Role of Government?

- #1: Should the Government put a special tax on fast foods that they consider to be unhealthy?
- Why or why not?
- Manager or referee?

- #2: Should the government pass laws that ban smoking in public places? Why or why not?

- Manager or referee?

- #3: Should the government provide unemployment insurance when someone loses a job? Why or why not?

- Manager or referee?

- #4: Should the government bailout a company that is facing bankruptcy? Why or why not?

- Manager or referee?

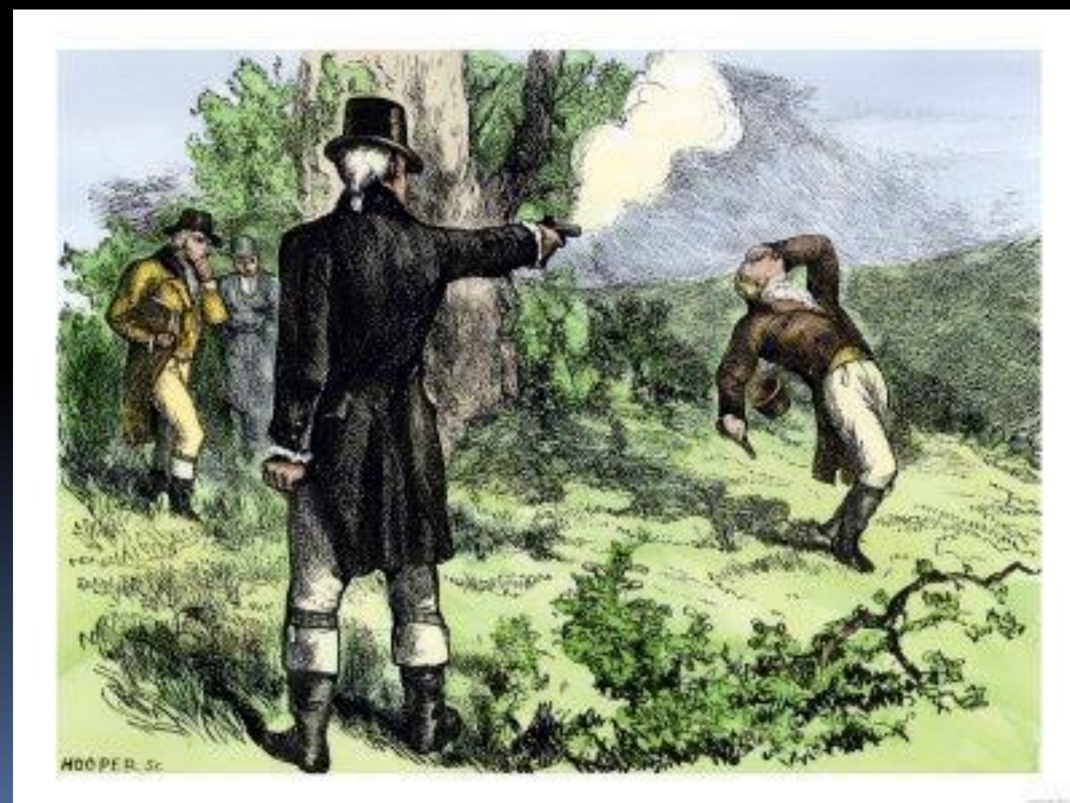
- #5: Should the government provide monetary assistance for food or housing to those facing economic hardships?

- Manager or referee?

- #6: Should the government pass minimum wage laws that provide low income workers with a higher standard of living? Why or why not?
- Manager or referee?

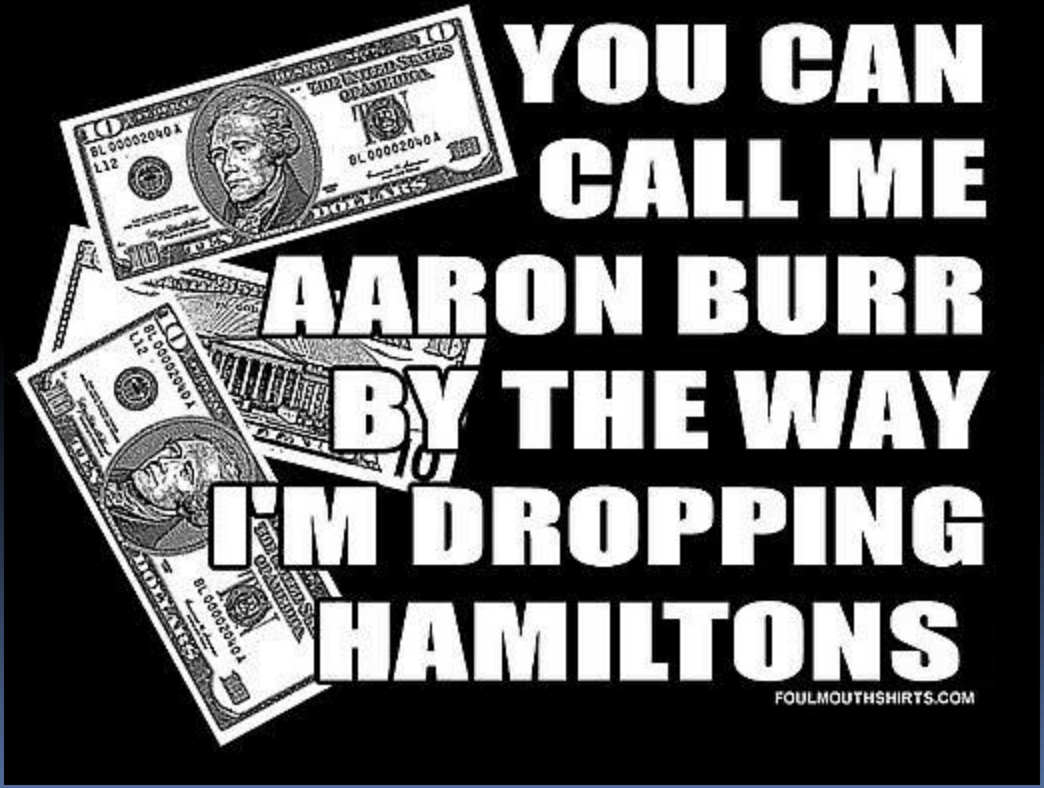
THE DUEL

Aaron Burr v. Alexander Hamilton



Outcome:

- Burr – politically ruined
- Hamilton – dead



Hamilton and the Bank of the United States

- Stabilize and improve credit
- Financial clarity

Both factors allowing the US to grow economically.

History of the Bank

- Opposed by Southern agriculturalists as centralized power. (Eventually supported with promise to move the capital to the Potomac)

- Hailed by Northern merchants and bankers to help the economy.

"Bank Bill" approved by Washington and bank was chartered for 20 years.

Original US Bank Building. Philadelphia, PA.

History of US banking

First Bank of the United States:

1791-1811

Second Bank of the United States:

1816-1836

"Free banking." State chartered banks, no legislative approval needed.

1837-1913

Currency

- What is currency?

Super Happy Banking Fun Time

- If 50 Bison Bucks = 215 Safeway dollars and
- 215 Safeway dollars = 94 Costco dinars and
- 94 Costco dinars = 600 Visa points and
- 600 Visa points = 8 percent tuition waiver and
- 8 percent tuition waiver = 76942 bitcoins and
- 76942 bitcoins= 564 Amazon points and
- 564 Amazon points = 4 Hagler dollars what do you get for 64 Sidinger Leks?

A Pain in the Burr

- There were over 30,000 different currencies circulating during the free or wildcat banking period.

- Most banks averaged only 5 years of service.

National Banks 1863-1913

- System of national banks
- Created a national uniform currency
- Problems:

  Bank Runs, seasonal liquidity (when?) , panics, recalling loans

Solution:

- *The Federal Reserve System*

Federal Reserve System:

- Maintain a system to make sure banks had money, preventing runs and failures.
- Smooth “boom and bust” economic cycles
- Prevent *Inflation*
- Prevent *Recession*

2 Groups:

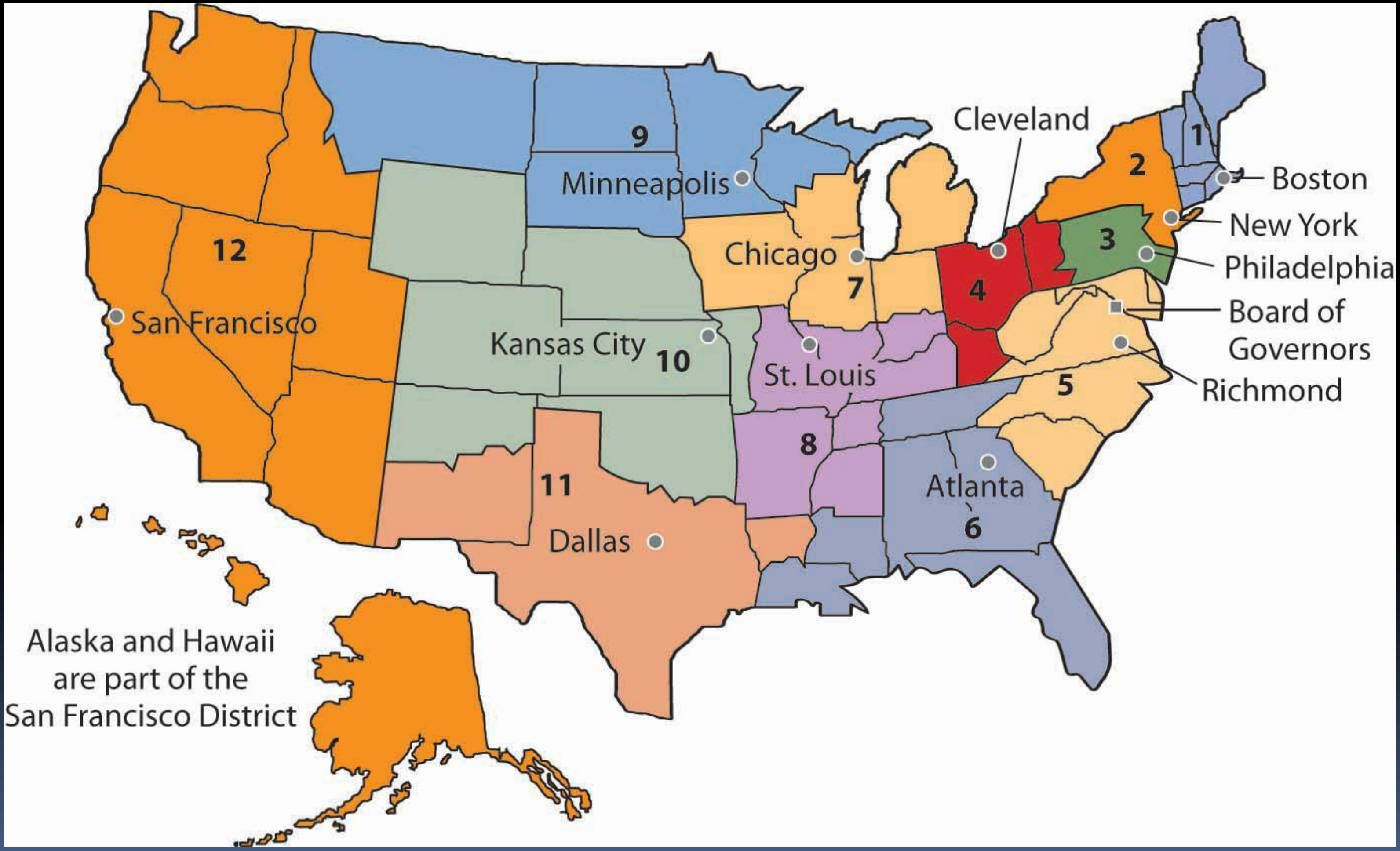
Board of Governors – manages nation's money and sets policy

Regional Reserve Banks (12) – carries out policy, oversees other banks and represents private sector (the banks' banks)

Keep the economy (hopefully) hummin'

- Maintain stable prices
- Ensure maximum employment
- Ensure maximum production output

12 Regional Districts



- 1. Where is the Regional Reserve Bank for Denver?
- 2. Why don't regional borders match state borders? (brainstorm at least 2 ideas)
- 3. Which state is furthest from its Reserve Bank?
- 4. What do you think could happen in the future to change the regional borders?

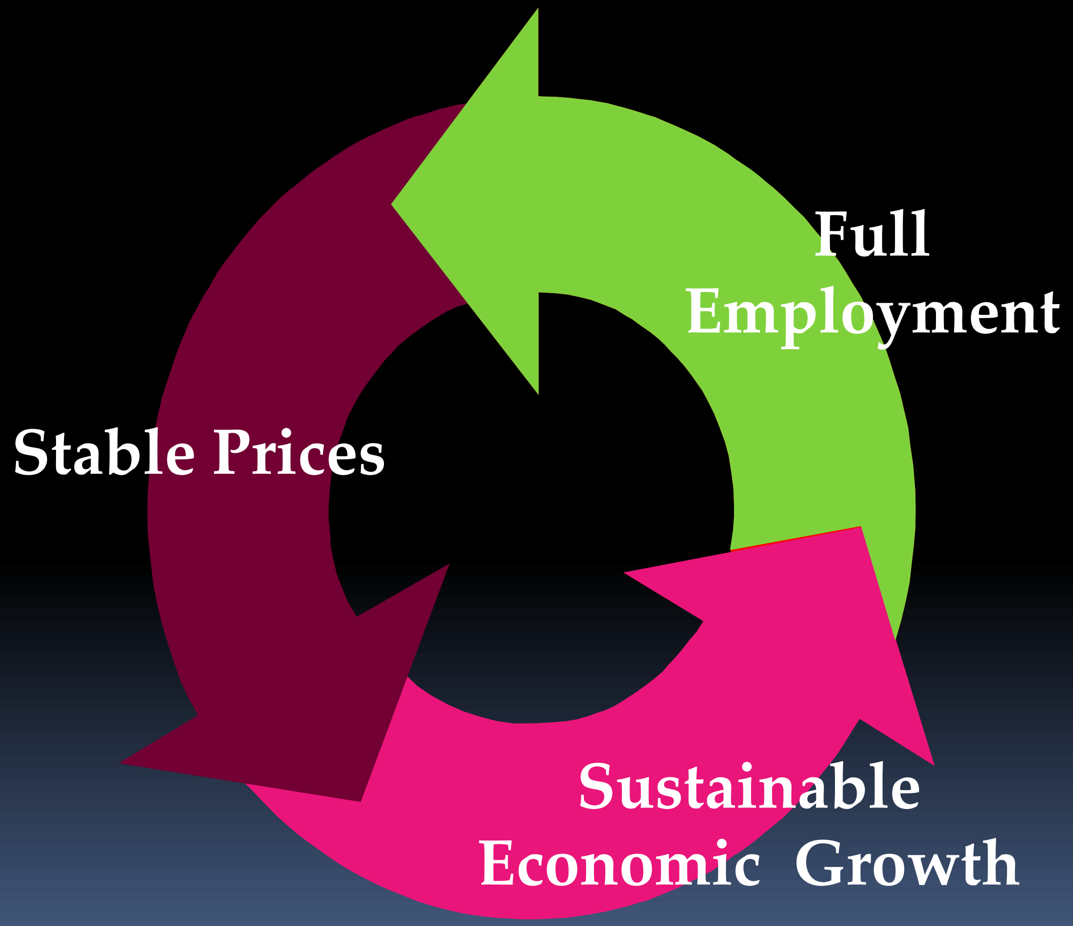
Monetary Policy

- Policy changes affect the nation's supply of money and credit.
- Actions have real short- and long-term effects on the economy.

Federal Open Market Committee

- Sets and directs U.S. monetary policy
- Final interest rate decision is made by the 12-member Federal Open Market Committee (FOMC)

Goals of Monetary Policy



Key Tools of Monetary Policy

- Discount Rate
  - The interest rate charged by the Federal Reserve to banks that borrow on a short-term (usually overnight) basis
- Reserve Requirements
  - The amount of money banks must keep on reserve at the Fed
- Open Market Operations
  - Buying and selling Treasury securities between the Fed and selected financial institutions in the open market
  - Most important tool; directed by the FOMC

Effects of Low Interest Rates

- Generally, low interest rates stimulate the economy because there is more money available to lend.
  - Consumers buy cars and houses.
  - Businesses expand, buy equipment, etc.
- Why does the Fed lower interest rates?
  - If inflation is in check, lower rates stimulate economic activity, thus boosting economic growth.

Effects of High Interest Rates

- The Fed raises interest rates as an effective way to fight inflation.
  - Inflation—a sustained rise in the general price level; that is, <u>all</u> prices are rising together.
- Consumers pay more to borrow money, dampening spending.
- Businesses have difficulty borrowing; unemployment rises.

Unemployment

- Members of the labor force who are:
  - 16 years of age or older
  - out of work
  - actively looking for work

- Unemployment rate = No. of unemployed workers as a % of the labor force

Discouraged Workers

- Members of the labor force who quit looking for jobs (e.g., the homeless)
- Unemployment rate is underestimated by 2 to 3% because discouraged workers are excluded

Frictional Unemployment

- Unemployment of individuals who are searching for jobs or waiting between jobs
- Supply-side effect and transitional

Structural Unemployment

- Unemployment due to fundamental economic changes that eliminate some jobs, while creating other jobs for which qualified workers may not be readily available
- Normal due to technological advancement and changes in consumer preferences

- Employed?
- Unemployed?
- Not part of the labor force?