Money in Motion

Read how banks and the Federal Reserve affect the money supply.

SS.7.E.2.2 "Describe the banking system in the United States and its impact on the money supply."

NAME ______________________ DATE ____________

1 READ AND MARK

Read it twice

YOUR JOB Underline each sentence that describes an action by a bank, credit union, or the Fed. Write a + beside an action that can expand money available for spending and a – beside an action that can slow its growth.

How Banking Changes Money

1 The United States banking system includes commercial banks, credit unions, and the Federal Reserve, often called the Fed. Banks and credit unions accept deposits, make payments possible, and lend money to households and businesses. When a customer deposits cash or receives a paycheck by direct deposit, the institution records money in that customer's account. These deposits are money people can spend with cash, checks, debit cards, or electronic payments. Institutions keep some funds available for withdrawals and payments, but they do not store every deposited dollar in a vault.

2 A loan can increase the amount of money available for spending. For example, when a bank approves a loan, it usually credits the borrower's account with a deposit. The borrower can use that new deposit to buy equipment, a car, or a service. The seller may then deposit the payment at another bank. In this way, lending can expand bank deposits, which make up much of the money supply. Loan repayment can reduce deposits, and banks must consider rules, available funds, and whether borrowers can repay.

3 The Fed is the nation's central bank. It helps keep the banking system stable and uses monetary policy to influence the money supply and borrowing. For instance, when the Fed makes borrowing less costly, banks and customers may be more willing to make and take loans. More lending can create more deposits. When the Fed makes borrowing more costly, borrowing and lending may slow, which can limit deposit growth. The Fed also provides currency to banks, but most money used in daily payments exists as bank-account deposits.

2 ANSWER WITH EVIDENCE

Use the passage

1. How does money in a customer's deposit account become money the customer can spend?

2. Explain how making a loan can increase the money supply.

3. What can happen to deposits when a borrower repays a loan?

4. How can making borrowing more costly affect bank deposits?

3 YOUR TURN

Your own words

A credit union approves a $2,000 loan to Lena for her laptop-repair business. Write 3 or 4 sentences explaining how this loan could affect money available for spending, including what may happen after Lena pays a supplier. Then explain one Fed action that could slow similar loans.

PART 1 · READ AND MARK

Underline each sentence that describes an action by a bank, credit union, or the Fed. Write a + beside an action that can expand money available for spending and a − beside an action that can slow its growth. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	How does money in a customer's deposit account become money the customer can spend?	**The institution records the deposit in the customer's account. The customer can spend it using cash, checks, debit cards, or electronic payments.**
2	Explain how making a loan can increase the money supply.	**When a bank approves a loan, it credits the borrower's account with a deposit. That new deposit can be spent and may later be deposited at another bank, expanding bank deposits.**
3	What can happen to deposits when a borrower repays a loan?	**Loan repayment can reduce deposits.**
4	How can making borrowing more costly affect bank deposits?	**Borrowing and lending may slow, which can limit deposit growth.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

After the credit union approves Lena's $2,000 loan, it credits $2,000 to her account as a new deposit. Lena pays a tool supplier, and the supplier may deposit that payment at a bank. The loan increased deposits available for spending, while a Fed policy that makes borrowing more costly could slow similar loans.

Accept equivalent explanations that identify a loan-created deposit, spending to a supplier, and a possible later deposit at another institution. For the Fed action, accept making borrowing more costly and its effect of slowing lending or limiting deposit growth.