



# Check It Out

On his way home, Joe bumps into his older sister Delia, a college student working toward a degree in finance. Over cookie-dough ice cream cones, Joe confides that he has just opened a checking account and is a little confused. “Is a check just like cash?” he asks Delia.

“Well, not exactly,” says Delia. “Checks are what banks use to directly transfer money from one bank account to another without using cash.”

“But if I use a check to buy a CD player at a store, how will my bank ever know?” Joe asks.

“OK, let me give you an example,” smiles Delia. “Imagine that you write a \$100 check from your account at Bank A for that CD player to Music Plus. The store deposits your check at their bank—let’s call it Bank B. Bank B places a magnetic ink code for the amount of your check in the lower right-hand corner of the check. Then Bank B sends your check to a Federal Reserve Bank to be cleared.”

“Wait, what’s a Federal Reserve Bank?” asks Joe.

“Federal Reserve Banks are banks with ‘National Bank’ in their names. They clear about one-third of all checks written in the United States,” Delia explains. “But Bank B could also send your check to a private bank called a ‘correspondent bank.’ These banks run your check through its sorting machines, checking for the magnetic ink code.”

“I get it,” exclaims Joe. “These big banks use the magnetic code that Bank B placed on the check to see how much the check is worth. But how does it know what bank holds my account if I don’t use Bank B?”

“That information is in the lower left-hand corner of the check,” Delia explains. “The Federal Reserve Bank or the correspondent bank presents the check to your bank and then your bank pays \$100 from your account to—”

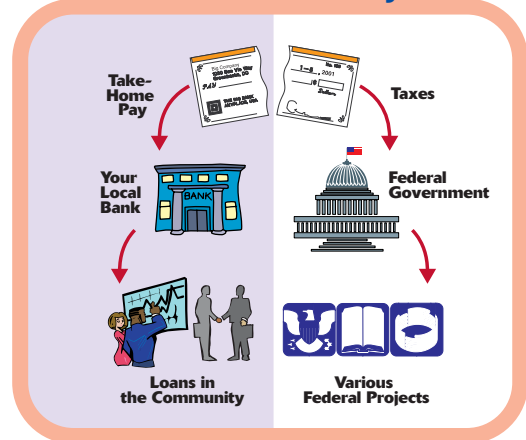
“The Federal Reserve Bank, who then pays Bank B!” Joe finishes. “Then I receive a bank statement that says \$100 has been deducted from my account!”

“Right!” Delia says, finishing off her ice cream cone and waving goodbye to Joe to join some friends. “Plus, what’s really neat is how the bank uses the money in your checking account!” As Joe heads toward home, he thinks, “What does that mean?”

Later that night, Joe goes online to find out the answer. He reads, “Your money goes into a bank account.

Bankers can use the money in your account to reinvest in the community in the form of loans to individuals and businesses.” On another Web page, he sees the following chart:

## Where Does Your Money Go?



**Students:** The amount of money one earns is split in two: taxes and take-home pay. Take-home pay is often deposited into a local bank account, and employers send taxes directly to the federal government. Review the chart above and answer the following questions on a separate sheet of paper to help Joe understand how his money can be used:

1. Describe the effect money in a local bank account could have on community resources, such as town parks, sports teams, or small businesses. \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

2. Describe the effect taxes could have on federal resources, such as roads, healthcare costs, and the military. \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_