

**KOFA HIGH SCHOOL SOCIAL SCIENCES DEPARTMENT**  
**ECONOMICS**

**VIDEO STUDY GUIDE # 11 - FRACTIONAL BANKING**



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**TERMS THAT YOU MAY NEED INFORMATION ON :**

- 1. FRACTIONAL BANKING - THE METHOD OF KEEPING A SMALL AMOUNT, OR FRACTION, OF DEPOSITORS MONEY ON HAND AND USING THE MAJORITY OF IT FOR MAKING LOANS > NOW A REQUIREMENT DUE TO THE RESERVE REQUIREMENT MANDATED BY THE FEDERAL RESERVE**
- 2. BANK HOLIDAY - CLOSING OF BANKS FOR A SHORT PERIOD TO LET UNSTABLE MARKET / ECONOMIC CONDITIONS, CREATED BY IRRATIONAL PANIC, SETTLE DOWN**

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**\*\* STORY # 1 > THE EARLY 1900 KNICKERBOCKER BANK FAILURE > KNICKERBOCKER BANK MADE SOME BAD LOANS TO VERY QUESTIONABLE BUSINESS PEOPLE AND IT LOOKED AS THOUGH THEY WERE GOING TO LOSE OUT ON THE MONEY LOANED**

**WHO DID THE PRESIDENT OF KNICKERBOCKER BANK GO TO FOR A LOAN TO KEEP HIS BANK "AFLOAT" (ALIVE) ?**

**WHAT HAPPENED WHEN THE PRESIDENT OF KNICKERBOCKER BANK COULD NOT GET A LOAN ?**

**HOW MANY BANKS CLOSED AS A RESULT OF THE SITUATION CAUSED BY KNICKERBOCKER ?**

**WHO FINALLY STEPS IN TO SOLVE THE SITUATION ?**

**WHAT HAPPENS TO THE PRESIDENT OF KNICKERBOCKER BANK ?**

**AS A RESULT OF THE KNICKERBOCKER SITUATION, THE BANKING SYSTEM CAME TO REALIZE 2 BIG THINGS :**

- 1. THE FATE OF THE BANKING SYSTEM SHOULD NOT BE LEFT IN**

***THE HANDS OF ONE PERSON AND THAT THERE SHOULD BE A***

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- 2. DESPITE THE INSTABILITY THAT MAY OCCUR AT TIMES,  
BANKERS DID NOT WANT TO GIVE UP \_\_\_\_\_***
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***\*\* STORY # 2 > THE CREATION OF THE FEDERAL RESERVE***

***WHAT IS THE FEDERAL RESERVE INITIALLY INTENDED TO BE ?***

***HOW DOES THE BANKING SYSTEM CREATE MONEY AND BUSINESS  
EXPANSION ?***

***DESPITE THE EXISTENCE OF THE FEDERAL RESERVE , DURING THE FIRST 2  
YEARS OF THE DEPRESSION HOW MANY BANKS FAILED ?***

- 1. IN 1931 -***
- 2. IN 1932 -***

***WHAT WAS ONE OF THE FIRST ACTIONS , REGARDING BANKING , TAKEN BY  
PRESIDENT ROOSEVELT ?***

***WHAT DID THE ACTION TAKEN BY PRESIDENT ROOSEVELT DO FOR THE  
PUBLIC ?***

***WHAT LEGISLATION WAS PASSED BY THE GOVERNMENT THAT GREATLY  
HELPED TO STRENGTHEN THE CONFIDENCE OF THE PUBLIC ABOUT THE  
BANKING SYSTEM AND THE SAFETY OF THEIR MONEY DEPOSITED WITH THE  
BANKS ?***

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***\*\* STORY # 3 > WHAT LED TO THE CRASH OF 2008 ?***

***WITH DEREGULATION OF THE FINANCIAL INDUSTRY THROUGH THE REPEAL  
OF THE GLASS STEGAL ACT , BANKS WERE ABLE TO DO WHAT ?***

***BY 2008 HOW DID BANKS GET INTO TROUBLE ?***

***SUMMARIZE WHY REGULATORS DID NOT SEE TROUBLE COMING :***

***WHAT DOES THE PHRASE “ TOO BIG TO FAIL ” ACTUALLY MEAN ?***

***TRUE OR FALSE , REGULATIONS AND LAWS WILL PREVENT FINANCIAL  
INDUSTRY PROBLEMS FROM HAPPENING IN THE FUTURE***

***ECONOMIST NARIMAN BEHRAVESH SAYS THAT THE PROBLEM IS THAT  
REGULATIONS NEED TO BE \_\_\_\_\_***