

# Money and Banking

## ★ CITIZENSHIP AND YOU ★

The basis of the market economy is voluntary exchange. In the American economy, the exchange usually involves money in return for goods and services. Why do you accept money in exchange for goods or services? What gives money its value? Where do you keep your money? Answer the questions above in a brief essay.



To learn more about how our money and banking system works, view the *Economics & You* video lesson 18: Money and Banking.



### FOLDABLES™

#### Study Organizer

**Summarizing Information Study Foldable** Make this foldable and use it to record what you learn about money and banking.

**Step 1** Collect two sheets of paper and place them about 1 inch apart.



Keep the edges straight.

**Step 2** Fold up the bottom edges of the paper to form four tabs.



This makes all tabs the same size.

**Step 3** When all the tabs are the same size, crease the paper to hold the tabs in place and staple the sheets together. Label each tab as shown.

Staple together along the fold.

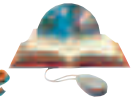
|                            |
|----------------------------|
| Money & Banking            |
| What Is Money?             |
| The Federal Reserve System |
| How Banks Operate          |

#### Reading and Writing

As you read, identify the key points of each section in the chapter and write these main ideas under the appropriate tabs of your foldable.



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**CONTENTS**



# What Is Money?

## GUIDE TO READING

### Main Idea

In addition to serving as a medium of exchange, money also functions as a store of value, a measure of value, and part of a broader financial system.

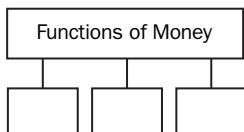
### Key Terms

coin, currency, commercial bank, savings and loan association (S&L), credit union, Federal Deposit Insurance Corporation (FDIC)

### Reading Strategy

#### Organizing Information

As you read, describe the functions of money by completing a graphic organizer like the one below.



### Read to Learn

- What are the functions of money?
- What are the different types of money?
- How does the American financial system operate?



## Americans in Action

The primary purpose of the U.S. Mint is to produce an adequate supply of circulating currency for the nation to conduct its trade and commerce. The U.S. Mint is also in charge of producing special commemorative coins. Shown here is the first coin that ever featured an African American—the Booker T. Washington Memorial half-dollar. It honors the famous educator who was born a slave in Virginia in 1856. Designed by Scott Hathaway, the sale of this commemorative coin raises money to pay for a memorial for Washington.



Booker T. Washington Memorial half-dollar

## Money

All of us know what money looks like, and we know how to spend it. In this chapter, we'll look at how money makes our lives easier and allows the economy to function more smoothly.

Money is more interesting than you might think. It serves different functions, comes in several different forms, and has value for reasons that are not immediately obvious.

### Three Functions of Money

Money has three functions. First, it serves as a medium of exchange. This means that we can trade money for goods and services. Second, money serves as a store of value. We can hold our wealth in the form of money until we are ready to use it.

Third, money serves as a measure of value. Money is like a measuring stick that can be used to assign value to a good or service. When somebody says that something costs \$10, we know exactly what that means.

### Types of Money

Anything that people are willing to accept in exchange for goods can serve as money. At various times in history, salt, animal hides, gems, and tobacco have been used as mediums of exchange. Each of these items has certain characteristics that make it better or worse than others for use as money.

Tobacco, for example, is easy to transport, but it is not durable. Gems are easy to carry but they are not easy to split into small pieces to use.

The most familiar types of money today are coins and currency. **Coins** are metallic forms of money such as pennies, nickels, dimes—and the Booker T. Washington half-dollar discussed in the feature that began this section. **Currency** includes both coins and paper money.

There are other forms of money as well. Some people keep their money in the form of checking accounts, and some is kept in savings accounts. You will learn more about these accounts later in the chapter.

### Why Money Has Value

We value and accept money for a simple reason—we are absolutely sure that someone else will accept its value as well. If we did not have this confidence in money, we would not accept it from someone else for payment in the first place.

Money by itself generally has no other value. A \$10 bill costs only a few cents

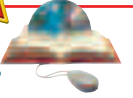
to make and has no alternative use. Even coins contain small amounts of precious metal that are worth much less than the value of the coins. The same is true of checking and savings accounts—they have value only because we accept that they have value.

**Reading Check** **Describing** What are currency and coins?

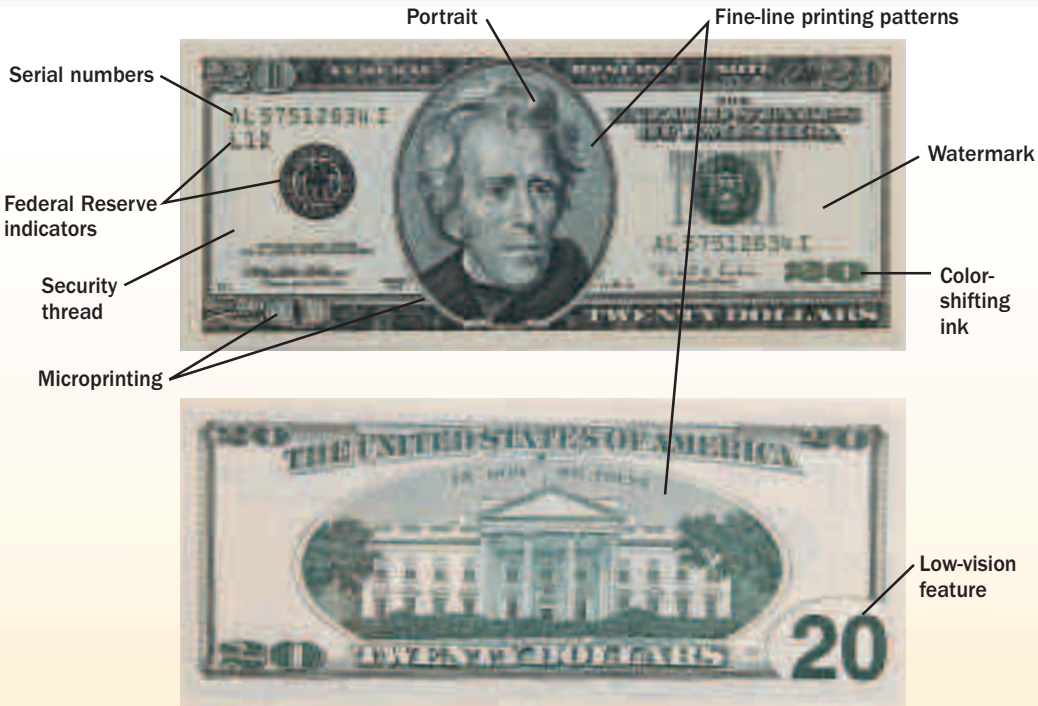
### The Financial System

People and businesses with money to save take it to financial institutions. These institutions do not simply put the money in a safe and leave it there. Instead, they put the money to work by lending it to other people or businesses that need funds. The financial institution covers its costs—and makes a profit—from the interest (fees) it charges for those loans.

**Money** Through the course of history, people have used many different materials—gold, copper, beads, and even feathers—as money. **What two types of money are most commonly used today?**



## Features of U.S. Currency



### Evaluating Charts

All U.S. currency is produced by the Bureau of Engraving and Printing. About half of our paper currency is printed in Washington, D.C. The remainder is printed at a plant in Fort Worth, Texas. **What does it mean to say money serves as a “medium of exchange”?**

### Types of Financial Institutions

**Commercial banks** are financial institutions that offer full banking services to individuals and businesses. They are probably the most important part of our financial system because of their large areas of influence. Most people have their checking and savings accounts in commercial banks.

**Savings and loan associations (S&Ls)** are financial institutions that traditionally loaned money to people buying homes. They also take deposits and issue savings accounts in return. Today, S&Ls perform many of the activities that commercial banks do.

**Credit unions** work on a not-for-profit basis. They are often sponsored by large businesses, labor unions, or government

institutions. They are open only to members of the group that sponsors them. Credit unions give these workers a financial institution that has low costs.

Although these three types of institutions have differences, each performs a similar function. They all act to bring savers and borrowers together. They give people a safe place to deposit their money when they want to save it and a source for borrowing when they need a loan.

### Keeping Our Financial System Safe

The United States has one of the safest financial systems in the world. This high degree of safety results from two factors—regulation and insurance.

First, financial institutions are closely regulated. In fact, banking is one of the most regulated industries in the country. Most financial institutions have to report to one or more regulatory agencies on a regular basis. They are required to follow rules and accounting practices that minimize unnecessary risk.

Despite the best efforts of regulators, some financial institutions fail. When this happens, federal deposit insurance protects consumers' deposits. The most important insurance agency is the **Federal Deposit Insurance Corporation (FDIC)**, a federal corporation that insures individual accounts in financial institutions for up to \$100,000. This means that if a depositor's bank goes out of business, the person does not lose his or her savings. The FDIC will send the person a check for the amount that was on deposit at the bank—up to \$100,000.

When the banking system collapsed in 1934, the resulting crisis wiped out people's entire savings. Congress passed, and President Franklin D. Roosevelt signed, legislation to protect deposits. This legislation created the FDIC.

**Fact Fiction Folklore**

**Susan B. Anthony was the first woman whose portrait was used on U.S. money.**

You might think that Susan B. Anthony or Sacagawea were the first women to be featured on money, but that isn't true. Martha Washington appeared on the one-dollar silver certificates in 1886, 1891, and again in 1896.

Because accounts in financial institutions have some type of government insurance, consumers feel safer wherever they deposit their money. As a result, they continue to make deposits—and those deposits give financial institutions the funds they need to make loans that help fuel economic growth.

**Reading Check Explaining** What is the purpose of the Federal Deposit Insurance Corporation?

**SECTION 1 ASSESSMENT**

**Checking for Understanding**

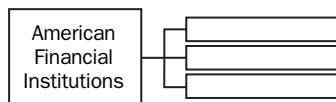
- 1. Key Terms** Define the following terms and use them in sentences related to money and the American financial system: **coin**, **savings and loan association (S&L)**, **credit union**, **currency**, **commercial bank**.

**Reviewing Main Ideas**

- 2. Explain** In the American financial system, what gives money its value?
- 3. Describe** Why is the American financial system one of the safest in the world?

**Critical Thinking**

- 4. Making Generalizations** What advantage does a credit union offer its customers?
- 5. Organizing Information** In a graphic organizer like the one below, describe the types of institutions in the American financial system.



**Analyzing Visuals**

- 6. Infer** Look at the features of U.S. currency on page 526. Why do you think currency is printed with special inks and includes a security thread?

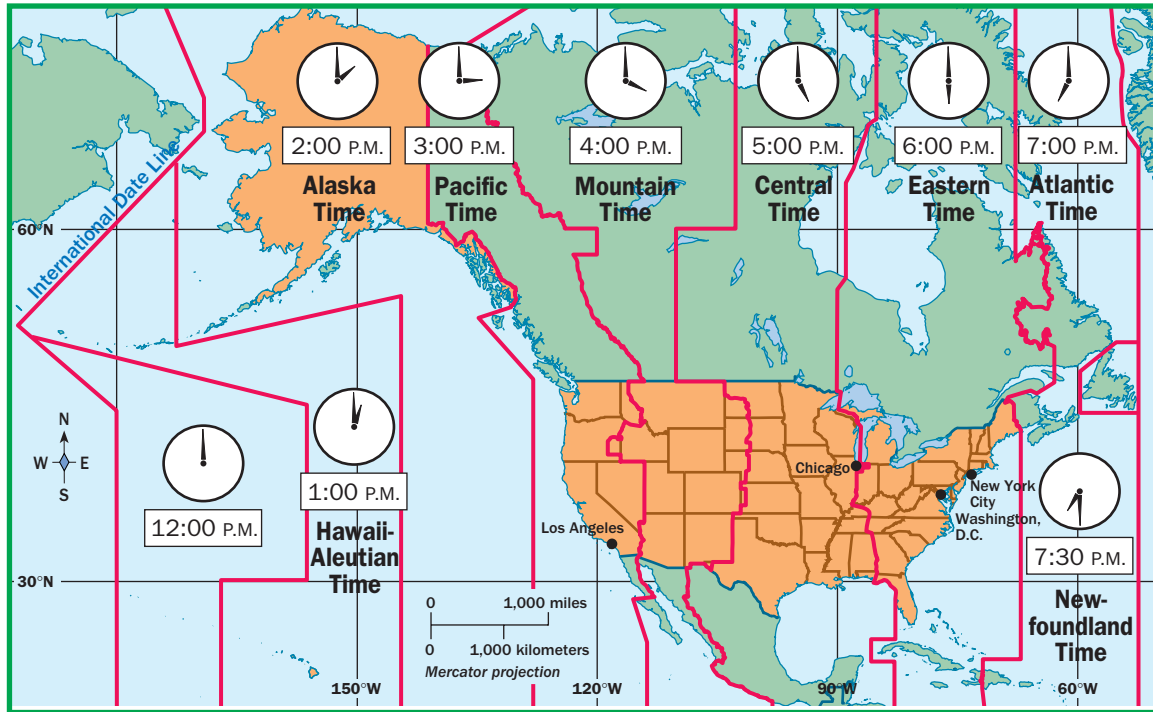
**★ BE AN ACTIVE CITIZEN ★**

- 7. Compare** Obtain brochures from several banks and savings and loans. Compare their services and fees. If you had \$1,000, which institution would you choose? Explain your choice.

# Citizenship SKILLBUILDER

## Reading a Time Zone Map

### U.S. Time Zones



### Why Learn This Skill?

The world is divided into 24 different time zones. Six of them divide the United States. Communicating or traveling between them requires making time adjustments.

### Learning the Skill

To read a time zone map, follow these steps:

- Trace the vertical sections dividing the map. Each section represents a time zone.
- Observe the east-west progression of the zones across the map. The starting point is 0° longitude.
- Read the labels showing the time in different zones.
- Subtract or add hours among zones to determine time differences.

### Practicing the Skill

Read the map above; then answer the following questions.

- 1 Which time zone is located farther west, the central or mountain time zone?
- 2 When it is 3 P.M. in Los Angeles, what time is it in New York City?

### Applying the Skill

A banker in Chicago needs to attend a meeting in Washington, D.C., starting at 1 P.M. The total travel time is three hours. What time must the Chicago banker leave?



Practice key skills with Glencoe's **Skillbuilder Interactive Workbook CD-ROM, Level 1.**

# The Federal Reserve System

## GUIDE TO READING

### Main Idea

As our nation's central bank, the Federal Reserve is a regulatory agency; it serves as the government's bank. It controls monetary policy in the United States.

### Key Terms

central bank, Federal Open Market Committee (FOMC), monetary policy, discount rate, reserve, open market operations

### Reading Strategy

#### Categorizing Information

As you read, describe in a graphic organizer like the one below the various roles played by the Federal Reserve in the economy of the United States.



### Read to Learn

- How is the Federal Reserve System organized?
- What role does the Federal Reserve play in the economy?



## Americans in Action

The Federal Reserve cannot put a dollar in anyone's pocket, provide jobs for very many people, or buy more than a tiny number of goods and services that the nation produces. But the Federal Reserve can have an enormous impact on how you spend, invest, or borrow money. This November 2001 news article from CNN/Money describes one of the government bank's actions: "The Federal Reserve cut interest rates by a half-percentage point Tuesday, its tenth cut of the year . . . , in an effort to keep American consumers spending and boost the economy. . . . [T]he central bank's goal is . . . to let consumers and U.S. stock markets know it's doing everything it can to keep the world's largest economy from slowing down too much."



The decisions of the Federal Reserve Board affect the nation's money supply.

## Structure and Organization

The Federal Reserve System, known as the Fed, is the **central bank** of the United States. When people or corporations need money, they borrow from a bank. When banks need money, they borrow from the Fed. The Federal Reserve System is a banker's bank.

The United States is divided into 12 Federal Reserve districts. Each district has one main Federal Reserve Bank. In addition, most Federal Reserve Banks have branch banks within their districts.

Thousands of banks in the United States are members of the Federal Reserve System. Federally chartered commercial banks called national banks are required to be members of the Fed. State-chartered banks may also become members. Member banks are owners of the Fed because they buy stock in the Fed and earn dividends from it.

## Board of Governors

When the Fed was established in 1913, the government did not have enough money to set up a new central bank. To raise that money, it required the largest banks to buy stock in the



Fed. To prevent these banks from having too great an influence over the Fed, the law required that the president appoint and the Senate ratify the seven members who make up the Board of Governors. The president selects one of the board members to chair the Board of Governors for a four-year term.

Board members and the chairperson are independent of the president. Even Congress exercises little control or influence over the board, because the board does not depend on Congress for an annual appropriation for operating expenses. This allows the Board of Governors to make economic decisions independent of political pressure.

### Advisory Councils

To keep informed of developments in the economy, the Fed has several advisory councils. One council reports on the general

condition of the economy in each district. Another reports on financial institutions. A third reports on issues related to consumer loans. Officials of the district banks serve on these councils.

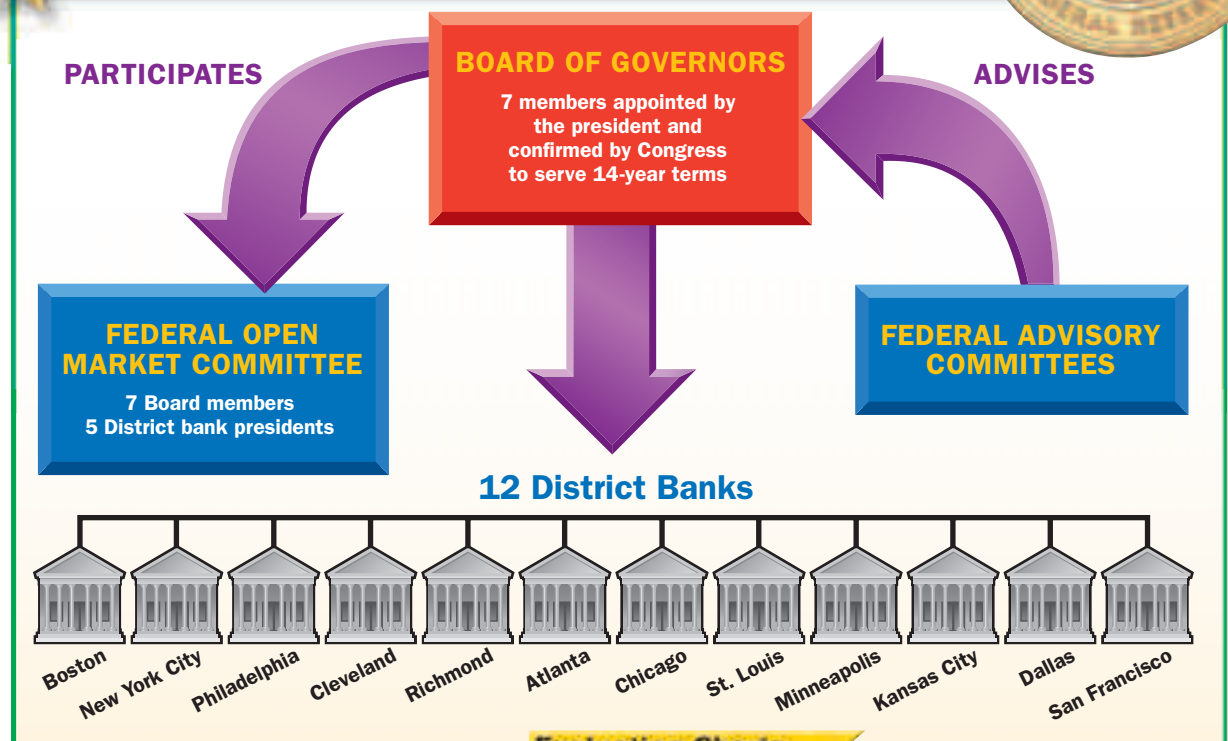
The major policy-making group within the Fed is the **Federal Open Market Committee (FOMC)**. The FOMC makes the decisions that affect the economy as a whole by manipulating the money supply. The FOMC has 12 members. Seven are permanent members of the Board. The other five come from the district banks, and their memberships are rotated.

**Reading Check** **Describing** How is the Fed organized?



Federal Reserve Seal

## Structure of the Federal Reserve System



### Evaluating Charts

The Federal Reserve System, including its 12 district banks, is our nation's central bank. **Who owns the Fed?**



## Functions of the Fed

The Fed has two main regulatory functions: it deals with banking regulation and consumer credit.

The Fed oversees many large commercial banks. If two national banks wish to merge, the Fed will decide whether the action will lessen competition. If so, the Fed could block the merger. It also regulates connections between American and foreign banking. It oversees the international business of both American banks and foreign banks that operate in this country.

The Fed enforces many laws that deal with consumer borrowing. For example, laws require that lenders spell out the details of a loan before a consumer borrows money. The Fed specifies what information lenders must provide.

## Acting as the Government's Bank

The Fed also acts as the government's bank in three ways. First, it holds the government's money. Government revenues are deposited in the Fed. When the government buys goods, it does so by drawing on these accounts.

Second, the Fed sells U.S. government bonds and Treasury bills, which the government uses to borrow money. When someone wants to buy a \$10,000 Treasury bill, he or she does so at a Fed district bank. When the bill reaches maturity, he or she simply goes back to a district bank and exchanges the bill for a check drawn from the government's account.

Third, the Fed issues the nation's currency, including paper money and coins. This money is produced by government agencies, but the Fed controls its circulation. When coins and currency become damaged, banks send them to the Fed for replacement.

**Reading Check** **Identifying** What organization regulates foreign banks that do business in the United States?

# American Biographies

## Alan Greenspan (1926– )



Alan Greenspan, chairman of the Federal Reserve Board, knows how to spot a recession. The son of a stockbroker and a retail worker, the cautious economist lived through the Great Depression as a child. President Gerald Ford appointed him as an economic adviser when the economy plunged in the 1970s. Then, just three months after Greenspan was named chairman of the Federal Reserve Board in 1987, stock prices crashed. Since then, four presidents—Ronald Reagan, George H.W. Bush, Bill Clinton, and George W. Bush—have relied on Greenspan to balance the economy somewhere between boom and bust.

Many Americans consider Greenspan second only to the president in terms of power. Consumers and investors wait to see what he will do with interest rates—raise them or lower them. What many don't know is that Greenspan loves musical notes almost as much as banknotes. He studied at the Juilliard School of Music and traveled for a year as a clarinet and saxophone player with a swing band. Today Greenspan has a fan club—but it's for his ability to handle economic rhythms rather than musical rhythms.

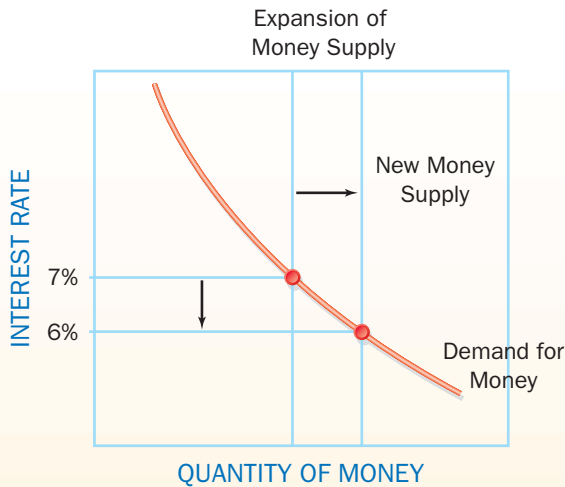
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## Conducting Monetary Policy

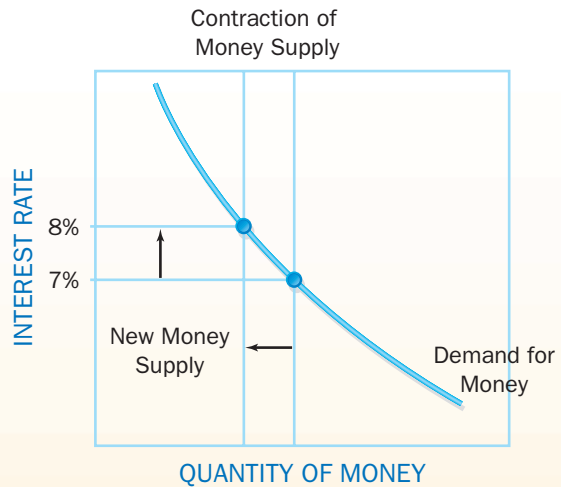
One of the Fed's major responsibilities is to conduct **monetary policy**. Monetary policy involves controlling the supply of money and the cost of borrowing money—credit—according to the needs of the economy. The Fed can increase the supply of money or decrease the supply.

# Monetary Policy and Interest Rates

(A) EFFECT OF BUYING BONDS



(B) EFFECT OF SELLING BONDS



## Analyzing Graphs

Buying and selling bonds affects the money supply and, then, interest rates. What happens to interest rates when the money supply contracts?

## Changing the Supply of Money

The supply and demand diagrams on this page show how monetary policy works. Because the amount of money is fixed at any given time, the money supply is shown as a vertical line. In the diagrams, the point where supply of money and demand for money meet sets the interest rate—the rate that people and businesses must pay to borrow money. The Fed can change interest rates by changing the money supply. So, if the Fed wants a *lower* interest rate, it must expand the money supply by moving the supply curve to the right. This is shown in Panel A. If the Fed wants to *raise* the interest rate, it has to contract the money supply by shifting the supply curve to the left (see Panel B).

The Fed uses several tools to manipulate the money supply. First, the Fed can raise or lower the discount rate. The **discount rate** is the rate the Fed charges member banks for loans. If the Fed wants to stimulate the economy, it lowers the

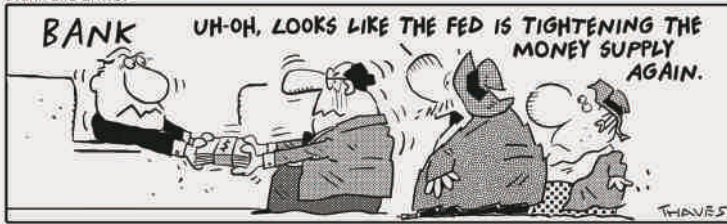
discount rate. Low discount rates encourage banks to borrow money from the Fed to make loans to their customers. If the Fed wants to slow down the economy's rate of growth, it raises the discount rate to discourage borrowing. This contracts the money supply and raises interest rates. High discount rates mean banks will borrow less money from the Fed.

Second, the Fed may raise or lower the **reserve** requirement for member banks. Member banks must keep a certain percentage of their money in Federal Reserve Banks as a reserve against their deposits. If the Fed raises the reserve requirement, banks must leave more money with the Fed, and they have less money to lend. When the Fed lowers the reserve requirement, member banks have more money to lend.

Third, the Fed can change the money supply through **open market operations**. These are the purchase or sale of U.S. government bonds and Treasury bills. Buying

Political Cartoons

Frank and Ernest



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and it seems to be diverted toward money and  
the 34-time the world a more government  
Schneider, two men with little hope, of regain-  
ing the country's — 35% the wage was  
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ing

**Analyzing Visuals** When too much money enters the economy too quickly, spending increases—and inflation results. To help prevent this situation from occurring, the Federal Reserve can order banks to increase the amount of funds they keep in reserve, thereby “tightening” the money supply. **What visual clues does the cartoonist use to convey the concept of the Federal Reserve “tightening” the money supply?**

bonds from investors puts more cash in investors’ hands, increasing the money supply. This shifts the supply curve of money to the right, which lowers interest rates. Consumers and businesses borrow more money, which increases consumer demand and business production. As a result, the economy grows. If the Fed decides that interest rates are too low, the Fed can sell bonds.

account. The Fed, however, can move quickly. The Fed can also fine-tune its policy. Fed officials can watch the results of selling bonds or raising the discount rate. If the desired result has not occurred, they can act again, selling even more bonds or raising the discount rate slightly higher.

**Why Is Monetary Policy Effective?**

Interest rates influence business investment and consumer spending. The Fed can affect these activities by manipulating interest rates. Finally, Fed officials are largely free of the constraints faced by politicians.

Monetary policy can be implemented efficiently. Decisions made by politicians often take a long time because the views of many different people have to be taken into

**Reading Check Describing** What happens when the Fed raises the reserve requirement?

SECTION 2 ASSESSMENT

**Checking for Understanding**

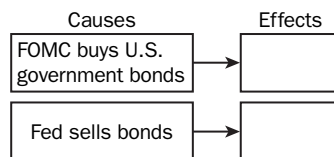
- 1. Key Terms** Define the following terms and use them in sentences related to the Federal Reserve: **central bank, discount rate, monetary policy, open market operations, Federal Open Market Committee (FOMC).**

**Reviewing Main Ideas**

- 2. Identify** What is the Federal Reserve System?
- 3. Describe** What is the function of the Federal Open Market Committee (FOMC)?

**Critical Thinking**

- 4. Drawing Conclusions** What would Fed officials likely do if prices rise too quickly?
- 5. Cause and Effect** In a graphic organizer like the one below, explain the effects of the following causes.



**Analyzing Visuals**

- 6. Interpret** Study the two graphs on page 532. What happens to interest rates when the money supply expands?

**★ BE AN ACTIVE CITIZEN ★**

- 7. Compare** Contact three banks in your community. Find out what interest rate they are charging on loans for a three-year loan on a new car. Compare this to the current Fed discount rate. Which is higher or lower?

# How Banks Operate

## GUIDE TO READING

### Main Idea

After people deposit their money in a savings or checking account, banks make a profit by lending some of those deposits to other consumers.

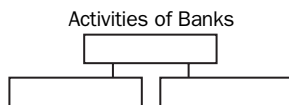
### Key Terms

checking account, savings account, certificate of deposit (CD)

### Reading Strategy

#### Organizing Information

As you read, complete a graphic organizer like the one below to show the main activities of banks.



### Read to Learn

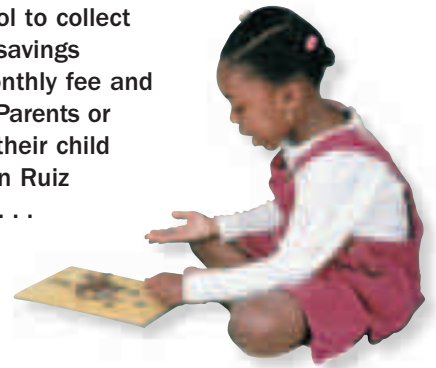
- How are banks started?
- How do banks operate and make money?



## Americans in Action

“Washington Elementary School is working with the Norco branch of the Arrowhead Credit Union on a program to get children used to saving money. Once a month, on Savings Day, a credit union employee visits the school to collect deposits from students adding to their savings accounts. . . . The accounts have no monthly fee and can be opened with a minimum of \$1. Parents or guardians must sign an application for their child to participate. . . . Fifth-grader Sebastian Ruiz has been making deposits for months. . . . He says he has a special reason for adding more money each month. ‘I’ve been saving up to buy my mom a birthday present,’ he said.”

—Nicole Buzzard, Riverside, California,  
*Press-Enterprise*, January 29, 2002



A student takes part in banking.

## Banking Services

The students at Washington Elementary School are learning a valuable lesson. If they save their money, small amounts can grow larger—large enough to allow them to buy something special. Millions of Americans put their money in financial institutions, just like these students are doing. In this section you’ll find out what banks and other financial institutions do with that money.

Banks are started by investors. They pool financial investments, money, property, and even certificates of deposit to provide banking services to people in their community. If 10 investors each put up \$10,000, the new bank would have \$100,000 in funds.

Some of this money, of course, would be needed to cover expenses, such as rent, furniture and supplies, and salaries for workers. A large portion, though, would be available to lend to consumers or businesses.

A bank that simply relied on the funds raised by its initial investors would not grow. It would have only a limited amount of money available for loans. Banks need to attract depositors in order to survive.

## Accepting Deposits

Banks hope to attract customers who make deposits. They offer **checking accounts**, which allow customers to write checks or use check cards. Checks can be used to pay bills or to transfer money from one person to another quickly and efficiently.

People typically do not keep money in checking accounts for very long. They deposit the money and then use the funds to meet their regular expenses—buying food, paying for telephone service, and so on.

Sometimes people have some money that they can leave untouched for longer periods of time. They put these funds in a different kind of account. With **savings accounts**, banks pay interest to customers based on how much money they have deposited. Because the bank pays interest, the money in a savings account actually grows larger the longer it is left in the bank.

Banks also offer **certificates of deposit (CDs)**. With these products, customers loan a certain sum to the bank for a specific period of time. In return, the bank pays interest during that time period. When the time period ends, the customers can turn in their certificates and regain control of their money. They cannot withdraw their money any sooner unless they pay a substantial penalty.

People who buy CDs lose control of their money for some time. On the other hand, banks tend to pay higher rates for CDs than for savings accounts.

## Making Loans

One of the principal activities of banks is to lend money to businesses and consumers. Loans can actually increase the supply of money.

Suppose that Maria deposits \$1,000 in the bank. The bank can use some of that money to make loans to other customers. Those people then deposit the money they have borrowed, and that money, too, can be loaned to new customers. In that way, the amount of money in circulation continues to grow.

**Reading Check** **Describing** What is a checking account?

## Changes in the Banking Industry

The history of central banking in the United States does not begin with the Federal Reserve. The Bank of the United States received its charter in 1791 from the Congress and was signed by President Washington. Like state banks, the Bank was

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**Obtaining Loans** Consumers often need a loan from a financial institution to make an expensive purchase. **From what sources do financial institutions obtain funds to make loans?**





**Financial Services** Financial institutions provide a variety of products and services to satisfy consumers' needs. **What are certificates of deposit?**

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privately owned and operated. The Bank of the United States, however, was much larger than any of the state banks and had a federal, rather than a state, charter. The Bank acted much like the current Department of the Treasury in that it collected fees and made payments on behalf of the federal government. The charter of the Bank was allowed to lapse in 1811, in part because state banks opposed the Bank.

The Second Bank of the U.S. was chartered in 1816 with the same powers as the First Bank. After the lapse of the Second Bank's charter, the only banks in the nation were those chartered by the states. The federal government neither chartered banks nor regulated the state banks.

State banks issued their own currency by printing their notes at local printing shops. People who wanted loans borrowed these notes and paid them back with interest. Because the federal government did not print paper currency until the Civil War, most of the money supply was paper currency that privately owned, state-chartered banks issued.

## The National Banking Act

In 1863, Congress passed the National Banking Act. This act created the system known as dual banking, in which banks could have either a state or federal charter. The federally chartered private banks issued national banknotes, or national currency, which were uniform in appearance and backed by U.S. government bonds.

## The Federal Reserve

The National Banking Act corrected some of the weaknesses of the pre-Civil War banking system. Bank crises, however, did not disappear. Panics occurred in 1873, 1884, 1893, and 1907. The Panic of 1907 resulted in the passage of the Federal Reserve Act of 1913.

The Federal Reserve serves as the nation's central bank with power to regulate reserves in national banks, make loans to member banks, and control the growth of the money supply. In 1914 the system began issuing paper money called Federal Reserve notes. These notes soon became the major form of currency in circulation.

## The Great Depression

The Great Depression of the 1930s dealt a severe blow to the banking industry. Stocks and other investments owned by banks lost much of their value. Bankrupt businesses and individuals were unable to repay their loans.

A financial panic forced thousands of banks to collapse. The number of commercial banks declined from 26,000 in 1928 to about 14,000 in 1933. When Franklin D. Roosevelt became president, he declared a "bank holiday," closing all banks. Each bank was allowed to reopen only after it proved it was financially sound. Congress passed the Glass-Steagall Banking Act, establishing the Federal Deposit Insurance Corporation (FDIC). The new agency



helped restore public confidence in banks by insuring funds of individual depositors in case of a bank failure.

### The Savings and Loan Crisis

Because of the many banking failures during the Great Depression, financial institutions had been closely regulated by the federal government. By the late 1970s almost all financial institutions were begging for relief from federal regulations. Congress began the process of deregulation—relaxing restrictions on their activities.

In 1982 Congress decided to allow the S&Ls to make higher-risk loans and investments. When these investments went bad, hundreds of S&Ls failed in the late 1980s and early 1990s. The federal government insured the assets of most savings and loan depositors; and as the banks failed, it found itself saddled with large debts. The full cost of bailing out these institutions cost taxpayers an estimated \$200 billion. The FDIC took over regulation of the S&L industry.

### The Gramm-Leach-Bliley Act

The Gramm-Leach-Bliley Act, passed in 1999, permits bank holding companies greater freedom to engage in a full range

**\$ Economics and You**

### Debit Cards

Debit cards look like credit cards, but they work a lot differently. Instead of purchasing goods on credit, the debit card transfers money directly from the cardholder's bank account to the seller's account. Debit cards work on the principle of "buy now, pay now." Talk with several people who have both a debit card and a credit card. Ask them to discuss the pros and cons of each type of card. Present your findings in the form of a chart.

of financial services, including banking, insurance, and securities. Some analysts believe that the act will lead to the formation of "universal banks" that offer a full range of financial services. Critics of the law warn that the act may in due course weaken competition for financial services in the United States. Others caution that the act will lead to more sharing of customer information among the affiliated companies, therefore damaging protection of privacy.

**Reading Check** **Explaining** Why did deposit insurance develop in the 1930s?

## SECTION 3 ASSESSMENT

### Checking for Understanding

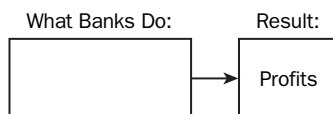
**1. Key Terms** Define the following terms and use them in sentences related to the banking industry: **checking account**, **savings account**, **certificate of deposit (CD)**.

### Reviewing Main Ideas

- 2. Describe** What advantage do savings accounts have over certificates of deposit?
- 3. Explain** Why must banks keep a reserve?

### Critical Thinking

- 4. Evaluating Information** If your goal was to get the highest interest rate for your savings, what kind of account would be best?
- 5. Understanding Cause and Effect** In a graphic organizer like the one below, show how banks make money.



### Analyzing Visuals

**6. Explain** Study the photograph that appears on page 535. Write a paragraph explaining what is happening in the picture.

### ★ BE AN ACTIVE CITIZEN ★

**7. Compare** Obtain brochures from at least three banks that explain the banks' services to customers. How are they alike? How are they different?



# Assessment & Activities

## Review to Learn

### Section 1

- Money is a part of the broad financial system, and it serves three functions. It is a medium of exchange, a store of value, and a measure of value.



### Section 2

- The Federal Reserve wields a great deal of power in our economy. It serves as the nation's central bank, it controls monetary policy, and it regulates commercial banks.



### Section 3

- Banks provide services to consumers, such as savings and checking accounts, and they make a profit by lending money to consumers.



## FOLDABLES™

### Study Organizer

#### Using Your Foldables Study Organizer

Use your completed foldable to create a 10-question quiz. Prepare an answer key on a separate sheet of paper. Trade quizzes with a classmate and then grade each other's answers.

## Reviewing Key Terms

Write the key term that best matches each definition below.

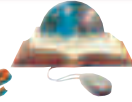
1. the policy that involves changing the rate of growth of the supply of money in circulation
2. a bank whose main functions are to accept deposits and lend money
3. a certain percentage of deposits that banks have to set aside as cash in their own vaults or as deposits in their Federal Reserve district bank
4. paper money issued by the Federal Reserve
5. the most powerful agency of the Federal Reserve System
6. financial institutions that traditionally loaned money to people buying houses
7. a federal corporation that insures individual accounts in financial institutions up to \$100,000
8. a bank that can lend money to other banks in times of need
9. the interest rate the Federal Reserve charges on its loans
10. an account in which customers receive interest based on how much money they have deposited

## Reviewing Main Ideas

11. Name two forms of money in addition to currency and coin.
12. What is the purpose of the Federal Deposit Insurance Corporation (FDIC)?
13. Who controls the Federal Reserve System?
14. What are the two main regulatory functions of the Fed?
15. What kind of account requires the deposit to remain in the bank for a certain period of time?
16. In what kind of account do savers have the most control over their money?

CLICK HERE

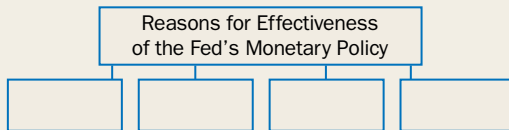
**CIVICS**  
*Online*



**Self-Check Quiz** Visit the *Civics Today* Web site at [civ.glencoe.com](http://civ.glencoe.com) and click on **Self-Check Quizzes—Chapter 24** to prepare for the chapter test.

## Critical Thinking

- 17. Drawing Conclusions** If you read in the newspaper that the Federal Reserve had just lowered the discount rate, what might you conclude about the economy?
- 18. Organizing Information** In a graphic organizer like the one below, explain the reasons for the Federal Reserve's effectiveness in using monetary policy.



## Practicing Skills

- 19. Reading a Time Zone Map** Study the map on page 528. It takes two hours to fly from Denver, Colorado, in the mountain time zone to Chicago, Illinois, in the central time zone. If you leave Denver at 2 A.M. Friday, what time will it be in Chicago when you arrive?

## Analyzing Visuals

- 20.** Look at the graphs on page 532. What effect does selling bonds have on interest rates?



## Economics Activity

- 21.** For two days, keep track of any time you use money, see money used, or see dollar values written out somewhere. Try to determine in each instance which of the functions the money is serving.

## ★ CITIZENSHIP COOPERATIVE ACTIVITY ★

- 22.** During the 1930s, the United States underwent a tragic economic depression. Work in groups to research the following aspects of daily life.
- What happened to income and prices?
  - What happened to savings accounts?
  - What happened to the availability of jobs?

Each member of your group should research one of the three questions. Then summarize the group's notes to develop a presentation that describes what actually happened during the Great Depression.



## Technology Activity

- 23.** On the Internet, go to the Federal Reserve education Web site at [www.federalreserveeducation.org/](http://www.federalreserveeducation.org/). From the "Choose a Category" drop-down menu, select "Resources and Research." Then click on "Economic Literacy Project." On the right side of the Web page under "Test Yourself," click on "Mpls. Fed's economic literacy quiz." Take the quiz and see how you do. What did you learn about the economy by taking the test?



## Standardized Test Practice

**Directions:** Choose the *best* answer to the following question.

If the reserve requirement is 5 percent, how much of a \$100 deposit may a bank lend?

- F** \$5  
**G** \$95  
**H** \$100  
**J** \$50

## Test-Taking Tip

Remember that a reserve requirement is the percentage of a deposit that a bank must put aside and not use for loans.