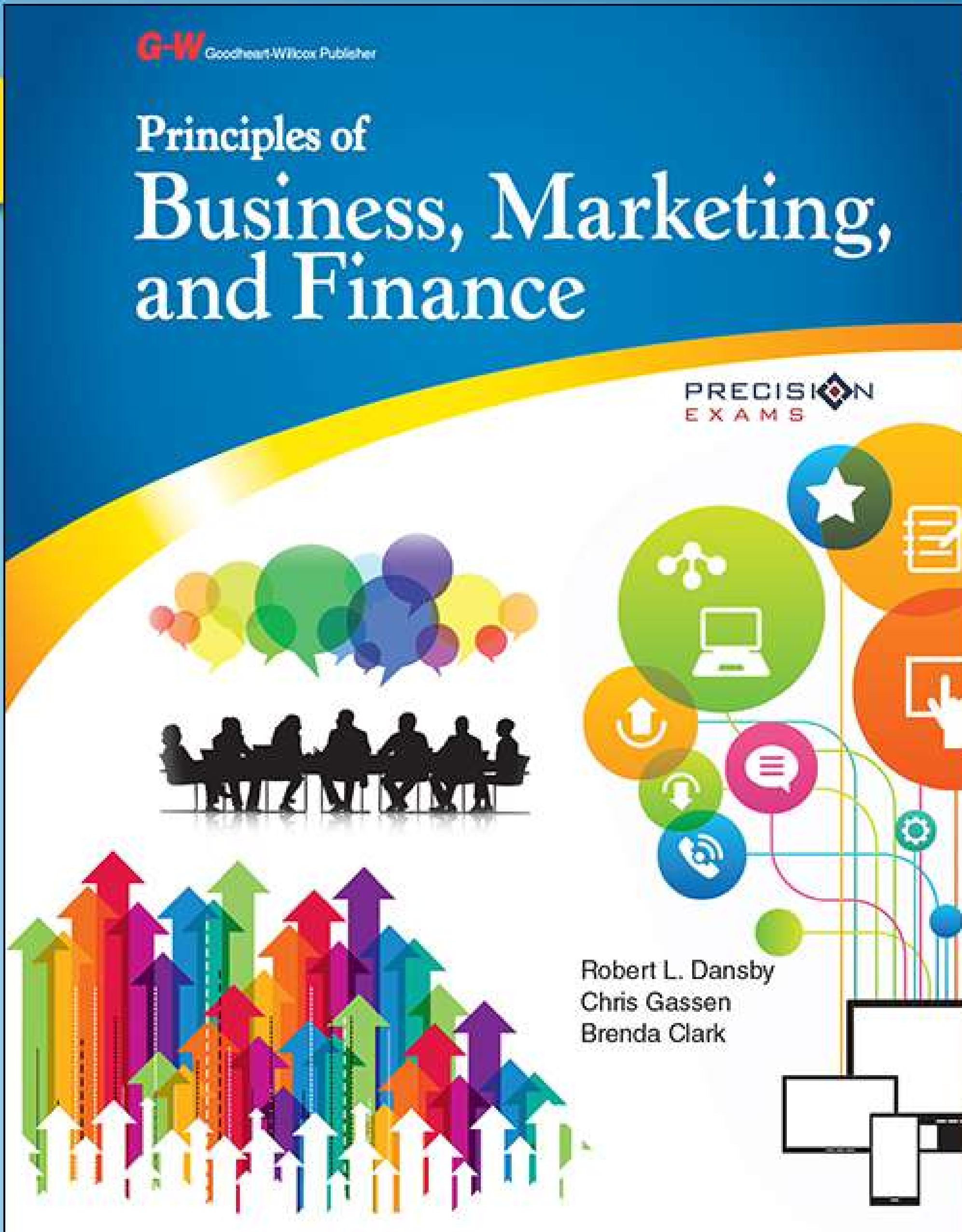


*Presentations for PowerPoint*

# Principles of Business, Marketing, and Finance

G-W PUBLISHER

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# 15

# Money and Banking

# Section 15.1

## Understanding Money

# Objectives

- **Explain** the concept of money.
- **Identify** the responsibilities of the Federal Reserve.
- **Discuss** the importance of financial exchange.

# Key Terms

- money
- banknote
- security
- government bond
- treasury note
- treasury bill
- medium of exchange
- unit of value
- store of value
- monetary system
- financial exchange
- credit card
- debit card
- electronic funds transfer (EFT)

# Essential Question

How is money used within an economic system?

# Money

- **Money** is anything of value that is accepted in return for goods or services; *currency*
  - **Banknote** is a document guaranteeing payment of a specific amount of money; payer named on document
  - **Security** is a financial investment issued by a corporation, government, or other organization
  - **Government bond** is a security that pays interest over terms of ten to thirty years
  - **Treasury note** is a security that pays interest over terms ranging from two to ten years
  - **Treasury bill** is a security that matures in a year or less

# Money

- Functions of money in our economy:
  - **Medium of exchange:** Money is used in exchange for goods and services needed by individuals, businesses, and governments
  - **Unit of value:** Money is a common measure of the worth or price of a good or service
  - **Store of value:** Money can be saved and used at a later date

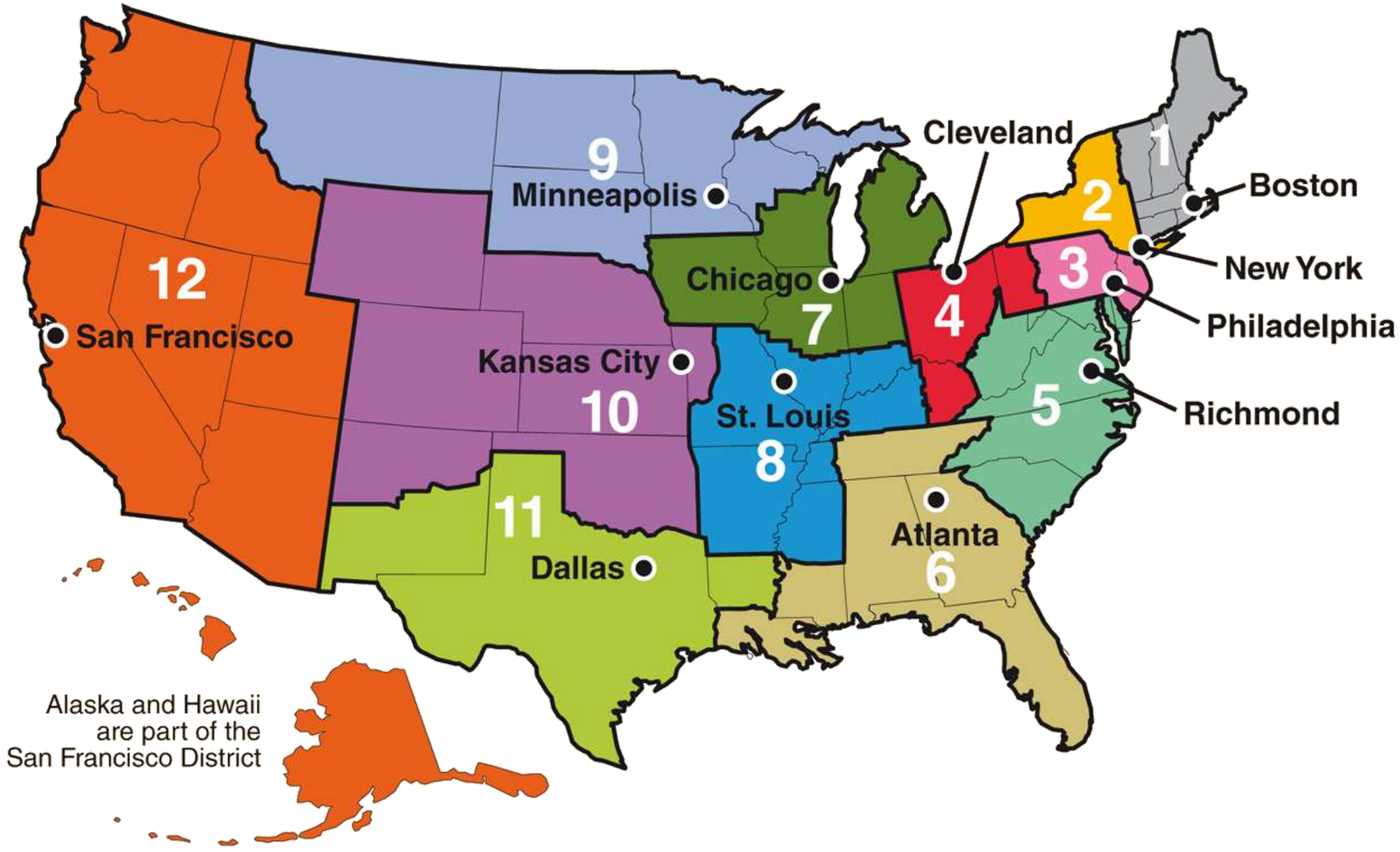
# Money

- Properties of money:
  - *Stable:* Maintain its value over time
  - *Recognized:* Authentic money immediately recognizable
  - *Divisible:* Divide money into smaller units
  - *Portable:* People must be able to carry money
  - *Durable:* Made of a strong and lasting material

# Federal Reserve

- Federal Reserve System is the central bank of United States
  - Divided into 12 districts
  - Responsible for monetary system.
- **Monetary system** is the mechanism a nation uses to provide and manage money for itself

# Federal Reserve



# Federal Reserve

- Core functions of the Federal Reserve:
  - Establish monetary policy
  - Supervise and regulate financial institutions
  - Maintain stability of the nation's financial system
  - Provide financial services

# Federal Reserve

- *Monetary policy* is action taken to manage supply of money and interest rates
- Supervise and regulate financial institutions to ensure soundness of country's banking system
  - Federal Deposit Insurance Corporation (FDIC)
- Maintain stability by controlling risks in financial markets
- Provides financial services and oversees payment systems

# Financial Exchange

- **Financial exchange** is the process of transferring money from one individual or organization to another
- Basic types of financial exchange:
  - Cash includes paper money and coins
  - **Credit card** is a plastic card that allows the holder to make credit purchases up to an authorized amount
  - Bank-issued **debit card** allows customers to pay for purchases directly from their checking account
  - **Electronic funds transfer (EFT)** is a transfer of money from one bank account to another

# Legal Responsibilities of Financial Exchange

- Laws and regulations protect buyers and sellers
- Legal responsibilities of financial exchange include privacy, disclosure, fraud, consumer rights, and interest rates
- Terms of financial transactions determined by state and federal laws

# Section 15.1 Review

1. What are the three functions of money?

   The three functions of money are medium of exchange, unit of value, and store of value.

2. List five properties of money.

   The five properties of money are stable, easily recognized, divisible, portable, and durable.

3. List the four core functions of the Federal Reserve.

   The four core functions of the Federal Reserve are to establish monetary policy, supervise and regulate financial institutions, maintain the stability of the nation's financial system, and provide financial services.

# Section 15.1 Review

4. List some basic examples of financial exchange.

   Basic examples of financial exchange include cash, credit cards, debit cards, and electronic funds transfer.

5. Why are laws and regulations necessary regarding financial exchange?

   Laws and regulations are necessary to help facilitate financial exchanges and protect buyers and sellers from fraud and other illegal behavior.

# Section 15.2

## Banking

# Objectives

- **Describe** two types of financial institutions.
- **Identify** financial services provided by banks.
- **Explain** the importance of banking regulations.

# Key Terms

- financial institution
- depository institution
- deposit
- credit union
- savings and loan institution
- nondepository institution
- securities firm
- investment bank
- finance company
- checking account
- check
- savings account
- line of credit
- letter of credit

# Essential Question

How do financial institutions serve business customers?

# Financial Institutions

- **Financial institution** is any organization that provides services related to money
  - Depository institutions
  - Nondepository institutions

# Financial Institutions

- **Depository institution** is a financial institution that accepts money from customers and deposits it into the customer's account.  A **deposit** is money placed into an account
  - *Commercial banks* are largest category of deposit institution
  - **Credit union** is a nonprofit financial institution that is privately owned and provides banking services for its members
  - **Savings and loan institution** is a financial institution that offers savings and loan services

# Financial Institutions

- **Nondepository institution** is a financial institution that does not accept deposits
  - *Insurance companies* are for-profit businesses that sell insurance products
  - **Securities firm** is a financial institution that is involved in trading securities in financial markets
  - **Investment bank** is a financial institution that provides services for businesses
  - **Finance company** is a financial institution that makes money by issuing loans; *loan company*

# Financial Services

- *Banking products* are services offered to customers by financial institutions
- General banking services offered to all customers
- **Checking account** is a bank account that allows the account owner to make deposits, write checks, and withdraw money
  - **Check** is a written order for the bank to pay a specific amount to the person or organization to which the check is written
- **Savings account** is a bank account used by depositors to accumulate money for future use

# Financial Services

- Electronic banking offered with checking accounts
  - Online banking allows *electronic funds transfer (EFT)*
  - *Direct deposit* is a type of EFT transaction; money is deposited directly into a customer's checking account
  - *Automatic bill payment* is a regular payment made from a customer's bank account to a vendor or supplier
- Bank cards issued with checking accounts
  - Debit cards allow customers to pay for purchases and withdraw cash
  - Customers are required to apply for credit cards

# Financial Services

- Some banking services are specifically for business customers
  - Business checking accounts
  - **Line of credit** is a prearranged amount of credit that is available for a business to use as needed
  - Long-term business loans
  - International banking services
  - **Letter of credit** is a document guaranteeing that a buyer will pay the seller the agreed-upon amount and within the time specified

# Banking Regulations

- Federal and state regulations apply to financial institutions
- Deposit insurance in case of bank failure
- Must comply with consumer protection laws
  - *Truth in Lending Act*
  - *Equal Credit Opportunity Act*
  - *Community Reinvestment Act*

# Banking Regulations

| Consumer Protection Laws | |
|---|---|
| **Law** | **How it Protects Consumers** |
| ***Truth in Lending Act (1968)*** | Requires disclosure of all terms of a loan in a clear way |
| ***Fair Credit Reporting Act (1970)*** | Provides consumers the right to examine their own credit report and correct inaccuracies |
| ***Fair Credit Billing Act 1974)*** | Protects consumers against unfair charges and provides a way to challenge incorrect bills |
| ***Equal Credit Opportunity Act (1975)*** | Prohibits credit grantors from discriminating against consumers on the basis of sex, marital status, race, national origin, religion, age, or the receipt of public assistance |
| ***Electronic Fund Transfer Act (1978, amended 2009)*** | Sets guidelines for electronic transfers and payments, including ATM transactions and online payments |
| ***Overdraft Protection Act (2013)*** | Requires banks to disclose all terms and charges related to overdraft protection, sets overdraft fee limits, and prohibits deceptive practices intended to create overdrafts on accounts |

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# Section 15.2 Review

1. What are two main types of financial institutions?

   The two main types of financial institutions are depository and nondepository.

2. List three examples of depository institutions.

   Three examples of depository institutions are commercial banks, credit unions, and savings and loan institutions.

3. Define general banking services as offered by financial institutions.

   General banking services are those services are offered by financial institutions to all types of customers.

# Section 15.2 Review

4. Identify four examples of general banking services.

   Four examples of general banking products are checking accounts, savings accounts, electronic banking, and bank cards.

5. Name the two types of federal regulators that almost every depository institution is a member.

   Federal Deposit Insurance Corporation (FDIC) and National Credit Union Administration (NCUA).