Savings Start Growth

Trace how financial institutions turn savings into capital.

CE.12.f "explaining how financial institutions are critical to creating capital to fuel economic growth for individuals and the larger economy by channeling funds from savers to borrowers through lending; and"

NAME ______________________________ DATE ______________

1 READ AND MARK

Read it twice

YOUR JOB Underline phrases that identify savers or borrowers. Then write 1, 2, and 3 beside one sequence that shows savings, lending, and economic growth.

From Deposits to Growth

1 People who save money do not always need it today. They may place it in checking accounts, savings accounts, or certificates at a bank or credit union. The financial institution keeps records, protects deposits under rules, and pays some savers interest. Instead of leaving every deposited dollar unused, it combines many deposits. This pool of funds can become available to qualified borrowers, such as families, students, farmers, and businesses. In this way, savings can be turned into capital, money used to produce future income.

2 Consider a town bakery that wants a larger oven and a delivery van. The owner expects these tools to help the bakery make and sell more bread, but cannot pay the full cost at once. After reviewing the bakery's plan, income, and ability to repay, a lender may approve a loan. The bakery receives funds now and repays the loan over time, usually with interest. The borrowed money is capital because it buys productive resources. The saver earns a return, while the borrower gains a chance to expand.

3 This lending process affects more than one customer. If the bakery expands, it may hire a driver, buy flour from nearby suppliers, and serve more customers. Those actions can create income for other people and businesses. Across an economy, financial institutions direct funds toward many loans, helping new and existing businesses invest. Lending also involves risk. Borrowers must repay, and institutions must judge loans carefully and keep enough funds available for depositors. Careful lending helps move savings into useful investment without treating every borrower as equally likely to repay.

2 ANSWER WITH EVIDENCE

Use the passage

1. How do financial institutions channel money from savers to borrowers?

2. Why is the bakery's borrowed money called capital?

3. Name two ways the bakery's expansion could create income for other people or businesses.

4. Why must financial institutions judge loans carefully and keep funds available for depositors?

3 YOUR TURN

Your own words

Write exactly four sentences about a credit union that uses members' savings to lend money to a bicycle repair shop. Explain where the loan funds come from, what capital the shop buys, and how the loan could help both individuals and the larger economy.

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PART 1 · READ AND MARK

Underline phrases that identify savers or borrowers. Then write 1, 2, and 3 beside one sequence that shows savings, lending, and economic growth. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	How do financial institutions channel money from savers to borrowers?	**They combine deposits from savers into a pool of funds and make loans to qualified borrowers.**
2	Why is the bakery's borrowed money called capital?	**It is capital because the bakery uses it to buy productive resources, a larger oven and a delivery van, that can produce future income.**
3	Name two ways the bakery's expansion could create income for other people or businesses.	**It could hire a driver, buy flour from nearby suppliers, and serve more customers. Any two are acceptable.**
4	Why must financial institutions judge loans carefully and keep funds available for depositors?	**Lending involves risk because borrowers must repay. Institutions need to make careful loans and keep enough funds available for depositors.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

Members deposit savings at a credit union. The credit union lends some of these funds to a bicycle repair shop that buys repair stands and tools. The shop can serve more customers and may hire a mechanic, while the borrower repays with interest and savers may earn interest. More repairs and spending can support workers and other local businesses.

Accept answers that accurately trace funds from savers through a financial institution to borrowers who use loans as capital. For the open response, accept reasonable productive capital purchases and clear individual and broader economic effects.