Wolters/Economics

History of American Banking

Read Ch.10.2 and answer the following:

1. What was the Federalists view on government and banking? Who led the Federalists?

*Alexander Hamilton, leader, believed in strong central govt, and thus favored a centralized banking system. He became Sec of Treasury 1789 and proposed national bank that would issue a single currency, manage fed govts funds and monitor other banks.*

2. What was the Antifederalist view on government and banking? Who led this group?

*Thomas Jefferson, leader of this movement, favored states' rights and supported decentralized banking system.*

3. In 1791, the Federalists were successful in establishing the first Bank of the United States. What were the main purposes of this bank?

* *Hold govt's tax revenues*
* *Help govt carry out powers to tax, borrow, and regulate interstate and foreign commerce*
* *Issue representative money in the form of bank notes, which were backed by gold and silver*
* *Ensure that state-chartered banks held sufficient gold and silver to exchange for bank notes*

4. When the charter of this bank expired 20 years later, state banks emerged to take its place. What was the main problem with this state-banking system?

*Banks began issuing ntoes which they could not back with specie (gold and silver coins). Many new banks chartered without consideration of their creditworthiness. Inflation followed. Chaotic system.*

5. In 1816 the Second Bank of the United States was chartered, and lasted until President Andrew Jackson's veto of a charter renewal in 1832. What problems were associated with the Free Banking ERA (1837-1863), dominated by state-chartered banks, which followed?

*Although pres Andrew Jackson opposed this, the Second bank slowly managed to rebuild public's confidence in a national banking system. But Pres Jackson vetored the renewal of the bank. Free Banking era (Wildcat era) followed:*

* *Bank runs and panics—many banks failed, banking panic 1837*
* *Wildcat banks—located on edges of settled areas, high rate of failure*
* *Fraud—some banks issued bank notes, collected gold and silver money from customers who bought the notes, and then disappeared*
* *Many different currencies issues by banks, cities, stores, individuals—all circulated with no uniform value; many were counterfeit*

6. Reforms of the late 1800s helped to stabilize the banking system.

 When did the US Treasury issue the "greenback?"

*By 1860 about 8,00 different banks were circulating currency. Fed Govt played no role in providing paper currency or regulating reserves of gold and silver.*

*1861, US Treasury issued first paper currency snce the Continental—called demand notes, but also called greenbacks.*

*Confederacy issued currency backed by cotton. Became worthless.*

 What powers were given to the federal government by the National Banking Acts of 1863 and 1864?

* *Power to charter banks*
* *Power to require banks to hold adequate gold and silver reserves to cover their notes*
* *Power to issue a single national currency*

 How did the gold standard promote stability?

*Adopted in 1870, the gold standard was a monetary system in which currency was equal to the value of a certain amount of gold. Set definite value for dollar. Govt issued currency only if it had sufficient gold to back it up.*

7. What led to the Panic of 1907?

*Many banks lacked adequate reserves and had to stop exchanging gold for paper money. Several New York banks failed.*

8. How did the Federal Reserve System, established in 1913, begin to manage the money supply?

*First true central bank, with authority to lend member banks (all national banks had to become charter members) money to meet short-term demands.*

*Also issued Federal Reserve Notes—the same currency used today.*

9. What guarantee was made available to bank customers in 1933?

*Established Federal Deposit Insurance Corp (FDIC) to insure customer's deposits up to $250,000.*