

Student _____

Date _____

Class _____

Teacher _____

CHAPTER 5 Banking

Reviewing Key Terms: Complete the Sentence



DIRECTIONS: Using terms from the following list, complete the sentences below. Write the letter of the term you have chosen in the space provided.

- | | | |
|-----------------------------------|--------------------------------|------------------------|
| A. automated teller machine (ATM) | D. certificate of deposit (CD) | G. credit union |
| B. debit card | E. rate of return | H. stop-payment order |
| C. point-of-sale transaction | F. compounding | I. endorsement |
| | | J. bank reconciliation |

1. A(n) _____ is a savings alternative in which money is left on deposit for a stated period of time to earn a specific rate of return.
2. _____ is the process in which interest is earned on both the principal—the original amount you deposited—and on any previously earned interest.
3. The percentage of increase in the value of your savings from earned interest is called the _____.
4. A(n) _____ is a computer terminal that allows a withdrawal of cash from an account.
5. In a(n) _____ you use a debit card to purchase an item or service at a retail store, in a restaurant, or elsewhere.
6. A(n) _____ is the signature of the payee, the party to whom the check has been written.
7. A request that a bank or other financial institution not cash a particular check is called a(n) _____.
8. A(n) _____ is a nonprofit financial institution that is owned by its members and organized for their benefit.
9. A report that accounts for the differences between the bank statement and a checkbook balance is called a(n) _____.
10. A(n) _____ allows you to withdraw money or pay for purchases from your checking or savings account.

Student _____

Date _____

Class _____

Teacher _____

CHAPTER 5 Banking

Understanding Key Concepts



DIRECTIONS: On a separate sheet of paper, answer the following questions.

1. Contrast commercial banks, credit unions, and investment companies. What different services do they offer? What makes each unique?
2. Explain the difference between a time deposit and a demand deposit.
3. Jamie applied for direct deposit of her paycheck. What will she receive on payday?
4. What can Dan do to prevent others from making withdrawals from his account if his debit card is stolen?
5. Why is your money safer in an institution that participates in the FDIC program?
6. Carly just received her first weekly paycheck for \$100. She plans to spend about \$50 a week on lunches, entertainment, and clothing but also wants to begin saving for when she goes to college in two years. Which savings program—a savings account, a certificate of deposit, a money market account, or a U.S. Savings Bond—should she use? Why?
7. Dirk opened up a savings account with \$600. At a yearly interest rate of 5 percent that is compounded monthly, how much interest will Dirk earn in six months?
8. Paloma has a savings account with an annual rate of return of 5.25 percent. She was planning to deposit all her savings in a certificate of deposit for two years at an annual rate of return of 7 percent. However, she just read that inflation is 10 percent and rising. What would you advise Paloma to do? Explain why.
9. Herman wants to earn interest on the money in his checking account but overdrafts his present account at least once a month. Why would you advise against his changing over to an interest-earning account that requires a minimum balance?
10. Put the following steps used in a bank reconciliation form in the correct order: (a) Subtract fees and charges listed on the statement from your checkbook balance. (b) Add the amounts of recent deposits not on the bank statement to the bank statement balance. (c) Subtract the total amount of outstanding checks from the balance on the bank statement. (d) Add any interest earned to your checkbook balance.

Student _____

Date _____

Class _____

Teacher _____

CHAPTER 5 Banking

Activity 1: Interview Relatives about Banking Choices



SKILLS ACHIEVED

Writing, Listening, Reasoning, Organizing and maintaining information, Interpreting and communicating information, Acquiring and evaluating information

OBJECTIVE: *Collect and analyze information about relatives' choices and use of banking services.*

As you learned in this chapter, the variety and choice of banking services available today is vast. It takes some work to gain enough understanding to make the right choices. One of the best sources of information is your relatives. They have had experience choosing and using banking services. This activity will help you take advantage of their knowledge.

Prepare a short questionnaire about banking services to give to three adults you know who have been bank customers for several years. Examine Chapter 5 and figure out the most important questions to ask. Questions you might want to include are:

- What services do you consider most important?
- What advice would you offer to beginning consumers of banking services?
- Is there anything you would like to warn against?
- What special tips can you share?

Use a separate sheet of paper to make notes on your questionnaire. Then prepare several copies of the final questions, distribute them to your interviewees, organize and evaluate the information you collect, and share your results with the class.

Student _____

Date _____

Class _____

Teacher _____

CHAPTER 5 Banking

Activity 2: Saving for College



SKILLS ACHIEVED

Decision making, Reasoning, Allocating money, Acquiring and evaluating information, Participating as a member of a team, Negotiating to arrive at a decision

OBJECTIVE: Compare different savings programs.

In two years, you will be starting college. You have managed to save \$2,000 from your after-school job, but you have been hiding it under your mattress. Recently, you have decided to invest your savings so that you can earn interest on it. Which type of savings program will help you save the most for college?

Divide into groups of four. Each group member should research one type of savings program: a savings account, a CD, a money market account, or a U.S. Savings Bond. Conduct your research by visiting a financial institution in your area, by searching the Internet, or by looking at the financial section in your newspaper. Then, as a group, compare the different programs and decide which one would be the best way to invest your money. Fill in the chart on the following page, then answer the questions below.

Which type of savings would be your best option? Why?

Copyright © by The McGraw-Hill Companies, Inc. All rights reserved.

Student _____

Date _____

Class _____

Teacher _____

	Savings Account	CD	Money Market	U.S. Savings Bond
Name				
Date of return				
How is interest compounded?				
Fees				
Restrictions				
Tax considerations				

Copyright © by The McGraw-Hill Companies, Inc. All rights reserved.

Student _____ Date _____

Class _____ Teacher _____

CHAPTER 5 Banking

Math-Building Skills: Doing a Bank Reconciliation



It is March 31, and you just requested your checking account balance from an ATM. As frequently happens, the bank says you have a different amount than you think you should. The ATM says you have \$234.01 in your account, but your register says you have \$391.94. The mini-statement also tells you that all checks except #569 have cleared and that yesterday's deposit has not yet been credited to your account. You need to do a bank reconciliation to find out what your real balance is and whether it was you or your bank that made the errors.

DIRECTIONS: Check the math on your check register and then answer the questions below. Keep in mind that you pay \$8.50 every month for your checking services, your bank charges you \$.50 for each ATM transaction, and you earn no interest on your account.

MARCH

Date	Check Number		Amount	Balance
3/1				323.65
3/4	566	Pledge/World Wildlife Fund	20.00	303.65
3/4	567	CD Club	23.42	280.00
3/5		ATM withdrawal	40.00	250.00
3/11	568	Clothing	113.45	136.55
3/11		ATM withdrawal	40.00	96.55
3/15		Deposit	177.23	277.78
3/28	569	Car payment	100.00	177.78
3/28		ATM withdrawal	20.00	207.78
3/30		Deposit	184.16	391.94

Bank Ending Balance: _____	Adjusted Register Balance: _____
Add Outstanding Deposits: _____	Subtract Bank Charges: _____
Subtract Outstanding Checks: _____	_____
Adjusted Bank Balance: _____	Reconciled Register Balance: _____

1. After balancing your register, how much money do you have in your account as of March 31?

2. What changes did you make?

Student _____

Date _____

Class _____

Teacher _____

CHAPTER 5 Banking

Finance Online: Researching CDs



Right now you probably have many dreams. Maybe you would like to start a business someday. Perhaps you hope to travel the world. The first step toward achieving your dreams will be making a plan to save money, which might include certificates of deposit. For this activity, you will research CDs on the Internet. Use an Internet search engine to find CDs and their rates. Once you have a list of specific CDs, choose one and answer the questions below.

Keywords Used	Site Names	Web Site Addresses	Information Offered

1. What is the interest rate for this CD if the term is one year? If the term is three years?

2. What is the minimum amount you could deposit?

Are there penalties for early withdrawals? What are they?

Copyright © by The McGraw-Hill Companies, Inc. All rights reserved.

Student _____

Date _____

Class _____

Teacher _____

CHAPTER 5 Banking

Your Financial Portfolio Worksheet



Comparison Shopping for Banking Services

Compare banking services that are available to you. List the banking services that are important to you. Then call or visit several banks in your area and compare services, costs, and interest rates that are available to you.

Name of Institution		
Address/phone number		
Savings		
Annual interest rate		
Minimum balance required		
Certificate of Deposit (CD) interest rate for 6 months		
Checking		
Monthly service charge		
Minimum balance for "free" checking		
Fees for ATM		
Cost of checks		
Overdraft protection		
Banking hours		

Student _____

Date _____

Class _____

Teacher _____

Service		
Banking hours		
Location		
Number of ATMs		
24-hour phone service		
Other		

_____ services are most important to you?

Which bank would you choose? Explain why.

Student _____

Date _____

Class _____

Teacher _____

CHAPTER 5 Banking

**Software
Activity
(Optional)**

Quicken Application

Using Quicken to Reconcile a Bank Account



OBJECTIVE: Use a financial software application to track activity within a bank account and reconcile the account records to the bank statement.

Practice Situation

Juan Alvarez uses Quicken software to record his checking account activity. On October 31 he recorded the beginning balance in his checking account. Throughout the month of November, Juan recorded all checks written and deposits made. His bank statement for the month ended November 30 has arrived and contains the following information:

10/31	Beginning Statement Balance		\$1,250.00
11/30	Ending Statement Balance		2,250.82
	Checks Paid	101	45.50
		102	59.68
		103	122.00
		104	450.00
		107	111.00
11/10	Deposits Cleared		1,800.00
11/15	Service Charge		11.00

Use Quicken to reconcile Juan's checking account, then print a register report for the account and answer the questions that follow.

Quicken Directions

1. Start your Quicken software and open the file SA05.qdf.
2. Click **Cash Flow** in the top Quicken menu bar.
3. Select the option *Reconcile*.
4. Select *Juan's Checking Account* to reconcile. Click **OK**.
5. Enter the ending statement balance in the Ending Balance field.
6. Enter the service charge amount in the Service Charge field.

Student	Date
Class	Teacher

7. Enter the Service Charge date by typing in or by clicking on the calendar icon. Click OK.
8. Mark each check that was paid by the bank by clicking in the **Clr** column to the left of each check detail.
9. Mark the deposits cleared by clicking in the **Clr** column to the left of each deposit.
10. In the bottom right corner of your screen, the **Difference** between the **Cleared Balance** and the **Statement Ending Balance** should be \$0.00. If not, you may have missed an item or marked the wrong item. Correct any errors, then click *Finished*.
11. To save your work to a disk, click **File** in the Quicken menu. Select *File Operations*, then *Copy*. In the field provided, specify the disk drive and path of the directory for your file copy. Include the file name SA05***.qdf. (Replace *** with your initials.)
12. View the check register for Juan's checking account. Using the **Cash Flow** menu, select *Cash Flow Accounts*. Click *Juan's Checking Account*. Print the report if your teacher has requested that you do so by clicking **File** and *Print Register*.

Interpreting Results

1. What total cash outflows were recorded on Juan's checking account bank statement? _____
2. After reconciling Juan's checking account, which checks were outstanding (not paid) at 11/30? _____
3. What is the ending balance for Juan's account? _____

Drawing Conclusions

1. As you can see from the register report, Quicken assigns checks and deposits into categories. Explain the benefits to this method of organization.

2. Many individuals do not reconcile their bank accounts on a regular basis. Can you describe the benefits that you see of a regular bank account reconciliation?

Copyright © by The McGraw-Hill Companies, Inc. All rights reserved.

Student _____

Date _____

Class _____

Teacher _____

CHAPTER 5 Banking

SELF-ASSESSMENT QUIZ

DIRECTIONS: Identify the letter of the choice that best completes the statement or best answers the question.

1. A possible drawback to using an ATM for your daily cash needs is (A) uncertainty about how much you will need (B) the service fee for its use (C) running up a large bill (D) interest charges.
2. The most commonly used payment service is a (A) savings account (B) certificate of deposit (C) checking account (D) mutual fund.
3. An automatic payment is when your (A) employer deposits your paycheck (B) bank withdraws money for a bill (C) friends use your PIN (D) local ATM accesses your account.
4. Using a debit card to pay for a meal at a restaurant is called (A) a point-of-sale transaction (B) a trade-off (C) a direct deposit (D) an online transaction.
5. Which financial institutions generally charge the highest interest rates on loans? (A) credit unions (B) mutual savings banks (C) commercial banks (D) finance companies
6. The interest rate varies from month to month on money in a (A) regular savings account (B) money market account (C) certificate of deposit (D) U.S. Savings Bond.
7. The rate of return on an investment would be greatest when the interest was compounded (A) daily (B) weekly (C) monthly (D) yearly.
8. What is the annual percentage yield on a deposit of \$200 in an account that pays 8 percent interest compounded twice a year? (A) 4% (B) 8% (C) 8.16% (D) 16%
9. An activity account usually requires a (A) fee for each check (B) minimum balance (C) direct deposit of paychecks (D) certain balance in a savings account.
10. If a check is lost or stolen, you might ask the bank for (A) overdraft protection (B) copies of canceled checks (C) a stop-payment order (D) a bank reconciliation form.