

Reading this chapter and watching the video reminded me, once again, of my overall ignorance on many topics, such as a financial crisis, banking and the Federal Reserve. I believe I have mentioned in earlier discussion posts that I do not watch the news, read the paper or know very much, if anything, about our government or politics, in general. I found the video containing the lecture given by Chairman Dr. Ben Bernanke very informative and easy to understand. His use of “slides” gave importance to specific topics, providing the audience with definitions and examples of terms used in business and the financial world.

Dr. Bernanke’s lecture, which lasted a little over one hour and twelve minutes, was a great supplemental resource to Krugman’s chapter on “Money, Banking and the Federal Reserve System”. I noticed a lot of what we have read and discussed in previous chapters about economy mentions The Great Depression and its’ significance in American history. Interestingly, Dr. Bernanke seems particularly interested in the economic and political causes of the Great Depression. The examples I chose to write about, in terms of something I learned much more about are President Roosevelt and his involvement in establishing deposit insurance.

I have had a bank account, in some form for almost twenty years, set up when I first started working. However, up until this course, I honestly will say I knew nothing about the FDIC and deposit insurance. “Almost all banks in the United States advertise themselves as a “member of the FDIC”- the Federal Deposit Insurance Corporation” (Krugman, 420). I admit I have seen the gold plated signs posted throughout various branches of banks I belonged to but never cared enough to inquire about what it is. Both Krugman and Bernanke point out that deposit insurance is so important and relevant to the Great Depression, and the economy, in general, is because of what it eliminates.

The FDIC provides, “deposit insurance, a guarantee that depositors will be paid even if the bank can’t come up with the funds, up to a maximum amount per account” (420). Krugman defines a bank as “a financial intermediary that uses liquid assets in the form of bank deposits to finance the illiquid investments of borrowers” (418). This means individuals who have accounts with various banks, where they deposit their money for savings, to pay bills, prepare for retirement, etc., are protected by the FDIC up to a certain amount per account if something were to happen to the bank, causing it unable to repay its’ account holders.

The significance of deposit insurance, which both Krugman and Bernanke made very apparent, is that it eliminates the main reasons for bank runs. Krugman states, “A bank run is a phenomenon in which many of a bank’s depositors try to withdraw their funds due to fears of a bank failure” (420). Bernanke incorporated this into his lecture stating it as one of the causes of the Great Depression. A slide presented by Bernanke listed several other factors which played a cause for the Great Depression such as the repercussions of WWI, the gold standard, the famous bubble in stock prices and the financial panic.

In closing, President Roosevelt did not successfully solve the financial crisis but according to Bernanke, he did do at least two things correctly. Two policies that aided in ending the Great Depression were putting into place deposit insurance and the abandonment of the gold standard allowing the money supply to increase and ending deflation. Bernanke states Roosevelt allowed the monetary policy to be released and allowed expansion of money supply leading to a short-term rebound, offsetting the problems the FED created.