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Chapter 1 : Macroeconomics: Money And Banking

In a complete revision of the standard account, Rothbard traces inflations, banking panics, and money meltdowns from the Colonial Period through the midth century to show how government's systematic war on sound money is the hidden force behind nearly all major economic calamities in American history.

The bank would, through the creation of bank "notes," replace some of the gold and silver money in circulation. This would allow for the growth in business activity without the need to rely solely on exports to increase money supply. Additionally, Hamilton argued that the bank would strengthen the national government by lending money to its treasury. Still, there continued to be considerable opposition to it as an institution. Many congressmen argued that the bank was unconstitutional, possessed a monopoly on money, and favored the commercial North over the agricultural South. In these opponents refused to renew the charter of the First Bank of the United States. Facing financial woes and inflation accompanying the War of , Congress sought to revive the central bank. As the charter for the Second Bank of the United States was patterned after the first, it faced the same strenuous scrutiny and a long and difficult fight. Finally, in , economic instability facilitated its recharter for twenty years. Over time the role of the Second Bank in the economy increased. Perhaps most importantly, it became the de facto bank regulator and lender to state banks. Jackson lost everything during the time when the market expansion and the availability of western lands should have offered safe opportunities for economic improvement to more and more individuals. Jackson blamed the banking system for his personal financial misfortunes all involving land speculation and worthless bank notes. With overwhelming support of the masses, Jackson was elected president in and given power to seek change. In , he warned Congress in his first annual address that "both the constitution and the expediency of the law creating this are well questioned by a large portion of our fellow citizens. The American Political Tradition. Random House, Vintage Books Edition, Rockoff, Hugh, and Gary M. History of the American Economy. Thomson South Western, Objectives Students will examine primary documents and secondary sources to analyze the life and presidency of Andrew Jackson in the first half of the nineteenth century. Students will be able to identify assumptions and biases that they bring to historical analysis. Students will be able to identify the major social, political, and economic trends of the first half of the nineteenth century. Students will be able to examine the effects of the Market Revolution. Students will be engaged in historical research and the critical analysis of documents related to the Market Revolution and the role of the federal government. Students will be engaged in historical research and critical analysis of Andrew Jackson. Lesson Activities Activity One: Setting the Stage for the Bank Warâ€”Cooperative Research The rise and fall of a national bank in the United States took place at a particular time in our history. It is important to fully understand the context of both the creation and the demise of the institution. Divide the class into six groups. Assign each group one of the following topics: The following sites will be helpful:

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Chapter 2 : The War Against the Bank [calendrierdelascience.com]

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It acts as a fiscal agent for the U. There are several thousand member banks. The seven-member Board of Governors of the Federal Reserve System determines the reserve requirements of the member banks within statutory limits, reviews and determines the discount rates established by the 12 Federal Reserve banks, and reviews the budgets of the reserve banks. The Chairman of the Board of Governors is appointed to a four-year term by the president of the United States. A Federal Reserve bank is a privately owned corporation established pursuant to the Federal Reserve Act to serve the public interest; it is governed by a board of nine directors, six of whom are elected by the member banks and three of whom are appointed by the Board of Governors of the Federal Reserve System. Louis, Missouri; and San Francisco. The member Federal Open Market Committee, consisting of the seven members of the Board of Governors, the president of the Federal Reserve Bank of New York , and four members elected by the Federal Reserve banks, is responsible for setting Federal Reserve bank policy to encourage the long-term objectives of price stability i. The Federal Advisory Council, whose role is purely advisory, consists of one representative from each of the 12 Federal Reserve districts. The Federal Reserve System exercises its regulatory powers in several ways, the most important of which may be classified as instruments of direct or indirect control. One form of direct control can be exercised by adjusting the legal reserve ratioâ€"i. Because loans give rise to new deposits, the potential money supply is, in this way, expanded or reduced. The money supply may also be influenced through manipulation of the discount rate , which is the rate of interest charged by Federal Reserve banks on short-term secured loans to member banks. Since these loans are typically sought by banks to maintain reserves at their required level, an increase in the cost of such loans has an effect similar to that of increasing the reserve requirement. The classic method of indirect control is through open-market operations , first widely used in the s and now employed daily to make small adjustments in the market. Federal Reserve bank sales or purchases of securities on the open market tend to reduce or increase the size of commercial-bank reserves; e. The three instruments of control described here have been conceded to be more effective in preventing inflation in times of high economic activity than in bringing about revival from a period of depression. A supplemental control occasionally used by the Federal Reserve Board is that of changing the margin requirements involved in the purchase of securities. The Federal Reserve has broad supervisory and regulatory authority over state-chartered banks and bank holding companies, as well as foreign banks operating in the United States. Through the CFPB, it is also involved in maintaining the credit rights of consumers. One of the longest chairmanships of the Federal Reserve Board was held by Alan Greenspan , who took office in August and held the post until January In Janet Yellen became the first woman to chair the board. Learn More in these related Britannica articles:

Chapter 3 : Andrew Jackson shuts down Second Bank of the U.S. - HISTORY

The Federal Reserve not only supplies money and sets the price of money through a variety of mechanisms, but also regulates the banking system of the United States. (For related reading, see How.

Economic history of the United States Colonial era and 18th century[edit] The economic history of the United States began with American settlements in the 17th and 18th centuries. The American colonies went from marginally successful colonial economies to a small, independent farming economy, which in became the United States of America. As a result, the U. GDP per capita converged on and eventually surpassed that of the UK, as well as other nations that it previously trailed economically. The economy maintained high wages, attracting immigrants by the millions from all over the world. Most of the manufacturing centered on the first stages of transformation of raw materials with lumber and saw mills, textiles and boots and shoes leading the way. The rich resource endowments contributed to the rapid economic expansion during the nineteenth century. Ample land availability allowed the number of farmers to keep growing, but activity in manufacturing, services, transportation and other sectors grew at a much faster pace. Thus, by the share of the farm population in the U. The Panic of was followed by a five-year depression, with the failure of banks and then-record-high unemployment levels. Many firms grew large by taking advantage of economies of scale and better communication to run nationwide operations. Concentration in these industries raised fears of monopoly that would drive prices higher and output lower, but many of these firms were cutting costs so fast that trends were towards lower price and more output in these industries. Lots of workers shared the success of these large firms, which typically offered the highest wages in the world. Ideas about the best tools for stabilizing the economy changed substantially between the s and the s. From the New Deal era that began in , to the Great Society initiatives of the s, national policy makers relied principally on fiscal policy to influence the economy. Yet, even in the United States, the wars meant sacrifice. During the peak of Second World War activity, nearly 40 percent of U. GDP was devoted to war production. Decisions about large swaths of the economy were largely made for military purposes and nearly all relevant inputs were allocated to the war effort. Many goods were rationed, prices and wages controlled and many durable consumer goods were no longer produced. President and the Congress. The "Baby Boom" saw a dramatic increase in fertility in the period â€"; it was caused by delayed marriages and childbearing during depression years, a surge in prosperity, a demand for suburban single-family homes as opposed to inner city apartments and new optimism about the future. The boom crested about , then slowly declined. Other significant recessions took place in â€"58, when GDP fell 3. In most cases, this has been due to moving the manufacture of goods formerly made in the U. In other cases, some countries have gradually learned to produce the same products and services that previously only the U. Real income growth in the U. Great Recession The United States economy experienced a recession in with an unusually slow jobs recovery, with the number of jobs not regaining the February level until January Homeowners were borrowing against their bubble-priced homes to fuel consumption, driving up their debt levels while providing an unsustainable boost to GDP. When housing prices began falling in , the value of securities backed by mortgages fell dramatically, causing the equivalent of a bank run in the essentially unregulated non-depository banking system, which had outgrown the traditional, regulated depository banking system. Many mortgage companies and other non-depository banks e. These measures helped the economy recover, as households paid down debts from â€", the only years since where this occurred, [83] presenting a significant barrier to recovery. Income inequality peaked in and fell during the Great Recession, yet still ranked 41st highest among countries in i.

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You are a den of vipers and thieves. I intend to rout you out, and by the eternal God, I will rout you out. Andrew Jackson, to a delegation of bankers discussing the recharter of the Second Bank of the United States, The Second Bank of the United States was chartered in for a term of 20 years. The time limitation reflected the concerns of many in Congress about the concentration of financial power in a private corporation. The Bank of the United States was a depository for federal funds and paid national debts, but it was answerable only to its directors and stockholders and not to the electorate. The supporters of a central bank were those involved in industrial and commercial ventures. They wanted a strong currency and central control of the economy. The opponents, principally agrarians, were distrustful of the federal government. The critical question â€” with whom would President Jackson side? But Biddle was more an astute businessman than politician. His underestimation of the power of a strong and popular President caused his downfall and the demise of the financial institution he commanded. Jackson had been financially damaged by speculation and a tightening of bank credit early in his business career. He retained a distrust of financial institutions throughout his life. Jackson was also sympathetic to "soft-money" supporters from the west who wanted access to easy credit. Even though the charter was not due to expire for four more years, they felt that the current Congress would recharter the Bank. They felt that Jackson would not risk losing votes in Pennsylvania and other commercial states by vetoing it. The people were with Jackson, and he was overwhelmingly elected to a second term. Biddle retaliated by making it more difficult for businesses and others to get the money they needed. This caused an economic contraction at the end of and into The bank charter expired in This article explains the political maneuvering that surrounded the rechartering of the Second Bank of the United States, with a focus on the hostile relationships of men like Jackson, Clay, Calhoun, Biddle, and Van Buren. Take a look at this piece to see what the building is being used for today, as well as information about its architecture and tourism opportunities. Conflict with the Executive:

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Chapter 5 : Economy of the United States - Wikipedia

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By Stephen Simpson TMoney can be thought of as any good that is widely used or accepted in the transfer of goods and services. Today, there are three common forms of money in use. Commodity money is a good whose inherent value serves as the value of money â€" gold or silver being one good example. Fiat money is a good whose value is less than the value of money it represents â€" paper money, for instance. Bank money consists of accounting credits that can be drawn on by the depositor â€" checking accounts, for instance. For more, see What Is Money? Money serves multiple functions in an economy. Money is first and foremost a medium of exchange. When all parties in an economy will accept money, it eliminates the need for a double coincidence of wants that goes with barter â€" that is, both parties have to want what the other is offering. Accordingly, money as a medium of exchange is much faster and more convenient in commerce. Money also is supposed to hold value over time. A dollar bill or gold coin will still be valuable tomorrow or a year from now, but a fish has very little value after a couple of days because of decomposition. Finally, money also provides a convenient unit of account. For related reading, see The History Of Money: From Barter To Banknotes. Demand for money is determined by the price level and the level of activity within an economy. Interest rates effectively serve as the cost of money, and rates are determined by the demand for money â€" when demand for money falls often because economic activity has declined , rates fall and when demand for money increases, rates rise. The Fed and the Banking System In most countries, money is supplied by the central bank. In the United States the central bank is the Federal Reserve. The Federal Reserve not only supplies money and sets the price of money through a variety of mechanisms, but also regulates the banking system of the United States. Banks are institutions that effectively buy and sell money - "buying" money from depositors, who give up the utility of spending that money in exchange for interest and safe-keeping and "selling" money to borrowers in the form of loans. The United States, and virtually all Western economies, operates a fractional reserve banking system. Banks are then free to loan the remainder to customers. Required reserves also lead to an economic concept called the money multiplier. As the name suggests, a multiplier is a system where an initial is magnified through the system. The money multiplier is expressed as the equation: For more, see The Multiplier Effect. In the United States, monetary policy is largely conducted through three mechanisms â€" open market operations, reserve requirements and interest rates in the form of discount rates. Open market operations refer to the buying or selling of Treasury securities by the Federal Reserve. If the Fed wishes to increase the money supply, it goes into the market and buys securities. Conversely, by going into the market and selling securities, the Fed can remove liquidity and decrease the money supply. For more, see How The U. Government Formulates Monetary Policy. By law, all banks must retain a specified minimum percentage of deposits, while remaining free to loan the remainder. When the reserve ratio is increased, banks are unable to make as many loans and the money supply decreases and vice versa when the ratio is decreased. Keynesian arguments argue that monetary policy can be used to influence aggregate demand, lessening the severity or length of recessions and slowing growth before an economy becomes overheated. The theory is that lower rates stimulate more consumption from consumers and more investment from businesses and vice versa for higher rates. Monetarists do not support this view. Monetarists largely believe that changing the money supply does not produce any long-term changes in GDP and only impacts price levels increasing or decreasing inflation. In other words, by raising or lowering rates through monetary policy, governments risk inflation and destabilizing the economy, but cannot produce any sustained change in growth. These arguments about the efficacy of monetary policy revolve in large part around a concept known as the velocity of money. The velocity of money basically refers to the frequency with which a unit of money is spent in a given period of time; the higher the velocity, the smaller the supply of money can be for a given level of economic activity.

Monetarists hold that velocity does not change quickly or often if at all and that an increase in money supply simply increases prices.

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all the money available in the United States economy;either M1 or M2 liquidity the ability to be used as, or directly converted to, cash; M1 represents money that people can gain access to easily and immediately to pay for goods and services.