

## **Chapter 12: Money and Financial Institutions**

**I-Summary:** This chapter describes the basic purpose and functions of money and financial institutions. Money is a standard means of exchange and payment in a society. Modern societies use currency and checking accounts as part of their monetary systems. Various businesses still use bartering to acquire some goods and services. In order to serve as a store of value, money must be stable in value. It must be widely accepted as well as portable and durable. Financial institutions are firms that manage money. Banks can transfer money, store money, and lend money. Most provide other services, such as financial advice and debit and credit cards. Most people have checking and savings accounts. Lending money is the primary way banks make profits. The main types of loans banks offer are mortgages, commercial loans, individual loans, and lines of credit. Commercial banks offer the entire range of banking services. Savings and loan associations are usually more focused on savings accounts and mortgages. Credit unions are not-for-profit banks. The Federal Reserve System is the central bank of the U.S. It regulates the financial system, including the printing and circulating of currency.

### **I-Quiz**

Quiz yourself to check your understanding. For each question, you will hear four answer choices. After you hear all four answer choices, choose your answer during the pause. Then you will hear the correct answer. Let's begin.

#### **Question 1**

Which is NOT true of money?

- a. It is a medium of exchange
- b. It is plentiful and easy to get.
- c. It is a store of value.
- d. It is portable and durable.

#### **Question 2**

Which term refers to a paycheck sent by an employer straight to an employee's bank?

- a. interest
- b. collateral
- c. direct deposit
- d. standard of value

### **Question 3**

Which type of loan would you get to buy a house?

- a. mortgage
- b. commercial
- c. individual
- d. line of credit

### **Question 4**

Where can you buy stocks and bonds?

- a. credit union
- b. finance company
- c. brokerage firm
- d. mortgage company

### **Question 5**

Which is NOT true about the Federal Reserve?

- a. It monitors inflation.
- b. It is responsible for printing currency.
- c. It has 5,000 member banks.
- d. You can get a mortgage from the Federal Reserve.

### **Answer Key**

1. The correct answer is B, It is plentiful and easy to get. If money were overly plentiful, there would be too much of it in circulation and would lose its value. It could not serve as a store of value since it would have little worth.

- 2.** The correct answer is C, direct deposit. Many employers issue payroll checks by direct deposit, or by sending the employee's check straight to the employee's bank account.
- 3.** The correct answer is A, mortgage. A mortgage is a loan from a bank used to buy property.
- 4.** The correct answer is C, brokerage firm. A brokerage firm is a financial institution that sells stocks and bonds, and may offer many other financial services to their customers.
- 5.** The correct answer is D, You can get a mortgage from the Federal Reserve. The Fed works on the state and federal level, not with individuals. The Federal Reserve System is responsible for providing the U.S. with a safe, stable monetary and financial system.