

# The History of American Banking

In this lesson, students will identify critical periods in the history of American banking.

Students will be able to identify and/or define the following terms:

Bank

Federalists

Anti-Federalists

Federal Reserve Bank

# Do Now:

- What is a bank?

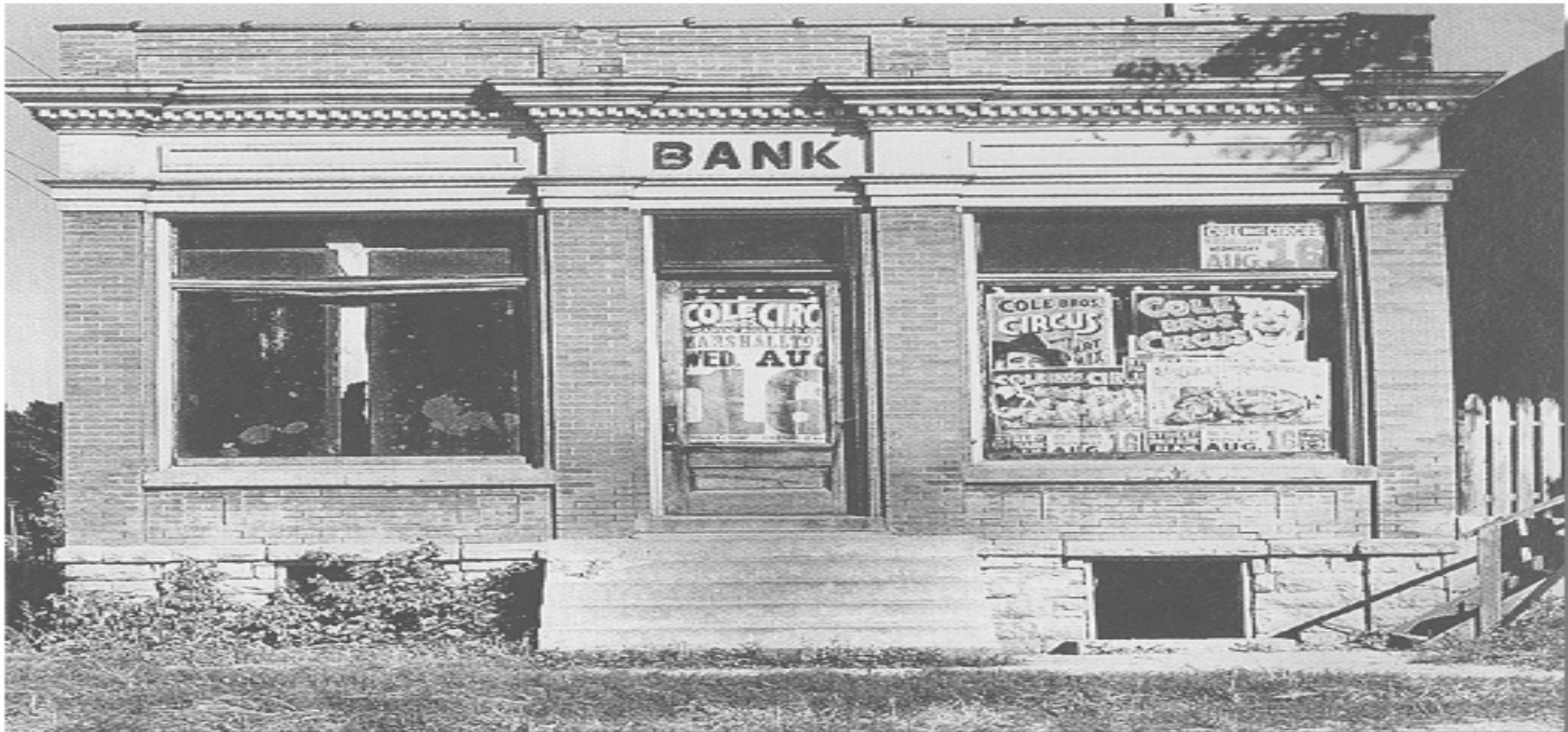
- A bank is an institution for receiving, keeping, and lending money.



- Today, the Federal Reserve Bank oversees banking in the United States.
- It was not always this way.



- There was a time when banks were not regulated by the Federal government.
- Sometimes bankers made poor decisions that bankrupted their banks.



# Money

- Anything that serves as a medium of exchange, a unit of account, and a store of value.
- Without money, there would be barter [a good for a good].

# **Federalists vs. Anti-Federalists**

- At the founding of the nation, Federalists wanted a strong, central bank.
- Anti-Federalists did not. Anti-Federalists believed that a strong, central bank would only loan to the rich and powerful.
- Federalists and Anti-Federalist just didn't agree.



- Federalists, like Alexander Hamilton, believed that a strong, central bank was essential for the new nation.
- A strong, central bank could prevent abuses in banking.





- Anti-federalists, like Patrick Henry, believed that a strong, central bank would have too much power.
- Wasn't the revolution about limiting the power of the government?

# Then There Was None

- Sometimes the Anti-Federalists won.
- Whenever a central bank was lacking, there was frequently chaos in banking.
- Banks often made too many bad loans.
- When enough people defaulted or did not pay back their loans, the banks went bankrupt.



- You see, banks make money by loaning money.
- However, if banks loan money to people who cannot repay their loans, then banks lose money.

# The Federal Reserve Bank

- Eventually, it became clear that the nation needed a strong, central bank to oversee banking in America.
- A strong central bank could monitor banking in the country and make sure that banks did not make too many loans.
- A strong, central bank could hold bankers to higher standards thereby protecting consumers.

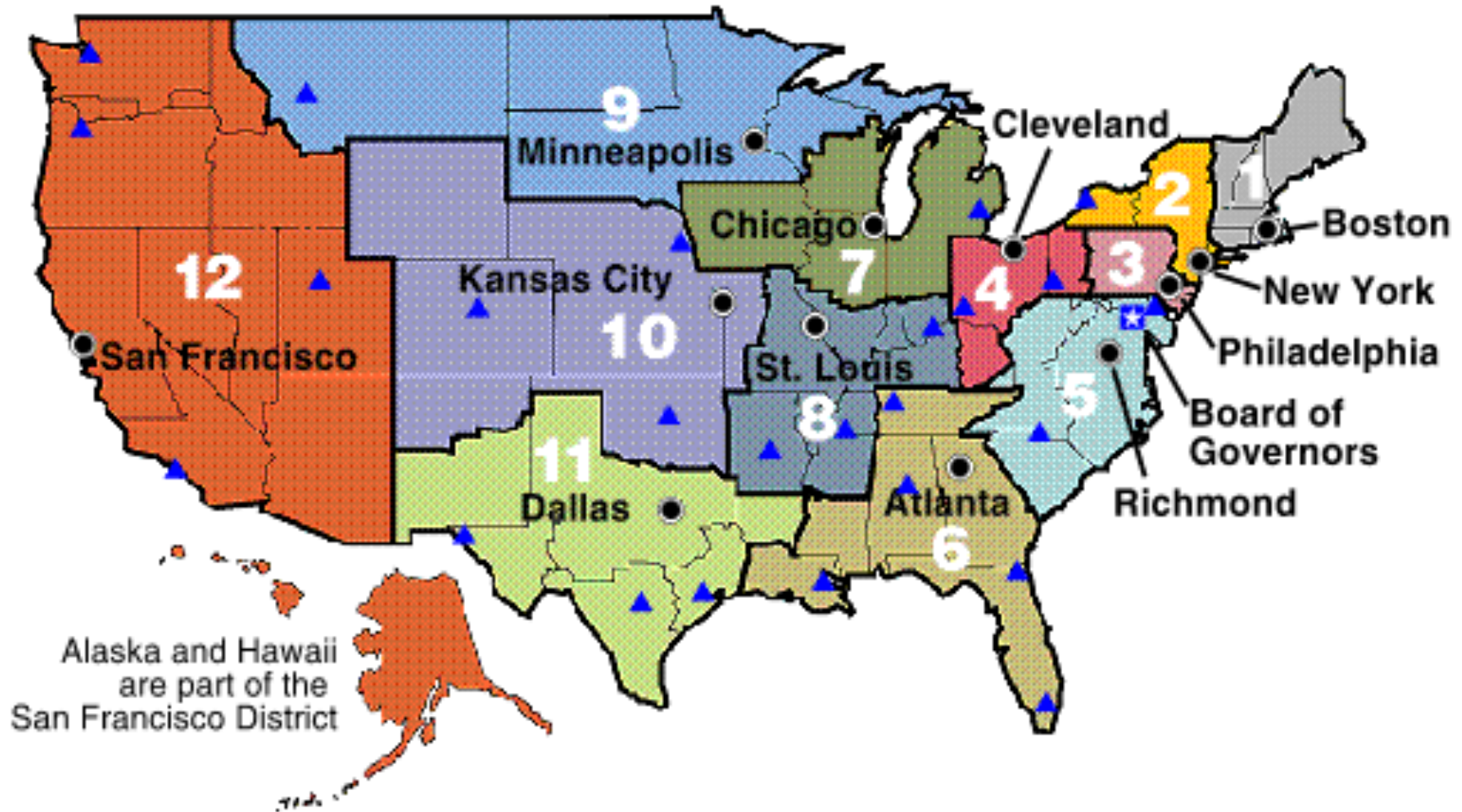
- In the case of banking, the Federalists may have been right.
- A central bank does prevent abuses in banking.



# The Fed

- The Federal Reserve Bank is commonly referred to as the “Fed.”
- The Federal Reserve Bank can make loans to banks, raise or lower interest rates, and require banks to hold adequate reserves.
- The Fed helps banks across America.

- The Fed monitors banking in every part of the United States.



# Questions for Reflection:

- What is a bank?
- What was the primary difference between the Federalist party and the Anti-Federalists?
- Why did chaos occur in banking when a strong, central bank did not exist in the country?
- What is the Federal Reserve Bank?