Lesson 1: Money and Financial Institutions
Money Wise

Target Audience: 9-12 grade students
60-90 minute lesson

Objectives

EPF.6 The student will demonstrate knowledge of the nation's financial system by

a) Defining the role of money
b) Explaining the role of financial markets and financial institutions

EPF.12 The student will demonstrate knowledge of banking transactions by

a) Comparing the types of financial institutions
b) Evaluating services and related costs associated with personal banking
d) Differentiating among types of electronic monetary of transactions
g) Comparing costs and benefits of online and traditional banking

Materials

Lesson plan (the green words are a basic script guideline for the teacher)

- PowerPoint presentation
- Worksheets
- Computers

Introduction

View and discuss the Money Scenario slide.

Have you ever seen a counterfeit bill? Did it feel different?
Why would someone use counterfeit money?

View and discuss the Counterfeit slides.

According to the Treasury Department, authentic U.S. currency can be distinguished from counterfeit in at least five areas:

1) Portrait
2) Federal Reserve and Treasury Seals
3) Border
4) Serial Numbers
5) Paper

The genuine portrait on a real bill appears life like and stands out distinctly from the back ground. The counterfeit portrait is usually lifeless and flat. Details on the counterfeit portrait merge into the back ground which is often too dark or mottled. The Federal Reserve and Treasury Seals saw-tooth point on a genuine bill are clear, distinct and sharp. The counterfeit seals may have uneven, blunt or broken saw-tooth points. The fine lines in the border of a genuine bill are clear and unbroken. On the counterfeit, the lines in the outer margin and scrollwork may be blurred and indistinct.

Genuine currency paper has tiny red and blue fibers embedded throughout. Often counterfeiters try to simulate these fibers by printing tiny red and blue lines on their paper. Close inspection reveals, however, that on the counterfeit note the lines are printed on the surface, not embedded in the paper.

It is illegal to reproduce the distinctive paper used in the manufacture of United States currency.Take a look at the $50 dollar bill. This is a real bill and the worksheet shows what you need to look for on a real bill.

Discuss worksheet. If students have an actual dollar bill, have them take it out and see if it meets the qualities off the worksheet

Lesson

View and discuss the Money Characteristics slide.

Money is anything widely accepted as final payment for goods and services. Money has six characteristics:

1. Durability
   - Durability means that the item must be able to withstand being used repeatedly.
   - Coins and paper bills used as money meet this requirement.
2. Portability
   - Portability means that individuals are able to carry money with them and transfer it easily to other individuals.
   - This is why coins and paper money have historically proved popular.
3. Divisibility
   - Divisibility means that the money can easily be divided into smaller units of value.
4. Uniformity
   - Uniformity means that all versions of the same denomination of currency must have the same purchasing power.
   - As an example, a 1928 $2 bill will still buy $2 worth of goods or services today. A $2 bill will always be a $2 bill regardless of how old it is or when it was made.
5. Limited Supply
   - Limited supply means that restrictions on the amount of money in circulation ensure that values remain relatively stable for the currency.
   - The responsibility for maintaining an adequate money supply falls on the Federal Reserve System.
6. Acceptability
   - Acceptability means that everyone can use the money for transactions.
   - In the United States this is indicated on our paper bills by the notation: “This note is legal tender for all debts, public and private.”

View the More about Money slide.

Money is a medium of exchange. People use money to exchange goods and services. It acts as a store of value making it easier to save and invest. Money also acts as a measure of value making it easier to compare the value of goods and services. Money encourages specialization by decreasing the costs for exchange. People can use money to purchase basic needs for less than if one were to barter (trade) for their needs.

View and discuss the Commodity vs. Fiat Money slide.

Commodity money has value in itself (e.g., gold coin). Fiat money has value because the government has declared that it is acceptable for paying debts. Discuss the different types of Commodity money and Fiat money.

View and discuss the What Should You Do with Your Money slide.

Once a person obtains money they should keep it in a safe place like a financial institution. Not only do financial institutions provide security but they also have services that can help consumers manage and grow their finances.

View and discuss the Financial Institutions slide.

Financial institutions are organizations that provide financial products and services to consumers. Financial institutions are closely regulated and provide a safe place to hold money and channel money from savers to borrowers. One way they attract savers is by offering interest rates on savings, they then use the savers' deposits to earn income by lending to borrowers or investing the money in other financial products. Interest is money paid to borrow or use. You can earn interest on savings or pay interest when you borrow funds.

Types of Institutions

- **Banks**
  Banks are for-profit financial institutions that accept deposits and channel the money into lending activities. Banks make loans to individual consumers and commercial loans to businesses. Shares in banks are publicly traded. Investors, who may or may not be customers of the institution, own shares of the bank. The executive staff at a bank report to a board of directors whose members are paid for their service.
- **Credit Unions**
  A credit union is a not-for-profit financial cooperative. As a cooperative, it is owned by members who use the credit union for deposits and to make loans to their fellow members. Profits are returned to the membership through lower fees and attractive interest rates. Members of the Board of Directors at a credit union are volunteers.
- **Savings and Loans**
  Savings and Loans, also known as thrifts, are financial institutions that typically specialize in accepting savings deposits and making mortgage and other loans. They are often mutually held, meaning that the depositors and borrowers are members with voting rights, and have the ability to direct the financial and managerial goals of the organization.
- **Insurance Companies**
  Insurance companies accumulate sums of money from the premiums paid by their policyholders. While part of this money is held in reserve to pay insurance claims and to cover operating expenses, much of it is available to be invested in other profit-earning enterprises. Although insurance companies are considered primary lenders, they tend to invest their money in large, long-term loans such as commercial and industrial loans to large businesses.

View and discuss Consumer Protection slide.

The government protects consumers through regulation/enforcements.

The following organizations are in place to protect consumers:

1. Federal Reserve System – The goal for the Federal Reserve System is to help the economy achieve stable prices, full employment and economic growth. The Fed does this by conducting monetary policy, supervising and regulating financial institutions, and providing services to depository institutions, the federal government and the public.
2. Securities and Exchange Commission – The mission of the U.S. Securities and Exchange Commission is to protect investors, and to maintain fair, orderly, and efficient markets.

View and discuss Deposit Insurance slide

Deposits may be insured by the following:

- Federally insured bank deposits are insured by the Federal Deposit Insurance Corporation (FDIC).
- Savings and Loan deposits are insured by the Federal Deposit Insurance Corporation (FDIC) as well.
- Credit Union deposits are insured by the National Credit Union Administration (NCUA).

Federally-insured deposits are backed by the full faith and credit of the United States government. Consumers should make sure that their deposits in financial institutions are insured and what limits apply.

View and discuss Financial Institution's General Services slide.

1. A savings account is a bank account designed for a consumer's savings. Compared to a checking account, a savings account typically has withdrawal restrictions but can yield a better interest rate.
2. With a checking account, a customer deposits money for regular use and easy access. Customers usually keep money in a checking account for a shorter period than in savings. Customers can write checks or use a debit card to draw funds from their checking account. Some checking accounts carry a fee. Some checking accounts can earn interest for depositors.

Go online to the website and compare checking account features from different financial institutions. Use the grid to make the comparison.

3. Loans are defined as money a lender lets a borrower use for a certain period of time. The borrower repays the money with interest. We will compare loan interest rates throughout the curriculum. The following are examples of types of loans financial institutions may offer:
   - Mortgages
   - Car loans
   - Personal loans
   - Lines of credit
4. Credit cards are plastic cards issued by a bank authorizing payment for purchases. Interest is charged on the outstanding balance. Credit cards should be considered loans from the credit card company. Typically credit card companies charge interest rates and have fees associated with them.

5. Financial planning is an advisory service that may include various strategies, including budgeting, tax planning, insurance, retirement and estate planning, and investment strategies to meet a person's goal. In effective financial planning, all elements are coordinated with the aim of building wealth and protecting assets against loss.
6. Insurance is a promise of compensation for specific potential future losses in exchange for a periodic payment. Insurance is designed to protect the financial well-being of an individual, company or other entity in the case of unexpected loss.

View and discuss the Benefits of services slide.

There are many benefits to having a relationship with a financial institution. Consumers may earn interest on deposits, set up direct deposit of their paychecks, have their checks cashed for free, gain access to services such as ATMs, debit cards, and online banking, and receive improved access to loans.

View and discuss Cost of Services slide.

When a consumer borrows money from the financial institution, he or she will pay interest for the use of the money over time.

In addition, financial institutions may charge certain fees for their services and consumers should be aware of them. These may include ATM fees, late fees on loans and credit cards, minimum balance fees and returned check fees.

View and discuss the Unbanked Consumers slide.

If a consumer does not have a relationship with a financial institution he or she is referred to as being "unbanked." Unbanked consumers may pay more for routine services. They might have difficulty cashing checks without paying a service fee, making bill payments, acquiring loans, keeping income safe and establishing credit. In addition, they miss out on interest they may earn on savings or other deposits.

View and discuss the Other Types of Financial Companies slide.

Because of this, unbanked consumers sometimes end up using other types of financial companies like payday loan companies or check-cashing companies. Payday loan and check-cashing providers are alternative financial companies that typically charge higher rates than banks for their services. These companies do not accept deposits. They offer quick cash, but at a very high cost to the consumer.

View and discuss Electronic Monetary Transactions slide.

Another service that most financial institutions provide is electronic services. E-services consist of the buying and selling of products or services over electronic systems such as the Internet and other computer networks. Financial institutions use the automated clearing house (ACH) and other electronic networks to process electronic monetary transactions such as direct deposit, remote deposit, check cards and debit cards, automated teller machine (ATM) banking, online banking and bill paying, online investments, and the wiring of funds.

View and discuss the Online Banking slide.

The use of electronic networks allows most financial institutions to provide online banking services. Through online banking, a consumer may use a personal a computer to get account balance information, view transaction history, view paid check images, transfer money between accounts, make loan and credit card payments, send secure messages to the financial institution, view statements online, pay a bill online, order checks, and move money between accounts at different financial institutions.

- What would be the advantages to using online banking?
- What would be the disadvantages?

Conclusion

Students should conclude the lesson by researching different financial institution's websites and complete worksheet.

1. Wells Fargo – www.wellsfargo.com
2. Virginia Credit Union – www.vacu.org
3. Bank of America – www.bankofamerica.com
4. Navy Federal Credit Union – www.navyfcu.org
5. TowneBank – www.townebankrva.com

Assessment

Have students complete the Financial Institution worksheet. If time runs out, this can be done as homework.