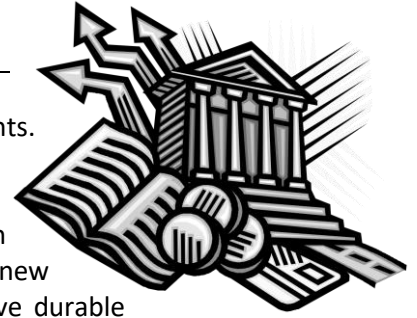


## Financial Institutions in the U.S. Economy

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In a market economy, financial institutions channel savings into investments. The process of channeling funds from one group of people to others is important to the overall economy. Banks provide a place for individuals to keep checking and savings accounts, and borrowers go to banks to obtain loans. Some people use loans to start or expand businesses or to invest in new factories and machines. Some use loans to purchase homes and expensive durable goods. Other specialized financial institutions, such as stock and bond markets, also play an important role in promoting investment.

### QUESTIONS BASED ON THE ACTIVITY

1. What is a financial institution? Give an example.
2. What is the difference between personal investment and economic investment?
3. What is the difference between stocks and bonds?
4. What is the primary market for stocks or bonds?
5. What is the secondary market for stocks or bonds?
6. When corporations issue stocks, why is it called equity financing?
7. When corporations issue bonds, why is it called debt financing?
8. Why do companies SELL stocks and bonds?
9. Why do investors BUY stocks and bonds?