Two Money Pools

Trace how deposits and stock investments work differently

E.C.4.3 "Describe how financial institutions, such as banks and credit unions, allow people to pool their incomes and provide future income through investment in stocks."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline how deposits are pooled for loans, circle how investors pool money to buy stocks, and number the two ways stocks could provide money later.

Where Lena's Paycheck Goes

1 At the end of each week, Lena deposits part of her paycheck at a credit union. Other members deposit money from their paychecks too. These individual deposits form a large pool of funds that the credit union can use to make loans, while keeping enough money available for withdrawals and following safety rules. A local repair shop borrows from that pool to buy equipment. The shop repays the loan with interest; the credit union may pay depositors interest on their savings. A bank pools customer deposits and makes loans in much the same way, although a credit union is owned by its members.

2 Lena also wants to invest for later years. Through an investment account with a brokerage service, she can put some money into a stock mutual fund. Thousands of investors contribute to the fund, which uses their combined money to buy shares of stock in several companies. Each share represents partial ownership of a company. This investment pool is different from the credit union's pool of deposits for loans: Lena must choose to invest, and her deposit is not automatically used to buy stocks. Some banks and credit unions offer access to brokerage services, but stock investments are held separately from ordinary deposit accounts.

3 Suppose the fund owns shares in a company that makes batteries for electric buses. If that company distributes some of its profits to shareholders, the fund may receive dividends and pass them along to its investors. If the shares rise in value, Lena may also receive more than she invested when she sells her fund shares. Neither outcome is promised. A company's shares can lose value, and dividends can stop. Money in an eligible deposit account may have government insurance up to legal limits; stocks do not. Pooling makes it possible to invest across companies, but it does not remove the risk of loss.

2 ANSWER WITH EVIDENCE

Use the passage

1. Explain how Lena's deposit and other members' deposits can help the repair shop buy equipment.

2. Describe how contributions from many investors become stock ownership in Lena's fund.

3. Why would it be inaccurate to say Lena's ordinary credit union deposit automatically buys stocks?

4. Explain two ways the pooled stock investment might provide money to Lena later, and name one risk.

3 YOUR TURN

Your own words

Imagine a friend earns money from a weekend job and wants to save some and invest some for a future goal. Write 4 to 5 sentences explaining the two different pools the friend could join through financial services, how a stock investment might provide money later, and one risk.

ANSWER KEY

Two Money Pools

HIGH SCHOOL · E.C.4.3

PART 1 · READ AND MARK

Underline how deposits are pooled for loans, circle how investors pool money to buy stocks, and number the two ways stocks could provide money later. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	Explain how Lena's deposit and other members' deposits can help the repair shop buy equipment.	**The credit union pools members' deposits and uses part of that pool to make a loan the shop uses to buy equipment.**
2	Describe how contributions from many investors become stock ownership in Lena's fund.	**The mutual fund combines investors' money to buy company shares, which represent partial ownership.**
3	Why would it be inaccurate to say Lena's ordinary credit union deposit automatically buys stocks?	**Deposits are pooled for uses such as loans. Lena must choose a separate investment account to put money into a stock fund.**
4	Explain two ways the pooled stock investment might provide money to Lena later, and name one risk.	**The fund might pass along dividends, or Lena might sell fund shares for more than she invested. Share values can fall, and dividends can stop.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

Ari puts part of each weekend paycheck into a bank savings account, where deposits from many customers help fund loans. Ari invests another part through a brokerage account in a stock fund that pools investors' money to buy shares in several companies. The fund might distribute dividends, or Ari might sell fund shares for more than the purchase price. Stock prices can fall, so Ari could lose money on the investment.

Accept a bank or credit union for the deposit pool and an investment fund for the stock pool. Responses should distinguish deposits from stock investments and describe a possible return without promising one.