

YouTube Title: "It's A Wonderful Life bank run" www.youtube.com/watch?v=Er69b4HMI8

Video Length: 0:22 seconds

YouTube Title: "The Bank run" www.youtube.com/watch?v=qu2uJWSzkck

Video Length: 7 minutes

Chapter 13: Money and Banks, p. 276

Topic: Creation of Money, p. 281

Key Terms: Deposit creation, fractional reserves, reserve ratio, excess reserves, bank runs, FDIC

Learning Objective 2: How banks create money.

Summary

These clips are from the classic film, "It's a Wonderful Life," when the bank calls in the loan on the local Savings and Loan. People are demanding their deposits, and George Baily (James Stewart's character) stops the panic by using the \$2,000 earmarked for his honeymoon to satisfy the depositors' needs until confidence in the Building and Loan is restored.

Economic Application

George Baily explains to the depositor's how the money they deposit is not stored in the safe, but given as loans to other people in the community. This provides an illustration of our fractional reserve banking system.

Multiple-Choice Question

Which statement best describes the nature of our banking system?

- a) Banks can loan total transaction deposits.
- b) As long as a bank has excess reserves, it can make additional loans.
- c) Banks can make loans at will.
- d) Banks can make loans out of coin and currency deposits.

Discussion Question

What would happen if a bank could make loans at will?