Harbor Market Choices

How institutions shape a local market

E.C.4 "Describe the role of economic institutions and government in a market economy. Evaluate the impact of the government's protection of private property rights and enforcement of the rule of law in a market economy. Describe the purpose..."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline three actions by government or economic institutions, circle a cost or risk linked to each, and number the two commercial-bank actions that change the money supply in the order described.

What Keeps Harbor Market Open?

1. At Harbor Market, Maya rents a stall to repair bicycles. A deed shows who owns the building, and a written lease gives Maya the right to use her space. Courts enforce both documents under rules that apply to everyone. Without reliable property rights and predictable rulings, the owner might fear losing the building, and Maya might avoid buying tools. These protections make trade and investment less risky, but courts and record offices require public funds. They cannot eliminate every dispute or guarantee that a business will succeed. Their value lies in making agreements more trustworthy.

2. The town also pays for a flood barrier along the market street. Taxes cover construction and upkeep, leaving residents with less money for other uses. The barrier lowers flood damage for many shops at once, including shops that could not afford their own protection. Residents must weigh that shared benefit against the tax cost and ask whether another project would help more. Meanwhile, Maya deposits earnings at a credit union. Depositors' funds are pooled to support loans, such as a loan for a neighbor's delivery bike. Maya can separately buy shares of a company through a brokerage, possibly earning dividends or gains, but she could also lose money.

3. At a commercial bank, a new loan usually adds money to a borrower's deposit account, expanding the money supply. As borrowers repay loan principal, those deposit balances shrink, contracting it. Banks cannot lend without limits: they must meet any reserve requirements, maintain adequate capital, and manage risk. If a central bank raises a binding reserve requirement, banks have less room to expand lending unless they obtain more reserves. A central bank can also raise its policy interest rate, which tends to make borrowing more expensive and slow loan growth. Lower rates can encourage lending, but they cannot force cautious banks or customers to borrow.

2 ANSWER WITH EVIDENCE

Use the passage

1. How might enforcing the deed and lease affect decisions at Harbor Market? Name one limit or cost of that protection.

2. Should residents consider only the shops protected when judging the flood barrier? Explain using a benefit and a cost from the passage.

3. Compare what happens when Maya deposits money at the credit union with what could happen if she buys company shares.

4. How do a new commercial-bank loan and repayment of its principal affect the money supply? Explain one central bank action that could change lending.

3 YOUR TURN

Your own words

Imagine the town proposes publicly funded streetlights for a new evening market. In one paragraph, weigh who benefits and who pays, explain how enforceable property rights could affect sellers, and trace how a seller's commercial-bank loan and its repayment would affect the money supply. Include one way central bank policy could affect the loan.

ANSWER KEY

Harbor Market Choices

HIGH SCHOOL · E.C.4

PART 1 · READ AND MARK

Underline three actions by government or economic institutions, circle a cost or risk linked to each, and number the two commercial-bank actions that change the money supply in the order described. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	How might enforcing the deed and lease affect decisions at Harbor Market? Name one limit or cost of that protection.	**Enforcement makes ownership and agreements more reliable, so the owner and Maya may be more willing to invest. Courts and record offices cost public funds, and enforcement cannot prevent every dispute.**
2	Should residents consider only the shops protected when judging the flood barrier? Explain using a benefit and a cost from the passage.	**No. The barrier reduces damage for many shops, but taxes for construction and upkeep leave residents with less money for other uses.**
3	Compare what happens when Maya deposits money at the credit union with what could happen if she buys company shares.	**The credit union pools deposits to support loans. Shares bought through a brokerage may provide dividends or gains, but Maya could lose money.**
4	How do a new commercial-bank loan and repayment of its principal affect the money supply? Explain one central bank action that could change lending.	**A new loan adds to a deposit account and expands the money supply; principal repayment shrinks deposit balances and contracts it. Raising a binding reserve requirement can limit lending unless banks obtain more reserves, while raising the policy rate tends to slow loan growth.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

Streetlights could help shoppers see the stalls and help sellers attract customers after dark. Residents would pay taxes for installation and upkeep, so the town should compare those costs with the benefits. If sellers can rely on their leases being enforced, they may be more willing to buy equipment for the evening market. A commercial-bank loan to a seller would add to a deposit account and expand the money supply. Repaying the loan principal would contract it. If the central bank raised its policy interest rate, the loan might become more expensive.

Accept other supported trade-offs, such as spending tax money on streetlights instead of another service. For the money-supply explanation, look for deposit creation through lending and a decrease in deposits as principal is repaid.