

Activity 2 Where Did the Mortgages Go?

Directions. Read the *Handy Dandy Guide* and the mystery. Read the clues assigned to your group. Be careful. While all the clues are correct, only some are *useful* in solving the mystery. Decide which clues are most relevant to solving the mystery. Use the clues and one or more of the ideas from the *Handy Dandy Guide* to figure out a solution to the mystery. Write your solution.

Handy Dandy Guide

1. People *choose*.
2. People's choices involve *costs*.
3. People respond to *incentives* in predictable ways.
4. People create *economic systems* that influence individual choices and incentives.
5. People gain when they *trade* voluntarily.
6. People's choices have consequences that lie in the *future*.

The Mystery

In the 1970s, a law in the state of Illinois prohibited lenders from charging more than 8 percent interest on home mortgages. The purpose of this law was to make home-buying more affordable for people earning low incomes. However, by the mid-1970s, people wanting to buy homes in Illinois found it almost impossible to get home loans from state bankers.

This seems odd. People who lend money can't make any money themselves unless they issue loans.

What happened to the mortgages in Illinois? Why did people in the money lending business not want to issue loans?

The Clues

1. Banks are businesses.
2. In issuing loans, banks strive to make a profit by charging higher interest rates than the rates they pay to depositors.
3. State and federal agencies regulate banks.
4. Usury laws set limits on the interest rates lenders are permitted to charge. Sometimes usury laws require lenders to charge less than current market rates of interest.
5. The Federal Reserve is the central bank of the United States.
6. The Federal Deposit Insurance Corporation guarantees the deposits of bank customers, up to a set limit.
7. The 1970s were a time of rising interest rates and rising inflation.
8. Savings and loan institutions and credit unions provide many of the same services as commercial banks.
9. Banks are required to keep only a fraction of their deposits in the form of reserves.

Record your solution and explain it briefly here:
