

Chapter 27 Project

Money and Banking

Purpose

In this chapter, you learned how money is defined and measured, the role banks play in the financial system, and how banks create money through a fractional reserve banking system.

The purpose of this project is to explain money, what happens to money during hyperinflation, and the role of banks in the Great Recession.

In the second, you will define and compare/contrast inflation, hyperinflation, and deflation and which roles of money they affect.

In the third, you will reflect upon and explain the role banks played in creating the housing bubble of the early-to-mid 2000s and its subsequent collapse during the Great Recession of December 2007–June 2009.

Directions

This project has three parts. In the first, you will explore the meaning of money.

Part 1 - Explore the Meaning of Money

Money has a far more expansive meaning than simply the coins and bills we carry around in our pockets. Using both Lesson 27.1 and the following video, evaluate what the true definition of money entails.

“What Is Money” with Dr. Richard D. Wolff: (hawkes.biz/WhatIsMoney)

In your own words, define money, identify the roles of money, and provide examples of these roles in your own life.

Part 2 - Compare Inflation and Deflation and Describe the Roles of Money

Inflation and deflation incur drastic effects on money and economies. The following resources provide information on the effects of inflation and deflation, along with specific examples:

Definition of deflation: (hawkes.biz/Deflation)

Historical inflation rates: (hawkes.biz/intinf)

Deflation in Japan: (hawkes.biz/Japandeflation)

Definition of hyperinflation: (hawkes.biz/Hyperinflation)

Global and historical hyperinflation: (hawkes.biz/WorldInflation)

Compare and contrast the concepts of inflation and deflation.

Identify historical periods of deflation in the U.S. and Japan, and indicate why deflation is a sign of poor macroeconomic health for an economy.

Define the term *hyperinflation* and which roles of money break down during a period of hyperinflation.

Part 3 - Explain the Role of Banks before and during the Great Recession

Read the following articles on the Great Recession:

(hawkes.biz/GR1)

(hawkes.biz/GR2)

(hawkes.biz/GR3)

Describe what a housing bubble is and the role banks played in creating this bubble with subprime mortgage offerings.

Explain how this housing bubble eventually burst in the U.S., how it was a contributing (and sustaining) factor in the Great Recession, and how the U.S. housing market has changed since.

Checklist

Part 1

- Review Lesson 27.1.
- Watch the video on the definition of money.
- Explain money in your own words.
- Identify the roles of money.
- Provide examples of money's roles in your own life.

Part 2

- Read the provided articles.
- Compare and contrast the concepts of inflation and deflation.
- Identify historical periods of deflation in the U.S. and Japan.
- Indicate why deflation is a sign of poor macroeconomic health for an economy.
- Define hyperinflation.
- Identify which roles of money break down during a period of hyperinflation.

Part 3

- Read the provided articles.
- Describe a housing bubble.
- Describe the role banks played in creating the housing bubble.
- Explain how the housing bubble eventually burst in the U.S.
- Explain how the housing bubble was a factor in the Great Recession.
- Explain how the U.S. housing market has changed since the Great Recession.