**What is Money?**

* We normally think of currency when we think of money. However, more generally speaking, money is any commodity which satisfies the following:
  + Unit of account
  + Store of Value
  + Medium of exchange

**Early Commodity Money:**

* Until around 3000BC, commodities such as \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and grain were used as money for many societies

**China: 1200 BC:**

* The Chinese began using cowries as money
* By 1000 BC, “tool currencies” were adopted. These were miniature metal models of spades, hoes, blades, etc.

**Middle Ages: 800 – 1500 AD:**

* Medieval \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ was standardized by Charlemagne when he conquered most of Europe around 800AD

**Chinese Paper Currency: 806 AD:**

* Due to a severe copper shortage, the Chinese begin issuing \_\_\_\_\_\_\_\_\_\_\_\_\_currency. Frequent reissues fuel inflation

1. **British Tally Sticks:**

* King Henry issued the first Tally Sticks in 1100AD. This practice lasted in England for over 700 years!

**Paper Money in Europe:**

* In the 1660’s, goldsmith’s notes are accepted as evidence of ability to pay. These notes mark the first use of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in England.

**The New World:**

* The colony of Massachusetts was the first colony to issue paper currency in the US

**The First US Dollar:**

* To finance the Revolutionary War, the congress issued “\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_”. Due to oversupply, they rapidly became worthless

**The First Bank of the US:**

* The First bank of the US was chartered in 1789 by Alexander Hamilton

**The Second Bank of the US:**

* The Second Bank of the US was founded in 1816. Its charter renewal was \_\_\_\_\_\_\_\_\_ by Andrew Jackson in 1836

**Free Banking: 1837-1866:**

* During the free banking era, virtually anyone could open a “\_\_\_\_\_\_\_\_\_\_” and issue notes.
* By 1860, it is estimated that up to 8,000 different notes were in circulation with varying degrees of backing.
* An estimated \_\_\_\_\_\_% of all banknotes were counterfeit

**1863: Lincoln signed the National Banking Act, which created a dual banking system**

**National Banks:**

* Chartered and supervised by \_\_\_\_\_\_\_\_
* Could issue national currency

**State Banks:**

* Controlled by State Regulatory authorities
* Restricted from issuing \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ currency

**A National Currency:**

* Under the National Banking Act, notes were printed by the US Treasury. National banks were required to purchase US government bonds as backing for the notes. State bank notes were taxed at 10% and were soon driven out of circulation.

**Greenbacks:**

* The Federal Government issued “\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_” which were declared legal tender.

**Gold/Silver Certificates:**

* In an effort to increase precious metal reserves, the government began issuing gold and silver certificates in 1863
* Silver certificates continued to be issued until the 1960’s when the price of silver jumped to $1.29

**The Federal Reserve System was created in 1913 by Woodrow Wilson:**

* The role of the Fed is to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ the supply of currency, as well as regulate the banking system

**The Gold Reserve Act: 1934:**

* In order to deal with the banking crisis, FDR orders US citizens (as well as the Fed) to surrender all gold coins, bullion, and certificates to the US Treasury
* Ownership of gold by US citizens was \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ until the law was repealed in 1974!

**Nixon Closes the Gold Window:**

* On August 15, 1971, Nixon closes the gold window and the US dollar ceases to be convertible into gold. This marks the beginning of the current \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ system.

**Banks and Other Depository Institutions**

**Overview of the Banking System**

* COMMERCIAL BANK: \_\_\_\_\_\_\_\_\_\_\_\_\_ deposits, makes loans, and issues check-writing accounts
* INVESTMENT BANK: Helps businesses sell their securities to raise financial capital
* GLASS-STEAGALL ACT (1933): Traditionally separated commercial banking and investment banking activities
* UNIVERSAL BANK: Can engage in \_\_\_\_\_\_\_\_\_\_\_\_\_commercial banking and investment banking activities

**Commercial Banking Intermediation Activities:**

* **1.** SAVERS deposit money in a COMMERCIAL BANK and receive, in return, Certificates of Deposit (or have savings accounts set up for them)
* 2. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ BANK lends money to a BUSINESS FIRM and receives, in return, the firm’s note which is a promise to repay the loan

**Investment Banking Intermediation Activities:**

* 1. SAVERS provide money to an INVESTMENT BANK and receive, in return, the securities (e.g., bonds) issued by a BUSINESS FIRM
* 2. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_BANK either first purchases the BUSINESS FIRM’S securities (e.g., bonds) and resells them to SAVERS, or just “markets” the securities to SAVERS

**Financial Institutions in the U.S. Banking System:**

* Commercial Banks
* Savings and Loan Institutions
* Savings Banks
* Credit Unions

**Historical Development of the U.S. Banking System:**

* Early Chartered Banks
* First Bank of the United States
* Second Bank of the United States
* State Banks from 1836 to the Civil War
* Entry of \_\_\_\_\_\_\_\_\_\_\_\_\_\_Institutions

**Structure of Banks: Bank Charters:**

* \_\_\_\_\_\_\_\_\_\_\_\_\_ BANKING SYSTEM: Commercial banks can obtain charters either from the federal government or a state government
* FEDERALLY CHARTERED BANKS: Must have “\_\_\_\_\_\_\_\_\_\_\_\_\_\_” in their titles and be members of the Federal Reserve System and the Federal Deposit Insurance Corporation

**Structure of Banks: Branch Banking:**

* UNIT BANKING: Exists when a bank can have only one full-service office
* LIMITED BRANCH BANKING: Allows additional banking offices within a defined distance of a bank’s main office
* STATEWIDE BRANCH BANKING: Allows banks to operate offices \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ a state

**Structure of Banks: Bank Holding Companies:**

* HOLDING COMPANY: A firm that owns and controls other organizations or firms
* ONE BANK HOLDING COMPANY: Permits a firm (OBHC) to own and control only one bank
* MULTIBANK HOLDING COMPANY: Permits a firm (MBHC) to own and control \_\_\_\_\_\_\_\_\_\_or more banks

**Types of Bank Loans:**

* Loans Secured by Real Estate
* Loans to Depository Institutions
* Commercial and Industrial Loans
* Loans to Individuals
* Other Loans

**Bank Management: Basic Concepts:**

* BANK LIQUIDITY: Reflects ability to meet depositor \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and to pay off other liabilities when due
* BANK SOLVENCY: Reflects ability to keep the value of a bank’s assets \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ than its liabilities

**Liquidity Management:**

* ASSET MANAGEMENT: Maintaining “primary reserves” and “secondary reserves” to help meet depositor withdrawal demands and other liabilities when due
* LIABILITY MANAGEMENT: Adjusting interest rates on rate sensitive liabilities like CDs to help maintain a desired level of liquidity

**Capital Management: Three Capital Ratios:**

* PRIMARY CAPITAL RATIO (PCR): Primary Capital/Total assets
* TOTAL CAPITAL RATIO (TCR): (Primary Capital + Secondary Capital)/Total Assets
* RISK-BASED CAPITAL RATIO (RCR): Total Capital/Risk-Adjusted Assets

**International Banking and Foreign Systems:**

* INTERNATIONAL BANKING: Exists when banks operate in more than one country
* INTERNATIONAL BANKING ACT OF 1978: Provided more consistent \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of banks across countries
* UNIVERSAL BANKING: Banks may engage in both commercial banking and investment banking activities
* BANKING DEVELOPMENTS: Germany is a universal banking country --U.S. banking deregulation may lead to a form of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ banking