

1 **Money**

- What is money?
- What are the three uses of money?
- What are the six characteristics of money?
- What are the sources of money's value?

2 **What Is Money?**

3 **The Three Uses of Money**

- Money as Medium of Exchange
 - A medium of exchange is anything that is used to determine value during the exchange of goods and services.
- Money as a Unit of Account
 - A unit of account is a means for comparing the values of goods and services.
- Money as a Store of Value
 - A store of value is something that keeps its value if it is stored rather than used.

4 **The Six Characteristics of Money**

5 **The Sources of Money's Value**

1 **Commodity Money**

- Commodity money consists of objects that have value in themselves.

2 **Representative Money**

- Representative money has value because the holder can exchange it for something else of value.

6 **Section 1 Assessment**

1. Two units of the same type of money must be the same in terms of what they will buy, that is, they must be
 - (a) divisible.
 - (b) portable.
 - (c) acceptable.
 - (d) uniform.
2. What is the source of fiat money's value?
 - (a) it represents the value of another item
 - (b) government decree
 - (c) presidential pardon
 - (d) it is equal to the value of the stock market

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8 **The History of American Banking**

- How did American banking change in the 1700s and 1800s?
- How was the banking system stabilized in the late 1800s?
- What developments occurred in banking during the twentieth century?

9 **American Banking Before the Civil War**

- 1 • Federalists believed the country needed a strong central government to establish economic and social order.
 - Alexander Hamilton was in favor of a national bank which could issue a single currency, handle federal funds, and monitor other banks.
- 2 • Antifederalists were against a strong central government and favored leaving powers in the hands of the states.
 - Thomas Jefferson opposed the creation of a national bank, and instead favored banks created and monitored by individual states.

10 **Shifts in the Banking System**

- The First Bank of the United States
 - The first Bank of the United States was created in 1791. The Bank held tax revenues, helped collect taxes, issued representative money, and monitored state-chartered banks.
- Chaos in American Banking
 - The first Bank lost support and its charter expired in 1811. Different, state-chartered banks began issuing different currencies.
- The Second Bank of the United States
 - The Second Bank was created in 1816 and was responsible for restoring stability in banking.
- The Free Banking Era
 - The Second Bank's charter was not renewed in 1832, and another period dominated by state-chartered banks took hold.

11 **Banking Stabilization in the Late 1800s**

The National Banking Acts of 1863 and 1864 gave the federal government the power to:

1. Charter banks
2. Require banks to hold adequate reserves of silver and gold
3. Issue a single national currency

In 1900, the nation shifted to the gold standard, a monetary system in which paper money and coins are equal to the value of a certain amount of gold. The gold standard had two advantages:

1. It set a definite value on the dollar.
2. The government could only issue currency if it had gold in its treasury to back its notes.

12 **Banking in the Twentieth Century**

- 1 • The Federal Reserve Act of 1913 created the Federal Reserve System. The Federal Reserve System served as the nation's first true central bank.
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- 2 • The Banking Act of 1933 created the Federal Deposit Insurance Corporation (FDIC). Today, the FDIC insures customers' deposits up to \$100,000. The nation was also taken off of the gold standard.

13 **Section 2 Assessment**

1. During the Free Banking Era between 1837 and 1863, banking in the United States was dominated by which of the following?
 - (a) small, independent banks with no charters
 - (b) The Bank of the United States


- (c) state-chartered banks
 - (d) savings and loans banks
2. After the Civil War, the National Banking Acts gave the federal government the power to do all of the following EXCEPT:
- (a) insure banks against failure
 - (b) charter banks
 - (c) require banks to hold adequate gold and silver reserves
 - (d) issue a single national currency

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15  **Banking Today**

- How do economists measure the U.S. money supply?
- What services do banks provide?
- How do banks make a profit?
- What are the different types of financial institutions?
- How has electronic banking affected the banking world?

16  **Measuring the Money Supply**

1 M1

- M1 consists of assets that have liquidity, or the ability to be used as, or easily converted into, cash.
- Components of M1 include all currency, traveler's checks, and demand deposits.
- Demand deposits are the money in checking accounts.

2 M2

- M2 consists of all of the assets in M1, plus deposits in savings accounts and money market mutual funds.
- A money market mutual fund is a fund that pools money from small investors to purchase government or corporate bonds.

17  **Banking Services**

- Banks perform many functions and offer a wide range of services to consumers.

18  **How Banks Make a Profit**

- The largest source of income for banks is the interest they receive from customers who have taken loans.
- Interest is the price paid for the use of borrowed money.

19  **Types of Financial Institutions**

- Commercial Banks
 - Commercial banks offer checking services, accept deposits, and make loans.
- Savings and Loan Associations

- Savings and Loan Associations were originally chartered to lend money for home-building in the mid-1800s.
- Savings Banks
 - Savings banks traditionally served people who made smaller deposits and transactions than commercial banks wished to handle.
- Credit Unions
 - Credit unions are cooperative lending associations for particular groups, usually employees of a specific firm or government agency.
- Finance Companies
 - Finance companies make installment loans to consumers.

20 **Electronic Banking**

21 **Section 3 Assessment**

1. The money supply of the United States is made up of which of the following?
 - (a) M1
 - (b) M1 and parts of M2
 - (c) all the money available in the economy
 - (d) all the money available in the economy plus money that the country could borrow
2. Why are funds in checking accounts called demand deposits?
 - (a) they are available whenever the depositor demands them by writing a check
 - (b) they are not liquid
 - (c) they are usually in great demand
 - (d) they are held without interest by the bank

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