Investment Income Paths

Trace three ways investments can produce income.

SS.8.FL.1.7 "Identify that interest, dividends, and capital appreciation (gains) are forms of income earned from financial investments."

NAME ______________________ DATE ______________

1 READ AND MARK

Read it twice

YOUR JOB Underline the sentence that begins with "Interest," the sentence that begins with "These payments," and the sentence that begins with "Capital appreciation." Then circle the sentence that begins with "If she sells" to show when appreciation becomes a capital gain.

How Investments Can Pay

1 Financial investments can earn income in more than one way. When Maya puts money in a savings account or buys a bond, the bank or bond issuer may pay interest. Interest is money paid for using Maya's money. The payment may be based on a stated rate and the amount she invested. Maya can receive interest while she still owns the account or bond. Interest is different from money she originally deposited or paid to buy the bond.

2 Stocks represent ownership shares in a company. Some companies choose to share part of their profits with stockholders. These payments are called dividends. If Jordan owns stock in a company that declares a dividend, Jordan may receive a dividend payment for each share owned. A company is not required to pay dividends, and a dividend amount can change. Jordan earns dividend income when the company pays it, even if Jordan keeps the stock. Dividends are not the price received from selling stock.

3 Capital appreciation means an investment's market value increases. For example, Lena buys one share for $40. Months later, its value rises to $55, so the share has appreciated by $15. Lena has not yet received that $15 as income because she still owns the share. If she sells the share for $55, the $15 profit is a capital gain. The gain is income earned from the investment when it is sold. If the value falls instead, there is no appreciation or capital gain.

2 ANSWER WITH EVIDENCE

Use the passage

1. What is interest, and who may pay it to an investor?

2. What are dividends, and when can a stockholder receive them?

3. Lena's share rises from $40 to $55, but she still owns it. What has happened to the share, and why has Lena not yet received income from the $15 increase?

4. If Lena sells her share for $55, what kind of investment income does she earn, and how much is it?

3 YOUR TURN

Your own words

Create three different investment situations, one for interest, one for dividends, and one for a capital gain from appreciation. In each row, name the investment, identify the income type, and explain how the investor earns it.

INVESTMENT SITUATION	INCOME TYPE	HOW THE INVESTOR EARNS INCOME

Investment Income Paths

PART 1 · READ AND MARK

Underline the sentence that begins with "Interest," the sentence that begins with "These payments," and the sentence that begins with "Capital appreciation." Then circle the sentence that begins with "If she sells" to show when appreciation becomes a capital gain. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	What is interest, and who may pay it to an investor?	**Interest is money paid for using an investor's money. A bank or bond issuer may pay it.**
2	What are dividends, and when can a stockholder receive them?	**Dividends are payments a company makes when it shares part of its profits with stockholders. A stockholder can receive them when the company declares and pays a dividend.**
3	Lena's share rises from $40 to $55, but she still owns it. What has happened to the share, and why has Lena not yet received income from the $15 increase?	**The share has appreciated by $15. Lena has not received the $15 as income because she has not sold the share.**
4	If Lena sells her share for $55, what kind of investment income does she earn, and how much is it?	**She earns a $15 capital gain.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

INVESTMENT SITUATION	INCOME TYPE	HOW THE INVESTOR EARNS INCOME
A $500 bond	Interest	The bond issuer pays the investor interest for using the $500.
Ten shares of company stock	Dividends	The company declares a dividend and pays the stockholder for each share.
A share bought for $20 and sold for $28	Capital gain from appreciation	The share rises in value, and the investor earns an $8 gain by selling it.

Accept accurate original examples that correctly connect interest to use of money, dividends to company payments to stockholders, and capital gains to selling an investment for more than its purchase price. For the capital-gain example, the student must show that the gain is earned when the investment is sold.