

Name: _____

Saunders/Mrs. McNerney

Date: _____

Eco and Gov./_____

Do Now: What is a bank?

Banking: Notes 1

- A bank is an institution for _____, keeping, and lending _____.
- Today, the Federal Reserve Bank _____ banking in the United States.
- It was not _____ this way.
- There was a time when banks were not _____ by the Federal government.
- Sometimes bankers made poor _____ that bankrupted their banks.

Money

- Anything that serves as a medium of _____, a unit of account, and a store of _____
- Without _____, there would be _____ [a good for a good]

Federalists vs. Anti-Federalists

- At the founding of the nation, _____ wanted a _____, central bank.
- Anti-Federalists did not. _____ believed that a strong, central bank would only loan to the _____ and powerful.
- Federalists and Anti-Federalist just didn't _____.
- Federalists, like Alexander _____, believed that a strong, central bank was _____ for the new nation.
- A strong, central bank could _____ abuses in banking.
- Anti-federalists, like Patrick Henry, believed that a strong, central bank would have _____ power.
- Wasn't the revolution about _____ the power of the government?

Then There Was None

- Sometimes the Anti-Federalists _____.
- Whenever a _____ was lacking, there was frequently _____ in banking.
- Banks often made too many _____ loans.
- When enough people _____ or did not pay back their loans, the banks went _____.
- You see, banks make _____ by _____ money.
- However, if banks loan money to people who cannot _____ their loans, then banks _____ money.

The Federal Reserve Bank

- Eventually, it became clear that the nation _____ a strong, central bank to _____ banking in America.
- A strong central bank could _____ banking in the country and make sure that banks did not make too many loans.
- A strong, central bank could hold bankers to higher _____ thereby protecting consumers.
- In the case of banking, the _____ may have been right.
- A central bank does _____ abuses in banking.

The Fed

- The Federal _____ Bank is commonly referred to as the "_____."
- The Federal Reserve Bank can make loans to _____, raise or lower _____ rates, and require banks to hold adequate _____.

- The Fed _____ banks across America.
- The Fed _____ banking in every part of the United States.

Classwork: Answer the following questions in COMPLETE sentences.

1. What is a bank?

2. What was the primary difference between the Federalist party and the Anti-Federalists?

3. Why did chaos occur in banking when a strong, central bank did not exist in the country?

4. What is the Federal Reserve Bank?

5. _____ Barter is

- A means for comparing the values of goods and services.
- The direct exchange of one set of goods or services for another.
- Anything that serves as a medium of exchange, a unit of account, and a store of value.
- Something that keeps its value if it is stored rather than used.

6. _____ The central banking system for the United States that was set up in 1913 is known as the

- Central bank system.
- Member bank system.
- National bank system.
- Federal Reserve System.

7. _____ For a traveler, paper currency would be preferable to coins because of

- Limited supply.
- Acceptability.
- Uniformity.
- Portability.

8. _____ What is the name for a monetary system in which paper money and coins are equal to the value of a certain amount of gold?

- Federal Reserve note
- Federal Reserve System
- greenback
- gold standard

9. _____ A bank that belongs to the Federal Reserve System is called a

- Central bank.
- Member bank.
- National bank.
- Local bank.

10. _____ The government agency that covers customer deposits if a bank fails is the

- Federal Reserve System.
- Central bank.
- Member bank.
- Federal Deposit Insurance Corporation (FDIC).

Name: _____

Saunders/Mrs. McNerney

Date: _____

Eco and Gov./_____

Do Now: What are some of the powers of the "Fed"?

Banking: Notes 2

- There is a _____ between _____ money and _____ money.

Saving and Investing

- When a person _____ money, he is _____ money.
- When a person _____ money, he is trying to significantly _____ his money.
- Investing money _____ greater risk but also _____ greater gain.
- People invest when they buy _____ and _____.
- Investment is the act of redirecting _____ from being consumed today so that they may create _____ in the future.

Stocks and Bonds

- When a person buys _____, he is buying _____ ownership in a corporation.
- When a person buys a _____, he is _____ money to a corporation or government.
- It is important to remember the investment poem: Stocks, you _____. Bonds, you _____.
- Bonds are _____ - sold by a company or government to _____ projects or expansion.
- Basically, bonds are loans that _____ - debt that the government or corporation must _____ an investor.
- There are many financial _____ to help people invest.

Financial Intermediaries (Mediators)

- A financial intermediary _____ money from savers to borrowers.
- _____ intermediaries can help a person _____.
- Banks, _____ companies, and _____ funds are examples of financial intermediaries.
- A _____ fund pools money from _____ investors.

Mutual Fund

- A mutual fund pools _____ from many people and _____ the money in a _____ of different ways.
- When a person _____ in a mutual fund, his money is invested in a _____ of stocks and bonds.
- The investor ideally _____ as does the mutual _____ company.
- By investing in a _____ of stocks and bonds, a person _____ his risk.

Diversification

- The idea of _____ out investments to reduce risk is called _____.
- Think of diversification as not putting all your eggs in _____ basket!
- By _____ in a variety of stocks and bonds, the investor is less likely to _____ his entire investment.
- People invest money to _____ make more money.
- Yes, _____ can _____ money!

- _____ is the act of spreading out investments to _____ risks.

Return

- A _____ is money made _____ the investment.
- If an _____ invests \$1,000 dollars and _____ \$1,250, his return is \$250.
- Investors invest _____ for returns.

Classwork: Answer the following questions in COMPLETE sentences.

1. What is the primary difference between saving and investing?

2. Explain the investment poem concerning stocks and bonds.

3. Why do many investors prefer investing in mutual funds?

4. Why must an investor diversify his investments?

5. Why do investors want returns?

6. _____ The higher the potential return, the

- a. Higher the liquidity of an investment.
- b. Higher the time risk for an investment.
- c. Higher the risk for an investment.
- d. Higher the inflation risk for an investment.

7. _____ Spreading out investments to reduce risk is

- a. A financial system.
- b. A financial intermediary.
- c. A financial asset.
- d. Diversification.

8. _____ A fund that pools the savings of many individuals and invests this money in a variety of stocks, bonds, and other financial assets is called a(n)

- a. Mutual fund.
- b. Investment.
- c. Financial system.
- d. Prospectus.

9. _____ Which of the following types of assets represents ownership interest in a corporation?

- a. Options.
- b. Futures.
- c. Stocks.
- d. Bonds.

10. _____ An investor who owns stocks in many different companies would most likely see a rise in the overall value of her portfolio during a

- a. Bull market.
- b. Bear market.
- c. Capital gain.
- d. Dividend growth.

Name: _____

Saunders/Mrs. McNerney

Do Now: What is a mutual fund?

Date: _____

Eco and Gov./_____

Banking: Notes 3

The Stock Market

Stocks are units of ownership in a company. People may buy stocks in many different types of companies. It is called **investing**. Their hope is that sometime in the future the company may make more money. The stocks would then be worth more money. The stock owner can then sell his stocks at a higher price than he purchased them for.

Companies sell stocks or units of their companies for different reasons. They might want to expand their company and need money to hire more employees. They might need to build a new plant or other building. They might want money to use for research and development of new products or update the old ones. Without investors, those companies probably couldn't grow.

A person who purchases stocks is called a **shareholder**. He owns a share of the company. If the value of the company's stocks goes up, a person makes a profit. If the value goes down, the shareholder may own stocks worth less than the amount he originally paid. He will have lost money if he decides to sell at that time. Sometimes a person holds onto stocks which have gone down in value to see if the value goes up.

The stock market is like a store for stocks. People can buy and sell shares in a company. They do research and find out how much stocks in a certain company sell for. Also, they try to find out if the company has been continually making money over the last number of years. The purchaser decides how much money he wants to invest and in what company he wants to be a shareholder. The headquarters of the Stock Market in the United States is in New York City. It is often called '**Wall Street**' because that is the name of the main street in the financial district of that city.

People who are wise do not invest all their money buying shares in just one company. If an investor has shares in many different companies, he will be able to keep going even if some companies lose money for a short time. He might make a profit on the other companies.

Many people study the stock market constantly. They spend all their time watching the prices of stocks go up and down. Financial advisors earn their living helping people choose stocks to invest in. If they have enough experience, they can tell what stocks might be worth more money in the future. The purchaser pays a fee to the advisor or to the company which owns the stocks. Investing in the stock market always involves a risk to the buyer. Not many stocks stay high all the time.

All companies do not sell stock. Companies run by a single person or a group of people cannot sell shares in their companies. A company which is a corporation is the only type legally allowed to sell stock. Each shareholder in a company has the right to vote on certain issues which come up. Those who own more shares, of course, will have more say in the outcome of the vote. Most companies have an annual meeting where investors cast ballots. Those who cannot attend can send their decision in by mail.

The terms 'Bear' and 'Bull' are used in describing those who invest in stocks. A '**bearish**' person will proceed cautiously in buying stocks because he is concerned that the market might be going down. A '**bullish**' person thinks that the market is going to go up in value and buys a lot of that stock. A 'bear' market describes a time when stock prices have been going down. A 'bull' market is one that is seen to be going up.

1. Which of the following is a nickname for the headquarters of the stock market in the United States?
 - a. Wall Street
 - b. Traders Row
 - c. Business Boulevard
 - d. The Marketplace
2. Which of the following are the names given to the two types of stock purchasers?
 - a. Bulls and Lions
 - b. Bulls and Lambs
 - c. Bulls and Bears
 - d. Tigers and Bulls
3. Which of the following people help investors decide on the best stocks to buy?
 - a. Stock sellers
 - b. Financial Advisors
 - c. Money Traders
 - d. Stock Managers
4. In which of the following cities in the United States is the headquarters of the stock market located?
 - a. Boston
 - b. Dallas
 - c. Los Angeles
 - d. New York
5. Which of the following is the name for the unit of ownership of a company a person can buy?
 - a. Stock
 - b. Trade
 - c. Profit
 - d. Bull
6. Which of the following is NOT a reason a company might want to sell stock to investors?
 - a. They want to hire more employees.
 - b. They want to create new products.
 - c. They want to sell the company .
 - d. They want to build a warehouse.

Name: _____

Saunders/Mrs. McNerney

Date: _____

Eco and Gov./_____

Do Now: What are stocks?

Banking: Notes 4

Bonds

- Bonds are _____.
- An investor loans _____ to a corporation or a _____.
- The _____ or government must _____ the loan with interest.
- This is a U.S. Savings Bond.
- When an investor _____ this bond, he is _____ money to our Government.

The Three Components of a Bond:

- **Par Value:** This is _____ or original amount of the investment.
- **Coupon rate:** This is the _____ on the bond.
- **Maturity:** This is the _____.
- This is the moment when the _____ and the coupon rate are _____.
- To receive all of the possible _____ accrued on the bond, an investor must wait until the bond _____.

Bonds and Risk

- While there are many _____ types of bonds, most bonds are relatively _____ investments.
- Due to the relative safety of _____, investors do not make as much _____ investing in bonds as they do _____.
- However, not all bonds are safe.
- The more likely the _____ is to fail, the more money the investor would make it if _____.

Types of Bonds

- An _____ can buy U.S. Savings Bonds and U.S. _____ Bonds.
- These are _____ safe investments.
- An _____ can also buy a bond from a _____.
- A _____ is a highly risky bond issued from a failing corporation.
- Investors are more likely to _____ their investments when they _____ junk bonds.
- However, if the company _____, the investor will make a huge _____.

Risk and Profit

- Investors _____ their money hoping to make _____ money.
- _____ investments are investments that are more likely to _____.
- However, higher risk leads to _____.
- Remember, trade-offs!
- While bonds, excluding junk bonds, are generally _____ investments, all investment involves some _____ of risk.

Classwork: Answer the following questions in COMPLETE sentences.

1. What is a bond?

2. List the three components of every bond.

3. How does par value differ from the coupon rate?

4. Why is maturity important for the investor?

5. How do junk bonds differ from other bonds?

6. What is the relationship between risk and profit?

7. _____ A low-rated, potentially higher-paying bond is a

- a. Savings bond.
- b. Municipal bond.
- c. Corporate bond.
- d. Junk bond.

8. _____ The interest rate that a bond issuer will pay to a bondholder is the

- a. Maturity.
- b. Coupon rate.
- c. Par value.
- d. Yield.

9. _____ A low-rated, potentially higher-paying bond is a

- a. Savings bond.
- b. Municipal bond.
- c. Corporate bond.
- d. Junk bond.

10. _____ Which of the following is not an advantage of investing in bonds?

- a. Bondholders receive their payments before shareholders can be compensated.
- b. Bonds have unlimited profit potential.
- c. Bond investments are relatively safe from large losses.
- d. Bonds are good sources of current income.

Name: _____

Saunders/Mrs. McNerney

Date: _____

Eco and Gov./_____

Do Now: What are bonds?

Banking: Notes 5

Stocks

- When a person _____ stock, he is buying partial _____ in a corporation.
- If the corporation _____, the _____ prospers.
- If the corporation _____, the investor can _____ his investment.
- A stock _____ is a piece of paper that shows _____ ownership in a corporation.

Profiting from Stocks

- There are _____ ways a stock investor can profit from his stocks:
 - _____: payments made by corporations to _____
 - _____: _____ a stock for more than its _____ purchase price
- However, sometimes a capital _____ occurs.
- A capital loss occurs when an _____ sells his stock for _____ than the original _____ price.

Stock Markets

- Stocks can be _____ in the following stock markets:
 - **The New York Stock Exchange (NYSE)**: handles the most _____ and _____ companies
 - **NASDAQ-AMEX**: handles mostly _____ technology stocks

The Dow Jones Industrial Average

- Stock _____ is reported in the Dow Jones Industrial Average.
- The _____ Industrial Average is usually referred to as the _____.
- The Dow monitors and _____ generally on the trading activities of thirty of the most powerful companies.
- The Dow is either _____.
- If the Dow is _____, stocks are selling at _____ prices.
- If the Dow is _____, stocks are selling at _____ prices.

Bull and Bear Markets

- A _____ occurs when the stock market _____ steadily over a period of time.
- A _____ occurs when the stock market _____ over a period of time.
- Stock indexes, like the Dow, _____ investors to track the _____ of the stock market.
- _____ love bull markets.
- But remember, what _____, most _____.
- While _____ may not like bear markets because selling prices are _____, bear markets are _____ times for buying shares at _____ prices.

Classwork: Answer the following questions in COMPLETE sentences

1. What is the difference between owning stocks in a corporation and owning bonds in the same corporation?

2. List two ways investors can make money owning stocks.

3. List two markets from which investors can purchase stocks.

4. Why is the Dow Jones Industrial Average important?

5. What is the difference between a bull market and a bear market?
