

YouTube Title: How MONEY & BANKING Really works - Part 1 (1 of 5)

Link: <http://www.youtube.com/watch?v=ArfPytAoeZ0&feature=fvwrel>

Video Length: 10:04 minutes

***The Economy Today* Chapter 13: Money and Banks**

***The Economy Today* Learning Objective 13-2: How banks create money**

Key Terms: money, deposit creation, bank reserves, reserve ratio

Topic: The fractional reserve system, bank runs

Summary

This video provides a historical account of the evolution of money and how banks came to have the power to create money. The Goldsmith's Tale begins at minute 3:55.

Economic Application

This video can be used to address the assumption of most people that all bank balances come from cash deposits. In making loans, banks create money because transaction account balances are counted as part of the money supply. In addition, the video provides an introduction to the fractional reserve system.

Multiple-Choice Question

All but which ONE of the following is a constraint on deposit creation by the banking system?

- a) Willingness of people to hold deposits
- b) Willingness of banks to lend
- c) Willingness of people to borrow
- d) Government regulation
- e) U.S. Treasury gold reserves

Discussion Question

Why is important that banks are regulated by The Federal Reserve?