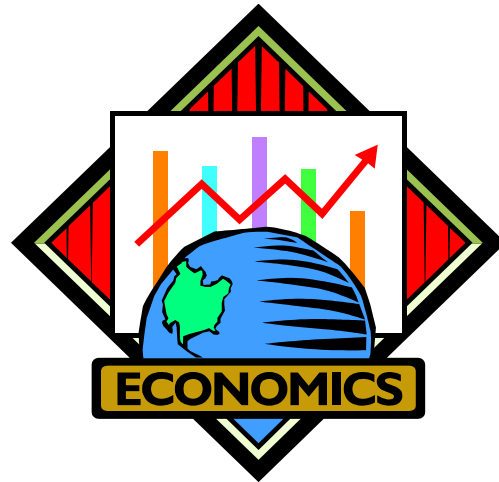


CHAPTER 10

Money and Banking



FUNCTIONS OF MONEY

- Money is accepted by all parties as payment for goods and services.
- Money can be used to express worth in terms that most people can understand.
- Money holds its purchasing power until the buyer needs it.



MONEY IN EARLY SOCIETIES

- The use of money developed in ancient times because it made life easier.
- A good like compressed leaves is known as commodity money.
- Fiat money is made valuable by government decree (paper money).



ORIGINS OF THE DOLLAR



- When the nation began, the most plentiful coin in circulation was the Spanish peso.
- Benjamin Franklin and Alexander Hamilton differentiated the dollar system from the pesos by dividing the dollar into tenths rather than the peso's pieces of eight.

CHARACTERISTICS OF MONEY

- Money must be portable, or easily transferred from one person to another.



- Money must be durable so it lasts when handled or stored for long periods.

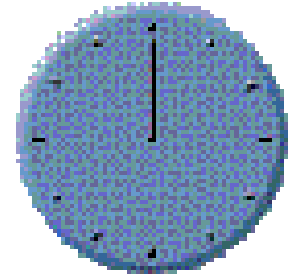




CHARACTERISTICS OF MONEY (continued)



- Money must be *divisible* to facilitate all types of transactions.



- Money must be in *limited supply* to retain its value.

■ Which of these best describes the distribution of income in the United States?



- A. The richest people in our country control only a small amount of wealth.
- B. Our richest citizens control much of the wealth.
- C. Most American families are now rising out of poverty.
- D. The middle class appears to be getting much richer than expected.



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THE GOLD STANDARD

- In 1900, Congress passed the Gold Standard Act, making the basic currency unit, the dollar, equivalent to a specific amount of gold.
- The Gold Standard remained in effect until the Great Depression.





ADVANTAGES OF THE GOLD STANDARD

- 1. The security Americans felt about their money.**
- 2. The Gold Standard prevents the government from printing too much paper currency.**



DISADVANTAGES OF THE GOLD STANDARD

1. The gold stock may not grow fast enough to support a growing economy.



2. People may decide to convert their paper to gold, draining the government's gold reserves.



DISADVANTAGES OF THE

GOLD STANDARD

(continued)



- 3. The price of gold will respond to the market and it may lose substantial value.**
- 4. The political risk of failure exists.**

THE INCONVERTIBLE FIAT MONEY STANDARD



- Since 1934, the United States has been on an *inconvertible fiat money standard* – a monetary standard under which the fiat money supply cannot be converted into gold or silver by its citizens.





John Roberts

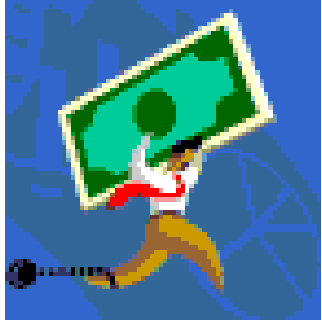
**Chief Justice of the
Supreme Court**



THE INCONVERTIBLE FIAT

MONEY STANDARD

(continued)



- **The money supply of the United States is managed by the federal government.**

THE INCONVERTIBLE FIAT MONEY STANDARD



(continued)



- The *tangible component* of modern money consists of *coins and Federal Reserve notes*.
- The *intangible components* include travelers' checks, and checking and savings accounts.

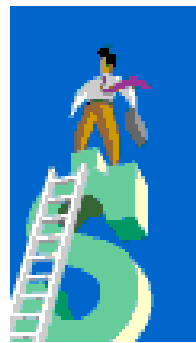
- **If Congress raises the minimum wage to \$9.00 per hour, which effect is most likely to happen?**

A. Most employers will hire fewer workers.

B. Most employers will hire more workers.

C. Prices of goods and services will be lower.

D. Prices of goods and services will remain the same.



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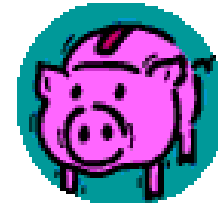
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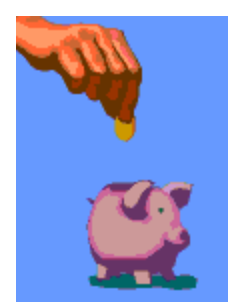


REVISING THE BANKING SYSTEM



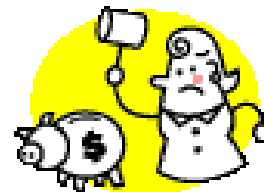
- **The National Banking Act (1863) strengthened the nation's financial system by creating a system of national banks.**
- **By 1907, the National Banking Act needed further reforms as the nation experienced financial crises and recessions.**





THE FEDERAL RESERVE SYSTEM

- Congress responded to the call for reform with the *Federal Reserve System*, or *the Fed*, the nation's first true central bank – a bank that lends to other banks in need.





THE FEDERAL RESERVE



SYSTEM (continued)

- The *Federal Reserve System* was set up as a *corporation* and any bank that joined the system had to purchase shares of stock in the system.
- As a result, privately owned banks own the Federal Reserve System, not the government.



THE FEDERAL RESERVE SYSTEM (continued)



- The *Federal Reserve System* is *publicly controlled.*



- The *President of the United States* appoints and *Congress* approves the Federal Reserve System's Board of Governors.

THE FEDERAL RESERVE

SYSTEM (continued)



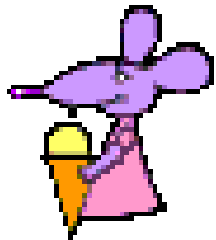
- Banks were overextended during the 1920s, and many failed after the *Great Depression* hit in 1929.



THE FEDERAL RESERVE SYSTEM (continued)



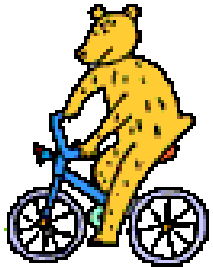
- During the Great Depression, banks did not have deposit insurance for their depositors, causing depositors' rush on banks to withdraw funds. As a result, many more banks failed.



THE FEDERAL RESERVE SYSTEM (continued)



- The *Federal Deposit Insurance Corporation* (FDIC) insured customer deposits in the event of a bank failure.



OTHER DEPOSITORY INSTITUTIONS



- Most of the first American banks were commercial banks that catered to business and commerce.
- Commercial banks had the authority to issue checking or demand deposit accounts.





OTHER DEPOSITORY


INSTITUTIONS (continued)

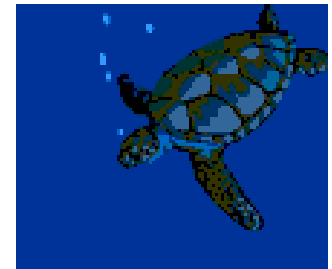
- **Checking accounts are also called *demand deposit accounts (DDAs)*- accounts whose funds could be removed by simply writing a check without prior approval from the depository institution.**





OTHER DEPOSITORY INSTITUTIONS (continued)

- *A thrift institution* 
accepted the deposits of
small investors, but could
not offer demand deposit
accounts (until the
1970s).





OTHER DEPOSITORY

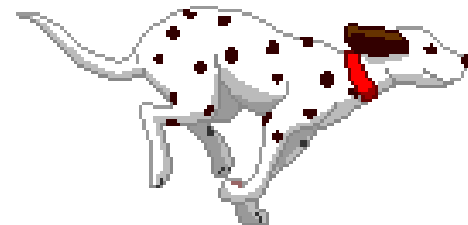
INSTITUTIONS (continued)

- The mutual savings banks were the oldest thrift institutions in the United States.
- They catered to the small wage earner, particularly those who lived in the industrial northeast and the Pacific northwest.



OTHER DEPOSITORY INSTITUTIONS (continued)

- In 1972, a savings bank introduced the Negotiable Order of Withdrawal, or NOW accounts, which were checking accounts that paid interest.







OTHER DEPOSITORY INSTITUTIONS (continued)

- ***A savings and loan association* invested the majority of its funds in *home mortgages*.**
- **In the 1930s, the *Federal Home Loan Bank Board* began supervising and regulating savings and loan associations.**

OTHER DEPOSITORY

INSTITUTIONS (continued)

- **A credit union is a nonprofit service cooperative that is owned by and operated for the benefit of its members.**
- **Contributions are generally deducted directly from a worker's paycheck.**



- **Other than for their own personal well-being, why is it important for individuals to save and invest ?**

A. There is no risk involved.




B. It can lead to economic

growth of businesses and jobs.

C. It is a simple way to avoid most taxes.

D. It can cause prices to rise.



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