

Money Market Signals

Trace how saving and borrowing shape interest rates.

SS.8.FL.3.3 "Discuss that interest rates paid on savings and charged on loans, like all prices, are determined in a market."

NAME _____

DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline each market condition that changes the supply of or demand for funds, and circle each interest-rate result or choice it can cause, so you can trace how market prices move.

Why Interest Rates Move

- ① Interest is the price of using money over time. A bank may pay interest to people who save because the bank can use some deposited money to make loans. A borrower pays interest because the borrower receives money now and repays later. Savings interest rates and loan interest rates are not simply chosen at random. They are prices that respond to conditions in markets for saving and borrowing. Those conditions include the number of people offering funds and seeking funds.
- ② When many households choose to save, banks and other lenders have more funds available to lend. A larger supply of funds can put downward pressure on the interest rate charged to borrowers, all else equal. When many people and businesses want loans at the same time, demand for funds rises. Lenders may charge higher loan rates because available funds are wanted by more borrowers. Competition among lenders can also affect the rate. Each lender considers what customers will accept.
- ③ Rates also reflect risk, expected inflation, and decisions by the central bank, but market forces still matter. A lender may charge a higher rate to a borrower who seems less likely to repay. Savers compare the returns offered by different accounts, while borrowers compare loan costs and terms. If a lender sets a loan rate far above competing rates, many qualified borrowers may look elsewhere. If it offers too little interest to savers, deposits may move to another institution.

2 ANSWER WITH EVIDENCE _____ Use the passage

1 Why does the passage describe interest as a price?

2 What can happen to loan interest rates when many households save, all else equal?

3 Why might lenders charge higher loan rates when many people and businesses want loans at the same time?

4 How can competition affect the interest rates a lender offers or charges?

3 YOUR TURN _____ Your own words

Invent a local market change. In exactly 3 sentences, explain how the change could affect rates paid to savers and rates charged to borrowers. Name supply or demand and describe one likely choice by a saver or borrower.

PART 1 • READ AND MARK

Underline each market condition that changes the supply of or demand for funds, and circle each interest-rate result or choice it can cause, so you can trace how market prices move. Accept any marking that follows this job and points at the right text.

PART 2 • ANSWERS

#	QUESTION	ANSWER
1	Why does the passage describe interest as a price?	Interest is the price of using money over time. Savers receive it for providing funds, and borrowers pay it for receiving funds now.
2	What can happen to loan interest rates when many households save, all else equal?	More saving increases the supply of funds available to lend, which can put downward pressure on loan interest rates.
3	Why might lenders charge higher loan rates when many people and businesses want loans at the same time?	Demand for funds rises, so more borrowers want the available funds.
4	How can competition affect the interest rates a lender offers or charges?	Borrowers may go to competing lenders if a loan rate is too high, and savers may move deposits if a savings rate is too low. Lenders must consider rates offered by competitors.

PART 3 • YOUR TURN (SAMPLE ANSWER)

After a local factory expands, more workers save part of their pay, so banks have a larger supply of funds. Banks might lower loan rates to attract borrowers, while savings rates might also fall because banks need fewer new deposits. Some borrowers may take loans at the lower rate, but savers may compare accounts before depositing.

Accept reasonable explanations that identify a change in the supply of funds or demand for funds and connect it logically to savings and loan rates. For the open response, accept different market changes if the predicted effects and choices are economically reasonable.