

Guided Reading Activity

Financial Markets

Lesson 1 *Savings and the Financial System*

Review Questions

Directions: Read each main idea and complete the statements below. Refer to your textbook as you write the answers.

A. Saving and Economic Growth

Main Idea: When people save, they make funds available for others to use. Businesses can borrow these savings to produce new goods and services, build new plants and equipment, and create more jobs. Saving thus makes economic growth possible.

1. People can save by opening a _____ account, purchasing a _____, or making an interest-bearing loan to a bank called a _____ of _____.
2. The _____ is a network of _____, investors, _____, and financial assets that work together to transfer savings from savers to _____.
3. The smooth flow of funds through the financial system ensures that savers have an outlet for their _____, and _____ have a source of financial _____ that they can invest.
4. A _____ company specializes in making loans directly to consumers; it also buys _____ contracts from merchants who sell goods on _____.
5. Large businesses can often go to _____ companies for loans because those companies regularly collect premiums. Individual consumers can sometimes borrow against an _____ policy they already hold with a company.

B. Basic Investment Considerations

Main Idea: Before participating in the financial system, you should be aware of four basic investment considerations.

1. By investing on a _____ basis, small deposits accumulate quickly even at modest interest _____.

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2. Successful investors suggest that you should _____ any investment that seems too _____, or that you don't understand. You should also ignore any investment that seems too good to be _____, because it probably is.

3. When investing, it is important to understand the relationship between _____ and _____. As an investor, you need to consider the level of risk you can _____.

4. You should also consider your _____ for investing, because that will affect how you invest.

Summary and Reflection

Directions: Summarize the main ideas of this lesson by answering the question below.

Why does an economy need financial intermediaries?
