - (B) Purchases of certificates of deposit issued by savings and loan associations
 - (C) Purchases of new automobiles by families
 - (D) Purchases of new equipment by businesses
6. One advantage of monetary policy over fiscal policy is that monetary policy
 - (A) is more flexible
 - (B) directly influences spending
 - (C) is automatic in operation
 - (D) has no discriminatory effects
7. Interest rates on long-term Treasury bonds are likely to be higher than on short-term Treasury bills when
 - (A) future short-term interest rates are expected to rise
 - (B) the general level of interest rates is expected to fall
 - (C) the rate of inflation is expected to fall
 - (D) a recession is anticipated
8. In the United States, the largest commercial banks hold a larger proportion of their assets as primary reserves than do smaller commercial banks because the largest banks
 - (A) are subject to higher reserve requirements
 - (B) are quasi-public institutions seeking only modest profits
 - (C) have higher capital-to-deposit ratios
 - (D) have more conservative lending policies

9. When a member country of the International Monetary Fund (IMF) uses the IMF credit facilities, that country ordinarily does which of the following?
- (A) Makes a long-term loan to the IMF.
 - (B) Puts in its own currency and takes out the currency desired.
 - (C) Offers gold to the IMF in exchange for dollars.
 - (D) Borrows from the Federal Reserve System.

STUDYING FOR THE EXAMINATION

The following is a list of reference publications that were being used as textbooks in college courses of the same or similar title at the time the test was developed. Appropriate textbooks for study are not limited to those listed below. If you wish to obtain study resources to prepare for the examination, you may reference either the current edition of the following titles **or** textbooks currently used at a local college or university for the same class title. It is recommended that you reference **more than one textbook** on the topics outlined in this fact sheet. You should **begin by checking textbook content against the content outline** included on the front page of this Fact Sheet/Study Guide **before** selecting textbooks that cover the test content from which to study. Textbooks may be found at the campus bookstore of a local college or university offering a course on the subject.

Sources for study material suggested but not limited to the following:

Friedman, David H. *Money & Banking*. Washington, DC: American Bankers Association, current edition.

Horvitz, Paul M., and Richard A. Ward. *Monetary Policy and the Financial System*. Englewood Cliffs, NJ: Prentice-Hall, current edition.

Kaufman, George G. *The U.S. Financial System: Money, Markets, and Institutions*. Englewood Cliffs, NJ: Prentice Hall, current edition.

Kidwell, David S., Richard L. Peterson, and David W. Blackwell. *Financial Institutions, Markets, and Money*. Fort Worth, TX: Dryden Press, current edition.

Kohn, Meir. *Money, Banking, and Financial Markets*. Fort Worth, TX: Dryden Press, current edition.

Mayer, Thomas, James S. Duesenberry, and Robert Z. Aliber. *Money, Banking, and the Economy*. New York, NY: Norton, current edition.

Miller, Roger LeRoy, and David D. VanHoose. *Modern Money and Banking*. New York, NY: McGraw-Hill, current edition.

Mishkin, Frederick S. *The Economics of Money, Banking, and Financial Markets*. New York, NY: Harper Collins, current edition.

Ritter, Lawrence S., and William L. Silber. *Principles of Money, Banking, and Financial Markets*. Reading, MA: Addison-Wesley, current edition.

Current textbook used by a local college or university for a course on the subject.

CREDIT RECOMMENDATIONS

The Center For Adult Learning and Educational Credentials of the American Council on Education (ACE) has reviewed and evaluated the DANTES examination development process. The American Council on Education has made the following recommendations:

Area or Course	Money and Banking
Equivalent:	Upper-level baccalaureate
Level:	Three (3) semester hours
Amount of Credit:	ACE Commission on
Source:	Educational Credit and Credentials

INFORMATION

Colleges and universities that would like to review copies of tests, have additional information about the national norming, or assistance in local norming or score validation studies should write to: DANTES Program, Mail Stop 11-P, The Chauncey Group International, 664 Rosedale Road, Princeton, New Jersey 08540.

It is advisable that schools develop a consistent policy about awarding credit based on scores from this test and that the policy be reviewed periodically. The Chauncey Group will be happy to help schools in this effort.

Correct Responses: 1.A; 2.C; 3.B; 4.B; 5.D; 6.A; 7.A; 8.A; 9.B