Funding Harbor City

Trace how banks and markets fund local projects.

9-12.EC.13 "Identify the roles of financial markets and institutions on the economy."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline each example of a bank or market moving funds to a borrower or issuer. Circle what the people providing those funds receive in return.

Who Pays for the Next Stop?

1. In Harbor City, a bus company wants to build a workshop for electric buses. It needs money now for tools and workers, but expects to earn fares over several years. A local bank gathers deposits from households and businesses, then lends some of that money to the company. The company repays the loan with interest. Depositors can still use their accounts because banks keep funds available and manage withdrawals, though not every deposited dollar sits in a vault. By moving savings toward a business investment, the bank can help create jobs and expand service.

2. Meanwhile, the city wants to replace an aging bridge used by those buses. Instead of waiting to collect all the needed taxes, it sells municipal bonds to investors in a bond market. Each bond promises scheduled interest payments and repayment of its principal at maturity. The city uses the proceeds to pay builders now and plans to repay bondholders from future public revenue. Bond buyers supply funds for a public project, but they face the risk that the city could struggle to pay. Bond markets connect governments seeking funds with investors willing to lend.

3. The bus company has another option for a later expansion: it can issue new shares of stock to investors. Unlike a loan, shares give buyers partial ownership, not a promise of repayment. After the initial sale, investors can trade those shares on a stock market; the company does not receive money each time its existing shares change hands. That trading gives investors a way to sell, which may make them more willing to buy new shares in the first place. Stock prices can fall, so this route to growth also spreads risk among investors.

2 ANSWER WITH EVIDENCE

Use the passage

1. What role does the bank play in funding the bus workshop, and how could that funding affect Harbor City?

2. How does the bond market help the city replace the bridge before it has collected all the needed taxes?

3. The bus company receives no money when investors trade existing shares. How can that trading still help the company raise money?

4. How do a bank loan and newly issued stock give the bus company money under different obligations?

3 YOUR TURN

Your own words

A regional grocery company wants to open a second store. In 4 to 5 sentences, propose two financing routes from the passage, explain what each source receives in return, and identify one possible economic benefit and one risk.

ANSWER KEY

Funding Harbor City

HIGH SCHOOL · 9-12.EC.13

PART 1 · READ AND MARK

Underline each example of a bank or market moving funds to a borrower or issuer. Circle what the people providing those funds receive in return. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	What role does the bank play in funding the bus workshop, and how could that funding affect Harbor City?	**The bank uses some deposits to lend the bus company money. The workshop investment could create jobs and expand bus service.**
2	How does the bond market help the city replace the bridge before it has collected all the needed taxes?	**Investors buy the city's bonds, providing money to pay builders now. The city plans to pay interest and repay the principal from future public revenue.**
3	The bus company receives no money when investors trade existing shares. How can that trading still help the company raise money?	**The chance to sell shares later may make investors more willing to buy the company's newly issued shares.**
4	How do a bank loan and newly issued stock give the bus company money under different obligations?	**The company must repay a bank loan with interest. New stock brings in money by giving investors partial ownership without a promise of repayment.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

The company could borrow from a bank to pay for the store and repay the loan with interest. It could instead issue new shares to investors, who would gain partial ownership and could later trade their shares on a stock market. Either route could fund a store that hires workers and serves more customers. If sales are weak, the company could struggle to repay a loan, while stock buyers risk a falling share price.

Accept answers that accurately distinguish lending from ownership and connect a financial institution or market to funding an economic activity. For Your Turn, the benefit and risk may differ from the sample if they fit the proposed routes.