

Exercise Two: Money and Banking Puzzles

In this exercise, students will work in groups to find answers to several puzzling questions about banks and banking. On **Tuesday, September 28**, groups will present the findings of their research to the class. Each group must document its sources and present copies of its resources to Michael Salemi. The exercise is graded and worth 2 points. Team members are required, on their honor, to claim credit for the report only if they contributed fully to its preparation.

Team 1: When we looked at the data that correlated money growth and inflation, we saw that several countries had experienced extremely high rates of both money growth and inflation. Inflations of over 50 percent per month are called hyperinflations (although drawing the line at 50 percent is somewhat arbitrary). Your task is to identify an important 20th century hyperinflation. You will report on the causes and consequences of the hyperinflation you choose and will document its severity. The puzzle: Why did the nation in question permit a hyperinflation to occur?

Team 2: When we looked at the consolidated balance sheet of the Commercial Banking System, we learned an interesting fact. Commercial banks have transactions deposit liabilities more than twice as large as their cash assets. This is puzzling because it seems to suggest that depositors face the risk that banks will not be able to redeem their deposits with cash on demand. Your task is to answer three questions: 1) What happens when depositors lose confidence in a banking system? 2) What happened the last time there was a loss of confidence in the banking system in the United States? 3) How did the U.S. government respond to restore confidence in the banking system?

Team 3: The Reagan administration began a process of deregulation of many U.S. industries. Your task is twofold: First, you are to report on deregulation that has occurred in the banking industry. Second, you are to report what experts consider to be the costs and benefits of this regulation. The puzzle: Is deregulation appropriate for the banking industry?

Team 4: Your task is to identify some of the oldest names in banking. For each name, please explain who the individual was, their connection to banking, and their legacy. The names: The Rothschilds, J. P. Morgan, Carter Glass, Hugh McColl. The puzzle: Who were these people and why do we still remember them?