Unit 4

Essential Question
How can you make the most of your money?

Chapter 10
Essential Question
How well do financial institutions serve our needs?

Chapter 11
Essential Question
How do your saving and investment choices affect your future?
How can you make the most of your money?

Some people say that to make money, you need to have money. To some extent, this may be true. However, it is more likely that you can make the most of your money if you analyze your savings and investment options. In Unit 4, you will study money, banking, and finance and explore possible responses to the Unit Essential Question.

Read the paragraph and follow the directions.

You’ve earned $25 by walking your neighbors’ dog while they were away. Immediately, you start thinking about all the great things you could buy. However, you don’t have enough money to buy everything you want, and you owe money to a friend, too.

A. Number the choices below in order from your highest to your lowest priority.

___ add to your savings account  ___ invest in your uncle’s business
___ pay back your friend  ___ give to a charitable organization
___ go out to eat  ___ buy school supplies

B. Why did you decide to put the items in this order? Explain your reasoning with details from your own experiences.

___________________________________________________________________________
___________________________________________________________________________
___________________________________________________________________________

C. What are your long-term financial goals? What role does saving and investing play in how you can meet your goals?

___________________________________________________________________________
___________________________________________________________________________

Knowing the risks and benefits of buying stocks and bonds is one of the keys to wise investing.
CHAPTER 10 Money and Banking

Warmup

How well do financial institutions serve our needs?

A. Salt, gold, silver, and shells all have something in common. They all have been used as currency, or forms of money. Complete the chart with notes about the ways that you use money. Remember to include notes about using things other than money as currency. For example, perhaps you baby-sit in exchange for rides to your team’s practices.

B. Think about the banking services you know. Why do people use these services? What is your opinion about these services? Complete the chart with your ideas. Some examples have been given to help you get started.

C. Speculate about why financial institutions do business differently today, compared to the way they did business in the past.

---

Money in My Life

<table>
<thead>
<tr>
<th>Banking Services</th>
<th>Why People Use Them</th>
<th>My Opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>automated teller machines (ATMs)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>debit cards</td>
<td></td>
<td></td>
</tr>
<tr>
<td>credit cards</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---
CHAPTER 10 How well do financial institutions serve our needs?

Exploration

I. Money, Utility, and Value

Find Out

A. Give one example of each function of money and explain your example.

Medium of Exchange

___________________________________________________________________________

Unit of Account

___________________________________________________________________________

Store of Value

___________________________________________________________________________

B. In each box, write a characteristic of money and give an example or definition.

What Do You Think?

C. In your opinion, what commodity would best fulfill the characteristics of money if our government had to use commodity money instead of fiat money? Explain your reasoning.

___________________________________________________________________________

___________________________________________________________________________

___________________________________________________________________________
II. History Highlights

Find Out

A. The chart below lists some highlights from the history of banking. Explain how each event either created a problem—or solved a problem. Some examples are given.

<table>
<thead>
<tr>
<th>Events</th>
<th>Problems Caused or Solved by Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1791—Charter of the Bank of the United States</td>
<td>Bank brought stability to American banking by holding tax money, issuing notes backed by gold and silver, and supervising state banks.</td>
</tr>
<tr>
<td>1816—Charter of the Second Bank of the United States</td>
<td></td>
</tr>
<tr>
<td>1863 and 1864—National Banking Acts</td>
<td></td>
</tr>
<tr>
<td>1913—Federal Reserve Act</td>
<td></td>
</tr>
<tr>
<td>1933—Federal Deposit Insurance Corporation (FDIC)</td>
<td></td>
</tr>
<tr>
<td>1970s–1980s—Savings and Loan Crisis</td>
<td>Deregulation increased competition on S&amp;Ls. Because they made risky loans and paid high interest rates on deposits, many S&amp;Ls failed and many people lost money.</td>
</tr>
<tr>
<td>2000s—Sub-Prime Mortgage Crisis</td>
<td></td>
</tr>
</tbody>
</table>

What Do You Think?

B. What effect does flexibility have on the ability of financial institutions to help solve economic problems today? Support your opinion with at least one example.
III. Making Choices About Managing Your Money

What Do You Think?

For a consumer, services and fees can be important factors in deciding which financial institution to use. Read the descriptions of the four financial institutions. Which institution or institutions would you recommend to the people below, and why?

1. Convenience Commercial Bank
   - Fee-based checking and savings accounts
   - Loans at competitive interest rates
   - Many ATMs in region; agreements to use other banks’ ATMs for $1.00 additional fee
   - Excellent home banking services, and automated clearing house services
   - Credit cards with moderate interest rates

2. Best Bet Savings and Loan
   - Free checking and savings accounts
   - Loans at low interest rates, but strict loan requirements (many people turned down)
   - Some ATMs in region; use of other ATMs for $2.00 fee
   - Home banking services; no automated clearing house services
   - Credit cards with high interest rates

3. Trust Us Savings Bank
   - Offers most services that the Convenience Commercial Bank offers, but lower fees
   - Loans at competitive interest rates; works with people to help them qualify for loans
   - ATM at bank only; use of other ATMs for $3.00 fee
   - Good home banking services;
   - No automated clearing house services
   - No credit card services

4. All for One Credit Union
   - Free checking and savings accounts (open to the entire community)
   - Offers the lowest loan interest rates of all the banks described here
   - ATM at office only; no agreements with other institutions
   - No home banking services; no automated clearing house services
   - No credit card services

High School Student

College Student

Young Family

Two Business Owners Who Travel Often
IV. Taking a Closer Look at Financial Services

Find Out

A. What are positive and negative features of the following financial services? Write one “pro” statement and one “con” statement for each.

<table>
<thead>
<tr>
<th>“Pro” Statement</th>
<th>Service</th>
<th>“Con” Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>A person doesn’t need to carry money.</td>
<td>Debit Cards</td>
<td>Too easy to overspend when not using cash.</td>
</tr>
<tr>
<td></td>
<td>Credit Cards</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Automated Teller Machines (ATMs)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Home Banking or Online Banking</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Finance Companies</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Stored Value Cards</td>
<td></td>
</tr>
</tbody>
</table>

What Do You Think?

B. Which service do you think is most valuable to people today, and why? Which service do you think is least valuable, and why?

___________________________________________________________________________
___________________________________________________________________________
___________________________________________________________________________

C. Do you think financial institutions are prepared to meet the needs of people in the future? Why or why not?

___________________________________________________________________________
___________________________________________________________________________

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CHAPTER 10  How well do financial institutions serve our needs?  Name: ______________________________

Essential Question Activity

Activity

Complete this activity to answer the Essential Question.

Imagine that after many years of service, you become the manager of the bank that serves the neighborhood in which you grew up. Your responsibility to the bank is to increase its profits. However, you also want to do good works in your community. Using the worksheet on the next page, fill in the following information:

A. In the first column, write the services you will offer your customers.

B. In the second column, write how these services will benefit your neighborhood. For example, how might giving people mortgages be good for the neighborhood?

Think about which services and benefits are most likely to attract customers to your bank. Based on your ideas, write one or more advertising slogans for your bank in the third column.

Modify

Now suppose another bank opens down the block from your bank. Choose two of the following situations. Describe how each of them might cause you to modify the services you offer and how you choose to advertise.

A. The new bank offers free debit cards and electronic banking through the Internet.

B. The new bank offers low-interest mortgages—but only to borrowers who have an excellent history of paying back loans.

C. The new bank offers low-interest mortgages to poor people who want to live in their own house, but who may not be able to pay back their debt.
CHAPTER 10  How well do financial institutions serve our needs?

<table>
<thead>
<tr>
<th>Services Offered</th>
<th>Benefits of Services</th>
<th>Advertising Slogans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home mortgage loans</td>
<td>People in the neighborhood can buy own homes.</td>
<td>Let Us Help You Make Your Home Dreams Come True!</td>
</tr>
</tbody>
</table>

**Modify**

Respond to one of the situations given on the previous page.

___________________________________________________________________________
___________________________________________________________________________
___________________________________________________________________________

Respond to another situation given on the previous page.

___________________________________________________________________________
___________________________________________________________________________
___________________________________________________________________________
CHAPTER 10  How well do financial institutions serve our needs?  Name: ____________________________

Essay

How well do financial institutions serve our needs?

Historically, financial institutions in the United States have both helped and hurt the economy. Today, they play a key role in managing our money supply. They also compete for customers through the services they offer. However, are they serving the needs of individuals, families, and businesses? Think about examples such as the ones below before you start writing your essay.

Financial Institutions

<table>
<thead>
<tr>
<th>History</th>
<th>Money Supply</th>
<th>Services</th>
</tr>
</thead>
</table>
| For example:  
- The Federal Reserve was given the responsibility to protect both customers and the stability of the money supply.  
- Financial institutions were a major cause of the savings and loan and sub-prime mortgage crises.  
- Many financial institutions lack flexibility to address the needs of customers going through foreclosures.  | For example:  
- A stable money supply helps make business transactions efficient.  
- People need a variety of ways to access, store, and invest money.  
- Financial institutions provide customers with many options for managing their money.  | For example:  
- Loans can help people to purchase cars, homes, and businesses.  
- Electronic banking lets people bank 24-hours a day.  
- Credit cards can make shopping easier.  
- Simple and compound interest help a person's money to grow.  |

What Do You Think?

What is your opinion? Write a response to the Essential Question, How well do financial institutions serve our needs? Consider your thoughts on the examples above, the Guiding Questions in your textbook, and the activities you have completed in your Journal and at Economics Online, including the WebQuest. See page 183 for a rubric for writing an Essential Question essay.

Don’t Forget

Your answer to this question will help you think about the Unit 4 Essential Question: How can you make the most of your money?
How do your saving and investment choices affect your future?

Making good saving and investment choices is tied to knowing your options. For each concept in the chart, write what you know, and then write one or two questions that you would like answered. Look for the answers to your questions as you read the chapter.

<table>
<thead>
<tr>
<th>Concepts</th>
<th>What I Know</th>
<th>Questions I Have</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mutual Funds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diversification</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Money Markets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stocks</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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I. Risks and Rewards

Find Out

A. Analyze how each investor has invested $10,000. Then complete the chart with the types of risk each investment holds. Possibilities include minimal risk, high risk, credit risk, liquidity risk, inflation rate risk, and time risk. Remember that investments can carry multiple risks.

<table>
<thead>
<tr>
<th>Risk Type</th>
<th>Investment Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>minimal risk, liquidity risk,</td>
<td>Certificate of Deposits</td>
</tr>
<tr>
<td>time risk</td>
<td>Savings Account</td>
</tr>
<tr>
<td>Hedge Fund</td>
<td>Mutual Fund</td>
</tr>
<tr>
<td>Individual Stocks</td>
<td>Savings Bonds</td>
</tr>
<tr>
<td>Personal Loan</td>
<td></td>
</tr>
</tbody>
</table>

Investor A is investing in:
- Certificate of Deposits: $5,000
- Savings Account: $4,000
- Hedge Fund: $3,000
- Mutual Fund: $2,000
- Savings Bonds: $1,000
- Personal Loan: $0

Investor B is investing in:
- Certificate of Deposits: $5,000
- Savings Account: $4,000
- Hedge Fund: $3,000
- Mutual Fund: $2,000
- Savings Bonds: $1,000
- Personal Loan: $0

B. Are these investors risk tolerant or risk adverse? Explain the risks and possible rewards of each investor's saving and investment distribution.

___________________________________________________________________________

___________________________________________________________________________

What Do You Think?

C. Would your opinion of their saving and investment distributions change if you knew that Investor B was a young person in a stable, high-paying job, while Investor A was a retired person on a fixed income? Explain your reasoning.

___________________________________________________________________________

___________________________________________________________________________
II. Choosing Financial Assets

What Do You Think?

A. To diversify your investments, you have decided to buy three different bonds. How do you decide which bonds are best for you? Study the chart below and decide which bonds you will buy. Circle your three choices.

<table>
<thead>
<tr>
<th>Bond Type</th>
<th>Sample Coupon Rate</th>
<th>Sample Maturity</th>
<th>Possible Par Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings Bond</td>
<td>4.78%</td>
<td>30 years</td>
<td>$50–$10,000</td>
</tr>
<tr>
<td>Treasury Bond</td>
<td>5%</td>
<td>10–30 years</td>
<td>$100–$5 million</td>
</tr>
<tr>
<td>Treasury Note</td>
<td>3%—determined at auction</td>
<td>2, 5, and 10 years</td>
<td>$100–$5 million</td>
</tr>
<tr>
<td>Treasury Bill</td>
<td>2.25%—determined at auction</td>
<td>4, 13, 26, and 52 weeks</td>
<td>$100–$5 million</td>
</tr>
<tr>
<td>Inflation-Indexed Bond</td>
<td>2%</td>
<td>30 years</td>
<td>$50–$5,000</td>
</tr>
<tr>
<td>Municipal Bond</td>
<td>4%</td>
<td>20 years</td>
<td>Variable</td>
</tr>
<tr>
<td>Corporate Bond</td>
<td>3%</td>
<td>10 years</td>
<td>Variable</td>
</tr>
<tr>
<td>Junk Bond</td>
<td>12%</td>
<td>5 years</td>
<td>Variable</td>
</tr>
</tbody>
</table>

B. Explain your reasoning for your bond choices. Include what you know about the risks involved with each one.

___________________________________________________________________________
___________________________________________________________________________
___________________________________________________________________________

C. What kinds of bonds are sold on the primary markets? How might this information influence your decision about purchasing more bonds in the future?

___________________________________________________________________________
___________________________________________________________________________
___________________________________________________________________________

D. Why do you think an investor might choose a junk bond over a money market mutual fund?

___________________________________________________________________________
___________________________________________________________________________
___________________________________________________________________________
III. Stock Talk

Find Out

A. Your understanding of your options in stock purchases can make the difference between a profit and a loss. So, it is important to know the terminology, or vocabulary, used to discuss stocks. For each set of words in the concept web, explain how it relates to stocks.

- Share/Dividend
- Call Option/Put Option
- Capital Gains/Capital Loss
- Stock Split/Stock Worth
- Futures/Options
- Common Stock/Preferred Stock
- Bull Market/Bear Market
- Speculation/Capital Loss

STOCKS

What Do You Think?

B. What risks might there be in buying stock in a company that a friend has recommended as a “sure bet”? Explain.

___________________________________________________________________________
___________________________________________________________________________
___________________________________________________________________________
___________________________________________________________________________

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IV. Speculation

What Do You Think?

How important is it to take into account the general economic climate? For example, before the Great Crash of 1929, there were signs that the economy was in trouble. Recognizing these signs might have led people to make different decisions about stock purchases. Read the economic scenarios below and answer the questions that follow.

A. Given what you know about speculation and futures, explain how people could conclude that trading in oil futures could affect the price of oil.

___________________________________________________________________________

___________________________________________________________________________

B. If a couple was willing to buy a house at a certain price (and had a good credit rating), why might a local bank deny the couple a mortgage if the bank thought the house was overpriced? Think about what banks often do with their mortgages. Also, think about what the bank might be forecasting about future house prices.

___________________________________________________________________________

___________________________________________________________________________

C. How does what you know about the volatility of the stock market affect your thinking about your future investment choices?

___________________________________________________________________________

___________________________________________________________________________

D. Return to the chart you completed in the Chapter 11 Warmup. Write brief answers to your questions on another sheet of paper. If you still have unanswered questions, look for the answers in your library or on the Internet.

In 2007 and 2008, the price of crude oil on the world market rose by over 100 percent. Some people attributed this rise to the law of supply and demand. They said that demand was higher all over the world, so prices rose because supply could not meet demand. Others, however, felt that the price increase was mainly caused by speculation in oil futures.

As you have learned, 2007 and 2008 was marked by a significant number of foreclosures in the housing industry. The sub-prime mortgage crisis began to affect the prime mortgage market. For example, local banks began to deny mortgage loans to people buying houses in a town if the banks felt that the houses were overpriced.
CHAPTER 11 How do your saving and investment choices affect your future?

Essential Question Activity

How do your saving and investment choices affect your future?

Activity

Complete this activity to answer the Essential Question.

Imagine that you have just turned 21 when you learn that a relative you have never met has died—and left you $5,000. According to the will, you must provide a plan for investing the money in the stock, mutual fund, and bond markets that will meet the financial needs you expect to have when you are 30 years old. Using the worksheet on the next page, answer the following questions.

A. What career path do you expect to be following when you are 30? How much money do you expect to be making?

B. What financial responsibilities will you have when you are 30? Will you have student loans to pay? Will you have a family to support? Will you own a house? Will you have expensive interests such as travel or collecting?

C. Based on your income and your responsibilities, how much money will you need from your investments? Will you depend on that income, or can you risk losing some of it?

Use your answers to these questions about your financial needs to help you make your investment plan. Remember to diversify between relatively safe and relatively high-return investments, depending on your predicted needs.

Modify

Suppose that when you are 30, you decide to review your investments. Look at the situations below. Briefly describe how each of them might cause you to change your investment plan.

A. Interest rates are very high.

B. There is a bull market with low interest rates.

C. The stock market is doing well, but many economists are predicting a bleak future in the next year for stocks.

D. You are about to buy a house—and become the parent of twins.
Complete the outline below with your financial plan for $5,000 invested over a period of nine years. List how much you plan to invest in each category. Then use colored pencils or markers to create a circle graph illustrating your plan. Remember to convert your dollar investment amounts to percentages for the graph.

<table>
<thead>
<tr>
<th>Stock market investments:</th>
</tr>
</thead>
<tbody>
<tr>
<td>_____ Income stock</td>
</tr>
<tr>
<td>_____ Growth stock</td>
</tr>
<tr>
<td>_____ Other stock</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Mutual fund investments:</th>
</tr>
</thead>
<tbody>
<tr>
<td>_______________________</td>
</tr>
<tr>
<td>_______________________</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bond market investments:</th>
</tr>
</thead>
<tbody>
<tr>
<td>_____ Savings bonds</td>
</tr>
<tr>
<td>_____ Treasury bonds, bills, and notes</td>
</tr>
<tr>
<td>_____ Municipal bonds</td>
</tr>
<tr>
<td>_____ Corporate bonds</td>
</tr>
<tr>
<td>_____ Junk bonds</td>
</tr>
</tbody>
</table>

TOTAL

Note: Your investment amounts must total $5,000. Note: Your percentages must total 100%.

Explain why this plan will meet your needs as you defined them in your chart above.

___________________________________________________________________________
___________________________________________________________________________
___________________________________________________________________________
___________________________________________________________________________

Modify

Respond to each of the situations given on the previous page. Use another sheet of paper.
How do your saving and investment choices affect your future?

Planning—or not planning—youre saving and investment choices can greatly affect your future. Finding the balance between more risk and less risk, is an ongoing process. As your needs change, your plan must also change. Consider these possible situations.

- After college, you have a large debt to repay. As a graduation gift, you received $1,000 dollars from your parents to help you get started. You decide to use the money to . . .
- When you are in your late twenties, a close friend decides to open a restaurant. Your friend asks you to invest the $10,000 from your retirement account in this venture. You value the friendship and decide to . . .
- Your 80-year-old mother has had some health problems recently. Your father is having trouble taking care of her. To fund the cost of a home health aide, you advise them to . . .
- The stock market has taken a dive and you are glad that you diversified your portfolio. You are now 55 years old and your stockbroker is urging you to take advantage of the lower prices and buy more stocks. You mull it over and decide to . . .
- You have owned your own home for several years and would like to renovate the kitchen. After looking at the interest rates for loans versus the amount you are earning in a money market account, you decide to . . .

How would what you have learned in this chapter help you to make these decisions?

What Do You Think?

What is your opinion? Write a response to the Essential Question, How do your saving and investment choices affect your future? Consider your thoughts on the situations above, the Guiding Questions in your textbook, and the activities you have completed in your Journal and at Economics Online, including the WebQuest. See page 183 for a rubric for writing an Essential Question essay.
Examine the following perspectives on money, banking, and finance. The questions that follow each perspective will help you focus your thinking on the Unit 4 Essential Question, How can you make the most of your money?

Legend has it that Albert Einstein once called compound interest the most powerful force in the universe. Compound interest is the engine that can turn even meager savings into a nice nest egg over time. Inattention to debt puts you on the wrong side of that equation. You spend dollars that could be put to work making you wealthy. You want to be on the right side—the side that uses debt to make money but avoids debt when it hurts. . . . Stop watching your money go up in smoke.

—Mary Dalrymple, Habits for Wealth: Dump Your Debt Habit

A. What do you think the author means by saying, “You want to be on . . . the side that uses debt to make money but avoids debt when it hurts?”

____________________________________________________________________

B. How important do you think compound interest is to successful investing? Provide two reasons in support of your opinion.

____________________________________________________________________

I don’t know what the stock market will do tomorrow. (And, let me be equally clear, neither does anyone else.) Bad things may happen tomorrow. Certainly, bad things will happen on some days. . . . You get a great return [from stocks] by noticing that the day-to-day price of the market doesn’t have much to do with the real long-term value of the best companies within that market. You get an even better return than the market averages by never mixing up three very important facts: Extreme stock market pessimism is great for buyers, extreme exuberance is great for sellers . . . and stocks are long-term investments.

—John Casper, Lessons Learned

C. Do you agree with the author that “stocks are long-term investments”? Why or why not?

____________________________________________________________________
D. What does this cartoon suggest about saving and investing?
____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________

E. What would you say in response to this cartoonist’s point of view?
____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________

What Do You Think?

Choose one of the documents above and explain how it helps you answer the Unit 4 Essential Question, How can you make the most of your money?
____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________
How can you make the most of your money?

Write an essay in response to the Unit 4 Essential Question. Use your answers to the Essential Question warmup on the previous pages, your answers to the chapter Essential Questions, and what you have learned in the unit. Keep in mind that your essay should reflect your thoughtful and well-supported personal point of view. Filling in the chart below will help you structure your essay. Go to page 183 for a rubric for writing an Essential Question essay.

Thesis Statement: ______________________________________________________________
____________________________________________________________________________

Conclusion: __________________________________________________________________
____________________________________________________________________________

Body Paragraph 1  |  Body Paragraph 2  |  Body Paragraph 3

Main Idea

Supporting Details
1. _______________________________________________________________________
2. _______________________________________________________________________
3. _______________________________________________________________________

Main Idea

Supporting Details
1. _______________________________________________________________________
2. _______________________________________________________________________
3. _______________________________________________________________________

Main Idea

Supporting Details
1. _______________________________________________________________________
2. _______________________________________________________________________
3. _______________________________________________________________________