Who Pays the Price?

Weigh evidence from two responses to a banking crisis

TOT.P.2.4.B "Construct arguments using a combination of evidence regarding solutions used by nations to address historical or contemporary economic issues."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline each action Iceland or Ireland took. Circle evidence of a benefit or cost, then number two details you could use together to support an argument.

Two Paths Through a Banking Crisis

1 In 2008, banks in Iceland and Ireland faced a sudden crisis. During earlier years, banks in both countries had borrowed heavily and grown far beyond what their governments could easily rescue. When global lending froze, banks struggled to pay their debts. A failed bank can stop businesses from getting loans and leave depositors afraid for their savings. Leaders in both nations faced a costly choice: use public money to support banks, or allow some banks to fail and focus help elsewhere. The two countries chose different paths. Their experiences show that an economic policy can protect one group while shifting costs to another.

2 Iceland let its three largest banks fail and created new banks to keep basic banking services running at home. The government protected deposits in Iceland but did not pay every foreign creditor of the old banks. It also limited the movement of money out of the country to slow a rush for the exits. These steps kept many residents' accounts working and reduced the cost of rescuing foreign investors. But the country's currency lost value, making imports more expensive, and many households faced financial strain. Iceland also received an international loan package to stabilize its economy. Recovery took time, not a single bold decision.

3 Ireland instead guaranteed major banks' debts and later put public money into troubled banks. The aim was to prevent a collapse that could cut off loans and wipe out savings. Supporting banks kept the financial system operating, but the rescue added heavily to government debt. Ireland then cut spending and raised taxes while receiving international assistance. Those measures helped the state pay its bills, yet cuts strained public services and families during a deep recession. Ireland's economy later recovered, helped by exports as well as banking changes. Neither case proves one solution works everywhere: a policy's costs depend on who pays and what options a nation has.

2 ANSWER WITH EVIDENCE

Use the passage

1. Argue that Iceland put banking services at home ahead of paying foreign creditors. Which two details support your claim, and how?

2. Was Ireland's bank rescue worth a cost to the government? Make a claim using one detail about its benefit and one about its cost.

3. Which country's response would you choose to protect residents' access to savings? Support your choice with two passage details, including a limit to your argument.

4. A classmate claims, "Ireland's bank guarantees alone solved its economic crisis." Challenge that claim with two details from the passage.

3 YOUR TURN

Your own words

Imagine a country with failing banks, little money for a rescue, and residents who need access to their savings. Recommend a plan that combines one action used by Iceland and one used by Ireland; use two passage details to justify the plan and explain one likely cost.

ANSWER KEY

Who Pays the Price?

HIGH SCHOOL · TOT.P.2.4.B

PART 1 · READ AND MARK

Underline each action Iceland or Ireland took. Circle evidence of a benefit or cost, then number two details you could use together to support an argument. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	Argue that Iceland put banking services at home ahead of paying foreign creditors. Which two details support your claim, and how?	**Iceland created new banks to keep services running at home and protected deposits in Iceland, but did not pay every foreign creditor of the old banks. These choices favored access to banking at home over paying all foreign creditors.**
2	Was Ireland's bank rescue worth a cost to the government? Make a claim using one detail about its benefit and one about its cost.	**One defensible claim is that the rescue kept the financial system operating, but it added heavily to government debt. Accept either judgment if it weighs both details.**
3	Which country's response would you choose to protect residents' access to savings? Support your choice with two passage details, including a limit to your argument.	**One defensible choice is Iceland: it protected deposits in Iceland and created new banks to keep services running. A limit is that its currency lost value, making imports more expensive for residents.**
4	A classmate claims, "Ireland's bank guarantees alone solved its economic crisis." Challenge that claim with two details from the passage.	**Ireland also received international assistance, and its later recovery was helped by exports as well as banking changes. The passage does not credit guarantees alone.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

I would create new banks to keep basic services running, as Iceland did, and put a limited amount of public money into banks that can still operate, as Ireland did. Iceland's new banks kept many residents' accounts working, which matters when people need access to savings. Ireland's support kept its financial system operating, so targeted support might prevent more disruption. The cost is that even a limited rescue would use public money. Ireland's rescue added heavily to government debt, so this country should avoid promising to save every bank.

Accept different judgments when students combine accurate passage evidence and explain a trade-off. For Your Turn, look for one identifiable action from each nation, two relevant details, and a plausible cost.