

BASIC ECONOMICS

CHAPTER 17: Money and the Banking System

QUESTIONS

1. How can you tell what money is worth?

exchange rate this is the ratio of one currency's value to another country's value. for example, if the exchange rate of U.S. dollar to Japanese yen is 110, it means that one U.S. dollar can buy 110 Japanese yen, or vice versa.

2. In your own words, why do prices go up when people have more money to spend?

Prices go up when people have more money to spend because of a phenomenon called demand-pull inflation. This means that the demand for goods and services exceeds the supply, and consumers are willing to pay more for them. This creates a cycle of rising prices and expectations of future inflation.

3. How does the government confiscate the value of our money through inflation?

The government can confiscate the value of our money through inflation by creating more money than the economy needs, which reduces the purchasing power of each dollar. This means that the goods and services that we can buy with our money become more expensive over time, and our savings lose value.

4. Why do people buy gold during times of high inflation?

Gold is considered a good store of value and can protect the value of assets by hedging against inflation

Gold is a limited resource that is not dependent on any centralized bank, which adds to its overall store of value

5. How did politicians and/or the Federal Reserve make the Great Depression worse?

the Federal Reserve failed to prevent the collapse of the banking system by not acting as a lender of last resort and not providing enough liquidity to banks. This led to a series of bank runs and bank failures that reduced the money supply and credit availability.