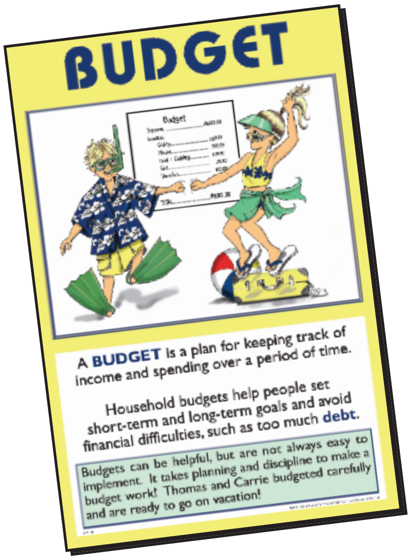
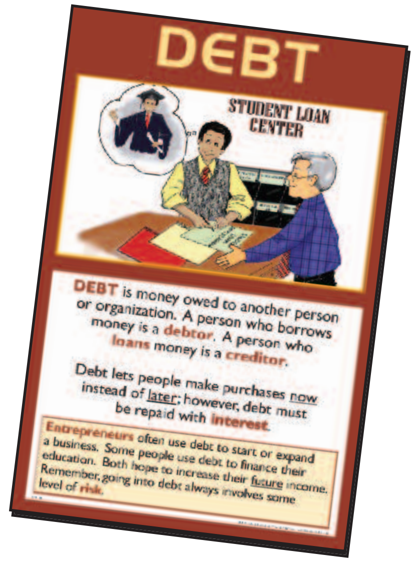
Teacher's Guide

Personal Finance Posters





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These posters were developed with funding from Indiana's Credit Unions

These posters and other economic education posters and materials are available at the KidsEcon Posters© website – www.kidseconposters.com. This Teacher's Guide is also available at the KidsEcon Posters© website. Click on Personal Finance Posters (Set P). Questions? Call ICEE at 765-494-8545.

Indiana Council for Economic Education
Setting the Standard

Indiana Council for Economic Education
(www.econed-in.org)

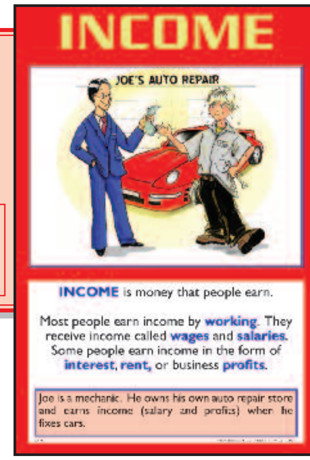
2009

INCOME

INCOME is money that people earn.

Most people earn income by **working**. They receive income called **wages** and **salaries**.
Some people earn income in the form of **interest**, **rent**, or business **profits**.

Example: Joe is a mechanic. He owns his own auto repair store and earns income (salary and profits) when he fixes cars.



Income is money that people earn. Most people earn income by **working** at jobs. They receive income in the form of **wages** or **salaries**. In fact, about three-fourths of all the income earned in the United States comes from wages or salaries, including fringe benefits. The other fourth of income earned in the United States goes to owners of **capital resources** (tools, equipment, buildings, machinery, etc.) in the form of rent, profit, and interest.

The income that workers earn varies greatly from job to job, and even within jobs. Why is this? Students should understand that wages are determined by the forces of **supply** and **demand** in the market for **productive resources** (human, natural, capital). And the demand for workers is influenced primarily by the value of what they produce. In other words, highly productive workers who help a firm earn more profits will be in higher demand than less productive workers. This explains why some people, such as sports stars, are so highly paid. Their services can result in huge profits for team owners.

So what does all this mean for your students? It means that they should consider carefully which jobs businesses will **demand** in the future. To increase their chance for a higher income, it also means students should take steps to increase their **productivity**, thus making themselves more valuable to businesses. This acquiring of **human capital** usually happens through more education, training, and experience.

Teaching Ideas

1. The United States Bureau of Statistics has a comprehensive website about the labor market. Have your students examine the wages and salaries of hundreds of occupations at www.bls.gov/oes/current/oes_nat.htm. An even better site for your students to use is the U.S. government website, Career Voyages. (www.careervoyages.gov) Click on Other In-Demand Occupations on the left column of the website.
2. To find good employment, students should consider not only the demand for a particular type of job, but also their *own* skills and interests. Have each student create a Skills and Interest Profile. They should share and discuss this profile with other classmates.
3. Have students create a bulletin board using data from 1 above, especially Career Voyages. It could be entitled, "Hot Jobs for the Future," and list wages, projected growth rates, salaries, and education/skill requirements.
4. Discuss: "If you want a good job, make yourself scarce!" (The idea is that if you make yourself "scarce" in the sense of increasing your skills and human capital relative to other workers, you have a better chance of getting a good job — providing it's in an area where there is sufficient demand!)
5. Invite a human resource person from a business to the class to discuss the skills and qualities the business is looking for in its employees. Make sure the class prepares questions to ask before the person comes.

Literature Connection

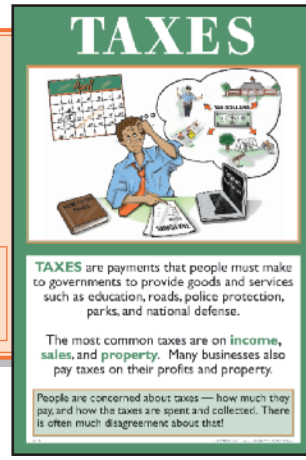
***Sister Spider Knows All,* by Adrian Fogelin, 224 pages**
Twelve-year-old Rox and her grandmother, Mimi, sell at a flea market every weekend to supplement the family's only income, that of construction worker and college student, cousin John Martin.

TAXES

TAXES are payments that people must make to governments to provide goods and services such as education, roads, police protection, parks, and national defense.

The most common taxes are on **income**, **sales**, and **property**. Many businesses also pay taxes on their profits and property.

People are concerned about taxes — how much they pay, and how taxes are spent and collected. There is often much disagreement about this!



Taxes are required payments that people and businesses pay to support all levels of government services — national, state, and local. Governments provide many of these services because they would not be provided in sufficient quantities if left to private enterprise alone.

People pay many kinds of taxes. The most common are taxes on **income, consumer purchases** (sales), and **property**. Many businesses also pay taxes on their **profits**.

Below is a graph of federal government tax receipts and expenditures. The same data is provided for state and local governments. The role of government in the economy has increase significantly in the United States. In 1929, government expenditures accounted for about 10 percent of our national output (GDP). Today that figure is about 33 percent.

Federal Tax Receipts — 2009 (est.)

Individual Income Taxes	47%
Social Insurance Taxes	35%
Corporate Income Taxes	12%
Other	6%

Source: Economic Report of the President — 2009

Federal Expenditures — 2009 (est.)

National Defense	22%
Social Security	21%
Income Security	14%
Net Interest	7%
Medicare	13%
Health	10%
Other	13%

State and Local Tax Receipts — 2007

Sales Taxes	19.0%
Property Taxes	16.5%
Individual Income Taxes	12.0%
From Federal Government	21.0%
Corporate Income Taxes	2.5%
Other	29.0%

Source: Economic Report of the President — 2009

State and Local Expenditures — 2007

Education	34%
Highways	6%
Public Welfare	18%
Other	42%

Teaching Ideas

1. Create a bulletin board entitled, "How Are Our Federal Taxes Used?" Using the data above, have students research examples for each expenditure category, such as food stamps under "income security" or disability payments under "social security." Do the same for the other pie graphs.
2. Have students research all the different kinds of taxes they pay. They will be amazed at how many there are (income; sales; property; tolls; excise taxes on car and fishing licenses, phone service, and gasoline; death tax, gift tax, inheritance tax, etc.). Challenge students to figure out how much in taxes they pay each week.
3. Have students create pie graphs and/or bar graphs using the Federal and State/Local government data above.
4. Check out the Tic Tac Taxes lesson on EconEd Link – www.econedlink.org. (http://www.econedlink.org/lessons/index.php?lesson=370&page=teacher) The lesson is found in the lessons for grades 3-5.
5. Have students debate then write a short essay on either or both of these very relevant statements about tax policy.

   "People who don't pay taxes should not receive government services."
   "Everyone should help pay for services, even if they don't use the services themselves."

Literature Connection

***Wolfspell,* by Anna Ciddor, 192 pages**
Oddo and Thora are determined to stop the corrupt Sheriff, who has imposed harsh taxes on the village, and seek help from the Gula Thing. They must fight their way through raging rivers, treacherous swamps, and wild wolves to stop the Sheriff from seizing their homes.

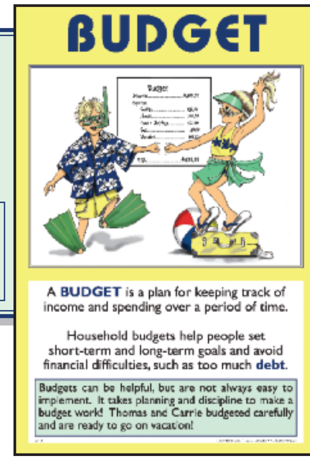
***The Young Zillionaire's Guide to Taxation and Government Spending,* by Marie Bussing-Burks, 48 pages**
The author explains what the government spends money on, where it gets money to spend, and possible ways to reduce the national debt.

BUDGET

A **BUDGET** is a plan for keeping track of income and spending over a period of time.

Household budgets help people set short- and long-term goals and avoid financial difficulties, such as too much **debt**.

Budgets can be helpful, but they are not easy to implement. Remember, it takes planning and discipline to make a budget work! Thomas and Carrie budgeted carefully and are ready to go on vacation!



A budget is useful because it helps families control their spending and avoid financial difficulties, especially too much debt. Budgets are usually broken down into fixed and variable expenses. **Fixed expenses** are those that stay the same each month, such as rent, fixed–rate mortgage expenses, or car payment. **Variable expenses** are expected expenses, but they change each month, such as gasoline or food expenses. Students should recognize that variable expenses are more easily changed than fixed expenses.

It is also necessary to understand the critical importance of planned versus unplanned expenses. **Planned expenses**, which can be fixed or variable, are those that you expect. The biggest "budget busters," though, are the **unexpected expenses**, such as car repair, a failed appliance, a leaky roof, or unexpected medical costs. If at all possible, every monthly budget should include putting some money into an "emergency" savings account to use for unplanned expenses.

Budgets can be helpful, but they are not easy to implement. Remember, it takes planning and discipline to make a budget work!

Teaching Ideas

1. In small groups, have students write down and discuss examples of fixed versus variable expenses. Do the same for planned and unexpected expenses.
2. Do Teaching Activity 1 from the Teachers Guide in the Interest Can Work *For* You and Interest Can Work *Against* You poster curriculum (available on the web at www.kidseconposters.com). Students must estimate how much they think it will cost to live on their own. (It's more than they think!) They must also brainstorm ways to cut back their own personal spending.
3. Create a bulletin board listing ways that one can reduce spending each month. Examples include going to fewer movies, walking instead of driving, getting rid of premium cablechannels, bringing lunch to school or work, cutting soft drink consumption, getting a regular coffee instead of a latte, etc.
4. Write a short paragraph or essay entitled, "Why It's Important to Have an Emergency Account in Your Budget."

Literature Connection

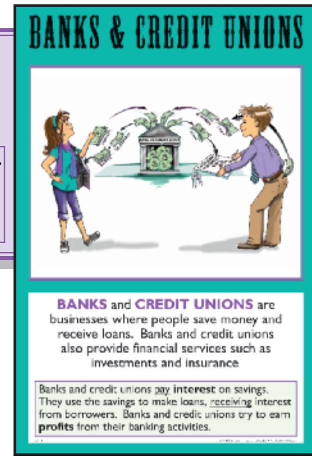
***Cha-Ching! : A Girl's Guide to Spending and Saving,* by Laura Weeldreyer, 48 pages**
This book provides basic information about earning money, keeping a budget, saving, and investing.

***Budgeting (How Economics Works series)* by Sandra Donovan**
Students learn that by keeping a careful budget, they will avoid financial difficulties and be prepared for emergencies. Students also learn that by careful budgeting, they will also have more to give to others.

BANKS and CREDIT UNIONS

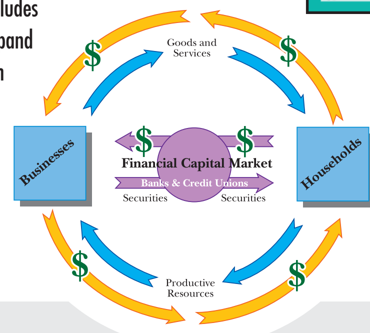
BANKS and **CREDIT UNIONS** are businesses where people save money and receive loans. Banks and credit unions also provide financial services such as investments and insurance.

Banks and credit unions pay **interest** on savings. They use the savings to make loans, receiving interest from borrowers. Banks and credit unions try to earn **profits** from their banking activities.



Banks and **credit unions** are financial institutions where people save money and receive loans. A credit union is a not-for-profit business that is owned and collectively controlled by its members, whereas banks are for-profit businesses owned by investors. Banks and credit unions pay **interest** on savings, but receive interest when they make loans. Banks and credit unions try to earn **profits** by receiving more interest on loans than they pay on savings.

Banks and credits unions are part of the **financial capital market**. This important market, which includes stock and bond markets, helps direct funds from savers to investors. Investors use these savings to expand or start new businesses, thus providing jobs and economic growth. Consumers also borrow money from savers when they take out bank loans to purchase consumer goods, such as a car, or to purchase a home.



Banks and credit unions also provide people with important services that help them exchange goods and services, such as **checking accounts** and **credit cards**. Banks and credit unions often provide other services, such as financial investments and insurance. Banks and credit unions are critical to the functioning of a healthy economy.

Teaching Activities

1. Have students explore the very informative Bankrate.com website (www.bankrate.com). Compare and contrast interest rates of different banks/credit unions for Checking & Saving and for CDs (certificate of deposit) & Investments. These interest rates reflect how much banks pay to borrow money.
2. Each week, have students track interest rate changes at various banks and credit unions. List these changes in an economic "journal" or post them on a bulletin board. Discuss how economic current events influence these changes.
3. When comparing interest rates of various banks, have students investigate the different safety ratings of the banks, using the Safe and Sound® star rating system used by Bank Rate.com.
4. Compare and contrast credit card interest rates offered by banks. Why are they so much higher than other loans? *(There is probably greater risk of people not paying off their credit card loans. Credit card accounts are probably more costly to administer.)*
5. Have students research the different services offered by banks and credit unions. *(checking and savings accounts, safe deposit boxes, notary services, investments such as CDs, money market funds, credit cards, consumer loans, insurance, etc.)*

Literature Connection

***Opening a Bank Account*, by Stuart Schwartz, 32 pages**
This book explains the fundamental steps for opening a bank account, offers advice on choosing a bank and selecting a type of account, and discusses the various services available at a bank.

***Working in Banking and Finance*, by Margaret McAlpine, 64 pages**
This book describes the responsibilities and qualifications necessary for a career in banking and finance. It explores such occupations as accountant, bank manager, economist, investment banker, insurance broker, stockbroker, and more.

***Check It Out — The Book About Banking*, by Neale Godfrey, 42 pages**
This book provides everything your students need to know about banking, including why people use banks, how interest works, ATM machines, savings and checking accounts, and credit cards. Students will learn many new vocabulary words and gain confidence in their ability to take advantage of what banks have to offer.

***Banking (How Economics Works series)*, by Barbara Allman, 48 pages**
Learn all about banking, interest, and services offered by banks and credit unions.

SAVINGS ACCOUNT

A **SAVINGS ACCOUNT** is money kept in a bank or credit union for safekeeping. Savings accounts usually earn **interest**.

People may add or withdraw their money from a true savings account, but may not write **checks** on the account.

Danielle is saving money for a digital music player. She will earn interest on her savings account. Choosing to save means she can't buy something else now.

A **savings account** is money kept in a bank or credit union for safekeeping. Savings accounts earn **interest**. Typically, people may add or withdraw their money from a true savings account at any time, but may *not* write checks on the accounts. In this sense, savings accounts, unlike **checking accounts**, are *not* **demand deposits**. Checking accounts are considered part of the M1 money supply. Because it is relatively easy to get money out of savings accounts, savings deposits are often referred to as "near money" and are considered part of the M2 definition of the money supply.

A **money market account (MMA)** is a special type of savings account offered by banks and credit unions. These accounts are FDIC insured, but require a minimum deposit (averaging between $100 and $2,500) and have strict limits on how money may be withdrawn. Unlike regular savings accounts, MMAs have limited checking privileges, usually three checks per month. An MMA is not the same as a **money market fund**, which is *not* FDIC insured. Both, however, are very **liquid** (easily converted to cash) and are considered secure investments.

Savings accounts are considered very safe and **liquid** investments, but they typically offer a lower return than other riskier investments.

Banks and credit unions usually lend the monies deposited in savings accounts, charging a higher rate of interest than the interest paid on the savings accounts. This is one way banks try to earn **profits**.

Teaching Ideas

1. Take a poll of the students to see who has a savings account. Discuss how students started their accounts and how often they add to the account. Discuss how interest rates may vary from bank to bank. Have students report back on the interest rate they earn on their accounts.
2. Using the Internet, phone, newspaper, or other resources, have students compare savings account and/or money market account rates in your city or region. Report back on research findings.
3. Using Bankrate.com (www.bankrate.com), calculate how savings will accumulate over time. Click on Calculators at the top of the web page. Then scroll down and click on various savings calculators, such as the Savings Goal Calculator and the Lunch Savings Calculator (www.bankrate.com/calculators/savings/bring-lunch-savings-calculator.aspx) This clever calculator tells how much you can save by bringing your lunch instead of eating out every day! Have students calculate how much they would save in 30 years. It's a lot!)

Literature Connection

Growing Money: A Complete (and Completely Updated!) Investing Guide for Kids, **by Gail Karlitz, 120 pages**
This book explains different types of investing-- savings accounts, bonds, stocks, and mutual funds and provides information to help make decisions on each kind of investment.

The Young Investor: Projects and Activities for Making Your Money Grow, **by Katherine Roberta Bateman, 124 pages**
Learn how to make your money grow by discussing savings, investing, stocks, and the economy.

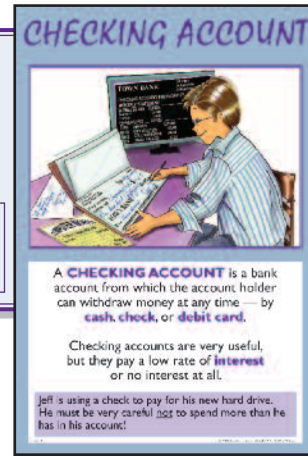
Saving Money (How Economics Works Series), **by Phillip Heckman, 48 pages**
This book teaches students all about earning and saving money. Students learn that saving money now means having more to spend in the future. Students investigate various savings and investing options.

CHECKING ACCOUNT

A **CHECKING ACCOUNT** is a bank account from which the account holder can take money at any time — by withdrawal, **check**, or **debit card**.

Checking accounts are very useful, but they pay a low rate of **interest** or no interest at all.

Jeff is using a check to pay for his new hard drive. He must be very careful not to spend more than he has in his account!



The key idea to remember about checking accounts is that the holder of a checking account can withdraw — or demand — his or her assets at any time. This is why checking accounts are referred to as "demand deposits." Funds can be withdrawn in a variety of ways — such as by check, ATM machine, debit card, or wire transfers.

Banks often charge a fee each month for a checking account, although "free checking" may be available if you keep a certain minimum balance in the account, fit an age category (such as senior citizen or youth), use a debit card, have direct deposits coming into the account, etc. Typically, checking accounts pay a low rate of interest, or maybe no interest at all, so don't use a checking account as a savings account!

Be careful not to withdraw more than you have in your checking account. This can result in fees and will hurt your credit rating. Banks and credit unions often offer "overdraft protection" to cover an overdrawn account; however, there is typically a fee for this service.

Teaching Ideas

1. Create or copy some checks, and have students practice writing checks. Have them write several checks and keep a record in a check register.
2. Have students investigate various types of checking accounts at local banks or credit unions. They should look for different features such as fees, overdraft protection, minimum balances to receive free checking, interest rates, etc.
3. Discuss what it means to "overdraft" an account. (withdrawing, usually via a check, more money than is in an account. If the bank refuses to honor a check, it is said to have "bounced.") Discuss why it is important not to overdraft an account. (Businesses often charge a fee for bounced checks. If you bounce a check to pay off a credit card, you could suffer even more serious consequences, such as an increased credit card rate, a lower credit rating, etc.) This is why it is important to balance a checkbook each month so that you know exactly how much there is in the account.
4. Discuss why checking accounts are considered "money" in the M1 definition. (Deposits in a checking account can be withdrawn and spent at any time.)
5. Discuss how a debit card works to withdraw money from a checking account. (It has the same function as a check, but is typically easier — and less costly — to use. However, a check may be needed to pay a certain bill or obligation if a debit card can't be accepted. So, while debit cards are becoming more popular, checks are still useful and are often needed.)

Literature Connection

Banking (How Economics Works series), **by Barbara Allman, 48 pages**
Learn all about banking, checking accounts, interest, and other services offered by banks and credit unions.

Money Sense for Kids, **by Hollis Page Harman, 192 pages**
This book covers a lot of practical money topics, including where money comes from, social security cards, banks, savings and checking accounts, investments, and much more.

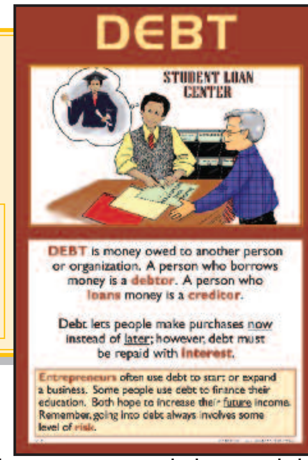
Money Sense for Kids, **by Hollis Page Harman, 192 pages**
This easy-to-read book for pre-teens focuses on a lot more than debt. It helps students understand a whole range of money issues, including saving and investing, history of money, banking, saving, checking accounts, ATM machines, and investing in the stock market. There are also "money games" adults can play with students. Easy-to-do activities follow each chapter.

DEBT

DEBT is money owed to another person or organization. A person who borrows money is a **debtor**. A person who **loans** money is a **creditor**.

Debt lets people make purchases *now* instead of *later*; however, debt must be repaid with **interest**.

Entrepreneurs often use debt to start or expand a business. Some people use debt to finance their education. Both hope to increase their future income. Remember, going into debt always involves some level of **risk**.



Most students have a basic understanding of what **debt** is. Probably the key idea to get across to students is that debt must be repaid, usually with **interest**. Debt tends to have a negative connotation, probably because too much debt can be a real burden. However, prudent debt that is managed carefully can be helpful, especially for large items such as a house, a car, or education. **Entrepreneurs** often take out loans to start or expand a business, which entails some risk, but also has the potential of great reward if the business is successful.

The most burdensome debt is probably credit card debt. People with excessive credit card debt end up paying large amounts of interest on their balances. For example, the Interest Posters (available at www.kidseconposters.com) illustrate that a person with a $3,000 balance on a card with a 19.8% interest rate, who pays the minimum amount each month, will end up paying over $9,000 in interest, and it will take over 32 years to pay off the balance!

Students should also understand that the interest paid on debt is directly related to **risk**. A **creditor** (lender) will demand a higher rate of interest if the loan to a **debtor** is considered risky, and vice versa. **Collateral** is security or a guarantee (usually an asset) pledged for the repayment of a loan if one cannot secure enough funds to repay. Lenders often will not make loans unless there is some form of collateral.

Students can also apply the concept of **opportunity cost** to the decision to incur debt. The opportunity cost is represented in part by the interest that is paid — money paid for interest cannot be used to purchase other things. Also, when one incurs debt, it is for higher satisfaction now, but the opportunity cost is less satisfaction in the future, if income is unchanged.

Teaching Ideas

1. Have students conduct an "Is Debt Helpful or Harmful?" survey with friends, neighbors, and family members. Students should first create the survey, then compile results and write a short report on the survey results. The report should include graphs.
2. Have students write a short essay on "How Debt Can Be Helpful or Harmful."
3. Have students use the web or other resources to study credit card debt. They should describe differences in credit cards, such as interest rates, benefits attached to cards (e.g. points, plane miles), credit limits, fees, etc. *The ABCs of Credit Card Finance* is good. (www.banking.state.ny.us/fec/clabc1.pdf)
4. Use information and lessons from the Interest Posters Teachers Guide. Go to KidsEcon Posters (www.kidseconposters.com), click on Interest Posters, then Teacher's Guide.
5. Interview an entrepreneur. Ask if he or she had to incur debt to start or expand the business. Ask these questions: Who lent you the money? What was the interest rate? How long was the debt for? Did you have to put up any collateral? Was it a burden? Do you still owe on the debt? Was taking on this debt worth it? Would you take on this debt again?

Literature Connection

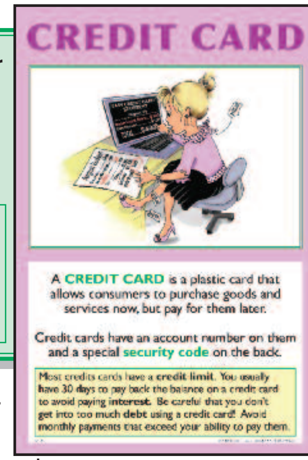
***The Complete Idiot's Guide to Money for Teens,* by Susan Shelly, 264 pages**
Written for young adults, this books gives students a wealth of information on many aspects of money, not just debt, credit, and borrowing. The book also contains "teen-tested" tips for managing money.

***Money Sense for Kids,* by Hollis Page Harman, 192 pages**
This easy-to-read book for pre-teens focuses on a lot more than debt. It helps students understand a whole range of money issues, including saving and investing, history of money, banking, checking accounts, ATM machines, and investing in the stock market. There are also "money games" adults can play with students. Easy-to-do activities follow each chapter.

***The Merchant of Venice,* by Jennifer Mulherin, 32 pages**
This short book is an introduction to Shakespeare's *Merchant of Venice*, and tells the story of a creditor who demands a pound of flesh as payment for a defaulted debt and a man who must solve a riddle game to win the hand of his lover.

***Debt Information for Teens: Tips for a Successful Financial Life,* by Karen Bellenir, 413 pages**
This comprehensive book provides information for teens about obtaining and using credit, managing debt, and avoiding predatory lending.

CREDIT CARD



A **CREDIT CARD** is a plastic card that allows consumers to purchase goods and services now, but pay for them later.

Credit cards have an account number on them and a special **security code** on the back.

Most credits cards have a **credit limit**. You usually have 30 days to pay back the balance on a credit card to avoid paying **interest**. Be careful that you don't get into too much **debt** using a credit card! Avoid monthly payments that exceed your ability to pay them.

Credit cards are an everyday part of life, with many people using them to purchase goods and services. If handled properly, credit cards offer significant benefits that make life easier. They are very convenient and are useful in emergencies. They are safer than carrying large amounts of cash, are a "free" loan if balances are paid each month, and often have benefits (e.g. points, frequent flyer miles) that come with purchases.

However, credit cards can be abused, resulting in major financial burdens. This frequently happens when people accumulate high-interest balances and pay them off in small amounts. This is a significant problem with credit cards since they frequently have high rates of interest, especially for people with poor credit ratings.

The key idea to get across to students is that a credit card is a **loan** that must be paid back. Failure to make timely credit card payments will cause a card's interest rate to increase, which will significantly increase the amount a person must ultimately pay back. It will also hurt a person's credit rating. Credit cards can be useful, but they must be used responsibly!

Teaching Ideas

1. An excellent source of information and activities is the Teacher's Guide to the *Interest Posters*, found at the *KidsEcon Posters*© website, www.kidseconposters.com. (Click on Interest Posters.) The activities associated with poster two, *Interest Can Work Against You*, are very useful. The poster shows that a person with a 19.8% card and a $3,000 balance, who pays the minimum each month, will end up paying over $9,000 in interest, and it will take over 32 years!
2. Emphasize these three important things to remember about using credit cards. (An overhead of these points can be found in the *Interest Posters* Teacher's Guide.)
    - It is usually best to pay off the credit card balance each month to avoid interest payments.
    - Cards with high interest rates will mean high interest payments on outstanding monthly balances.
    - Paying off a credit card balance with larger monthly payments will greatly lower interest payments and result in the balance being paid off much more quickly.
3. Order sets of the *ABCs of Credit* booklet (author Carol A. Carolan) for your class. It is currently available at no cost to you from the Center for Student Credit Card Education, www.cscce.com. The booklet provides a wealth of easy-to-understand information about credit cards.
4. Discuss **identify theft** with your students, emphasizing how serious a problem this is. The booklet, *The ABCs of Credit* (page 10), suggests taking the following steps if you are victim of identify theft:
    a. Contact the three major credit-reporting agencies and put a "fraud alert" on your file.
    b. Order a copy of your credit report from these agencies.
    c. Review these reports and contact the fraud department for creditors who show a false or tampered account.
    d. File a police report.
    e. Contact the Federal Trade Commission. (www.consumer.gov/idtheft)

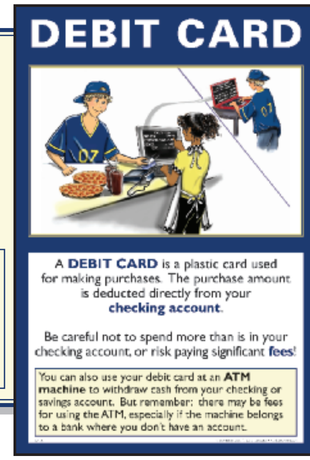
Literature Connection

***How Credit Cards Work*, by Gillian Houghton, 24 pages**
This book, designed for pre-teens, teaches the basics of credit cards.

***The Motley Fool Investment Guide for Teens: 8 Steps to Having More Money Than Your Parents Ever Dreamed Of*, by David Gardner and Tom Gardner, 256 pages**
This book is filled with information about managing money, including information about using credit cards.

***Cash and Credit Information for Teens: Tips for a Successful Financial Life*, by Kathryn R. Deering, 407 pages**
This comprehensive guide for teens offers advice about basic money management and personal finance.

DEBIT CARD



A **DEBIT CARD** is a plastic card used for making purchases. The purchase amount is deducted directly from your **checking account**.

If you use a debit card, be careful not to spend more than is in your checking account, or risk paying significant **fees**!

You can also use your debit card at an **ATM machine** to withdraw cash from your checking or savings account. But remember: there may be fees for using the ATM, especially if the machine belongs to a bank where you don't have an account.

The main idea to get across to students is that, unlike a credit card, which is a loan, with a **debit card**, money is deducted directly from a bank account, usually a checking account. Thus, a debit card acts like a **check**. To use the debit card, a person uses a personal identification number (PIN number). This protects a person from fraud should the debit card get lost or stolen. However, having and using a PIN number entails definite risk because if the PIN number becomes known by an unauthorized person, that person can use all the money in your account!

People often use their debit cards at Automatic Teller Machines (ATMs). To activate, insert the debit card and type in the PIN. The ATM then calls up the bank's computer to verify the balance, dispenses the cash, and transmits a completed transaction notice. Money can be withdrawn from multiple accounts, not just a checking account.

If you make a debit purchase and use your PIN number, this is an **on-line transaction**, and the money is deducted rather quickly from the account. If you are making a purchase with your debit card and you choose "credit" instead of "debit," this means you are making an **off-line purchase**. An off-line purchase is processed through a credit card network, such as VISA, and therefore may take several days. Stores prefer that you choose "debit" when making a purchase since they can avoid paying the 2% credit card fee.

Teaching Activities

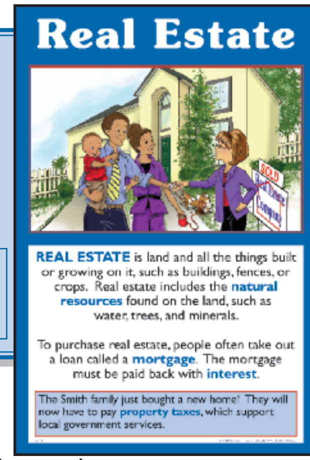
1. Discuss the On-line.com article about debit cards, *Debit or Credit: Who Pays Interchange Fees?* http://banking.about.com/od/checkingaccounts/a/debitvscredit.htm
2. Discuss ATM machines with your students. Have them investigate and report on the various fees associated with using an ATM. (e.g. fees paid for using an ATM operated by another bank, fees for withdrawing money in another country, etc.)
3. Discuss/debate this question: "It is better to use cash instead of a debit card." *(There's really no right answer. Advantages of using cash: keeps one from spending too much, no fees at all with cash, no danger of losing card or having someone get PIN and empty the account. Advantages of using debit card: ease of use, can use to make Internet purchases, can use to get cash overseas, can use in emergencies.)*
4. Have students draw the front and back of a hypothetical debit card. Discuss the pictures with the class. Post drawings on a bulletin board along with student paragraphs describing debit cards and the plusses and minuses of using them.

Literature Connection

Money: Getting It, Using It, and Avoiding the Traps: The Ultimate Teen Guide, **by Robin F. Brancato, 208 pages**
This book offers advice to teens on money-related issues, including allowances, jobs, windfalls, saving and investing, giving to charity, spending, smart shopping, debit and credit cards, borrowing and lending, and other topics.

Complete Idiot's Guide to Money for Teens, **by Susan Shelly, 264 pages**
Written for young adults, this book has good information about credit and debit cards, but also a lot more on helping teens manage money.

REAL ESTATE



REAL ESTATE is land and all the things built or growing on it, such as buildings, fences, or crops. Real estate includes the **natural resources** found on the land, such as water, trees, and minerals.

To purchase real estate, people often take out a loan called a **mortgage**. The mortgage must be paid back with **interest**.

The Smith family just bought a new home! They will now have to pay **property taxes**, which support local government services.

Many people own real estate, and for many of them, it is a source of financial security. When people buy real estate, they typically put some money "down" and borrow the rest, usually in the form of a **mortgage**. In the past, it was common for people who were purchasing a home to put down about 20% of the home price; however, in recent years, the down payment that banks required decreased significantly, to the extent that, in some cases, *no* money was required for a down payment. Due to the financial crisis in 2008-09, banks now are again requiring larger down payments.

One reason real estate can be risky is that people are typically highly **leveraged** when they buy it. That is, they put a relatively small amount of money down and borrow the rest. This can be a serious problem if the value of the home falls or if the mortgage has a **variable interest rate** and interest rates rise, resulting in higher monthly mortgage payments. In fact, if the home value falls enough, the person may owe more than the home is actually worth! If a sale is then made, the loss can be significant. This happened on a large scale beginning around 2006, as home values began to fall and people had trouble making mortgage payments.

So be careful when purchasing real estate. It can be a source of financial security, but also entails real risk.

Teaching Activities

1. Go to www.bankrate.com and find current mortgage rates. Also, check rates at local banks and credit unions in your community. Make a chart of findings. Discuss the difference between fixed and variable rate loans.
2. Bring in the real estate sections of newspapers and other real estate listings. Examine home prices and discuss what factors help determine the price of a home.
3. Math Connection: Home properties are often priced **per square** foot. Have students figure out the price per square foot of homes in your community by dividing the price of the home by the total square footage of the home.
4. Have students create a home plan on graph paper, complete with landscaping details. Have students figure out the square footage of the home. Then have them estimate the price of the home and compute the price per square foot.
5. At www.bankrate.com, click on Calculators. Under Mortgage, click on How Much Home Can You Afford? (www.bankrate.com/calculators/mortgages/new-house-calculator.aspx) Discuss and estimate typical income for various kinds of jobs. Compute the expense of buying a home. Discuss the dangers of "overextending" on a mortgage.

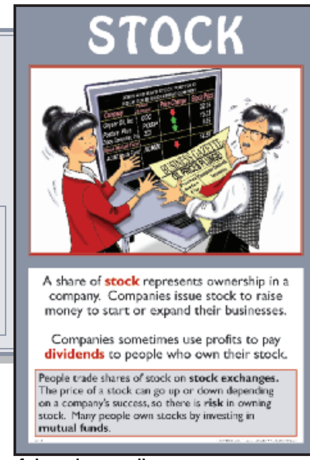
Literature Connection

***Real Estate Sales Agent,* by Kathryn A. Quinlan, 48 pages**
This book describes the education and training requirements, duties, salary, employment outlook, and possible future positions of real estate agents.

***Business Builders in Real Estate,* by Nathan Aaseng, 160 pages**
This book profiles seven real estate developers, including John Nicholson, John Jacob Astor, William Levitt, Del Webb, Walt Disney, Paul Reichmann, and the Ghermezian brothers.

***The Absolute Beginner's Guide to Buying a House,* by Nicholas Ordway, 240 pages**
This book, which is filled with useful information, has everything one needs to know about buying a home.

STOCK



A share of **stock** represents ownership in a company. Companies issue stock to raise money to start or expand their businesses.

Companies sometimes use profits to pay **dividends** to people who own their stock.

People trade shares of stock on **stock exchanges**. The price of a stock can go up or down depending on a company's success, so there is **risk** in owning stock. Many people own stocks by investing in **mutual funds**.

Stocks represent shares of ownership in a company and are issued to finance business operations. Stocks are first issued by using an **IPO — an initial public offering**. After that, stocks are traded on various stock exchanges (secondary markets), such as the New York Stock Exchange (NYSE) and the NASDAQ (National Association of Securities Dealers Automated Quotation system). Stock owners hope that the value of their shares will increase as a company grows and prospers. When a person sells a stock at a price higher than the purchase price, that person earns **capital gains**. Companies often use some of their **profits** to pay **dividends** to stockholders, although some stocks (such as **growth stocks**) seldom or never pay dividends. Growth stocks usually represent smaller, faster growing companies that reinvest all their profits into the company. **Income stocks**, on the other hand, pay dividends regularly and represent larger, more established companies.

Another term used to describe some stocks is **value stock**. A value stock represents a company that is believed by analysts to be underpriced relative to the stock's fundamentals (earnings, dividends, sales, etc.), usually because of underlying problems or limited growth prospects. A **penny stock** generally refers to a low-priced (under $5), speculative security of a very small company. Penny stocks are, of course, very risky.

A **mutual fund** is an investment company that brings together money from many people and invests it in stocks, bonds, or other assets. Mutual funds allow an investor to diversify assets, offer professional management, and are relatively simple to invest in. However, there are a variety of fees that an investor pays when investing in a mutual fund.

Stocks can be risky, but they have the potential for significant long-term gain.

Teaching Activities

1. Consider having your students play the Stock Market Game™. Working in teams, students invest an imaginary $100,000 and compete to see which team can increase their portfolio of stocks in a 10 week period. An excellent Teacher Support Center with many age-appropriate lessons is available for teachers who participate. (www.stockmarketgame.org)
2. Have teams of students track a portfolio of the stocks they choose. Make sure they involve parents/family members! This gets the whole family involved.
3. Have students check out some sites that provide financial information, such as Yahoo Finance (finance.yahoo.com), Smart Money (www.smartmoney.com), or The Mint (http://www.themint.org/kids/what-is-the-stock-market.html).
4. Check out the new on-line learning game — Learning, Earning, and Investing, the Game. It will be published soon by the Council for Economic Education (www.councilforeconed.org). LEI The Game will provide students with many aspects of financial education.
5. Have your students use a financial calculator (e.g. http://www.bankrate.com/brm/news/sav/2006savmg/savings-calc.asp?caret=18) to see how the rate of return affects how fast their savings/investments are growing. Students will understand that although stocks are more risky than some other investments, the <u>long run</u> return on stocks (about 10% since the Great Depression) makes them an attractive investment for a person willing to invest over a long period of time.

Literature Connection

***Stock Market Pie,* by J.M. Seymour, 40 pages**
Young Emily receives a gift of stock from her grandmother. Emily learns the value of the gift as she discusses saving, investing, and stocks with her grandmother while making pies together. This is a colorfully illustrated book designed for upper elementary and middle school, but it contains information appropriate for any age.

***The Stock Market (How Economics Works Series),* by Donna Jo Fuller, 48 pages**
This book provides all the information students need to know about the stock market.

***Ups and Downs: A Book About the Stock Market,* by Nancy Loewen, 24 pages**
This easy-to-read book is good for elementary students.

***Stock Market Smart,* by Eileen McGowan and Nancy Dumas, 64 pages.**
The authors use a question-and-answer format to introduce students to the ins and outs of the stock market. Dialogue from four fictional characters, each representing a different kind of investor, helps simplify complex financial strategies.