

GLENCOE

Introduction to Business

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Glencoe:
Building the Future
of Business

Chapter 12

Money and Financial Institutions

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Money and Banking

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Section 12.1

Money and Banking

Reading Guide



Read to Learn

Discuss the functions and characteristics of money.

Discuss three main functions of a bank.

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Money and Banking

Reading Guide



The Main Idea

Money functions as a standard of value, a medium of exchange or payment, and a store of value. Most countries create and circulate their own money. Banks are in the business of handling money.

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Money and Banking

Reading Guide



Key Concepts

The Purpose of Money

The Functions of Banks

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Key Term

money

a standard of value and a means of exchange or payment

monetary system

a system in which goods and services are directly exchanged using money

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Key Term

financial institution

a firm that manages money

bank account

a record of the amount of money a customer has deposited into or withdrawn from a bank

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Key Term

deposit the money put in a bank account

withdrawal the money taken out of a bank account

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Key Term

interest

a rate that the banks pay customers for keeping their money

electronic funds transfer (EFT)

money transferred from one bank account to another through a network of computers

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Key Term

direct deposit

the electronic transfer of a payment directly from the payer's bank account to that of the party being paid

collateral

property or goods pledged by a borrower to use as security against a loan if it is not repaid

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Key Term

mortgage

an agreement in which a borrower gives a lender the right to take the property if the loan is not repaid

safe-deposit box

a secure box in a bank's vault used for the safe storage of a customer's valuables

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The Purpose of Money

Our **monetary system** includes coins, currency, checks, and debit cards.



Key Term

monetary system

a system in which goods and services are directly exchanged using money

The Functions of Money

Without money, people would be forced to barter, or trade goods and services directly for other goods and services.

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The Barter System

The barter system is still used in some business situations. According to the Illinois Trade Association, more than 100,000 businesses have been involved in bartering. Major corporations that barter include Xerox, Mattel, IBM, Chrysler, and General Electric.

Graphic Organizer

Three Functions of Money

Medium of Exchange

Anything that is generally accepted as a measure of value and wealth

Standard of Value

A way to measure the weight, amount, size, or value of something

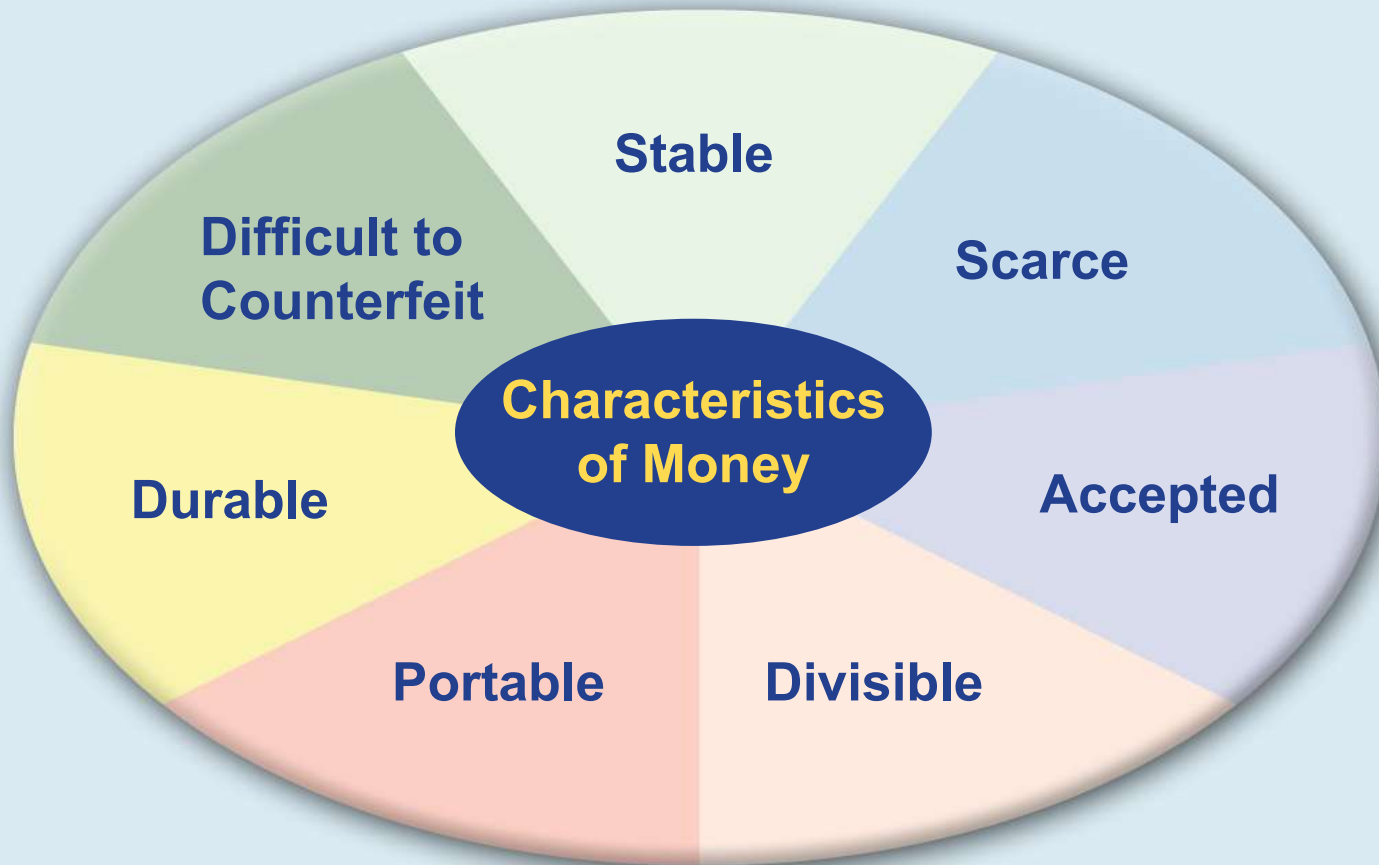
Store of Value

Money's ability to hold its value over time and be stored or saved

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Graphic Organizer



The Functions of Banks

Banks are the main type of **financial institutions**.

Banks offer a variety of financial services.

Key Term



financial institution
a firm that manages money

Graphic Organizer

Functions of a Bank

**Storing
Money**

**Transferring
Money**

**Lending
Money**

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Storing Money

Storing money in a **bank account** is one of the main functions of a bank.

Key Term



bank account

a record of the amount of money a customer has deposited into or withdrawn from a bank

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Storing Money

Making a **deposit** or **withdrawal** are two main bank transactions.

Key Terms



deposit

the money put in a bank account

withdrawal

the money taken out of a bank account

Storing Money

Checking accounts are used for storing money in the short term.

Savings accounts are used for storing money over the long term.

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Transferring Money

Banks use **electronic funds transfers (EFT)** to move money.



Key Term

electronic funds transfer (EFT)

money transferred from one bank account to another through a network of computers

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Money and Banking

Transferring Money

Many employers issue payroll checks using **direct deposit**.



Key Term

direct deposit

the electronic transfer of a payment directly from the payer's bank account to that of the party being paid

Lending Money

Lending money is the primary way banks generate profits.

Banks use the interest earned from customer loans to pay interest on customers' savings accounts.

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Lending Money

Most bank loans require some form of **collateral**.



Key Term

collateral

property or goods pledged by a borrower to use as security against a loan if it is not repaid

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Lending Money

A **mortgage** loan is used to buy real estate.



Key Term

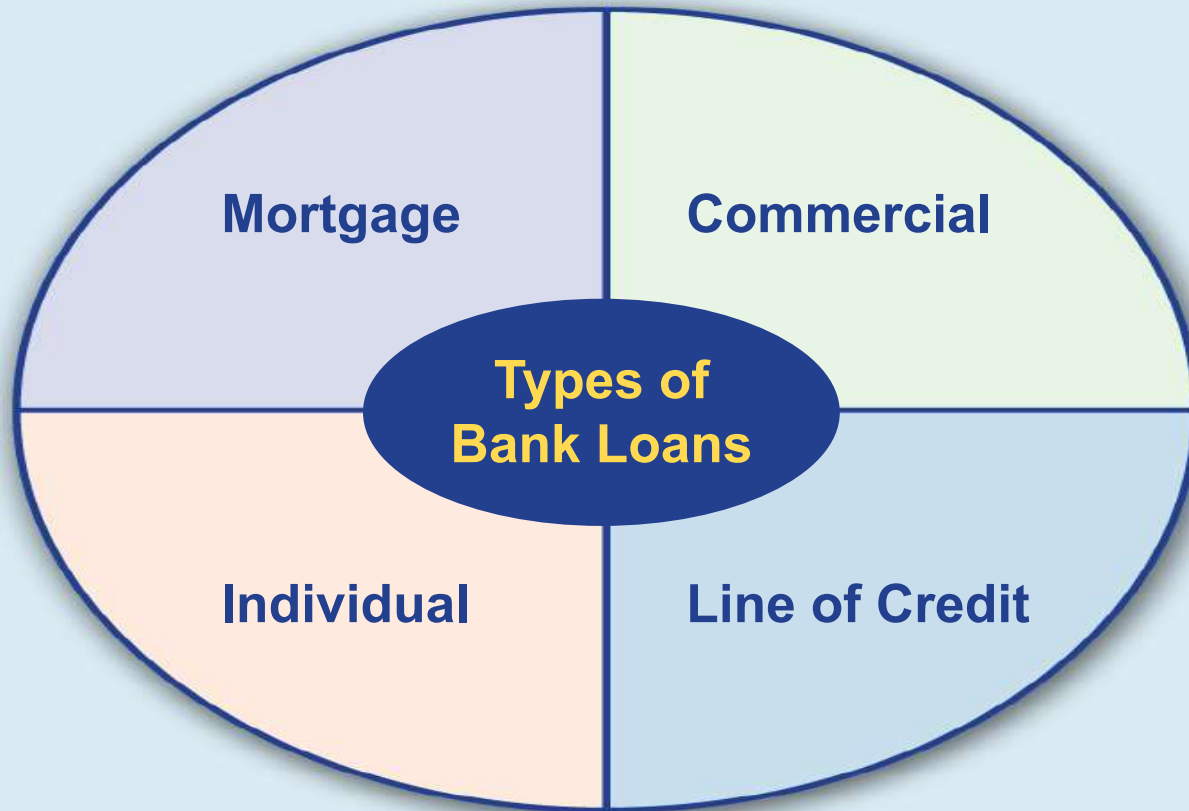
mortgage

an agreement in which a borrower gives a lender the right to take the property if the loan is not repaid

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Graphic Organizer



Other Financial Services

At banks, you can also get financial advice, a **safe-deposit box**, a credit card, and a trust to manage money.



Key Term

safe-deposit box

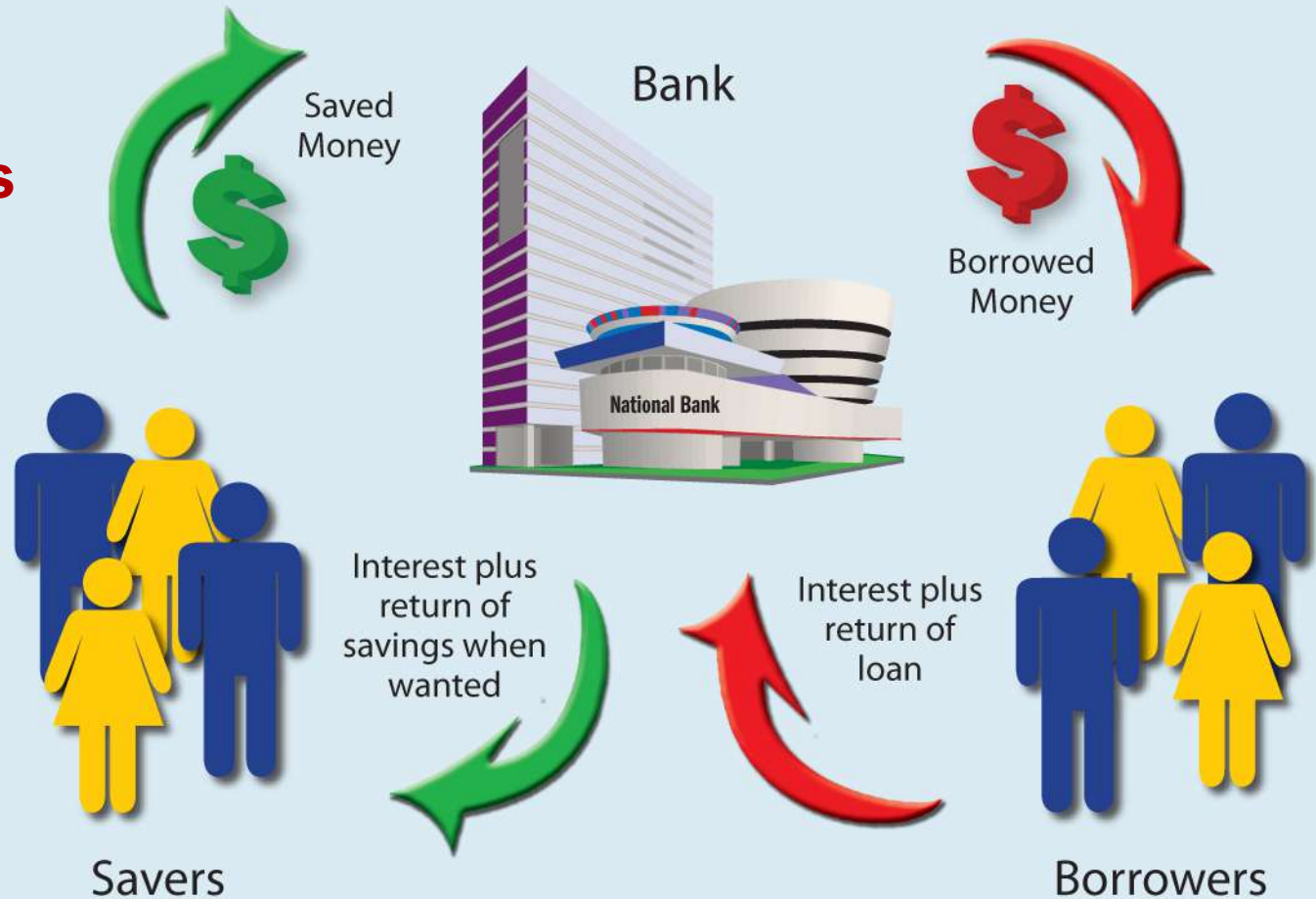
a secure box in a bank's vault used for the safe storage of a customer's valuables

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Figure 12.1

The Business of Banks



Section 12.1

Money and Banking

Section 12.1



1. What is a major advantage of using money over bartering in buying goods and services?

Money makes buying and selling goods and services easier.

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Section 12.1



2. What are at least five characteristics that money must have?

All money shares these characteristics: stable, scarce, acceptable, divisible, portable, and hard to counterfeit.

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Section 12.1



3. What are four types of loans that a bank makes?

Four types of bank loans are mortgage loans, commercial loans, individual loans, and lines of credit.

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Money and Banking

Reading Guide



Read to Learn

Compare and contrast three types of banks that are found in our economy.

Explain the major functions of the Federal Reserve System in the U.S. economy.

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Money and Banking

Reading Guide



The Main Idea

There are three types of institutions that operate as banks. There are commercial banks, savings and loan associations, and credit unions. A Federal Reserve Bank is a banker's bank. The Federal Reserve System manages the banking system and controls the money supply.

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Money and Banking

Reading Guide



Key Concepts

Financial Institutions

Functions of the Federal Reserve System

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Money and Banking

Reading Guide



Key Term

commercial banks

banks that offer the entire range of banking services, such as checking and savings accounts, loans, and financial advice

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Reading Guide



Key Term

**savings and loan
associations**

financial institutions that hold customers' funds in interest-bearing accounts and invest mainly in mortgage loans

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Reading Guide



Key Term

**credit
unions**

not-for-profit banks set up by organizations for their customers to use

**mortgage
companies**

financial institutions that provide loans specifically for buying a home or business

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Money and Banking

Reading Guide



Key Term

**finance
companies**

financial institutions that offer short-term loans to businesses and consumers, but at a much higher interest rate than banks charge

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Money and Banking

Reading Guide



Key Term

insurance companies

companies that provide not only protection against problems such as fire and theft, but also loans to businesses and consumers

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Key Term

brokerage firms

financial organizations that sell stocks and bonds and offer a wide range of financial services

Federal Reserve System

the central bank of the United States

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Money and Banking

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Key Term

reserves

funds set aside for emergencies, such as a rush of withdrawals

Financial Institutions

The three types of financial institutions in the United States are:



**Commercial
Banks**



**Savings and
Loan
Associations**



**Credit
Unions**

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Money and Banking



Universal Banks

Universal banks, also known as financial services companies, are diversified businesses involved in both retail banking and investment banking.

Financial Institutions

To open a federal or a state bank, the owners must prove they have enough capital to start a bank.

The owners must apply for a charter from the federal or state government.

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Money and Banking

Commercial Banks

To make a profit, **commercial banks** charge more interest on the money that they lend than the interest that they pay on savings accounts.

Key Term



commercial banks

banks that offer the entire range of banking services, such as checking and savings accounts, loans, and financial advice

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Savings and Loan Associations

The services offered by **savings and loan associations** are very similar to the services offered by commercial banks and credit unions.

Key Term



savings and loan associations

financial institutions that hold customers' funds in interest-bearing accounts and invest mainly in mortgage loans

Savings and Loan Associations

In the late 1980s, about 20 percent of savings and loan associations failed.

In response, the government passed new regulations allowing them to charge higher interest rates and offer more services.

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Credit Unions

Credit unions offer their members credit cards, checking accounts, low-interest loans, and high-interest savings accounts.



Key Term

credit unions

not-for-profit banks set up by organizations for their customers to use

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Other Financial Institutions

Other financial institutions include:

Mortgage companies



Key Term

mortgage companies
financial institutions that provide loans specifically for buying a home or business

Other Financial Institutions

Other financial institutions include:

Finance companies



Key Term

finance companies

financial institutions that offer short-term loans to businesses and consumers, but at a much higher interest rate than banks charge

Other Financial Institutions

Other financial institutions include:

Insurance companies

Key Term



insurance companies
companies that provide not only protection against problems such as fire and theft, but also loans to businesses and consumers

Other Financial Institutions

Other financial institutions include:

Brokerage firms

Key Term



brokerage firms

financial organizations that sell stocks and bonds and offer a wide range of financial services

The Federal Reserve System

The **Federal Reserve System** is the banker's bank.

The Federal Reserve, or "The Fed", monitors the money supply.

Key Term



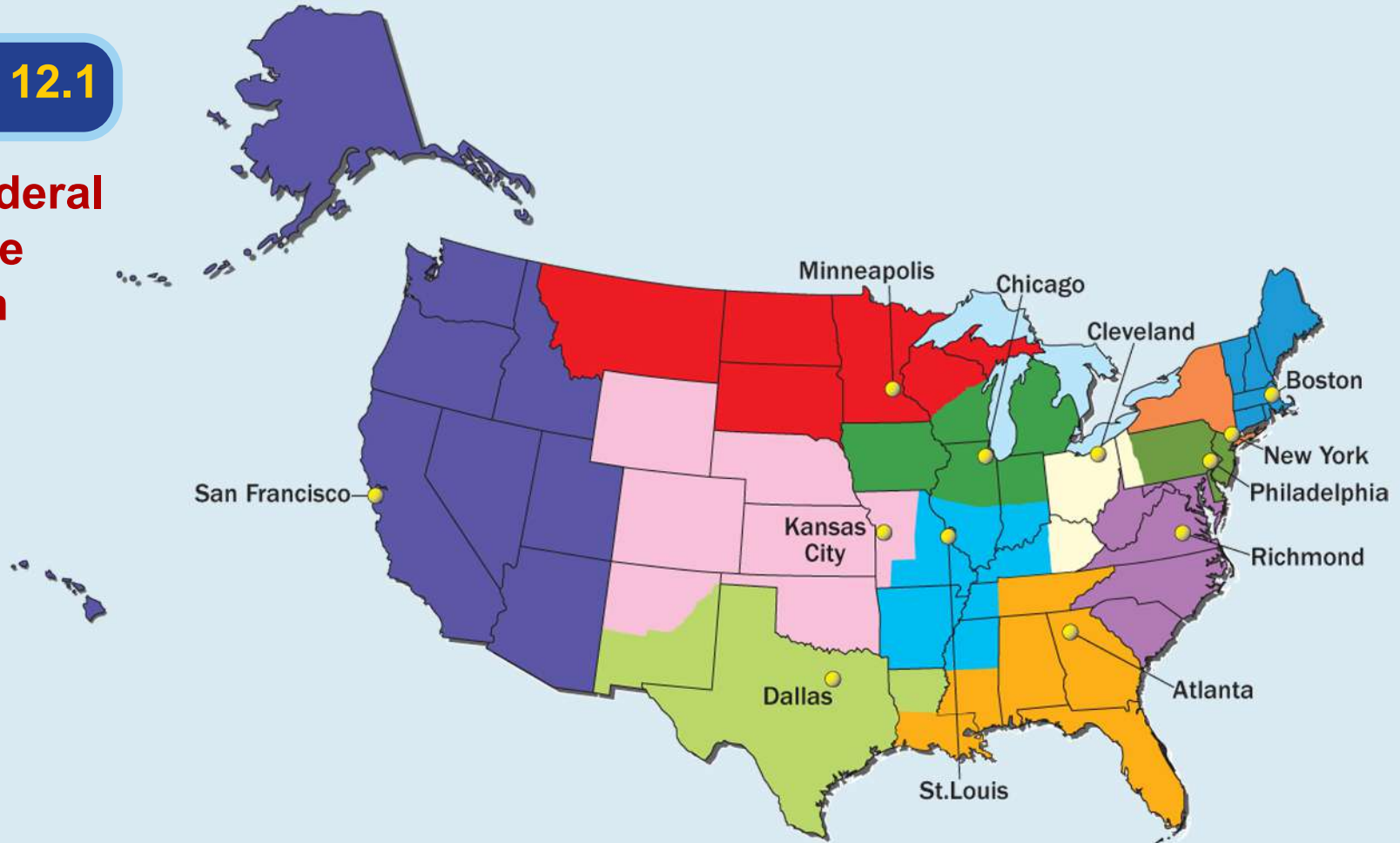
Federal Reserve System
the central bank of the
United States

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Figure 12.1

The Federal Reserve System



Section 12.1

Money and Banking



The Federal Reserve

One of the Federal Reserve's main duties is to monitor the inflation rate. Inflation is a general increase in the cost of goods and services.

The Federal Reserve System

The mission of the Federal Reserve System is to provide the United States with a safe, flexible, and stable monetary and financial system.

The Federal Reserve System

Member banks must keep a certain percentage of deposits as **reserves**.

Key Term



reserves

funds set aside for emergencies, such as a rush of withdrawals

Graphic Organizer

Six Functions of the Federal Reserve System

- Clearing Checks
- Acting as the Federal Government's Fiscal Agent
- Supervising Member Banks
- Regulating the Money Supply
- Setting Reserve Requirements
- Supplying Paper Currency

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Money and Banking

Section 12.2



1. How is a credit union different from a commercial bank?

Credit unions are nonprofits.
Banks seek profits.

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Money and Banking

Section 12.2



2. List the seven types of financial institutions discussed in this section.

commercial banks, savings and loan associations, credit unions, mortgage companies, finance companies, insurance companies, and brokerage firms

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Section 12.2



3. What is the mission of the Federal Reserve?

It provides a safe, flexible, and stable monetary and financial system.

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