

Money and Banking in American History 1833–1933

SMART Board Lesson Plan

Lesson by

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Lesson description

This lesson explores key points in American history through money and banking. It focuses on Andrew Jackson and the bank war, wildcat banking in the westward expansion, the classical gold standard, the free silver movement and the election of 1896, the Federal Reserve Act of 1913, World War I, and concludes with President Franklin D. Roosevelt (FDR) severing the link between the dollar and gold in 1933. This overview includes the types of money U.S. citizens have used as well as how money and banking have impacted American history. This lesson can be used to illustrate the individual points in time to complement the American History classroom or act as a standalone unit.

Time required

Two 60-minute classes

Concepts

Money
Banking
Commodity, representative, and fiat currency
Wildcat banking
The gold standard
The bimetallic standard
Bank panic
Federal Reserve Act of 1913

Objectives

The students will be able to:

- Define money and identify the types of money we have used in the past
- Understand the evolution of currency in the United States
- Define the gold standard
- Examine how the classical gold standard worked and why it was abandoned
- Identify why we needed more stable banking institutions
- Determine why the Federal Reserve Act of 1913 was important

Materials

- SMART Notebook file – Money and Banking in American History

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Procedure – Instructions for the SMART Board have been put in italics. Content background is in regular type.

Day 1—60 minutes

- 1. Display slide 1—Start the SMART presentation.*
Introduce the students to the objectives for this lesson.
- 2. Display slide 2—This slide uses a shade to hide the terms until you are ready to discuss them. Use your finger to move the shade down.*
Ask the students, “What types of money have we used in the United States?” You will probably get several answers, but essentially, money has evolved over time. We have used commodity money—a valuable good that also becomes a medium of exchange. Examples of commodity money are tobacco, corn, gold, and silver. Representative money is a version of commodity money because it is backed by commodities. A piece of paper money used to be essentially an ownership certificate for a certain amount of gold or silver. Today we use fiat money. It has no intrinsic value and cannot be converted into a commodity.
- 3. Display slide 3—When you click on the gold it will take you to the San Francisco Fed’s website, American Currency Exhibit, where you and your students can examine the evolution of currency. Once you are at the San Francisco website, click “Westward Expansion,” then click “Gold Dust Notes.” When you click on the bottom right picture it will take you to facts pertaining to currency in circulation in the United States. Scroll to the bottom of the page to explore the amount of currency in circulation by denomination. The circles that appear represent the difference between the two types of paper currency.*
Ask students to describe the differences between the forms of money displayed. Some possible answers include the pictures displayed on the currency or that one is metal and the others are paper. The picture of gold represents commodity money. The top right gold certificate is representative money and could be redeemed for its equivalent value in gold. The bottom right is our current form of currency, fiat. The ovals around the notes distinguish the differences between the two notes. The representative money highlights that it is a gold certificate and is redeemable for gold coin on demand. The fiat currency is a Federal Reserve note. It is legal tender for all debts, public and private.
- 4. Display slide 4—When you click on the image of the bank it will take you to the Federal Reserve Bank of Atlanta’s series Classroom Economist. There you will find a video that provides an overview of banks and fractional reserve banking. For basic information, stop the video at the 2:45 mark. For more detailed background, continue to the end of the video.*
Ask the students, “What is a bank?” Explain that banks are private businesses that hold deposits and make loans to households and businesses. In this way, banks bring together savers and borrowers. Deposits held by banks create a pool of loanable funds that enable borrowers to

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make purchases they may not otherwise be able to pay for at one time. Possible uses for borrowed funds would be to purchase a home or car or to attend college. Banks can loan only a portion of what they have on deposit. The remainder of the pool is called their reserves. Banks charge customers interest on the money that they lend. That is how a bank makes a profit. For more information on banks and fractional reserve banking, go to <http://www.frbatlanta.org/edresources/classroomeconomist/>.

5. *Display slide 5—This slide does not have an interactive component.*

Explain to the students that banking has a turbulent history. After the War of 1812, the state banking system was in turmoil. Inflation was rampant and Congress tried to restore order and finance debts from the war by establishing the Second Bank of the United States. Despite a rocky start, the Second Bank of the United States under Philadelphian Nicholas Biddle became quite effective in managing the nation's finances.

6. *Display slide 6—This slide does not have an interactive component.*

Explain to the students that Andrew Jackson was an opponent of central banking. He was elected president in 1828 primarily by voters from the West and South. Banking was particularly volatile in these regions and most people did not trust banks. Jacksonians believed that gold and silver were the only "true" forms of money, and they did not understand the relationship between the availability of money and economic growth. Congress passed the recharter bill for the Second Bank of the United States in 1832, but Jackson vetoed the bill. Nicholas Biddle was a better banker than politician. He underestimated the opposition of state banks and frontiersmen, who said that the Second Bank helped only the East's commercial classes.

7. *Display slide 7—Explain to the students that Andrew Jackson declared war on the central bank. Click the picture of Jackson to view a History.com video that provides detailed background on the event. With your finger, pull the tab on the right hand side. Ask the students what Andrew Jackson meant by "The Bank, Mr. Van Buren, is trying to kill me, but I will kill it."*

Jackson felt he was under attack politically and resented that Henry Clay sent the legislation to renew the Second Bank of the United States charter early. Jackson saw banks as the enemy of the people. He vetoed the bill and sent it back to Congress. He ordered the U.S. treasurer to move the funds from the Second Bank of the United States into smaller state banks over which he felt he had more control. Without funds on deposit, the Second Bank of the United States closed its doors in 1836.

8. *Display slide 8—In this lesson we will use the time line as an overview of historical events associated with money and banking. Touch the blue buttons to identify each point in history.*

- a. 1833 – Andrew Jackson and the bank war
- b. 1836–1863 – Wildcat banking era and the National Banking Act
- c. 1879–1914 – Classical gold standard era

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- d. 1880–1896 – Free silver movement and the election of 1896
- e. 1913 – Woodrow Wilson signs the Federal Reserve Act
- f. 1914 – World War I
- g. 1933–present – FDR severs the link between the dollar and gold

9. Display slide 9—Click on the picture of the miner to access Recollections from Pine Gulch. This is a blog that has been adapted into a play. The play and guided reading have been attached to the slide. Print copies for the students and assign roles. Also included are some ideas for props that will complement the play.

During the period of the westward expansion, the United States experienced a gold rush and drive toward upward mobility. This play illustrates the concepts surrounding wildcat banking. Unchartered banks took hold during this period and issued their own notes, redeemable in gold. Lax federal and state banking laws permitted virtually anyone to open a bank and issue currency. Paper money was issued by states, cities, counties, private banks, railroads, stores, churches, and individuals. By 1860, an estimated 8,000 different state banks were circulating what were sometimes called “wildcat” or “broken” bank notes. The term “wildcat bank” referred to the remote locations of some banks, which may have been more accessible to wildcats than to people. When a bank “went broke,” the currency it issued became worthless.

10. Display slide 10—Tap the blue tiles to reveal the answers.
1. At the beginning of the play, why didn't the people of Pine Gulch use paper money?
 - It was too inconvenient. They had to ride 85 miles to San Francisco to the nearest assay office.
 2. What did they use as money?
 - Gold
 3. Why did the people of Pine Gulch need to hire Slim?
 - They were worried about getting robbed and wanted a safe place for their money.
 4. Where did Slim put the town's gold?
 - He put the gold in a hole under his house.
 5. What arrangements did Slim make to protect the gold?
 - He rented a house and put iron bars on the windows. He cut a hole in the floor and placed sheets of steel around the hole. He brought Daisy.
 6. What did Slim purchase in San Francisco?
 - He purchased paper and ink that were unique.
11. Display slide 11—Tap the blue tiles to reveal the answers.
1. What did the unique receipts that Slim circulate represent?
 - Gold dust
 2. What is meant by the phrase “medium of exchange?”
 - People can use the receipts to purchase goods and services.

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3. Why can Slim let Gus borrow \$5,000 in receipts for his expansion?
 - People have been using the receipts as money and haven't redeemed the receipts for gold dust.
4. What is the cost Gus will pay to borrow the money called?
 - Interest
5. The \$1,000 that Slim did not destroy was the bank's _____.
 - Profit
6. Why is having faith in the money in circulation important?
 - Having faith in the money in circulation is what allowed Slim to increase his money through making loans. As long as people had faith in Slim and didn't try to redeem the receipts all at once, there were not problems with the loans.

12. *Display slide 12—Inform the students that the National Banking Act of 1863 changed money and banking in the United States. The act established a national banking system and a uniform national currency to be issued by new “national” banks. Click on the image and then First Charter and it will take you to more information on national bank notes.*

During the Civil War Congress passed the National Banking Act of 1863, along with major amendments in 1864 and 1865, and this legislation brought much greater clarity and security to U.S. banking and finance. The legislation provided for the creation of nationally chartered banks. By effectively taking the state bank notes out of existence, the legislation provided that only the national banks could issue bank notes. The national banking legislation of the 1860s ultimately proved inadequate. Though it provided for the national chartering of banks and national bank notes, it still did not provide the essentials of central banking. Accordingly, banking remained a local function without an effective mechanism that would regulate the flows of money and credit and ensure the security of the nation's finance system. For more information on the National Banking Act of 1863, please reference the Federal Reserve Bank of Boston's "Historical Beginnings." <http://www.bos.frb.org/about/pubs/begin.pdf>

Day 2—60 minutes

13. *Display slide 13—Explain to the students that 1879–1914 was considered the classical gold standard era. Use your finger to move the right pull tab. Inform the students that during the late 19th and early 20th centuries, most major economies were on the classical gold standard. During this period, governments did not control the amount of money in the economy. Money was added when new supplies of gold were found. Explain to the students that the gold standard limited the amount of currency that could be printed. The government passively issued gold certificates to anyone who turned in gold. The amount of gold controlled the amount of money in circulation.*

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14. *Display slide 14—When you click on the picture of The Wizard of Oz, it will take you to Greg Mankiw’s blog. (This reading is geared toward older students.) Have students read the blog and discuss it.*

After the Civil War, there was a great deal of rebuilding across the country. The supply of gold was not keeping pace with the demand for money. This created deflation or a sustained decrease in overall prices. Falling prices would seem to be a good thing, if you had plenty of money. However, incomes fall in times of deflation. One solution would have been to print more money, but that wasn’t possible. Governments had to wait for more gold to be discovered to create more currency. Some observers suggested a bimetallic standard. That would increase the money supply by recognizing both gold and silver in the money system. Silver was plentiful compared to gold. Ultimately, the problem was the size of the money supply, or the amount of money in circulation, not the composition of the commodities.

The *Wizard of Oz* has often been portrayed as an allegory of the battle over the bimetallic movement in the 1890s. The characters in the story represent real figures such as William Jennings Bryan as the Cowardly Lion. Read the blog and follow the link to Hugh Rockoff’s article. Discuss the article with students. Ask the students, “Do think L. Frank Baum intended this as a simple children’s story or did he have a larger political agenda?”

15. *Display slide 15—Read through the bullet points with the students. Once they understand why the farmers wanted a bimetallic standard, click on the picture of the cross. This will take you to history.com and a copy of William Jennings Bryan’s speech. Have the students read and discuss the speech. Pull the tab to the left. Explain that new technologies and mining allowed for the money supply to grow and price levels to increase.*

There was a serious debate among Americans during this time. Democrats nominated William Jennings Bryan as their presidential candidate. His nomination speech is considered one of the best in American history. Bryan opposed the gold standard, which tied the value of the U.S. dollar to gold. His speech thundered through the convention hall and concluded with religious imagery: “You shall not crucify mankind upon a cross of gold.”

During the Civil War, the U.S. government had paid for a large portion of its wartime expenses simply by printing and spending paper money. This new flow of paper money enlarged the supply of money in circulation. Prices went up rapidly during the war. After the war, the government withdrew the extra paper money. Then, between 1873 and 1896, the United States experienced a sharp drop in overall prices, leading to deflation. Deflation benefits creditors and hurts people who take out loans. So, during this period, farmers who took out loans to plant their crops were paying more for that money. This crisis exposed the need for a central bank and elastic currency.

16. *Display slide 16—Click on the slide and it will take you to a video clip from It’s a Wonderful Life. This clip illustrates how bank runs occur.*

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A financial panic occurs when banks suddenly lose a large amount of their value, causing fear and widespread losses among their customers. Several banking panics occurred between 1819 and 1893. The financial system was freewheeling in those days, with money being issued not only by the federal government but also by states, cities, and even private banks, currency known as “wildcat money.” The federal government could do little to intervene in financial panics in the 1800s. There was no centralized control over the country’s money. In a panic, financial losses led to widespread economic weakness, including loss of production and jobs. Eventually, the economy would right itself after a panic, but many fortunes were lost and caused distress for ordinary citizens. A National Monetary Commission created by Congress in 1908 studied the problem and issued reports that became the basis for the Federal Reserve Act of 1913.

17. *Display slide 17—When you click the picture it will take you to a video entitled “The Fed Today.” It will give students an overview of the Federal Reserve and its roles.*

Before the founding of the Federal Reserve, the nation was plagued with financial crises. A particularly severe panic in 1907 resulted in bank runs that wreaked havoc on the fragile banking system and ultimately led Congress in 1913 to write the Federal Reserve Act. Initially created to address these banking panics, the Federal Reserve is now charged with a number of broader responsibilities, including maximizing employment and stabilizing prices.

Establishing the nation’s first central bank was no simple task. Although the need for banking reform was undisputed, for decades early supporters debated the delicate balance between national and regional interests. On a national front, the central bank had to be structured to facilitate the exchange of payments among regions and to strengthen the country’s standing in the world economy. On a regional front, the central bank had to be responsive to local liquidity needs, which could vary across regions. For more information on the Federal Reserve System go to <http://www.stlouisfed.org/inplainenglish/default.html>

18. *Display slide 18—There is not an interactive component to this slide.*

As we progress through our time line we come to World War I. The map gives a sense of scale to the war, illustrating the countries involved. The countries in green are the allied powers. The countries in yellow are the central powers, and the countries in gray were not involved in the war. World War I lasted from 1914 to 1918. Most countries discontinued the practice of converting gold certificates to gold during the war. That was an effort to keep gold reserves high and money in circulation. The United States entered the war in April 1917, and World War I ended in November 1918.

19. *Display slide 19—Using your finger, move the icons to allocate resources to each country in the following way. As you move the gold bars to the United States, this represents the gold reserves from other countries moving into the United States. As the gold moves, the money supply increases in the United States and decreases in other countries.*

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The gold standard had its challenges, but overall it worked fairly well until World War I. As countries went to war, they had to depend on other nations for goods and the money supply became unbalanced. The United States was reluctant to go to war and held out as long as possible. The United States was able to supply goods and make loans to the European countries at war. Remember, when countries are at war, they must divert resources to other areas. Many factories were idle and their workers became soldiers.

Move the war supplies from the United States to France or England. Each order of supplies will cost the country one gold bar. You need to deliver the following to each country. If a country runs out of money, it may need a loan to purchase more of the supplies.

- i. Cannon
- ii. Ship
- iii. Tanks
- iv. Food
- v. Clothing
- vi. The \$ sign represents loans

Click on the bottom box with the green check mark. This will take you to a slide that reveals the imbalance of trade. Read the statements to the students explaining why the gold standard worked up to this point and the difficulties moving forward. Click the blue arrow at the bottom to return to the previous slide.

20. Display slide 20—This is not an interactive slide.

Europe struggled to get countries' economies going after World War I. War debts and reparations held countries back from growth. From the mid- to late 1920s, the Federal Reserve kept interest rates low in an effort to encourage gold to flow back to Europe. In 1928, the Fed was concerned that the economy was overstimulated, and in response, it raised interest rates. The increase in rates attracted investors and more gold flowed into the United States.

21. Display slide 21—Click the picture to start the video clip. Reinforce the key points.

England went off the gold standard in 1931. The Federal Reserve raised interest rates to keep foreign investors' gold in U. S. banks. England's exports increased because of its devalued currency. This increased production and jobs, and the economy began to rebound. With interest rates high in the United States, it was more expensive for people to buy things, production declined, and people started losing their jobs. After much debate and a prolonged depression, the United States abandoned the gold standard in 1933.

22. Display slide 22—Click each button to review the key points.

23. Display slide 23—Click the start button to begin the assessment. Students will need to read the questions and tap the letters in the word on the board.

1. Used to purchase goods and services—Money
2. President who went to war with the Second Bank of the United States—Jackson
3. Era in banking where lax standards let almost anyone open a bank—Wildcat

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4. Under the ____ standard, the government did not control the amount of money in circulation—Gold.
 5. William Jennings Bryan was trying to move toward a _____ standard with his “Cross of Gold” speech. —Bimetallic
 - 6.
24. *Display slide 25—There is no interactive content on this slide.*
Read the closing points to reinforce key learning.