

BANKS IN THE U.S. ECONOMY

A **bank** is an institution that receives deposits and makes loans. A **deposit** is money that is placed into an account. A **loan** is money that is borrowed, then paid back with interest. The main function of a bank is to accept deposits, then lend the money out to others in the form of loans. The banking system plays a very important role in the economy of the United States.

Banks help and control the economy in many ways. Banks give people somewhere to store their money, but they also give people somewhere to borrow money. There are two main types of accounts that individuals have at banks: checking and savings. A **checking account** is used to deposit money for everyday use. People typically use their checking account for purchases of groceries, gas, medicine, clothes, etc. They use a checking account for day-to-day purchases. A savings account, however, is not meant for daily use. The purpose of a **savings account** is to be a safe place to store and save money, while earning a small amount of interest. Usually, this money is saved for an emergency or for a large purchase.

Loans are another reason people use banks. Loans can be for personal use, such as buying a car, or for a business. For example, a person is able to borrow money from a bank to buy a house. To do this, he or she will receive all the money needed to purchase the house, pay the sellers, then make payments back the bank throughout a set range of time. The bank makes a profit from the interest that is charged. Banks make it possible for people and businesses to purchase what they need without having all the money right away. This allows businesses and people to grow.

Banks provide an important role in the economy by offering a safe and stable way to store and borrow money. They allow people to store money in a checking or savings account, and they allow people to borrow money through loans.

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Directions: Match the vocabulary term to its definition.

Definitions:

1. _____ money that is placed in an account at a bank
2. _____ an institution that receives deposits and makes loans
3. _____ an account to use for daily spending
4. _____ a safe account to store money
5. _____ money that is borrowed, then paid back with interest

Vocabulary Terms:

- a. bank
- b. loan
- c. savings account
- d. checking account
- e. deposit

Directions: Circle the best answer choice based on the passage.

1. How do banks make a profit?
 - a. Interest
 - b. Customer Service
 - c. Selling toys
 - d. Buying cars and houses
2. Which is the best description of a loan?
 - a. Borrowing money without repaying it
 - b. borrowing money and keeping it
 - c. Borrowing money and repaying it with interest
 - d. None of the above
3. Which is the best description for a savings account?
 - a. Somewhere risky to store money
 - b. Lending money to a stranger
 - c. Borrowing money for a car
 - d. Somewhere to store money for an emergency or large purchase
4. Banks make it possible for people and businesses to purchase what they need without having all of the money by offering loans.
 - a. True
 - b. False