THE IMPORTANCE OF MONEY

(What makes the world go round)

If we as people don't have any money, we can't buy food, have housing, pay our bills, buy nice things, etc. If a business has no money, it can't run its day to day operations selling their goods or services. If the global economy doesn't have money or is mismanaged, then there is a financial crisis which causes a decrease in the supply of money and affects the consumers for goods and services.

MONEY

Anything that people generally accept as payment for goods and services

BARTER

The direct trading of goods or services for other goods and services.

MONEY SUPPLY

The amount of money the Federal Reserve Bank makes available for people to buy goods and services.

M-1

Money that can be accessed quickly and easily

- *Ex. Coins/paper money, checks, travelers' checks debit cards, etc.*

M-2

Money included in M-1 plus money that may take a little more time to obtain

- *Ex. Savings accounts, money market accounts, mutual funds, certificates of deposit, etc.*

M-3

M-2 plus big deposits like institutional money market funds

- *Ex. Investments by large corporations into money market investments+*

CONTROL OF THE MONEY SUPPLY

The five major parts of the Federal Reserve include:

The Board of Governors The Federal Open Market Committee 12 Federal Reserve Banks
Three Advisory Councils Member banks of the system

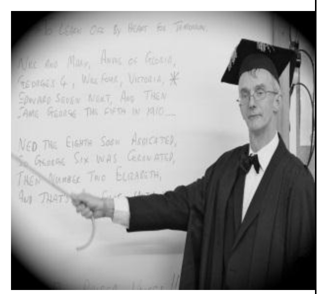
Government Money Control Methods

These are methods that the government uses to control the supply of money available in the economy. During times of inflation, the Federal Reserve(FED) increases the amount of money available, thereby speeding up the economy. Where there are too few goods for the amount of money, the government reduces the amount of money to slow down the economy.

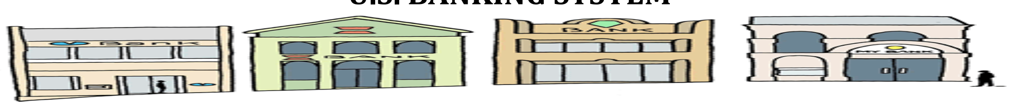
RESERVE REQUIREMENT	OPEN-MARKET OPERATIONS	THE DISCOUNT RATE
A percentage of commercial banks' checking and savings accounts that must be physically kept in the bank	*The buying and selling of U.S. government bonds by the FED with the goal of regulating the money supply.*	*The interest rate that the FED charges for loans to member banks.*
• If the FED increases the Required Reserve reducing loans to customers, thus slowing the economy. • If the FED decreases the Required Reserve, thus speeding up the economy.	• If the FED sell bonds, money flows to the FED and out of the economy, thus slowing the economy. • If the FED buys bonds, money flows to the economy and out of the FED, thus speeding up the economy	• If the FED increases the Discount Rate, banks borrow less and there is less money to lend, thus slowing the economy. • If the FED decreases the Discount Rate, banks borrow more and there is more money to lend, thus speeding up the economy.

HISTORY LESSON

- 1791: President Alexander Hamilton persuaded Congress to form a Central Bank
- 1907: Cash shortage problems were occuring in the country which lead to the creation of the Federal Reserve.
- 1929-early 1930s: Stock market crash which lead to the Great Depression
- 1933-1935: Congress passed legislation to strengthen the banking system. One action was to establish federal deposit insurance to protect the bank failures.
- 1945-2007: The United States has expereiced 10 recessions with an average duration of 10 months



U.S. BANKING SYSTEM



Commercial Banks

A profit-seeking organization that receives deposits from individuals and corporations in the form of checking and savings accounts and then uses some of these funds to make loans.

Services Include

- **Demand Deposit**: The technical name for a checking account; the money in a demand deposit can be withdrawn anytime on demand from the depositor
- **Time Deposit:** The technical name for a savings account; the bank can require prior notice before the owner withdraws money from a time deposit.
- **Certificate of Deposit** (CD): A time-deposit (savings) account that earns interest to be delivered at the end of the certificate's maturity date.

Savings and Loan Associations (S&L's)

A financial institution that accepts both savings and checking deposits and provides home mortgage loans.

Credit Unions

Nonprofit, member-owned financial cooperatives that offer the full variety of banking services to their members.

Nonbanks

Financial organizations that accept no deposits but offer many of the services provided by regular banks (pension funds, insurance companies, commercial finance companies, consumer finance companies and brokerage houses).

Services Include

Pension Funds: Amounts of Money put aside by corporations, nonprofit organization, or unions to cover part of the financial needs of members when they retire