



## Hometown Bank Makes a Loan

Authors: Mary C. Suiter, Ph.D. Federal Reserve Bank of St. Louis

Bonnie T. Meszaros, Ph. D. University of Delaware

### Standards and Benchmarks (see page 17)

### Lesson Description

In this lesson, students participate in a simulation that demonstrates how bank loans made to individuals have an impact on others in their community. Students then work in small groups to analyze hypothetical loans and demonstrate their knowledge by creating flowcharts or drawings to describe the possible effects the loans would have on the wider community. To obtain answer keys for the handouts and assessment in this lesson, contact Amy Hennessy at [amy.hennessy@atl.frb.org](mailto:amy.hennessy@atl.frb.org).

### Concepts

Bank

Financial intermediaries Income

Interest Loan

Profit

### Objectives

Students will be able to

- define bank, income, interest, loan, and profit;
- explain the two main functions of banks and other financial institutions as accepting deposits and making loans;
- identify that workers receive income for the jobs they perform and that business owners have the goal of receiving a profit for their efforts; and
- analyze the economic impact of loans on a community, including increased spending and saving.

### Compelling Question

What impact do banks have in the community?

### Time Required

60 minutes

### Materials

- *Power Point slide deck, "Hometown Bank Makes a Loan: slides 1–18*
- *Enough copies of the Where Do You Bank? infographic from the Federal Reserve Bank of Atlanta for each group of 4-5 students (<https://bit.ly/bank-poster>)*
- *Handout 1, one copy cut apart*
- *Handout 2, 14 copies*
- *Handout 3, one copy for each student who doesn't have a role in the play*
- *Handout 4, cut apart so that each group has one card*
- *Handout 5, one copy for each student (choose either Option A or Option B)*
- *Handout 5 Answer Key (Option A and Option B), one copy of each for the teacher*



- Blank sheets of paper for name signs
- Masking tape and markers
- (Optional) Props for the play, such as toy cell phone, etc.

## Procedure

1. Ask students if they have visited a bank or have a bank account themselves. Ask them for examples of banks in their communities. (*Answers will vary.*) Ask them what services banks provide. (*Answers will vary.*) Tell students that in this lesson they are going to learn about banks and how the services they provide affect the wider community.
2. Display Slide 2 and define banks as businesses (some students may believe they are operated by the government or that banks exist solely to store money) that provide services to the community. Explain that the two main functions of banks (and other financial institutions) are to accept deposits from savers and to make **loans to borrowers**.
3. Display Slide 3 and explain that a **loan** is when people borrow money from a bank or other financial institution, with the promise to pay the money back in the future.
4. Divide students into groups of four or five. Distribute a copy of the Where Do You Bank? info- graphic to each group. Allow time for groups to look at the infographic. Ask students to give examples from the infographic that explain why banks are good places for people to keep their money. (*Accept answers students read from the infographic.*)
5. Display Slide 4-8 and explain the following information about loans:
  - Not only do borrowers have an obligation to pay back the loan, but they must also pay **interest** on the loan. Interest is the price that borrowers pay for using someone else's money. The interest that borrowers pay compensates (or pays) lenders for the use of their money.
  - Lenders use the money that they accept as deposits into savings accounts to make loans. Banks and other financial institutions compensate (or pay) savers interest for the use of their money.
  - Banks (and other financial institutions) are often known as **financial intermediaries**, because through banks, savers indirectly provide funds to borrowers.
  - Interest payments flow in two directions: Banks pay interest to savers for the use of their money, and borrowers pay interest to banks when they receive a loan.
  - The process of borrowing and lending has a far-reaching effect on the local community, beyond just borrowers and savers. Banks lend money for several activities, including to people who want to start businesses or expand and improve their businesses, and to households that would like to purchase or renovate a home or buy a car. The spending generated from these loans provides **income** for businesses and their workers.
  - The spending resulting from loans allows businesses and workers to both spend and save money, which provides further income for other people and more money that banks can lend.
6. Tell students that they will participate in an activity to help them gain a greater understanding of this process and how bank lending affects the wider community.
7. Distribute a card from *Handout 1: Role Cards* and a copy of *Handout 2: Role-Play* to 14 students. Explain that these cards describe characters in a play that they will perform in the classroom.
8. Distribute a copy of *Handout 3: Play Notes* to all students who have not received a role card for the play. Review the



directions and explain that they will use the handout to keep track of the story and record what happens when loans are made.

9. Give the 14 students who have received role cards a blank piece of paper, a marker, and masking tape so that they can make a name badge with their character name. When they have completed the name badge, have them come to the front of the classroom and take turns introducing themselves to the class by reading the information on their cards.
10. Remind students who are in the audience that it is their job to record and keep track of the information they hear in the play on Handout 3.
11. Allow students time to present the play. When they have finished, have them return to their seats.
12. Tell students in the audience that they may use information from Handout 3 in the play discussion. Display Slide 9 and review the play by discussing the following:
  - Who besides Sammy Hart was affected by his borrowing from the bank? (*James Thomas, Monique Noland, Henry Jackson, Ellis Harper, Joshua Jordan, Maya Ortiz, Jacob Williams, Rachel Connor, Barbara Rose, Nathan Brown, and Alicia Bailey*)
  - How were these people affected? (*They received payment for a good or service that they provided, or they received payment for their work.*)
13. Display Slides 10-11 and define income as payment earned for providing resources in the marketplace. When people work, they receive wages or salaries. Wages or salaries are counted as income. People who own their own businesses earn income as the payment for being entrepreneurs. The income paid to entrepreneurs is known as **profit**. Profit is the amount of money that is left over after the business owner pays all the costs of operating the business (such as for wages, materials, equipment and supplies, taxes, license fees, etc.).
14. Display Slide 12 and ask students the following:
  - Who earned income in the form of wages in the play? (*Joshua Jordan [carpenter], Maya Ortiz [welder], and Jacob Williams [electrician], as well as the people who delivered and installed the sign, the flooring, the countertop, and the lighting*)
  - Who earned income in the form of profit? (*James Thomas, Monique Noland, Henry Jackson, Ellis Harper, Rachel Connor, Barbara Rose, Nathan Brown, and Alicia Bailey*) What resource did these people provide? (*They provided their talent and skills as entrepreneurs.*)
15. Have all students who participated in the play (except for the narrator) stand at the front of the classroom. Explain to the class that they will create a diagram to illustrate the economic impact of the loan on the community. All the characters (except the narrator) will use their name signs to create the diagram or flowchart.
16. At one end of the board, write in large letters “Hometown Bank Makes a Loan.” Display Slides 13-15, display questions one at a time, and discuss the following:
  - Who received the loan? (*Sammy Hart*) Ask the student with the “Sammy Hart” sign to tape the sign several inches to the right of the words “Hometown Bank Makes a Loan.” Ask the student with the “Emily Lin” sign to tape their sign below the bank’s name. Draw an arrow from “Hometown Bank” to the sign labeled “Sammy Hart.”



- Whom did Mr. Hart hire to do the work? (*James Thomas*) Ask the student with the “James Thomas” sign to tape the sign several inches to the right of the sign labeled “Sammy Hart.” Draw an arrow from “Sammy Hart” to “James Thomas.”
  - From whom did James Thomas buy electrical supplies, furniture, equipment, and a sign? (*Henry Jackson, Monique Noland, and Ellis Harper*) Have the students with these signs tape their signs several inches above the “James Thomas” sign and draw an arrow from their signs to “James Thomas.”
  - Whom did James Thomas hire to help with the electrical, welding, and carpentry work? (*Joshua Jordan, Maya Ortiz, and Jacob Williams*) Have the students with these signs tape their signs several inches above the “James Thomas” sign and draw an arrow from their signs to “James Thomas.”
  - From whom did Sammy Hart buy flooring? (*Barbara Rose*) Have the student with the “Barbara Rose” sign tape the sign near the “Sammy Hart” sign and draw an arrow from “Sammy Hart” to “Barbara Rose.”
  - From whom did Sammy Hart buy a countertop? (*Nathan Brown*) Have the student with the “Nathan Brown” sign tape the sign several inches above or below the Sammy Hart sign and draw an arrow from “Sammy Hart” to “Nathan Brown.”
  - From whom did Sammy Hart buy lighting? (*Alicia Bailey*) Have the student with the “Alicia Bailey” sign tape the sign several inches above or below the Sammy Hart sign and draw an arrow from “Sammy Hart” to “Alicia Bailey.”
  - Whom did Barbara Rose schedule to install Mr. Hart’s floor? (*An installer*) Write “Installer” on a blank piece of paper and tape it several inches to the right of the “Barbara Rose” sign. Draw an arrow from “Barbara Rose” to “Installer.”
  - Who bought lunch at Rachel Connor’s restaurant? (*Sammy Hart, Monique Noland, James Thomas, Joshua Jordan, Jacob Williams, and Maya Ortiz*) Place the “Rachel Connor” sign near the signs of those who bought lunch at her restaurant and draw arrows from “Rachel Connor” to each of the people who bought lunch.
17. Point out that Sammy Hart received the loan, but his loan affected many other people in his community. People earned income for the work they performed in building his juice and smoothie bar. Ask students what they think these workers did with the money they earned. (*Answers will vary but should include spent it, saved it, or spent some and saved some.*)
18. Explain that if these workers spent some of their income on goods and services in the community, the people who provided these goods and services also earned income. If people saved some of their income, the bank would have money to lend to others, just as it was able to lend to Sammy Hart.
19. Divide the class into groups of four and explain that each group will receive information about a loan. They should try to think of all the people who could be affected by the loan and create a diagram showing the impact of the loan on the community. They may create a diagram like the one on the board or one of their own design.
20. Distribute a card from *Handout 4: Loan Decisions* to each group. Allow time for the students to work. When the groups have completed their diagrams, they should report their examples to the class, summarizing the impact associated with each example. (*Answers will vary as each group interprets the information on the cards, but presentations should illustrate the wider impact a loan has on the community.*)



21. After discussing the reports, display Slide 16 and emphasize the point that when banks make loans, the loans have a broader impact on the community and affect many people and businesses. The loans create income for workers and business owners, and as the workers and business owners spend the income they earned, it creates more income for others in the community. If workers and business owners save the income they earned, this allows banks to generate more loans in the community. Ask students what would happen if many banks in a community were making many loans at the same time. (*Answers will vary, but students should understand that the impact of a loan is far greater than the initial amount of the loan.*)
22. Optional: Use the diagrams the student groups created to create a bulletin board entitled “Hometown Bank Makes a Loan.”

### Closure

23. Display Slides 17 and display questions one-at-a time to discuss the key points of the lesson.
- What is a bank? (*A bank is a business that provides services in the community.*)
  - What are the two main functions of banks? (*To accept deposits from savers and make loans to borrowers. Savers receive interest for the use of their money, and borrowers pay interest as the price of the loan.*)
  - What is a loan? (*A sum of money provided temporarily on the condition that the amount borrowed be repaid, usually with interest.*)
  - What is interest? (*The price of using someone else’s money. When people place their money in a bank, the bank pays interest to the account holder. Those who borrow from banks or other organizations pay interest for the use of the money they have borrowed.*)
  - What is income? (*The payment people receive for providing resources in the marketplace. When people work, they provide human resources [labor], and in exchange they receive income in the form of wages or salaries. Business owners or entrepreneurs earn income in the form of profit.*)
  - When banks make loans, what is the impact on the community? (*Many people other than the borrower are affected when a bank makes a loan. Businesses earn profits and workers earn income as a result of the spending and saving that results from a loan being made. This, in turn, generates further income as the money is spent in the community and allows banks to make more loans when the income is saved.*)

### Assessment

24. Distribute a copy of *Handout 5: Assessment* (either Option A or Option B) to each student, and when completed, collect them as an assessment for the lesson. Use a copy of *Handout 5: Assessment—Answer Key* (either Option A or Option B) to review students’ responses.



**Handout 1: Role Cards (page 1 of 2)**

I am **Sammy Hart**.

I own Sammy's Surf Shop and have decided to add a juice and smoothie bar to the shop to increase business. I am going to borrow money from the bank to pay for the addition.

I am **Emily Lin**.

I am a loan officer at Hometown Bank. I review and approve loan applications.

I am **James Thomas**.

My brother and I own Renovation Brothers, a small business that specializes in remodeling and repairs

I am **Monique Noland**.

I own A-1 Restaurant Supply. I sell equipment and furniture to restaurants, including appliances and furniture such as tables and chairs.

I am the **narrator**.

I provide background information.

I am **Henry Jackson**.

I own HJ Electrical Supply Shop.

I am **Ellis Harper**.

I own Hometown Signs, a small business that designs and creates signage for local businesses.

I am **Joshua Jordan**.

I am a carpenter. When the Renovation Brothers need carpentry work, they hire me to complete carpentry work on their renovation projects.



**Handout 1: Role Cards (page 2 of 2)**

I am **Maya Ortiz**.

I am a welder. I am hired by Renovation Brothers when they need welding work completed.

I am **Jacob Williams**.

I am an electrician and am hired by the Renovation Brothers when they need electrical work on their projects.

I am **Rachel Connor**.

I operate Hometown Pizza Palace, a restaurant that is next door to Sammy's Surf Shop. Many of his customers stop by for a slice of my famous pizza after shopping at his store.

I am **Barbara Rose**.

I own Rose Flooring Company, which sells carpet, tile, and other flooring treatments for homes and businesses.

I am **Nathan Brown**.

I own Stone Artists, a local business that specializes in custom countertops made of granite, marble, and quartz.

I am **Alicia Bailey**.

I own Bailey's Brights, a lighting company that sells commercial lighting treatments to businesses.

**Handout 2: Role Play (page 1 of 3)**

**Sammy Hart:** I own Sammy's Surf Shop and have decided to add a juice and smoothie bar to the shop to increase business. I am going to need a loan from the bank to pay for the addition. I am going to visit the bank now.

**Emily Lin:** Welcome to Hometown Bank. I am Emily Lin. How can I help you today?

**Sammy Hart:** My name is Sammy Hart, and I own Sammy's Surf Shop. I would like to apply for a loan so that I can add a juice and smoothie bar to my business. What do I need to do to get a loan?

**Emily Lin:** Sammy's Surf Shop! I bought a pair of sunglasses from you last summer. We have a loan application for you to fill out and sign. Then we will review it and let you know if you are approved for the loan.

**Narrator:** Sammy has completed the application and returned it to the bank. It is now two weeks later.

**Emily Lin:** Mr. Hart, I have good news for you. The bank has approved your loan. I hope that your renovation project is a success.

**Sammy Hart:** Thank you. I am excited to get started and have already begun lining up contractors who will complete the work for me.

**Narrator:** Sammy returns to his shop and starts making phone calls to get the project started.

**Sammy Hart:** *(On phone)* Mr. Thomas, this is Sammy Hart. We spoke last week about adding a juice and smoothie bar to my business, and the loan has now been approved. I liked your estimate, and your company was highly recommended by several people. I would like to hire you for the job. When would you be able to start the renovations?

**James Thomas:** *(On phone)* Mr. Hart, we can begin two weeks from tomorrow. This will give me time to contact my suppliers so that I have everything I need for the job. I will also be contracting with an electrician, a carpenter, and a welder. I'll give you a call next week to confirm the plans for starting the job.

**Narrator:** After Mr. Thomas talks with Sammy, he makes the other calls he needs to get the project started.

**James Thomas:** *(On phone)* Jacob, this is James Thomas with Renovation Brothers. I have a new job that will start two weeks from tomorrow. I need an electrician to complete some of the work. Are you available?

**Jacob Williams:** Yes, I will just be finishing up my current project then, so I am available. Will you be paying me at the end of the job, like we have done on other jobs before?

**James Thomas:** *(On phone)* Yes, that is our agreement. I am going to order the electrical supplies and lighting, so you will have everything you need when you start work.



## Handout 2: Role Play (page 2 of 3)

**James Thomas:** *(On phone)* Hello, Monique? This is James Thomas with Renovation Brothers. I have a new job putting in a juice and smoothie bar for Sammy's Surf Shop. We start work in about two weeks. Do you think that you would be able to fill an order for tables and chairs for me? Sammy also wanted me to ask if your company supplies juicers and blenders so that I could add those to the order.

**Monique Noland:** *(On phone)* Thank you, James. We can supply the tables and chairs, and we have a full line of restaurant equipment for sale. I will email the link to our catalog and let your client choose what equipment and furniture he wants you to order for his shop. Will you be paying a deposit and then paying the balance of the order when it is delivered?

**James Thomas:** *(On phone)* Yes, just like on our last project.

**James Thomas:** *(On phone)* Hello, Joshua—James Thomas here with the Renovation Brothers. I'm starting a project to build a juice and smoothie bar. I'm going to need a carpenter to build the juice and smoothie station. Would you be able to help me out in about two weeks?

**Joshua Jordan:** Let me check my calendar. *(A few seconds pause)* Yes, I'm free. I really appreciate the income because I don't have many other jobs lined up this month. Just let me know when I need to be there.

**James Thomas:** *(On phone)* Maya? This is James Thomas from Renovation Brothers. I'm starting a project to build a juice and smoothie bar for Sammy's Surf Shop in about two weeks, and there will be some welding work that needs to be done to complete the job. Would you be available to help on the project?

**Maya Ortiz:** Yes, I can certainly help on the project. Sammy fixed my surfboard a couple of months ago, and a juice and smoothie bar sounds like a great addition to his business. Just let me know when you need me to start work. The wages will be a great help because I'm saving up to buy a new home.

**James Thomas:** *(On phone)* Hello, Mr. Jackson. This is James Thomas from Renovation Brothers. I have a project coming up that will need some electrical supplies. Can I send you an email with my order? I'm starting the project in two weeks.

**Henry Jackson:** Absolutely. I will get your order filled right away.

**Narrator:** While Mr. Thomas makes phone calls to workers and suppliers, Sammy gets busy visiting businesses that will provide the signs and countertops for his new juice and smoothie bar.

**Ellis Harper:** Sammy! Good to see you again! How can I help you?

**Sammy Hart:** Good afternoon, Ellis. I'm putting in a juice and smoothie bar at the shop. Do you think that you could make a sign for me?

**Ellis Harper:** Sure! I can pull up the designs we made when your shop opened and make a new sign with the same logo and colors. I'll send some designs over for you to approve in a few days.

**Nathan Brown:** Good afternoon, sir. How may I help you

**Sammy Hart:** I'm putting in a juice and smoothie bar at my business. Do you think you could build a countertop for me? One that looks like a surfboard?



## Handout 2: Role Play (page 3 of 3)

**Nathan Brown:** Yes—custom designs are our specialty. We have several options in quartz, marble, and granite that I can show you.

**Narrator:** Two weeks have passed, and the project has begun. James, Joshua, Maya, and Jacob have been working at Sammy’s Shop to build the new addition. Monique Noland stops by the shop to take measurements to make sure that the table and chairs Sammy ordered will fit into his new space.

**Sammy Hart:** *(To James, Joshua, Maya, and Jacob)* Everyone’s been putting in a lot of hours to make sure that this project gets completed on time. The Pizza Palace next door has some great pies and sandwiches too. Let’s take a break for lunch. *(To Monique)* Monique, would you like to join us?

**Monique Noland:** Don’t mind if I do.

**James Thomas, Joshua Jordan, Jacob Williams, and Maya Ortiz:** Let’s go!

**Narrator:** The group goes to lunch.

**Rachel Connor:** Sammy—always great to see one of my best customers again. I hear your new project is almost completed. What would you like to order?

**Narrator:** The group orders lunch, and after they have eaten, they return to the shop to complete their work for the day.

**James Thomas:** Sammy—the project is coming along nicely, and soon we will be ready to put in the flooring and the special lighting you want to have installed over the counter. Have you gotten those orders in yet? I have some recommendations for stores you might want to visit.

**Sammy Hart:** Great! I have some time to do that this afternoon.

**Narrator:** Mr. Hart leaves the shop to go order flooring and lighting.

**Barbara Rose:** Good afternoon, sir. Are you in the market for some new flooring?

**Sammy Hart:** Yes, I’m interested in ceramic tile for the new addition to my shop. Do you have anyone available to install it next week?

**Barbara Rose:** Yes, we can do that for you, sir. Let me show you some options, and if you have the measurements, we can place the order and set up your install for next week.

**Alicia Bailey:** Good afternoon, sir. Can I help you with some lighting?

**Sammy Hart:** Yes, I’m interested in getting some lighting installed for my new juice and smoothie bar. Do you have any modern styles that are energy efficient? I would need something that could be delivered in two weeks.

**Alicia Bailey:** Yes, sir. We can deliver your lighting in that time frame, and we just got in some new modern options that are very energy efficient.

**Narrator:** Several weeks later, Sammy’s juice and smoothie bar is open for business. He makes payments each month to the bank on the loan he received for the renovation.



### Handout 3: Play Notes

As you listen to the play, fill in the blanks in the statements below with the correct words from the list below.

<b>Borrowed</b>	<b>Wages</b>	<b>Income</b>
<b>Flooring</b>	<b>Sign</b>	<b>Hometown Bank</b>

1. Sammy Hart \_\_\_\_\_ money from the bank so that he could add a new juice and smoothie bar to his surf shop.
2. Sammy Hart hired James Thomas’s company to do the renovations. Mr. Hart will pay Mr. Thomas with money that he borrowed from \_\_\_\_\_.
3. James Thomas will hire people to help him build Sammy’s new addition to his shop. Joshua Jordan is a carpenter who will work for James. Mr. Jordan said he really appreciated the \_\_\_\_\_.
4. Maya Ortiz was happy to earn the \_\_\_\_\_ that Mr. Thomas will pay because she is saving to buy a new home.
5. Ellis Harper was affected by Mr. Hart’s decision to borrow from the bank because he made the \_\_\_\_\_ for the new juice and smoothie bar.
6. Barbara Rose was affected by Mr. Hart’s decision to borrow from the bank because Mr. Hart ordered \_\_\_\_\_.



## Handout 4: Loan Decisions

Sophia Benjamin borrows money from a bank to expand her custom quilt business. She adds a warehouse to house supplies and buys more material and sewing machines so that she can hire more workers and increase the number of orders she is able to fill.

Dominic Santiago wants to start his own food truck business. He borrows money from a bank. He uses the money to buy a truck and equipment, hire two employees, and purchase advertising for his new business.

Makayla Morgan borrows money to add a backyard deck to her home. She hires people to design the deck, clear the land, build the deck, and add landscaping.

Brandon Zachary owns an auto glass repair and tinting service. He wants more space so that he can add car audio installation services. He will hire three new workers and will need new tools and supplies when he expands his business. He will work with



### Handout 5: Assessment (Option A) (page 1 of 2)

Read the following paragraph and answer the questions below.

**Eric and Angela Matthews** own Posh Pets, a pet grooming service, and have decided to remodel their business. They apply for a loan with **Village Bank** to provide the funds for the job, and loan officer Hector Wilson approves the \$100,000 loan. They hire **Steven and Sophia Avery**, who own a construction business, SSA Construction, to complete the renovations. The Averys hire several workers to carry out the job, including carpenters **Seth Wyatt, Donovan Delaney, and Patrick Landon**. Electricians **Sergio Cruz and Vanessa Jackson** are also hired to put in the wiring for the new remodel. Sophia Avery orders paint and wallpaper from Village Painters, which is owned by **Allison Daniels**. Ms. Daniels sends painters **Jayden and Jake Robinson** to paint the new Posh Pets business and install fresh wallpaper. Steven Avery calls First Coast Floors and Tile to order carpeting for the remodeling job. First Coast Floors and Tile is owned by **Oscar Martin**, who sends **Henry Silva and Briana Tran** to install the newly ordered carpet. After three months, the remodeling job is complete and the Matthews are ready to reopen their business. They set a date for their grand reopening and ribbon cutting, and they've hired **Ella Jones**, a marketing student from Village University, to promote and advertise the event. Refreshments will be provided by **Mia Mason**, owner of Culinary Creations. On the day of the grand reopening, Ms. Mason's bakers **Gabriel Pardo and Julia Owens** serve a variety of pet-shaped cookies and cupcakes baked with a paw print design on top, which are a big hit with the crowd.

1. Village Bank provided a loan for the Matthews to renovate their pet grooming service. What are the two main functions of banks?
  - a. \_\_\_\_\_
  - b. \_\_\_\_\_
  
2. Eric and Angela Matthew will have to repay the loan with interest. Interest is the \_\_\_\_\_.
  
3. As business owners, the Matthews are also considered entrepreneurs. They opened their pet grooming business to provide a service to the community in hopes of earning income. The income entrepreneurs earn is called \_\_\_\_\_.
  
4. Name two other entrepreneurs mentioned in the paragraph.  
\_\_\_\_\_  
\_\_\_\_\_
  
5. The entrepreneurs in the paragraph hired workers who earned wages for their work on the project. Wages are the workers \_\_\_\_\_.



**Handout 5: Assessment (Option A) (page 2 of 2)**

6, Name 4 other workers who were affected by the remodeling of the Posh Pets business.

- a. \_\_\_\_\_
- b. \_\_\_\_\_
- c.. \_\_\_\_\_
- d.. \_\_\_\_\_

7. Income received by workers and entrepreneurs may be \_\_\_\_\_ and/or

\_\_\_\_\_

This provides more \_\_\_\_\_ to workers and

businesses in the community and allows banks to provide more \_\_\_\_\_.



## Handout 5: Assessment (Option B) (page 1 of 2)

### Multiple Choice Questions

1. Banks have two main functions, which are to
  - a. pay interest to borrowers and make loans.
  - b. accept deposits from borrowers and charge interest.
  - c. accept deposits from savers and make loans to borrowers.
  - d. make deposits to borrowers and make loans to savers.
  
2. Interest is
  - a. income received for work done in the community.
  - b. a deposit a customer makes at the bank.
  - c. a loan a bank makes to a customer.
  - d. the price that is paid for using someone else's money.
  
3. People earn income when they
  - a. provide capital resources. .
  - b. provide natural resources.
  - c. work in jobs in the community.
  - d. borrow money from banks.
  
4. People earn income when they
  - a. buy capital resources.
  - b. buy natural resources.
  - c. borrow money from banks.
  - d. provide their entrepreneurial ability.





## Standards and Benchmarks

### Voluntary National Content Standards in Economics

#### Standard 10: Institutions

Institutions evolve and are created to help individuals and groups accomplish their goals. Banks, labor unions, markets, corporations, legal systems, and not-for-profit organizations are examples of important institutions. A different kind of institution, clearly defined and enforced property rights, is essential to a market economy.

- **Benchmarks: Grade 4**
  1. Banks are institutions where people save money and earn interest, and where other people borrow money and pay interest.
  2. Saving is the part of income not spent on taxes or consumption.
- **Benchmarks: Grade 8**
  1. The household is an important institution in which consumption and production take place.
  2. Banks and other financial institutions channel funds from savers to borrowers and investors.

#### Standard 12: Interest Rates

Interest rates, adjusted for inflation, rise and fall to balance the amount saved with the amount borrowed, which affects the allocation of scarce resources between present and future uses.

- **Benchmarks: Grade 8**
  1. An interest rate is the price of money that is borrowed or saved.
  2. Like other prices, interest rates are determined by the forces of supply and demand.

#### Standard 13: Income

Income for most people is determined by the market value of the productive resources they sell. What workers earn primarily depends on the market value of what they produce.

- **Benchmarks: Grade 4**
  1. Labor is a human resource that is used to produce goods and services.
  2. People can earn income by exchanging the use of their labor (physical or mental work) for wages or salaries.
- **Benchmarks: Grade 8**
  1. Employers are willing to pay wages and salaries to workers because they expect to be able to sell the goods and services that those workers produce at prices high enough to cover the wages and salaries and all other costs of production.
  2. To earn income, people sell productive resources. These include their labor, capital, natural resources, and entrepreneurial talents.