Solutions Manual for Money Banking and Financial Institutions v1 1st Edition by Carbaugh

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Chapter 1

Money, Banking, and Financial Institutions: A Contemporary Approach v1.0

Contents

Table of Contents

Chapter Summary

1. Financial markets refer to any marketplace where the trading of securities occurs, including the stock market, bond market, foreign exchange (forex) market, and derivatives market. Financial markets are vital to the smooth operation of capitalist economies by allocating resources and creating liquidity for businesses and entrepreneurs.
2. Major financial markets include the stock market, bond market, money market, derivatives market, foreign exchange market, commodities market, and cryptocurrency market.
3. Depository institutions play an important part of the operation of financial markets. These institutions include commercial banks and thrift institutions—savings and loan associations, mutual savings banks, and credit unions.
4. The regulation of commercial banks and other financial intermediaries is another important aspect of financial markets. Such regulation is the result of the need of some central authority to monitor and control the money supply, reduce the level of risk to which bank depositors are exposed, and to maintain bank solvency. Bank regulators include the Federal Reserve, U.S. Comptroller of the Currency, Federal Deposit Insurance Corporation, and state banking commissions.
5. The U.S. Congress has explicitly stated that the Federal Reserve's goals should be maximum employment and stable prices. These goals that have come to be known as the Federal Reserve's "dual mandate." To achieve these goals, the Federal Reserve conducts monetary policy, the management of money and interest rates. These variables are linked to changes in aggregate output, employment, inflation. The possibility of hyperinflation and deflation are concerns of the Federal Reserve.
6. The study of money, banking, and financial markets is well suited to understanding issues and events that impact our daily lives. Also, many people find meaningful careers in banking and finance.

Key Terms

Bond: A fixed-income instrument that represents a loan made by an investor to a borrower, usually a government or corporation.

Commercial bank: A financial institution that accepts deposits, provides checking-and-savings account services, and makes loans to individuals and businesses.

Credit union: A member-owned, nonprofit financial cooperative that provides services to its members similar to retail banks.

Cryptocurrency: A digital currency designed to operate as a medium of exchange through a computer network.

Deflation: A decrease in the general level of prices in an economy.

Depository institutions: A financial institution that accepts deposits from individuals and businesses.

Derivatives market: A market for financial instruments, such as futures contracts or options, that are used by speculators and hedgers.

Dow Jones Industrial Average: A stock market index of 30 major corporations listed on stock exchanges in the United States.

Dual banking system: A system in which banks can be chartered by the federal government or state governments.

Dual mandate: The obligation of the Federal Reserve to promote maximum employment and stable prices.

Federal Deposit Insurance Corporation: An independent agency created by the federal government to maintain stability and public confidence in America's banking system.

Federal Reserve System: The central banking system of the United States.

Financial markets: A place or system that offers sellers and buyers the means to trade financial instruments, including stocks and bonds.

Foreign exchange market: A worldwide decentralized market for the trading of currencies.

Hyperinflation: An occurrence in which the prices of goods and services in an economy increase uncontrollably by 50 percent or more in a month.
Initial public offering: The practice of offering ownership shares of a private corporation to the public in a new stock issuance for the first time.

Monetary policy: The policy adopted by the Federal Reserve to control either the interest rate or money supply to promote maximum employment and stable prices.

Mutual savings banks: Financial institutions that are owned by their members and accept deposits and make loans.

National Credit Union Administration: A federal government-backed agency that is responsible for supervising and regulating federal credit unions, insuring deposits, and protecting credit-union members.

Nasdaq: An acronym for National Association of Securities Dealers Automated Quotations.

New York Stock Exchange: The world's largest stock exchange, which is located in the financial district of New York City.

Office of the Comptroller of the Currency: An independent bureau within the U.S. Treasury Department which administers the federal banking system.

Savings and loan association: A thrift institution that accepts individuals' savings deposits and specializes in the making of mortgage loans.

Secondary market: The market where investors purchase and sell the securities they already own.

Securities and Exchange Commission: An independent agency of the U.S. federal government whose main purpose is to enforce the law against manipulation of the securities market.

Spread: The difference between the interest rate banks pay for deposits and the interest rate they receive on the loans they make.

Thrift Institutions: Financial institutions including credit unions, savings and loan associations, and mutual savings banks.

End-of-Chapter Study Questions

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1 What is a financial market and the purpose that it serves? Provide examples of financial markets.

   ANS: A financial market refers to any place or system that provides sellers and buyers to trade financial instruments, such as stocks, bonds, and foreign currencies. Financial markets foster the interaction of those who have capital to invest with those who need capital. Examples of a financial market include the bond market and the stock market.

2. What is meant by a depository institution? Distinguish between a commercial bank and a thrift institution.

   ANS: A depository institution is a financial institution that engages in the business of banking, that is, the acceptance of deposits and the granting of loans. A commercial bank is a privately owned financial institution (with stockholders) that accepts deposits and provides services like loans, savings accounts, and certificates of deposit to its customers. Thrift institutions include mutual savings banks, savings and loan associations, and credit unions.

3. Why is bank regulation important? Provide examples of bank regulators.

ANS: Bank regulation helps ensure that banks follow identical rules, compete on a fair basis, and help promote consumers' confidence that when they will be treated fairly when they apply for a loan, make a deposit, or use other services that banks provide. Examples of bank regulators include the Federal Deposit Insurance Corporation, the Federal Reserve, and the Office of the Comptroller of the Currency.

4. Why is money important for our economy?

   ANS: Money serves as a medium of exchange, unit of account, store of value, and standard of debt. Money allows us to meet our basic needs such buying food and paying for our education.

5. What is the "dual mandate" of the Federal Reserve?

   ANS: The dual mandate of the Federal Reserve includes the promotion of maximum employment and stable prices.

6. What is meant by hyperinflation? Give some examples of hyperinflation.

   ANS: Hyperinflation means rapid and out-of-control increases in economy's general price level, typically measuring more than 50 percent per month. Historic examples of hyperinflation include Germany, Greece, China, and Zimbabwe.

7. Why can deflation be problematic for an economy?

   ANS: Economists fear that deflation (falling prices) may result in reduced consumer spending which is an important contributor to economic growth. Businesses respond to falling prices by slowing down their production, which results in layoffs and wage reductions.

8. Explain how the National Credit Union Administration and the Federal Deposit Insurance Corporation are similar institutions.

   ANS: Both the National Credit Union Administration and the Federal Deposit Insurance Corporation insure deposits, examine and supervise financial institutions for safety and soundness, and manage receiverships. The National Credit Union Administration deals with credit unions, and the Federal Deposit Insurance Corporation deals with banks.

Lecture Tips

1. At the beginning of the first day of class, have all students walk around the classroom and meet each other, including you as their instructor. Get to know their names. Your class is a community of learners.

2. When addressing student questions, state the name of the student seeking your help. They will appreciate this and want to participate in future class discussions.
3. To create student interest, ask students where they conduct their banking business—a commercial bank, savings and loan association, or a credit union? Ask them if they know the difference between these institutions.
4. To promote student understanding of the significance of hyperinflation, tell students about the people of Germany after World War I and what hyperinflation meant to their lives.
5. Become an active reader of *The Teaching Professor*. Founded in 1987, the goal of *The Teaching Professor* is to help college faculty improve students' learning. This publication serves as a guide for educators who teach in a wide range of disciplines, across modalities, and at all kinds of higher ed institutions. It can be found at https://www.teachingprofessor.com/#. Although I never took an education course as a student, I have greatly benefited from the teaching tips found in *The Teaching Professor*.

Resources and Activities

1. Assign to your students the Youtube video, "Top Five Worst Cases of Hyperinflation in History, ENDEVR Explains," at https://www.youtube.com/watch?v=qYHOCbEekR0\.
2. Beginning in the 1960s, money manager George J.W. Goodman wrote a series of witty columns for *New York* magazine, under the borrowed name of capitalism's founding theorist, Adam Smith. Have your students read, and discuss in class, the Goodman essay, "The German Hyperinflation 1923," 1981, pp. 57-62 at https://www.pbs.org/wgbh/commandingheights/shared/minitext/ess_germanhyperinflation.html.
3. Watch the television show, *PBS News Hour*, a nightly hour-long broadcast. There you will often find short (6–9 minute) discussions of topics relating to the current money and banking landscape. These discussions are excellent to use in your classroom.
4. Have your students go to the website of a financial institution, such as Bank of America or U.S. Bank. There will be a link to job openings at this institution and the qualifications needed for these jobs. Have your students browse through these job sites to gain ideas about future employment in a money and banking position.
5. Investment bank Goldman Sachs accepts around three percent of job applicants. Who get hired? See the Youtube video, *Goldman Sachs Jobs: How Graduates Get Hired* (Wall Street Journal) at https://www.youtube.com/watch?v=c7E0Zfp-I18.
6. For career success at Morgan Stanley financial services company, see the Youtube video, *Internships at Morgan Stanley* (The Gateway) at https://www.youtube.com/watch?v=gurZ25EiM2M.
7. How do you land a job at an investment bank if you are not a finance major? See the Youtube video, Investment Banking for Non-Finance Students (The Gateway) at https://www.youtube.com/watch?v=RpZCuZl1WX4.

8. What skills do you need to succeed as a commercial banker? See the Youtube video, *Your First 90 Days, Careers in Commercial Banking* (FinanceKid) at https://www.youtube.com/watch?v=-m9EX1BZQmA.
9. How can you do well in a job interview at a commercial bank? See the Youtube video, *Commercial Banking Interview Questions* (FinanceKid) at https://www.youtube.com/watch?v=L0MXwYANmyU&list=RDLVTGkGV13FnVM&index=3.
10. For a discussion of career options in investment banking versus commercial banking, see the Youtube video, *Careers in Investment Banking vs Commercial Banking* (FinanceKid) at https://www.youtube.com/watch?v=V2aSwg5a0co&list=RDLVTGkGV13FnVM&index=11.

Jobs for Economics and Business Students

As a teacher of undergraduate students, I have been interested in their academic success and also their success in landing a meaningful job or graduate program upon graduation. Therefore, I have enthusiastically served as a student mentor regarding job and graduate school placement. Below are some job placement documents that I have prepared for my students. If you find these documents to be helpful for your students, feel free to use them.

Many occupations today require college educated individuals who have strong analytical and problem-solving skills, can write and speak well, and can work with others on a team. Besides searching for “economist” positions, you might consider searching career titles that are related to economics, such as:

Statistician	Actuary	Financial planner
Forecaster	Auditor	Healthcare administrator
Data analyst	Business forecaster	Industrial economist
Market research	Commodities trader	Securities trader
Financial analyst	Foreign currency trader	Technical writer
Banking	Loan officer	Transportation specialist
Credit Analyst	Public utilities analyst	International trade specialist
Labor economist	Underwriter	Urban/regional planner
Treasury management	Cost analyst	Bond trader
Consumer affairs director	Securities salesperson	Institutional research director
Litigation analyst	Populations studies analyst	Information scientist
Bank examiner	Pricing analyst	Supply-chain analyst
Rate analyst	Economic analyst	Tax economist
Investment analyst	Research data analyst	Research assistant
Futures analyst	Risk analyst	Operations management analyst
Business analyst	Business systems analyst	Inventory analyst

A website that I have found especially helpful for researching entry-level jobs is www.simplyhired.com. Another helpful website is www.indeed.com. For positions with our federal government, go to www.usajobs.gov. Also, if you are considering getting a Master’s or a Ph.D. in economics, you can search the publication *Job Openings for Economists* (JOE) www.aeaweb.org/joe/ for jobs requiring this level of education. Finally, you might consider www.econ-jobs.com for economist jobs in the United States and other countries.

To stem the flood of resumes, many recruiters use social media to find qualified future employees before an opening even exists. Recruiters also use the search engines on social media sites to find resumes of active job candidates**.** *LinkedIn* is a popular social media platform that is used for professional networking and career development, and it allows job seekers to post their resumes (CVs) and employers to post jobs. Facebook and Twitter are also used for job search and placement.

For everyone, from new college graduates to middle and senior management, having some type of presence in the social networking world is important. Make sure that your professional-looking profile on LinkedIn is kept up to date. Also, organizations are looking for more than a skill set. They want to hire employees who are excited about working and are willing to roll up their sleeves and get started. Moreover, recruiters want to hire workers who are a "good fit" and aligned with the company's culture. Be sure to do extensive research on an organization before a job interview, including understanding the job description.

You might also consider sending your resume to various job placement agencies that act as an intermediary between employers and job seekers. The staff of the placement firms will review your resume and, if they feel that your background is appropriate, they will invite you for an interview. You will then be considered for future jobs with employers who contact the placement firms. The fee of the placement agency is usually paid for by the employer. For entry-level jobs, you might consider sending your resume to www.accountemps.com. As you progress in your career, you might contact www.roberthalf.com , www.robertwalters.com, and www.efinancialcareers.com. The *Wall Street Journal* also publishes senior level finance/banking jobs at www.fins.com/wsj. Check the Internet for job placement agencies in particular cities.

What is a mistake that job seekers sometimes make when attempting to partner effectively with a recruiter? Often, job seekers cannot articulate precisely what they want in their next job role. If they don't know, how will a recruiter know? For job seekers who want to connect with a recruiter for job search purposes, make it as easy and clear as possible for recruiters to understand what your background and experience are and what you are looking for in your next position. Another mistake is a poorly written or out of date resume that doesn't reflect well on the job seeker's qualifications, experience and most importantly, their accomplishments. Your resume must market you effectively because this is the document that the employer reviews. Next, you should be able to perform a "30 second speech" which introduces who and what you are to another person. Think of this as your promotional announcement or mission statement. Finally, don't give up on a recruiter just because they don't call you back right away. Recruiters are very busy people who travel quite often, so try, try again! They will admire your persistence and motivation. Be sure to send "thank you" notes to those who help you, as this keeps the door open for future contacts.

Targeted Résumé

Although there are many ways to prepare a resume, I feel that a targeted resume is a great tool for student job searches. A targeted resume focuses on a specific job opening for a particular employer. It is written to highlight the skills and experiences pertinent to an exact position.

When sending targeted resumes, the resume will be rewritten for each job to which the candidate applies. Below is a sample targeted resume. Notice that the job objective is included near the top of the resume as well as the job seeker's capabilities that are relevant to that particular job.

Joe Smith
jsmith@cwu.edu

Campus Address, Until 6-20-24
1234 Alder Street
Ellensburg, WA 98926
(509) 962-4321

Home Address
2856 18th Street
Spokane, WA 99203
(509) 534-5937

OBJECTIVE:	To obtain a full-time market research position with an emphasis on quantitative analysis.
EDUCATION:	Bachelor Science expected June 15, 2024 Major: Economics and Business Forecasting Minor: Finance Central Washington University
CAPABILITIES:	Ability to use sophisticated computer software tools in data analysis Experience in statistical techniques including econometrics Proficient in Microsoft Word, Excel, and Access Technical background in public utility electricity Skilled report-writing abilities Good supervisory and interpersonal skills Valid Washington State driver's license with good driving record
ACHIEVEMENTS:	Developed an econometric model relating to employment in Seattle, WA Worked in the CWU computer technology support center Editor of the CWU College of Business publication, *The Beacon* Maintained a 3.42 GPA while working 15–20 hours per week Worked with Habitat for Humanity
WORK HISTORY:	Lifeguard, Aquatic Center, Ellensburg, WA, Summers 2022–2023 Mechanic, Mike Olson Dodge, Yakima, WA, Summer 2021 Cashier, Costco, Yakima, WA, Summer 2020–2021
CAMPUS ACTIVITIES:	Resident Hall Counselor, 2020–2024 President of the College of Business Marketing Club, 2023

Cover Letter

Writing a cover letter is important for job seekers. While not every employer accepts one in this environment of automated resume submissions, for many it is what first triggers interest in a job candidate. Unless the job positing indicates otherwise, or you are submitting your resume on a site that has no option for a cover letter, always include one with your application. In your cover letter, show that you understand who the organization is and its needs to which you are applying for a job. Keep your cover letter brief—it should be no more than 1 page.

Do your homework before writing your cover letter. Begin by carefully reading the job description, and learn all you can about your prospective employer and the industry in which it operates. Visit the employer's website and the sites of the employer's competitors. How is the employer doing these days—is it have a good year in terms of sales and profitability?

Below is a sample cover letter.

Your Present Address
City, State, Zip Code
Telephone number
Email address

Date

Person's Name* and Title
Employer's Name
Street Address
City, State, Zip Code

Dear XXXX:

First Paragraph
Indicate the reason for writing, the specific position for which you are applying, and if there is a position opening, the source from which you learned about the job and its posting date. If you are applying about jobs in general and no opening was advertised, specify your interest in career opportunities in your field.

Second Paragraph
State why you are interested in the position or organization show the employer that you know who they are—what products or services does the organization provide? Relate your academic work or work background to the position for which you are applying—how are you qualified for the position? Mention your practical work experience, specific achievements, and unique qualifications. Present information regarding your background and education in a way that shows a trend of moving toward the position for which you are applying.

Third Paragraph

You may indicate how an employer can obtain your references or credentials. State that you are interested in a personal interview, and suggest several dates and indicate your flexibility as to the time and place, including the possibility of a Zoom interview. Restate your interest in this position. Thank the employer for taking the time to read your letter and resume!!!

Sincerely,

Your written signature
Your typed name

Enclosure(s) refers to enclosed resume and other required materials

*Make a strong effort to obtain a specific name and job title. If you cannot get a specific name, you might use “Dear Sir/Madam,” “To Whom It May Concern,” or “Dear Employer.”