Financial Exchanges & Institutions

Module 2

Created By: NEBRASKA COUNCIL ON ECONOMIC EDUCATION

Here are the key points we will cover in Module 2:

1. **Financial exchanges**
   a. Different forms
   b. Legal and ethical responsibilities
2. **Structure and functions of the Federal Reserve**
3. **Financial institutions and services**
   a. Various types of institutions
   b. Different types of checking and savings accounts
4. **Privacy and security issues**

01

Financial Exchanges

In this section you'll learn about different forms of financial exchanges (e.g. cash, credit, debit, electronic funds transfer, and other payment forms); as well as the legal and ethical responsibilities associated with financial exchanges.

Thinking Prompt

What is money? What is the value of money? Define in your own terms.

Why Money Matters

- Money makes the world go around - it’s how we buy and sell goods and services
- It’s a medium of exchange, store of value, and unit of measure for prices
- Accepted in exchange for goods and services by societies worldwide
- Money is global
  - Value of money varies by country (e.g., U.S. Dollar vs. Japanese Yen)
  - Exchange rate determine how currencies convert across countries

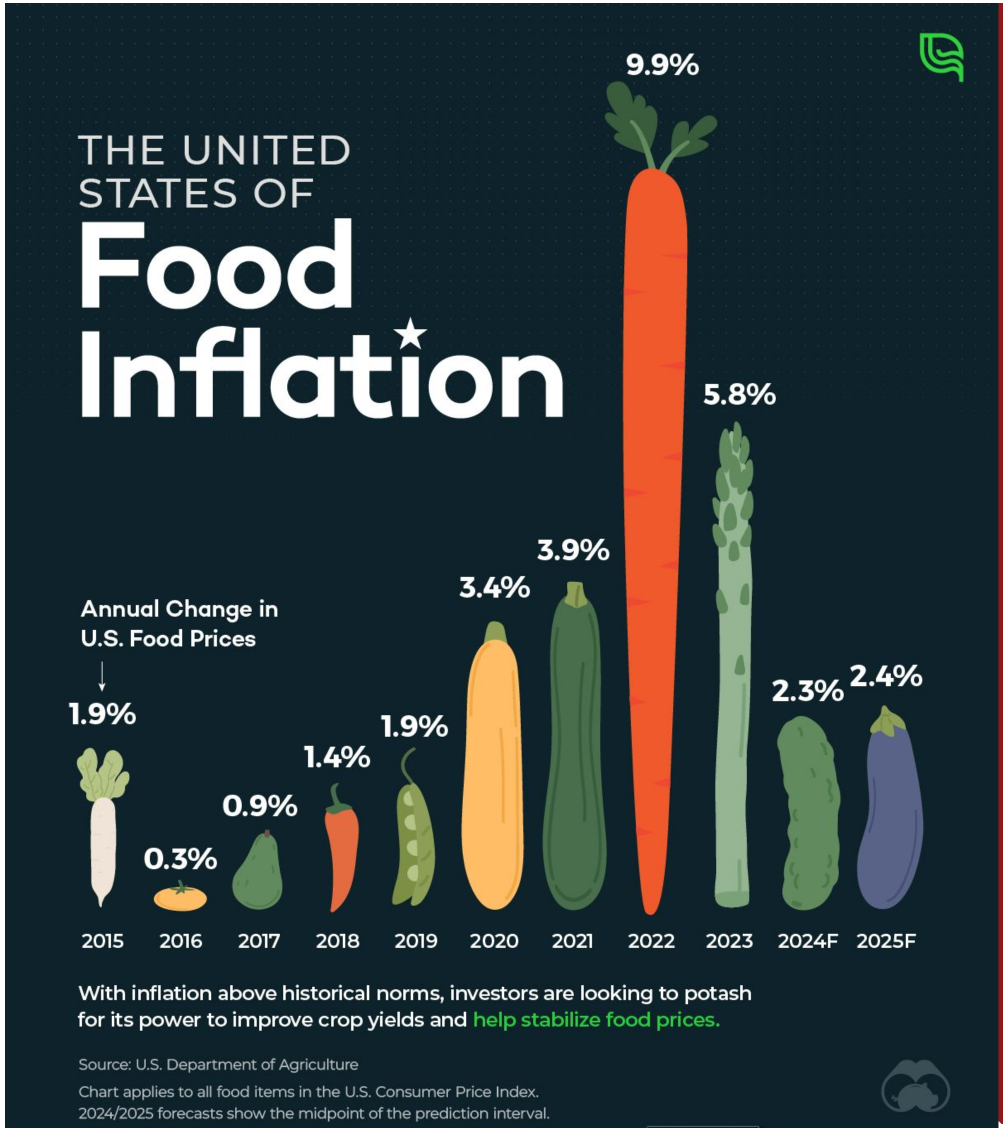
Types of Money (U.S. System)

- M1: Most liquid > cash, coins, checking deposits, debit cards
- M2: Includes M1 + savings accounts, money market accounts

Fun fact:

- There is over $125 trillion in broad money globally
- $420 trillion includes broader assets like stocks and real estate

Inflation, Deflation & the Value of Money



Inflation:

- Happens when prices go up over time
- Your money buys less than it used to
- Common in growing economies

Ex: A candy bar that cost $1 last year now costs $1.25

Inflation, Deflation & the Value of Money

Deflation:

- Happens when prices fall over time
- Sounds good - but can be bad for the economy
    - Things might cost less, but you also might not have a job to afford them

Inflation, Deflation & the Value of Money

Why money is more valuable today:

- Over time, inflation reduces purchasing power
- That's why a dollar today is worth more than the same dollar in the future
- This is also why people invest instead of just saving cash, which we'll discuss later in the course

U.S. Treasury

- The Department of Treasury operates and maintains systems that are critical to the nation's financial infrastructure
  - The production of coin and currency
  - The disbursement of payments to the American public
  - Revenue collection
  - The borrowing of funds necessary to run the federal government
  - TAXES!

Forms of Financial Exchanges

Someday you may find yourself pause before paying a cashier or clicking the “pay now” button, wondering which payment method to use, and you won’t be alone. There are more options now than ever before. Financial exchanges are the act of transferring one’s money from one entity to another.

On the following slides, the different major forms will be discussed.

Cash, Debit, or Credit

Cash: Green Convenience

- Can save you from unexpected challenges (like a system being down)
- Some small businesses only accept cash or require a minimum purchase on a card
- Helps you stay out of debt - you can only spend what's in your wallet

Downsides: can put some purchases out of reach, cash can get stolen or lost without a way to replace it

Cash, Debit, or Credit

Debit Card: Reliable and Safe

- Most popular payment method - it's safe and gives you instant access to money in your checking account
- Most are free and included with checking account so you don't have to undergo a credit check or pay an annual fee
- Can be linked to mobile wallet apps

Downsides: can put some purchases out of reach because of limits, limited fraud protection, possible overdraft fees, can't build your credit

Cash, Debit, or Credit

Credit Card: Purchasing Power

- Extra boost when cash reserves are low
- Handy for making larger purchases you want to pay over time (ex: airline ticket)
- Reimbursed purchase for work
- May be able to earn rewards, points, and cash back

Downsides: danger of spending more than you can afford, pay interest when you carry a balance, late payment fees stack up, can hurt your credit score

Electronic Funds Transfer

The transfer of money from one bank account to another. This can be from the same bank, different banks, same country (domestic), or different countries (global or international).

Pros: You can dispute transactions, convenient and fast, cheap and safe, don't have to use a card, can organize automatic payments

Cons: You must have the money immediately, you don't get a canceled check, some EFTs have to be reported to the government, some transfers have amount limits

Mobile Apps (Venmo, Cash App, PayPal, etc).

Sending money virtually between friends and family is easier than ever. According to Quicken, the best money transferring apps of 2025 are below:

- Best overall: **PayPal**
- Best for sending money: **Venmo**
- Best if you like options: **Cash App**
- Best for sending money directly: **Zelle**
- Best for Google Accounts: **Google Pay**
- Best for Apple users: **Apple Pay**
- Best for international transfers: **Remitly**

Mobile Apps (Venmo, Cash App, PayPal, etc).

Pros:

- Simple (and free) to set up an account
- Usually no fees depending on the type of transfer you select
- Strong encryption technology keeps accounts secure

Cons:

- Businesses that use them can be charged a fee
- They have the ability to freeze accounts
- Can be a fee if you use credit to send money
- Some apps have public viewing

Cryptocurrency

What is it?

- A digital or virtual form of money that uses encryption to secure transactions
- Unlike traditional money, it is not controlled by a government or bank

How it works:

- Uses blockchain technology, a public, digital ledger that records all transactions
- People can buy, sell, or trade cryptocurrencies online using wallets and apps

Cryptocurrency

Popular Cryptocurrencies

- Bitcoin (BTC) - the original and most well-known
- Ethereum (ETH) - used for apps and smart contracts
- Others: Litecoin, Solana, Dogecoin

Things to know:

- Prices can change quickly – it’s very risky
- Not accepted everywhere as payment
- Requires digital security and understanding of how it works

Activity Option from EconExpress

Students will take part in a simulation to experience:

- How cryptocurrency is “mined” (earned through effort)
- How digital currency gains or loses value
- What makes people believe something has value - even if it isn’t real money

This activity simulates how something starts from nothing and becomes something valuable…. Or not

Legal & Ethical Responsibilities in Transactions

Follow the law:

- Identity verification: financial institutions must confirm who you are to prevent fraud and money laundering (Know Your Customer - KYC laws)
- Anti-fraud laws - it's illegal to:
  - Use someone else's debit or credit card without permission
  - Lie on loan or credit applications
  - Cash bad checks or bounce checks intentionally

Breaking laws can lead to fines, criminal charges, and a damaged financial record!

Legal & Ethical Responsibilities in Transactions

Use credit responsibly:

- Ethical use means:
  - Only borrow what you can repay
  - Make payments on time
  - Understand the terms and interest rates
- Unethical use includes:
  - Maxing out credit cards with no plan to pay
  - Taking out loans with false information

Credit misuse can hurt your credit score and future financial opportunities (like getting a car loan or apartment!)

Thinking Prompt

Why is it important to be both legal and ethical with money?

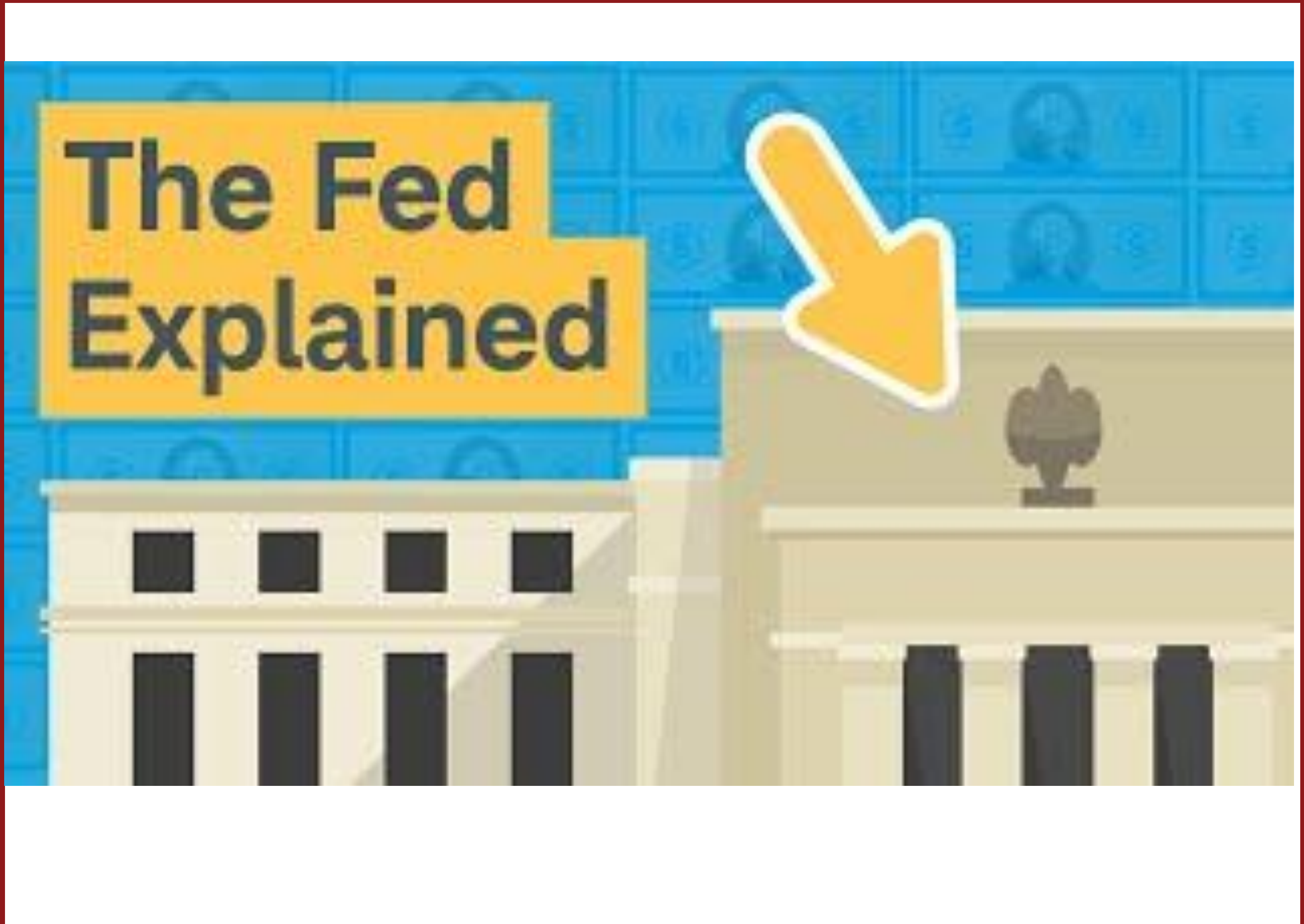
What would you do if a friend asked you to use your card to buy something for them?

02

Structure & Functions of the Fed

In this section you'll identify the structure and functions of the Federal Reserve System and how it facilitates the functions of money.

What is the Federal Reserve??

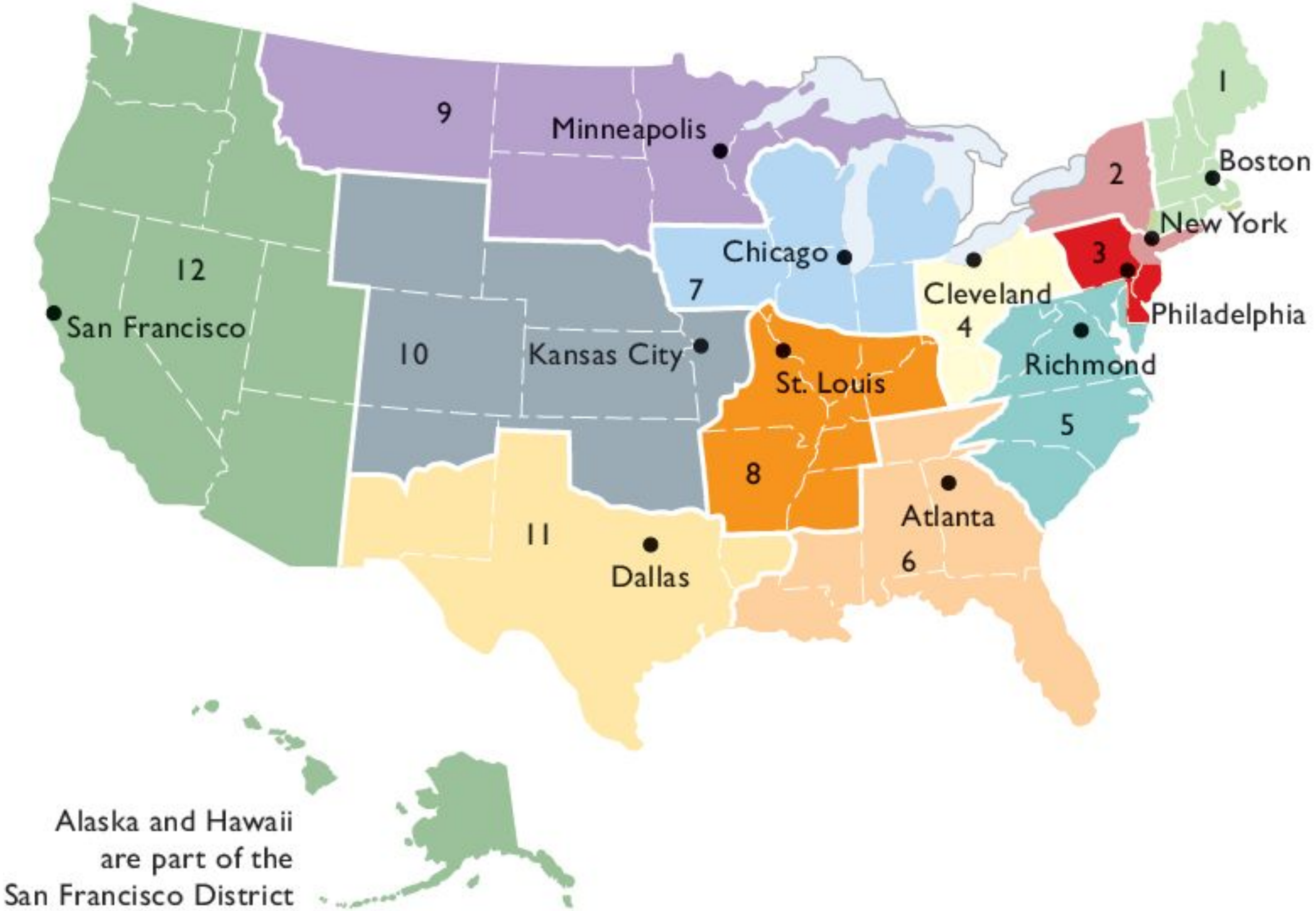


Watch the video to the left. As you watch, consider:

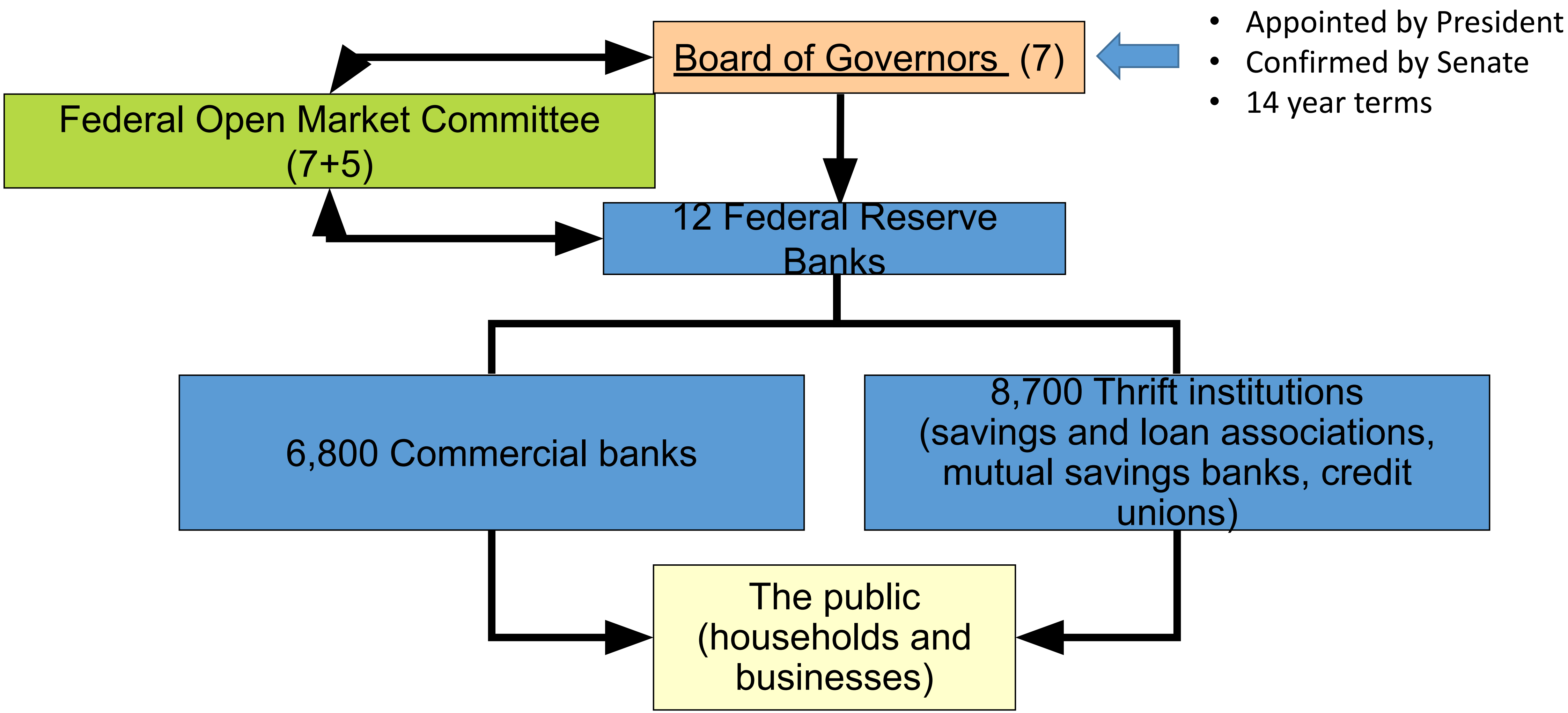
1. In your own words, what is the main job of the Federal Reserve?
2. Why do you think the Federal Reserve is important for people’s everyday lives (not just banks)?

Federal Reserve Banks

- **Decentralized central bank**
  - 12 banks across nation for diversity



Structure of the Federal Reserve System



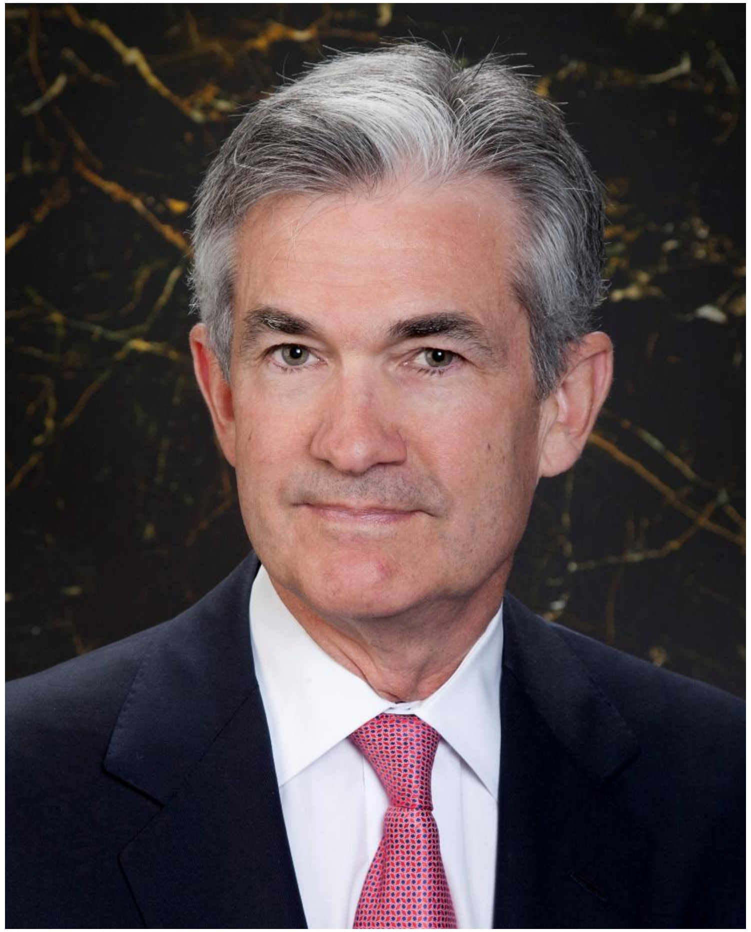
Federal Open Market Committee (FOMC)

- Monetary policy-making arm of the Fed
- Typically meets eight times a year
- Composed of Board of Governors (7) and Reserve bank presidents (5 - voting)
- Goals of the Federal Reserve (dual mandate)
  - Price Stability
  - Maximum employment
- Distinguish from fiscal policy

Federal Reserve Functions

- Issue currency
- Set reserve requirements
- Lend money to banks
- Collect checks
- Act as a fiscal agent for U.S. government
- Supervise banks
- Control the money supply

First Female Federal Reserve Chair was Janet Yellen (2014-2018). Current Chair is Jerome Powell



How the Fed Can Change the Money Supply

<u>Open market operations</u>: The purchase or sale of U.S. government securities by the Fed

<u>Open market purchases</u>: The Fed's purchase of government bonds from the private sector

<u>Open market sales</u>: The Fed's sale of government bonds to the private sector

Interest Rates the Fed Uses to Influence Money

Changing the discount rate: The interest rate at which banks can borrow from the Fed

Federal funds market: The market in which banks borrow and lend reserves to and from one another

Federal funds rate: The interest rate on reserves that banks lend each other

Activity Option

Students will work in groups to determine changes and trends in Fed functions, and present their findings through a visual display. In the assessment, students review three primary source documents and identify economic indicators (measurements), trends of the indicators, and the effects of these trends on the economy.

03

Financial Institutions & Services

In this section, you'll distinguish between various types of financial institutions and the basic products and services provided, as well as related costs and fees.

Why Use a Financial Institution

Benefits:

- Safe place to keep your money
- Earn interest on savings
- Cash or deposit paychecks for free
- Helps you save instead of spend right away

Watch Out For:

- Alternatives like check cashing and payday loans are very costly
- Can trap you in a cycle of debt, depending on the type of institution

Types of Financial Institutions

Watch the video to the left. As you watch, consider:

Besides banks and credit unions, what are some other financial institutions people can use?

Banks vs. Credit Unions

How to decide between the two.

You have a lot of options when it comes to finding the best place to put your money. If you're weighing the choice between a bank and credit union, the following slide will share detailed information to consider about the two types of financial institutions.

The differences between them may affect which home you choose for your checking account, savings account, or certificate of deposit.

Choosing Between a Bank or Credit Union

Read the article linked to the left. After reading, answer the following question:

1. What are some of the tradeoffs of each discussed?

How Financial Institutions Profit

At the most fundamental level, they take consumer deposits and re-invest a portion of that to make loans.

Interest is earned on the loan, which is used to pay for:

- Shareholder profit
- Dividends on deposits
- Community reinvestment
- Building upkeep
- Employee salaries

Maintaining services such as: security, online banking, and debit cards

Checking Accounts: How You Can Access Your Money

This resource is from NGPF's Lesson Checking Accounts

Checking accounts are a great option for storing your money for short term and day to day use. Read the infographic linked to the left.

Which withdrawal and deposit method do you think you would use most in your own life?

11 Reasons to Open a Checking Account

This resource is inspired from NGPF's Lesson Checking Accounts

You might be wondering why you even need a checking account. Why not just use cash? Skim the 11 reasons in the article and their descriptions.

Which benefit of having a checking account do you think would be most useful for you right now (or in the near future), and why?

What could be the risks or extra costs of now having a checking account?

How to Read a Bank Statement & Why It's Important

This resource is inspired from NGPF's Lesson [Checking Accounts]

Each month, your bank sends you a statement showing all the money that went in and out of your account. Watch the video to see what's included.

Then reflect: Why do you think it's important to carefully review your bank statement every month?

Activity Option

NGPF FINE PRINT: Checking Account Statement

Now that you've seen the importance of reading your bank statement, let's try it out! Follow the directions on the worksheet linked to complete the activity.

This activity is NGPF's FINE PRINT: Checking Account Statement

Checking vs. Savings Accounts

Checking Account

- Designed for day-to-day spending
- Comes with a debit card and checks for easy access
- Lets you make unlimited transactions (spending, deposits, transfers)
- OFten earns little or no interest
- Best for: paying bills, shopping, and everyday money management

Key difference: Checking = spend and access money easily

Savings Account

- Designed for saving money over time
- Limited number of monthly withdrawals or transfers
- Usually earns higher interest than checking
- Meant to grow your money safely
- Best for: emergencies, future goals, or building a financial cushion

Key difference: Savings = save and grow money securely

Tips on Opening a Savings Account

This resource is from NGPF's Lesson Savings Accounts

Now that you know the differences and why savings accounts are useful, it's time to pick one! Read the article linked to the left.

What saving account features does the article recommend inquiring about?

What account fees should you avoid with savings accounts?

Thinking Prompt

How much are the average overdraft, monthly service, and out-of-network ATM fees?

Use these dollar amounts to match:

$15.45, $4.77, and $27.08.

This question is from NGPF's Beware of Banking Fees Lesson

Thinking Prompt

Answers:

Overdraft = $27.08
Monthly service fees = $15.45
Out-of-network = $4.77

This question is from NGPF's Beware of Banking Fees Lesson

7 Common Bank Fees & How to Avoid Them

This resource is from NGPF's Beware of Banking Fees Lesson

One of the ways that banks make money is to charge its customers fees for various banking services or when specific requirements are not met. Read the article linked to the left and answer the questions:

1. How can you avoid a monthly maintenance fee?
2. What is the average fee charged by large banks for using an out-of-network ATM?
3. What is an excessive transactions fee?
4. Which fee on this list will be the most challenging for you to avoid?

04

Privacy and Security Issues

In this section, you'll analyze privacy and security issues associated with financial exchanges such as electronic payments, mobile payments, online and traditional banking, etc.

Online Bill Pay: What It Is and Why to Use It

What it is:

- A service offered through your checking account
- Lets you pay bills electronically instead of writing and mailing paper checks
- Payments can be made one-time or set up as automatic recurring payments

Why use it:

- Convenience → pay from your phone or computer, anytime
- Speed → payments process faster than mailing a check
- Organization → Keep track of payments in one place
- Avoid late fees → set up reminders or auto=pay so you never miss a due date
- Security → safer than sending checks by mail

Example uses: utility bills (electric, water, internet); credit cards or loans; subscription services

8 Mobile Banking Alerts That Help Protect Your Money

This resource is from [NGPF's Beware of Banking Fees Lesson]

One way that you can avoid fees is to turn on alerts that will let you know when there's an issue with your account that requires your attention. Skim the article to the left to find out what kinds of alerts you can set up so you can avoid fees.

While all 8 of the alerts are highly recommended, which one do you think is most helpful for you to avoid fees? Explain your reasoning.

Advantages of Personal Internet Banking

In more recent years, much has changed the way people work, shop, and handle many other everyday tasks. This also includes personal banking

Mobile banking uses smart phone apps to interact with your bank accounts. Online banking is a more broad category that includes any device that is connected to the internet. Being able to conduct transactions online and on our phones has reduced the need for people to go to banks in person and do things on paper.

On the following slide are 7 advantages and features of personal internet banking.

This resource is from NGPF's Online and Mobile Banking Lesson

Advantages of Personal Internet Banking

It frees you from traveling to a bank branch to make transactions. Other advantages include:

- Easier bill payments
- 24/7 account access
- Simpler fund transfers
- Better access to bank records
- Improved visibility of account balances and transactions
- Ability to sync your accounts with your apps
- Use of mobile apps

Disadvantages of Online Banking

Like all things in life, online banking also has a few disadvantages:

- **No cashless deposit option**: you have to visit your nearest bank branch or ATM machine to deposit money
- **Internet or data requirement**: Lack of service or when bank servers are down can hinder your access to your account
- **Internet fraud**: becoming a victim could happen if you don't comply with security measures and set weak passwords, or forget to log out of bank account on public devices

This resource was inspired by NGPF's Online and Mobile Banking Lesson

Data Breach Issues

Cyber threats are growing!

- As of 2024, the U.S. experienced over 3,200 publicly reported data breaches - the highest ever
- Online and mobile banking increases convenience - but also raises security risks

How banks protect you:

- Multi-factor authentication (face ID, codes)
- Encryption and fraud alerts
- Real-time transaction monitoring

Cyber Hygiene Tips

What can you do?

- Use strong, unique passwords
- Enable two-factor authentication
- Avoid using public wifi for banking activity
- Monitor accounts regularly for suspicious activity
- Never click suspicious links or respond to fake texts/emails

Don’t let convenience lead to carelessness!
Protect your money and your identity!

Activity Option

Many question whether their money is safe in a financial institution. On the provided document, read through the different sections detailed and view the different demonstrations within.

END OF MODULE 2