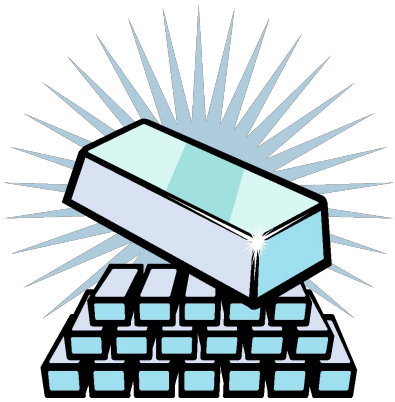


MONEY

Money & Banking



The Evolution of Money: 3 functions

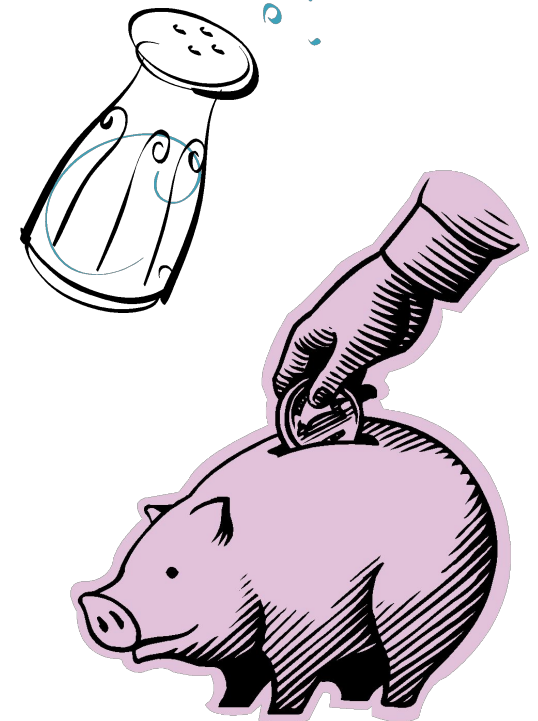


- **medium of exchange:** accepted by all (gold, silver, salt, furs, beads, shells)



- **store of value:** allows purchasing power to be saved

- **measure of value:** express worth of an item



Early types of \$\$\$



- **Commodity money:** alternative use as
- a good (tea leaves, beads, shells, guns, ammo, corn, hemp, tobacco, molasses)
- **Fiat money:** money by government decree (coins in Europe & Asia)
- **Paper currency:** people & states
- printed own (in Civil War—useless
- by end of war)
- **Specie money:** coins of silver or gold



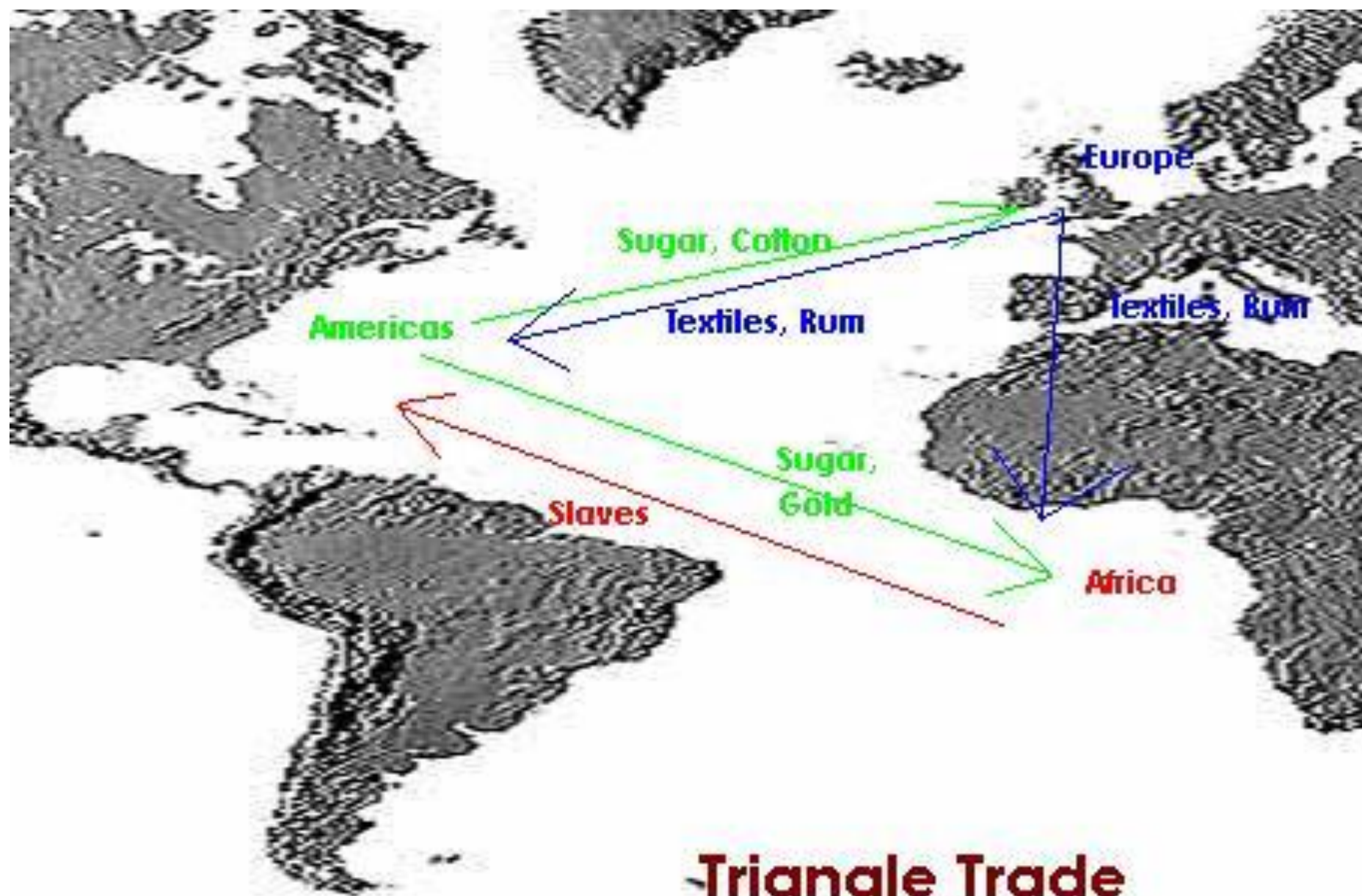


Triangular trade



- **Molasses**, rum, cotton, slaves
- Paid for with Spanish silver **pesos**
- Called “pieces of eight” b/c broke into 8 pcs.
- Looked like Austrian talers—sounded like “**dollars**”
- **Dollar**: basic monetary unit in US
- 25 cents □ “two bits”

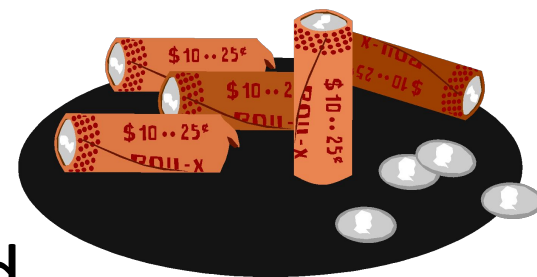




Characteristics of \$\$\$



- **Portable:** easily transferred
- **Durable:** has to last (no food)
- **Divisible:** smaller units as needed
- **Limited in supply:** value drops when there is too much of it (surplus!)
- Only state banks at first—then printing fraudulent money (“wildcat” banks)
- 100s of different kinds & too much of it





Banking & \$ Changes

- **National currency:** est. state-owned banks (federal) which printed all currency
- Backed by government **bonds**
- **Gold certificates:** were backed by gold
- **Silver certificates:** were backed by silver
- **Treasury coin notes:** exchanged for gold or silver
- **Gold standard:** backed by gold—could exchange notes for gold (secure & controls amt of paper \$)
- Not enough gold, price of gold can change, people trade \$ for gold, can fail—went off gold standard in 1933
- **Incontrovertible fiat money standard:** today—\$ cannot be converted into gold or silver
- **Federal Reserve System** replaced state (gov't.) banks

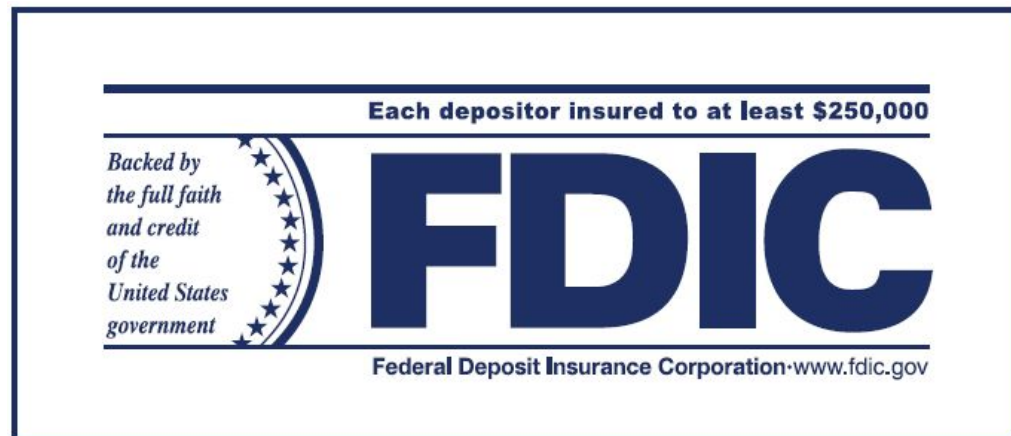




Treasury Coin note

Federal Reserve Bank

- **Central bank:** loans \$ to other banks
- Run by federal government
- **Federal Reserve Notes:** paper currency
- Great Depression: overextended, run on the banks, bank holiday
- Passed **Federal Deposit Insurance Corporation** (1933): insures customer deposits up to \$250,000 (*NOT credit unions!*)



The “Fed”





**Federal Reserve Bank, New York: gold bullion
(each weighs about 27 lbs. & is worth about \$160K)**