Name ______________________ Date ______________ Class ______________________

STUDY GUIDE Chapter 11, Section 1

For use with textbook pages 285–289

THE EVOLUTION OF MONEY

KEY TERMS

barter economy Moneyless economy that relies on trade *(page 285)*

money Any substance that serves as a medium of exchange, a measure of value, and a store of value *(page 286)*

medium of exchange Something accepted by all parties as payment for goods or services *(page 286)*

measure of value A common denominator that can be used to express worth in terms that most individuals understand *(page 286)*

store of value The property that allows purchasing power be stored until needed *(page 286)*

commodity money Money that has an alternative use as an economic good or commodity *(page 287)*

fiat money Money by government decree *(page 287)*

specie Money in the form of coins made from silver or gold *(page 288)*

monetary unit Standard unit of currency *(page 289)*

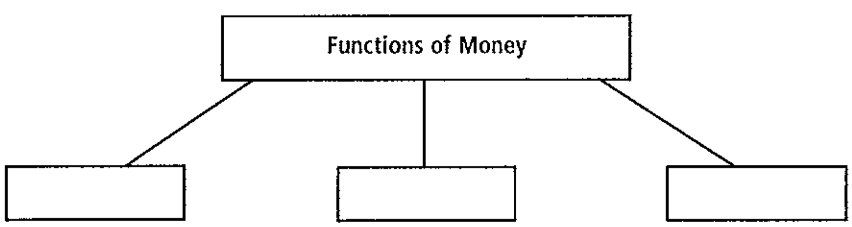
DRAWING FROM EXPERIENCE

Did you and your friends ever trade baseball cards? How did you decide which cards were worth more than others? What if someone had tried to trade a catcher's mitt for a certain number of baseball cards? How could you decide what each thing was worth?

This section focuses on money and why it makes exchanging goods and services easier. It also traces the history of money in the United States.

ORGANIZING YOUR THOUGHTS

Use the diagram below to help you take notes as you read the summaries that follow. As you read about the history of money in the United States, think about why people use money.



READ TO LEARN

Introduction *(page 285)*

In earlier times, people did not use money but relied on trading goods and services. In such a ***barter economy,*** a cobbler might trade shoes to a farmer for a pail of milk. Bartering was not always convenient. Sellers and buyers did not always want the goods or services offered by the other. Products were not easy to divide. An economy based on money is easier and more convenient.

1. What are the disadvantages of a barter economy?

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Functions of Money *(page 286)*

Money is a substance that has three functions.

A. It must serve as a ***medium of exchange.*** All people must accept it as payment for goods and services.

B. Money is a ***measure of value***. It shows what a good or service is worth so that people understand it. Dollars and cents are the measure of value in the United States.

C. Money must also be a ***store of value.*** It can be saved or stored until it is spent.

2. Describe the three functions of money.

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Money in Early Societies *(page 287)*

Some money in early societies was ***commodity money.*** These were products such as bricks of tea leaves, which could be used in other ways besides serving as money. Some governments issued ***fiat money***—items such as small coins that had value because the government said they did.

3. What is the difference between commodity money and fiat money?

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Money in Colonial America *(page 287)*

Settlers in colonial America used both commodity money and fiat money. They traded and paid debts with products such as tobacco and gunpowder. Some colonial governments established fiat money by putting a value on objects such as wampum (money made from shells). Americans later began to use many kinds of paper money. Individuals were allowed to print their own paper money, and paper money was issued by state governments. Large amounts of paper money were used to help pay for the Revolutionary War. Colonists also used a small number of gold and silver coins, or ***specie,*** from European countries.

4. What were some kinds of money used by American colonists?

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Origins of the Dollar *(page 289)*

Spanish silver coins, called pesos, were widely used in colonial America. Some pesos came from pirates who had stolen the pesos and then spent them in American colonies. Other pesos were exchanged in the trade pattern called the triangular trade. In the triangular trade, molasses made in the West Indies was shipped to the American colonies and made into rum. The rum was shipped to Africa and exchanged for enslaved Africans.The Africans were shipped to the West Indies and sold as slaves. Pesos were sometimes called dollars. As the first president, George Washington gave Benjamin Franklin and Alexander Hamilton the job of establishing a money supply. Franklin and Hamilton chose the familiar term "dollar" as the name for the new country's basic ***monetary unit.***

5. Trace the development of money in the early United States from Spanish pesos to the American dollar.

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Characteristics of Money *(page 289)*

For a type of money to be successful, it must have these four features:

A. Money must be easy to carry and exchange.

B. Money must last over time while being handled or stored.

C. Money must be easy to divide into smaller units so that it can be used for smaller transactions.

D. There must be a limited supply of money. If there is too much, it will lose its value.

6. Does a silver coin meet the four characteristics of money? Explain your answer.

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Name ______________________ Date ________________ Class ______________________

STUDY GUIDE Chapter 11, Section 2

For use with textbook pages 291–297

EARLY BANKING AND MONETARY STANDARDS

KEY TERMS

monetary standard The mechanism designed to keep the money supply portable, durable, divisible, and limited in supply *(page 292)*

state bank Bank that receives its charter to operate from a state government *(page 293)*

legal tender fiat currency that must be accepted in payment for debts *(page 295)*

United States note Federal fiat currency issued in 1862 that had no gold or silver backing *(page 295)*

national bank A privately owned bank chartered by the federal government *(page 295)*

National Bank note/national currency Paper currency of uniform appearance that was backed by United States government bonds *(page 295)*

gold certificate Paper currency backed by gold placed on deposit with the United States Treasury *(page 295)*

silver certificate Paper currency backed by silver dollars and bullion placed on reserve with the Treasury *(page 295)*

Treasury coin notes Paper currency issued by the Treasury that was redeemable in both gold and silver *(page 296)*

gold standard A monetary standard under which the basic currency unit is equivalent to, and can be exchanged for, a specific amount of gold *(page 296)*

inconvertible fiat money standard A monetary standard under which the fiat money supply cannot be converted into gold or silver by its citizens *(page 297)*

DRAWING FROM EXPERIENCE

How would you feel if a store clerk would not accept a $5 bill from you because of the bank it was from? What would you do? How would you try to get the goods and services you need?

In the last section, you read about how the dollar was chosen as the national monetary unit in George Washington's time. This section focuses on historical changes in American money.

ORGANIZING YOUR THOUGHTS

Use the chart below to help you take notes as you read the summaries that follow. Think about the events that caused changes in the American monetary standard during and after the Civil War.

Currency	Backed by
Gold certificate	
Silver certificate	
Treasury coin notes	
Currency since 1934	

READ TO LEARN

Introduction *(page 292)*

Nations must keep their money supply sound and secure. The ***monetary standard*** helps them do this. There have been many monetary standards in the United States.

1. Why does a country need a monetary standard?

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Privately Issued Bank Notes *(page 292)*

After the Revolutionary War, both the states and the national government could issue money. People did not like paper currency, only gold and silver coins. Coins that were made of gold or silver had value. Paper money only had value if there was enough gold and silver to back it. The new Constitution set up rules for the money supply and gave Congress power to control it.

State banks could create paper money, but were supposed to have enough silver and gold to back it. Wildcat banks made worthless notes, however. Thousands of different kinds of paper notes from different banks were in use. Some were accepted by merchants; others were not. Counterfeiting, or the copying of notes, was common.

2. Why would people like gold or silver coins better than paper money?

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The Greenback Standard *(page 294)*

Banking changed dramatically in the 1860s because of the Civil War. Great amounts of money were needed to pay for war materials. Congress allowed the first federal paper money, known as greenbacks, in 1861. Greenbacks were not backed by gold or silver, but were still declared ***legal tender,*** meaning that they could be used to pay off debts. The federal government later issued paper currency called ***United States notes*** that was not backed by gold or silver. The Confederate government of the South also issued paper money.

When people began to worry about the value of greenbacks, Congress set up the National Banking System (NBS), a system of ***national banks*** operated by the federal government. All these banks issued the same paper notes called ***national currency*** or ***National Bank notes.*** The notes were backed by government bonds. Eventually, state banks joined the system and stopped issuing their own money. By the end of the war, all paper money was produced by the government rather than by private banks.

After the war, the federal government produced three new types of federal currency:

A. ***Gold certificates*** (1863) were paper money backed by gold held by the U.S. Treasury.

B. ***Silver certificates*** (1878) were paper currency backed by reserves of silver.

C. ***Treasury coin notes*** (1890) were paper money that people could exchange for gold or silver.

3. In what ways did the Civil War change the banking and money system?

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The Gold Standard *(page 296)*

In 1900 Congress used a ***gold standard*** for the first time. That meant that all money could be traded for gold. The gold standard meant that the government had to name an official price for gold and that the price of gold could not change.

A gold standard has two advantages:

A. If people can trade their money for gold, they have trust in the money.

B. The gold standard is supposed to keep a government from making too much paper money. That is because, in theory, all the paper money that exists could be traded for gold. However, it doesn't really work that way because most countries do not have enough gold to back all their paper money.

A gold standard also has disadvantages:

A. Low supplies of gold can hold back economic growth.

B. A sudden demand for gold can use up the gold that the government holds in reserve.

C. For a gold standard to work, the price of gold has to stay the same. However, in a free market, the price of gold actually changes.

D. There are political risks, because a government cannot really maintain a standard, unchanging price for gold.

The United States gave up the gold standard during the Depression of the 1930s. People were told to turn in their gold to the government.

4. What is a gold standard?

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The Inconvertible Fiat Money Standard *(page 297)*

After leaving the gold standard, the United States changed to an ***inconvertible fiat money standard.*** That is, people cannot demand gold or silver in return for their fiat money. The government controls the money supply, issuing a single currency through the Federal Reserve System. Older currencies have been taken away.

Like earlier forms, modern money must meet the same four tests. It must be:

A. portable.

B. durable.

C. divisible.

D. limited in availability.

The total amount of U.S. money is not always the same. Sometimes there is more money in use than at other times. When the money supply grows quickly, it can help bring about inflation.

5. Analyze the U.S. dollar in terms of the four characteristics of money.

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Name ______________________ Date ______________________ Class ______________________

STUDY GUIDE Chapter 11, Section 3

For use with textbook pages 300–305

THE DEVELOPMENT OF MODERN BANKING

KEY TERMS

Federal Reserve System The United States' first true central bank *(page 301)*

central bank A bank that can lend to other banks in times of need *(page 301)*

Federal Reserve notes Paper currency issued by the Fed that eventually replaced all other types of currency *(page 301)*

run on the bank A rush by depositors to withdraw their funds from a bank before it failed *(page 301)*

bank holiday A brief period during which every bank in the country was required to close *(page 301)*

commercial banks Banks that catered to the interests of business and commerce *(page 303)*

demand deposit accounts (DDAs) Accounts whose funds could be removed by simply writing a check without prior approval from the depository institution *(page 303)*

thrift institutions Financial institutions that accepted the deposits of small investors but did not have DDAs until the mid-1970s *(page 303)*

mutual savings bank (MSB) A depositor-owned financial organization operated only for the benefit of its depositors *(page 303)*

savings banks Thrift institutions growing out of mutual savings banks *(page 303)*

NOW account A type of checking account that pays interest *(page 303)*

savings and loan association (S&L) A depository institution that invests the majority of its funds in home mortgages *(page 303)*

credit union A nonprofit service cooperative that is owned by, and operated for, the benefit of its members *(page 303)*

share draft accounts Interest-earning checking account issued by credit unions *(page 303)*

deregulation The removal or relaxation of government restrictions on business *(page 304)*

creditor A person or institution to whom money is owed *(page 305)*

DRAWING FROM EXPERIENCE

Have you ever opened a checking or savings account at a bank? Do you remember how you decided which bank to choose? How did you decide what kind of account to have? A sound banking system is important to a country's economy.

In the last section, you read about the establishment of a national banking system during the Civil War. This section focuses on the later development of the banking system and the problems it has faced. It describes how banks have changed the economy.

STUDY GUIDE (continued) Chapter 11, Section 3

ORGANIZING YOUR THOUGHTS

Use the chart below to help you take notes as you read the summaries that follow. Think about the role of the Federal Reserve System in the U.S. economy.

The Federal Reserve System	
What is the Federal Reserve System?	
How does a bank get to be a member?	
Who runs the Federal Reserve System?	
What are Federal Reserve notes?	

READ TO LEARN

Introduction *(page 300)*

Banks provide people with two services. First, banks give people a safe place where they can put their money. Second, banks lend money to people and businesses. The borrowers pay back the money later.

1. What two important services do banks provide?

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Revising the Banking System *(page 300)*

The National Banking Act of 1863 created a system of national banks. When the United States experienced financial problems, however, the system could not fix them. Many people wanted changes. These changes did not happen until 1907, when people withdrew their deposits from the banks, forcing many banks to close. The government designed a plan for a new banking system.

2. What did the National Banking Act do?

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STUDY GUIDE (continued) Chapter 11, Section 3

The Federal Reserve System *(page 301)*

The ***Federal Reserve System*** (the Fed) was created in 1913 as the country's first central bank. A ***central bank*** is a bank that can lend money to other banks. All national banks had to join the Federal Reserve System by buying shares, which means that each member bank owned a share, or part, of the Federal Reserve System. State banks could also join the Federal Reserve System. The Fed is owned privately by banks but is run by government officials. The Fed began to issue ***Federal Reserve notes,*** which replaced all other types of currency.

When the Depression began in 1929, many banks were not sound. Worried depositors made a ***run on the bank,*** demanding their money. This made the situation worse, and often caused the bank to fail. To prevent bank failure, in March 1933, President Roosevelt declared a ***bank holiday,*** during which banks briefly closed. Still, many banks failed or combined with others. Congress then passed new banking rules and created the Federal Deposit Insurance Corporation (FDIC), which insures customers' deposits.

3. What institutions own and run the Federal Reserve System?

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Other Depository Institutions *(page 303)*

The banking system includes several kinds of banks or associations in which people can deposit money.

A. ***Commercial banks*** deal with large businesses and investors. They were once the only banks to issue checking accounts, called ***demand deposit accounts (DDAs).***

B. ***Mutual savings banks*** were one early kind of ***thrift institution*** which accepted deposits from small investors but did not have demand deposit accounts. Mutual savings banks were owned by their depositors at first, but later became publicly held ***savings banks.*** In the early 1970s, savings banks introduced ***NOW accounts,*** which are checking accounts that pay interest.

C. A ***savings and loan association (S&L)*** invests mainly in home mortgages. Home mortgages are loans that people take out in order to buy or build a house.

D. ***Credit unions*** are organizations that serve only their members and do not make a profit. They now offer interest-bearing ***share draft accounts.*** These are checking accounts that earn interest, like NOW accounts.

4. What are three types of thrift institutions? Whom do these institutions serve?

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Crisis and Reform *(page 303)*

In the 1980s, the government ***deregulated,*** or loosened its control of, the banking industry. There were no longer any limits on the interest that could be earned by savings accounts. Any bank could offer NOW accounts. All kinds of banks could borrow money from the Federal Reserve System. Before that time, only commercial banks could borrow from the Fed.

Deregulation caused problems and changes in banking. About half the existing S&Ls failed, or went out of business in the 1980s. The causes of the failures included deregulation and cheating. In addition, S&Ls were forced to pay high interest rates on investors' deposits. However, at the same time, the S&Ls were earning only low interest rates on loans taken out earlier. This meant that the S&Ls were losing money, and this loss of money contributed to bank failures. To deal with the problem, Congress passed the FIRREA (Financial Institutions Reform, Recovery, and Enforcement Act). FIRREA took away the S&Ls' independence and brought them under the same rules as other banks. These reforms made all banks safer.

Bank failures were less common in the 1990s. The FDIC could help troubled banks. In addition, the money that people deposited was insured up to $100,000. A bank's ***creditors,*** or people to whom the bank owed money, could go to court to get back money over the $100,000 covered by insurance. Banks generally fail beacaue they are not managed properly.

5. How did the S&L crisis contribute to the growing similarities among different kinds of banks?

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