For use with textbook pages 285-289

# HE 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) flat 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)

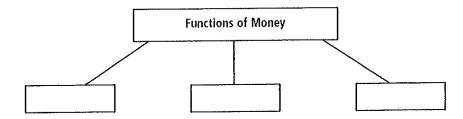
DRAWING FROM EXPERIENCE

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



|  |  | Class  |
|--|--|--|
|  |  | Chapter 11, Section 1  |
| READ TO LEA                                    | RN   |  |
| Introduction                                   | (page 285)                                   |  |
| e <b>conomy,</b> a cobb<br>venient. Sellers an | ler might trade shoes to a farmer for        | trading goods and services. In such a <b>barter</b> a pail of milk. Bartering was not always conds or services offered by the other. Products is easier and more convenient. |
| 1. What are the                                | disadvantages of a barter economy?           | }  |
| - Eunations of                                 | <b>Money</b> (page 286)                      |  |
|  | ance that has three functions.               |  |
| •  |  | le must accept it as payment for goods and   |
| stand it. Dolla                                | rs and cents are the measure of value        |  |
| C. Money must a                                | lso be a <b>store of value.</b> It can be sa | ved or stored until it is spent.   |
| 2. Describe the                                | three functions of money.                    |  |
| •  | rly Societies (page 287)                     |  |
| eaves, which cou                               | ıld be used in other ways besides serv       | ey. These were products such as bricks of teaving as money. Some governments issued because the government said they did.  |
|  | difference between commodity mone            |  |

| 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 money by putting a value on objects such as wampum (money made from shells). Americans labegan 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 we used to help pay for the Revolutionary War. Colonists also used a small number of gold and sil coins, or <i>specie</i> , from European countries. |   |  |
|---|---|--|
| 4. What we  | ere some kinds of money used by American colonists?                                       |  |
| Origins o   | of the Dollar (page 289)  |  |
| pirates who hexchanged in the West II shipped to A Indies and so Washington esupply. Frank basic monetal  | development of money in the early United States from Spanish pesos to the                 |  |
|   |   |  |
|   | ristics of Money (page 289) money to be successful, it must have these four features:     |  |
| • •   | ust be easy to carry and exchange.  |  |
| •   | ust last over time while being handled or stored.   |  |
|   | ust be easy to divide into smaller units so that it can be used for smaller transactions. |  |
|   | st be a limited supply of money. If there is too much, it will lose its value.            |  |
|   | lver coin meet the four characteristics of money? Explain your answer.                    |  |
| garban big i men kemajagi ingganan persanan   |   |  |
|   |   |  |

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Money in Colonial America (page 287)

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Study Gulde

STUDY GUIDE (continued) Chapter 11, Section 1

For use with textbook pages 291-297

## ARLY 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 flat money standard A monetary standard under which the flat 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.

|   |   | Class   |
|---|---|---|
|   | UIDE (continued)  | Chapter 11, Section 2   |
| ORGANIZING YOU  |   |   |
| Use the chart below to  | help you take notes as you rea                                    | ad the summaries that follow. Think about the<br>y standard during and after the Civil War.   |
| Currency  |   | Backed by   |
| Gold certificate  |   |   |
| Silver certificate  |   |   |
| Treasury coin note  | S   |   |
| Currency since 193  | 4   |   |
| READ TO LEARN   |   |   |
| <b>■ Introduction</b> (page   | 202)  |   |
| Nations must keep their   |   | cure. The <i>monetary standard</i> helps them notes that the united States.   |
| 1. Why does a countr  | y need a monetary standard?                                       |   |
| Privately Issued B  | ank Notes (page 292)  |   |
| People did not like pape<br>silver had value. Paper r                         | er currency, only gold and silve<br>money only had value if there | national government could issue money.<br>er coins. Coins that were made of gold or<br>was enough gold and silver to back it. The<br>and gave Congress power to control it. |
| <b>State banks</b> could creat back it. Wildcat banks rotes from different ba | nte paper money, but were su<br>made worthless notes, howeve      | pposed to have enough silver and gold to<br>er. Thousands of different kinds of paper<br>accepted by merchants; others were not.  |

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

### **● The Greenback Standard** (page 294)

Banking changed dramatically in the '860s 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 '861. 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.

| Name        | Date | Class                 |
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| STUDY GUIDE |      | Chapter 11, Section 2 |

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*. IThe 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 ('890) were paper money that people could exchange for gold or silver.

|    | •                                      |                                  |  |
|----|--|----------------------------------|--|
| 3. | 3. In what ways did the Civil War chan | ge the banking and money system? |  |
|    |  |                                  |  |
|    |  |                                  |  |
|    |  |                                  |  |

### The Gold Standard (page 296)

In '900 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.

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For use with textbook pages 300-305

# HE 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.

ORGANIZING YOUR THOUGHTS

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?

Introduction (page 300)

READ TO LEARN

the role of the Federal Reserve System in the U.S. economy.

\_\_\_\_\_ Date \_\_\_\_\_ Class \_\_\_\_\_ <del>,</del>

STUDY GUIDE (continued) Chapter 17, Section 3

Use the chart below to help you take notes as you read the summaries that follow. Think about

The Federal Reserve System

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

Chapter 11, Section 3

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| Name  | Date  | Class   |   |
|---|---|---|---|
|   |   | Chapter 11, Section   | V   |
| The Federal Reser   | ve System (page 301)  |   |   |
| A central bank is a bank Federal Reserve System or part, of the Federal In The Fed is owned private Federal Reserve note. When the Depression burn on the bank, dembank to fail. To prevent during which banks brid | nk that can lend money to oth by buying shares, which mean Reserve System. State banks contely by banks but is run by gores, which replaced all other typegan in 1929, many banks we anding their money. This made bank failure, in March 1933, Fefly closed. Still, many banks failes and created the Federal De | in 19'3 as the country's first central baner banks. All national banks had to joins that each member bank owned a should also join the Federal Reserve Systewernment officials. The Fed began to issues of currency.  Fire not sound. Worried depositors made the situation worse, and often caused President Roosevelt declared a bank hould be alled or combined with others. Congression posit Insurance Corporation (FDIC), which | in the hare, em. ssue e a d the bliday, ss then |
| 3. What institutions of   | wn and run the Federal Reser  | ve System?  |   |
| Other Depository  | Institutions (page 303)   |   |   |
| The banking system inclu  | udes several kinds of banks or a  | ssociations in which people can deposit i   | money.  |
| A. Commercial banks<br>to issue checking ac   | deal with large businesses an<br>counts, called <i>demand depo</i> s  | d investors. They were once the only b<br>sit accounts (DDAs).  | anks  |

- Α
- 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? |  |  |
|----|--|--|--|
|    |  |  |  |
|    |  |  |  |
|    |  |  |  |

| Name   | Date   | Class  |
|--|--|--|
| ^^^^   | UIDE (continued)   | <del>,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,</del>   |
| Grisis and Reform  | , (page 303)   |  |
| There were no longer a bank could offer NOW  | ny limits on the interest that o   | ened its control of, the banking industry.<br>could be earned by savings accounts. Any<br>could borrow money from the Federal Reserve<br>Ild borrow from the Fed.  |
| went out of business in<br>In addition, S&Ls were f<br>same time, the S&Ls we<br>that the S&Ls were losin<br>with the problem, Cong<br>Enforcement Act). FIRRE | the 1980s. The causes of the forced to pay high interest ratere earning only low interest range money, and this loss of mogress passed the FIRREA (Finar | ng. About half the existing S&Ls failed, or<br>failures included deregulation and cheating.<br>es on investors' deposits. However, at the<br>ates on loans taken out earlier. This meant<br>oney contributed to bank failures. To deal<br>acial Institutions Reform, Recovery, and<br>endence and brought them under the same<br>afer. |
| money that people depo<br>the bank owed money, o   | sited was insured up to \$100,0  | could help troubled banks. In addition, the 100. A bank's <i>creditors</i> , or people to whom noney over the \$100,000 covered by insurance. perly.   |
| E How did the S&I of   | isis contribute to the growing   | similarities among different kinds of banks?   |