

Money and Financial Institutions

Chapter Objectives

After completing this chapter, you will be able to:

▶ Section 12.1 Money and Banking

- **Describe** the functions and characteristics of money.
- **Discuss** three main functions of a bank.

▶ Section 12.2 Types of Financial Institutions

- **Compare and contrast** three types of banks that are found in our economy.
- **Explain** the major functions of the Federal Reserve System in the U.S. economy.

Ask

STANDARD Statistical Analysis & POOR'S

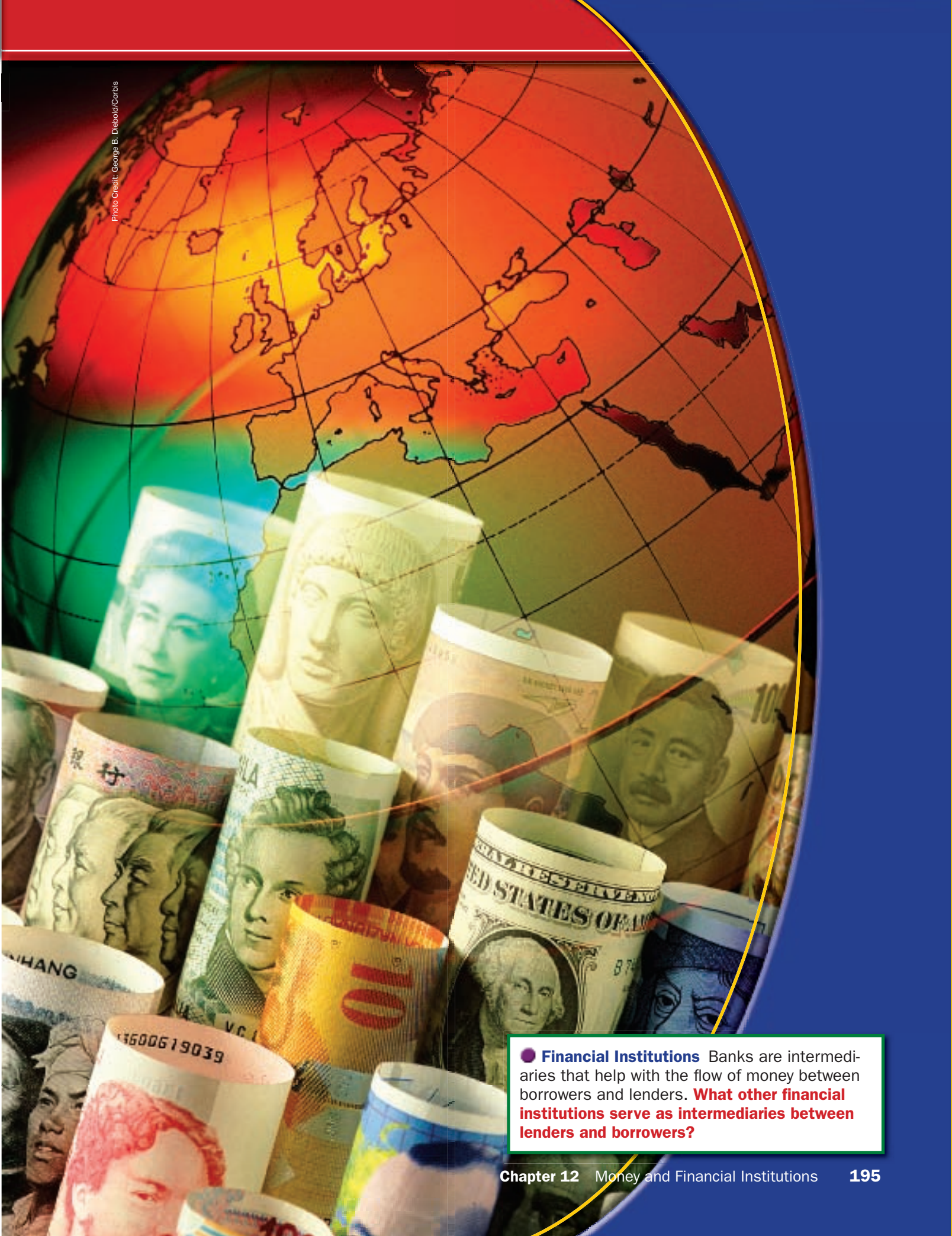
Q: What are statistics, and how do they help analysts predict which investments will be good over the long term?

A: One minute a stock is up. The next it may be down. Values can fluctuate from day to day and minute to minute. Financial analysts must consider a wide variety of data every day to forecast market trends. One of their most powerful tools is a branch of mathematics called statistics. Using statistics, analysts use powerful computers to “crunch” numbers. The results allow analysts to predict trends. One way stocks are evaluated uses weighted averages to compare companies. You can use a simple averaging technique to see one way statistics help analysts.

Mathematics Cynthia picked five stocks yesterday. Their closing prices were \$17.09, \$13.80, \$2.81, \$26.16, and \$8.08. Today their closing prices, respectively, are \$17.22, \$13.93, \$2.84, \$23.43, and \$7.79. Average the values for each day, and compare them for a broader view of what is happening in the overall market.

CONCEPT Average (Mean): The average, or mean, is a single number used to represent a group of numbers. The average of two or more numbers is the sum of the numbers divided by the number of items added. The formula for each day's mean stock price is:

$$\frac{\text{Stock}_1 + \text{Stock}_2 + \text{Stock}_3 + \text{Stock}_4 + \text{Stock}_5}{5}$$



● **Financial Institutions** Banks are intermediaries that help with the flow of money between borrowers and lenders. **What other financial institutions serve as intermediaries between lenders and borrowers?**

Money and Banking

Reading Guide

Before You Read



Think about how bartering, or trading goods or services, might work in your life.

Read to Learn

- Describe the functions and characteristics of money.
- Discuss three main functions of a bank.

The Main Idea

Money functions as a standard of value, a medium of exchange or payment, and a store of value. Most countries create and circulate their own money. Banks are in the business of handling money.

Key Concepts

- The Purpose of Money
- The Functions of Banks

Vocabulary

Key Terms

- | | |
|-----------------------|------------------|
| money | electronic funds |
| monetary system | transfer (EFT) |
| financial institution | direct deposit |
| bank account | collateral |
| deposit | mortgage |
| withdrawal | safe-deposit box |
| interest | |

Academic Vocabulary

You will find these words in your reading and on your tests. Make sure you know their meanings.

- | | |
|---------|---------|
| acquire | primary |
| stable | secure |

Graphic Organizer

As you read, write notes about the functions of money in a box like the one below.

The Functions of Money	
Medium of Exchange	
Standard of Value	
Store of Value	



Go to the *Introduction to Business* Online Learning Center through glencoe.com for a printable graphic organizer.

Academic Standards

English Language Arts

NCTE 1 Read texts to acquire new information

NCTE 9 Develop an understanding of diversity in language use across cultures

Mathematics

Measurement Understand measurable attributes of objects and the units, systems, and processes of measurement

The Purpose of Money

Money enables people and businesses to buy and sell goods and services more easily around the world. **Money** is a standard of value and a means of exchange or payment. It can be anything that people accept as a standard for payment. In the past, people used shells, stones, corn, parrot feathers, and even gopher tails for money. Modern society uses coins, currency, checks, and debit cards as part of the **monetary system**. Goods and services are directly exchanged using money. The seller of the goods or services can then take the money and exchange it for other goods and services.



Reading Check

Identify What kinds of money does modern society use?

The Functions of Money

Whether you buy a soda or sell a corporation, money changes hands. Without money, people would be forced to *barter*, or trade goods or services directly for other goods or services. Bartering can be a difficult method of exchange. Suppose you have grown a bushel of tomatoes. You would like to trade the tomatoes for new sneakers. In the barter system, you would have to find someone willing to accept tomatoes for sneakers. You would also have a hard time figuring out the value of the sneakers in relation to the tomatoes. You might have to make several trades to **acquire** something the sneaker owner would accept.

Money has three basic functions:

- It is a *medium of exchange*. A medium of exchange is anything that is generally accepted as a measure of value and of wealth. In a system that uses money, buyers and sellers agree to exchange money.



The Barter System

The barter system is still used in some business situations. More than 100,000 businesses have been involved in bartering, according to the Illinois Trade Association, a national trade group. Major corporations that barter include Xerox®, Mattel®, IBM®, Chrysler, and General Electric.

Do you know of any businesses or people who barter their goods or services?



What Is Money?

Money is most commonly considered to be coins, currency, and checking accounts. **What are some other ways that people and businesses can pay for goods and services?**

Investment Banking

Investment banks are not like other types of banks. The investment banker's job is to help businesses and governments issue securities, and find the capital they need to grow. They also help investors purchase and trade securities, manage financial assets, and provide financial advice. Some investment banks operate regionally or specialize in a particular industry. Big investment banks have offices all over the world. Investment banking is an exciting, fast-paced environment, and thousands of college students look to enter this field each year.

Examples of Languages Across Cultures

Q: In Greek, how do you say: "How much does that cost?"

A: Πόσο κάνει;
(pronounced: Pō-sō kǎ-nēē?)

What are some skills and talents an investment bank would look for when hiring a recent graduate?

- Money functions as a *standard of value*. A standard is a way to measure the weight, amount, size, or value of something. Money provides a means of measuring the value of goods and services.
- Money functions as a *store of value*. That means it holds its value over time and can be stored or saved. Money that is saved can build wealth.

Characteristics of Money

Paper money and coins are common forms of money. For money to carry out its functions, it must have these characteristics. Money must be *stable* in value. Money that is **stable** has little if any change in value. To be used as money, an item must be *scarce*. If the supply of an item is overly plentiful, it loses its value and cannot serve as money or a store of value since it would have little worth. People would lose faith in its value as a medium of exchange.

Money must be *accepted*. People have to be willing to take money in exchange for goods and services. It should be *divisible* into parts. Money also has to be *portable* and *durable*. Finally, it must be hard to counterfeit. To *counterfeit* means to make a copy of something in order to defraud or deceive people.



Reading Check **Explain** What are the characteristics of money?

As You Read

Think about what would happen if your money had little or no value in your country. What would you use as a medium of exchange?

The Functions of Banks

A **financial institution** is a firm that manages money. Banks are the main types of financial institutions. Banks offer a variety of financial services. They help other businesses and consumers manage their money. **Figure 12.1** shows how banks and customers interact.

Storing Money

One of the main services banks provide is storing money in bank accounts. To *store* money means to place or leave it for preservation or later use. A **bank account** is a record of the amount of money a customer has deposited into or withdrawn from a bank. The money put in a bank account is called a **deposit**. The money taken out is called a **withdrawal**. Keeping your money in a bank prevents you from losing it, spending it, or having it stolen easily.

The two main types of bank accounts are checking accounts and savings accounts. Checking accounts are used for storing money in the short term. Banks usually charge a fee for checking accounts. Savings accounts are used for storing money over a longer period of time. An advantage of a savings account is that it earns more interest than most checking accounts. **Interest** is a rate that the bank pays customers for keeping their money.

As You Read

Think about some ways you protect your money. Do you believe that having your money in a bank is the best way to keep from spending it?

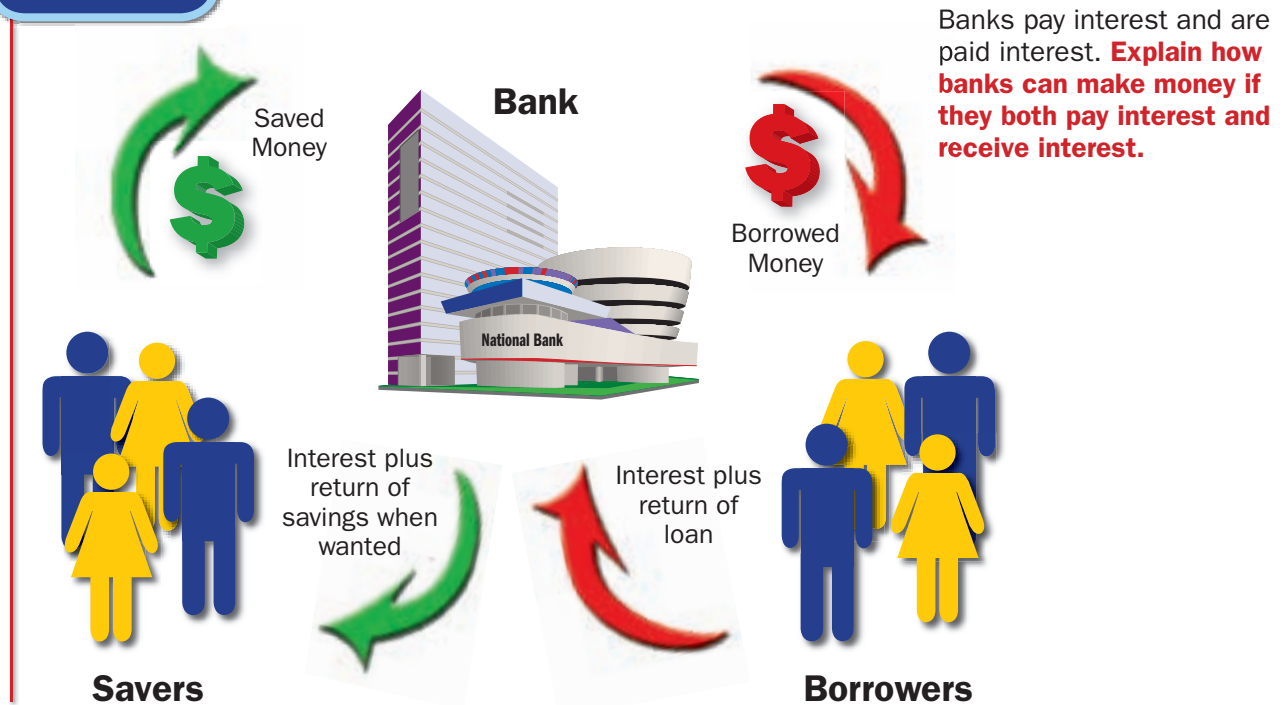
Transferring Money

Banks use checks and electronic funds transfers to move money. Checks are primarily used to transfer money from one party to another. **Electronic funds transfer (EFT)** allows money to be transferred from one bank account to another through a network of computers. **Direct deposit** is the electronic transfer of a payment directly from the payer's bank account to that of the party being paid. Many employers issue payroll checks this way.

Lending Money

Lending money is the **primary** way banks generate profits. The money you deposit in a bank makes it possible for the bank to lend money to other customers. Just as banks pay customers interest on their savings, customers pay interest on the money they borrow from banks. Banks then use the interest they earned to pay interest on customers' savings accounts. Most bank loans require some form of collateral. **Collateral** is property or goods pledged by a borrower to use as security against a loan if it is not repaid.

Figure 12.1 — *The Business of Banks*



● As You Read

Think about whether you would be willing to use collateral to borrow money.

There are four main types of loans that banks offer to businesses and individuals:

- A *mortgage loan* is a loan used to buy real estate, such as a house or an office building. A **mortgage** is an agreement in which a borrower gives a lender the right to take the property if the loan is not repaid.
- A *commercial loan* is a loan made to businesses to buy supplies and equipment.
- An *individual loan* is a loan made to an individual to pay for personal items, such as a car, home repairs, or a vacation.
- A *line of credit* is a credit arrangement in which a financial institution agrees to lend a specific amount of money to be used at any time for any purpose.

Other Financial Services

Banks also offer other services. Many provide financial advice on managing and investing money. Banks not only store money, they can also store valuable items, such as jewelry and birth certificates, in a safe-deposit box. A **safe-deposit box** is a **secure** box in a bank's vault used for the safe storage of a customer's valuables. As another service, many banks offer debit cards and credit cards, such as MasterCard® or Visa®. Banks also have trust departments that manage money for individuals and organizations.

Section 12.1

● After You Read



Review Key Concepts

1. What is a major advantage of using money over bartering in buying goods and services?
2. What are at least five characteristics that money must have?
3. What are four types of loans that a bank makes?

Academic Skills

4. **Mathematics** Imagine that the U.S. Mint has issued a new coin that is worth \$1 and weighs 0.5 ounce. Find the total weight of the new coins you would need to purchase the following items with cash. Express the weights using the most appropriate unit: a pizza for \$16, a new sports car for \$32,000, and a new condo for \$96,000.

CONCEPT

Weights and Measures

Choosing the best unit of measure to express a quantity can help you avoid excessively large numbers.



For math help, go to the Math Appendix.



Go to the *Introduction to Business* Online Learning Center through glencoe.com to check your answers.

Types of Financial Institutions

Reading Guide

Before You Read

Think about the different banking services you and your family use every day.

Read to Learn

- Compare and contrast three types of banks that are found in our economy.
- Explain the major functions of the Federal Reserve System in the U.S. economy.

The Main Idea

There are three types of institutions that operate as banks. They are commercial banks, savings and loan associations, and credit unions. A Federal Reserve Bank is a banker's bank. The Federal Reserve System manages the banking system and controls the money supply.

Key Concepts

- Financial Institutions
- The Federal Reserve System

Vocabulary

Key Terms

commercial banks	finance companies
savings and loan associations	insurance companies
credit unions	brokerage firms
mortgage companies	Federal Reserve System reserves

Academic Vocabulary

You will find these words in your reading and on your tests. Make sure you know their meanings.

granted
bonds

monitors
flexible

Graphic Organizer

As you read, write notes about the types of financial organizations on a figure like the one below.

Types of Financial Institutions	
Commercial Bank	
Savings and Loan	
Credit Union	
Mortgage Company	
Finance Company	
Insurance Company	
Brokerage	



Go to the *Introduction to Business* Online Learning Center through glencoe.com for a printable graphic organizer.

Academic Standards

English Language Arts

NCTE 1 Read texts to acquire new information

NCTE 3 Apply strategies to interpret texts

NCTE 4 Use written language to communicate effectively

NCTE 5 Use different writing process elements to communicate effectively

Science

Content Standard F Students should develop an understanding of science and technology in local, national, and global challenges

Universal Banks

Universal banks, also known as financial services companies, are diversified businesses involved in both retail banking and investment banking. For example, Citigroup®, a major U.S. bank, is involved in commercial and retail lending, business banking, investment banking, and private banking.

Do you think universal banking is a good business practice for large banks?

Financial Institutions

Banks operate on state, national, and international levels. There are strict rules for starting one because banks handle large amounts of money. To open a federal or a state bank in the United States, the owners have to meet special requirements. They must also apply for a charter from the federal or state government. The owners need to prove they have enough capital to start a bank. In the United States, there are three main types of banks. They are commercial banks, savings and loan associations, and credit unions.

**Reading Check****Explain** What are some of the rules for starting a bank?

Commercial Banks

Most of the banks in the United States are commercial banks. **Commercial banks** offer the entire range of banking services, such as checking and savings accounts, loans, and financial advice. They are often called *full-service banks*. Commercial banks serve individuals and businesses. They are authorized to conduct business through a charter, or license, that is **granted** by either the federal government or a state government. To make a profit, commercial banks charge more interest on the money that they lend than the interest they pay on savings accounts.

Science/TechTRENDS

Digital Cash

Star Trek fans may recall that members of the Federation abolished money a long time ago. Perhaps they were able to create a moneyless society because they had invented a replicator machine that allowed them to make copies of everything from food to cars to clothing and homes. That is not possible in our world, but some communities are experimenting with digital cash to replace bills and coins. For example, New Haven, Connecticut, became one of the first cities to use the new “smart card” payment system for parking and retail. The card can be bought and loaded with \$100, used to pay for parking meter fees, lattes at a coffee shop, and books at bookstores. When the value on the card runs low, it can be refilled.

Web Quest

Go to the *Introduction to Business* Online Learning Center through glencoe.com for links to Web sites where you can find out more about smart card technology. How do smart cards work? Where are they being used? What are the advantages and disadvantages of using them?

Savings and Loan Associations

Savings and loan associations are financial institutions that hold customers' funds in interest-bearing accounts and invest mainly in mortgage loans. Savings and loans were originally set up to offer savings accounts and home mortgage loans. Their purpose was to encourage people to save money and make it easier to buy a home or start a business. To do this, they charged lower interest rates on loans and paid higher interest on savings accounts than banks.

In 1982, the government passed new regulations allowing them to charge higher interest rates and offer more services. In the late 1980s, about 20 percent of savings and loan associations failed. In response, new regulations were passed. The services offered by savings and loan associations today are very similar to the services offered by commercial banks and credit unions.



Reading Check

Define What is a savings and loan association?

BusinessWeek Reader and Case Study

Peter Kight's Excellent Adventure

How an ex-jock changed the way the world pays its bills, while he toiled in a basement in Columbus, Ohio

If anyone can claim to be the pioneer of electronic bill payment, it's Peter Kight. The former college decathlete was managing a handful of health clubs in Texas in the late 1970s when he saw firsthand how hard it was for gyms like his to collect monthly dues from members. So Kight convinced the gym's owner to buy a small IBM computer, then he devised a way for a local bank to deduct the monthly dues from each member's account—and history was made.

In the early 1980s, Kight moved back to his hometown Columbus, Ohio, set up shop in his grandmother's basement, and began building a business devoted to handling payments from consumers electronically.

Fast forward to the present: Kight's Atlanta-based company, CheckFree®, now handles more than half of all electronic payments, generating more than \$700 million in revenues.



CASE STUDY Go to the *Introduction to Business* Online Learning Center through glencoe.com for the *BusinessWeek* Reader Case Study.

Active Learning

CheckFree allows clients to access the money in their bank accounts to pay bills online. One of the advantages of electronic bill-paying is that funds can be transferred instantly. No checks have to clear. Research other bill-paying options. Prepare a spreadsheet listing at least five payment strategies. Make a column for the time required for a single payment to become effective, the cost associated with each transaction, and any associated inconveniences or security concerns. Write an e-mail to your teacher recommending the best options. Attach the spreadsheet to your message.

As You Read

Credit unions offer a variety of services to their members. Do you think it would be better for you to open an account at a credit union or a bank?

Credit Unions

Credit unions are not-for-profit banks set up by organizations for their customers to use. Credit union customers are also called members. Credit unions offer members credit cards, checking accounts, low-interest loans, and high interest savings accounts. Many of them also pay interest on checking accounts.

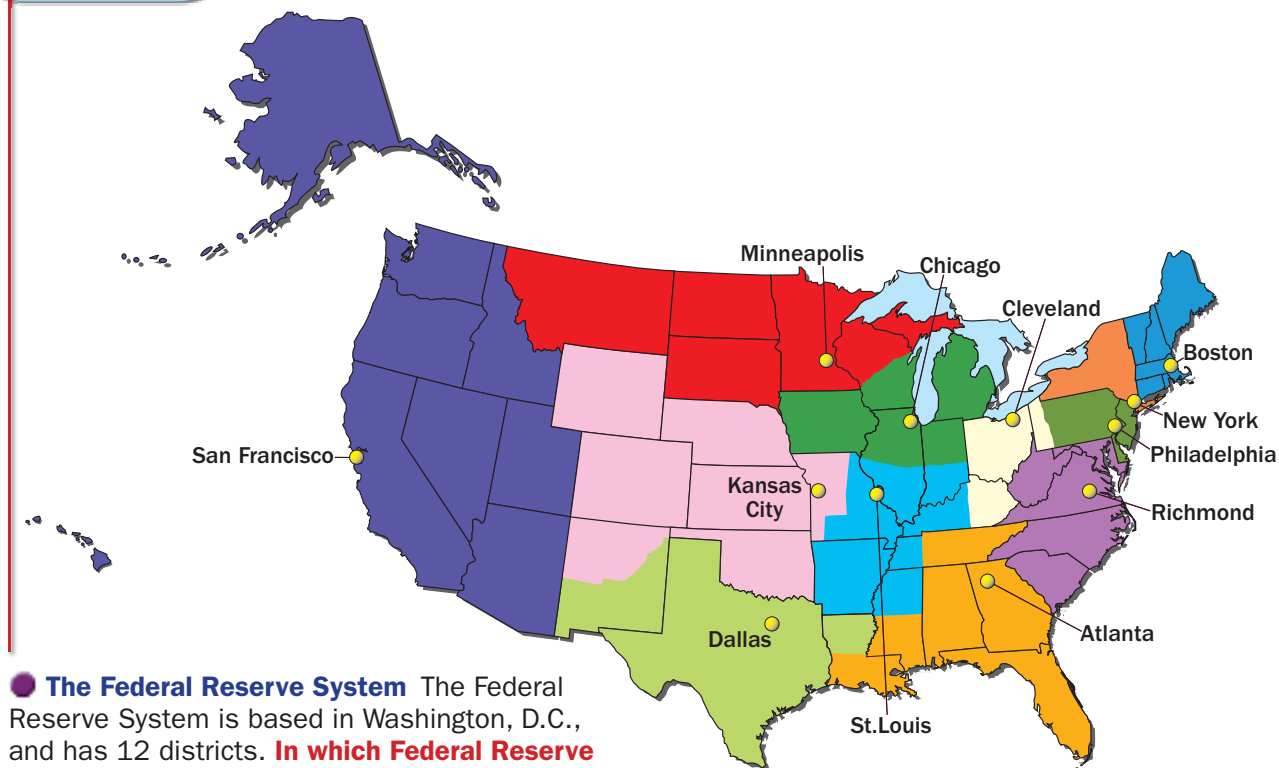
Other Financial Institutions

There are other financial institutions that offer some of the same services as banks. **Mortgage companies** provide loans specifically for buying a home or business. **Finance companies** offer short-term loans to businesses and consumers, but at much higher interest rates than banks charge. **Insurance companies** not only provide protection against problems such as fire and theft, but they also offer loans to businesses and consumers. **Brokerage firms** that sell stocks and **bonds** may also offer a wide range of financial services to their customers.

The Federal Reserve System

The **Federal Reserve System** (or Federal Reserve) is the central bank of the United States. Also known as “The Fed,” the Federal Reserve is the banker’s bank. It **monitors** the money supply. Figure 12.2 shows a map of the 12 Federal Reserve Districts.

Figure 12.2 – The Federal Reserve System



The Federal Reserve System The Federal Reserve System is based in Washington, D.C., and has 12 districts. **In which Federal Reserve District is your community?**

Congress set up the Federal Reserve System in 1913. Its mission is to provide the United States with a safe, **flexible**, and stable monetary and financial system. The Federal Reserve System consists of 12 regional Federal Reserve Banks and 25 branch banks. It also has about 5,000 member banks. The Federal Reserve is run by the Board of Governors. It supervises the 12 district banks and regulates activity of the member banks. The Federal Reserve has six functions:

1. **Clearing Checks** Funds are transferred from one bank to another when someone writes or deposits a check.
2. **Acting as the Federal Government's Fiscal Agent** The Federal Reserve distributes money to Federal Reserve member banks and commercial banks. It also tracks the deposits and holds a checking account for the U.S. Treasury.
3. **Supervising Member Banks** The Fed regulates banks that are members of the Federal Reserve System.
4. **Regulating the Money Supply** The primary responsibility of the Federal Reserve is to determine the amount of money in circulation and either increase or decrease it.
5. **Setting Reserve Requirements** Member banks must keep a certain percentage of deposits as reserves. **Reserves** are funds set aside for emergencies, such as a rush of withdrawals.
6. **Supplying Paper Currency** The Federal Reserve is responsible for printing and maintaining U.S. paper currency.



The Federal Reserve One of the Federal Reserve's main duties is to monitor the inflation rate. Inflation is a general increase in the cost of goods and services. *When the inflation rate is high, why is it important for the Federal Reserve to take action?*

Section 12.2

After You Read

Review Key Concepts

1. How is a credit union different from a commercial bank?
2. List the seven types of financial institutions discussed in the section.
3. What is the mission of the Federal Reserve?

Academic Skills

4. **English Language Arts** Banks operate on several levels from local to international. We use the word *federal* to describe some banks. Write a definition for the word *federal* and use it in a sentence. List some synonyms and antonyms for *federal*.
5. **English Language Arts** Interview family members about their experience with banks. Ask them to describe how their experience of banking has changed over the years. Is banking more customer-friendly today? How has technology changed banking? Write a paragraph summarizing your findings.



Go to the *Introduction to Business* Online Learning Center through glencoe.com to check your answers.

Chapter 12 Review and Activities

Section 12.1 Summary

Money and Banking Money functions as a medium of exchange, a standard of value, and a store of value. It enables people and businesses to buy and sell goods and services more easily. For money to carry out its functions, it must have several characteristics. It must be scarce, acceptable, portable, divisible, durable, and hard to counterfeit. Financial institutions such as banks manage money. They store, transfer, and lend it. The products and services banks offer help other businesses and consumers manage their money.

Section 12.2 Summary

Types of Financial Institutions The three main types of banks are commercial banks, savings and loan associations, and credit unions. Mortgage, finance, and insurance companies offer some of the same services as banks. The Federal Reserve is the central bank of the United States. It provides the country with a safe, flexible, and stable monetary and financial system. It consists of 12 regional Federal Reserve Banks, 25 branch banks, and about 5,000 member banks. The Federal Reserve's most important function is regulating the money supply.

Vocabulary Review

1. On a sheet of paper, use each of these key terms and academic vocabulary terms in a sentence.

Key Terms

money	mortgage
monetary system	safe-deposit box
financial institution	commercial banks
bank account	savings and loan associations
deposit	credit unions
withdrawal	mortgage companies
interest	finance companies
electronic funds transfer (EFT)	insurance companies
direct deposit	brokerage firms
collateral	Federal Reserve System
	reserves

Academic Vocabulary

acquire
stable
primary
secure
granted
bonds
monitors
flexible

Review Key Concepts

2. Describe the functions and characteristics of money.
3. Discuss three main functions of a bank.
4. Compare and contrast three types of banks that are found in our economy.
5. Explain the major functions of the Federal Reserve System in the U.S. economy.

Critical Thinking

6. Why do you think banks pay interest on deposits left in savings accounts?
7. Credit cards can be used to make purchases. However, credit cards are not considered money. Why do you think this is so?
8. Why do you think coins have been a more desirable form of money than paper currency throughout history?
9. How can the reserve requirement for banks be used to slow the economy's growth?
10. What do you think would happen if all the depositors of a bank requested their deposits at the same time? What is done to keep this from happening?
11. The British pound cannot be used in most U.S. stores to buy goods and services. Why do you think this is so?
12. Loans with collateral generally have a lower interest rate than loans without collateral. Why?
13. Is it unfair to require banks and savings and loans to pay federal income taxes on their income but not credit unions, which do not have to pay taxes because they are nonprofit organizations? Explain your answer.

Write About It

14. Research a bank to see which kinds of trust services are available. Find out how their trust accounts differ from their other accounts. Write a 250-word article about trust services offered by that bank.
15. Visit or contact a bank. Find out about its interest rates and the terms on its checking and savings accounts. Write a report comparing the accounts.
16. How has the Internet affected competition in the area of financial services? Write at least two paragraphs explaining your response.
17. Research the history of U.S. currency. Create a timeline with explanations for the development of money from colonial times to the present.
18. Go online to research the history of counterfeiting. Then write a two-page report on your findings. Include strategies that are being used to combat it.
19. Observe the recent activities or decisions of the Federal Reserve Board. Then write a two-page essay on your findings. Be sure to discuss the effects its decisions have on the economy.

Technology Applications

Access Cards and Digital Cash

20. Although cash and checks are still commonly used, various access cards are becoming more popular. Gift cards are examples of access cards. Digital cash refers to buying goods and services with funds that are transferred from one account to another through computers. Research access cards and digital cash. Write an essay on your findings. Include whether you think cash and checks will soon be outdated.

Business Ethics

Banks as Citizens of the Community

21. When Hurricane Katrina hit Louisiana, it caused a break in the levee system. Most of New Orleans was flooded. The coasts of Mississippi and Alabama also suffered heavy damage that caused a humanitarian crisis on a vast scale. Hurricane Katrina was one of the most costly natural disasters in U.S. history. In situations such as this, what is the responsibility of banks? What ethical issues do they face?

Chapter 12 Review and Activities

Applying Academics to Business

English Language Arts

22. Collect various types of advertisements for financial institutions. Include a commercial bank, a savings and loan, and a mortgage company or credit union. Based on the ads you collect, chart the different services offered. Write a paragraph or two comparing and contrasting the institutions.

Mathematics

23. Pauline needs to get a \$5,000 loan to buy a car. Her bank offers a loan at 6% simple interest, which she will pay back in three years. If she takes this loan, how much interest will she pay?

CONCEPT **Simple Interest** The formula for finding simple interest is $I = prt$, where I is the amount of the interest, p is the principal, r is the interest rate, and t is time.

English Language Arts

24. As a noun, the word *interest* has several meanings. It can also be used as a verb. Look at the definition of *interest* in at least two different dictionaries. Then write four sentences using the word or one of its forms to illustrate four of its meanings. One of your sentences should use it as a verb.

Mathematics

25. Heather uses an ATM three times a week. She spends a week out of town for work every fifth week, and has to use an ATM that charges her \$1.50 in service fees each time she uses it. How many weeks does she spend out of town each year? How much will she spend on service fees in a year?

CONCEPT **Multiplying Fractions** To multiply a fraction by a whole number, multiply the whole number by the numerator of the fraction and then divide by the denominator.

Active Learning

Research the Federal Reserve

26. Write a letter to the Federal Reserve Bank in your area. Ask for information about the Federal Reserve System. Find out how the branch fulfills the Federal Reserve mission. Request information about the member banks in your area. Share the information you receive with your classmates.

Business in the Real World

Interview a Loan Officer

27. Interview a business loan officer at a local bank about business loans. Ask about the size of a typical loan and the percentage of loans backed by collateral. Find out why some business loans have no collateral. Also, ask about the length of a typical loan. Why are some loans not repaid? Share what you find with the rest of the class.

Real LIFE skills

SKILLS NEEDED IN BANKING

28. Research the training and qualifications that are required to be a bank teller. Get this information from banks' Web sites, bank employees, the Occupational Outlook Handbook, or other sources. Write a one-page report that includes this information. Indicate if you think you would be interested in preparing for this position.

COOL Business CAREERS

FIND YOUR DREAM JOB

29. Go to the *Introduction to Business* Online Learning Center through glencoe.com for a link to the Occupational Outlook Handbook Web site. Click on the "OOH Search/A-Z Index" link and enter the job category "loan counselors and officers." Then write a one-page report about this area of occupation. Conclude your report with a list of things you could do now to prepare yourself to pursue the occupation.

Role Play

CURRENCY FOR AN ISLAND ECONOMY

30. **Situation** Imagine that you live on an island that has few modern conveniences. You and your neighbors want to figure out something you can use for currency.

Activity Make a presentation about items you would consider using as currency and why.

Evaluation You will be evaluated on how well you meet the following performance indicators:

- Know the characteristics of money.
- Accurately relate the characteristics of money to the characteristics of the items that are suggested as currency.
- Use correct grammar.
- Organize your presentation in a logical way.

Standardized Test Practice

Directions Choose the letter of the best answer. Write the letter for the answer on a separate piece of paper.

1. Which sentence contains an error in the use of commas?

- A All over the world, paper money and coins are common forms of money.
- B Without money, buying and selling is difficult.
- C With money, however transactions become easy.
- D As a standard of value, money makes it possible to set a fixed value on a product.



TEST-TAKING TIP Even though the first answer choice you make is often correct, do not be afraid to change an answer if you change your mind after thinking about it.



READING Go to the *Introduction to Business* Online Learning Center through glencoe.com for a list of outside reading suggestions.



Ling Chai

Founder, President, and COO, Jenzabar

Jenzabar offers Web-based software and e-learning products and services to colleges and universities. Its founder, Ling Chai, is also known for her leadership role in the Tiananmen Square democracy movement, which landed her on the Chinese government's most wanted list. She has been nominated for the Nobel Peace Prize twice.

Q & A

Describe your job responsibilities.

Ling: I am involved in almost every aspect of the business, with a particular focus on the company's product development and product marketing.

What skills are most important in your business?

Ling: A solid academic, technology, and business background, which is particularly key to my type of business and marketplace. In becoming a manager, it is essential to develop and maintain people skills, knowing what it takes to create and motivate a team. Defining culture is the key to managing a company—in our case a service-oriented, customer-centric culture.

What is your key to success?

Ling: Success comes through hard work and dedication to an idea. Persistence has been a key attribute for me, and certainly a little luck helps, too.

What advice would you give students interested in starting a business?

Ling: Most important is a solid educational background. Go for it, and follow your heart. Do something that makes you want to wake up and go do it every day, because you'll need that attitude to support the hard work and persistence necessary to be successful.

How has your experience in China, especially Tiananmen Square protests, shaped who you are today?

Ling: My leadership in Tiananmen Square protests helped shape the democracy movement in terms of organizing people in a disorderly situation, and developing an action plan. There are similarities between leading a political movement and running a business. Both deal with managing people, developing a mission, handling situations and issues as they emerge, and maintaining a direction.



Critical Thinking *Why is it important to maintain a balance of education, experience, and networking while developing and running a business?*

Some Qualifications of the Owner of a Software Development Company

Academic Skills and Abilities

Computer science; mathematics; information systems; computer programming; interpersonal skills; general business management; verbal and written communication skills; multitasking, organizing, and planning skills

Academic Skills Required to Complete Tasks at Jenzabar			
Tasks	Math	Science	English Language Arts
Hold meetings			◆
Assign duties			◆
Develop new products	◆	◆	◆
Assess marketplace opportunities	◆	◆	◆
Customer service			◆
Schedule employees	◆		◆
Order supplies and equipment	◆		◆
Analyze financials	◆		◆

Education and Training

Occupations in the software publishing industry require varying levels of education. The level of education and type of training required depend on the employer's needs, which often change due to changes in technology and business conditions. Another factor driving employers' needs is the time frame within which a project must be completed.

Career Path

Computer software engineers need a broad knowledge of and experience with computer systems and technologies. Usual degree concentrations for applications software engineers are computer science or software engineering; for systems software engineers, usual concentrations are computer science or computer information systems. Graduate degrees are preferred for some of the more complex software engineering jobs.

Preparing for a Career Self-Assessment Checklist

Use this self-assessment checklist to help determine ways you can succeed in the marketplace of ideas.

- ✓ Evaluate price fluctuations for products and services you might be able to provide.
- ✓ Ask for advice or assistance when you need it—and be prepared to provide help in return.
- ✓ Always look for new opportunities to update your technological skills.
- ✓ Investigate the unfulfilled business needs of your own community.
- ✓ Brainstorm with friends and find a partner with whom you work well.
- ✓ Be realistic about job requirements and necessary skills.
- ✓ Be persistent. It may take some time for your plan to become a success.
- ✓ Perform further research about business plans and create one for your own business idea.