

Following are possible answers to the Reading Notes.

Section 2

Spoke diagrams might include the following additional spokes.

- Functions of money: medium of exchange, standard of value, store of value
- Characteristics of money: acceptability, scarcity, portability, durability, divisibility, uniformity
- Historical types of money: commodity money (gold/silver), commodity-backed money (bank notes), fiat money (paper money)
- Money today: M1 (currency, checkable deposits, traveler's checks), M2 (savings account deposits)

Section 3

1. The main function of banks is to serve as financial intermediaries. They execute that function by receiving deposits from savers and making loans to borrowers.
2. Liquidity (most to least): checkable deposits, savings deposits, time deposits. Return (most to least): time deposits, savings deposits, checkable deposits. For a purchase in one year, a time deposit would provide the highest return.
3. Symbols will vary. Explanations should include the following:
 - Commercial loans: taken out by businesses to buy machinery, equipment, and materials or to pay labor costs
 - Consumer loans: taken out by individuals and used for major purchases
 - Mortgage loans: taken out by consumers or businesses and used to buy houses, office buildings, land, and other real estate
4. Sample similes: *The Fed is to the nation's banks as a dean of students (or assistant principal) is to a high school; a state trooper (or highway patrol officer) is to commuters; a playground monitor is to schoolchildren.* Explanations should refer to the Fed's role in regulating banks, making rules that banks must follow, and controlling the money supply.

Section 4

1. Possible answer: Saving helps the economy grow, can help you reach important goals, can help you weather hard times, and can help you fund your retirement.
2. Personal saving rates and explanations will vary.
3. Diagrams should represent Social Security, company retirement plans, and personal savings.

Annotations for Social Security:

- This government program provides cash payments to retired workers.
- Taxes paid by workers and employers fund Social Security.
- It is a pay-as-you go system. Taxes paid now go to current retirees.

Annotations for company retirement plans:

- The 401(k) is most common company retirement plan.
- Money is taken out of an employee's paycheck and put into a retirement account.
- Employers often match all or part of an employee's contributions.

Annotations for personal savings:

- IRAs are private retirement accounts sponsored by the government.
 - Individuals can deduct IRA contributions from taxable incomes or take the money out tax free when they retire.
4. You can be a successful saver by making saving an entry in your budget right from the beginning—perhaps even the first item.

Section 5

1. Compounding works because interest is paid not just on the principal, but also on all accumulated interest. The initial deposit will double in eight years.

2.

Investment	Risk	Return	How It Works
Government Bonds	low	low	Investors loan the government money by buying a bond and are paid back with interest after a fixed period of time.
Corporate Bonds	moderate	moderate to high	Investors loan money to a company by buying a bond and are paid back with interest after a fixed period of time. These bonds carry increased risk because companies can, and do, go out of business.
Stocks	high	high	Investors buy shares, each of which is a unit of ownership in the company. Shareholders receive a portion of the company's profit in the form of dividend payments or increased stock value, but stocks lose value if the company loses money.
Mutual Funds	moderate	moderate	Mutual funds are collections of stocks and bonds that are professionally managed. They help investors diversify.

3. Cartoons may include such themes as not putting all your eggs in one basket or safety in numbers.