

Chapter 15

Money and Banking

Answer Key

Part 1: Content Review

Matching

1. J
2. H
3. D
4. A
5. B
6. F
7. C
8. G
9. E
10. I

Multiple Choice

1. D
2. C
3. B
4. A
5. C
6. A
7. B
8. C
9. B
10. D

Completion

1. barter
2. dollar
3. Unit of value
4. monetary system
5. member banks
6. credit union
7. securities firm
8. investment bank
9. letter of credit
10. Truth in Lending

Part 2: Concept Review

Open Response

1. The four basic types of financial exchange are cash, credit cards, debit cards, and electronic fund transfers. Using cash is simple and practical for many types of transactions, especially small purchases. Businesses benefit from cash transactions because they can be made quickly and easily. Credit cards allow consumers and businesses to make purchases without cash. Using a credit card is like borrowing money from the financial institution. A debit card allows customers to pay for purchases directly from their checking account. It has the convenience of a credit card, with the interest charges. EFT transactions are faster than mailing checks. They are also generally more convenient and less costly to process.
2. The Fed supervises and regulates banks in the country and is responsible for the monetary system in the United States. The Fed establishes monetary policies, which influence money and credit conditions in the economy. The Federal Reserve supervises and regulates financial institutions to ensure the safety and soundness of the country's banking system. It also works to protect consumers through various laws related to consumer financial activities. To maintain the stability of the nation's financial system, the Fed takes actions to control risks in the financial markets. The Fed provides financial services to the government and depository institutions, and helps operate and oversee the country's payment systems.
3. Businesses have banking needs that are much different than individuals. Some businesses use cash management services to handle financial collections and disbursements. Businesses may also use bank services to get letters of credit, manage payroll, and pay taxes. Common services provided to business banking customers include business checking accounts, business lines of credit, long-term business loans, and international banking services.
4. The FDIC and NCUA are independent government agencies that provide deposit insurance in the event of a bank failure. They cover up to \$250,000 on qualifying accounts per owner, per single account. The FDIC also examines and supervises financial institution policies and operations. When customer deposits are federally insured, it means the bank, savings and loan, or credit union is regularly evaluated in regards to its financial holdings, operations, and management.
5. A nondepository institution is a financial institution that does not accept deposits. These institutions generate profits by selling services. Four major types of nondepository institutions are insurance companies, securities firms, investment banks, and finance companies. Student experience responses will vary.

Part 3: Math Skills

Mixed Mathematics

1. $\text{Earnings} = 32 \text{ hours} \times \$11.75/\text{hour} = \$376.00$
2. $\text{Regular pay} + \text{overtime pay} = \text{earnings}$
 $(40 \text{ hours} \times \$13/\text{hour}) + (8 \text{ hours} \times (1.5 \times \$13/\text{hour}))$
 $(40 \text{ hours} \times \$13/\text{hour}) + (8 \text{ hours} \times \$19.50)$
 $\$520 + \$156 = \$676$
3. $\text{Amount paid per year} \div \text{number of payments} = \text{amount received per paycheck}$
 $12 \text{ months} \times 2 \text{ payments per month} = 24 \text{ payments}$
 $\$66,000 \div 24 = \$2,750$

4. $\$72,000 + (\$72,000 \times .25) = \$18,000$
5. Salary + furniture commission + carpet commission = earnings
 $\$200 + (\$11,000 \times .05) + (\$12,000 \times .04)$
 $\$200 + \$550 + \$480 = \$1,230$

Part 4: Communication Skills

Writing

1. com- pleteness or complete- ness
2. sur- round
3. in- stead
4. fre- quency
5. pre- pared
6. ex- clude
7. com- munication or commun- ication
8. corre- spondent
9. pre- vious
10. can't
11. text- book
12. grad- uate
13. sin- cerely
14. auto- matically
15. brother-in- law or brother- in-law