

18 Money & the Financial Institution

The head of the U.S. Federal Reserve System is one of the most powerful individuals in the United States. A simple speech can trigger global shifts in the stock markets. As you study this section you will begin to understand why the person that holds this position is so influential.

The Importance of Money

The U.S. economy depends heavily on money: its availability, its value relative to other currencies, and its cost. Economic growth and the creation of jobs depend on money. Money is so important to the economy that many institutions have evolved to manage money and to make it available to you when you need it. Today you can get cash from an ATM almost anywhere in the world. But, in many places, cash isn't the only means of payment you can use. Most organizations will accept a check, credit card, debit card, or smart card to pay for things you buy. Behind the scenes of this free flow of money is a complex system of banking that makes it possible for you to do all these things.

The complexity of the banking system has increased as the electronic flow of money from country to country has become as free as the flow from state to state. It is estimated that each day, more than \$1.5 trillion is exchanged in the world's currently markets. What are the results? What

happens to any major country's economy has an effect on the U.S. economy and vice versa. Clearly, there's no way to understand the U.S. economy without understanding global money exchanges and the various institutions involved in the creation and management of money.



Figure 18.1