Chapter 10 Section 3: Banking Today

* People in the US use more than just paper currency to pay for purchases.
  + Include – Credit Card, Debit Card, Personal Check, Travelers Checks, and etc.
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – money that is available in the United States economy.
  + Economists divide the different kinds of money supply into several categories.
* \_\_\_\_\_\_\_
  + Represents money that people can \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to pay for goods and services.
  + M1 consists of assets that have \_\_\_\_\_\_\_\_\_\_ – the ability to be used as, or directly converted into, cash.
  + 48% of currency is made up of M1 money
  + Deposits in checking accounts are called demand deposits.
* \_\_\_\_\_\_ – consists of all the assets in \_\_\_\_\_ plus several additional assets.
  + Include funds that cannot be used as cash directly, but can be converted into cash fairly easily.
  + i.e.
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* Functions of Financial Institutions
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - Banks provide a safe, convenient place for people to store their money.
    - FDIC insurance protects people from losing their money if the bank is unable to repay the funds.
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - Banks offer a variety of ways for people to save money
    - Savings accounts
    - Checking accounts
    - Money market accounts
    - Certificates of Deposit CDs
    - Savings accounts and Checking accounts are the most common types of bank accounts.
    - They are useful for people who need to make frequent withdrawals.
    - Savings accounts and most checking accounts pay a small amount of interest at an annual rate.
    - Money market accounts and CDs pay higher rates of interests
    - Interest Rates are not fixed, they go up and down.
    - CDs have a guaranteed rate of interest over a certain period of time.
  + \_\_\_\_\_\_\_\_\_\_\_\_
    - Banks provide loans to people who need money for some reason.
    - A banking system that keeps only a fraction of funds on hand and lends put the remainder is called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
    - The more money that a banks lends out, and the higher the interest rate, the more profit a bank can make.
    - Banks help new businesses get started.
    - Bankers must consider the security of the loans the make.
    - If a borrower \_\_\_\_\_\_\_\_\_\_\_\_ – fails to pay back the loan – then the bank loses.
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - This is a specific type of loan that is used to buy real estate.
    - i.e. buy a house.
    - Most down payments on a house is 20% of the cost
    - Most people get a 30-year mortgage
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - Banks provide credit cards for people to use.
    - This card entitles their holder to buy goods and services based on the cardholder’s promise to pay for these goods and services.
    - You charge on the card and pay the bill next month when your statement arrives in the mail.
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + Interest is the price paid for the use of the borrowed money.
  + The amount that a person borrows is called the principle
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ would be that you deposit $100 in the bank at 5% interest. After one year you have $105 in the account.
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ the interest that is paid on both the Principle and the interest earned. Example – in the second year you would have earned 5% interest on $105.
  + The largest source of income for banks is the interest rates that they charge their customers.
  + Banks do pay interest on savings accounts and checking accounts, but at a much smaller rate.
* Types of Financial Institutions
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - Offer traditional services to businesses.
    - Some are chartered by states and others by the Fed.
    - They provide the most services and play the largest role in the economy of any type of bank.
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - Called S & Ls or Thrifts
    - Provide many of the same functions a commercial banks
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - Established for people who made smaller transactions than commercial banks wanted to handle
    - Have NOW accounts – \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ accounts
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - Cooperative lending associations for a particular group
    - Specialize in home mortgages and car loans that have lower interest rates than commercial banks
    - May provide checking accounts as well
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
    - They make installment loans to consumers.
    - Major purchases - like furniture – payments are made over a number of months.
    - People most often fail to repay their loans, finance companies generally charge higher interest rates.
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + By the 1970s, banks began using computers to keep track of transactions.
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – ATMs
  + Allow people to get money out of their account for a fee when they need to.
  + People can also make deposits at ATMs.
  + They handle the face-to-face business of a teller.
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + Are used to withdraw money.
  + Can be used to withdraw from an ATM.
  + Can be used in stores to make payments for your purchases.
  + When the purchase is made, your account is deducted that amount immediately.
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ located on the floor of the Fed and their branches allow customers to pay bills without writing checks.
  + It automatically deducts your account the amount you tell it to.
  + Used mainly for those monthly bills like rent, car payments, mortgages, and etc.
* Major Banking Mergers of the 1990s
  + Travelers and Salomon Brothers = Travelers
  + Bank of America and Robertson Stephens = Bank of America
  + NationsBank and Barnett Bank = NationsBank
  + Chemical Bank and Manufacturers Hanover = Chemical Bank
  + Banc One and First Commerce = Banc One
  + First Chicago and NBD = First Chicago NBD
  + Banc One and First Chicago NBD = Banc One
  + Chase Manhatten and Chemical Bank = Chase-Manhatten
  + Bank of America and NationsBank = BankAmerica
  + Citicorp and Travelers = Citigroup