



## Advice for teachers

### Outcomes in terms of content

I becoming familiar with the tasks of a commercial bank

I getting to know the central bank and its tasks

I classify the European System of Central Banks (ESCB) and the Eurosystem

I know about the formation of the Governing Council of the ECB and its tasks

The thematic “The Banks and the Eurosystem” consists of three information sheets and three worksheets with solutions. Teachers can use the materials depending on their lesson planning in school. There is no fixed order how to use the materials.

More detailed information regarding this topic can be found in chapter 4 and 5 of the school book “Money and Monetary Policy”.



# The Banks and the Eurosystem

Information sheet 1

The Commercial Bank

The Commercial Bank (in short: Bank) offers banking deals to its clients: For example, you can open a bank account at a bank. You can transfer money from one account to another account, take out a loan or invest money, or rather save money. Everyone who has a bank account can withdraw money at a bank machine. That's also where you can get your bank statements to check your account balance. The clients of a bank may be companies or private persons, for example.

Banks play an important role as money intermediary in the economy. On the one hand, they receive the money of the savers. On the other hand, they give the money in form of credits to companies and private persons, so that they are able to buy new machines or real estates.



There is a difference between the so called universal bank and the specialized bank:

Universal Banks offer almost all banking deals: For example, they give credits, make security transactions and do the payment transactions. The “Deutsche Bank” and the “Commerzbank” can be named as big universal banks, but even smaller banks like the “Sparkassen” (saving banks) or “Volksbanken” (people’s banks) are universal banks.

Specialized Banks concentrate on specific banking deals. For example, the home savings banks and the mortgage banks are specialized banks. They offer credits to build a house or to buy a real estate.

Interesting to know:

There are circa 2000 universal banks and about 60 specialized banks in Germany.



## The tasks of a central bank

Most of the states have a **central bank**. It plays a special role because its tasks differentiate significantly from the ones of a commercial bank. As a national institution, it is the task of the central bank to guarantee the **price stability (money stability)** and it is responsible for the working of the monetary system of a country. Besides these, a central bank has further tasks. The central bank prints the banknotes and distributes them. That's why the central bank is often also called **issue bank**.

**Price stability** means that you can buy almost the same amount of goods, with for example 100 €, today and in five or ten years. The central bank is responsible to guarantee this stability, in other words; the money may not lose its value or rather purchasing power.

## Price stability: Depending on the banks

The central bank is the most important bank. Every bank needs cash regularly, which their clients may withdraw. If a bank needs cash, the bank has to get it from the central bank. The banks only receive cash if they have a deposit on their account at the central bank. If they don't possess enough money, they have to take out a loan with the central bank. In return they have to pay interests.

By giving loans and receiving interests, the central bank can influence the economy and in this way guarantee the price stability.

## Interesting to know:

All measures, which the central bank adopts, to guarantee its aim (price stability) are summarized with the term **monetary policy**.



# The Banks and the Eurosystem

Information sheet 2.2

The Central Bank

## The German Federal Bank

The German central bank is called German Federal Bank. It is in charge of a council, which consists of six members. The head of the German Federal Bank is the President of the German Federal Bank.



The head office of the German Federal Bank is located in Frankfurt am Main.

### Interesting to know:

*The German Federal Bank maintained the price stability until 1998 on its own in Germany. Since the Euro has been introduced in 1999, the German Federal Bank, in cooperation with the European Central Bank (ECB) and other central banks from other countries, is responsible for the maintenance of the price stability in euro area.*



- Principal administration
- Branches

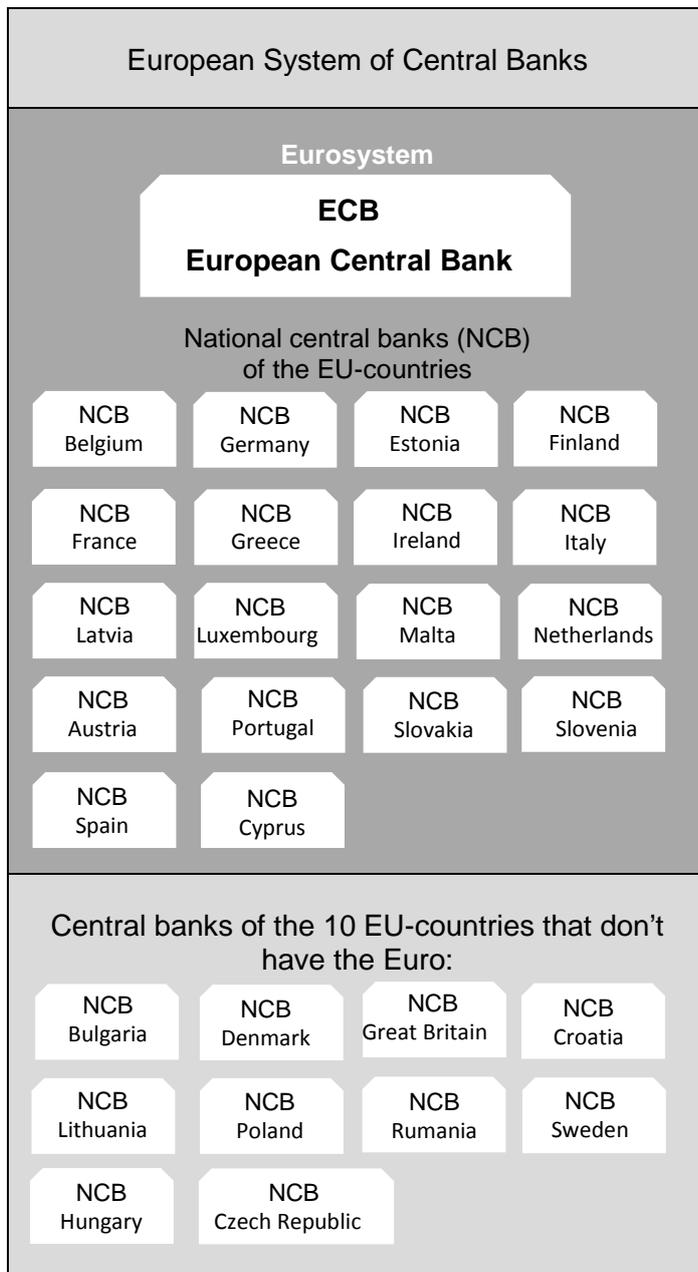
Besides the head office, there are nine principal administrations and numerous branches. One of the important tasks of the principal administrations is the bank supervision. They check if commercial banks obey the legal rules. The accounts of the commercial banks are organised by the branches. There you may withdraw or pay in money. The money that flows back is checked in the branches: Old and damaged banknotes are sorted out and in return new banknotes are put into circulation.



# The Banks and the Eurosystem

Currently, 18 of the 28 member states of the European Union (EU) have introduced the Euro. That's why a distinction between the EU-countries and the euro area is important. This is also applies to the central banks. In this context a differentiation between the European System of Central Banks (ESCB) and the Eurosystem is made.

To the ESCB belong the European Central Bank (ECB) and all 28 central banks of the EU-countries.



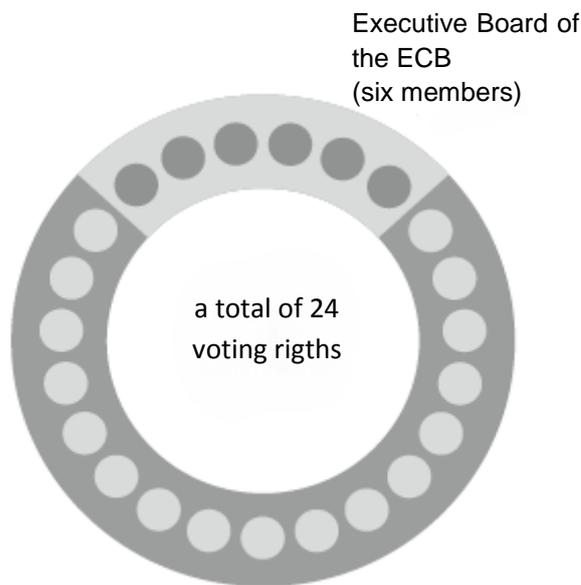
In contrast, the Eurosystem consists of the ECB and the 18 national central banks of the EU-countries. It includes the central banks of Belgium, Germany, Estonia, Finland, France, Greece, Ireland, Italy, Latvia, Luxembourg, Malta, Netherlands, Austria, Portugal, Slovakia, Slovenia, Spain and Cyprus.

Altogether, the Eurosystem guarantees the **price stability** (monetary stability) within the euro area.



## The Governing Council of the ECB

The Governing Council is the main decision-making body of the Eurosystem. It consists of the Executive Board and the 18 Presidents of the central banks of the Eurosystem. The Governing Council is independent. This means that it doesn't have to adopt instructions, which are made by other European or national institutions.

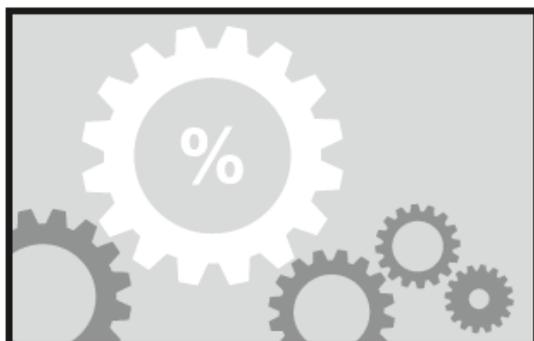


The Governing Council makes all the necessary decisions, which serve to guarantee the price stability. This means that it also determines the **interest rate** for which commercial banks can take out a loan in the Eurosystem. It also decides about other monetary measures, which are important to guarantee the price stability.

18 Presidents of the national central banks of the countries where the Euro has been introduced

Figure on the left:  
Every member of the ECB Governing Council has a voting right for monetary decisions.

The most important interest, which the Governing Council determines, is the so called federal funds rate.



To achieve price stability, the Governing Council of the ECB can adjust the "interest rate screw". This means that the federal funds rate will increase or decrease.



# The Banks and the Eurosystem

Tasks Information Sheet 1

The Commercial Bank

## Task 1

Decide whether the statement is true or false and tick the corresponding box.

	True	False
1. A universal bank is responsible for all banking deals that are connected to money.		
2. At a commercial bank, you can withdraw money from accounts that you haven't opened.		
3. Commercial banks operate as universal and specialized banks.		
4. There are about 2000 universal banks in Germany.		
5. A specialized bank provides a comprehensive offer of banking deals to its clients.		

## Task 2

Paul gets 100€ for his birthday from his relatives. As he doesn't need the money at the moment, he wants to make a savings account. His grandfather thinks that this is strange. He lives according to the motto "Only cash is king" and is of the opinion that Paul's money is not save at a bank. He has his savings underneath his pillow and thinks that one can do it without a bank.

Can you imagine a world without banks? Please justify your answer.



## Task 1

Answer the following questions about the central bank. Mark the correct answer.

1. What is the main task of the central bank?

- Security transactions
- Profit maximization
- Guarantee price stability

2. What's the generic term for the measures that a central bank uses to guarantee price stability?

- Monetary policy
- Banknote policy
- Contractionary policy

3. Why is the central bank also called "issue bank"?

- Because it distributes the banknotes.
- Because other banks evaluate the central bank with grades.
- Because the employees are marked.

4. How is the central bank of Germany called and where is its head office?

- Reichsbank in Berlin
- German Federal Bank in Frankfurt am Main
- Credit Bank in Hamburg

5. What's the task of the branches of the Federal Bank of Germany?

- They distribute banknotes.
- They mint coins.
- They print banknotes.



# The Banks and the Eurosystem

Tasks Information Sheet 2

The Central Bank

## Task 2

Paul's grandfather thinks little of banks. That's why he hasn't a good word to say for the German Federal Bank. He is of the opinion that the German Federal Bank is a bank like every other bank. The only difference would be that the state has to maintain it and therefore taxes are wasted.

Explain to Paul's grandfather, what the differences between the German Federal Bank and other banks are. Which tasks does the German Federal Bank have?



# The Banks and the Eurosystem

Tasks Information Sheet 3

ESCB and the Eurosystem

## Task 1

a) Combine the sentences:

The European Union...	...determines the base federal funds rate.
To the Eurosystem belongs...	...that national and European positions of the European Central Bank and the national central banks cannot give instructions.
The task of the Eurosystem is to...	...consists of 28 member states.
The Governing Council of the ECB...	...the European Central Bank and 18 national central banks.
The Governing Council of the ECB consists of...	...the Executive Board of the ECB and the presidents of the national central banks.
The independence of the Eurosystem means,...	...guarantee price stability.

b) Classify the following positions according to the corresponding person, who is in office currently. Use the internet for help! The solutions may be found on the homepage of the respective central banks.

1. President of the European Central Bank
2. Vice-president of the European Central Bank
3. President of the German Federal Bank
4. Vice-president of the German Federal Bank
5. President of the Austrian Central Bank (Austrian National Bank)
6. President of the Dutch Central Bank (Netherlands National Bank)



# The Banks and the Eurosystem

Tasks Information Sheet 3

ESCB and the Eurosystem

## Task 2

There is a difference between the European System of Central Banks (ESCB) and the Eurosystem. Explain the difference and why this distinction is necessary. Include a discussion on the question why the Eurosystem cannot guarantee price stability in the EU-countries, which haven't introduced the Euro yet.



## Considerations and solutions for the tasks

### Tasks Information Sheet 1

#### Task 1

In this task, the important information should be revised.

	True	False
1. A universal bank is responsible for all banking deals that are connected to money.	X	
2. At a commercial bank, you can withdraw money from accounts that you haven't opened.		X
3. Commercial banks operate as general and specialized banks. m	X	
4. There are about 2000 universal banks in Germany.	X	
5. A specialized bank provides a comprehensive offer of banking deals to its clients.		X

#### Task 2

The students should recognize the importance of the banking system. They should be able to classify its function within the economic circle.

Considerations for this task:

I No, the world cannot be without banks.

I Banks have important functions: They receive savings, give credits and organize the cashless payment transactions.

I These are significant elements without the current economy wouldn't be able to operate.



## Considerations and solutions for the tasks

### Taks Information Sheet 2

#### Task 1

The students should mark the correct answer. In this way they revise what they have learned and implement their knowledge.

Solutions:

1. What is the main task of the central bank?

Guarantee price stability

2. What's the generic term for the measures that a central bank uses to guarantee price stability?

Monetary policy

3. Why is the central bank also called "issue bank"?

Because it distributes the banknotes.

4. How is the central bank of Germany called and where is its head office?

German Federal Bank in Frankfurt am Main

5. What's the task of the branches of the Federal Bank of Germany?

They distribute banknotes.

#### Task 2

The students should get familiar with the tasks and the importance of the central bank. The aim of the central bank should become clear.

Considerations for this task:

I The German Federal Bank has other tasks and aims as commercial banks.

I The focus is on the guarantee of price stability.

I To achieve this aim, the central bank provides credits to banks, which have to pay an interest.

I Further tasks: Distribution of banknotes, bank supervision...



# The Banks and the Eurosystem

## Considerations and solutions for the tasks

### Tasks Information Sheet 3

#### Task 1

a) The students should revise the most important information, which is provided in the third information sheet, with the help of this task.

The European Union...	...determines the federal funds rate.
To the Eurosystem belongs...	...that national and European positions of the European Central Bank and the national central banks cannot give instructions.
The task of the Eurosystem is to...	...consists of 28 member states.
The Governing Council of the ECB...	...the European Central Bank and 18 national central banks.
The Governing Council of the ECB consists of...	...the Executive Board of the ECB and the presidents of the national central banks.
The independence of the Eurosystem means,...	...guarantee price stability.

b) By using the internet for the searching process, the students should become familiar with the names and faces. The students should recognize the individual parts of the Eurosystem not only as part of bureaucracy, but also as organs, in which persons play an important role.

Solutions (State January 2014):

- |                        |                          |
|------------------------|--------------------------|
| 1. Jean-Claude Trichet | 4. Sabine Lautenschläger |
| 2. Vitor Constancio    | 5. Eswald Nowotny        |
| 3. Jens Weidmann       | 6. Klaas Knot            |

Advice: After the expiration of the period of office, there's a change of the incumbent.



# The Banks and the Eurosystem

Considerations and solutions for the tasks

Tasks Information Sheet 3

## Taks 2

The students should explain the difference between the ESCB and Eurosystem in their own words. This helps to understand the connections and to fix the contents of the Information Sheet 3 in their memory.

I ESCB = EC + 28 national central banks of the EU-countries

I Eurosystem = ECB + 18 national central banks of the Eurozone

I This differentiation is necessary because not all countries within the EU have introduced the Euro as common currency.

I The Eurosystem cannot guarantee the price stability in the EU-countries without the Euro because the monetary policy there is controlled by local central banks.