



# Money and Monetary Policy in Canada

## LESSON PLAN MODULE 3: CANADA'S FINANCIAL SYSTEM

**“Money and Monetary Policy In Canada” by Gary Rabbior**

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This module deals with the development of money and the emergence of a centralized banking system in Canada. It traces the development of money from commodity to specie to fiat types of money and explains how the need for a centralized banking system developed.

## **Learning Outcomes**

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The students will be able to:

1. Explain the role of a financial system.
2. Define liquidity and inflation and explain their relevance.
3. Analyze reasons why banks might fail.
4. Present an argument for banks as businesses.
5. Evaluate the degree to which Canadians can have faith in their banks.

## **New terminology**

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- Financial system
- Fractional Reserves
- Store of value
- Liquidity
- Inflation
- Clearing
- Settlement

## Implementation Strategies

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This lesson will take 3 class periods to complete. Students will engage in a “talking triad” activity, discuss a homework assignment, and prepare and present a group presentation.

### Period One:

- Ask the students to define what they believe is meant by the term “financial system.”
- Once they have offered their ideas explain to them that a financial system “refers to the financial institutions, financial markets, and the set of rules and regulations that affect how money circulates in the economy “and that the lesson will examine various factors associated with it.
- In preparation for the talking triads activity ask the students to read 3.1, 3.2 and 3.3 and write answers to the following questions:
  1. What is the value of a financial system and how does it fulfill that role?
  2. How did banking evolve and what is the role of fractional reserves?
  3. How do interest rates affect the economy?
  4. How do intermediaries help investment?
  5. Why is investment important?
  6. Why is maintaining our economic infrastructure so important?
- Allow the students time to complete this task and then arrange the students in groups of three.
- Once they are in their triads indicate how the discussion will work:
  - Each student will give his or her answer to the question.
  - Once each student has provided an answer the triad will compile the most complete answer based on the information provided.
  - Repeated for each question.
  - Once completed, the triad will hand in their set of answers.
- For homework, assign the following task:

Read section 3.4 and answer the following questions:

  - I. What is liquidity and what factors affect it?
  - II. What is inflation and how does it affect savings activities?

NOTE: Students could go to the following Bank of Canada website to use an inflation calculator to see the impact of changes over time - <http://www.bankofcanada.ca/rates/related/inflation-calculator/>

**Period Two:**

- Begin the period by taking up the homework and checking for clarity of understanding.
- This lesson deals with 3.5 – The Business of Banking. There are four tasks to be assigned so, depending upon the number of students in the class break them into either four larger groups or eight smaller groups and assign one of the following tasks to each group:
  1. Banks are businesses. Explain how this is true and discuss the challenges they face and the actions they take to address those challenges.
  2. “Banks use money to make money.” Explain how this statement is true and how they do that.
  3. What are the reasons a bank might fail. Be specific and give examples of each reason.
  4. Can Canadians have faith in their banks? Give examples of how our banks are regulated and controlled.
- Inform them that they are to prepare a presentation for the class on their assigned topic and allow them the remainder of the period to prepare.

**Period Three:**

- Have each of the groups in turn present their material.
- Once all have presented, hold a plenary session to review any necessary material or answer any outstanding questions or concerns.

## Evaluations

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1. The triad answers should be collected and evaluated.
2. The group presentations could be evaluated.

## Other Related Activities

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1. The students could check the value of the stocks of selected banks.
2. The students could use the following website to learn about the history of the Bank of Canada -  
<http://www.bankofcanada.ca/about/history/>
3. The students could check the current interest rates available for both savings and loans such as mortgages.
4. The students could explore the current rate of inflation and predictions about its future.

## On-line Links

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Mopping up liquidity is a tricky balancing act – The Globe and Mail -  
<https://www.theglobeandmail.com/report-on-business/mopping-up-liquidity-is-a-tricky-balancing-act/article4211463/>

Inflation and GDP – What you need to know about economic growth -  
<https://www.ratesupermarket.ca/blog/know-your-economics-inflation-and-gdp/>

The Bank of Canada as Overseer - <http://www.bankofcanada.ca/core-functions/financial-system/>

