

Guided Reading Activity

Money and Banking

Lesson 2 *The Development of Modern Banking*

Review Questions

Directions: Read each main idea and complete the statements below. Refer to your textbook as you write the answers.

A. Early Banking in America

Main Idea: Banking in the early years of the United States was chaotic, with many state banks and many different types of currency.

1. The Constitution only gave the national government the power to issue _____. State banks issued _____ money.
2. Most banks printed their own currency, which was backed by their reserves of gold and _____. However, some banks printed _____ they could not back with their own _____.
3. Because banks issued their own currency, hundreds of different bank notes in different sizes, colors, and _____ could be in _____ in any given city.
4. During the Civil War, Congress created a new national currency called _____. Congress also created a new system of _____ banks and taxed state bank currency, so that state banks either withdrew their notes or became a part of the National Banking System.

B. The Gold Standard

Main Idea: The United States went on a gold standard in 1900, which determined how much gold a dollar could be exchanged for.

1. When the country went on the gold standard, that meant that people could _____ their notes and other forms of currency for _____.
2. One of the advantages of the gold standard was that it made people feel more _____ about their money because the government would probably not create more _____ than it had gold to back.

Guided Reading Activity *cont.*

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3. A disadvantage of the gold standard was that when gold was scarce it could limit economic _____ . Another risk is that a large number of people may _____ their currency at the same time and drain the _____ .
4. The United States started to limit its use of the _____ during the 1930s and finally abolished it in the year _____ .

C. The Creation of the Fed

Main Idea: The Federal Reserve System was created in order to ensure that currency was stable and that bankers had a place to borrow money.

1. Banks that joined the Fed had to purchase _____ in the system. Then the Fed had money to _____ to banks that were in trouble.
2. During the Great Depression, Congress created the _____ Corporation, which insured customer deposits against bank failure. Today the FDIC takes over _____ that are failing and either sells them to a new bank or closes them and pays off depositors.
3. The Fed created Federal Reserve _____, which became the main part of our _____ supply.

Summary and Reflection

Directions: Summarize the main ideas of this lesson by answering the question below.

How has banking changed in the past 200 years of our nation's history?
