History of American Money and Banking

Section 2

History Lesson

- During the early colonial period of American history, England did not permit the new colonies to print money or mint coins
  - Bartering became common

- To help pay for the Revolutionary War, the Continental Congress issued bills of credit, called Continentals, that could be used to pay debts.
  - So many of these were issued that they became worthless and many places wouldn't accept them

History Lesson--CONTINUED

- The Constitution, ratified in 1788, gave Congress the power to mint coins.
- In 1792, Congress passed the Coinage Act, which established the dollar as the basic unit of currency for the nation.
- Our nation's new leaders were torn between a national banking system and a state-chartered banking system.
  - Today we have both
    - [WHO REGULATES YOUR BANK??]

Banking Services

- Why do we choose one bank over another? Different banks offer different services to entice customers.
- Overdraft checking: checking account that allows a customer to write a check for more money than exists in his or her account

Banking Services

- Electronic Funds Transfer (EFT): system of transferring funds from one bank account directly to another without any paper money changing hands
- Automated Teller Machines (ATM): unit that allows consumers to do their banking without the help of a 'human' teller

Thief!

- With EFT, comes the chance of identity theft. Since everything is stored in a computer, if someone knew how to get around the security, your information and money could be stolen!
- The Electronic Funds Transfer Act of 1978 describes the rights and responsibilities of participants in EFT systems.

Thief!

- EFT customers are responsible for $50 in losses when someone steals or illegally uses their ATM cards, if they report the cards missing within 2 days.
- If they wait longer, they could be held responsible for up to $500!
  - If a customer reports to the financial institution that their card is missing before any transactions takes place, they are not held responsible for any transaction that takes place after the report of a missing/stolen card.
  - A customer can be liable for unauthorized withdrawals if their card is lost or stolen and they do not follow certain criteria:
  - Loss is limited to $50 if institution is notified within two business days
  - Loss could be up to $500 if institution is notified between 3 and 59 days
  - If loss is not reported within 60 business days customer risks unlimited loss on transfers made after the 60 day period – could lose all money in account plus maximum over draft if any

Types of Money in the United States

Section 3

Money and Near Moneys

- Many people use the term “money” to refer only to “cash” but there are many different forms of money
- Checking account: account in which deposited funds can be withdrawn at any time by writing a check

Formerly known as Demand Deposits

- Checkable deposits: funds deposited in a bank that can be withdrawn at any time by presenting a check

- [Does your employer pay you using a debit card?]

Not just banks

- Thrift institutions: mutual savings banks, Savings and Loans, and credit unions that offer many of the same services as commercial banks

Which card to use?

- Credit cards are technically not "money." They defer payments rather than complete transactions that ultimately involve the use of money.
- Debit card: device used to make cashless purchases; money is electronically withdrawn from the consumer's checkable account and transferred directly to the store's bank account
  - Usually within 72 hours
  - Debit cards vs. Credits Cards short video (8 min)

Close but no cigar

- Near moneys: assets such as savings accounts that can be turned into money relatively easily and without the risk of loss of value

The Money Supply

- M1: narrowest definition of the money supply; consists of moneys that can be spent immediately and against which checks can be written

- M2: broader definition of the money supply; includes all of M1, plus such near moneys as savings deposits, small-denomination time deposits, money market deposit accounts, and retail money market mutual fund balances

- Fed information on M1&M2