

Foundations of Business

In order to appreciate and make informed decisions in the world around them, students will need to establish a basic business/economic foundation.

CH 12

Money and Financial Institutions

How does the Federal Reserve fit into our ever changing economy?

CH 12 Targets

- Describe the functions and characteristics of Money?
- Explain what the Federal Reserve does.
- When was the Federal Reserve established?
- List how many districts/branches does the Federal Reserve has?
- Who chooses the Board of Governors?
- Explain the major functions of the “FED”
- What is the Community Reinvestment Act?

Money

- **What is Money?**
 - Medium of exchange for goods and services.

The Functions of Money

- The three basic functions of money are:
 - **Medium of Exchange**
 - Goods and Services
 - **Store of Value**
 - Holds its value over time.
 - **Standard of Value**
 - Provides a mean for measuring the value of goods and services.

Characteristics of Money

- For money to carry out its functions, it must have several characteristics.

Money must be:

- *Stable in Value*
 - *Scarce*
- *Accepted*
- *Divisible*
- *Portable and Durable*



Can you catch a counterfeit bill?

The Federal Reserve (Fed)

- Central Banking organization of the United States.
- Created by Congress in 1913
 - End Financial Panics that plagued business
- 12 Districts - [Chicago](#)
- 25 Branches
- Board of Governors
 - Chosen by the President of the US and approved by Congress
 - Chairperson of Federal Reserve
 - Ben Bernanke
- Key element in our banking system
 - Maintains a sound banking system and healthy economy

The Federal Reserve

1. Clears Checks
 - **Transfers funds from one bank to another**
2. Acting as the Federal Government's Fiscal Agent
 - Distributes money to Federal Reserve member banks and commercial banks.
3. Supervise Banks
 - **Supervises and regulates member banks**
 - **Fed sets limits for loans and investments**
 - **Approves bank mergers**
 - **Examines financial records of banks**

The Federal Reserve

4. Regulate Nation's Money Supply
 - **Open Market Operations**
 - Buy/Sell of Government Securities
 - **Monetary Policy**
 - **Controlling the money supply by credit.**
 - **Putting more money into circulation means cutting the cost to borrow money.**
 - **Setting Interest rates.**
 - **Fiscal Policy**
 - **Uses Gov't spending and taxation to control money supply**
 - **Cutting taxes increase consumer spending**
 - **Increase taxes slow down consumer spending**

The Federal Reserve

5. Setting Reserve Requirements:

- Member banks are required to keep a certain percentage of their deposits in reserve.
- [What is the Reserve Requirement?](#)

The Federal Reserve

- 6. Supplying Paper Currency
 - Printing and Maintaining the nations PAPER currency

The Federal Reserve

- Community Reinvestment Act
 - **Fair banking for all**
 - **Encourages banks to give loans to their community**

CH 12 Target Review

- Describe the functions and characteristics of Money?
 - Medium of Exchange, Store of Value, Standard of Value
 - Stable in Value, Accepted, Divisible, Portable/Durable
- Explain what the Federal Reserve does.
 - Central banking organization
- When was the Federal Reserve established?
 - 1913

CH 12 Target Review

- List how many districts/branches does the Federal Reserve has?
 - 12 Districts, 25 Branches
- Who chooses the Board of Governors?
 - Chosen by President, approved by Congress
- Explain the major functions of the “FED”
 - Clears checks, acts as gov’t fiscal agent, supervise member banks, regulates money supply, sets reserve requirement, supply paper currency
- What is the Community Reinvestment Act?
 - Act the encourages banks to give loans to the community