

GRADES
6-12

Financial Fitness for Life®

**SECOND
EDITION**



**PARENT
GUIDE**

Personal Finance Activities for Parents and Students



COUNCIL FOR
**Economic
Education**

Teaching Opportunity®

Financial Fitness for Life®

Parent Guide

Grades 6-12

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This publication was made possible through funding by the Bank of America Charitable Foundation.

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Introduction

Chances are you have this book in hand because you believe your child's ability to succeed in the real world requires becoming "financially fit." We developed the *Financial Fitness for Life* series of publications because we wholeheartedly agree!

For more than 60 years, the Council for Economic Education (CEE) has been calling attention to the need to educate our young people effectively in the practical skills of economics and personal finance, and showing the best ways to meet that need. The current "financial fitness" program—of which this parent guide is a key component—is a dramatic step in the direction of improving economic and financial literacy. CEE is offering this revised stand-alone parent guide to go along with the second edition of *Financial Fitness for Life*. We are very excited about engaging parents, friends, family members, and other care givers in teaching children about "financial fitness." We all have an important stake in the future of the next generation of students. As parents, friends, and family members, we can play an important role in shaping our children's financial futures.

The CEE has long known that students exposed to the "economic way of thinking" are more self-confident and capable of making smart financial decisions. They also do a better job of saving and investing, building solid careers, and acting as informed citizens. In other words, when they gain an understanding of how the "real" world works, they improve their prospects for better lives in it.

We know that a key ingredient for any child's successful learning is the *involvement of caring adults* in their education. Research shows that students learn a considerable amount of their economic decision making outside of the classroom. Therefore, the activities we have provided in this book for you to do with the child in your life can be a very important component of the child's development of financial fitness.

You will notice that this publication has two sections. The first section is geared to the curriculum at the 6-8 grade level. The second section is for the 9-12 grade level. We suggest that you review the entire book. You may find some activities to be of interest at whatever level, depending upon the child's mastery of and interest in the concepts.

You want the child to grow up to be an independent, self-supporting individual who makes responsible, informed decisions. So do we! Just as CEE is the recognized national leader in teaching teachers how to make economics come alive in the classroom, we are grateful to have this opportunity to assist caring adults as teachers of economics that kids can use in their lives—all their lives.

The developers of this Parent Guide are aware that students come from many different family circumstances. While we have retained the title of Parent Guide for this 2nd edition (and have also kept much of the language that refers to "parents"), please rest assured that this is a useful resource in all sorts of different outside-of-the-classroom settings. Whether you are a friend, family member, guardian, or just a caring adult, we are sure that you will find that the exercises and activities in this book provide a useful way to improve the economic and financial understanding of the young person in your life.

We would like to thank the Bank of America Charitable Foundation for its long-term and consistent support. The Bank believes that a strong foundation in financial literacy basics is a critical skill for future economic success. Bank of America wants to help create a generation of young people who can grow into adulthood with the know-how to use the financial system to earn, save, spend, budget, invest and manage credit. The Foundation's continued commitment to economic and financial education makes it a true leader and a positive example for others to follow. Their support and partnership have made *Financial Fitness for Life* possible.

Council for Economic Education

Financial Fitness for Life®

Parent Guide

Grades 6-8

A Letter to Parents, Friends, and Family Members

You may sometimes hear people say that schools should “go back to the basics.” That’s a great idea as long as the basics include some lessons in how to manage money. Without knowledge of what money is—how it works and how to spend, save, and borrow it wisely—many young people will grow up to have real financial problems. For example,

- Most people don’t know the interest rates on their credit card balances.
- Many consumers believe that a product is better simply because it is more expensive.
- Many people have difficulty saving enough money for a down payment on a new house or automobile.
- The average U.S. college graduate starts his or her post-college career with more than \$2,000 in credit card debt.

The middle school years are critical. Peer pressure becomes a strong force in young people’s lives. They want to demonstrate their maturity and independence. They think they know it all, so it’s not easy giving them advice.

Of course, the best advice comes through actions, not words. By being a sensible money manager yourself, you teach a young person valuable lessons. And if you discuss some family financial decisions with the teen in your life, he or she can begin to understand a very important lesson—you can’t have everything you want. Sensible money management requires skill and self-discipline.

This guide provides a series of economic activities for friends and families to do together. In it, you will discover a simple approach to making important decisions. Games and grids will demonstrate fun ways to achieve financial and career success. You will explore everything from the pitfalls of credit cards to the challenges of investing in the stock market. Think of it as exercises in winning at life—a financial fitness book that will help secure an improved financial future.

The guide follows the *Financial Fitness for Life* lessons that the student is studying in school. There are five themes, and each theme in this guide includes the following:

1. “Background Questions” asks some important questions and provides answers to these questions. Use these questions to motivate discussion with your teen.
2. “Worksheet Activities” provides structured activities for you to complete with your teen.
3. “Family Activities” provides other ideas to help enrich your teen’s understanding of personal finance and economics.
4. “Literature and Links” includes a list of books and Internet sites to read and explore.

We hope that you enjoy doing these activities with your teen while teaching about an important aspect of life—making effective decisions about earning, saving, and spending income.

Theme 1: The Economic Way of Thinking

Background Questions

Use the economic way of thinking to make more informed decisions.

1. What is the economic way of thinking?

The economic way of thinking is a powerful method for making decisions. It uses **Cost, Choice, Incentives**, and **Consequences** as tools to use in making decisions.

2. Why go to all that trouble?

Using the economic way of thinking can prevent hurried, poorly-made choices, which often cost more than they are worth.

3. What is an opportunity cost?

An opportunity cost is what you give up in order to do or have something. If you choose to watch television rather than go for a walk, your opportunity cost of watching television is walking in your neighborhood. When making a choice from numerous alternatives, the opportunity cost of the choice is the highest-valued alternative that is forgone as a result of making the choice.

4. What is an incentive?

An incentive is a reward for behavior. People will often change their behavior for the right incentive. Kids may eat their vegetables when ice cream for dessert is the incentive.

5. What is a disincentive?

A disincentive is a penalty that influences peoples' behavior. A police car parked on the shoulder of a highway is a disincentive for speeding.

6. What is a consequence?

A consequence is the result of a behavior. The consequence of not studying for a test could be an "F." On the other hand, the consequence of studying for a test might be an "A." Consequences can be positive (good) or negative (bad).

7. What is the PACED decision-making process?

The **PACED** decision-making process is:

- a. Name the **P**roblem;
- b. List possible **A**lternatives;
- c. List the **C**riteria (your requirements) that are most important in making the decision;
- d. **E**valuate the Alternatives;
- e. Make a **D**ecision.

8. What is a cost-benefit analysis?

A cost-benefit analysis is a look at the pluses and minuses of your alternatives when making a decision.

9. What is an example of a cost-benefit analysis?

A cost-benefit analysis example might be:

CHOICE: Go to the mall with friends or baby-sit for \$20.

* Go to mall. **COST:** no babysitting money. **BENEFIT:** spend time with friends.

* Baby-sit. **COST:** miss going to the mall with friends. **BENEFIT:** earn spending money.

DECISION: Which is more important to you? (Use the cost-benefit analysis to understand the alternatives clearly before making a choice.)

10. What is a good decision?

A good decision is one in which the benefit outweighs the cost by the greatest possible amount.

Worksheet Activities

MAKING CHOICES

Think of a choice between two alternatives that you recently had to make due to a lack of time, space, or money. For example, in the second column, second row you might write: visiting a friend in the hospital or going to a basketball game. Sample answers are given in the Appendix on page 40.

	Limited Time	Limited Space	Limited Money
In the following columns list two alternatives you had to choose between.	1. 2.	1. 2.	1. 2.
In the following, which alternative did you choose?			
What was the opportunity cost?			
What was your incentive?			
List an unidentified consequence of your choice.			
How did you benefit from your choice?			

List three incentives that could affect a major family decision in these three cases.

A. Buy a car _____

B. Move to a different town _____

C. Volunteer once a week _____

HOW CAN WE DECIDE?

Think about a decision you or your teen will be making soon. It could be anything, such as buying a new TV, choosing a new pet, or deciding what to do on a Saturday afternoon. Use the PACED decision-making model and the decision-making grid on the next page to make your decision. When you are finished, answer the questions below the table.

Step 1: Define the problem (What are you trying to decide?)

Write the problem at the top of the next page.

Step 2: What are the possible solutions to the problem? These are your Alternatives.

List the alternatives in the first column of the table.

Step 3: What is important to you in making the decision? These are the Criteria upon which the decision will be based. List the criteria in the first row of the table.**Step 4: Evaluate how well each alternative meets each criterion.**

Use a scale of zero to four, where four means the option does an excellent job of meeting the criterion, three does a good job, two does a fair job, one does a poor job, and zero means that it doesn't even address the criterion. Fill in each of the remaining boxes under the criteria columns for each of the alternatives with the appropriate rating. Leave the boxes in the total column blank for now.

Step 5: Make a decision by summing the totals for each alternative.

Enter the summed number for each alternative in the totals column. Based on your criteria, the best choice is the alternative with the highest total. Note that the opportunity cost of your choice is the alternative with the highest total that wasn't selected

What is the problem? _____

Criteria ➔				Totals
↓ Alternatives				

Answer these questions:

A. What is your choice? _____

B. What is the opportunity cost? That is, what are you giving up when you make this choice?

C. What are the benefits of this choice? _____

Family Activities

1. Search for stories about people's choices in the paper or on the Internet. (Choices could be heroic actions, political or business decisions, or personal actions involving a difficult or unusual choice.) Talk over why the person made that choice. Then use the economic way of thinking to examine the choices made.
2. Pick out a TV character's decision from a drama or sitcom you are watching together, or choose a decision made by a character in a book. Ask the following questions:
 - What incentives inspired the character to act?
 - What choice was made?
 - What was the opportunity cost?
 - What were the consequences of the action?
 - What might be some unintended consequences?
 - Would another choice have been better? Why?
3. Talk over with your teen a decision the household is about to make. Use the economic way of thinking to analyze the choice, using the questions in #2 above.
4. Go to the grocery store with your teen and compare prices, sizes, contents, and quality of particular items which you would generally purchase. Make buying decisions together, based on this comparison shopping. Discuss the importance of knowing the alternatives you have and the criteria that are important in your household. (For example, if three out of four people will not drink grapefruit juice, a two-for-the-price-of-one sale on grapefruit juice won't matter to your household—no incentive.)
5. Copy the PACED grid and use it to help your teen plan a weekend activity.

Literature and Links

Literature: Check out your local library for these titles:

Covey, Sean. *The Six Most Important Decisions You'll Ever Make: A Guide for Teens.* Fireside, 2006.

The primary focus of this book is how to make sound decisions on issues relevant to teens (such as their education). It contains a review of the seven habits of effective teens plus the "Ten Year Time Travel Experiment."

Godfrey, Neale S. *Money Still Doesn't Grow on Trees.* Rodale, 2004.

The chapter titled "The Teen Consumer: Best Ways to Buy Things" provides practical advice on how to make wise consumption decisions.

Links: Fine-tune your financial fitness on the Internet:

Visit www.councilforeconed.org and click on the *Financial Fitness for Life* link for more activities that relate to this material.

Visit www.themint.org. The Mint contains materials that are targeted to three groups: students, parents, and teachers. The "Pointers for Parents" section includes self-assessment tools and activities to share with your teens. The Perfectcents newsletters (found in the teaching tools link in the parent section) provide background information. The spending link under the "Fun for Kids" tab focuses on how to be a wise consumer. Your teen can even take the survey, "What Kind of Spender Are You?" to learn more about his or her spending habits. The spending section in the "Tips for Teens" tab includes an activity titled "Take the Spending Challenge."

Theme 2: Earning Income

Background Questions

The economic way of thinking can be the single most important tool in making a career choice.

1. What preparation is best for making a career choice?

To make an intelligent career choice, evaluate SCANS, develop a positive work ethic, invest in human capital, and determine what you like to do.

2. What is SCANS? What are 21st Century Skills?

SCANS is short for the U.S. Department of Labor Secretary's Commission on Achieving Necessary Skills. The SCANS list includes the abilities every worker needs to be successful, including reading, writing, math, interpersonal skills, teamwork, and the ability to use technology (for more, see <http://wdr.doleta.gov/SCANS/>). Recent work by the Partnership for 21st Century Skills extends many of the ideas found in SCANS by providing an updated framework for the acquisition of skills and 21st century teaching and learning (for more, see www.p21.org/).

3. How should my teen use this information?

Encourage teens to get a good education by attending class every day, being on time, and completing homework. Have them get a good background for future jobs by working at extra projects and outside-of-school activities. In the process, they may discover what they really like to do.

4. What is productivity?

Productivity is the amount of goods or services produced (output) by a worker in a specified time period.

5. What affects a worker's productivity?

A worker's productivity is affected by many factors including natural resources, capital resources, human resources, and technology.

- Natural resources include land, timber, water, wind, minerals, or other substances in the land or water. A farmer with rich land can produce more crops per acre than a farmer with poorer quality soil.
- Capital resources include buildings, machinery, and equipment used by business. An accountant can turn out more financial statements in less time by using a computer rather than a paper and pencil.
- Human resources include the skills, education, and abilities of the worker. One important thing that people do is to invest in human capital. Just as we can invest money in equipment and buildings, we can also invest in improving workers' skills and abilities. A skilled worker is more productive than an unskilled worker.

- Technology refers to innovations that improve the way society can transform productive resources into goods and services. Improved forms of communication, advanced medical practices, and innovative production processes are all examples of the benefits of technological advances that translate into increased productivity.

6. Why is it important to invest in human capital?

Knowledge, skills, and experience make every worker more valuable. Skilled, experienced workers produce more in less time. Statistics show that people with more education earn more money, so education can increase lifelong income.

7. What are some benefits of going to school?

Some benefits of going to school are:

- an increase in skills and information that can lead to higher earnings and more career choices;
- a chance to find out what interests you the most so you can choose work you will enjoy;
- the knowledge to understand and appreciate more about the world, which can make life more satisfying.

8. What are some costs of going to school?

Some costs of going to school are:

- money for books, supplies, and tuition;
- time you spend in class instead of at the beach or at a job;
- energy spent studying for tests or doing homework instead of going out with friends or practicing sports or music.

9. Will a college degree guarantee a high income?

An education does not guarantee wealth, but it increases the odds of making a good living. The more you know, the more choices you have for a career.

10. What about entrepreneurs who work for themselves—what is their opportunity cost?

Entrepreneurs are people who take the calculated risk of starting new businesses, either by embarking on new ventures similar to existing ones or by introducing new innovations. They can have slow periods in which they don't make money, or business setbacks that cost them money. An opportunity cost of being your own boss is the lack of the security of a weekly paycheck.

11. How do you develop a positive work ethic?

A positive work ethic can come from habits learned as a child. Being on time, acting responsibly, following directions, and listening attentively are all skills that contribute to a productive life. During school years, these skills help to make mastering such subjects as reading and mathematics much easier.

Worksheet Activities

WHAT CAREER INTERESTS YOU?

Use the PACED decision-making process that was developed in Theme 1 to help your teen choose a job or career that matches his or her interests.

- P** Identify the **P**roblem (Choosing a career interest).
- A** List **A**lternatives.
- C** Define **C**riteria.
- E** Evaluate alternatives based on criteria.
- D** Make a **D**ecision.

Use the grid below. Across the top, list three things about a job that your teen thinks are most important to him or her. These are his or her *criteria*.

Down the first column, have your teen list four job or career areas that appeal to him or her. For simplicity, rate each *alternative* with + or - depending on whether each criterion is met or not met with that job/career.

<div style="display: flex; justify-content: space-between;"> ↓ Alternatives (Job/career) Criteria → </div>				Totals

Answer these questions:

A. Which job or career area best matches your teen’s interests? (You can choose a specific career or a more general career area: for example, nurse vs. emergency room nurse.)

B. What subjects in school can provide the knowledge he or she needs?

C. What outside-of-school activities might provide the experiences your teen will need?

CAREER INTEREST SEARCH

The first step toward choosing a career that's right for you is to consider the things you like to do. Use the grid to assess characteristics about yourself. Then check the next page to learn how you can score yourself on this exercise.

Directions: Place a check (✓) in the shaded box to the right of each statement that describes something you like to do. If you don't enjoy an activity, leave the boxes blank.



I like to:	1	2	3	4	5	6
fix electrical things	■					
play team sports				■		
sketch, draw, paint			■			
keep accurate records						■
think abstractly		■				
write factual reports						■
sell things or promote ideas					■	
play a musical instrument			■			
pitch a tent	■					
follow clearly defined procedures						■
plan and supervise an activity				■		
be elected to office					■	
solve math problems		■				
work with numbers and data						■
help people with problems				■		
write stories and poems			■			
attend concerts and art exhibits			■			
work outdoors	■					
use computers		■				
be responsible for details						■
make decisions that affect others					■	
sing, act, and dance			■			
meet important people					■	
build things	■					
lead a group discussion				■		
do a lot of paperwork						■
perform lab experiments		■				
use a microscope		■				
read fiction, plays, poetry			■			
give talks or speeches					■	
organize activities and events					■	
be physically active	■					
mediate disputes				■		
teach or train others				■		
work independently		■				

So, what do your check marks mean? First, total the number of checks in each column, record them in this chart, and circle the top three. Then read the descriptions below:

1	2	3	4	5	6
---	---	---	---	---	---

If one of your top three scores is in Box 1, you are interested in activities that require coordination or physical strength. You like to work with real problems instead of abstract ones. You're probably interested in scientific or mechanical areas.

If one of your top three scores is in Box 2, you like to organize and understand things for yourself, but you're not interested in persuading others. You often enjoy working alone and are oriented more toward data and numbers than toward people.

If one of your top three scores is in Box 3, you value self-expression, dislike rigidity and structure, and are prone to be emotional. You are creative and artistic. You are probably interested in music, the fine arts, and crafts.

If one of your top three scores is in Box 4, you like to help people learn new things. You'd rather spend an evening talking with a friend than an afternoon playing basketball or skiing. You're a good listener and are interested in people. Friends often come to you for help in solving problems.

If one of your top three scores is in Box 5, you have keen verbal skills and like to use those skills to persuade others. You could probably be a good salesperson, advertiser, or politician.

If one of your top three scores is in Box 6, you don't mind rules and regulations, especially when you are in control. You enjoy order, and you like things to be organized. Messy things make you crazy. You are interested in tasks that require accuracy and precision.

Judging from your responses, prioritize the career clusters below.
(Number 1 is the cluster that is most appealing; Number 6 is the least appealing.)

Career Clusters	Typical Jobs
____ Arts and communication	Actor, dancer, newscaster, stagehand
____ Business & technology	Accountant, banker, travel agent
____ Engineering & industry	Mechanic, medical technician, plumber
____ Environmental science	Botanist, florist, marine biologist
____ Health services	Aerobics instructor, dentist, veterinarian
____ Human services	Cook, detective, judge, teacher

Remember that every choice involves an opportunity cost. When you choose your #1 career cluster, the #2 cluster is your opportunity cost: the next best alternative you give up when you make a choice.

Which career cluster is your opportunity cost?

Are there family members or friends who work in jobs related to your top ranked cluster? If so, what jobs do they have?

WHAT DO YOU REALLY DO AT WORK?

Most students know what jobs adults do only by the title of their occupation. While some students know a bit about the specifics of the work adults do, most of them couldn't really describe how their adult friends or family members spend their working hours. Help them to get a more realistic view of what a job is by filling out the form below. The student should "interview" you, using the written questions, and write your answers on the form. Then the two of you can discuss the skills necessary for your job, and you can explain how you acquired those skills. (Use more paper if necessary.)

Student reporter asks:

1. What is your job title? _____

2. What is the purpose of your work? _____

3. When you get to work every day, what is the first thing you do? _____

4. How do you spend most of your time at work? _____

5. What project did you work on most recently? _____

6. What tools (capital resources) do you use in your work? _____

7. How do those tools increase your productivity? _____

8. What skills does your job require? _____

9. How did you get those skills? _____

10. What education does your job require? _____

Family Activities

1. Search for career choices with your student, using the Internet or the library. The Bureau of Labor Statistics has a useful website: <http://www.stats.bls.gov/k12/index.htm>
2. Encourage your student to become involved in out-of-the-classroom activities at school or in the community. Experiences as a hospital or animal-shelter volunteer, museum or library helper, or intern in a business or arts organization can inspire new ideas about possible careers. Those activities look good on a college application or eventual job resume as well.
3. Search for productive resources everywhere. Talk about the use of natural resources, human resources, and capital resources in your home, in a store, in a fast-food restaurant, and in a library. Become aware of all the things it takes in an economy for goods and services to be made available for people to purchase.
4. If you know a business owner or a human resources manager, ask him or her to talk about the qualities a new employee must have to get a job. Help your teen prepare questions in advance: How is a worker's productivity measured? What skills do you look for in a potential employee? How can a productive worker move ahead in your company? A human resources manager may be willing to come to your teen's class and answer questions.
5. See for yourself that statistics show more education leads to higher income. The Bureau of Labor Statistics website has a graph comparing education, salary, and unemployment rates. (The latest available figures are usually a few years old since it takes time to gather the data.) See www.bls.gov/emp/emptab7.htm.
6. Create a resume for your teen. Working together, list his or her accomplishments, school activities, and community activities. Use the guide at www.careerkids.com. Click on "My First Resume." This is fun to do, but it can also serve as a useful guide to areas that need strengthening for eventual college or job applications.
7. Have your teen use the questions in Activity 4 above or in the What Do You Really Do at Work activity on the previous page to survey other adults whose occupations they find interesting.

Literature and Links

Literature: Check out your local library for these titles:

Bochner, Arthur, Rose Bochner, and Adriane Berg. *The New Totally Awesome Business Book for Kids*, Revised and Updated, 3rd ed. Newmarket Press, 2007.

A step-by-step guide for kids starting their own businesses. It includes games, puzzles, and stories (ages 8-14).

Teen's Guide to College and Career Success: Your High School Roadmap for College and Career Success. Peterson's, 2008.

A practical guide to preparing for high school in a way consistent with achieving your long-term career goals.

Young Person's Occupational Outlook Handbook. JIST Works, 2007.

A version of the Bureau of Labor Statistics Occupational Handbook, suitable for use with middle school students.

Young Person's Career Skills Handbook. JIST Works, 2006.

This work focuses on the importance of acquiring the basic SCANS skills needed for success.

Links: Fine-tune your financial fitness on the Internet:

Visit www.councilforeconed.org and click on the *Financial Fitness for Life* link for more activities that relate to this material.

Visit www.bygps.com/books/tg2rw/careers.htm for links providing information about careers.

Visit <http://mappingyourfuture.org/planyourcareer/>. Suggests 10 steps for planning your career. Includes a parent section designed to help parents plan for their children's education, including how to pay for it.

Visit www.careerkids.com/. Contains a link to "My First Resume," a tool that leads young people through a series of questions that helps them build their resume.

Theme 3: Money Management

Background Questions

When you understand all the options, putting your money to work is no problem.

1. What is sound money management?

Sound money management includes an examination of earnings, a plan for regular savings, and a strategy for thoughtful spending.

2. What does "pay yourself first" mean?

The expression is advice to set aside a portion of your income for saving before doing anything else. Financial advisors recommend automatically saving 10-15 percent of income. One easy way to do this is by direct deposit. With direct deposit, your paycheck goes straight to your bank. You can instruct your bank to put a certain amount of your paycheck into savings and the rest into checking. Most banks have direct deposit plans.

3. Why is a bank a safe place to keep money?

Most banks are members of the FDIC, Federal Deposit Insurance Corporation. That means up to \$250,000 of your money is fully insured when you place it in the bank. Should your bank fail, your money is safe.

4. Why should a student have a budget?

U.S. students spend more than \$20 billion a year, most of it on clothes, food, and entertainment. Creating a budget allows students to identify long-term goals and save for them. Budgeting provides excellent practice for life-after-school, when most people will need to budget income and living expenses.

5. How does an ATM work?

To use an automatic teller machine, you insert a special plastic card and enter your PIN (Personal Identification Number). ATMs can accept deposits, give cash, allow you to transfer funds between accounts or pay bills, and show the account activity in your savings or checking account. You may be charged a fee for using an ATM. This is especially likely if you use an ATM that is outside of your network.

6. What is the difference between a debit card and a credit card?

- A debit card is like an instant check. It takes the money directly from your checking account when you make a purchase. If the account is empty, the debit card should send an "error" message.
- A credit card is like a loan. When you use the card, you are actually taking out a loan for buying the goods and services. You promise that you will pay back the credit card company or the firm offering the credit card when the bill comes due. If you don't pay in full each month, you are charged interest.

7. What does it mean to have a check "bounce"?

If you write a check for more than you have in your account, the check will be returned to you with an NSF (non-sufficient funds) notice. You will almost always be charged a penalty for NSF notices.

8. What other charges come with a bank account?

Bank service charges might be fees for each check you write, a fee for an insufficient bank balance, fees for the use of an ATM outside of your network, fees for bank-issued credit cards, etc.

9. Does everyone pay income taxes?

No. People with incomes below a certain amount pay no income taxes. And people with many deductions or exemptions may pay no taxes.

10. Why are taxes deducted from paychecks?

The government needs tax dollars to pay for the services it provides. Continuous payroll tax deduction provides that money. And it eliminates the huge tax crisis many people would face on April 15th (when final tax payments are due) by not saving enough for taxes during the year.

11. Who gets Social Security?

The largest pool of recipients of Social Security is retired people. Those who have worked enough years to contribute sufficient taxes to the system are eligible for Social Security payments once they reach retirement age. There are also other people who are beneficiaries of Social Security payments. People with disabilities and dependents of someone who has died may also receive Social Security payments.

12. Who pays for Social Security?

Almost everyone who works pays a tax to support Social Security and Medicare. The government uses payroll taxes to pay the benefits to retired workers. Employers and employees contribute to that tax. The benefits received by current recipients are being paid by people who are working today. The payroll taxes an employee pays for Social Security do not go into a dedicated account that determines his or her future Social Security payment. This makes Social Security different from defined contribution retirement plans.

13. What is a sales tax?

A sales tax is a tax consumers pay when they buy something. It is a percent of the cost of an item purchased and is added on to the purchase price.

14. What is a property tax?

People who own homes, businesses, condominiums, and other real estate pay real property taxes. Some areas have a personal property tax, which is a tax on such things as automobiles, boats, and recreational vehicles. Property tax payments go to cities, towns, and villages to pay for public schools, libraries, parks, and other public institutions and services.

15. What are transfer payments?

Transfer payments are payments by the government to people. These people are not required to

Worksheet Activities

THE BATTLE OF THE BUDGET GAME

The Montagues and the Capulets have been feuding forever (ask your English teacher). A budget is as good an excuse as any for continuing with this feud. Each family has listed its income and expenses, following the advice of its own financial counselors. The winning "family" will be the one with the most income and the one which puts the most into savings.

Discover the winner of the Battle of the Budget by completing the chart and then answering the questions that follow. The percentage for each fixed expense item is the percent of total income. The answers appear in the Appendix on page 41.

CAPULETS Monthly Income		MONTAGUES Monthly Income	
Farm income	\$3,750.00	Salary from government job	\$3,927.00
Interest income	\$125.00	Income from flower sales	\$350.00
Gift from grandmother	\$288.00	Gift from grandmother	\$103.00
TOTAL INCOME		TOTAL INCOME	
Monthly Fixed Expenses		Monthly Fixed Expenses	
Savings (12%)		Savings (14%)	
Car payment (10%)		Car payment (12%)	
Insurance (7%)		Insurance (8%)	
Rent (20%)		Rent (18%)	
Charity (5%)		Charity (8%)	
Monthly Variable Expenses		Monthly Variable Expenses	
Doctor bills	\$197.00	Doctor bills	\$158.00
Food	\$581.00	Food	\$527.00
Clothes	\$389.00	Clothes	\$474.00
Utilities	\$296.00	Utilities	\$303.00
Transportation	\$218.00	Transportation	\$126.00
Entertainment	\$233.98	Entertainment	\$164.00
TOTAL EXPENSES		TOTAL EXPENSES	

Now answer these questions about the budgets of the Montagues and the Capulets.

1. Which family has the most income? _____

2. Which family is putting the highest percentage of its income into savings? _____

3. What percent of the Capulets' budget is fixed expenses? _____

What percent of the Montagues' budget is fixed expenses? _____

4. How do these budgets show the value that the Capulets and the Montagues put on saving and charitable giving?

5. If the price of gasoline doubled, transportation costs would increase for both families. How could they adjust their budgets to solve the problem?

6. If the Montagues spent less money for food, how would that affect their budget?

7. If the Capulets choose to save 15 percent of their income next year, what is their opportunity cost?

8. If a late frost destroys their flowers, what choices will the Montagues have to make as they adjust their budget?

9. If you were the financial advisor to either the Capulets or the Montagues, what advice would you give them?

10. What are three advantages to designing a sensible budget?

a. _____

b. _____

c. _____

Family Activities

1. Trade-offs: giving up one thing in order to get something else. When shopping with your teen, ask him or her to look for trade-offs in household spending decisions. Then talk about the trade-offs he or she made when deciding how to spend his or her own money.
2. Create a household budget together with your teen. List your fixed expenses (these do not change from month to month) such as mortgage, car payments, rent, and Internet connection. Then list all the variable expenses—utilities, food, clothing, long distance phone bills, etc. Compare these to your actual income if you like. Just listing where the money goes (even without revealing the exact figures) is a life lesson for young people. They can see how important a budget is and why spending decisions involve trade-offs.
3. A Blank-Check Game is a good way to sharpen checking account skills. Give your teen some blank checks and a blank check register. (You can find blank check images by performing an Internet search.) Set an imaginary bank balance of \$1,000. Then let him or her look through store catalogues and advertisements and write "checks" to purchase some items. Make sure he or she writes the checks correctly, records every purchase in the check register, and calculates accurately. Practice with the deposit slips as well.
4. A painless way to learn about taxes, for now, is to get a copy of the 1040EZ income tax form at www.irs.gov and make up an imaginary income. While your imaginary income will not have withheld income taxes associated with it, this is good pre-job training for understanding payroll deductions.
5. See how much sales tax your household pays. Save every receipt for two weeks. Have your teen circle the amount of sales tax on each receipt. In two weeks, work together to add up the numbers. Talk about where these sales taxes go and what the government provides with this tax money.

Literature and Links

Literature: Check out your local library for these titles:

Block, Sandra, Kathy Chu, and John Waggoner. *The Busy Family's Guide to Money*. NOLO, 2008.

With a focus on the most important topics, this book provides user-friendly and follow guidance on topics ranging from budgeting to teaching your children about money.

Godfrey, Neale S. *Money Still Doesn't Grow on Trees*. Rodale, 2004.

The author advocates involving the family in budgeting and decision making. This culminates in advice on moving teens toward sharing financial responsibility for their own expenses. The book uses an engaging approach to address everything from unrealistic lifestyle expectations to peer pressure on spending decisions.

Harman, Hollis Page. *Money Sense for Kids*. Barron's Educational Series, 2005.

From an examination of currency to saving and investing, this book combines information with games for children to play with adults.

Links: Fine-tune your financial fitness on the Internet:

Visit www.councilforeconed.org and click on the *Financial Fitness for Life* link for more activities that relate to this material.

Visit www.themint.org. The Mint contains materials that are targeted to three groups: students, parents, and teachers. The "Pointers for Parents" section includes self-assessment tools and activities to share with your teens. The Perfectcents newsletters (found in the teaching-tools link in the parent section) provide background information. Segments focused on giving and tracking your money discuss vital money-management skills. Teens can play "Determining Your Budget" in the tracking section of the "Tips for Teens" tab.

Theme 4: Saving

Background Questions

Find out how to make your money really work for you.

1. What is the opportunity cost of saving for the future?

The opportunity cost of saving for the future is the chance to spend the money now. If your family wants to take a \$3,000 vacation in two years, you may have to give up going to the theater to see movies, buying new furniture, eating dinners in restaurants, and buying expensive gifts so that you can save the money for the vacation.

2. What is a long-term goal?

A long-term goal (one that you want to reach in more than 5 years) is a plan to trade immediate gratification for a future benefit. A typical long-term goal might be having enough savings to pay for a college education for a child. Parents might start making deposits to some type of savings account when the child is born. Some expensive items can be long-term goals for families of modest means, but short-term goals (under 2 years) for wealthy families. Unexpected expenses might reduce a family's opportunity to save, and their short-term goals could become medium-term (2-5 years) or long-term goals. An intermediate goal can be a way to approach a long-term goal in stages so it seems more manageable. For instance, \$8,000 saved over four years for probable orthodontist's bills is \$2,000 a year.

3. Why are there different kinds of savings plans?

Different kinds of savings plans carry different levels of risk and reward.

- A regular savings account (passbook or statement) allows deposits and withdrawals at any time.
- A CD (certificate of deposit) usually has a higher rate of interest than a savings account, but it also has a time limit. Early withdrawal of funds means you lose some of the earned interest.
- Both types of savings accounts are very safe because, generally, the U.S. government insures them.

4. What about inflation?

Inflation, an increase in the average level of prices, is a problem for people living on fixed incomes because prices go up but income stays the same. That means groceries that cost \$70 per week might cost \$75 next year due to inflation. If your income remains at \$500 per week, you pay more of your dollars for the same groceries—your money is worth less. Inflation means that you can buy less with the money you have.

5. What is the role of banks and other financial institutions?

Banks bring savers and borrowers together. They pay interest to savers at a lower rate than they charge interest to borrowers. That is one way the bank makes its profit. Banks provide a place for borrowers to obtain loans and for savers to keep their money and see it grow. Today banks offer a wide range of financial services, such as credit cards and investment plans.

6. How can compound interest help make people rich?

Consistent, regular deposits into an interest-bearing account can accumulate into significant wealth. Compounding happens when interest is left in the account and earns additional interest. The longer the money is left in the account, the more dramatic the compounding effect.

7. What is the Rule of 72?

The Rule of 72 is a formula that can be used to find out how long it will take money to double. Divide the number 72 by the interest rate (expressed in percentage terms) your money earns. The answer is the approximate number of years it will take that money to double. For example, if you had \$100 in a savings account that earns 6 percent interest, it will take about 12 years for you to reach \$200. (Divide 72 by the interest rate [6].)

8. What is a bond?

A bond is an IOU. When a company or government unit issues a bond, it is actually borrowing money. The lenders are the people who buy the bonds.

- Corporate bonds are used by companies;
- Municipal bonds are used by cities, schools, or states;
- U.S. Treasury bonds, notes, and bills are used by the U.S. government.

9. How do bonds provide income?

The borrower or issuer of the bond pays interest to the lender or purchaser of the bond. Here's how it works: If you buy a \$10,000 bond with a 5 percent interest rate and the bond matures in 10 years, you pay the \$10,000 up front when you buy it. The 5 percent interest rate is \$500 a year, so every six months you get a check for \$250 (1/2 of \$500). At the end of 10 years, you also get back your original \$10,000.

10. How is a U.S. Savings Bond different from other bonds?

U.S. Savings Bonds can only be bought from and redeemed by the U.S. Treasury. Most other types of bonds can be traded or exchanged by investors before the bond's maturity date and are, therefore, marketable investments.

11. What are stocks?

Stocks are equity. They represent ownership of a company. If you own stock in a company, you own a share of that company. You are a shareholder.

12. Which pays a better return, a stock or a bond?

Historically, the return on investments in stocks has been much greater. From 1926 to 2009, the typical annual return on stocks ranged from 7 to 10 percent. Bonds had a lower return during this same period.

13. Why own bonds if stocks pay more?

Stocks are generally more risky. The price of shares can go up and down daily. Bonds have a fixed rate of interest for a long period of time. Big corporations and governments are far less likely to go broke and fail to pay back the value of their bonds at maturity and the interest during each year. In addition, if a bond issuer does run into financial problems, the bond holders receive payments before the stockholders.

14. What does "buy low, sell high" mean?

When people buy stock, they hope to make a profit. One way to do that is to sell the stock at a higher price than the price they paid for it. For example, if you buy 10 shares of XYZ Corporation at \$100 a share and you sell it for \$150 a share, you will make a profit of \$500 (minus a commission or fee to the stockbroker).

15. Do you buy stock directly from a company?

Generally not. In most cases, a company sells its new shares to the primary market, which includes only investment bankers. Then the investment bankers sell the shares to stockbrokers and selected people and organizations. Most people buy and sell stocks through the stock exchanges, such as the New York Stock Exchange. In this situation, stocks move from one owner (seller) to another (buyer).

16. Why does investing in companies matter?

When people invest in shares of a company, they are showing confidence in the company's future success. Successful companies generate profits, expand operations, hire more workers, pay more taxes, pay more dividends to their shareholders, and contribute to an improved standard of living.

17. What are financial intermediaries?

Financial intermediaries bring together those who need funds with those who wish to invest.

- Banks, credit unions, and other financial institutions act as intermediaries by providing different types of accounts for savers and by making loans to borrowers.
- Mutual funds are financial intermediaries because they enable investors to own portions of the stock of many different companies. This would be extremely difficult, if not impossible, for a single investor to arrange.
- Intermediaries are important to the economy because they make it possible for savers to invest and for those seeking funds to find them.

18. What about risk?

- All investments carry some degree of risk. Some investments are riskier than others.
- Regular savings accounts are fully insured up to \$250,000, but they typically pay a lower rate of interest than other types of investment. The opportunity to make more money may be lost by choosing a safe place to put savings.
- Stock prices can go down, causing investors to lose money. Blue chip stocks have traditionally returned 7 to 10 percent annually, but there is no guarantee of that return.

19. How do you minimize risk?

Diversify. Investors diversify when they mix their holdings among stocks, bonds, mutual funds, and money market accounts. A loss in one area may be offset by possible gains in another. When savers learn about the different ways to invest, they can decide how much risk they are comfortable with and how to diversify their investments for the best and safest return.

20. Should investors keep some money in "liquid" investments?

Yes. Liquid investments are funds you can use right away. A savings account is a good example. There is no penalty for taking money out of a savings account. Financial advisors recommend keeping six months' expenses in a regular savings account or checking account as an emergency fund.

Worksheet Activities

SAVINGS AND GOALS

Discuss family savings goals. These goals might include a new house, car, TV, computer, refrigerator, vacation, or college education. Decide whether these are short-, medium-, or long-term goals, and write your answers in the chart below. Then determine the opportunity cost for each goal.

	Savings Goal	Opportunity Cost
Short term (less than 2 years)		
Medium term (2-5 years)		
Long term (more than 5 years)		

Test Your Financial Fitness

Imagine you are a 15-year-old actor in a TV series, and your plan is to save \$300 a week so you can buy a beach house by the time you are 21. Will you be able to reach your goal if the house costs \$950,000 and you need a 10 percent down payment? If not, how much more do you need? Is this a short-, medium-, or long-term goal? Explain why. (To simplify things, assume that the interest you earn on your savings will balance out any increase in the price of the home between now and the time you are 21.) See the Appendix, page 41, for the answers to these questions.

THE POWER OF COMPOUNDING

An old brain teaser goes something like this: Some wealthy parents were deciding how to pay their daughter her allowance this month. She was given two choices.

Choice #1: Receive \$300,000 for the month.

Choice #2: Starting with a penny on the first day, double her earnings every day for one month. (For example, day 1 = \$0.01; day 2 = \$0.02; day 3 = \$0.04; day 4 = \$0.08; etc.)

1	\$0.01
2	0.02
3	0.04
4	0.08
5	0.16
6	0.32
7	0.64
8	1.28
9	2.56
10	5.12
11	10.24
12	20.48
13	40.96
14	81.92
15	163.84
16	327.68
17	655.36
18	1,310.72
19	2,621.44
20	5,242.88
21	10,485.76
22	20,971.52
23	41,943.04
24	83,886.08
25	167,772.16
26	335,544.32
27	671,088.64
28	1,342,177.28
29	2,684,354.56
30	5,368,709.12
31	10,737,418.24

The table demonstrates that the second choice is by far the one that will result in higher earnings. In fact, the second choice will make the girl a millionaire in just 28 days! It's easy to see that as the numbers get bigger, the doubling gets more and more dramatic. Just imagine what the number would be at 35 days or 50 days.

Of course, this brain teaser is unrealistic, but compound interest is for real. In fact, because of compounding, depositors earn interest on interest, and this can enable them to double their money in a shorter amount of time than you might think. Of course, this all depends on the interest rate. There is a simple way to find out how long doubling will take. It is called the **Rule of 72**.

Just divide 72 by the rate of interest (expressed in percentage terms) you're earning. The answer is the approximate number of years it takes to double your money.

If you are earning 6 percent interest, doubling takes about 12 years.

$$72 \div 6 = 12 \text{ years}$$

If the interest rate is 8 percent, doubling takes about 9 years.

$$72 \div 8 = 9 \text{ years}$$

How long will doubling take if the interest rate is:

3% _____ 9% _____ 10% _____
 18% _____ 4% _____ 12% _____

Answers are given in the Appendix on page 41.

Family Activities

1. Help your teen set up a chart defining his or her own short-, medium-, and long-term goals. These can include educational, savings, or work-related goals. Discuss the definitions as you work together: short term—less than 2 years; medium term—2-5 years; long term—more than 5 years.
2. If you have Internet access, use an Internet interest calculator to show how small amounts of saving can generate large returns when left to accumulate for 10, 20, or 30 years. Discuss how compound interest affects savings plans. Interest calculators can be found by using keywords such as interest calculators (or loan calculators, mortgage calculators, payment calculators, etc.).
3. Collect brochures, pamphlets and flyers from local banking institutions. Compare the interest rates. If possible, visit one bank or financial institution and speak with an officer about the advantages and disadvantages of different savings plans.
4. Check out the Dow Jones website (www.djaverages.com) and print a graph that shows the history of the Dow Jones Industrial Average. Discuss the peaks and valleys of the DJIA as well as its general upward trend.
5. Track one or two companies included in the Dow Jones Industrial Average. Talk about how the ups and downs of these companies may or may not correspond closely with the general movements in the overall economy. Research the companies you have picked by obtaining their annual reports and looking for current earnings and future expansion plans. Check out their company websites. Watch their movements on the Dow for several weeks. Consider them with your teen as a potential investment and list reasons why they might be safe or risky.
6. Take your teen to visit a local stockbroker to learn firsthand about how to be a smart investor. Prepare a list of questions to ask the stockbroker. For example; How do I create a beginning investment plan? Where is the best place to invest my money? How should I diversify my investments? How should my investment strategies change as I grow older? What are the costs of using the services you provide? Explore the costs of opening and maintaining an investment account with the stockbroker, or research this online.
7. Visit a bank, savings and loan, credit union, and stockbroker with your teen. Design a chart to compare and contrast the services and fees of each financial institution.
8. With your teen, take the risk Investment Risk Tolerance Quiz at <http://njaes.rutgers.edu/money/riskquiz> to find out how much risk you are comfortable with as an investor. Discuss the results with your teen and consider what investments are appropriate for this risk profile.

Literature and Links

Literature: Check out your local library for these titles:

Briles, Judith. *Raising Money-Wise Kids.* Moody Press, 1996.

Helps parents teach kids the value and use of money through quizzes and games. Covers entrepreneurship, credit, careers, and more.

Estess, Patricia Schiff and Irving Barocas. *Kids, Money, and Values.* Betterway Books, 1994.

Helps parents teach children about sensible saving and spending habits. Contains games and puzzles about being a wise consumer.

Harman, Hollis Page. *Money Sense for Kids.* Barron's Educational Series, 2005.

Features the history of money as well as hints about saving and investing. Includes an explanation of interest and a section on stocks and bonds.

Holmberg, Joshua and David Bruzzese. *The Teen's Guide to Personal Finance—Basic Concepts in Personal Finance that Every Teen Should Know.* iUniverse, 2008.

Stories and worksheets help keep teen readers engaged in this work, covering topics ranging from opening a bank account to investing.

Links: Fine-tune your financial fitness on the Internet:

Visit www.councilforeconed.org and click on the *Financial Fitness for Life* link for more activities that relate to this material.

See family activities 4 and 5 in this section and check out www.djaverages.com. Click on "The Dow Jones Industrial Average Learning Center" to examine stock price movements during any decade from 1896 to today. Pick two periods and discuss the peaks and valleys of the Dow Jones Industrial Average. Read the companion articles on each decade to better understand the period examined.

Go to www.smgww.org to learn about the Stock Market Game. Play the game to learn more about investing.

Theme 5: Spending and Using Credit

Background Questions

If you misuse your credit cards, you could be out of commission for a long time.

1. Cash or credit card—does it matter?

Cash is a medium of exchange accepted by buyers and sellers. When you pay cash, the transaction is complete. Credit is a loan. Signing a credit card receipt is a promise to pay the money later. If you don't pay off the bill by the end of the grace period, interest charges will be added. When you pay by credit card, the transaction has two parts: the exchange of goods or services for a promise to pay later and paying the credit card company when the bill comes in.

2. How can you avoid paying finance charges on a credit card?

Pay the whole balance each month before the due date, which is the end of the grace period. Credit cards are convenient, but not paying the charges in full each month will cost you extra money. The misuse of credit can lead to an overload of debt. In extreme cases, it can lead to personal bankruptcy.

3. Are all credit cards alike?

No. Each card has advantages and disadvantages. One may offer free airline miles just for using the card. Another may have a low interest rate or no annual fee. Shop around and compare credit cards before selecting one.

4. What is the opportunity cost of using credit?

The opportunity cost of using credit is having to give up goods or services in the future that could be purchased with the money you must use to pay the credit card bill.

5. What is a credit record?

A credit record is a file of information on how many credit cards, mortgages, and other forms of debt that a consumer has. The credit record includes such things as how often a consumer misses (or meets) payment deadlines, what a consumer currently owes, and whether or not a consumer has experienced a bankruptcy or a foreclosure. Creditors examine the credit records of applicants before granting credit or making loans.

6. How can you see your credit report?

The three primary credit reporting agencies, Equifax (www.equifax.com), Experian (www.experian.com), and TransUnion (www.transunion.com), are required under federal law to provide you with a free copy of your credit report annually. You can contact any of these agencies for a copy of your report, or you

can go to a central source, www.annualcreditreport.com. If you don't have Internet access, you can also order your credit report by phone at 877.322.8228. While the report is free, it will cost you a small fee to obtain your credit score.

7. What is a credit score?

Your credit rating (or credit score) is calculated based on your payment history (do you pay your bills on time?), how much money you owe, the length of your credit history, the types of credit used, and the amount of new credit for which you have recently applied. It is like a report card on your ability to handle credit. A credit score is often referred to as a FICO score (named after the company that created the model for determining credit scores). FICO scores range from 300-850. The higher the FICO score, the better your credit rating. People with credit scores below 600 are generally considered high-risk borrowers, while credit scores above 720 often mean an excellent credit history.

8. What are the three Cs of Credit?

Applicants for credit must prove they have **C**ollateral, **C**haracter, and the **C**apacity to repay a loan. Collateral is something of value that you own that the lender will receive if you don't pay back the loan. For example, your car serves as collateral for an auto loan. Character refers to how responsibly you have handled your financial obligations. Have you paid your bills on time? Have you used credit responsibly in the past? Capacity reflects your ability to repay a loan. What is your income relative to your expenses?

9. What are the rights and responsibilities of a borrower who applies for a loan?

- Rights:
 - ✓ To be treated fairly;
 - ✓ To know all the details of the loan agreement;
 - ✓ To be offered a reasonable rate of interest and terms of repayment.
- Responsibilities:
 - ✓ To provide accurate information in the application process;
 - ✓ To furnish collateral (collateral is property of value used to back up the loan) if required;
 - ✓ To repay the loan in a timely manner.

The Credit CARD Act of 2009 has expanded the rights of consumers who use credit. For a summary of the provisions of this act, see http://banking.senate.gov/public/files/051909_CreditCardSummaryFinalPassage.pdf.

10. When choosing a financial institution, such as a bank or credit union, what services should the consumer look for?

Some important things to look for are the location of the institution, the convenience of doing business there, the opportunity for electronic or online services, the convenience of its ATM network, its ATM fees, and any other service fees.

11. How can a consumer weigh the costs and benefits of spending decisions?

A consumer can make good choices by comparing prices, quality, appearance, features, repair options, and other characteristics of consumer goods and services.

12. What can a consumer do about defective merchandise?

The first step is to return the merchandise to the store from which it was purchased. If you are unsatisfied with the store's response, a call to the 800 number of the manufacturer can sometimes get results. When all else fails, the consumer can report a complaint to the Federal Trade Commission, Bureau of Consumer Protection (1-877-FTC-HELP) or check the FTC web site at www.ftc.gov. If the item was purchased with a credit card, the consumer can check to see what the card company's options are for disputed purchases.

The Fine Print

Credit cards are like cars—if you don't know how to use them, you can do a lot of damage. The Federal Reserve and Sallie Mae released the following statistics in 2009:

- Revolving credit (which is made up almost entirely of credit card debt), totaled \$936.2 billion.
- Households spent approximately 14 percent of their after-tax income supporting this debt.
- Those households who don't pay their credit card bills in full each month had an average credit card balance of \$7,300.
- The average APR (annual percentage rate of interest) was 12.97 percent.
- 82 percent of college students do not pay off their credit card balances in full each month.

Read This!

If your credit card balance is \$8,000 and you make the minimum monthly payment at 18 percent interest, it will take you 42 years to pay the debt off. Your total interest paid will be \$21,863. Your total cost for the goods you originally bought for \$8,000 will be \$29,863 (this exercise uses the "Credit Card Repayment Calculator" at www.federalreserve.gov/creditcardcalculator/Default.aspx).

Worksheet Activities

CREDIT CARD COIN TOSS

Materials: You will need the worksheet on the next page, a calculator or paper and pencil, and a coin.

Directions: Make a copy of the next page and cut out the charts. Shuffle them and give one to each player, face down. (You can copy the page and make extra charts if you have more players.) Each person turns over the chart, flips the coin four times, and circles the outcome in each row of the chart. (If the first flip is Heads, circle *No Fee*. If the first flip is Tails, circle \$30.00, etc.)

Calculate the fees and interest each player will have to pay back in a year.

Example:

Flip	Sample	Heads	Tails		
1	Annual fee	No fee	\$30.00	Annual fee	None
2	APR (annual % rate)	9.00%	18.00%	Interest paid (Avg. acct. balance x APR) (\$1000 x .18)	\$180
3	\$29.00 Late fee	2 times	5 times	Late fees (\$29 x 2)	<u>\$58</u>
4	Average account balance each month	\$500.00	\$1,000.00	Total	\$238

The winner of the game is the person with the LOWEST total. If there is a tie, those players should repeat the game until there is one winner.

Flip	Card A	Heads	Tails
1	Annual fee	No fee	\$30.00
2	APR (annual % rate)	9.00%	18.00%
3	\$29.00 Late fee	2 times	5 times
4	Average account balance each month	\$500.00	\$1,000.00

Flip	Card B	Heads	Tails
1	Annual fee	\$10.00	\$40.00
2	APR (annual % rate)	12.00%	15.00%
3	\$29.00 Late fee	Never	7 times
4	Average account balance each month	\$400.00	\$1,100.00

Flip	Card C	Heads	Tails
1	Annual fee	No fee	\$20.00
2	APR (annual % rate)	8.00%	17.00%
3	\$29.00 Late fee	3 times	6 times
4	Average account balance each month	\$300.00	\$1,200.00

Flip	Card D	Heads	Tails
1	Annual fee	\$20.00	\$25.00
2	APR (annual % rate)	3.00%	16.00%
3	\$29.00 Late fee	1 time	4 times
4	Average account balance each month	\$600.00	\$900.00

Flip	Card E	Heads	Tails
1	Annual fee	\$10.00	\$50.00
2	APR (annual % rate)	5.00%	22.00%
3	\$29.00 Late fee	Never	8 times
4	Average account balance each month	\$800.00	\$1,500.00

Flip	Card F	Heads	Tails
1	Annual fee	No fee	\$10.00
2	APR (annual % rate)	7.00%	19.00%
3	\$29.00 Late fee	2 times	4 times
4	Average account balance each month	\$500.00	\$1,200.00

Family Activities

1. Use junk mail to learn about credit cards. Examine credit card offers with your teen. Look for the interest rate or rates, the grace period, annual fee, and other features. Compare various card offers and discuss their advantages and disadvantages.
2. Find out which credit cards are accepted where you shop or eat with your teen. Ask a representative of the store or restaurant to explain why some cards are widely accepted and other cards are not.
3. Identify the nearest National Foundation for Credit Counseling office by visiting www.nfcc.org/. Make an appointment for you and your teen to visit with a representative from the office. Ask the representative at your meeting what credit card companies look for when they decide to approve or reject applicants.
4. Talk about borrowing and lending habits with your teen. Relate risk and creditworthiness of real world financial transactions to borrowing and lending among school friends (for example: lunch money, clothing, or sports equipment).
5. Clip advertisements from the local paper to compare prices of similar goods and services. Talk about why the same product may be priced differently at different stores.
6. Look at the latest edition of *Consumer Reports* magazine, and check out its method of comparing similar products. If your household is considering a major purchase, do the comparisons with your teen while making the decision.

Literature and Links

Literature: Check out your local library for these titles:

Hall, Alvin. *Show Me the Money*. DK Publishing, 2008.

Money, credit, business, and economics are presented in an untraditional format

Harman, Hollis Page. *Money Sense for Kids*. Barron's Educational Series, 2005.

From an examination of currency to saving and investing, this book combines information with games for children to play with adults.

Links: Fine-tune your financial fitness on the Internet:

Visit www.councilforeconed.org and click on the *Financial Fitness for Life* link for more activities that relate to this material.

Visit the "Money Skills Kit" at http://www.financial-education-icfe.org/children_and_money/index.asp to discover ways to help your children or grandchildren learn the value of money.

Appendix

POSSIBLE ANSWERS TO MAKING CHOICES

	Limited Time	Limited Space	Limited Money
In the following columns, list two alternatives you had to choose between.	Visit grandparents; go out to dinner; invite friends to the house.	Get a pool; garden; swing set for the back yard.	Take a vacation; get new furniture; save for college.
Which alternative did you choose?	Visit grandparents.	Get a swing set.	Take a vacation.
What was the opportunity cost?	The next-best alternative: going out to dinner	The next-best alternative: the pool.	The next-best alternative: save for college.
What was your incentive?	Our grandparents are always fun to be around.	There are lots of little kids in our family to use the swings.	Travel costs were very low this year.
List an unidentified consequence of your choice.	Grandparents prepared a delicious meal.	Neighborhood kids love to play in our yard.	Learned a lot about our state capital when we visited.
How did you benefit from your choice?	We had a great time and our grandparents are happy.	We don't have to walk all the way to the park anymore.	We saw lots of interesting sights on our trip.

List three incentives that could affect a major family decision.

- A. *Buy a car: Damage or costly repairs needed for current car; special promotion with super prices; current car not big enough for family needs.*
- B. *Move to a different town: Job change to a different town; better school in another town; lower property taxes in different town; safer neighborhood.*
- C. *Volunteer once a week: Friends are volunteering, and it would be fun to work together; strong commitment to helping others in need; good feeling of contributing to a worthy cause; the hope that people will look at you more favorably.*

ANSWERS TO THE BATTLE OF THE BUDGET GAME

CAPULETS Monthly Income		MONTAGUES Monthly Income	
Farm income	\$3,750.00	Salary from government job	\$3,927.00
Interest income	\$125.00	Income from flower sales	\$350.00
Gift from Grandmother	\$288.00	Gift from Grandmother	\$103.00
TOTAL INCOME	\$4,163.00	TOTAL INCOME	\$4,380.00
Monthly Fixed Expenses		Monthly Fixed Expenses	
Savings (12%)	\$499.56	Savings (14%)	\$613.20
Car payment (10%)	\$416.30	Car payment (12%)	\$525.60
Insurance (7%)	\$291.41	Insurance (8%)	\$350.40
Rent (20%)	\$832.60	Rent (18%)	\$788.40
Charity (5%)	\$208.15	Charity (8%)	\$350.40
Monthly Variable Expenses		Monthly Variable Expenses	
Doctor bills	\$197.00	Doctor bills	\$158.00
Food	\$581.00	Food	\$527.00
Clothes	\$389.00	Clothes	\$474.00
Utilities	\$296.00	Utilities	\$303.00
Transportation	\$218.00	Transportation	\$126.00
Entertainment	\$233.98	Entertainment	\$164.00
TOTAL EXPENSES	\$4,163.00	TOTAL EXPENSES	\$4,380.00

ANSWERS TO TEST YOUR FINANCIAL FITNESS

Despite saving \$15,600 per year (\$300 per week for 52 weeks), you will be short \$1,400 on your 21st birthday. By that date, you will have saved \$15,600 per year for six years, meaning your total savings will be \$93,600 ($\$15,600 \times 6$). This will be less than the required down payment of \$95,000 (10% of \$950,000 = $0.1 \times \$950,000$). This is an example of a long-term goal because it requires more than five years to achieve. But, take heart, given your rate of savings, you should be able to put a 10% down payment on your beach house when you are 21 years and 5 weeks of age. Alternatively, you could save an additional \$4.49 per week and have your down payment by the time you are 21.

ANSWERS TO THE POWER OF COMPOUNDING

3% 24 years 9% 8 years 10% 7.2 years
 18% 4 years 4% 18 years 12% 6 years

Financial Fitness for Life®

Parent Guide

Grades 9-12

A Letter to Parents, Friends, and Family Members

Your high school student is rapidly moving toward adulthood. As recent studies show, many young people have difficulty managing their income. This guide is designed to help correct that problem.

Parents, friends, and family members are important teachers of personal finance skills and knowledge. High school students learn personal financial skills by watching you keep your checkbook, save your money, do your shopping, use your credit card, and manage your household budget. You can improve that learning by talking with your teen about these topics. This guide can be an important resource for you to reinforce vital financial topics that your teen is learning in high school.

This guide provides a series of economic and personal finance activities for friends and families to do together. In it, you will discover a simple approach to making important decisions. Games and grids will demonstrate fun ways to achieve financial and career success. You will explore everything from the pitfalls of credit cards to the challenges of investing in the stock market. Think of it as exercises in winning at life—a financial fitness book that will help secure an improved financial future.

The guide follows the *Financial Fitness for Life* lessons your teen is studying in school. In this Parent Guide there are five themes; each theme includes the following:

1. "Background Questions" asks some important questions and provides answers to these questions. Use these questions to motivate discussion with your teen.
2. "Worksheet Activities" provides structured activities for you to complete with your teen.
3. "Family Activities" provides other ideas to help enrich your and your students' understanding of personal finance and economics.
4. "Literature and Links" includes a list of books and Internet sites to read and explore.

We hope that you will find the activities in this guide to be interesting, fun, and worthwhile.

Theme 1: The Economic Way of Thinking

Background Questions

Use the economic way of thinking to make more informed decisions.

1. What is opportunity cost?

Opportunity cost is what we give up every time we make a choice. If you choose to watch television rather than go for a walk, your opportunity cost of watching television is walking in your neighborhood. When making a choice from numerous alternatives, the opportunity cost of the choice is the highest-valued alternative that is forgone as a result of making the choice. Resources (natural, human and capital) are limited and wants are endless. There is no way to have it all. So, each choice of how to expend resources is also a choice of what to give up

2. What do high school students know about personal finance and economics?

Not enough. In 2008, the Jump\$tart Coalition for Personal Financial Literacy tested 12th graders on their knowledge of personal finance, and the average score was 48.3 percent. The same test was given to college students. Their average score was only 62 percent. Adults score no better. A 2003 study by Bankrate.com awarded adults an average score of 67 percent on a test of basic financially sound behaviors. Economic literacy scores are no better. A widely cited Harris poll of adults and high school students to determine economic literacy gave the students an average score of 48 percent. The adults didn't do much better—they scored 57 percent. To increase those scores, it is vital that we improve economic education and make a sound commitment to personal financial fitness.

3. Why is studying personal finance and economics important?

These studies are important because they affect every area of life: career choice, how much we earn, what we buy, how we invest, preparation for raising families, and planning for retirement. The short answer is that economics and personal finance are reality. And there is no way to escape the reality that our youth will have to make important economic and financial decisions throughout their lives.

4. Won't my teen learn about this in school?

Many children learn about managing money at home, from their families. While personal finance is an increasingly important subject in schools (44 states had personal finance educational requirements in 2009, compared to only 21 states that had those requirements in 1998), there is no escaping the fact that parents, friends, and family members can make a large difference in students' attitudes about and understanding of financial topics.

5. Does economics improve decision making?

Economics helps students develop economic ways of thinking and problem solving. They can use that knowledge in their lives as consumers, savers, investors, members of the workforce, citizens, and participants in a global economy.

6. What is an economic way of thinking?

Thinking economically involves developing goals, establishing criteria, and considering alternatives for any given choice. Using the economic way of thinking, each alternative is evaluated based on its costs and benefits. The result of effective economic reasoning is an ability to solve complex problems and make intelligent, informed, and effective decisions.

Worksheet Activities

FIND YOUR ECONOMIC LITERACY IQ

Use this activity sheet to open a discussion on economic knowledge. This is the Council for Economic Education's Standards in Economic Literacy Survey. Don't be disappointed if anyone does poorly on the survey. Remember that the average score for adults was 57 percent and the average score for high school students was 48 percent. After each member of your household—high school and above—takes the survey, discuss the answers and ways to improve your economic literacy. The answers are at the end of the survey. No fair looking before you take the quiz!

Standards in Economic Literacy Survey

1. A large increase in the number of fast-food restaurants in a community is most likely to result in:
 - a. Lower prices and higher quality.
 - b. Lower prices and lower quality.
 - c. Higher prices and higher quality.
 - d. Don't know.

2. A person who starts a business to produce a new product in the marketplace is known as:
 - a. A manager.
 - b. A bureaucrat.
 - c. An entrepreneur.
 - d. Don't know.

3. An increase from 5 percent to 8 percent in the interest rates charged by banks would most likely encourage:
 - a. Businesses to invest.
 - b. People to purchase housing.
 - c. People to save money.
 - d. Don't know.

4. For most people, the largest portion of their personal income comes from:
 - a. Wages and salaries from their jobs.
 - b. Interest from stocks and bonds they own.
 - c. Rent paid to them from property.
 - d. Don't know.

5. If the real gross domestic product of the United States has increased, but the production of goods has remained the same, then the production of services has:
 - a. Increased.
 - b. Decreased.
 - c. Remained the same.
 - d. Don't know.

6. If the price of beef doubled and the price of poultry stayed the same, people would most likely buy:
 - a. More poultry and less beef.
 - b. Less poultry and more beef.
 - c. The same amount of poultry and beef.
 - d. Don't know.

7. If the United States stopped importing automobiles from Country X, who would be most likely to benefit?
 - a. Automobile manufacturers in Country X.
 - b. Consumers in the United States.
 - c. Automobile manufacturers in the United States.
 - d. Don't know.

8. If your city government sets a maximum amount landlords can charge in rent, what is the most likely result?
 - a. There will be more apartments available than people want to rent.
 - b. There will be fewer apartments available than people want to rent.
 - c. The number of apartments available will be equal to the number of people that want to rent.
 - d. Don't know.

9. In the United States, who determines what goods and services should be produced?
 - a. Producers and government.
 - b. Consumers and government.
 - c. Producers, consumers, and government.
 - d. Don't know.

10. Mexico grows fruits and vegetables, and Argentina produces beef. If Mexico voluntarily trades fruits and vegetables in exchange for Argentinean beef:
- Both Mexico and Argentina benefit from the trade.
 - Both Mexico and Argentina lose from the trade.
 - Mexico benefits and Argentina loses from the trade.
 - Don't know.
11. The manufacturers of XYZ winter sportswear have their manufacturing plants running night and day, but they are unable to produce enough sportswear to satisfy demand. If XYZ manufacturers cannot increase production and demand continues to increase, the price of XYZ winter sportswear will:
- Increase.
 - Decrease.
 - Stay the same.
 - Don't know.
12. The resources used in the production of goods and services are limited, so society must:
- Make choices about how to use resources.
 - Try to obtain additional resources.
 - Reduce their use of resources.
 - Don't know.
13. The stock market is an example of an institution within our economy that exists to help people achieve their economic goals. The existence of this institution:
- Results in an increase in the price of stocks.
 - Brings people who want to buy stocks together with those who want to sell stocks.
 - Helps predict stock earnings.
 - Don't know.
14. When a person rents an apartment, who benefits from the transaction?
- Only the person renting the apartment.
 - Only the landlord.
 - Both the person renting the apartment and the landlord.
 - Don't know.

15. When deciding which of the two items to purchase, one should always:
- Choose the item that costs less.
 - Choose the item with the greatest benefits.
 - Choose an item after comparing the costs and benefits of both items.
 - Don't know.
16. When governments supply products and services, these products and services usually benefit:
- More than one person at a time whether they have paid for the products and services or not.
 - Only the people who pay for these products and services.
 - Business at the expense of consumers.
 - Don't know.
17. When the federal government's expenditures for a year are greater than its revenue for that year, the difference is known as:
- The national debt.
 - A budget deficit.
 - A budget surplus.
 - Don't know.
18. Which of the following are most likely to be helped by inflation?
- People living on a fixed income.
 - Banks that loaned money at a fixed rate of interest.
 - People who borrowed money at a fixed rate of interest.
 - Don't know.
19. Which of the following would be most likely to accelerate innovation in the computer industry?
- Placing a tax on all new inventions in the computer industry.
 - Increasing government regulation of the computer industry.
 - Investing in more research and development in the computer industry.
 - Don't know.

20. Which of the following statements about the function of money is wrong?
- a. Money makes it easier to save.
 - b. Money makes trading goods and services easier.
 - c. Money holds its value well in times of inflation.
 - d. Don't know.

Answers to Economic Literacy Survey	
1	a
2	c
3	c
4	a
5	a
6	a
7	c
8	b
9	c
10	a
11	a
12	a
13	b
14	c
15	c
16	a
17	b
18	c
19	c
20	c

18-20 Correct.

Wow! You are an expert in personal finance and economics.

16-17 Correct.

Super job. Your score is well above the score of others who have taken this test. You'll enjoy doing the activities in this guide.

14-15 Correct.

Good job. You have a lot of economic knowledge to share in your family.

12-13 Correct.

You're still above the score most people got on this survey. You can add to your knowledge by working together on the activities in this guide.

11 or Fewer Correct.

Try again after you've worked on the activities in this guide. You'll learn a lot!

HOW CAN WE DECIDE

Instructions: Think of a decision you may need to make sometime in the future. Examples of decisions could be which used car to buy, where to pursue your education after high school, how to spend a Saturday or vacation day, or where to shop for groceries.

Now cooperatively work through the decision-making grid on the next page to arrive at the decision for your chosen problem.

STEP 1: Define the problem.

That's the decision you have to make.

STEP 2: List the possible solutions to the problem in the left-hand column.

These are your alternatives.

STEP 3: Identify your criteria across the top row. The criteria serve as the basis upon which you will evaluate the alternatives.

For example, if you are trying to choose which car to buy, you might list as criteria such things as "price between \$5,000 and \$8,000," "good service department," and "good gas mileage." Or it might be "must have a sun roof," "sporty looking," and "leather seats." You can add more criteria than the three spaces this sheet allows.

STEP 4: Evaluate how well each alternative meets each criterion.

Use a scale of zero to four, where four means the option does an excellent job of meeting the criterion, three does a good job, two does a fair job, one does a poor job, and zero means that it doesn't even address the criterion. Fill in each of the remaining boxes under the criteria columns for each of the alternatives with the appropriate rating. Leave the boxes in the total column blank for now.

STEP 5: Make a decision by summing up the totals for each alternative.

Enter the summed number for each alternative in the totals column. Based on your criteria, the best choice is the alternative with the highest total. Look at the ratings to see which one is the best. That's your decision. Note that the opportunity cost of your choice is the alternative with the highest total that wasn't selected.

Criteria ➔				Totals
⬇️ Alternatives				

How do you use a decision-making grid? Consider the following family’s problem:

Kelly, Nick, and their mother are driving home from grandmother’s house. They have been on the road for two hours and want to stop for a quick, nutritious, low-cost lunch. The family pulls off at the next exit. They have their choice of three restaurants.

Sausages on a Stick

This drive-thru establishment serves five different kinds of sausages, all breaded, deep fried, and, yes, served on a stick with your choice of dipping sauce. All come with a side of potato chips and a medium drink for \$4.99.



Burgers to Go

Burgers to Go offers diners burgers and chicken sandwiches, accompanied by either french fries or a side salad. Meals include a medium soft drink or milk and range in price from \$6.99 to \$9.99. You can dine in or use the drive-thru.

Farm Fresh Diner

The Farm Fresh Diner offers family-style sit-down meals made from organic ingredients. The menu offers everything from vegetarian entrées to pasta, with entrée prices ranging from \$12.99 to \$19.99. Drinks are extra.

Using the decision-making grid to choose the best restaurant, we record the family’s three alternatives and the criteria upon which their decision will be made. The family then evaluates how well each alternative meets each criterion on a scale of 0-4, where four means the option does an excellent job of meeting the criterion, three does a good job, two does a fair job, one does a poor job, and zero means that it doesn’t even address the criterion. The completed decision-making grid is below:

 Alternatives \  Criteria	Quick	Nutritious	Low Cost	Totals
Sausages on a Stick	4	0	4	8
Burgers to Go	4	2	3	9
Farm Fresh Diner	1	4	0	5

Once they have evaluated all of the alternatives, they sum each restaurant’s scores and record the sum in the “Totals” column. Based on their criteria, the best choice for the family is Burgers to Go. The opportunity cost of this choice is Sausages on a Stick.

Family Activities

1. Take a reality check. The Jump\$tart Coalition's Reality Check lets you select your dream lifestyle and then see what your hourly and weekly wage would have to be in order to live your dream. Go to www.jumpstart.org/reality-check.html to find out how much you need to earn to support your desired lifestyle. Notice the starting salaries for different levels of education—an eye opener.

2. The Millionaire Game.

Ask your teen to bring home "The Millionaire Game" from *Financial Fitness for Life, Grades 9-12*. This is a classroom economics game everyone can play. Discover the simple habits that could make you rich. Decide to try a few as a family.

3. Life lessons.

Talk with your student about money management lessons you learned the hard way. Share with him or her what you wish you had learned earlier.

4. Track your spending.

Pick a simple way for your teen to keep track of expenses for a week.

- List income and money spent.
- Add up income from jobs, allowances, and loans.
- Add up what they spent all week.
- Together, look at how the money was spent, and talk about how that money could go farther.
- Ask your teen to make a budget for achieving the most important thing(s)—this will mean making changes in how he or she choose to spend money.

5. Dream factory.

Ask the children in the household to write a list of their life goals. They should include jobs, income, education, and lifestyle. Remind them to focus on what would make them happy, and avoid getting trapped in a list of material possessions. You may want to include how they would like to make the world better. Now explore how they could achieve those goals. Create a plan for money management that would help them create their dreams.

Literature and Links

Literature: Check out your local library for these titles:

Lee, Dwight R. and Richard B. McKenzie *Getting Rich in America*. Harper Paperbacks, 2000.

A classic book detailing eight simple, practical, common sense rules to save a million dollars without sacrificing quality of life. A book of practical tips.

Stanley, Thomas J. and William D. Danko. *The Millionaire Next Door*. Taylor Trade Publishing, 2010.

This bestseller has surprising facts about millionaires. The book debunks the image of the rich as high-living spendthrifts and shows how anyone with a steady job who tries to amass a fortune can succeed.

Morris, Kenneth M. and Virginia B. Morris. *The Wall Street Journal Guide to Understanding Personal Finance*. Lightbulb Press, 2006.

This book is an excellent overview of several areas in personal finance, including banking, credit, home finance, financial planning, investing, and taxes. Although it covers a multitude of topics, this handbook has only 175 pages.

Links: Fine-tune your financial fitness on the Internet:

Visit www.councilforeconed.org and click on the *Financial Fitness for Life* link for more activities that relate to this material.

Theme 2: Earning Income

Background Questions

The economic way of thinking can be the single most important tool in making a career choice and finding the right job.

1. How do you find a job?

Look for job openings in classified ads, company postings, personal contacts, or on the Internet. Then write a letter of application, prepare a resume, and fill out a job application. Interview with interested employers.

2. How do you get more information about types of jobs?

The Bureau of Labor Statistics publishes the Occupational Outlook Handbook. You can find it online at www.bls.gov or in the reference section of the library. The information in the Occupational Outlook Handbook includes a description of work requirements, possible employers, working conditions, employment outlook, required education and training, salary ranges, and advancement potential.

3. What if I don't want to work for someone else?

Entrepreneurs work for themselves. They are generally hard workers and risk takers who want to control their own future. Entrepreneurs can be found running their own businesses in every type of field. Some work solo; some manage their own employees.

4. What's good and bad about owning your own business?

Entrepreneurs are in charge of their own time and success. They have the chance to make serious money. Entrepreneurs will work long hours, do everything from meeting with clients to sweeping the floors, miss out on a lot of vacations, and often make only a little money at first. But the possibility of long-term rewards and the freedom to set the rules and turn a vision into reality can offset many hardships.

5. What is human capital investment?

Human capital investment is investment in education and training that increases one's knowledge and skills. Like capital investment in businesses, such as investment in buildings and machinery, investment in human capital increases peoples' productivity and provides a strong foundation for income growth.

6. Do people with more education make more money than people with less education?

Yes. Studies show a direct relationship between higher education and higher salaries. People who invest in more years of education, on average, make more money than those who don't go to college or graduate school. The difference between a college graduate's earnings and the income of a high school graduate can be very large over a working lifetime.

7. What is the difference between gross pay and net pay?

- Gross pay is the total amount of money earned. It equals the hourly wage multiplied by the number of hours worked. For non-hourly workers, it is the salary earned before any deductions are taken out of the pay check.
- Net pay is gross pay minus deductions. Deductions may include federal, state, and local taxes; social security contributions; and deductions for optional benefits like medical and life insurance, retirement savings, and profit sharing.

Worksheet Activities

FINDING A JOB OPPORTUNITY

Job opportunities are everywhere. Businesses post "help wanted" signs in their windows, on billboards, and on the Internet; friends tell you of position openings where they work; city, state, and private agencies work with unemployed people to place them in jobs; and newspapers have employment or "help wanted" sections (the classifieds).

Get a local newspaper and turn to the "help wanted" ads. Alternatively, go to a regional online jobs posting site. Have your teen "choose" one of the jobs listed. Now ask him or her to answer the following questions.

1. What is there about this job that you like? What made you choose this job?

2. What education, training, or experience does this job require?

3. Do you meet the requirements for the job?

4. What could you do to prepare yourself for this job?

Help your teen write a letter of application and prepare a resume for the job. There is a sample letter of application and resume in the *Student Workbook for Financial Fitness for Life, Grades 9-12* that can be used as a guideline. This should be available from your teen's teacher.

CAREER INTERVIEW - PART 1

Ask your teen the following questions and discuss his or her answers. You may want to write down the responses as you go and then discuss them when you have completed the Career Interview.

1. Lifestyle. Ask your student to imagine himself or herself at 30 years of age:
 - Where are you living—in an urban, suburban, or rural area?
 - Are you married? Do you have any children?
 - Do you live in a house or an apartment?
 - What kind of car are you driving?
2. Supporting that lifestyle at age 30. Ask:
 - What kind of job do you have?
 - What assets do you own? (A house, stocks, retirement accounts, car, etc.)
 - Are you working for yourself or a company?
 - What kind of business is it?
3. If your teen isn't sure of the job wanted at age 30, ask the questions below to help channel thinking toward a few job options.
 - What are the hours you want? Monday through Friday, 9am-5pm? Or something different?
 - Do you want to work inside or outside?
 - Do you want to travel a lot?
 - Do you want to work by yourself or with others?
4. Getting there. Ask:
 - What kind of job experience will you need to get your dream job?
 - What kind of education or training will you need? Consider college, law school, technical schools, etc.
 - Are there any schools or training programs you want to find out more about?
 - What college major or classes will you need to take?
 - What kind of grades will you need?
5. Choices for right now:
 - What classes could you be taking in high school to help you get your dream job later?
 - What summer or part-time jobs would give you experience to help get that job?
 - What kinds of grades and extracurricular activities would be helpful in getting your dream job?

CAREER INTERVIEW - PART 2

Have your teen “interview” someone who is employed in his or her dream job or occupational area. Your teen can conduct the interview in person or online, using the questions below. After reviewing the answers he or she received, ask your teen if the answers are what he or she expected. Does this information change his or her choice of a dream job?

Questions to be asked by the student:

1. What is your job title? _____

2. What is the purpose of your work? _____

3. When you get to work every day, what is the first thing you do? _____

4. How do you spend most of your time at work? _____

5. What have you worked on most recently? _____

6. What tools (capital resources) do you use in your work? _____

7. How do these tools increase your productivity? _____

8. What education, skills, and training does your job require? _____

9. How did you get this education, skills, and training? _____

10. What advice would you have for a young person who was thinking about pursuing a career doing what you do? _____

Family Activities

- 1. Tour a local college or vocational school.** Start with the admissions office to find out about free individual and group tours. Some colleges advertise open houses for the community. If your teen has a particular interest, ask the admissions office how to set up a meeting with an instructor or a student majoring in that area. <http://collegesearch.collegeboard.com/search/index.jsp> provides a listing of all the four-year and two-year colleges in the U.S. You can find a listing of professional and vocational colleges in the U.S. and Canada at <http://u101.com/colleges/Vocational/>.
- 2. Job shadow.** Arrange a day (or half-day) your teen can spend with someone working in a field that interests him or her. This could be your own job or the job of a family friend on a typical day. Your teen will tag along and discover what a typical day in that job is like. It is best to clear this with employers in advance.
- 3. Go to the source.** As an alternative to using the Career Interview—Part 2 on the previous page, help your teen meet with someone in a field that interests him or her. A list of questions should be prepared in advance about what the person does, what training they had (or wish they'd had), how they got that job, what is great or not-so-great about the job, and what they would suggest to someone just starting out. Then LISTEN. Make notes and talk about it afterward with your teen. *The Best Work of Your Life* (see literature list) tells how to do this — from making the first contact to writing thank-you notes after the interview.
- 4. Find your career IQ.** Your teen can take a test for career aptitude. Here's how:
 - High school guidance departments and college career centers offer career aptitude tests. Colleges may let potential students use their testing center.
 - Career information is available on the Internet. The Bureau of Labor Statistics website www.bls.gov/audience/students.htm is useful.
 - Your local library has books on choosing a career.
- 5. Summer internships, part-time jobs, and volunteering.** These provide reality checks (and sometimes paychecks) and valuable contacts. Your company may offer summer internships to employees' children. High schools often have internship arrangements with local businesses. Part-time jobs and volunteer work can be year-round opportunities.

Literature and Links

Literature: Check out your local library for these titles:

Alea, Patricia and Patty Mullins. *The Best Work of Your Life*. Perigee, 1998.

Here is a new kind of career planning guide that looks at one's entire life. The book also provides excellent tips on finding jobs of interest.

College & University Almanac 2009 (Peterson's College and University Almanac), Peterson's, 2008.

This is a complete guide to colleges in the United States. It includes descriptions of colleges, admission requirements, financial-aid information, and tips on applying to college.

Gray, Kenneth. *Getting Real: Helping Teens Find Their Future*. Corwin Press, 2009.

Explores vocational education pathways to success.

Teen's Guide to College and Career Planning: Your High School Roadmap for College and Career Success. Peterson's, 2008.

A practical guide to planning your education from high school and beyond.

Links: Fine-tune your financial fitness on the Internet:

Visit www.councilforeconed.org and click on the *Financial Fitness for Life* link for more activities that relate to this material.

The Bureau of Labor Statistics provides the Occupational Outlook Handbook at <http://www.bls.gov/oco/home.htm>. The Handbook describes a wide variety of jobs, the training needed for the jobs, estimated earnings, and employment prospects.

Visit <http://www.careeronestop.org/studentsandcareeradvisors/studentsandcareeradvisors.aspx>. This site provides students with information about careers and projected demand for workers within industries and careers.

Try your hand at running a virtual business at www.coolmath-games.com/lemonade and www.coolmath-games.com/0-coffee-shop/index.html. Imagine yourself running a lemonade stand or coffee shop. You purchase supplies, set prices, and watch the revenue flow.

The Sense & Dollars website, <http://senseanddollars.thinkport.org/home.html>, contains online games such as Plan Your Dream Prom, Check it Out (can you live within a budget), and Charge (managing credit). The earning segment explores being an entrepreneur and working for someone else. The spending section even has a link called Time Warp to show how much parents paid for movies and sodas in the olden days. Saving and investing are also examined. If you click "Info," you will find a link to a Parent's Guide.

Money Talks, at <http://moneytalks4teens.ucdavis.edu/MoneyTalksProgram.cfm>, contains links to guides written for a high school audience. The guides cover such topics as spending, car costs, being banked, and job search. In addition to the guides, there are videos and online games on a large variety of topics. The site contains information in both English and Spanish.

Visit www.careerkids.com/ where you will find a link to "My First Resume," a tool that teens can use to construct their resume.

Theme 3: Money Management

Background Questions

When you understand all the options, putting your money to work is no problem.

1. How does insurance work?

A pool of people (many people) pay insurance premiums. The premiums are often relatively small, but the payback (if a covered loss occurs) can be relatively large. The consumers are protected from catastrophic loss, and the insurance company makes money because most of the insured people will not suffer losses or file claims. This is especially true in the case of homeowner's insurance. However, because of the nature of health insurance, there are many more claims submitted and premiums are higher.

2. What types of insurance are available?

Insurance can be purchased on cars, houses, health, life, disability, and even travel. Within each type of coverage, there are varying premiums, deductibles, and payouts. A deductible is the amount you must pay first when a loss occurs. So, if you have a \$500 deductible and your covered loss is \$650, you would get \$150 from the insurance company. Insurance policies with larger deductibles usually require lower premiums. It is worth exploring every option when purchasing insurance.

3. What types of financial institutions are there, and what services do they offer?

Main types of financial institutions include banks, savings and loans, credit unions, and brokerage houses. All of them typically offer some form of deposit and credit services. Deposit services are checking and savings accounts. Credit services are mortgages, loans, and credit cards. Investment services, such as the sale of stocks, bonds, and mutual funds, are offered by many of them, especially brokerage houses.

4. How do you manage a checking account?

First, when choosing a checking account, compare not only accounts, but also banks. Some charge a monthly fee but require no minimum balance. Others require a minimum balance but charge no service fees. Some accounts link to several types of savings accounts and credit cards. Second, keep a record of all checks, deposits, and ATM transactions. Third, frequently check your account record against your bank statement. This should be done at least once per month; through online banking services it can be done much more frequently. Finally, use common sense about protecting your checking account. Treat your checkbook like cash, be careful to write checks clearly, and never sign blank checks—ones without the amount or to whom you are writing the check (payee) entered. Be careful not to transfer account information to anyone other than those who require it to conduct valid payment services on your behalf.

5. How do you create a family budget?

List disposable income (net or take-home pay). List monthly fixed expenses (like rent or mortgage, loan payments, insurance, Internet, and cable fees). List monthly variable expenses (groceries, clothing purchases, phone bills, etc.). Add up the two expense lists. Disposable income should be greater than expenses in order to make sure you have a financially healthy budget.

6. What does "pay yourself first" mean?

It means treating savings as a fixed expense. Set aside the money before buying groceries, clothing, and gas for the car. Saving even a little bit every month can lead to a big gain later when interest grows your money.

Worksheet Activities

RESEARCHING CHECKING ACCOUNTS

Call or visit local financial institutions with your teen to find the right checking account. Check out banks, savings and loan institutions, and credit unions. Ask about any minimum balance, monthly and transaction fees, interest, ATM fees, online banking, additional services, locations, and hours. See if there are limits to the number of checks you can write each month.

There are a variety of financial institutions with a variety of checking account plans. For each plan, fill in the information on this worksheet. You will then be in a position to help your teen choose a checking account that is right for them.

NAME OF INSTITUTION			
Name of checking plan			
Monthly fee			
Transaction fees			
Interest paid			
ATM fees			
Minimum balance			
Online services			
Additional services			
Location/hours			
Other			

\$2,000 COMPUTER! \$0 DOWN! 0% A MONTH! FOR SIX MONTHS!

Does this sound like a great deal? It may be. But whether you win or lose on this deal depends on your money-management skills. Complete the worksheet below or create a spreadsheet to see whether you can benefit from this deal.

**\$2,000 COMPUTER
ALL INCLUDED!**
\$0 down payment
0% interest for 6 months
**15% annual interest on balance
beginning six months from now**
No pre-payment penalty

Your checking account:

Balance of \$2,000 paying 4 percent annual interest.

Assume you keep the \$2,000 in your account earning interest until the date of the first payment, when you pay off the computer in full.

1. Calculate the **monthly interest paid** by your bank:
 Annual Interest / 12 = .04/12 = _____ (in decimal form) or _____ percent per month

2. Calculate the interest for the first month (use interest expressed in decimal form):
 Interest Earned = Account Balance x Monthly Interest Rate

3. Add the monthly interest to the account balance and calculate the next month's interest on the new balance.

4. Continue in this way until you have calculated six months interest. The answers are on the next page.

Month	Account Balance	+	Interest Earned	=	New Balance
1	\$2,000	+	\$6.60 <small>(2000 x 0.0033)</small>	=	\$2,006.60
2	\$2,006.60	+		=	
3		+		=	
4		+		=	
5		+		=	
6		+		=	

Answer Key

Month	Account Balance	+	Interest Earned	=	New Balance
1	\$2,000.00	+	\$6.60 <small>(2000 x 0.0033)</small>	=	\$2,006.60
2	\$2,006.60	+	\$6.62	=	\$2,013.22
3	\$2,013.22	+	\$6.64	=	\$2,019.86
4	\$2,019.86	+	\$6.67	=	\$2,026.53
5	\$2,026.53	+	\$6.69	=	\$2,033.22
6	\$2,033.22	+	\$6.71	=	\$2,039.93

Total Interest Earned in Six Months = \$39.93

RESEARCHING AUTO INSURANCE

Have your teen find out how much auto insurance costs. Some things that affect cost include the driver's age and sex, education, grades, and driving record. Other factors include where the car is driven and for what reason; the make, model, and age of the car; and type of coverage wanted.

Car insurance for young people costs quite a bit more than insurance for older, experienced drivers. Young men are going to pay the most until they are about 25 years old, with young women next highest until the same age. If you have an accident or are charged with a moving violation (speeding ticket, driving under the influence of drugs or alcohol, etc.), your rates also go up. Or you may find your insurance cancelled, and you will have to get insurance through an "assigned risk pool." Car insurance rates are higher for higher-risk drivers.

Car insurance rates may also be reduced if the driver has taken certain driver safety courses or has an accident-free history. Each state makes its own rules regarding what insurance you must have, and insurance companies offer a confusing assortment of coverages.

The car you drive and where you drive also play a part. The newer the car, the more expensive it is to repair, and the more likely it is to get stolen (more risk, higher cost to insure). Sporty cars are more costly to insure, and if you drive in a high-population area, your rates will be higher than in a rural area (translate that to less traffic—less risk of accident). There may be reductions for such items as antilock brakes, passive restraints, or antitheft devices.

If you are the parent of a young driver, you will find that your car insurance goes up when your son or daughter is licensed, unless he or she has car insurance separate from yours. So checking out car insurance together makes sense if your son or daughter is approaching the driving age.

If you have car insurance now, list the coverages you have and their cost in the worksheet on the next page. If your teen is considering buying a car and insuring it, you can help him or her determine which coverages will be needed. It will pay to check out several insurance companies to see how their rates and coverage compare. For the purpose of this exercise use the same limits and deductible when comparing different insurance companies. (And if a car is not in your immediate future, perhaps you'd like to check these costs to see how much you save by using shoe leather and public transportation.)

What are coverages?

Liability coverage means if you damage someone or something with your car, your insurance company will pay the cost of the damages. The **limits** are the maximum amount the company will pay.

For example, limits of \$100,000/\$300,000 for **bodily-injury liability** mean the company will pay up to \$100,000 per person, and \$300,000 total, for damages to others as a result of an accident for which you are responsible. Liability limits of \$50,000 for **property damage**, for example, would cover the costs of damages up to \$50,000 to a house, bridge, or telephone pole because of an accident.

Comprehensive coverage is the part of the insurance that pays if your car is damaged by something other than a collision. For instance, if you go out to your car one morning and find that a big tree has fallen on the car and crushed it, your comprehensive policy would cover the repairs (less any deductible).

Collision coverage means that if you are in a "fender bender" and your car is dented, damaged, or demolished, your collision coverage pays for repairs (again, after your deductible) if you are responsible for the accident.

Other coverages protect you if you are involved in an accident with an uninsured motorist. Talk with an insurance agent (or several) to find out what coverages and limits are best for your family.

Car: Make _____ **Model** _____ **Year** _____

Coverages	Limits	Deductible	Insurance Company	Insurance Company	Insurance Company
Bodily injury liability					
Property damage liability					
Comprehensive					
Collision					
Uninsured motor vehicle					
Others					
Total					

Insurance Company #1 _____

Insurance Company #2 _____

Insurance Company #3 _____

Family Activities

- 1. Open a checking account.** You and your teen can work on checking account skills together.
- 2. Start a savings plan.** Identify short-term and long-term goals. Choose among savings accounts, CDs (Certificates of Deposit), IRAs (Individual Retirement Accounts), educational savings plans (such as 529 accounts), and mutual funds.
- 3. Talk about insurance.** Talk to an agent in person (with your teen) or check out insurance companies on the Internet.
- 4. Real life/real budget.** Have your teen describe a dream life on paper. List the expected expenses: rent, food, utilities, transportation, health/auto insurance, etc., as well as the extras such as cable TV or an Internet connection. Add this up. Now look at starting salaries for the type of job your teen imagines. This information can be found at www.bls.gov/oco/home.htm. Will the income support the lifestyle? Is there a way to save toward these goals? Can the expenses be trimmed and the income boosted?

Literature and Links

Literature: Check out your local library for these titles:

Blumenthal, Karen. *The Wall Street Journal Guide to Starting Your Financial Life.* Three Rivers Press, 2009.

A basic “how-to” guide for taking control of your finances. Covers topics ranging from opening a checking account and getting a credit card to budgeting and investing.

Covey, Sean. *The Six Most Important Decisions You’ll Ever Make: A Guide for Teens.* Fireside, 2006.

This book focuses on how to make sound decisions on issues relevant to teens (such as their education). It contains a review of the seven habits of effective teens plus the “Ten Year Time Travel Experiment.”

Cullen, Terri. *The Wall Street Journal. Complete Identity Theft Guidebook: How to Protect Yourself from the Most Pervasive Crime in America.* Three Rivers Press, 2007.

This book not only describes the most common forms of identity theft (in the hope of preventing identity theft), it also guides readers through the process of reclaiming an identity should it be stolen.

Godfrey, Neale S. *Money Still Doesn’t Grow on Trees.* Rodale, 2004.

The author advocates involving the family in budgeting and decision making. This culminates in advice on moving teens toward sharing financial responsibility for their own expenses. The book uses an engaging approach to address everything from unrealistic lifestyle expectations to peer pressure on spending decisions.

Links: Fine-tune your financial fitness on the Internet:

Visit www.councilforeconed.org and click on the *Financial Fitness for Life* link for more activities that relate to this material.

Money Talks, at <http://moneytalks4teens.ucdavis.edu/MoneyTalksProgram.cfm>, contains links to guides written for a high school audience. The guides cover such topics as spending, car costs, being banked, and job search. In addition to the guides, there are videos and online games on a large variety of topics. The site contains information in both English and Spanish.

Theme 4: Spending and Using Credit

It's to your credit to set some limits.

1. What is credit?

Credit is permission to borrow money with the promise to repay the amount borrowed, plus an additional amount called interest.

2. What are the reputable sources of credit?

The sources of credit are credit card companies, banks, savings and loans, credit unions, and some finance companies.

3. What is the cost of credit?

The cost of credit is a finance charge, also called interest, and sometimes transaction fees, such as loan fees or annual or monthly fees on a credit card.

4. What is interest?

Interest is a percentage of the amount borrowed, paid to the lender by the borrower. Interest charges are the incentive for lenders to lend money. Lenders are thus paid for the use of their money.

5. Why do interest rates vary?

Interest rates vary among lenders for several reasons.

- Risk is probably the biggest variable in loan interest rates. The greater the risk, the higher the interest rate.
- Loans that are backed by **assets** or **collateral** (such as a house or car) have lower interest rates than loans that are not "secured," such as credit cards. This is because the lender can be more confident of getting the loan repaid, even if the borrower fails to pay (less risk).
- People with **poor credit ratings** can also expect to pay more interest on a loan because of the **greater risk** that they will not repay the loan.

6. When is it appropriate to borrow money?

Credit is best used for goods and services that will contribute to the well being and future security of an individual or family. Examples are college loans, home loans (mortgages), some car loans, and loans for emergency (unplanned, essential) expenses.

7. What are the dangers of borrowing?

It can be tempting to buy now and pay later, because credit is so easily available. The danger is the risk of not being able to pay the loan back later. Credit has a cost. If debt is allowed to pile up, through carelessness or unforeseen circumstances, it can quickly become an unmanageable burden. The interest on the unpaid balance of a credit card can sharply increase the final cost of the original item purchased.

8. How do lenders decide whether or not to make a loan?

Lenders look at the **3 Cs: Character, Capacity, and Collateral**.

- **Character** can be judged by reviewing a loan applicant's credit history—bills paid on time, loans paid back.
- **Capacity** is the ability of the borrower to make payments on the loan. It is determined by looking at the borrower's current and future earnings.
- **Collateral** means assets like cars, houses, stocks, and bonds—things the borrower could sell in order to pay the loan.

9. What is the APR (Annual Percentage Rate)?

The APR is the true yearly cost of a loan.

10. What should you look for when choosing a credit card?

It is wise to comparison shop before choosing a credit card. Look for annual fees, transaction fees (like a fee for each use), the APR, grace periods, credit limits, minimum payment requirements, and penalties for late fees. Make sure the APR is not an introductory rate that will balloon upward after a fixed amount of time. Remember that special deals like airline miles may come with cards that have higher rates.

11. What is the difference between a debit and a credit card?

A debit card transfers money from your bank account to the account of the merchant when you make a purchase. The store gets paid directly from your checking or savings account. A credit card enables you to borrow from the credit card company, which in turn pays the store for your purchase. Then you must repay the credit card company. You can charge something on a credit card without having funds in the bank to cover your purchase because you will pay for it later.

You can only pay by debit card if the money is in your account.

12. What happens if a credit card is lost or stolen?

The Truth in Lending Act limits your loss to \$50 if your credit card is lost or stolen. You must notify the credit card company of the loss as soon as you discover it. If you notify the company before any charges are made, you will not be responsible for any charges made after that time.

13. What are the rights of a borrower?

The borrower has the right to:

- know all costs associated with the loan, including the APR.
- see his or her credit record and correct mistakes on it.
- have 21 days between notification of a bill and its due date.
- have protection from certain practices that may be used by collection agencies.
- have equal access granted without discrimination because of race, gender, marital status, age, religion, or national origin.

The Credit CARD Act of 2009 has expanded the rights of consumers who use credit. For a summary of the provisions of this act, see http://banking.senate.gov/public/files/051909_CreditCardSummaryFinalPassage.pdf.

14. What are the responsibilities of a borrower?

- Pay on time
- Be truthful on the credit application
- Don't borrow more than you can pay back
- Be aware of possible scams and swindles
- Protect your Social Security number, signature, credit card numbers, personal identification numbers, passwords, and other important personal information that only the borrower should know about
- Notify the lender as soon as you become aware of a lost or stolen credit card or believe that you have experienced identity theft
- Contact your lender as soon as payment problems arise

Worksheet Activities

KNOW THE OPTIONS

You probably receive many credit card offers in the mail. While a credit card can no longer be issued to someone under age 21, unless he or she has a co-signer (who is over 21), or can provide proof of a means to repay funds, young people can still expect to be approached with credit card offers. A credit card can be convenient, has built-in loss protection, is a source of emergency money, and is a key to establishing a good credit history. Help your teen identify the best credit card—they are not all alike. Fill out the chart below with the information from three offers and decide which card is the best deal.

	Card 1	Card 2	Card 3
Name of card			
Annual fee			
APR			
Grace period			
Credit limit			
Minimum payment			
Penalties (late fees)			
Other key features (such as reward points or airline miles)			

WHAT'S WRONG WITH JUST PAYING THE MINIMUM?

Credit card companies usually specify a minimum payment amount that must be paid if the bill is not paid in full. While this may seem like a good idea, remember, you are still paying interest—often high rates of interest—on the remaining balance. The credit card companies allow minimum payments because it is a way for them to make money. Complete the table on the next page to see how much they make, and how much you pay. The answers are found at the end of the exercise.

Suppose you have an existing credit card balance of \$1,000 and decide to pay off the remaining balance by making the minimum monthly payment of \$20. The credit card company charges 17 percent annual interest. The minimum monthly payment is \$20. Assume this amount remains the minimum payment until the credit card balance is repaid in full. Use the table on the next page to calculate how much of the balance is paid off after one year, paying only \$20 per month. You could also create a spreadsheet to do the calculations. This exercise assumes no additional charges are made on the card. If there were more purchases, the amounts owed would be even higher!

1. Calculate the monthly interest rate (this should be expressed in decimal form in your calculations):
Annual rate / 12 = $0.17 / 12 =$ _____ (in decimal form) or _____ percent per month
2. Credit card companies will apply any payment first to interest and then to the balance of the principal. Interest is found by multiplying the monthly interest rate by the balance. Note that the new balance becomes the next month's balance owed.

Month	Balance Owed	Interest Charged	Payment	Interest	Leftover	New Balance
1	\$1,000.00	\$14.16 <small>(1000 x 0.01417)</small>	\$20.00	\$14.17	\$5.83	\$994.17
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						

Total Interest Paid _____

Amount Still Owed _____

How long do you think it will take to pay off the \$1,000 balance? It will take more than seven years and cost an additional \$752 in interest payments. Credit can have a significant cost!

Answers for What's Wrong with Just Paying the Minimum?

Month	Balance Owed	Interest Charged	Payment	Interest	Leftover	New Balance
1	\$1,000.00	\$14.17	\$20.00	\$14.17	\$5.83	\$994.17
2	994.17	14.08	20.00	14.08	5.92	988.25
3	988.25	14.00	20.00	14.00	6.00	982.25
4	982.25	13.92	20.00	13.92	6.08	976.17
5	976.17	13.83	20.00	13.83	6.17	970.00
6	970.00	13.74	20.00	13.74	6.26	963.74
7	963.74	13.65	20.00	13.65	6.35	957.39
8	957.39	13.56	20.00	13.56	6.44	950.95
9	950.95	13.47	20.00	13.47	6.53	944.42
10	944.42	13.38	20.00	13.38	6.62	937.80
11	937.80	13.29	20.00	13.29	6.71	931.09
12	931.09	13.19	20.00	13.19	6.81	924.28

Totals:**\$164.28****\$924.28**
Answers for Family Activity #1

Month	Balance Owed	Interest Charged	Payment	Interest	Leftover	New Balance
1	\$1,000.00	\$14.17	\$50.00	\$14.17	\$35.83	\$964.17
2	964.17	13.66	50.00	13.66	36.34	927.83
3	927.83	13.14	50.00	13.14	36.86	890.97
4	890.97	12.62	50.00	12.62	37.38	853.59
5	853.59	12.09	50.00	12.09	37.91	815.68
6	815.68	11.56	50.00	11.56	38.44	777.24
7	777.24	11.01	50.00	11.01	38.99	738.25
8	738.25	10.46	50.00	10.46	39.54	698.71
9	698.71	9.90	50.00	9.90	40.10	658.61
10	658.61	9.33	50.00	9.33	40.67	617.94
11	617.94	8.75	50.00	8.75	41.25	576.69
12	576.69	8.17	50.00	8.17	41.83	534.86

WHAT DOES IT COST TO FINANCE A CAR?

Imagine that your teen is interested in buying a car and will be using credit to purchase it. Help him or her select a car model and year that might be a realistic purchase. Or select the car of his or her dreams. Use that information to find out what a car loan would cost from various sources. You will need the car make, model, and year as well as the amount to be financed.

Compare car loan rates from a bank, a savings and loan, a credit union, and a car dealership. Use the same amount of loan and time to repay the loan for the comparison. Ask for the APR, finance charge, and other transaction fees.

Car selected (Year, Make, and Model) _____

Loan Costs	Amount Financed (Should be same for all)	Length of Loan (Should be same for all)	APR	Finance Charge & Other Fees (Total)	Monthly Payment
Bank					
Savings & Loan					
Credit Union					
Car Dealership					

You can also check out car prices at various sites on the Internet. Auto loan rates can be found at www.bankrate.com.

Family Activities

- 1. Who wins with minimum payment?** It can take forever to pay off a loan this way, as you learned in the activity, What's Wrong with Just Paying the Minimum? Now do the same activity again, making a higher monthly payment – \$50. Do you notice a difference? Note that making a \$50 monthly payment on the credit card shaves off more than five years in repaying the \$1,000 balance! It also means paying \$185 in total interest, which is \$567 less than the total interest payments made when paying only \$20 per month.
- 2. Talk the talk.** It is not too early for you to emphasize the importance of good credit use in your household. Talk with the teens in your household about appropriate use of credit when you are planning to make big-ticket purchases. Often this boils down to setting priorities. For example, discuss with your teen whether a loan for the following items would be appropriate: big-screen television, used car, brand new sports car, college loan, personal loan to go on a spring break trip, and in-store financing of a new computer system. (There are no right or wrong answers. The choices depend on your family priorities.)
- 3. Avoid bad credit.** A bad credit history, one of late payments, defaults, and even bankruptcy, can make car loans, home ownership, and even jobs impossible. Go to <http://credit.about.com/od/credit101/a/creditmatters.htm> for a discussion of why good credit matters.
- 4. Play a credit game.** Visit the Sense and Dollars website, <http://senseanddollars.thinkport.org/home.html>, and play “Charge,” a game about credit.
- 5. Find the best credit card for you.** Go to the Federal Reserve site, www.federalreserve.gov/creditcard/, to work through a process of finding the best credit card for you.

Literature and Links

Literature: Check out your local library for these titles:

Godfrey, Neale S. *Money Still Doesn't Grow on Trees*. Rodale, 2004.

The author presents suggestions on how to teach money skills to children and teens—information on earning, saving, and spending wisely.

Stanley, Thomas J. *The Millionaire Mind*. Andrews McMeels Publishing, 2000.

The author emphasizes hard work, savings, and delayed gratification as the keys to getting rich. While all of us do not have a rich aunt to leave us lots of money, we all can develop the qualities discussed in this book.

Links: Fine-tune your financial fitness on the Internet:

Visit www.councilforeconed.org and click on the *Financial Fitness for Life* link for more activities that relate to this material.

Visit <http://www.freddiemac.com/>. Freddie Mac provides loans for home ownership. Freddie Mac is very interested in assisting people in developing a good credit history. This site provides links to credit-reporting agencies. It also contains information about how to avoid home foreclosure.

Visit <http://www.ftc.gov>. This is a government site providing information on consumer issues. Click on consumer protection and then choose the consumer information tab. Choose the credit and loans option to view many reports on laws and guidelines for consumer rights and responsibilities in regard to banking and credit. You may also choose the telemarketing & telephone services link to place your name on the “National Do Not Call Registry” at this website.

Visit <http://www.quia.com/mc/7287.html>. This is a site supported by teachers. It provides a variety of interactive games on credit laws and terms. The site also has games for other disciplines, such as history, math, geography, and foreign languages.

Visit <http://www.bankrate.com>. This site is devoted to reporting interest rates for various institutions across the country. It also includes credit information, from definitions to current events. The calculator feature allows you to figure out loan payments, savings schedules, and more.

Theme 5: Saving

Background Questions

Find out how to make your money really work for you.

1. Why should kids care about saving and investing?

Here's why. A one-time contribution of \$2,000 made at age 22 to an investment earning 8 percent interest would be worth \$54,733 at age 65. An annual \$2,000 contribution would be worth \$766,633 at age 65. Not a bad return for an \$86,000 investment.

2. How can I encourage my teen to save and invest?

A first step is learning about delayed gratification. This means teaching children to postpone getting whatever they want immediately. Teach children to wait to eat until everyone is served at the table—or to wait for that new car until they have saved enough for the down payment. Model good financial behavior for children. Live below your means and save and invest part of your income. Talk about your saving and investing strategy with your teen.

3. When is a good time to start saving and investing?

Start healthy habits early. If your teen gets an allowance, part of it should be saved. Discourage the attitude that spending every penny is the goal. Encourage regular saving as a lifelong habit. Early saving means greater wealth down the road. At a 6 percent rate of return, money doubles in approximately 12 years. At a 9 percent rate of return, money doubles in 8 years. This is the power of compounding, a painless way to grow a lot of money.

4. What is the difference between saving and investing?

Saving can include money deposited in passbook savings accounts and certificates of deposit (CDs) that are insured by the Federal Deposit Insurance Corporation (FDIC). These savings instruments are safe and easily accessed. Savings accounts and CDs with short maturities are often used to achieve short-term financial goals. Investments include stocks, bonds, and mutual funds. They represent greater risk but also the chance for a greater return, and are typically used to meet long-term financial goals.

5. Isn't investing a gamble? Why should I teach kids to gamble with their money?

Investing differs from buying a lottery ticket or playing the slots. Gambling involves random chance. It is a zero-sum game. For every winner, there is a loser, and that could be you. Investing is not random. It is a positive-sum game—a win-win. Everyone can gain by investing. Researching the best choices for investing your money increases your chances of gain. Long-term investors have the best chance of winning big.

6. Why not just encourage children to avoid risk and put money in the bank?

Opening a savings account at a bank, savings and loan, or credit union is a great first step. That money will be perfectly safe, but the interest it earns may not keep pace with inflation. Above a certain amount of basic savings, many people put additional savings into investments that are riskier but offer a possibility of higher return.

7. What if you only have small amounts of money to invest?

Small investors have many alternatives. Some mutual funds require a minimum investment of only \$100. You can also buy stock directly from many corporations without a commission. Some corporations offer dividend reinvestment plans (DRIPS) that reinvest dividends in their stock without a fee or commission.

8. What is a mutual fund?

Mutual funds combine money from many investors and use it to purchase stocks, bonds, and other financial assets. When you purchase a share in a mutual fund, you are buying a small percentage of a portfolio composed of many different securities, thus diversifying your investments. Some mutual funds are actively managed by a professional investment manager. Index funds, on the other hand, are funds whose holdings mirror the stocks in some market index, such as Standard and Poor's 500 or the Russell 3000.

9. What are the Five Golden Rules for Investment that children should know?

1. Live below your means and save the difference.
2. Start saving now and save as much as you can on a regular basis.
3. Decide to save for the long term—compound interest is effortless wealth. Remember that compound interest means earning interest on interest.
4. Investigate before you invest. Get the best deals.
5. Take risks to get returns. Be prudent, but remember that the stock market has provided a better return than most other types of investments over the long term.

Workbook Activities

THE CHESSBOARD OF FINANCIAL LIFE

Which would you rather have—\$10,000 or one penny doubled 64 times? Let's see which is the better deal. Instructions for this activity can be found on the next page.

1¢	2¢	4¢	8¢	16¢			

1. Put a penny or a popcorn kernel in the square in the upper-left corner. The popcorn would represent a penny. Now start to double it on each new square (2, 4, 8, 16, 32, 64, etc.). The first few have been started for you.
2. When you cannot get enough popcorn kernels or pennies in the square, use a calculator. (Just multiply each answer by 2.) Put the amount in each square—\$.01, \$.02, \$.04, \$.08, \$.16, \$.32, \$.64, \$1.28, etc.
3. When do you have \$10,000?
4. How much money do you have by the 34th square? By the 64th square?
5. What does this activity show about why you should save early and often?

Answers

- The penny is worth \$10,000 by the 21st square and worth quadrillions of dollars by the 64th square. By the 34th square, the penny is worth \$85,899,345.92. Your calculator may show an error (or be using scientific notation) when you begin filling out the bottom two rows of the table. By this time you will be a billionaire! (When the error shows up will depend on the number of digits your calculator displays.)
- When money is saved in an interest-bearing account early and added to often, it "multiplies" very quickly. This is called the power of compounding.

COMPARING SAVINGS PLANS AND PLACES

Use this worksheet to rate various financial institutions and savings plans. (You will need to make extra copies of this sheet.) Assign your teen to check out savings plans at different financial institutions in your community and online (using a site such as www.bankrate.com). Check the different savings plans at a bank, a credit union, and a savings and loan association. Discuss with your teen which type of savings plan is best for him or her.

Name of Financial Institution:

	Passbook Savings Account	1-year CD	5-year CD
Annual interest rate	_____	_____	_____
Effective yield (includes compounding)	_____	_____	_____
Minimum initial deposit	_____	_____	_____
Penalty for early withdrawal	_____	_____	_____
Service fees or charges	_____	_____	_____

List other factors that might make this financial institution a good place to save your money.

1. _____
2. _____
3. _____

BE AN INVESTMENT GURU

Analyzing a corporation's stock is easier than you think. Information is available in newspapers, magazines, and on the Internet. Of course, you always must judge the source of this information. Let's get started.

Pick a Company's Stock

Choose a company listed on the New York Stock Exchange (NYSE) or Nasdaq. It might be best to choose a company you know. Do you have a favorite store, food, or restaurant? Which companies produce the entertainment you like? What products are hot today? Now look up some facts about the company in a newspaper stock page or on the Internet.

Company name: _____

Industry: _____

Products and services they sell: _____

What are the main reasons for buying shares in this company? _____

Company ticker symbol: _____

Exchange where stock is listed: _____

What was the stock's price when you checked it? _____ Date _____

What do you think is going to happen to the price of the stock? If you are new to the stock market, you may not know the answers to these questions. But cheer up—even the experts are often wrong in their predictions. So take a guess and join the experts.

1. What direction do you think the stock market will take during the next year? Why do you think this?

2. How will the market outlook affect the price of your stock?

3. Have any economic or other events affected your stock's price? Check your company in newspapers, magazines, or the Internet to find this out. Have the effects been positive or negative? Be as specific as possible.

4. Do you think shares in this company will increase in value more rapidly than other stocks you could have selected? Why?

5. What could go wrong with this decision? What factors might cause the shares of the company not to increase in value as you had predicted?

What Happened to the Stock?

1. Keep track of the stock for several months. Graph the daily or weekly price of the stock on a computer or graph paper.

2. Did the stock do as well as you thought it would in the short run?

3. How well do you think the stock will do in the long run, say, five to ten years?

Family Activities

1. Play the stock market with play money. Imagine you have \$100,000 to invest. Choose your stocks, and see how much value you can add to your portfolio during a limited period. There are many stock market simulations that you can play on the Internet, and some even offer prizes. In many cases, you start with a hypothetical \$100,000 cash and see how much the portfolio can increase during a certain period. Some of the simulations have no advertising on the web site, and some have a lot. Some charge a fee, and some are free. Here are a few possibilities:

Stock Market Game: <http://stockmarketgame.org>

StockTrak: <http://www.stocktrak.com>

Wall Street Survivor: <http://wallstreetsurvivor.com>

We Seed: www.weseed.com

This could be a family competition and even be combined with Be an Investment Guru.

2. Compare mutual funds. Mutual funds are not all alike. Some charge a sales commission called a load. Some charge a 12b-1 marketing fee. They have different objectives, different operating costs, and different performance results.

- Check out a fund's prospectus before buying shares.
- Get a few mutual fund prospectuses. Call their 800 numbers, visit the investor relations sections of their websites, or write to them. Look for the following with your teen:
 - ✓ Type of fund.
 - ✓ Objectives of fund.
 - ✓ Annual rate of return for the past three years.
 - ✓ Load fees.
 - ✓ Operating expenses per share.
 - ✓ Level of risk—low, medium, high.
 - ✓ Minimum investment required.
- Pick the fund that is best for you after a discussion of the facts about each one.

3. Help your teen set up a savings plan now. Decide the following together:

- Short-term and long-term goals.
- The amount of money to be saved monthly.
- The amount of risk he or she is willing to take.
- Possible places to save and accounts to establish.

4. Investigate an IRA (Individual Retirement Account) for your teenager. With a Roth IRA, all earnings are tax-free if the money is withdrawn after age 59 1/2. Even a one-time savings of \$2,000 at age 17 would be worth \$54,733 at age 60 at an 8 percent annual rate of return. You need earned income to start an IRA, but many teenagers have part-time jobs. You can contribute up to the earned income, or up to \$5,000, whichever is less. Note that the maximum allowable contribution depends on current law, so it is wise to stay updated on any changes in the IRA laws. You could give your child the gift of a very substantial retirement by starting to save now.

Literature and Links

Literature: Check out your local library for these titles:

Lee, Dwight R. and Richard B. McKenzie *Getting Rich in America*. Harper Paperbacks, 2000.

A classic book detailing eight simple, practical, common sense rules to save a million dollars without sacrificing quality of life. A book of practical tips.

Morris, Virginia and Kenneth Morris. *Standard and Poor's Guide to Money and Investing*. McGraw-Hill, 2005

Explores the world of investing in stocks, bonds, mutual funds, and the securities markets.

Opdyke, Jeff. *The Wall Street Journal. Complete Personal Finance Guidebook*. Three Rivers Press, 2006.

A comprehensive guide for financial management that discusses everything from banking to investment strategies.

Links: Fine-tune your financial fitness on the Internet:

Visit www.councilforeconed.org and click on the *Financial Fitness for Life* link for more activities that relate to this material.

Take the Invest Test to discover how much you know about investing at <http://lei.ncee.net/interactives/investtest/>

Play Gen i Revolution at <http://genirevolution.org>. This is a 15-episode interactive game that is aligned to the learning objectives found in the Council for Economic Education's *Learning, Earning, and Investing* curricular resource.

Visit http://www.ici.org/#investor_education to access "A Guide to Mutual Funds" from the Investment Company Institute. This guide discusses mutual funds within the framework of a general investment strategy.

Mission Statement

The mission of the Council for Economic Education is two-fold: To advocate for better and greater school-based economic and personal finance education at the K-12 level; and to educate young people in the United States and around the world, primarily through well-prepared teachers, so they may become empowered with economic and financial literacy.



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ISBN 978-156183699-4



9 781561 836994

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