



Financial Literacy with Mr. 401(k)
Spring Term 2026
April 29, 2026

Exploring Bitcoin

Class 19: Banking and Traditional Financial System Fragility



What is a Bank?

Think of it like a financial middleman



Bank

A regulated financial institution that accepts deposits and makes loans. Banks act as a middleman between savers (people with extra money) and borrowers (people who want money). Banks earn profit by charging borrowers more interest than they pay to savers.



When You Deposit

*The bank holds and uses **YOUR** money*

You deposit \$500 in a savings account. The bank keeps it safe and may pay you a small amount of interest for letting them hold and use it.

**Your money is safe, accessible,
and may earn interest.**



When You Borrow

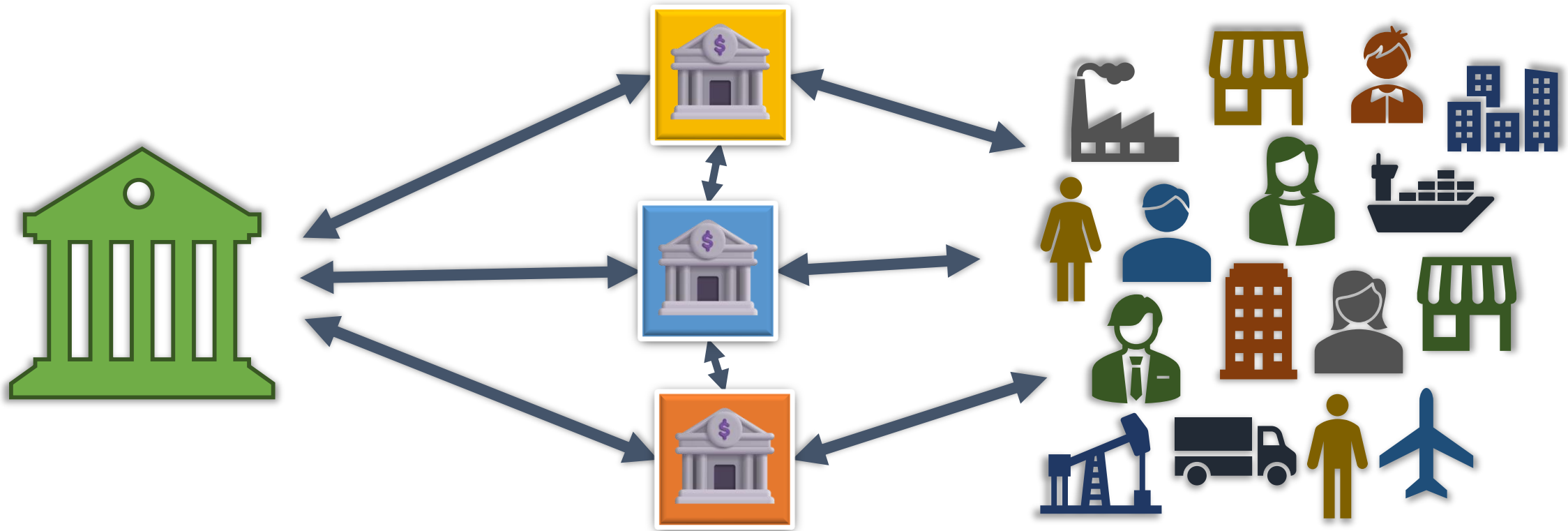
*The bank lends you **ITS** money*

You borrow \$10,000 for a car. The bank charges you interest as the price of using its money. You pay back the \$10,000 plus interest over time.

**Borrowing always costs more than
the amount you receive.**

U.S. Banking System Simplified

How money flows from the Federal Reserve to our wallets



U.S. Federal Reserve

Monetary policy & banking system regulator.
The “Banker’s” Bank.

Commercial Banks

Offer financial products & services to customers. The Federal Reserve oversees them.

Bank Customers

People, Corporations, and Governments work with commercial banks

John Buys Jane's Bicycle for \$500 Cash

Jane and John trade **assets**: a bicycle traded for cash



Jane

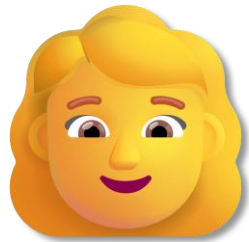


John

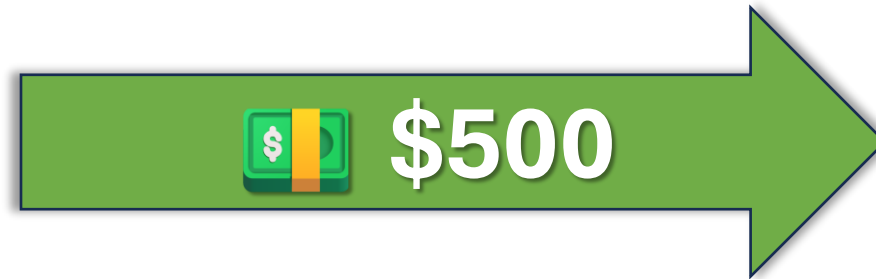


Jane Deposits the Cash at Her Bank

How does this change Jane's personal balance sheet?



Jane



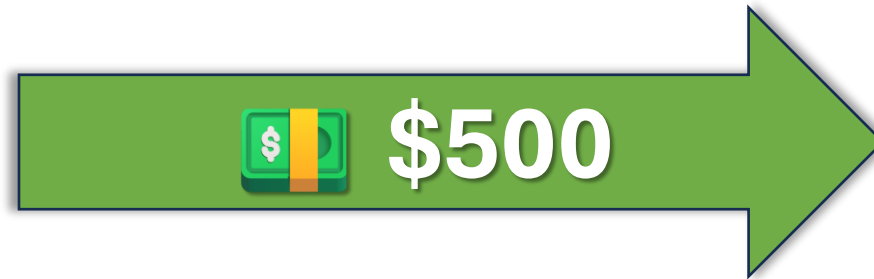
Bank

Jane Deposits the Cash at Her Bank



Jane traded her cash for a bank account balance



Jane

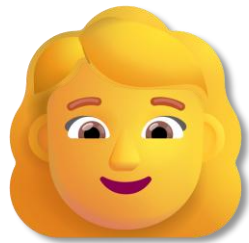


Bank

 Assets	 Liabilities
Cash -\$500	
Bank Account +\$500	
Total Change \$0	

Jane Deposits the Cash at Her Bank

Jane's deposit changes her bank's balance sheet, too



Jane



Bank

Assets	Liabilities
Cash -\$500	
Bank Account +\$500	
Total Change \$0	

Assets	Liabilities
Cash +\$500	Customer Deposits +\$500
Total Change \$500	Total Change \$500



Class Discussion

*Why might
people deposit
money in a
bank?*

Common Bank Products

What services do banks offer their customers?



Deposit Products



Checking Account

An account for everyday spending. You can write checks, use a debit card, and pay bills. Usually does not earn interest.



Savings Account

An account designed for saving money over time. Earns interest, but you can't spend directly from it.



ATM / Debit Card

A card linked to your checking account. Spend money at stores or withdraw cash from ATMs.



Borrowing Products



Credit Card

A card that lets you borrow money for purchases. You pay it back later, plus interest, if you carry a credit card balance.



Auto Loan

A loan to help you pay for a car. You make monthly payments over several years, which includes interest, until it's paid off.



Home Mortgage

A large loan to buy a house. You pay it back, typically over 15 to 30 years, plus interest.

**Banks Literally
Create Money
Out of Thin Air**

**It's Like
Magic**

Let's see how...



HOW BANKS WORK



[Launch Video](#)



Class Discussion

*Why might
people borrow
money from a
bank?*

A Bank Lends Money to John

How does this change the bank's balance sheet?



Bank



John

A Bank Lends Money to John



The loan creates a new deposit in John's account



Bank



John

 Assets	 Liabilities
John's Loan +\$10,000	Customer Deposits +\$10,000
Total Change \$10,000	\$10,000

A Bank Lends Money to John



The bank loan changes John's balance sheet, too





Bank



John

 Assets	 Liabilities
John's Loan +\$10,000	Customer Deposits +\$10,000
Total Change \$10,000	Total Change \$10,000

 Assets	 Liabilities
Bank Account +\$10,000	Bank Loan +\$10,000
Total Change \$10,000	Total Change \$10,000

Factors Influencing Bank Lending

What does a bank consider before making a loan?



1



A Willing Borrower

Banks need people who want to borrow. No loan requests = no new loans. It starts with someone walking through the door.

2



Credit Worthiness

Can the bank trust this borrower to pay them back? They look at income, credit history, and past borrowing behavior.

3



Interest Rates & Loan Yields

How much money will the bank earn on this loan? Are there better ways for the bank to invest that money instead?

4



Capital Requirements

Banks have rules about how much they can lend. Regulators set limits to make sure banks don't take on too much risk.



How Bank Lending Expands the Supply of Money in an Economy



Jane deposits \$500 of cash to the Bank



Bank

 Bank Assets		 Bank Liabilities	
Cash	\$500	Jane's Deposit	\$500
Total Assets	\$500	Total Liabilities	\$500



How Bank Lending Expands the Supply of Money in an Economy



The bank lends \$450 to John, creating a new \$450 deposit



Bank

 Bank Assets		 Bank Liabilities	
Cash	\$500	Jane's Deposit	\$500
Loan to John	\$450	John's Deposit	\$450
Total Assets	\$950	Total Liabilities	\$950



How Bank Lending Expands the Supply of Money in an Economy



The bank lends \$405 to Janet, creating a new \$405 deposit



Bank

 Bank Assets		 Bank Liabilities	
Cash	\$500	Jane's Deposit	\$500
Loan to John	\$450	John's Deposit	\$450
Loan to Janet	\$405	Janet's Deposit	\$405
Total Assets	\$1,355	Total Liabilities	\$1,355



How Bank Lending Expands the Supply of Money in an Economy



The bank lends \$365 to Jim, creating a new \$365 deposit



Bank

 Bank Assets		 Bank Liabilities	
Cash	\$500	Jane's Deposit	\$500
Loan to John	\$450	John's Deposit	\$450
Loan to Janet	\$405	Janet's Deposit	\$405
Loan to Jim	\$365	Jim's Deposit	\$365
Total Assets	\$1,720	Total Liabilities	\$1,720

Creating and Destroying Money

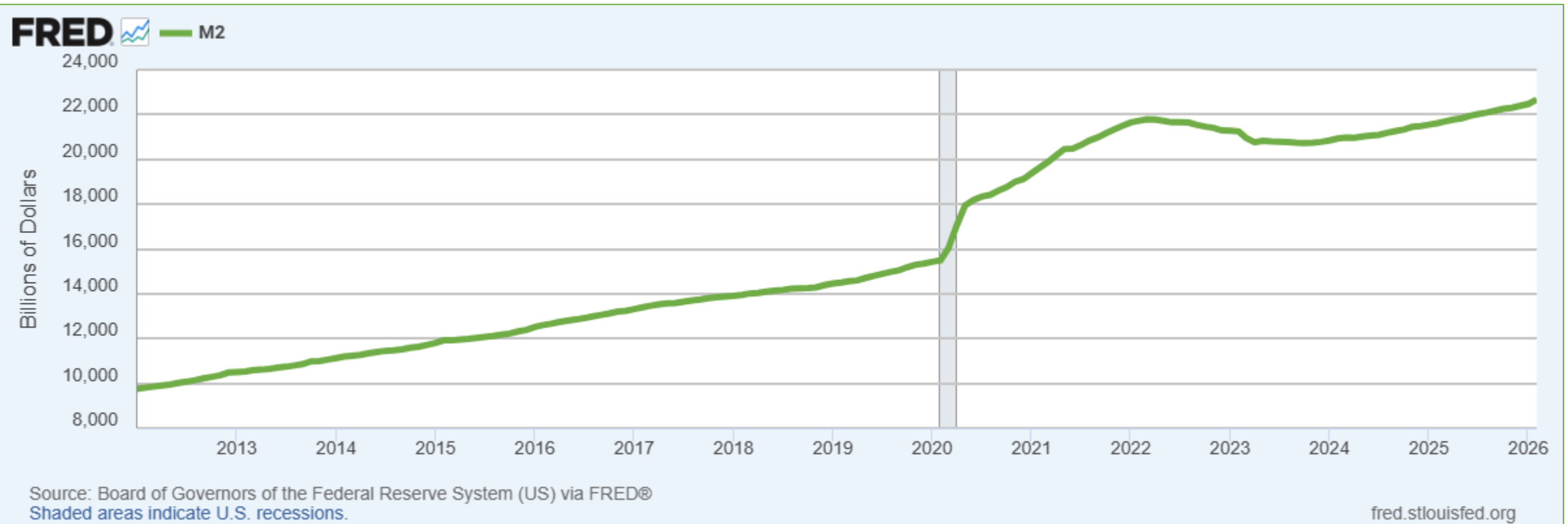
When banks lend money, they create new money that never existed before.

When bank loans are repaid, money is destroyed.



The U.S. Money Supply

Since 2012 the money supply has grown 132%; a 6.2% CAGR



M2 measures all the **“ready-to-use” money in the economy**. It includes cash in your wallet, the money in checking and savings accounts, and anything else that's easy to turn into cash. When this number goes up, it means there are more dollars floating around. Look at what happened in 2020.



Class Discussion

What do you think might happen if the money supply grows too quickly?



**What Could Go Wrong?
We've seen how the banking
system works. Now let's look
at where it's fragile.**

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NON
EST
EST



Practical Application

Take a second look at the example of how bank lending expands the supply of money in an economy.





Practical Application

Take a second look at the example of how bank lending expands the supply of money in an economy.

 Bank Assets		 Bank Liabilities	
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Practical Application



Take a second look at the example of how bank lending expands the supply of money in an economy.

 Bank Assets		 Bank Liabilities	
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Total Assets	\$1,720	Total Liabilities	\$1,720

How much does the bank owe?

Practical Application

Take a second look at the example of how bank lending expands the supply of money in an economy.

 Bank Assets		 Bank Liabilities	
Cash	\$500	Jane's Deposit	\$500
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Total Assets	\$1,720	Total Liabilities	\$1,720

How much does the bank owe? How much cash does the bank have?

What is a Bank Run?

When too many customers want to withdraw too little cash



Bank Run



A bank run happens when lots of people rush to take their money out of a bank at the same time. Since banks do not keep all customers' cash on hand, this sudden panic can cause serious problems for the bank. First in line gets paid out. Everyone else is stuck waiting.



Remember the Math?

Jane, John, Janet, and Jim have **\$1,720** in deposits. The bank only has **\$500** in actual cash. Hopefully, all four people won't need the cash at the same time!



The Safety Net: FDIC Insurance

The Federal Deposit Insurance Corporation (FDIC) protects deposits up to **\$250,000**. It doesn't prevent the panic. It just limits the damage.



Class Discussion

*Is the system
built to last?
What might
people want in
a different kind
of money?*



Three Key Takeaways

1. Functions of Banks: Banks hold customer money and make loans, connecting savers and borrowers.
2. Fragility Trade-Off: Banks lend more than they hold in cash, potentially supporting economic growth, but also creating a fragile and trust-dependent system.
3. Money Supply: When banks make loans, they create new money out of nothing, like magic.



Where to Learn More

- [How Bank Accounts Work for Kids](#) by Lucia Caldera via Kids' Money
- [Banking 101: Understanding How Banks Work](#) by Kate Rockwood
- Video: [In Plain English, Making Sense of the Federal Reserve Video](#) from the Federal Reserve Bank of St. Louis

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Learn it. Earn it. Own it. Grow it.

Teaching young people how
money really works

**Financial Literacy with
Mr. 401(k)**

<https://petros.us/about-finlit>

