ARE YOU READY FOR THE REAL WORLD?
State Farm Grant Opportunities

State Farm is committed to supporting education. We’ve established several national partnerships to identify ways to raise the level of achievement of our nation’s students. Here are two current grant opportunities we hope will help in accomplishing this goal, while at the same time fostering civic responsibility and developing students’ leadership skills.

State Farm Youth Advisory Board Membership and Grants

The State Farm Youth Advisory Board was created in 2006 to implement a $5 million-a-year signature service-learning initiative to address issues important to State Farm and communities across the United States and Canada.

Grants will be available in early 2011 for programs focused on national and societal disaster preparedness, driver safety, financial education, environmental responsibility and access to higher education. Grants range from $25,000 to $100,000.

Applications to be a member of the Youth Advisory Board will be available this fall for students ages 17-20. Each board member in good standing will receive a scholarship to be used for post-secondary education.

More information about the next round of grant opportunities from the State Farm® Youth Advisory Board will be made available in August, 2010. Please continue to visit the board’s website for the most up to date information at www.statefarmyab.com.

Project Ignition

Project Ignition is sponsored by State Farm in partnership with the National Youth Leadership Council (NYLC). It is a forum through which students in grades 9 -12 develop communication programs that address risky driving behaviors, such as seat-belt use, speeding, impaired driving and distractions while behind the wheel, like using a cell phone, eating or fumbling for a CD.

Through a competitive process, 25 schools across the United States each receive a $2,000 grant when the school starts to implement their communication campaigns. Up to 10 are then selected for competition at the State Farm Companies Foundation-sponsored National Service-Learning Conference convened by NYLC. One school is selected as the winner and receives a $10,000 grant to continue its safety program.

More information on Project Ignition can be found at www.sfprojectignition.com.

For additional grant opportunities visit:
www.statefarm.com

The author, Rachel Powell, works as the Program Coordinator for the Center for Economic Education at George Mason University in Fairfax, Virginia. The GMU Center is part of the Virginia Council on Economic Education and the National Council on Economic Education. Centers for Economic Education are located at colleges and universities throughout the country. Each provides a variety of training workshops, courses, and classroom-ready materials to teachers of students in grades K to 12. For information on the National Council and its free teacher-resources, check out their web site at: www.ncee.net. For information on the Virginia Council, see www.vcee.org. You may also contact Rachel Powell at gmupowell@yahoo.com. She’d be pleased to hear from both students and teachers.

The following resources were consulted in the writing of this supplement. Students and teachers will find more useful information on money management in these excellent books.

The Young Investor: Projects for Making your Money Grow 
by Katherine R. Bateman

Ultimate Kid’s Money Book by Neale S. Godfrey

The Everything Kids’ Money Book: From Saving to Spending to Investing — Learn all about Money by Diane Mayr

The Wall Street Journal Guide to Understanding Money and Investing
Get a Job!
Get a Haircut!

Here's the Deal

While you might consider yourself too young to begin saving toward your first home, you might be planning a car purchase or college education. Maybe your savings goal is more modest, a CD or a bicycle. Whatever your financial goals, working is probably the most efficient way of getting there.

Most people work to acquire the means to meet their needs and wants. Commonly known as M-O-N-E-Y, this incentive to work is what gets most adults out of bed each morning. Your incentive to work may be your savings goal. The most fortunate among us are also rewarded for their work by a sense of satisfaction and enjoyment.

What jobs have you done: baby sitting, lawn mowing, delivering newspapers? Have you worked as a checkout clerk, library page, receptionist? Your options are limited by your available time, means of transportation, and skills; these are your limited resources. You may still have years of formal education in front of you, but it is not too soon to begin planning, gaining experience, and developing the job skills necessary to do the work you would find most rewarding. Obviously, the paycheck is important, but so is a sense of adventure and the enthusiasm generated by a job well-loved.

While many of us work for an employer for wages and are therefore employees, there is another riskier way of getting to your financial goals. Instead of getting a job, consider making a job. People who make their own jobs are known as entrepreneurs. The bagger at the Giant and the newspaper carrier are employees. The woman who starts her own pet sitting service is an entrepreneur. While she is responsible to her clients, she works for herself, and she assumes all of the risks that come with self-employment.

The neighborhood lemonade stand is probably the most common image of entrepreneurship. What other ways can you imagine making a job for yourself? Mowing lawns, watering gardens, walking dogs, providing childcare, washing cars, shoveling snow, returning videos or library books, and website design are some examples of services young entrepreneurs can provide.

Whether making a job or taking a job, workers need to match their skills with job opportunities. The more unusual or specialized your skills and knowledge, the more money you can potentially earn. Some unpleasant jobs may also pay more because fewer people are willing to do them. Garbage collection is an example of this type of work. There exists a scarcity of workers willing to collect garbage so employers must offer potential employees the incentive of higher pay.

The desire to meet your needs and wants will probably fuel your willingness to work. Your willingness to show up on time and work conscientiously will fuel your employer’s or clients’ desire to compensate you with a paycheck.

Check it Out

Find the employment section of the paper (after you’ve read the comics, of course) and choose five job listings from five different categories. These should be jobs for which you are qualified. Be realistic: can you really do this job? Tape or glue the listings in your economic journal. Leave several lines underneath each clipping. On another page, list as many entrepreneurial jobs as you can imagine yourself doing. Be creative and realistic; could you find people willing to pay you to provide this service?

Teacher! Teacher!

Many of the activities suggested in Check it Out will refer to students keeping an economic journal. This can be any notebook or collection of paper dedicated to increasing students understanding of the economics concepts which are part of the state standards.

In order to produce, producers must first consume. Ask students to identify the resources (Natural, Human, Capital, and Intermediary) necessary to start any of their entrepreneurial businesses.

Pop Quiz

You are a human resource when:

a) You are working at the local supermarket
b) You are relaxing by the pool
c) You get up in time to catch the bus to school
d) You do all your weekend homework on Friday night

Pop Quiz

You know it is time to get a job when:

a) Your dad threatens to kick you out of the house if you don’t
b) You want to begin saving toward a goal
c) You’ve got too much time on your hands
d) TV goes into rerun season

Hey, Mom!
Watch Me!

You are a human resource whenever you are engaged in an activity for which you are being paid or for which you would pay someone else. So, unless you’re employed as a lifeguard, you probably aren’t earning any money poolside. Human resources possess knowledge and skills that make them valuable to employers. Valuable employees get hired and paid.

What skills do you currently have that are saleable? Are you reliable, punctual, creative, artistic, mathematically inclined? While you are not yet qualified to perform brain surgery, as a human resource, you do possess job skills. Your willingness to show up at work on time and to work conscientiously is one of your most marketable qualities.

What is your dream job? If you could work at any job, what would it be? What would be the ideal conditions? Would you work indoors or outdoors? Would you work alone or on a team? Would you work with children, plants, microbes, motors? Begin planning now to develop the skills necessary to do the job of your dreams. What level of education is required? What special skills or abilities will you need to develop? Where will you be able to get work experience, an internship, or an apprenticeship? Do you know anyone in the field who can advise you on how to get started?

You are developing your self as a valuable human resource through attention to your schoolwork, planning for college or other training, and a part-time job. This effort is an investment in your future you can start making now.

Check it Out

Go back to your economic journal and the newspaper clippings you chose. Read through each job description carefully, make a list of the knowledge or skills necessary to do the job. Some of these skills might be specified in the ad. Some may require you to use your powers of deductive reasoning.

Teacher! Teacher!

Using the lists students recorded in their economics journals according to “Check It Out”, ask students to share their skills and knowledge lists with the class. Point out...employment. For example, knowledge of biology is necessary for both a doctor and an ecologist.
**Pop Quiz**

In choosing your first apartment, it is important to consider all of the following except:

a) Size and amenities  
b) Location  
c) Cost of rent and utilities  
d) What your friends will think of your space

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**Pop Quiz**

The circular Flow of Economic Activity:

a) Explain why you should be getting an allowance  
b) Describe what happens to your allowance when you put it in your piggy bank  
c) Occurs when you spend your allowance  
d) Happens when you flip a coin in the air

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**Movin’ On Out**

Do you need a dishwasher, built in microwave, patio or balcony? As you are probably aware, fancier spaces cost more to rent. Consider stripping down to your basic needs if your budget is tight.

Even with all the variables to consider, you’ll succeed in finding a suitable space if you are clear about your priorities before you begin your hunt. With less important criteria, be flexible. Remember, this isn’t the “home of your dreams,” it’s your first independent space.

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**The Circular Flow of Economic Activity**

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<thead>
<tr>
<th>Natural</th>
<th>Human</th>
<th>Capital</th>
<th>Intermediary</th>
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<tr>
<td>water</td>
<td>car wash</td>
<td>bucket</td>
<td>soap</td>
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<td></td>
<td>car washer</td>
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**Here’s the Deal**

Some day you may want a place of your own, or your parents may be ready for you to relocate from your apartment in their basement. Moving out on your own is an exciting transition; it’s also risky. Renting a space is a big responsibility. It is also a legal obligation under the terms of the lease. You could spend weeks checking out apartments until you find your dream space, but there is an easier way.

In order to get a good grip on the idea of circular flow, money makes the world go round. And money itself goes round in what is called the circular flow of economic activity. Ever wondered where the dollar in your pocket traveled before it reached you or where it might go after you spend it? Money circulates through the economy in much the same way that water circulates through the water cycle — while the quantity of currency may remain constant, the supply of currency never stops moving. Dollars change hands constantly, moving from producers to consumers through banks and back out again.

In order to get a good grip on the idea of circular flow, we’ll need to cover a few economic terms. First, consumers buy and use goods and services that are provided by producers. These goods and services are made from resources — natural, human, capital, intermediary — which the producer must acquire in the market in order to produce the goods and services she will be selling. In other words, in order to produce, producers must first consume.

Let’s get more specific; Bob is a high school junior who earns income in the summer by washing the cars of neighbors in his apartment community. The following chart shows the resources Bob must acquire in the market in order to produce the service of car washing.

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**Check it Out**

Look through the For Rent listings. Choose five possible places to live. Place the listings in your economic journal. How will you choose a place to live? List your priorities for space and location. Which of your options best meets your needs?

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**Teacher! Teacher!**

A decision making grid can be the best way to guide young people through the decision making process. Use the guide to assist students in assessing their alternatives (various apartments for rent) against their criteria (priorities).

Use the decision-making grid for other decisions — career and job choices, college options, vacation planning.

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**Just Another Brick in the Wall or Cog in the Machine:**

The Circular Flow of Economic Activity

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“Money makes the world go round.” And money itself goes round in what is called the circular flow of economic activity. Ever wondered where the dollar in your pocket traveled before it reached you or where it might go after you spend it? Money circulates through the economy in much the same way that water circulates through the water cycle — while the quantity of currency may remain constant, the supply of currency never stops moving. Dollars change hands constantly, moving from producers to consumers through banks and back out again.

In order to get a good grip on the idea of circular flow, we’ll need to cover a few economic terms. First, consumers buy and use goods and services that are provided by producers. These goods and services are made from resources — natural, human, capital, intermediary — which the producer must acquire in the market in order to produce the goods and services she will be selling. In other words, in order to produce, producers must first consume.

Let’s get more specific; Bob is a high school junior who earns income in the summer by washing the cars of neighbors in his apartment community. The following chart shows the resources Bob must acquire in the market in order to produce the service of car washing.
Bob does not make the bucket, sponge, or soap that he uses to clean cars. When he buys these resources, he is functioning as a consumer. When he is washing cars, he is functioning as a producer. Buckets, hose, nozzle and sponges are capital resources because they don’t get used up—even though they may wear out over time. They are the tools and equipment Bob uses in the production of his service. Soap and wax are intermediary resources because they are made by people and do get used up. Bob will need to return to the market periodically to buy more.

Markets are any places in which producers and consumers interact. The hardware store, which sells the bucket and hose to Bob, is a market. Bob creates a market when he sells his service to his neighbors.

This circular flow chart illustrates Bob’s participation in the market as both a consumer and a producer.

We can create other circular flow diagrams to illustrate other aspects of markets and other interactions between producers and consumers. Our diagram would change if Bob hired workers to help in his business. If Bob were to deposit his earnings in a bank account, we could add financial institutions to our flow chart. When Bob pays taxes, the government is brought into the picture. This model of economic activity is specific to a market economic system, such as we have in the U.S. Individuals provide labor—human resources—to businesses in exchange for income. Those businesses produce goods and services using these human resources as well as other resources. Individuals use their income to buy the goods and services produced by businesses. Each exchange of goods and services and resources is accompanied by an exchange of currency. Money and goods flow in opposite directions in the diagram.

You participate in the circular flow of money in the economy as both a producer and a consumer. Understanding your participation empowers you to make choices about the human resources you provide to the market and the income you receive as well as the goods and services you consume using your income.

**Pop Quiz**

Which of the following has not been used as currency at some point in human history:

a) Tobacco  
b) Shells  
c) Animal hides  
d) Salt

**Here’s the Deal**

Oops! It’s a trick question. Just about anything of value has been used as a medium of exchange somewhere at some time. We refer to money as bucks, clams, or dough for a reason. Early in human history—those tragic days when people needed no medium of exchange, or currency. Unlike the comic prehistoric world of Fred and Barney, there were no stores and therefore no spending. Instead, early men and women found or made everything they needed: shelter, clothing, water, and food.

Eventually, people learned to barter. Goods and services were exchanged for goods and services. If I need a deerskin tunic and have a hatchet I don’t need, and you need a hatchet and have a deerskin tunic you don’t need, we can arrange an exchange of the things we don’t need for the things we do need. This situation is known as a double coincidence of wants. What happens though if I need a deerskin tunic, and you don’t want the hatchet I have for trade? I’ll need to find someone who will accept my hatchet in trade for a tunic or offer you something else that you do want. What if you want more than what I am willing to offer? Are a hatchet and a tunic really equivalent in value? Can you imagine how messy things are going to get?

In each ancient civilization, Egypt, Greece, Rome, China, trade matured to the point that the development of currency was necessary. In Europe, currency came into common usage with the advent of the guilds at the time of the Renaissance. Currency is any object a society agrees to use as a means of trade. Early currency was usually valuable in itself. In Siberia, bricks of tea served as currency, and in Fiji, whale ivory could help you procure the object of your desire. In Colonial Virginia, tobacco was used as a currency. Salt was used as currency in several ancient cultures including Mali. Many early currencies were consumable. Tobacco can be smoked, though doing so is not advisable, and salt is a necessary nutrient. In order to qualify as a currency, the object must meet several qualifications: it must be portable, durable, and valuable.

In order for such goods (or anything else, including contemporary money) to serve as currency, all the people involved in the market must agree on their worth. If we use clams as currency, we must agree that an apple is worth one clam and a hat is worth 10 clams. The value of currency may fluctuate, it does all the time, but generally we agree upon the value of our currency in terms of the goods and services we need and want.

Using a consumable as currency has its drawbacks. Besides posing the temptation of actually getting used up or rotting, damp tea somehow loses its allure), the value of many early currencies was based on weight. Taking time to weigh your money slows trade. Convenience is everything in the marketplace, so eventually, most societies settled on the use of metal money. Precious metals, those that are scarce, include gold, silver, and copper. Overtime, metals were made into coins of a standard weight. It is easier to count out the correct amount of currency than to take time to weigh it. Metal coins were used in trade in ancient Egypt, though your average Egyptian may have gone his entire life without handling money. For a long period of history, money was used primarily by wealthy people to pay taxes. Common folk still bartered for what they needed.

The process of turning metal into coins is called minting. In addition to being of standard weight, portable, and durable, metal coins offered another benefit, they could be stamped with the likeness of the national leader or some other national symbol. Since ancient times, each government has minted its own coins, and the coins of different countries are easily distinguished. Coins were mostly made of metals that are scarce, gold and silver being used most often. The use of scarce metals is a good choice because they are harder to counterfeit.

Paper and printing were both invented in China about 2,000 years ago. Naturally, the two combined to create paper money. Eventually coins made of precious metals were replaced by paper money. There are benefits and costs to the use of paper money. One downside is that, unlike coins or salt or even gold coins, paper money has no intrinsic value. Think of it this way, if you were stranded on that desert island, would you rather have a bushel of bills or a bushel of clams? Paper money has no value...
Teacher! Teacher!

As a class, track the value of the dollar against currency in three countries for a period of two to three months. Check weekly and chart the dollar's progress. What might account for the rise and fall of the dollar's value? Use the newspaper to track events that may contribute to the health of the dollar or to the strength of the euro, yen, peso, or rouble.

Economic W eather:

Forecasting the Economic Weather:

Economic Indicators

Here's the Deal

Before leaving the house in the morning, it may be a good idea to catch the weather report. Knowing what to expect can help you be prepared. Meteorology, however, is not an exact science. Ever leave home without an umbrella because the forecast called for sunny skies and arrive home drenched? Economic forecasting is not unlike weather prognostication; the experts gather all the available data, analyze it, and make what amounts to a guess. Sometimes they are right on, and sometimes it rains.

Just as we all enjoy a sunny, breezy day, everyone enjoys the economy when it is healthy. However, the economy goes through phases; these are called business cycles, and some are better than others. Business cycles can be divided into four phases — expansion, high point, contraction (or recession), and trough. During expansion, the economy is growing; new jobs are created, and new houses are built. Eventually, the increase in economic activity hits a peak or high point, and the economy is strong but also, at this point, can be inflationary — prices begin to rise. Producers make more goods to meet consumers' increased demands. We don't always know when the economy has peaked until we move into the contraction phase. Business begins to slow down. If the recession phase lasts long enough, we've got ourselves a depression. The trough is the lowest point in the business cycle with little or no job growth and low consumer demand for goods. The economy will eventually move from the trough into recovery and expansion.

Economists use economic indicators to predict the movement of the economy through business cycles. It is necessary to understand what the economy is doing because the United States, as well as many other countries, tries to control the movement of the economy and to prevent or mitigate the effects of inflation and recession. If the government failed to take any action, the economy could slide into a depression like the one experienced after the Stock Market crash of 1929. Because the U.S. is part of the global economy, a depression in the U.S. economy could trigger similar downturns in economies of other countries. Global depression is not a pretty thing, and it is very difficult to overcome.

Economic indicators fall into three categories — leading, coincident, and lagging. Leading indicators are those used by economists to predict future economic activity. Coincident indicators reveal the health of the economy in the moment. Lagging indicators give a picture of past economic performance and are used to determine how long an existing business cycle might last.

The Index of Leading Economic Indicators is released every month and is made up of an average of ten leading indicators. This list of ten includes jobless claims, orders for durable goods, housing starts, and new factory orders. Jobless claims are made by those seeking, but unable to find work. If unemployment is low, many people seeking work have been able to find jobs. Low unemployment figures are generally considered a sign of economic health. Durable goods, household appliances and equipment used in factories, are goods expected to last over three years. When there is a big demand for these goods, the economy is growing; it is in an expansion phase. Housing starts are measured by the number of building permit applications submitted. When the economy is growing, families can afford to buy homes and banks can afford to lend the money for mortgages. An increase in factory orders means consumers are buying more. As demand for goods increases, factories hire more workers who, in turn, have more money to spend on goods. Businesses pay attention to the economy and use the index when making decisions about growing their businesses and hiring workers. Workers may watch the indicators to determine the best time to change jobs or careers. Understanding the economy requires knowledge of business cycles and an understanding of economic indicators.

Check it Out

If you have ever traveled out of the U.S., you may have needed to exchange your dollars for the currency of the country you were visiting. Trading the currency of one country for that of another is big business. Look through the business section of the newspaper to determine the current value of the dollar against the Japanese yen, the Euro, and the British pound. When the dollar is worth more yen, it is a good time to travel to Japan; your dollar will buy more. When the value of the dollar is up in the world market it is said to be "strong."

Check it Out

Use articles in the business section to gain an understanding of the current health of the economy. Which phase of the business cycle is our economy currently experiencing? Search for references to economic indicators. How are these numbers being used to predict future economic activity?

Teacher! Teacher!

Collect copies of the Index of Leading Economic Indicators from the newspaper for several months. Ask students to determine the health of the economy and the current business cycle. Assist them in constructing a chart of economic indicators showing the dates each was released, the government agency responsible for the report, and its current level.
Banks have existed in different forms for thousands of years. In many ancient cultures, temples served as safe places to store money. No one, it was thought, would steal from a temple. In some instances, temples loaned money and exchanged foreign currencies. The first bankers were the money-changers in ancient Greece who exchanged coins for merchants as they traveled from one area to another. This valuable service encouraged trade between cities and countries which each minted their own currencies from precious metals. In the middle ages and later, goldsmiths acted as bankers. Their safes were excellent for storing money and valuables. Goldsmiths also made loans; merchants and other townspeople signed a piece of paper promising to repay the loan by a certain date and to pay a fee — or interest — for the use of the loan. In some instances, borrowers had to guarantee the loan by providing collateral — an item of value that the lender would keep if the loan was not repaid. Banks have become increasingly sophisticated and complex. First, banks are distinguished by their charters; they can be either state or federally chartered. They operate under similar rules but are supervised differently. National banks are required to be members of the Federal Reserve System. State banks may choose to join but are not required to do so. Since 1980, all banks must meet Federal Reserve requirements for deposits. Next, banks can be differentiated by who owns and operates them; commercial banks, savings and loans, savings banks, and credit unions each own differently.

Commercial banks are businesses owned by shareholders who pay dividends from the profits the bank earns; the bank earns income from customers who pay for services and loans. Commercial banks are the most common.

Savings and loans first began in the mid-1800s to assist customers in buying homes. Most still offer home loans — mortgages — as well as checking and savings accounts. Savings and loans were originally owned and operated by depositors. Now, about half are profit-seeking businesses owned by shareholders. In the mid-1980s, hundreds of these banks failed because of their involvement in risky loans and bad investments. The result was the savings and loan crisis.

Savings banks began in the early 1800s for depositors who had only small amounts of money to save. Savings banks did not require a large initial deposit to open an account. Most savings banks in the U.S. are located in the northeast. They often offer mortgage loans.

Credit Unions are owned by a group of savers who work together in the same industry or belong to the same organization. Your teachers may be members of the teachers’ credit union. These institutions often offer lower interest rates on loans and higher interest rates on savings accounts because they are not attempting to make a profit from services offered their depositors and borrowers.

Deposits in credit unions and other banks are insured up to a certain dollar amount. If the institution should fail, depositors’ money will be replaced up to the amount guaranteed.

Consider inviting a bank representative to speak to your class. Many banks can provide a speaker who can discuss banking procedures and bank accounts with your students. Some provide banking resources for use in schools.
Rainy Day Nest Eggs
Don’t Grow on Trees

Here’s the Deal

Any of the reasons listed above is a good reason to establish a savings account at a bank. After all, we’ve all heard it from our parents: “Money doesn’t grow on trees” and “Save for a rainy day.” Parents can be big on money “burning holes in your pockets,” and grandparents often caution to “build up a nest egg.” Whether we are concerned about eggs, trees, or rain, saving is an excellent idea. It is never too soon to get in the habit of saving. The younger you are when you begin saving, the more money you could potentially accumulate.

If you are saving toward a goal, you will need to keep your money in a safe place. It may also be helpful to keep your money out of reach to avoid the temptation to spend it. While burying your savings in a coffee can in the backyard will make it both safe and inaccessible, a savings account in a bank may be a better choice.

Banks offer savers the incentive to save; it’s called interest, and it’s an excellent way to make your money grow. When customers deposit their money in savings accounts, the bank pays them a small percentage of their account balance in interest. Simply by keeping money on deposit in the bank, you will earn money. This step is the first in using your money to make money. If you deposit $500 at 2% annual interest, the bank will add an additional $10 in interest. If you leave the interest in the account, during the next interest payment cycle, the interest you earned will then earn interest itself. Rather than earning 2% on $500, you will be earning interest on $510 for the next year. As interest continues to compound, money grows. This is the time value of money and the power of compounding.

There are several ways to save at the bank: The most common are statement and passbook savings accounts. Certificates of Deposit (CDs) and individual retirement accounts (IRAs) allow depositors to earn more interest, but there’s a catch. In order to receive the higher interest rates, savers must agree to leave funds on deposit for specific time periods. Whereas a savings account or a money market account allows you to withdraw funds anytime they are needed, the terms of a CD specify that the money cannot be withdrawn until the term of the CD has expired without the borrower being penalized a hefty fee. Banks know they cannot count on borrowers leaving money on deposit in their savings accounts; they generally can count on the money deposited in CDs remaining on deposit and are therefore willing to reward savers with a higher interest rate. Much as we might like to believe that banks are altruistic and pay interest to depositors out of the kindness of their hearts, they are, in fact, businesses. Businesses need to make a profit in order to stay in business. So, why would a bank pay its customers? Banks need the money customers deposit in savings accounts to use in making loans to businesses and individuals. One of the ways banks make money is by lending money. While they might pay 2% interest on a statement savings account, they may charge 5-7% interest on a home mortgage or car loan, and higher rates on unsecured loans. Banks pay savers for the use of the money they have on deposit, and borrowers pay the bank for the use of the money they borrow. Taking out a loan is a bit like borrowing a movie from the video store. The store expects you to return the video by the due date, and it charges you a fee for the use of the tape or DVD. The interest banks charge on loans is the cost to borrowers of using the bank’s money. Borrowers are required to return the money within a certain time period.

While borrowing allows us to acquire the goods and services we want right now, saving requires us to postpone spending now in order to empower our spending in the future. Borrowing can be expensive; added to the purchase price of the item is the cost of the loan. Your $2,000 car costs $2,000 plus the money spent on interest. Saving $2,000 for the car can actually result in the car plus the interest earned while the money was accumulating in a savings account. Saving requires self-discipline. It is a healthy habit worth developing while you are still young. Your saving habit will serve you for the rest of your life.

Pop Quiz

It is time to begin saving when:

a) You get your first job
b) You have a financial goal
c) Your aunt sends you a birthday check
d) You’ve got loose change in your pockets

Check it Out

Search through the paper for bank advertisements. Select several to include in your economics journal. What services does each offer? What is the interest rate for a statement savings account? For a CD? For a money market account? Is there a minimum balance? How long must you be willing to keep your money in the account before you can make a withdrawal without a penalty?

Teacher! Teacher!

Consider establishing a classroom economy to teach saving. In such a system, students earn income in the form of classroom currency and can save their currency to trade for goods — pencils, paper, ice cream — or services. Large beans — such as dried limas that have been spray-painted on one side — can serve as currency. As students save, their spending options expand.
Are You Willing to Risk It? Investment Basics

Here’s the Deal

You know that your money grows in a savings account due to the interest it accrues; it is also safe. You can be certain your money will be there when you are ready to make a withdrawal. The security of a savings account is offset by the slow rate of growth — don’t expect to double your money anytime soon. In fact, when you consider the rate of inflation, your money may actually lose value — or buying power. Some savers and investors want the opportunity to realize greater returns, and they are willing to take some measure of security to gain them. Many stock investors, for example, realize returns that far outstrip inflation; just as many investors have lost big.

Knowing the risks and what you can afford to lose must be part of your investing plan; this is your risk tolerance. Generally, the greater the potential return, the higher the risk. Savvy investors know the importance of keeping the rent money secure. Investors also know the importance of patience. Don’t expect to get rich overnight; instead, for the highest returns, you will need to think long term — five years or more. What long-term savings goals have you established? College or trade school? A car and a house? Retirement? All of these goals may be well served through wise investing. Be aware that money invested is often not readily available. For short-term goals and monthly expenses, checking and savings accounts may be better choices.

Before you begin investing, you’ll need to understand your options. The most common investments fall into three categories:

- Bonds
- Stocks
- Mutual Funds

Bonds are among the most secure investments. You can expect to get your money back as well as a return on your investment — interest. When you buy bonds — invest in the bond market — you are loaning your money to a borrower. As an investor, you are the lender. Bonds are differentiated by the borrower. There are three types of bonds:

- Government bonds — federal government
- Municipal bonds — city, town, county, and state
- Corporate bonds — private corporations

Government bonds take the form of U.S. Savings Bonds and Treasury Bonds — called Treasuries. Bonds have a maturity date at which time you exchange the bond certificate for the principal — the dollar amount of original investment plus the interest. Savings Bonds may be a good choice for beginning investors. They are safe and require a smaller principal than other bonds. Treasuries require a larger investment — $1,000 to $10,000 for individual investors and $100,000 for banks and brokerage firms. Because of the larger principal investment required, some individuals invest in Treasuries through mutual funds. Treasuries are further delineated by the length of the investment:

- Treasury Bill — less than one year
- Treasury Note — one to ten years
- Treasury Bond — more than ten years

Municipal bonds are loans to cities, towns, counties, and states. Investing in municipal bonds is a way to watch your town grow; money borrowed by municipalities in the form of bonds is used to build schools, libraries, sewer systems and other projects that are part of the infrastructure. You can get a direct benefit from these projects in addition to the interest you earn on your bonds. Municipal bonds usually pay interest every six months, and at the end of the contract the principal amount is returned to the bondholder.

Corporate bonds are generally riskier than government and municipal bonds; whereas state and federal governments are unlikely to “go out of business”, private corporations do occasionally go under. If you are holding a bond from a corporation that fails, your investment is lost. Because the risk is higher, the return on investment is also greater.

While a bond is a loan the investor makes to the company, a share of stock makes you a part owner of the company. The bondholder can expect the company to pay back the loan. As a stockholder, you assume all the risks of ownership. If the company does well — if it earns a profit — you can expect to make money as the stock price increases. If it performs poorly, you are likely looking at a loss.

Stocks represent partial ownership in a company. A company’s stock is the total number of shares or pieces of ownership into which the company has been divided. Investors may own one or many shares of stock in a single company. Stocks earn money for investors in two basic ways: through dividend payments and through increasing share value. If the company that does offer a dividend (not all do) makes a profit — that is, if it makes more money from the sale of goods and services than it spends on their production — that total profit is divided by the total number of shares. Shareholders get a divided — or share of the profit — for each share of stock they own in the company. Sometimes, a corporation does not make a profit and cannot, therefore, pay a dividend. Occasionally, stockholders vote to reinvest dividends in the company in hopes of making the company more productive and more profitable. When a company becomes profitable, and sometimes even before it is, many investors want to buy shares. As demand for stocks increases, often, so does the price per share. Those who may have bought shares already can sell their shares for a profit. Of course, there is no guarantee stock prices will increase or companies will make a profit. For these reasons, stock investment is a risky business.

While the potential of big earnings has lured many investors into the stock market, other investors are leery of the risk. Most investment counselors advise diversification to cushion the risk inherent in stocks. That is, buying shares in many different kinds of corporations. While it is possible to create your own diversified portfolio, it can be very expensive and time consuming to track. For these investors, mutual funds offer an excellent option. Mutual funds are designed to meet specific investment goals. That goal may be to earn a steady return over a long stretch of time, or the goal may be to make money quickly. Portfolio managers choose a mix of stocks and/or bonds that they believe will meet the investment goal, because the funds are diversified, investors risks are reduced compared with owning individual stocks. Investors buy shares in the mutual fund. Their principal is pooled with that of many other investors; therefore, investors don’t need to invest as much money initially as any individual investor would have to. Investors in the same portfolio often have similar goals and interests. They may want a socially responsible fund or one that focuses on technology stocks. Lower risk, lower initial investment, and reasonable rates of return make mutual funds an excellent choice for many beginning investors.

However you choose to invest, learning about your choices is vitally important. Use the newspaper and Internet to research the companies or projects you are considering. For mutual funds read the prospectus carefully. Look at the history of their performance and track their current performance for several weeks or months before risking your hard-earned money. Think of the research as a part-time job; your pay may take the form of increased earnings in the future.

Pop Quiz

True or False:
1. All investment options are equally risky.
2. Some investments guarantee a return.
3. Generally speaking, the riskier the investment, the higher the potential rate of return.
4. Investing the rent money in the stock market is a reasonable risk.

Check it Out

Look through the paper for information on investing options. Where would you invest money you will need for college in a couple years or more? Which investment option is a good choice for your retirement account? What’s the best option for the $500 you just received as a graduation gift? Clip investment ideas and include these in your economic journal.

Teacher! Teacher!

Students want to see the potential rewards of investing without facing the risks. Use a budgeting activity to guide students in determining what amount of their income can be risked on potentially higher return investments. What parts of the budget must be safeguarded against loss?
Dinner's Ready: 
Bulls, Bears, and Pigs: 
Market Trends

Here's the Deal

You know that investing in the stock market isn't a “get rich quick” scheme; instead it's a “get wealthy gradually” proposition. If it were simple to choose a winning stock, I’d have written this from my private island. (Try the living room couch.) There is no magic formula for choosing a good stock; there are some sound strategies. Start with companies you know. Look at your clothes, your toothpaste and tissues, and the food in the pantry. The brands your family uses are also used by hundreds of other families. Think about where your family shops. The larger stores are public corporations. If these stores seem to be crowded, they might be doing a lot of business and will therefore be good investments. How are your friends spending their money? Young people with money to spend have a powerful influence on business decisions. Once you've made some observations, choose two or three companies to investigate and track.

Research is an important step for beginning your investigations. There are dozens of resources within easy reach. Your local library's reference section may house copies of Hoover's Handbook of American Business and Value Line Investment Survey. While these sources won't give you up-to-the-minute performance information, they will provide you with a background on the companies you will be tracking. From all the information included in these publications, you'll want to look for a few keys to guide your investment choices. Keep a record in a notebook of what you learn. Write down:

• Company name
• Mailing address
• Stock ticker symbol
• Subsidiaries
• Industry Group
• Who is their competition?
• What does this company produce or sell?
• What resources does this company consume in order to produce?
• Who buys this company's goods or services?

Answers to these questions will begin to give you a picture of this company's place in the bigger market picture. If, for example you choose a paper company, it might produce everything from toilet paper to printer paper. Obviously, its primary resource will be trees. Nearly everyone uses these products — consumers, schools, businesses, and the government. Some companies have a far narrower customer-base or consume larger variety of resources. Most businesses specialize in the production of one type of good. It makes them more efficient and productive. Because these companies specialize, they are interdependent. The paper company for example, might supply resources to the cardboard box company. The cardboard box company provides resources to the potato chip company. The potato chip company provides goods to the sandwich shop. And the beat goes on.

Business current market data can be found in the newspaper. In addition to the stock listings, the newspaper is loaded with information to guide your investment choices. The prices of stocks never change in a vacuum; there is always a reason. If one company is attempting to buy out another (such as Smuckers buying the maker of Hillburry), fluctuations in the prices of both company’s stocks are to be expected. Other companies in the same industry group might also experience changes in their stock prices. Looking beyond the business section, you’ll find national and international events which impact stock prices. Floods and hurricanes, which destroy houses and businesses, might result in an increase in the price of hardware store stocks. Which companies stock prices benefited when the U.S. went to war in Iraq? Being up on the news is one of the best ways to predict changes in the market. The most current market data and research is on the Internet. Newspaper websites list current stock prices and information on the corporations listed on the three different exchanges. Business cycles can impact stock prices, too. When the economy is in a contraction or recession phase, consumers are more likely to repair their old cars than to buy new ones. Companies that make auto parts may benefit. When the country is in an expansion phase, consumers are more likely to be willing to borrow money, so banks benefit.

The market flows through phases just as the economy flows through business cycles. You've probably heard stock market talk relating to bulls and bears. One way investors track the performance of the market is with the Dow Jones Industrial Average. Commonly called the Dow, this index is calculated using the closing price of 30 major stocks. The mix of stocks in the Dow is drawn from a variety of industry groups. The performance of the stocks in the group generally mirrors the performance of the market as a whole. Another index, the Standard and Poor's 500 is comprised of 500 companies instead of the Dow's 30. The S&P 500 is also used by investors to gain a sense of the market's overall performance. A market in which stocks are generally gaining in value is referred to as a bull market; one in which prices are generally falling is called a bear market. A flat-line market is a pig. As the saying goes, “Bulls make money. Bears make money. Pigs don't make money.” Each index can give you a clue as to the market's performance. Tracking the closing price of your stocks over several weeks will give you a picture of their performance. Are they mirroring market trends or setting their own pace?

Once you've done your research, understood the market's current phase, saved a few bucks, you may want to act on all the information you've gathered. How do you go about buying stock? While a road trip to New York would be excellent, you don't need to go that far to place a buy order. Individuals wanting to trade must go through a broker. This may be an actual person at a brokerage firm in your community or an investment service available on the Internet. Let's walk through the process of making an order using a broker. You can locate a broker in the yellow pages or ask investment-savvy adults for recommendations. When you call the broker, you'll need to have some information ready:

• Name of the stock you want to buy
• The class of stock — common or preferred
• How many shares you want to buy
• How much you are willing to pay for each share

— this is referred to as setting the price

And of course, all sorts of personal information about you (and likely your parents) will be needed to set up your account. In choosing to set a price, you limit the amount of money you will spend for a share — a limit order. If the stock increases in value over your set price, your order may not be processed. Many investors place a market order — they buy at the current selling price. The brokerage firm takes the order from you and processes the transaction. They communicate with traders at the exchange who buy your shares for you. Traders then let your broker know the order has gone through. The cost of the transaction plus the broker’s fee is deducted from your account with the brokerage firm. Discount brokers will carry out your order while offering you little or no investment advice. A full-service broker can research investment options and offer advice. Of course, this service will cost more. For many investors, it is worth the price to reduce the risk of loss from a bad investment.

If you were to go jaywalking and ask the average guy on the street for stock market investment advice, you’d probably hear a lot of “Buy low. Sell high.” It doesn’t take a genius to figure that out. It does take a lot of research to determine if the stock you are choosing is at a peak and getting ready to drop or in a trough and getting ready to climb. Let’s not confuse ourselves with day traders; we are in this for the long haul. Do your research, choose carefully, buy and hold. The longer you invest, the more you’ll earn.

Pop Quiz

A Bull market is one in which:
1) On average, stock prices are increasing
2) On average, stock prices are decreasing
3) On average, stock prices have trended off
4) Long-term investors should be selling

Check it Out

Choose a stock or two — companies with which you are familiar. Make a record in your journal of the closing price of the stock listed in today's paper and the previous day's close. Track the closing price of the stock for the next two weeks. How is your stock performing? Does this seem like a good investment choice? What world or national events might be influencing the price of your stock? Clip relevant articles, and save them in your journal.

Teacher! Teacher!

Students often don’t understand that stock prices don’t change in a vacuum. Guide students in predicting market trends based on the current phase of the business cycle and events recorded in the news. How might an increase in housing starts affect hardware businesses? How might a downturn in orders for durable goods affect the steel industry?
I’ll Take a Dozen: Stock Market Investment Basics

Here’s the Deal

Here’s your assignment, once you’ve read the comics, open the business section of the newspaper. What do you find on the first few pages? Articles related to money and markets. Turn a few more pages, and the articles give way to pages and pages of charts in tiny print. While these charts cannot be read like news articles, they can be read, and they are full of fascinating facts. Reading the stock listings is a little like deciphering a code. Once you know how the code is written, you’ll be in on some very useful information.

Before we break the code, however, let’s review some vocabulary. These terms won’t be listed in alphabetical order — Ooh! Homework assignment:

- **Sole Proprietorship** — a private company owned by one person who assumes responsibility for risk and receives all profits.
- **Partnership** — a private company owned by two or more people who share responsibility for risk and share profits.
- **Corporation** — a business organization chartered by a state government and controlled by a board of directors; corporations can be private or public.
- **Public Corporation** — a business that can sell shares of stock to the public who then share in ownership of the business.
- **Stock** — the capital of a company, the amount of money that the company is worth.
- **Share of stock** — a piece of the company often for sale to the public.
- **Stockholder** — a person who owns one or more shares of stock in a public corporation.

Okay, enough vocabulary. Sole proprietorships, partnerships, and corporations are all types of business structures. Any of them can function as private businesses, some corporations may go public — Businesses that can sell shares of stock in an initial public offering (IPO). Why would a company be willing to give up ownership and control to stockholders? For the money, of course!

When a corporation wants to raise a great deal of money for expansion or the development of a new product, it can do so with an IPO. In essence, prior to the IPO, the corporation owns itself and all its shares. By selling its shares, it raises money, and it gives the corporation the capital it needs to grow.

In order to do so, it will either have to get a loan or go public. It decides to sell shares of stock in an IPO. Nana’s Brownies is worth $100,000. It is determined that the IPO will be for 1,000 shares at $100 each. Molly wants to keep control of the company’s destiny; so she buys 52% of the IPO — 520 shares for a total of $52,000. She gets 520 votes at shareholders’ meetings. The remaining 480 shares are bought by investors. In the following year, Nana’s Brownies earns a profit of $10,000. Each of the shareholders is entitled to a $10 dividend per share of stock owned.

$10,000 profit divided by 1,000 shares equals $10/share.

Molly will earn $5,200 on her shares. Nana’s Brownies is a success, and many investors are interested in buying shares. The supply of shares is finite. The corporation cannot just print more shares any more than the U.S. government is going to print lots of new money — this foolish behavior would result in inflation, or deflation in the case of the stock (more shares dilute the value). Instead, the available shares will become more valuable. Investors create a demand for a limited supply of shares and those who hold shares can sell them to others for more than the value that they paid for them initially. This is one way in which the price of shares increases. So, dividends are not the only way investors make money on stocks. Owning stock shares is like owning any other valuable good — you can always sell it.

Let’s say you bought 10 shares in Nana’s Brownies for $120/share. You spent $1,200 on your stock purchase. The value of the stock has increased, and your shares are now worth $150 each. You sell the shares and make $1,500. Your profit from the sale is $300. You get your initial investment of $1,200 plus an additional $300. Sounds delightful, however, there is always a high degree of risk. What if your ten shares of Nana’s Brownies stock falls from $120/share to $100/share. Instead of profiting $300, you’ve just lost $200. Sometimes, that’s how the brownie crumbles.

Stock investment is never a sure-fire way of making money; it is always a risk. The chance of great rewards is overshadowed by the possibility of great loss. No one can guarantee you a winner. You can, however, do some research and make insightful choices.

The place to start your research is back at the beginning of this article. Let’s look at the stock listings in the business section of the newspaper. As with most text written in English, we will read from left to right. Let’s pick a stock, any stock. Okay, let’s pick a — how about Smuckers, the jam company.

The Challenge: Where will you find Smuckers listed?

Each corporation can be listed on only one exchange. There are three major stock exchanges; NYSE is the New York Stock Exchange, AMEX is the American Stock Exchange, NASDAQ is, well, NASDAQ. Actually, it is the National Association of Securities Dealers Automated Quotation. Try stamping your parents with that one! New York and American are located in buildings in New York City. They have trading floors and get very messy by the end of the day. Nasdaq does not have a trading floor; it is an electronic exchange. Each exchange has its own characteristics. NYSE is the largest and home to some of the oldest, most established corporations. AMEX is the smallest of the three exchanges and is home to some of the newest public corporations. NASDAQ is generally known to be the home of newer technology stocks. All NASDAQ trades occur electronically over computer networks and phone lines.

So the answer to the challenge is NASDAQ. Smuckers has been making jam since 1897. That’s some history.

Newspapers list stocks in different ways. We’ll review a complete listing.

The first column lists the stocks name or logo.

The second column lists “Ticker Symbol.” Ever watch CNN while the market is open, you’ll see the stock listings streaming across the bottom of the screen. This stream is similar to that which is displayed on the trading floor of the NYSE. It would be impractical to include the full name of each company; instead, these tickers use symbols. Smuckers symbol is SJM. The original jam-making Smucker was named Jerome Monroe — get it?

The third column states “Volume” — the total number of shares of stock traded (bought and sold) on this day. Volume is important because it is an indication of volatility — the more the stock is traded, the more likely its price/share will change.

The fourth column lists “Closing Price.” That is the price per share of this stock at the closing bell on the day before this newspaper was printed. If you were reading Tuesday’s newspaper, this would be Monday’s close. The markets are open Monday to Friday.

The fifth column has the day’s price change.

“52-Week High/Low” shows the highest price the stock attained and the lowest price it fell to in the last 52 weeks. A big difference in the 52-week numbers is another indication of volatility.

“Dividend,” as you well know, is the amount of money each share earned as a share of the profits. Most companies don’t pay out all of their profits to shareholders; therefore, we have...

P/E means Price to Earnings Ratio. The price per share of stock is divided by the companies EPS. This figure is helpful in analyzing the stocks value versus its price. Let’s do some math:

Price = $10/share   Earnings = $0.50/share   P/E = 20

What if...

Price = $100/share   Earnings = $0.50/share   P/E = 200

A high P/E may mean that investors are willing to spend more for the stock than can be justified by the company’s profitability.

Market analysts refer to this situation as over-valuation. Many people are unwilling to buy an over-valued stock; just as some parents won’t overpay for the hottest toy at Christmas. The price seems too high for the value derived.

The last column is the 12-month return.

Congratulations! You’ve learned the code. Now, how can you make use of all this delightful new information? Read on, McDuff.

Check it Out

Practice reading the stock listings in the newspaper. Choose a stock — maybe a company whose products you use at home. Choose several other stocks in the same industry group. Try paper products or fast food or metals and mining. Compare volume, closing price, dividend, earnings, and P/E for the several stocks you are checking. Make a chart with the information in your economics journal. Among your companies, which might be the best investment? Why do you think so?

Teacher! Teacher!

Consider contacting a brokerage house and inviting a speaker to address your students once they have gained a basic knowledge of the stock market and trading. Prepare questions in advance.

Consider playing the Stock Market Game with your students for a real life (play money) stock trading experience. Learn more at www.smgww.org

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<th>Symbol</th>
<th>Vol.</th>
<th>Close</th>
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<th>52-week high</th>
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Here's the Deal

Before you even finish high school, you may receive several credit card applications in the mail. A word to the wise: pre-approval is not a compliment. While it might appear that credit card companies are impressed with you as a human being and wish to reward you for your winning personality, they are, in truth, out to make a buck — or a bundle. If saving can be a long climb to financial success, credit can be a slippery slope to debt. Used responsibly, credit may offer borrowers benefits. Learning to use credit wisely is necessary to avoid the painful lessons many young people (and their parents) have already experienced.

It seems that just about anyone who sells goods and services offers a credit card. Banks — which provide services — are the most common issuers of credit cards. Bank-issued credit cards can be used to charge purchases from a wide variety of producers. Stores, such as Sears, Target, and Mobil offer credit cards that can be used only for purchases at their businesses. Credit means that lenders are allowing you to use their money with the understanding that you will pay them back. In addition, they charge interest as a way of profiting on the transaction. Interest is the price you, as a consumer, pay for the privilege of using money that is not your own. Lenders are willing to issue credit to those they deem “credit-worthy.” Think of it this way, to whom would you be willing to lend your car, your favorite video, your algebra book? The people who qualify are probably those you would you be willing to lend your car, your favorite video, your algebra book? The people who qualify are probably those you

If you apply for and receive a credit card, you may be charged an annual fee — even if you never use the credit card. Credit card agreements vary as to the length of time consumers can carry a balance before interest is charged on the purchase; this “free” time is known as a grace period. With many cards, consumers have 28 days from the time of purchase to pay off the balance before they are charged interest. Interest rates also vary. Many credit cards issued to young people carry annual interest rates of 12 to 25%. Interest rates are higher for students because they are considered bigger credit risks; it is more likely they will be unable to pay off their credit card balances over time. Just as money grows when interest compounds in a savings account, debt grows as unpaid credit card balances accrue interest charges. For example, if you purchase an item for $100 with a credit card charging 25% annual interest, you could owe $125 for the item if you didn’t pay off the debt within a year.

Students are also offered lower credit limits than some other customers. A credit limit is the total amount of debt you will be able to carry on the credit account — this includes the cost of purchases, annual fees, and interest charges. Generally speaking, a lower credit limit can minimize the amount of debt into which a borrower can fall. Some store cards offer credit limits as low as $50. Some bank-issued credit cards offer credit limits over $50,000. While you may not be required to pay off the balance of the card every month, you will most likely be required to make a minimum payment. The minimum payment is a percentage of the total balance and is spelled out in the credit card agreement.

Each credit card has its own terms — the conditions under which credit is granted to the applicant. When you sign a credit card application and receive a credit card, you are legally bound to the terms of the agreement. Credit card agreements vary as to:

- Annual fees,
- Grace periods,
- Interest rates,
- Credit limits,
- Late payment fees, and
- Minimum monthly payments.

Pop Quiz

True or False:

a) In order to get a credit card, you must first sign a legally binding contract.
b) It is not necessary to read the contract that comes with the credit card.
c) Credit is free if you pay the bill each month.
d) All credit cards charge the same interest rate.

Check it Out

What does credit cost? Ask your parents to collect all the credit card applications they receive for a week or two. You may be surprised to learn how many lenders are eager to offer them credit. Look carefully through these applications to find the tables listing the terms of the loans. Attach several of these tables to a page in your economics journal. You can create a chart of your own comparing interest rate and annual fees. When you are buying any good or service, it pays, literally, to hunt for a bargain. This principle certainly applies in shopping for money. Which of the credit card tables describes the best credit bargain?

Now, flip through the ads in the paper. Look for credit offers from furniture, appliance, and electronics stores. You may find credit offers in the automotive pages too. Cut out, paste up, and carefully read through the terms of these credit offers. Are they better bargains than the charge card applications you studied? Remember what the Romans said, “Let the buyer beware.” (Only, they said it in Latin.)

Teacher! Teacher!

Credit poses a tremendous temptation to young people — easy money. Teaching about credit is a valuable investment in their future financial health and happiness. Collect your own credit card applications for a couple weeks and show students how easy it is to get credit and how easy it can be to fall into a pit of debt. Your local Consumer Credit Counseling Service may be able to provide student materials and speakers for your class.
Budget! Budget! Who's got the Budget!

Here's the Deal

Anyone who earns and spends can benefit from a budget or spending plan. Far from being a killjoy, a budget is an excellent tool for financial planning. Those with savings goals are more likely to succeed if they plan their spending. It requires self-discipline to put off spending today to save toward a future goal. If you begin developing a saving habit, it will serve you for a lifetime.

In the simplest terms, a budget is a record of income and outgoing what you spend and save is deducted from what you earn or receive as an allowance or gift money. Most budgets are calculated monthly.

Jane is a sophomore who earns money by baby-sitting. She gets $10/hour and works two Saturdays a month for four hours each. She also gets $10/week allowance for doing the dishes and taking out the trash. Here's Jane's budget for June:

Jane's income and outgoing balance. We say she has a balanced budget, unlike the federal government. She has already managed to save $20 toward her goals. Jane also donates $36 each year to the Red Cross. She saves $3 each month toward this goal. Her budget implies spending limits for clothes, make-up, and other expenses. In creating her budget, Jane needed to think carefully about where her money goes. Budgeting involves a commitment to yourself to follow your spending plan, even in the face of the temptation commonly known as a "Sale."

Some budgets must include a category for paying back debt. If you take an advance on your allowance or owe money to a parent, sibling, or friend, it will be necessary to budget money to clear the debt. If you spend more than you earn, this practice is known as deficit spending. You may end up digging yourself into debt. Avoid it, and balance your budget each month.

Using a budget to reach a savings goal involves a few simple steps. First, determine your savings goal; how much will it cost to obtain the object of your desire. Second, plan to save a certain dollar amount or percentage of your monthly income toward this future purchase. Calculate the number of months required to reach your goal. Finally, put your savings out of reach so that you will be less tempted to spend it. Ask a parent to hold the money for you or consider a savings account at a bank.

Jane's family is planning a vacation for August, and she wants to have $50 spending money saved up. At $5/month, how many months should she plan to save? When should she begin saving? Jane will need to begin saving in October for her vacation. If Jane wants to reach her savings goals more quickly, she can increase her income or decrease expenses. She could work an extra weekend a month or choose to spend less on clothing, for example. By creating a budget, Jane has a clear understanding of her options; she knows where her money is going.

We can schedule the savings goals to keep the monthly income. If Jane is planning to buy a used car for $2,000, her car will cost her 200 hours at $7.50/hour. Note that at $7.50/hour for 40 hours a week, your gross pay is $300.00/week. Multiply by four and this is your monthly income — $1,200. Your net pay is equal to your gross pay minus taxes. For many people, taxes withholds can be as much as 30% of their gross income. For $7.50/hour, your monthly take home pay will be about $840.

• Find the apartment listings. Choose a place to live. Add the listing to your economics journal and deduct the rent from your income.

• Find the food ads. Estimate the amount of food you will eat in a week. Multiply by four and deduct the total cost from your budget. Remember to budget for shampoo, soap, toothpaste, and deodorant. Treat yourself to dinner out once a month. Look at the restaurant ads and deduct the cost of dinner out plus a 20% tip from your income.

• What are your other expenses? Car payment and insurance? College tuition? Saving toward a goal? Include these in your budget.

• What's the bottom line? Do you have any money left at the end of the month? If not, what expenses can you reduce or eliminate? Conversely, is there a way to increase your income?

Teacher! Teacher!

Budgeting and money management is a life skill. Consider spending some time on the budgeting activity. Ask students to share their results and to consider alternatives when they have trouble making ends meet.

Budgeting Quiz

Which of the following is not a need?

A) A cheeseburger
B) Tickets to the game
C) Soap and shampoo
D) A home

Here's the Deal

Don't have enough money to cover both the rent and a new pair of Nikes? What to do? What to do? The ability to distinguish between needs and wants is what has kept us humanoids alive on the planet for so long. Imagine your local bag lady attempting to decide between a mid-day game of club bash and a hunting expedition. Knowing needs from wants may have helped our cave guy stay alive, and lacking that ability has lead many modern-day spendthrifts into debt and even bankruptcy, hungry times, indeed.

In order to understand the difference between needs and wants, let's imagine we are about to be stranded on a deserted island. As the tiny ship is tossed, what runs through our minds? I wonder what the final score was? Or just keep swimming? Keeping alive, in the most fundamental sense, means having enough air to breathe and avoiding grievous bodily injury. So we'll call our first level of need Air and Blood.

Once we are all high and dry on the beach, we need to seek shelter from the elements (sun, wind, rain, snow) and any hostile forces that may be present in our new environment, be they hungry wild boars or angry natives. We shelter with clothing and dwellings. Level 2 is safety and shelter.

Next, we'll need to see about a source of fresh water and a reliable supply of food. Most humans have been agriculturalists and farmers, instead of hunters and gatherers because farming
The Federal Reserve System

Here’s the Deal

You are learning the importance of managing your money, and your budget is fairly modest. Think of the billions involved in the United States budget. Who manages the government’s money? That job falls to the Federal Reserve System (also known as the Fed). The Fed is the banker’s banker; it not only manages the federal government’s money, it provides banking services to smaller banks. The Fed is very powerful because it can regulate the nation’s money supply. It does so in an effort to avoid extremes in the business cycle — inflation and depression.

The Fed is headquartered in Washington, D.C. and is comprised of 12 district banks with 25 regional branches in locations across the country. The largest of the 12 district banks is the Federal Reserve Bank of New York. It contains the world’s largest currency vault in which tons of gold are safeguarded.

Federal Reserve policy is controlled by a seven-member board of governors headed by the chairman — currently, Alan Greenspan. Members are appointed by the president and confirmed by the Senate to serve 14-year terms. Every two years, one member’s term expires, and the president appoints his replacement. In this way, the Fed board contains members appointed by several different presidents. The seven Fed members work with the Open Market Committee, a special group of people who constantly monitor the nation’s money supply.

Economists at the Fed carefully track economic indicators; based on whether they believe the economy is inflationary or recessionary, the Fed may enact a tight or easy monetary policy. As you learned earlier, the Fed’s ability to control the monetary supply makes it very powerful. This power comes from its important areas of responsibility:

1. **Controlling the nation’s money supply**
2. **Maintaining bank accounts for the U.S. Treasury**
3. **Loaning funds to smaller banks**
4. **Auditing all the banks within the system**
5. **Replacing worn currency with new bills**
6. **Storing gold reserves for foreign countries**
7. **Transferring funds by clearing checks**

The Fed can regulate the money supply by buying and selling government securities — treasury notes and bonds. The Fed can remove money from circulation — enact a tight-money policy — by selling securities called Treasuries. Banks buy Treasuries and sell them to investors. The money banks spend to buy Treasuries cannot then be used for loans to consumers. The Fed enacts an easy-money policy when it buys securities and puts more money into circulation. Banks then have more money available for loans.

The Fed also uses the discount rate to regulate the money supply. When consumers need money, they often borrow from their local bank. When banks need money, they borrow from the Fed. Loans are not free — not to consumers and not to banks. The discount rate is what the Fed charges on loans it makes to banks. It is expressed as a percentage. Banks then loan some of this money to consumers at a slightly higher interest rate. If your local bank borrows from the Fed at 5%, it might charge you 6.25% for your home mortgage loan. Don’t get any bright ideas; the Fed does not loan money to consumers. When the Fed lowers the discount rate, money is less expensive. Banks can afford to borrow more from the Fed, and consumers can afford to borrow more from the banks. Lower interest rates stimulate economic growth. Higher interest rates, conversely, discourage borrowing and slow the economy.

While a lower interest rate is good news to borrowers, it is an indication that the Fed isn’t completely delighted with the health of the economy. The Fed doesn’t change the discount rate often, and when it does, it often makes headlines because it has such a direct effect on the lives of consumers.

Check it Out

Look through the paper for an example of people struggling to survive. It may be they are fleeing a war or fighting to recover from a natural disaster such as a hurricane or earthquake. How does this list of needs and wants apply to the situation these people are facing? What do they need to do first? What needs must be met.

Teacher! Teacher!

This Hierarchy of Survival and Cultural Development is applicable to any survival situation, individual or collective, in human history as well as to the ways in which cultures evolve. Apply the Hierarchy to the Civil War or to Ancient Greece.

Banking with the Big Boys: The Federal Reserve System

Pop Quiz

The role of the Federal Reserve Bank system in the U.S. economy is to regulate.

- a) Fiscal policy
- b) Monetary supply
- c) Stock trading
- d) The federal debt

Our first level of want is comfort; rather than sitting in a hard wooden chair, a recliner would add to our comfort. The second level is recreation. This level involves the expenditure of resources exclusively for the purpose of play. In Jane’s budget, for example, she included “movies” as an expense item. The next level is religion and government. On the societal level, this involves the use of resources to create and sustain organized religions and bureaucratic government.

Comprehension of banking in America includes at least rudimentary knowledge of the Federal Reserve System, its functions, and responsibilities.

Help students to become conscious of the role the Fed plays in the economy by highlighting changes in the discount rate in recent history and in current news reports.

Help students to become conscious of the role the Fed plays in the economy by highlighting changes in the discount rate in recent history and in current news reports.
Pop Quiz

True or False:

a) The price you pay for an item is its value.
b) Valuable items always have a high price.
c) The more a person values an item, the more he is willing to pay for it.
d) Different consumers may value an item differently even if the price of the item is the same for each of them.

Here’s the Deal

You’ve just got to have the latest release by your favorite band. Does the price matter to you?

How we as consumers value goods and services may have little to do with their price. Prices fluctuate. In the short term, goods may go on sale and off again. The CD you’ve been craving is $16.99 retail price and $13.99 on sale. It is the same CD and has the same value whether it’s on sale or not.

In the long run, prices change over time due to inflation and deflation. In 2000, a particular three-bedroom townhouse sold for $175,000. In 2004, the same townhouse sold for $317,000. The house is essentially the same now as it was 4 years ago — it isn’t any larger and hasn’t changed location. Is it significantly more valuable? The increase in price is due to escalating property values and inflation.

Many goods are more difficult to compare over time due to advances in technology. Traveling across country by train 100 years ago took many days. Today we can travel across the country in 5 hours by plane. Is it reasonable to compare prices for these two journeys? Even when adjusted for inflation, the cost of the journey by plane — the price — is dramatically more, but the ability to travel great distances quickly is extremely valuable.

Learn more, Earn more

Here’s the Deal

While assembling sandwiches and bagging groceries for a living have their appeal, you might aspire to a more enthralling line of work and a higher paycheck. Why do baggers and sandwich assembly workers get paid so little? The skills and education necessary to do these jobs are fairly common. Many people have the qualifications. Why do lawyers get paid so much? In part, because they have specialized skills and education that far fewer people possess. You can get paid so much? In part, because they have specialized skills and education that far fewer people possess.

Some technology, pocket calculators, DVD players, are far more expensive when they first reach the market than it is several months or years later. Why does this decrease in sale price occur? Surely not because the item has lost value.

Cost is an objective measure — the price of the good or service in the market at a particular point in time. Value is far more subjective. It is a personal statement of the worth of the good or service. It may be very difficult to quantify an item’s value — even to yourself. The clearest way to determine the value of any purchase is to translate its cost into work hours. Let’s say you wash dishes in a restaurant evenings and weekends for $6.00/hour. You know what it is like to wash dishes hour after hour. You know all the other things you could be doing with your time. You know the value of your time. Now, let’s say you’ve decided you want a new laptop. It cost $1,300. Translate that into work hours:

$1,300 X $6/hour = 217 hours

You will need to work at washing dishes for 217 hours in order to acquire the laptop. Its price is $1,300; its value is 217 hours of work. Is that a bargain? Only you can say.
We all want to make our world a better place for our children. Working together, we can achieve our goals.

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