# Money Show film - HISTORY OF MONEY



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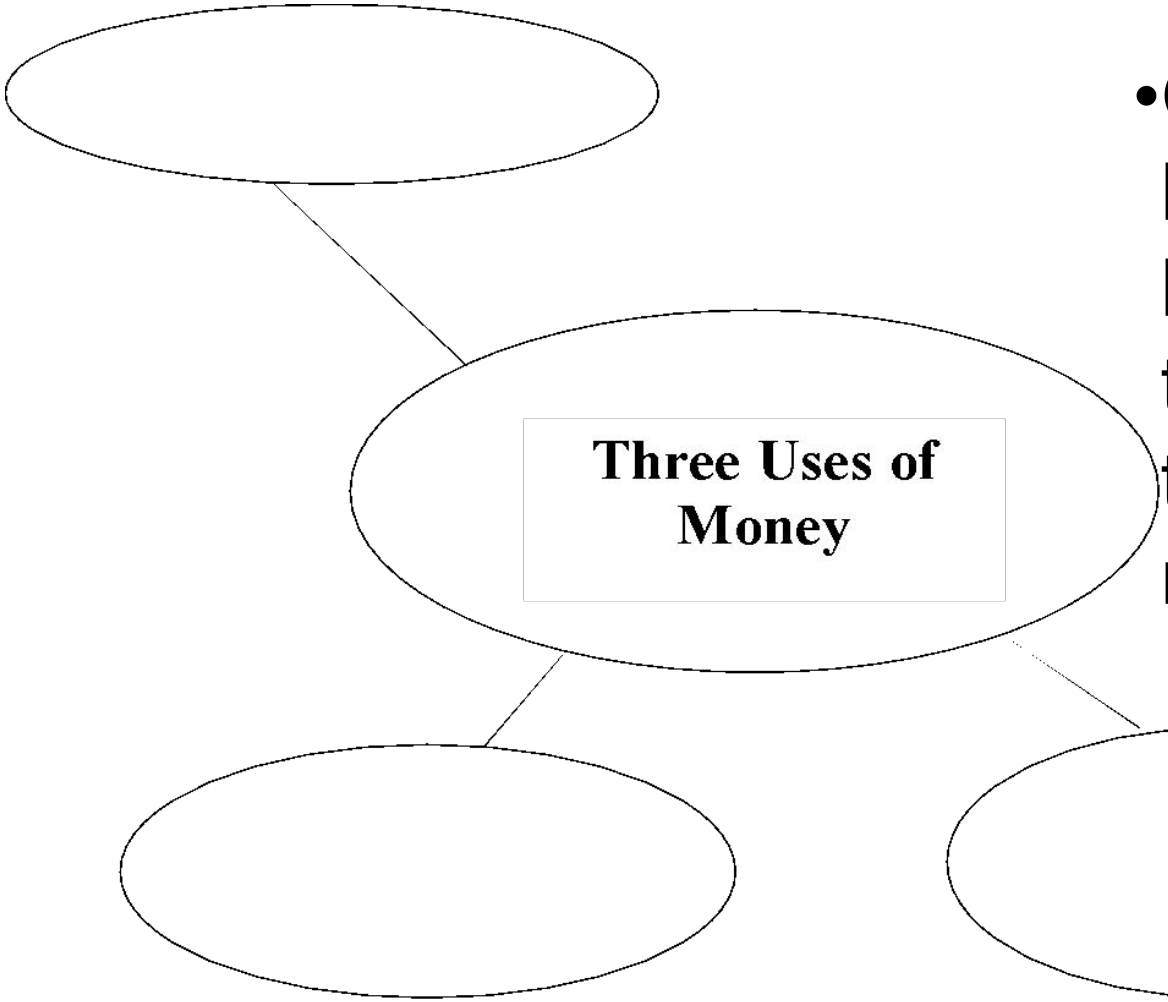


- Get out your handout and be prepared to jot down the 3 uses of money


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# What Is Money?

**Money** is anything that serves as a medium of exchange, a unit of account, and a store of value.

# The Three Uses of Money – write in graphic organizer ..

- 1st bubble - Money as Medium of Exchange
  - A medium of exchange is anything that is used to determine value during the exchange of goods and services.
- 2nd bubble - Money as a Unit of Account
  - A unit of account is a means for comparing the values of goods and services.
- 3rd bubble - Money as a Store of Value
  - A store of value is something that keeps its value if it is stored rather than used.

- Get out your handout and be prepared to jot down the 6 characteristics of money

# The Six Characteristics of Money

The coins and paper bills used as money in a society are called **currency**. A currency must meet the following characteristics:

**Durability**
Objects used as money must withstand physical wear and tear.

**Portability**
People need to be able to take money with them as they go about their business.

**Divisibility**
To be useful, money must be easily divided into smaller denominations, or units of value.

**Uniformity**
Any two units of money must be uniform, that is, the same, in terms of what they will buy.

**Limited Supply**
Money must be available only in limited quantities.

**Acceptability**
Everyone must be able to exchange the money for goods and services.

# The Sources of Money's Value

### Commodity Money

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

### Representative Money

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

### Fiat Money

- **Fiat money, also called "legal tender," has value because the government decreed that is an acceptable means to pay debts.**

- Get out a sheet of paper and create a graphic organizer – your choice –label the title as ***<u>Sources of Money's value</u>*** ..… then create 3 rectangles as shown in this slide… write in each box the definition & draw a picture of each source of money's value (Commodity, Representative and Fiat money)



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# 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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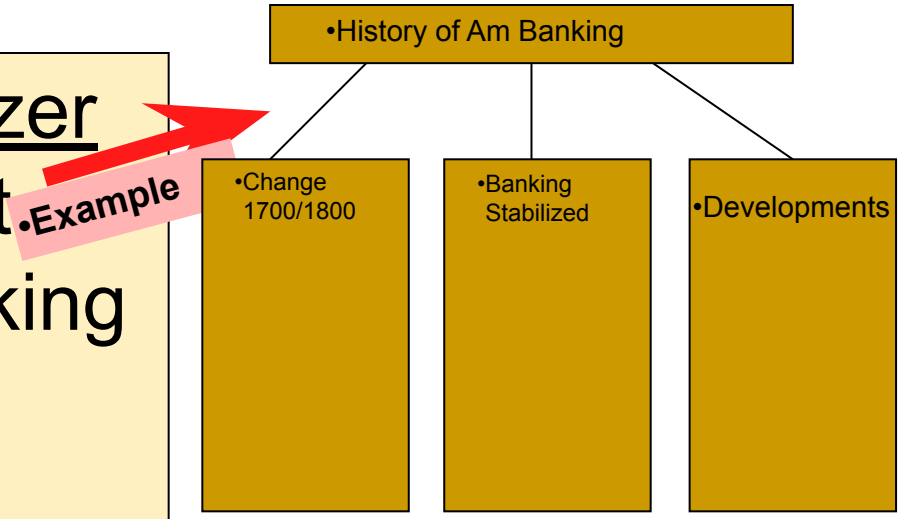
# The History of American Banking

- **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?**

- <u>Create a graphic organizer</u> – see EXAMPLE to right
  title: History of Am Banking
- 3 sub-titles (see bullets above)





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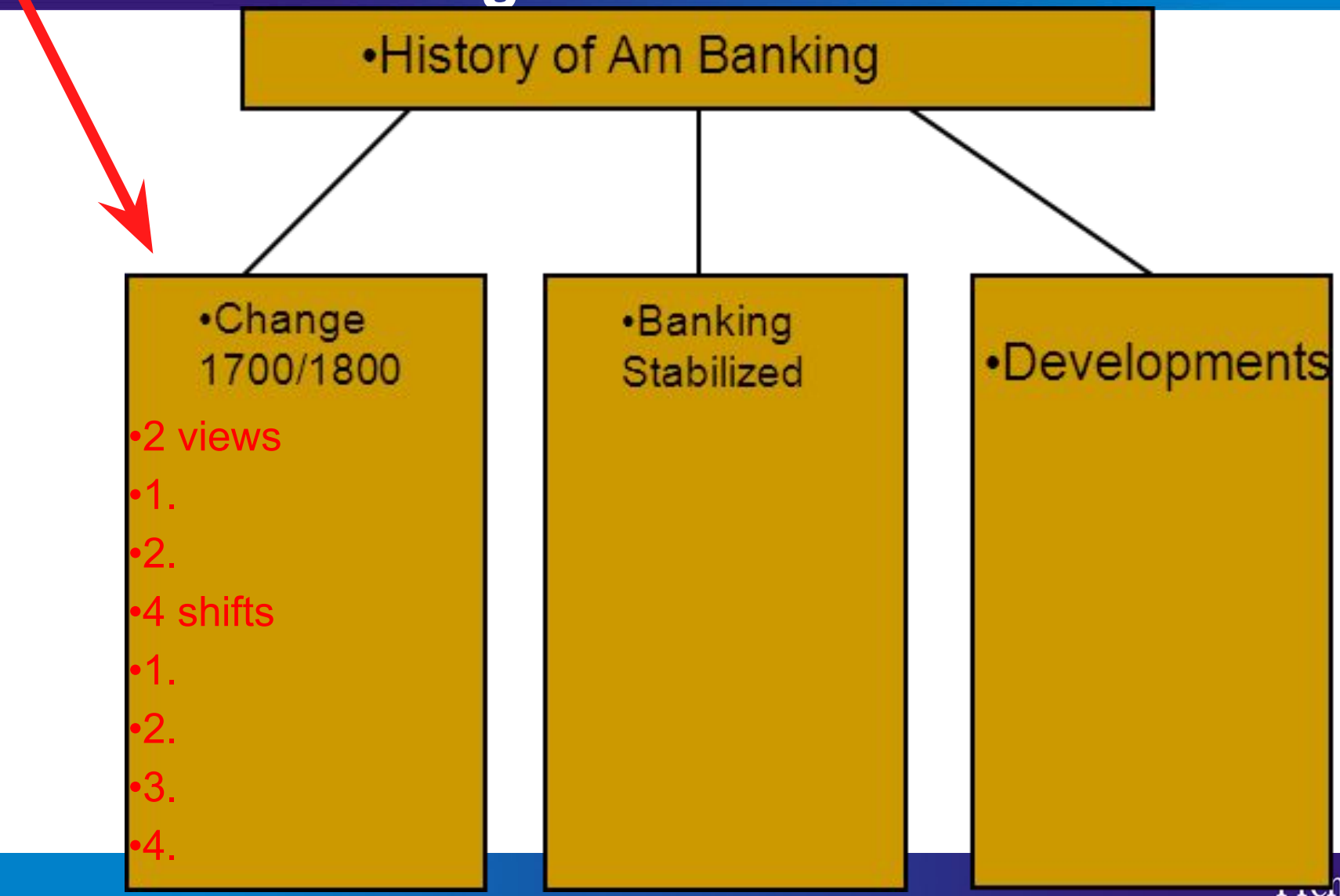
# Add elements to first rectangle… then go to next slide & get answers …



# American Banking Before the Civil War

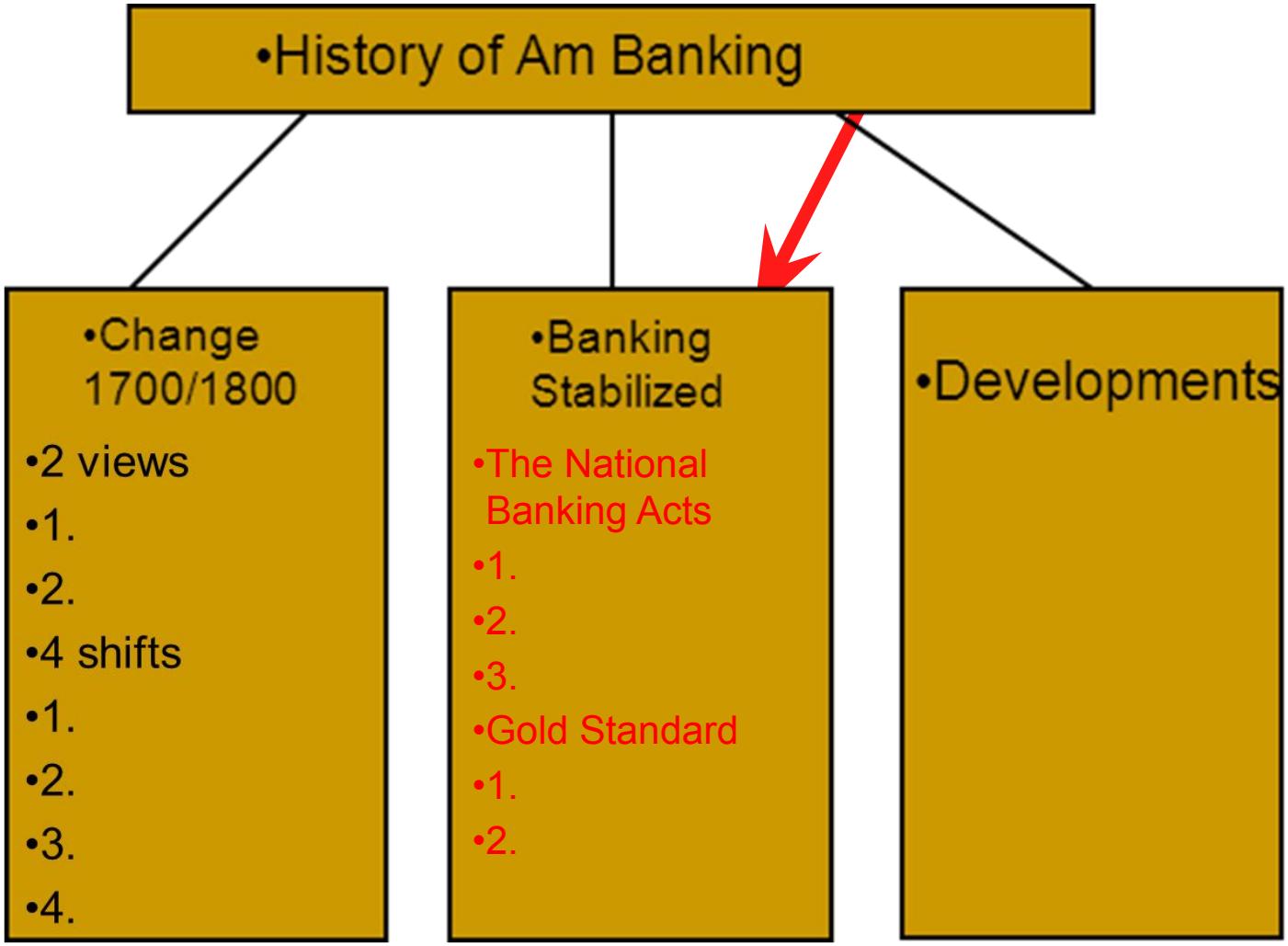
## Two Views of Banking

- 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.
- 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.

# 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.

# Now add elements for 2nd column… answers next slide



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# Banking Stabilization in the Late 1800s

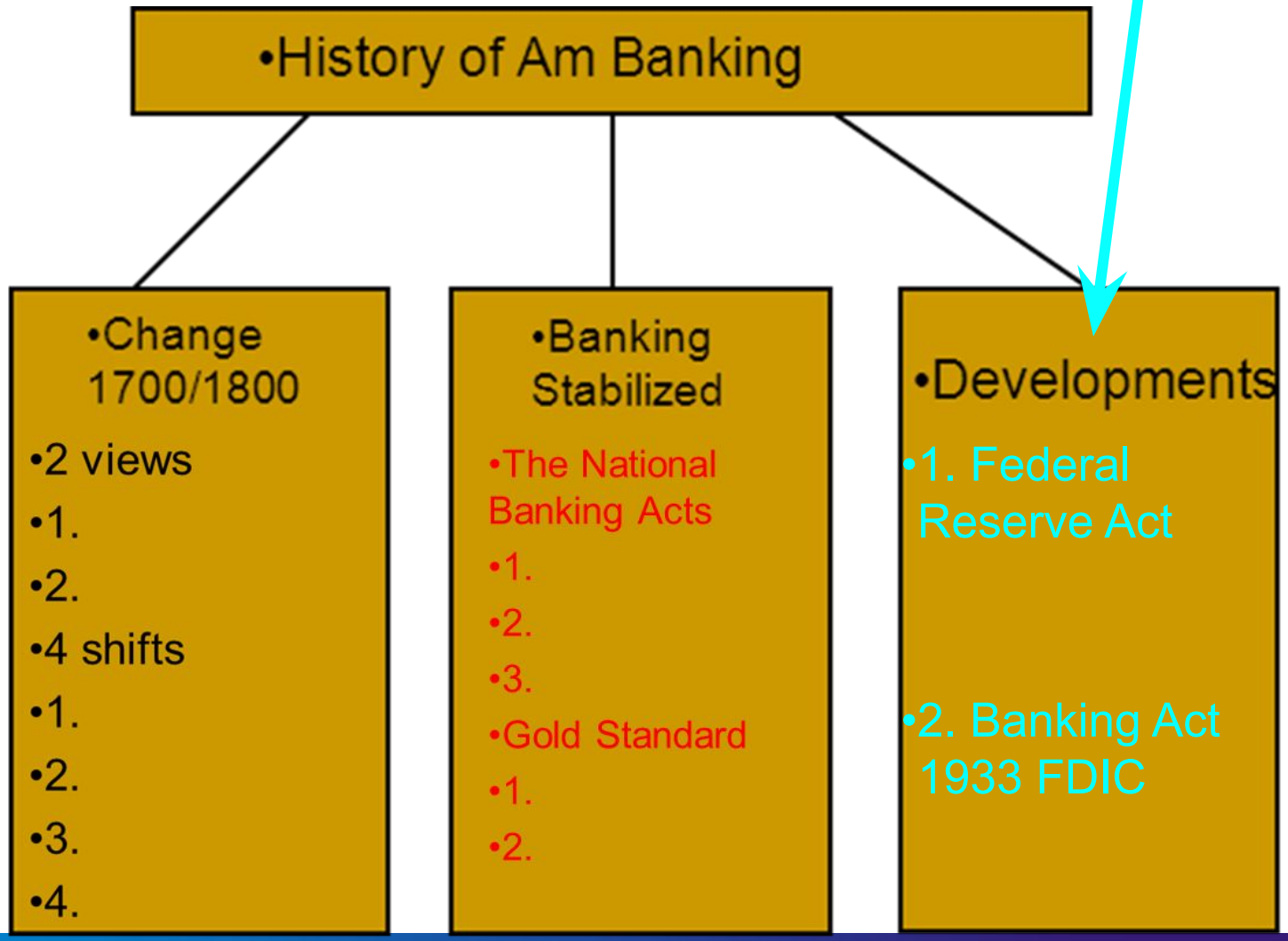
The National Banking Acts of 1863 and 1864 gave the federal government the power to:

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.

# Now add elements to your 3rd rectangle.. answers on next slide



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# Banking in the Twentieth Century

- The Federal Reserve Act of 1913 created the **Federal Reserve System**. The Federal Reserve System served as the nation's first true central bank.
- 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.

# Watch bank run clip

# 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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# Banking Today – Take out sheet of paper and take notes!

- 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?


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# Measuring the Money Supply

## 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.

## 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.

**The money supply is all the money available in the United States economy.**

# Banking Services

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

### Storing Money

**Banks provide a safe, convenient place for people to store their money.**

### Credit Cards

**Banks issue credit cards — cards entitling their holder to buy goods and services based on each holder's promise to pay.**

### Saving Money

**Four of the most common options banks offer for saving money are:**

1. **Savings Accounts**
2. **Checking Accounts**
3. **Money Market Accounts**
4. **Certificates of Deposit (CDs)**

### Loans

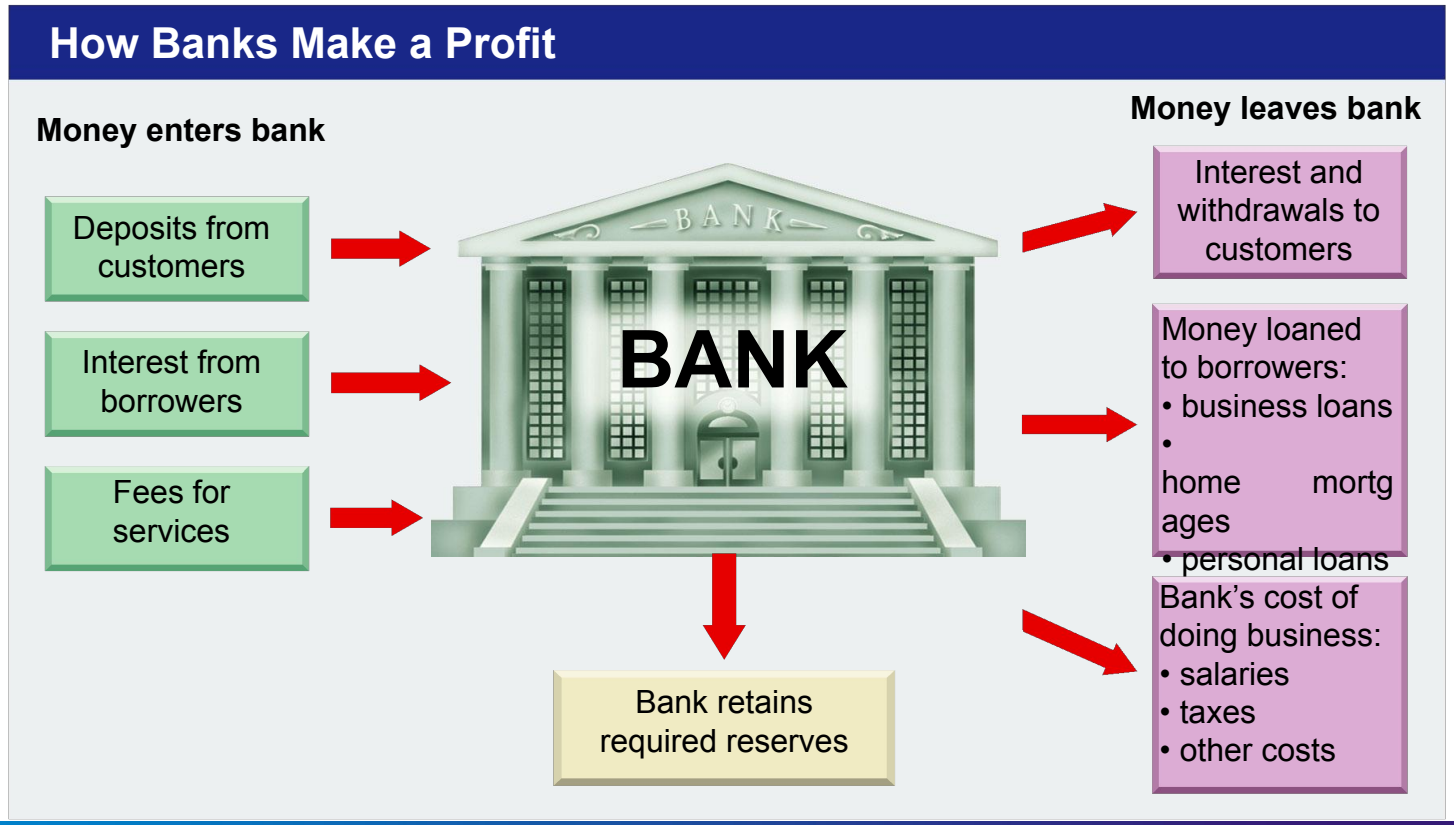
**By making loans, banks help new businesses get started, and they help established businesses grow.**

### Mortgages

**A mortgage is a specific type of loan that is used to purchase real estate.**

# 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.**





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# 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.

# Electronic Banking

**The role of computers in banking has increased dramatically.**

### Automated Teller Machines (ATMs)

Customers can use ATMs to deposit money, withdraw cash, and obtain account information.

### Debit Cards

Debit cards are used to withdraw money directly from a checking account.

### Automatic Clearing Houses (ACH)

An ACH transfers funds automatically from customers' accounts to creditors' accounts.

### Home Banking

Many banks allow customers to check account balances and make transfers and payments via computer.

### Stored Value Cards

Stored value cards are embedded with magnetic strips or computer chips with account balance information.

# 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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