CHAPTER 17
RESOURCE DEVELOPMENT:

MONEY AND BANKING

CHAPTER 17

key ideas

How money is created?

Money's economic function

What does money allow you to do?

LEARNING GOALS:

Have students develop an understanding of:

1) What money is and how it is created.
2) Why we need and use money and why do we use specific currencies?
3) The power of money and how it is used.

SUCCESS CRITERIA:

I will know I am successful when I can:

1) Explain how we use money everyday and the difference between hard currency, cash, and digital money, credit cards, loans, etc., where we don't actually hold the currency in our hands.
2) Describe, in detail, how money is created and destroyed.
3) That money is loaned to both households and businesses for them to work and earn profit on that while the bank does not directly produce goods or services.

RESOURCES:

- Ole Bjerg TED Talk on how Money is created
- Zeitgeist—Monetary System Part 1
- Zeitgeist—Monetary System Part 2
- How money is created video

LESSON BANNER:

"Whenever a bank makes a loan, it simultaneously creates a matching deposit in the borrower's bank account, thereby creating new money." — Bank of England Quarterly Bulletin (2014).

"The process by which banks create money is so simple that the mind is repelled." — John Kenneth Galbraith, Canadian-American economist (1975).

MINDS ON:

1) Watch the Ole Bjerg Ted Talk and then ask questions about how often the students use actual cash, or currency, versus how often they use debit or credit cards. Expand that into how people buy larger ticket items like cars and houses.
2) This should lead into how the borrowing of money is the creation of money, since every loan created is a new creation of money until that loan is closed, which destroys it. During that lifespan, new things have been made and banks have taken your interest as payment for it, thus creating profit for the bank. All without actually producing anything tangible.
3) Take a look at the graphs on this site to show how fast money is created in England, it is really interesting and the graphs should be posted so that the students can see the rate of growth. How Much Money Have Banks Created?
4) Take a moment and explain how working creates income, you spend time and energy to get money in return. Then explain how the workers spend the most amount of energy but, generally, received the least amount of the income. This should bring in a conversation about the flow of work (effort) and the flow of money back to the worker. Once the conversation has started introduce the following diagram* *Economic Road Map: Banking (Lending to Non-Financial Business)* and ask them:

   "As you look at this image, record what you SEE (facts), what you THINK (infer), and what you WONDER (questions you have)"

**Economics for Everyone: A Short Gide to the Economics of Capitalism*, 2nd Edition Paperback—Jun 15 2015 by Jim Stanford, page 228, Figure 17.1 *Economic Road Map: Banking (Lending to Non-Financial Business)*

The arrows are representing the following items.

C – Consumption	C (diamond) – Capitalists Luxury Consumption
D – Debt	D+i – Debt and Interest
π – Profit	I – Investment
W – Wages	

ACTION:

Here is the link from the Foundation for Teaching Economics website with a game to help students see how banks create new money; Show Me the Money Game!

CONSOLIDATION:

Possible ideas include:

- Sketchnote—(sketchnoting Video)
- Find a First-Grade Student—Have kids orally describe a concept, procedure, or skill in terms so simple that a child in first grade would get it.
- *Cover It*—sketch a book cover. The title is the class topic. The author is the student. A short celebrity endorsement or blurb should summarize and articulate the concept(s) of the lesson.

Watch this Tedtalk—The Future of Money

Create a timeline of changes in money and predict the future of money

EXPECTATIONS:

BAI3E

— Sources of Financing

- identify the sources of funds available to finance a service business (e.g., family, investors, banks, government)

BBI1O, BBI2O

— Business Fundamentals

- demonstrate an understanding of how businesses respond to needs, wants, supply, and demand
- – describe the concepts of, and conditions that affect, supply and demand;
- – explain how needs and wants create opportunities for business; – compare the ways in which

BDI3C

— Developing and Completing a Venture Plan for the Proposed Business

The Financial Plan

- identify sources and methods of financing their chosen venture (e.g., government loans, private investors, bank loans, loans from family and friends, credit from suppliers).

BOH4M

— Foundations of Management

Organizing

The Changing Nature of Work

- assess the ways in which organizational structures have changed to adapt to the changing nature of work;
- assess the relationship between the individual and an organization, considering issues such as the meaning of work, the psychological contract, the quality of work life, and job satisfaction;

CIA4U

— D1.1 demonstrate an understanding of the business cycle model (e.g., recession, depression, peak, recovery, expansion) and various economic indicators (e.g., employment, gross domestic product, inflation)

— D3.1 analyse the role of the Bank of Canada, with a particular emphasis on monetary policy (e.g., with reference to the money supply, interest rates, reserve ratio, exchange rates, its role in responding to economic challenges such as recession or inflation)

CIC4E

— B2.4 describe some factors (e.g., liquidity, rate of return, risk, disposable income, age) that influence individuals' decisions about preferred types of savings and investments (e.g., tax-free savings accounts, guaranteed investment certificates [GICs], bonds, stocks, RESPs, RRSPs) Sample questions: "What are the advantages and disadvantages of investing in a stock, buying a GIC, or saving money under your mattress?" "Why might the decisions you make now with respect to savings be different from those your parents are making?" "What level of risk is associated with different types of investments?"

CIE3M

— B4.5 compare various investment choices (e.g., stocks, bonds, guaranteed investment certificates, mutual funds, tax-free saving accounts, registered retirement income funds) and explain the importance of diversifying investments Sample questions: "What are the differences between stocks and bonds? Why might an individual want to have a combination of stocks, bonds, and mutual funds in an investment portfolio?" "What is the importance of socially responsible investing? How can you determine if an asset manager is practising such investing?"

CPW4U

— B3.1 analyse how various economic factors (e.g., GDP per capita, trade balances, poverty rates, currency exchange rates, employment rates, inflation rates, recessions, depressions) influence politics in and relations between various countries, including Canada

GLS4O/GLE4O/GLE3O

— Planning for Transition

- demonstrate an understanding of the personal financial skills that will be required for the future (e.g., budgeting, banking, saving, borrowing money);

TDJ3O

— C2. describe how society influences technological innovation and how technology affects society.

CHAPTER 17

MONEY AND BANKING

READING RESPONSE

photo: twitter.com/jimbostanford

The day-to-day creation (and destruction) of money has become the domain of the private banks…driven by the pursuit of private profit.

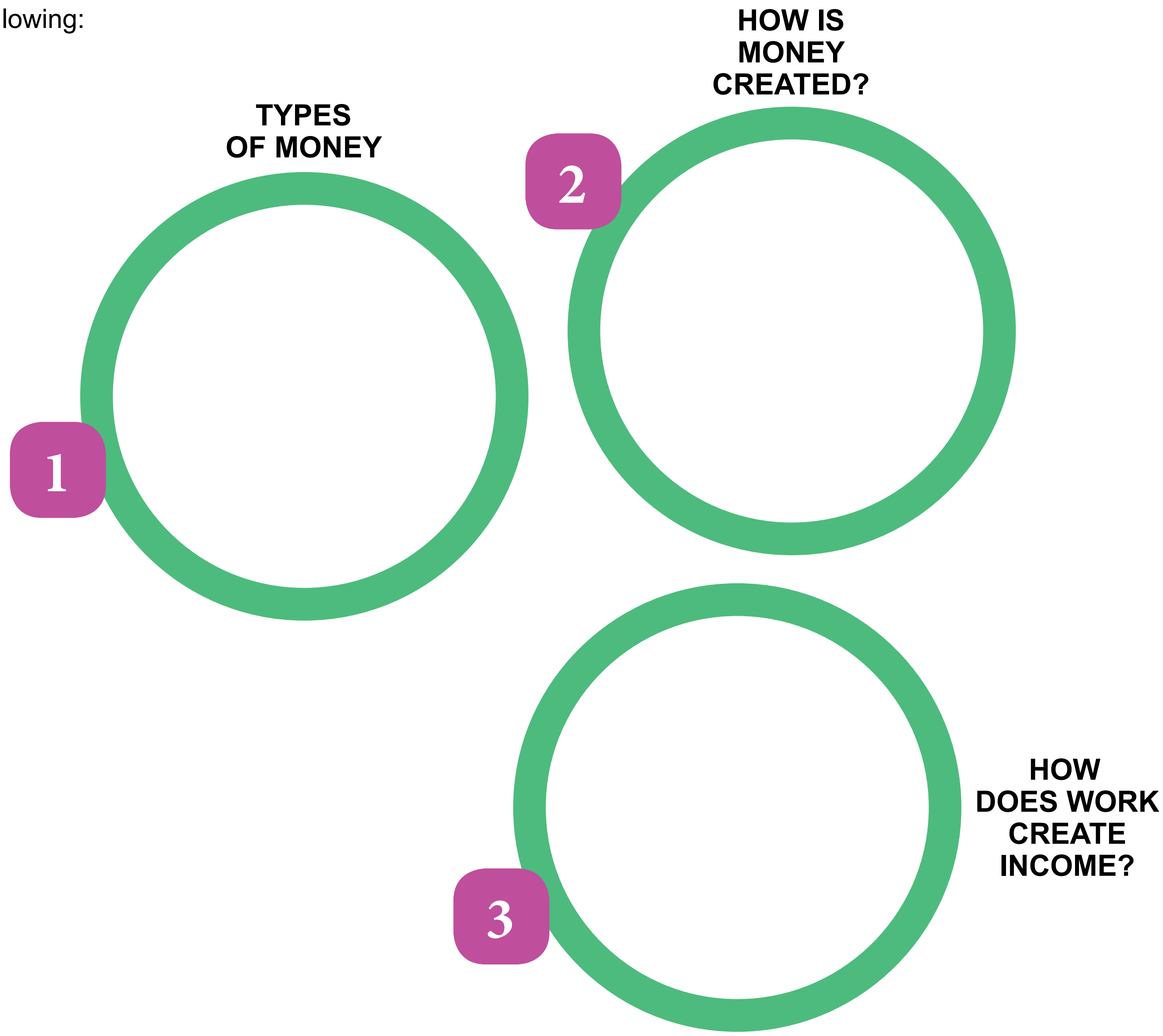
— Jim Stanford, *Economics for Everyone*

DEFINE KEY TERMS

Key term	Definition
Currency	
Deposits	
Credit	
Money	
Banking Cycle	
Central Bank	
Fiscal Policy	

WHAT IS MONEY?

Fill in the following:



KEY CHAPTER IDEA:

Money has several economic functions within our society, it allows us to buy goods and services as well as sell them and money allows for a flexible, yet easy means of exchange. The banks create money as they create a loan, this allows the borrower to have newly created money for their use to buy something with it, such as a mortgage for a house or a loan for a car. Yet, without money we would have to barter goods and services in order to acquire items that we need, so money becomes the item we use to facilitate the exchange of goods.

Banks work based on the concept that people want more money so the bank lends more money to them. This creates new wealth and allows for the economy to work outside the control of the government. This is somewhat regulated by the bank's internal leverage ratio, the ability to borrow money based on income. Yet, the bank fully increases its lending when times are good, then restricts lending when times turn more difficult, which can actually compound the problems facing borrowers.

WHAT ABOUT THAT?

2008 Global Financial Crisis	Interbank Lending
Fiat Money	Fractional Reserve Banking

AN EXAMPLE:

As we look at how money is created and the role of the bank, the easiest thing to do is to look at a real life situation. A family in Burlington, Ontario wants to buy a house and needs a mortgage:

Step 1: The family goes to their bank to seek approval for a mortgage.

Step 2: They look for a house they want to buy.

Step 3: The bank writes the mortgage, based on income/trust. Gives family $ to buy house. New money created.

Step 4: The bank earns interest off the money and destroys the money it created once the family pays off the mortgage.

QUESTIONS TO CONSIDER:

Give 3 examples of when financial institutions create new money and how they help the borrower:

As the Central Bank increases his lending rate, what will be the impacts on the family that mortgaged their house, then what will happen to the family next?

If their cost of paying back their debts gets too high, what consequences could happen to them?