



# ECONOMICS Test Study Guide

## Unit 5 - Banking and Finance

Below is a list of topics that will be covered on the Unit 5 test. The unit test is open book and open notes, so feel free to reference this document along with your unit notes and your course content when answering test questions. Be sure to indicate the unit #, lesson # and page # from the course. This will help with your time management on test day. You are welcome to use a calculator as needed on this test.

### 3 Properties/characteristics of money

#### History of banking in the United States

- Transition from states to national/centralized

- Foreign ownership in 1<sup>st</sup> Bank of the United States

- Determine the shifts between centralized and decentralized banking before the Civil War and describe the stabilization of the banking system during the late 1800s.

- Identify developments in banking during the twentieth century and explain functions of different types of financial institutions.

#### Fractional Reserve Banking

#### FDIC

#### The Financial system

#### Direct vs. Indirect financing

#### Objective of raising financial capital

- \*accessibility to start-ups

#### Investing and economic growth:

- why we invest, what companies get in return

Stocks vs Bonds

Calculating bond yields

Calculating Annual Percentage Rate (APR) on loans

Capital gains/losses

Identify the trade-offs among risk, liquidity and return and analyze how investing contributes to the free enterprise system.

Identify the connections between capital, stock markets, banks, and the economy to explain how financial markets channel funds from savers to investors.

### **TEST ESSAY QUESTIONS:**

- Identify and explain the three main characteristics and uses of money. (medium of exchange, store of value, unit of account)
- Compare the National Banking Acts of 1863 and 1864 with the chartering of the First and Second Banks of the United States. Specifically, address the motivations behind each and the impact that each had on 19th-century banking in the United States. What did these acts attempt to do/resolve? Were these acts successful? Cite evidence from the unit to support your answer.
- Assess the trade-offs that investors face when making investment decisions, and provide one example of such a trade-off. (risk-return-liquidity)

### **ADDITIONAL STUDY TIPS**

- Identify all the characteristics of money.
- Determine all the developments in the banking industry during the twentieth century.
- Make flashcards to test yourself on vocabulary words and their definitions from this unit.
- Explain the banking system to a friend or family member.