

# ECON: Chapter 10.3

## Banking Today

\*People now use more than just paper currency and coins to pay for things.

### I. Measuring the Money Supply

\*Money Supply – all the money available in the US economy.

#### A. M1

1. **M1** = money that people can easily gain access to.
  - a. has Liquidity – ability to be used quickly

#### B. M2

1. **M2** = all assets in M1 plus several other assets. (see FIG. 10.5)

### II. Functions of Financial Institutions

#### A. Storing Money

1. Banks provide a safe and convenient place for us to store our money.

#### B. Saving Money

1. Banks provide **4 basic ways** to save money.
  - a. Savings accounts (most common)
  - b. Checking accounts (most common)
  - c. Money Market accounts
  - d. CDs (Certificates of Deposit)

#### C. Loans

1. Banks make loans to get new businesses started, help people buy houses, and/or lend money to make home improvements.

#### D. Mortgages – a specific type of loan used to buy real estate.

#### E. Credit Cards – a card that entitles the holder to buy goods and services based on the “promise to pay” for the goods and services.

### III. Types of Financial Institutions

#### A. Commercial Banks

1. Provide the most services and play the largest role in the economy of any type of bank.

#### B. Savings and Loan Associations

1. Do many of the same functions as commercial banks

#### C. Savings Banks

1. Originated in early 1800s to serve people who made smaller deposits than commercial banks wanted to handle.

#### D. Credit Unions

1. Cooperative lending associations for specific groups.
  - a. Usually small and specialize in home mortgages and car loans.

#### E. Finance Companies

1. Make installment loans to consumers
  - a. Spread the payment amount over a period of months.

### IV. Electronic Banking

#### A. ATM (Automated Teller Machines)

1. Computers that consumers can use to make deposits, withdrawals, and get account information from.

#### B. Debit Cards

1. Used to withdrawal money from ATMs and make purchases at retail stores.

#### C. Home Banking

1. Using your home computer to pay bills, check account balances, transfer money from one account to another, and automatically deposit their paychecks.