

Chapter 10 – Banking and Negotiable Instruments

I-Study

In this chapter you learned about banking and negotiable instruments. There are two basic kinds of negotiable instruments: notes and drafts. A note is a promise to pay money. A draft is an order to a third party to pay money. To be negotiable, an instrument must be in writing, signed by the maker and drawer, and contain an unconditional promise or order to pay. An instrument must be made out for a fixed amount of money, and be payable on demand or at a definite time. The four types of indorsements are blank indorsements, special indorsements, restrictive indorsements, and qualified indorsements. A holder in due course must take an instrument for value, in good faith, and without notice that the instrument is defective.

The check is the most common type of negotiable instrument. The parties to a check are the same as the parties to a draft. When you write a check, you order your bank to pay someone money from your checking account. You can put a stop on the check by requesting a stop-order payment from your bank. A bad check is a check drawn on an account in which there is not enough money. A forged check is a check that is signed by someone other than the drawer without authority. A material alteration occurs when someone changes a check you wrote. Electronic fund transfer (EFT) is a computerized system for transferring funds electronically rather than by writing a check.

I-Quiz

1. An indorsement with the words “for deposit only” added is
 - A. a special indorsement.
 - B. a restrictive indorsement.
 - C. a blank indorsement.
2. The method of banking that uses computers as a substitute for paper is called
 - A. electronic fund transfer.
 - B. special indorsement.
 - C. transfer agreement.
3. A written promise by one person to pay money to another person is
 - A. a draft.
 - B. a note.
 - C. a check.
4. A check that is more than six months old is
 - A. a rubber check.
 - B. a stale check.
 - C. a forged check.

Answer Key

- 1. B**
- 2. A**
- 3. B**
- 4. B**