

Lesson 29: The Money System

(Lesson Time 40:42)

[for Sunday, August 16, 2015]

Reading: *The Making of America*, pages 419-426

(Chapter 17) The Money System

Pre-lesson questions for homework study and review: [*Supplemental* notes are bracketed]

[287 Constitution Provisions “principles” in text.]

Provision 87

Congress to coin money and regulate its value & foreign coin.

1. HOW DID THE FOUNDERS FEEL ABOUT THE SUGGESTION TO AUTHORIZE THE FEDERAL GOVERNMENT TO "EMIT BILLS OF CREDIT"? (PAGES 420-21)
 - o Not allowed to “emit bills of credit”
 - o Only gold and silver coins – money “Legal Tender”
 - o Leave any paper issuing to banks
 - some issued only redeemable notes
 - others issued more than they could redeem ‘=fractional reserves’
2. DESCRIBE THE ORIGIN OF THE DOLLAR SIGN (\$), THE WORD DOLLAR, AND THE WORD BITS. (422)

History of American Money

- o Congress printed \$240 million worth of “Continental” dollars
 - states printed some
 - Britain printed some [to support their opposition in America]
 - became worth less than 1 cent

Spanish Dollar becomes official unit of the United States

- o Minted in Mexico
- o Known as “piece of eight” or *peso*
- o Spanish Peso – \$ sign
- o **Dollar** from Bohemian “thal” meaning valley. Later became *thaler* or dollar
- o To make change – cut dollar into eight pieces or “bits” (2 bits— quarter, etc.)

3. WHAT THREE MONETARY POLICIES HAD ALREADY BEEN ESTABLISHED BY THE U.S. GOVERNMENT BEFORE THE CONSTITUTION WAS ADOPTED? (422)

- o 1785 Congress said Spanish dollar is official unit. All coins in terms of dollar.
- o 1786 government fixed weight at 375 64/100 grains of silver
- o 1787 Constitution was written and money [standard] adopted

4. NAME FIVE CONSTITUTIONAL PROVISIONS REGARDING MONEY THAT REFLECT THESE PREEXISTING POLICIES. (422-23)

[A. The power to coin money.(1.8.5) B. Punish counterfeiters(1.8.6) C. \$10 Max Tax imported persons (servants) (1.9.1) D. States forbidden to coin (1.10.1) E. Trial by Jury in cases over \$20 Guaranteed]

5. EXPLAIN SOME MAJOR PROVISIONS OF THE COINAGE ACT OF 1792. (423)

1792 Coinage Act

- o Silver dollars
- o ½ dollars, quarters, dimes
- o pennies and ½ pennies
- o Gold eagles – 10 silver dollars
- o ½ eagles
- o Allowed free minting privileges [taking your gold to a mint and get a coin made! Allowed personal participation in the money system!]

6. NAME THE TWO KINDS OF PAPER CURRENCY. (423-24)

Paper Currency

- o 2 kinds
 - debt money – redeemable
 - fiat money – not redeemable
- 7. WHAT ARE THE ADVANTAGES OF PAPER CURRENCY? WHO WAS EXPECTED TO ISSUE PAPER CURRENCY? BY 1798, WHAT LESSONS HAD BEEN LEARNED ABOUT WHO SHOULD ISSUE PAPER CURRENCY? (424)
 - o United States Bank approved – private (for 20 years)
 - depository for US
 - issues bank notes [Jefferson & Hamilton rejected this bank arrangement]
 - o many banks began issuing bank notes
- 8. DESCRIBE THE AMERICAN MONETARY SYSTEM FROM THE CIVIL WAR PERIOD UNTIL THE YEAR 1913. (424)
 - o Civil War caused Congress to issue fiat money
- 9. DESCRIBE THE CHANGES IN U.S. MONETARY POLICY BETWEEN 1913, WHEN THE FEDERAL RESERVE SYSTEM WAS ADOPTED, AND THE YEAR 1973. (425-26)

Federal Reserve System

- o 1913
- o neither federal nor reserve
- o No inflation, no depression, no recessions!
- o 1933 FDR declared dollars no longer redeemable in gold
- o all gold had to be turned in to Fed Reserve
- o 1934 title to all gold given to Fed Reserve
- o 1964 – Notes no longer redeemable in silver [Nixon]
- o 1971 – Foreigners could not redeem our dollars for gold [when Charles DeGalle tried]
- o Federal Reserve notes declared “legal tender”
- o Gold prices fluctuated from \$35 to \$800 per oz [1976, it is about \$1113.20 now!--Aug14, 2015]
- o Dollar now [1976] worth 8% of dollar in 1933.
[August 14, 2015: 4% value!
 - \$1 today (in 2015): Value: \$0.04
 - Annual Inflation: 3.17%
 - Total Inflation: 2248.12%]

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QUIZ - LESSON 29

1. WHAT DOES "EMIT BILLS OF CREDIT" MEAN? _____
2. DID THE FINAL VERSION OF THE CONSTITUTION GIVE THE POWER TO CONGRESS TO EMIT
BILL OF CREDIT? _____
3. WHAT EXPERIENCE TAUGHT THE FOUNDERS THE DANGERS OF PAPER MONEY?

4. IT WAS FELT THAT THE PEOPLE WOULD REGAIN THEIR CONFIDENCE IN AMERICAN MONEY
IF THE CONGRESS AUTHORIZED THE ISSUES OF ONLY _____ AND _____
COINS AS LEGAL TENDER.
5. IN OTHER WORDS THE U. S. WOULD ALWAYS BE ON A _____ AND _____
STANDARD.
6. WHERE DOES THE WORD "DOLLAR" COME FROM? _____
7. WHAT MONETARY UNIT FORMED THE BASIS OF OUR MONETARY SYSTEM?

8. WHEN CHANGE WAS TO BE MADE, IT WAS CUT INTO EIGHT _____ .
9. WHAT IS THE ORIGIN OF THE "\$" SIGN?

10. HOW MANY GRAINS OF SILVER MAKE UP THE OFFICIAL DOLLAR? _____
11. THIS ALL LED THE FOUNDERS TO CONCLUDE THAT THE AMERICAN MONETARY SYSTEM
MUST ALWAYS BE ON A _____ AND _____ STANDARD.
12. IN 1792, THE _____ ACT WAS PASSED TO DELINEATE THE DIFFERENT COINS TO BE
MINTED.
13. NAME TWO COINS OF GOLD _____
AND TWO COINS OF SILVER. _____ .
14. WHAT PRIVILEGE DID THE COINAGE ACT GRANT TO ALL CITIZENS WITH REGARDS TO GOLD
AND SILVER THEY MIGHT HAVE? _____
15. IN 1913, CONGRESS TURNED THE MANAGEMENT OF THE NATION'S MONEY SYSTEM OVER TO

THE _____.

16. HOW DID THIS VIOLATE THE CONSTITUTION? _____

17. IN 1933, FRANKLIN D. ROOSEVELT INFORMED THE AMERICAN PEOPLE THEY COULD NO
LONGER _____ THEIR PAPER MONEY FOR _____.

18. IN 1964, PRESIDENT LYNDON B. JOHNSON INFORMED THE AMERICAN PEOPLE THEY
COULD NO LONGER _____ THEIR PAPER MONEY FOR _____.

<http://www.cnbc.com/id/46241902> is an article appearing Feb 8, 2012 on CNBC
commenting on what would happen if the Fed Reserve were dissolved. Good reading at
this juncture in your history study.