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