MISSOURI PERSONAL FINANCE COMPETENCIES

INCOME
1. Identify components and sources of income.
2. Analyze how career choice, education, skills, and economic conditions affect income and goal attainment.
3. Relate taxes, government transfer payments, and employee benefits to disposable income.

MONEY MANAGEMENT
1. Explain how limited personal financial resources affect the choices people make.
2. Interpret the opportunity costs of financial decisions.
3. Evaluate the consequences of personal financial decisions.
4. Apply a decision-making process to personal financial choices.
5. Summarize how inflation affects spending and saving decisions.
6. Evaluate how insurance (e.g., auto, home, life, medical and long-term health) and other risk management strategies protect against financial loss.
7. Design a financial plan (budget) for earning, spending, saving, and investing.
8. Demonstrate how to use the services available from financial institutions.
9. Analyze the role of the Federal Reserve in controlling the money supply.

SPENDING AND CREDIT
1. Compare the benefits and costs of alternatives in spending decisions.
2. Evaluate information about products and services.
3. Compare the advantages and disadvantages of different payment methods.
4. Analyze the benefits and cost of consumer credit.
5. Compare sources of consumer credit (e.g., credit cards, consumer loans, auto loans, student loans).
6. Evaluate the terms and conditions of credit cards and consumer loans.
7. Evaluate factors that affect creditworthiness.
8. Explain the purpose and components of credit records.
9. Demonstrate awareness of consumer protection and information (e.g., identity theft, phishing, scams).
10. Propose ways to avoid or correct credit problems.
11. Describe the rights and responsibilities of buyers and sellers under consumer protection laws.

SAVING AND INVESTING
1. Compare consumer choices for saving and investing.
2. Explain the relationship between saving and investing.
3. Examine reasons for saving and investing, e.g., time value of money.
4. Compare the risk, return, liquidity, manageability, and tax aspects of investment alternatives.
5. Demonstrate how to buy and sell investments.
6. Analyze factors affecting the rate of return on investments (e.g., Rule of 72, simple interest, compound interest).
7. Evaluate sources of investment information.
8. Examine how agencies that regulate financial markets protect investors.
9. Demonstrate how to evaluate advisors’ credentials and how to select professional advisors and their services.
Section 1: Income

Vocabulary: Be able to define these terms and apply them to various situations, scenarios, and examples

- Income
- Wages
- Salary
- Discretionary (Disposable) Income
- Direct Deposit
- Employee Benefits
- Pension Plans
- Payroll Deductions
- Income tax
- Medicare tax
- Social Security tax
- FICA
- Budget
- Net pay (take-home pay)
- Gross pay
- Expenses
- Fixed expenses
- Variable expenses
- Periodic expenses
- Savings
- Asset
- Liability
- Net worth
- Form W-4
- Exemptions
- Form I-9
- Form W-2
- Opportunity Costs
- Goals

Concepts to Know:
- Relationship between education and career opportunities
- Consideration of employee benefit package in career selection
- Employment outlook
- How taxes affect your income
- How to read a paycheck stub
- Calculate take-home/net pay
- Be able to read and analyze a W-2 and W-4
- Distinguish between required and optional deductions
- Parts of a budget

Sample Questions:
For a good resource for sample questions in this area, visit the following personal finance curriculum website (free registration for students and parents) and download sample questions in the area of Income (paychecks and spending plans). http://fefe.arizona.edu/takeCharge.php
Section 2: Money Management

1. HOW LIMITED PERSONAL RESOURCES AFFECT THE FINANCIAL CHOICES PEOPLE MAKE:

   Principle of Scarcity—It’s affect on Your 3 main resources--
   Time—spend more money
   Energy—lean on convenience—spend more money
   Money—must spend more on time and energy

   SCARCITY: People want more than is available, so they must make choice and the cost of any choice is the option that a person gives up known as opportunity cost.

   DECISION MAKING PROCESS TO PERSONAL FINANCIAL CHOICES
   Define the problem
   Analyze the problem
   Generate possible solutions
   Evaluate the solutions
   Select the best solution
   Evaluate the results

   ECONOMIC WAY OF THINKING
   There is no such thing as a free lunch—someone somewhere is always paid for the item and if you acquire something for free, the giver expects something in return.
   Incentives matter—everyone likes a reward
   People choose for good reasons—their choices reflect their values and make a statement about who they are.
   Trade can make everyone better off
   Standard of living depends on your ability to produce goods and services
   Beware of the law of unintended consequences---People are not always aware of the decisions they are making.
   The invisible hand works better than the visible boot—Market economy works better than command economy
   The U.S. economy is resilient A president can’t fix the economy but can harm it in the long run

2. INTERPRETING OPPORTUNITY COSTS OF FINANCIAL DECISIONS

   Opportunity cost is the value of the next best choice that one gives us when making a decision. For example—When you purchase on credit one month and that bill comes due the next month, your opportunity to purchase the next month is reduced because part of your pay check is already owed to that bill.

   By making saving a habit and paying yourself first you create financial opportunity for your future.
3. EVALUATING CONSEQUENCES OF PERSONAL FINANCIAL DECISIONS

Examine reasons for savings—examples—emergencies, college, retirement, cars, life events, like wedding, vacations, etc.

Examine reasons for spending—examples—monthly expenses—fixed, variable, insurance, car payment, housing, utilities, recreation, medical, food, miscellaneous

4. APPLY A DECISION-MAKING PROCESS TO PERSONAL FINANCIAL CHOICES

Define the problem
Analyze the problem
Generate possible solutions
Evaluate the solutions
Select the best solution
Evaluate the results

5. SUMMARIZE HOW INFLATIONS AFFECTS SPENDING AND SAVING DECISIONS

Inflation is the overall increase in the level of prices.
Spending—Inflation causes consumers to purchase products in haste before price increases even though they don’t need them causing hoarding. It disrupts the economic flow of product demand due to uncertainty in consumer confidence. Effects consumers because they feel the pinch stretching their paycheck.

Savings—Inflation makes it more difficult for people to save because of increased cost of products. It reduces the value of their savings.—Example—Investments must keep pace with inflation—example if the rate of inflation is 6% and and savings accounts are currently earning 3 % you are losing money investing in that vehicle.

6. INSURANCE—

A contract or policy where an individual receives financial protection or reimbursement against losses from an insurance company.

Types:
Life—is a contract between the insurer and the policy owner whereupon the insurer agrees to pay a sum of money upon the occurrence of the insured individual’s death.

The life insurance premium depends upon your life expectancy and the amount of coverage you choose.

Your life expectancy is an estimate of the average number of years remaining in a people lives based on their gender and current age and health—example—smoking, obesity, any health concerns.

The following insurances have deductibles or co-payments:
A deductible is the amount you pay for a loss before the insurance company pays anything.

A co-payment is required under managed care health insurance, the specific amount you pay for particular services, regardless of the cost of those services.

Auto—Required in Missouri
Comprehensive coverage means in the case of an accident the damages to your car and the person’s car you hit are both covered.
Collision or Liability Coverage only covers the person’s car that you hit, not your own.
Auto Medical Liability—Liability pays for bodily injury to other people.

Bodily Injury Liability is insurance that covers physical injuries caused by a vehicle accident for which you are responsible. If pedestrians, people in other vehicles or passengers in your vehicle are injured or killed, bodily injury liability coverage pays for expenses related to the crash.

Medical—
Group Plans—the risk is shared and premium cost is less than an individual plan.
HMO- Health Maintenance Organization—is a managed care plan that charges a asset amount for each member each year. In return, members are covered for most medical services at no extra cost for a small co-payment, no matter how often you see your doctor. Patients must choose doctors from the HMO staff.

PPO—A preferred provider organization a managed care plan where the PPO contracts with doctors, hospitals and other care providers to offer care to its members at reduced costs. You can choose to go outside then plan if you care to pay a larger part of the cost.

COBRA (Consolidate Omnibus Reconciliation Act)—Allows people who leave employment to continue their health insurance under the company plan for a limited period of time (usually 18 months)

FLEXIBLE SAVINGS ACCOUNT —You can set money aside to pay medical expense not paid by your insurance including your deductible.

Your contributions to this account are tax deductible.

The funds that remain in the account at the end of the year do not roll over.

Home/Property—is insurance that protects property owners from property and liability risks including:
Hazards like fire, water, wind and smoke
Criminal activity
Liability to other person’s losses or injuries

Most people insure the contents of their home for half the value of their home—Example if a home costs $150,000 you would insure the inside for $75,000

Renters - provides the same property and liability coverage as homeowner’s policy. It just doesn’t cover the structure itself. Not an expensive policy. —renters insurance when a student’s primary residence is with parents is sometimes covered by parent’s homeowners.
Long-Term Health—Wide and varied and it bears great scrutiny because the details of the policy coverage in terms of nursing home coverage and home care coverage vary greatly.

7. **HOW TO CREATE A BUDGET/FINANCIAL PLAN**
   - Identify your financial goals
   - Assess your current finances
   - Analyze spending habits
   - Planning for financial goals

8. **DEMONSTRATE HOW TO USE SERVICES FROM FINANCIAL INSTITUTIONS**

   **BANKING**
   Banking services are available from commercial banks, savings and loans, credit unions and brokerage firms

   Services:
   - Checking
   - Savings
   - Loans
   - Investments

   Main Features to Look For in a Checking Account:
   - Minimum Balance
   - Fees
   - Transaction Limits
   - Interest
   - Overdraft Protection

   Understand the difference in account features:
   Sometimes there’s a limit on the number of checks that can be written
   Sometimes if it is interest bearing, there are more fees associated.

   **TYPES OF CHECKS:**
   - Certified Check—Check from a personal checking account that has been stamped by the bank to guarantee that there are sufficient funds in the account.
   - Cashier’s Check—issued and guaranteed by the bank—you pay the bank with cash or credit or the bank can withdraw the money from your account. The bank then issues its own check to the payee you’ve named.
   - Money Order—a purchased certificate used to pay a specified amount to a particular payee.
   - Reconciling Your Bank Account—To Bring your bank statement and your own transactions into agreement.

   **Types of Electronic Banking Services:**
9. ANALYZE THE ROLE OF THE FEDERAL RESERVE IN CONTROLLING THE MONEY SUPPLY

The Federal Reserve controls the money supply through open market operations conducted by Federal Open Market Committee (FOMC). The Fed’s goals are to promote maximum sustainable growth and employment while maintaining price stability.

The Federal Reserve maintains the nation’s financial system by raising and lowering short-term interest rates.

When the Fed cuts short-term rates it is cutting the rate that banks charge each other to borrow money. Those cuts are eventually passed on to businesses and consumers. The same thing happens when the Fed raises short-term rates.
Section 3: Savings and Credit

Vocabulary: Be able to define these terms and apply them to various situations, scenarios, and examples

- Credit
- Credit cards
- Debit cards
- Smart cards
- Capacity
- Character
- Collateral
- Interest
- Principal
- APR
- Annual fee
- Finance charge
- Origination fee
- Grace period
- Minimum payment
- Credit limit/Credit line
- Schumer Box
- Installment loans
- Mortgage
- Debt
- Bankruptcy
- Credit bureaus
- Credit report
- Credit score (FICO score)
- Identity Theft
- Phishing
- Fair Credit Reporting Act
- Truth in Lending Act
- Consumer Credit Protection Act

Concepts to Know:
- Decision Making Process
- Advantages and disadvantages of using cash, credit, or debit
- Knowledge of consumer credit (benefits and costs)
- Types of credit (credit cards and loans)
- Schumer Box (terms, conditions, hidden fees, APR, grace period, etc.)
- Difference and examples of closed end and open end credit
- Credit history and credit worthiness (building good credit habits)
- Information found on a credit report (personal info, credit inquires, payment history, creditors, etc.)
- The three credit reporting agencies
Personal Finance
Study Guide

- Impact of interest, length, and amount (principal)
- Identity theft, phishing, and other scams and how these can affect your credit
- How to avoid debt and what to do if excessive debt occurs
- How to avoid and correct credit report mistakes
- Knowledge of consumer protection laws

Sample Questions:
For a good resource for sample questions in this area, visit the following personal finance curriculum website (free registration for students and parents) and download sample questions in the area of Spending and Credit. http://fefe.arizona.edu/takeCharge.php
SECTION 4 - SAVING AND INVESTING

1. COMPARE CONSUMER CHOICES FOR SAVING AND INVESTING.
   - Savings Accounts
   - Certificates of Deposit (CDs)
   - Money Market Accounts
   - Bonds (Fed, State, Local Bonds, Corporate Bonds, Junk Bonds)
   - Common Stock (Growth, Income, Blue-Chip, Defensive, Cyclical)
   - Preferred Stock
   - Mutual Funds
   - Real Estate
   - Annuities
   - Retirement Savings (IRA, 401k, 403b)

1. Which is an advantage of preferred stock over common stock?
2. A mutual fund is a type of investment that:
3. Which is the pool of investors’ money that is used to buy stocks, bonds, and other securities based on the selections of professional managers from an investment company? (Commission, Mutual Fund, Portfolio, OR Common Stock)
4. Which investment would provide the most predictable income? (Certificate of Deposit, Real Estate, Mutual Funds, OR Penny Stocks)

2. EXPLAIN THE RELATIONSHIP BETWEEN SAVING AND INVESTING.

Financial Planning/Financial Goals

As you outline your financial goals, ask yourself these questions:

- How do I want to spend my money?
- How much money do I need to satisfy my goals?
- How will I get the money?
- How long will it take to save the money?
- How much risk am I willing to take when I invest?
- What conditions in the economy or in my life could change my investment goals?
- Are my goals reasonable, considering my circumstances or future circumstances?
- Am I willing to make sacrifices to save?
- What will happen if I do not meet my goals?

Sources of Money to Invest

a. Pay Yourself First
b. Employer-Sponsored Retirement Plan
c. Elective Savings Programs
d. Special Savings Effort
e. Gifts, Inheritances, and Windfalls

- Time Value of Money
- Annual Percentage Yield
- Capital Gains
- Commissions
- Compound Interest
- Diversification
- Dividends
- Inflation
- Liquidity
- Market Value
- Maturity Date
- Principle
- Pyramid of Investment
• Rate of Return
• Risk
• Stockbroker
• Banking Fees

SECTION 2-Sample Questions (Go to end of document for answers)
1. Reinvesting interest on savings is beneficial because of the:

3. EXAMINE REASONS FOR SAVING AND INVESTING, E.G., TIME VALUE OF MONEY.
   • Compounding
   • Annual Percentage Yield (APY)
   • Financial Goals (College, Retirement, Purchase Home)
   • Time Value of Money (Benefit of Investing at a Young Age)

Stages of Investing
1. Emergency Fund (3 to 6 months of gross salary)
2. Beginning Investment (excess money in budget)
3. Systematic Investment (for retirement)
4. Strategic Investment (diversification, hedging)
5. Speculative Investment (taking chances for quick profit)

4. COMPARE THE RISK, RETURN, LIQUIDITY, MANAGEABILITY AND TAX ASPECTS OF INVESTMENT ALTERNATIVES.

• Inflation Risk
• Interest Rate Risk
• Income Risk
• Personal Risk
• Liquidity Risk
• Rate of Return
• Liquidity
• Evaluate Investments
• Monitor Investments
• Keep Accurate Record Records
• Tax Considerations
• Tax-Deferred
• Tax-Exempt
• Capital Gains
• Capital Loss
• Wash Rule

SECTION 4-Sample Questions (Go to end of document for answers)

1. Why is it important for a short term investor in stocks to understand the 31 day “wash” sale rule?

2. Kim wants to invest $15,000 and get some return on her money while she continues to save. She is depending on this money plus some additional savings to make a down payment on a house in a little over a year. Which option should Kim choose? (CD-Certificate of Deposit, Savings Bonds, Stocks, OR Mutual Funds)

3. Which describes money earned from the sales of an asset, such as stocks, bonds, or real estate? (Interest Income, Capital Gain, Dividend, Tax Exempt Income)

4. Which generally offers the highest potential rate of return? (Junk Bond, Municipal Bond, 12 Month Certificate of Deposit, OR U.S. Savings Bond)

5. DEMONSTRATE HOW TO BUY AND SELL INVESTMENTS.

• Par Value-assigned value-NOT meaningful to investors
• Market Value-what investors are willing to pay-meaningful to investors
• Stock Price
• Stock Split (Example-You get two shares for each one share you own)
• Factors Affecting Stock Price (Company Performance, Interest Rates, Market Trends, Earnings Per Share, Price/Earnings Ratio, Return on Investment (ROI=Stock Profit/Purchase Price + Commission)
• Exchanges (New York Stock Exchange-NYSE, AMEX, OTC Markets-NASDAQ)
• Bull Market
• Bear Market
• Investment Strategies (Short Term or Long Term)
• Buying on Margin
• Short Selling
• Buy and Hold
• Dollar Cost Averaging
• Direct Investment
• Reinvesting Dividends
• Reading Stock Listings
• Stock Indexes (DJIA, Russell 2000, S&P 500)

SECTION 5-Sample Questions (Go to end of document for answers)
1. Which reason best supports the claim that one should invest in the stock market for the long term?
2. Mark purchased 100 shares of Daisy Donuts stock at $16 per share. He heard today that Daisy Donuts stock split two for one. This means that Mark now owns:

6. ANALYZE FACTORS AFFECTING THE RATE OF RETURN ON INVESTMENTS (E.G., RULE OF 72, SIMPLE INTEREST, COMPOUND INTEREST).
   - Rule of 72 (How long it takes for investment to double)
   - Simple Interest (Principal x Interest Rate x Time)
   - Compounding
   - Future Value
   - Present Value

SECTION 6-Sample Question (Go to end of document for answers)
1. If Kathy’s investments are growing at an annual rate of 7.2%, how long will it take for his investments to double in value?
2. If the inflation rate for the past year was 3 percent, how much must Frank spend today to buy what he could have bought a year ago for $1500?

7. EVALUATE SOURCES OF INVESTMENT INFORMATION.

- Internet and Online Services (www.sec.gov)
- Newspapers and News Programs (Wall Street Journal, Barron’s)
- Business and Publications (Kiplinger’s, Money, Forbes, Business Week, Fortune)
- Government Publications (www.sec.gov)
- Corporate Reports (Annual Report, Prospectus)
- Statistical Averages (Dow Jones Industrial Average, Standard and Poor’s 500 Stock Index, NASDAQ Composite Stock Index)
- Investor Services (Standard and Poor’s Reports, Moody’s Investors Services, Value Line, Motley Fool)

SECTION 7-Sample Question (Go to end of document for answers)
1. Which is the best source of information about a business that a person wants to invest in? (Wall Street Journal, Money Magazine, Dow Jones Industrial Average, The Company’s Prospectus)

8. EXAMINE HOW AGENCIES THAT REGULATE FINANCIAL MARKETS PROTECT INVESTORS.

- Securities and Exchange Commissions (SEC)
- Federal Reserve Bank
- States’ Attorney General

9. DEMONSTRATE HOW TO EVALUATE ADVISORS’ CREDENTIALS AND HOW TO SELECT PROFESSIONAL ADVISORS AND THEIR SERVICES.

- Full Service Brokers
- Discount Brokers
- Online Brokers
- Certified Financial Planner (CFP)
Selecting a Financial Planner

Look for a financial planner who will provide these basic services:

- Assess your current financial situation
- Offer a clearly written plan with investment recommendations
- Discuss the plan with you and answer questions
- Help you keep track of your progress
- Guide you to other financial experts and services as needed

You can find a financial planner by looking in the yellow pages, by contacting financial institutions, and by getting recommendations from friends, coworkers, or professional contacts. Figure 8.6 suggests questions that you might ask a financial planner to help you make a decision.

Selecting a Financial Planner

When evaluating a financial planner, ask the following questions:

- What are your areas of expertise?
- Are you affiliated with a major financial services company, or do you work independently?
- Are you licensed or certified?
- What is your education and training?
- How is your fee determined? (Is this amount something I can afford?)
- Am I allowed a free initial consultation?
- May I see a sample of a written financial plan?
- May I contact some of your clients as references?
- Is financial planning your primary activity?

Answers to Sample Questions

Section 1

Question 1
Answer--Preferred stockholders receive dividends before common stockholders.

Question 2
Answer--includes a group of stocks selected by the fund’s manager.

Question 3
Answer--Mutual Fund

Question 4
Answer--Certificate of Deposit

Section 2
Question 1
Answer--power of compounding interest.

Section 4
Question 1
Answer--It determines how the consumer reports losses at tax time.
Question 2
Answer--CD (Certificate of Deposit)
Question 3
Answer--Capital Gains
Question 4
Answer--Junk Bond

Section 5
Question 1
Answer--The stock market has averaged a 10 percent gain per year for eight decades.
Question 2
Answer--200 shares of stock worth $1,600 (number of shares doubles but total value of stocks remains the same)

Section 6
Question 1
Answer--10 years (Rule of 72--72 / Interest Rate = Number of Years Investment Takes to Double (72 / 7.2 equals approximately 10 years))
Question 2
Answer--$1545 ($1500 x 1.03 (3% inflation rate))

Section 7
Question 1
Answer--The Company’s Prospectus
Glossary of Terms (from Missouri Personal Finance Curriculum, MCCE)

Asset – Items that one owns; they can be financial or non-financial in nature.

Balanced budget – Government revenues equal expenditures.

Banks – Corporations chartered by state or federal government to offer numerous financial services such as checking and savings accounts, loans, and safe deposit boxes; the Federal Deposit Insurance Corporation (FDIC) insures accounts in federally chartered banks.

Benefits – Something that is favorable to the decision maker.

Borrowing – Obtaining or receiving something on loan with the promise or understanding of returning it or its equivalent.

Budget – A plan for managing income and expenses.

Budget deficit – A shortfall of government receipts from government spending.

Budget surplus – An excess of government receipts over government spending.

Capital gains – Gains from selling stocks or other financial investments for more than what was paid for them.

Choices – Decisions.

Commissions – Fees to a third party for assisting in a business transaction, such as buying or selling an asset.

Compound interest – Interest credited daily, monthly, quarterly, semi-annually or annually on both principal and previously credited interest.

Consequences – Outcomes that logically or naturally follow from an action or condition; consequences can occur with the decision maker or with an uninvolved party.

Consumers – People whose wants are satisfied by using goods and services.

Costs – Something that is unfavorable to the decision maker.

Credit – All money borrowed, other than home financing.

Credit bureaus – Organizations to which business firms apply for credit information on prospective customers.

Credit card – Any card, plate, or coupon book that may be used repeatedly to borrow money or buy goods and services on credit.

Credit reports – Statements containing information about prospective customers furnished by credit bureaus.

Credit unions – Not-for-profit cooperatives of members with some type of common bond (e.g., employer) that provide a wide array of financial services, often at a lower cost than banks.
Creditworthy – Having the ability and willingness to repay debts.

Debt – An obligation or liability to pay or render something to someone else.

Debit card – A card issued by a bank that directly accesses available funds from a bank account, typically a savings or checking account.

Deductions – Amounts that are or may be lawfully deducted from tax obligations.

Demand – The quantity of goods, services or resources that consumers are willing and able to buy at all possible prices in a given time period.

Discount rate – The interest rate charged to commercial banks and other depository institutions on loans they receive from their regional Federal Reserve Bank's lending facility--the discount window.

Disposable income – The income a person has left to spend or save after taxes and other required deductions have been taken out of his or her gross pay; net pay.

Diversification – To distribute money among several financial investment tools in order to average the risk of loss.

Dividends – Periodic payments of the profit of a corporation to its stockholders or owners.

Employee benefits – Something of value that an employee receives in addition to a wage or salary. Examples include health insurance, life insurance, discounted child care and subsidized meals at the company.

Employer-sponsored savings plans – A government-approved program through which an employer can assist workers in building their personal retirement funds.

Entrepreneurs – People who organize, manage, and assume the risks of a firm, taking a new idea or a new product and turning it into a successful business.

Exemptions – Release from tax payments that the IRS allows.

Federal funds rate – The interest rate at which depository institutions lend balances (federal funds) at the Federal Reserve to other depository institutions overnight. It is not (as the name might initially suggest) the rate at which the Fed lends to financial institutions.

Federal Insurance Contribution Act (FICA) taxes – Every year a person works, the person and his/her employer contribute equal amounts (6.2% in 2005) up to the earnings cap and 1.45% of amounts over that to Social Security. If a person earns more than the cap, he/she continues to pay 1.45% of the total amount for Medicare. FICA taxes are also called payroll taxes.

Federal Reserve System – The central bank of the United States.

FICO score – Fair Isaac and Company software used by credit bureaus to calculate an individual’s credit risk provided to lenders; the higher the score the lower the risk but other factors are considered in addition to this score.
Financial investment – Money set aside to increase wealth over time and accumulate funds for long-term financial goals such as retirement.

Financial plan – A plan of action that allows a person to meet not only immediate desires but also long-term goals.

Fiscal policy – The spending and taxing policies used by the government to influence the economy.

Free riders – Persons who receive the benefit of a good but avoid paying for it.

Goods – Objects that can satisfy people’s wants.

Gross domestic product (GDP) – The total market value, expressed in dollars, of all final goods and services produced in an economy in a given year.

Human capital – The knowledge, skills and experience that make a worker more productive.

Human resources – The resources provided to the economy by people who work (mental or physical work) in the economy.

Incentives – Perceived benefits that encourage certain behaviors.

Income – Earnings received as wages, rent, profit, or interest (alternative: payments received for providing resources in the market).

Individual Retirement Account (IRA) – Accounts established by the Federal government in 1981 to encourage people to save money for retirement. Individuals with income from employment can deposit up to 10% of their earnings, to a maximum set by the government each year, into a special account set up using a bank, brokerage, or mutual fund as trustee or custodian. IRAs are self-directed, which means the individual chooses how the money is invested. Deposits in traditional IRAs are tax deductible. The money is taxed when it is withdrawn from the account.

Individual Retirement Account (IRA) Roth – A new type of IRA, established in the Taxpayer Relief Act of 1997, which allows taxpayers, subject to certain income limits, to save for retirement while allowing the savings to grow tax-free. Taxes are paid on contributions, but withdrawals, subject to certain rules, are not taxed at all. Individuals with income from employment can deposit a maximum amount set by the government each year into a special account using a bank, brokerage, or mutual fund as trustee or custodian. Roth IRAs are self directed.

Inflation – A sustained increase in the average price level.

Insurance – Coverage by contract through which one party agrees to indemnify or guarantee another against loss which results from a specified peril or contingency.

Interest – The price of using credit. Interest is the income payment for the use of capital resources.

Interest rate – The price of using credit expressed as a percentage of the amount owed.
**Intermediate goods** – Things produced by people and used in the production of other *goods* and *services*.

**Investment** – The purchase of new capital *resources*. (A more sophisticated definition is the diversion of *resources* from the production of *goods* and *services* for current consumption to the production of *goods* that increase the economy’s productive capacity.)

**Labor unions** – Worker associations that bargain with employers over wages and working conditions.

**Leasing** – Entering into a rental agreement.

**Liquidity** – The quality of an *asset* that permits it to be converted quickly into cash without loss of value.

**Loan** – A sum of *money* provided temporarily on the condition that the amount *borrowed* be returned, usually with an *interest* fee.

**Market** – A group of buyers and sellers of a particular *good* or *service*.

**Market system** – An economy that allocates *resources* through the decentralized decisions of many firms and households as they interact in *markets* for *goods* and *services*.

**Medicare** – The federal government-sponsored health insurance program for citizens 65 or older. An individual’s contribution to Medicare is part of FICA – the Federal Insurance Contribution Act.

**Medium of exchange** – What sellers generally accept and buyers generally use to pay for *goods* and *services*.

**Monetary policy** – The behavior of the Federal Reserve System regarding the *money supply*.

**Money** – Anything that is used as a medium of exchange.

**Money supply** – The quantity of *money* available in the economy.

**National debt** – The total amount of outstanding government securities held by the public.

**Natural resources** – Physical inputs that occur naturally in our world.

**Net worth statement** – A record of what a family or person would own after paying off all liabilities; *assets* – *liabilities* = net worth.

**Opportunity cost** – The value of the highest foregone alternative.

**PACED decision making grid** – Problem, Alternative, Criteria, Evaluate and Decision grid is a graphic organizer used to make an informed decision.

**Payroll deductions** – Amounts subtracted from a paycheck as the government requires or the employee requests. Mandated deductions include various taxes. Voluntary deductions include loan payments or deposits into saving accounts.

**Per capita GDP** – *Gross Domestic Product* divided by population.
**Personal income taxes** – A tax levied on a person’s annual income.

**Price** – What people pay when they buy a good or service and what they receive when they sell a good or service.

**Prime Rate** – The interest rate charged by banks to their most creditworthy customers (usually the most prominent and stable business customers).

**Principal** – The original amount of money invested or borrowed, excluding any interest or dividends.

**Producers** – People who use resources and intermediate goods to make goods and services.

**Productivity** – A ratio of output to input. For example, output per worker is a measure of the productivity of labor. The productivity of a firm can be increased through specialization or division of labor, investment in human capital, and investment in capital resources.

**Profit** – The revenue remaining after the business has paid its costs of production. Profit is the income payment to entrepreneurs.

**Property rights** – Having the legal authority to control the use of an item one owns.

**Property taxes** – Required payments on one’s property to local government.

**Public goods** – Goods that cannot be sold effectively in the marketplace; these goods are characterized by shared consumption and non-exclusion. As a result, government usually provides these goods.

**Purchasing power** – A measurement of the relative value of money in terms of the quality and quantity of goods and services it can buy.

**Rate of return** – Also called the “yield,” this is the return on an investment expressed as a percentage of its cost.

**Rent** – The amount charged to use something for a period of time. The income payment received for the use of natural resources.

**Rent to Own** – To borrow with the intent to take permanent possession through purchase.

**Resources** – Things used to produce goods and services.

**Risk** – Exposure to loss of investment capital due to a variety of causes such as business failure, stock market volatility, and interest rate changes; in business, the likelihood of loss or reduced profit, the danger or probability of loss to an individual.

**Salaries** – Payments for work, usually calculated in periods of a week or longer. Salary is usually tied to the completion of specific duties over a minimum but not maximum number of hours.

**Sales taxes** – Taxes levied on the retail price of merchandise and collected by the retailer.

**Save** – To set aside income (earnings) for future use.

**Saving** – The process of setting aside income (earnings) for future use.
Savings – The accumulation of money set aside for future use.

Savings and loan associations – Financial institutions that provide loans and interest-bearing accounts.

Scarcity – The condition of not being able to have all of the goods and services that one wants; it exists because human wants for goods and services exceed the quantity of goods and services that can be produced using all available resources.

Self-employment – Work for oneself, not for an employer.

Self-interest – Regard for one’s personal advantage.

Services – Actions that can satisfy people’s wants.

Smart card – A plastic card containing a computer chip with memory and CPU capabilities. Such a card may be used for identification, to store information or financial amounts, or other forms of data. Also called an integrated circuit card or a chip card.

Social Security – A federal government program of transfer payments for retirement, disability, or the loss of income from a parent or guardian.

Spending – Using income (earnings) to buy goods and services.

Standard of living – A measure of the goods and services affordable by and available to a person or a country; the dollar value is calculated as per capita GDP.

Supply – The quantities of goods, services, or resources that producers are willing and able to sell at all possible prices in a given time period.

Tax credits – An amount that a taxpayer who meets certain criteria can subtract from tax owed. Examples include a credit for earned income below a certain limit and for qualified post-secondary school expenses.

Tax-deferred – Financial investments where taxes due on the amount invested and/or its earnings are postponed until funds are withdrawn, usually at retirement.

Tax-exempt – Financial investments (e.g., municipal bonds) earnings that are free from tax liability.

Taxes – Government fees on business and individual income, activities, or products.

Tax shelter – An investment intended to reduce tax; any technique that allows one to legally reduce or avoid tax liabilities.

Tips – Amount paid beyond what is required, usually to express satisfaction with service quality; also know as a gratuity.

Trade – To give in exchange for something else; trade can involve money or barter.

Trade-off – The act of giving up some of one thing to have more of another.
Transfer payments – Payments by governments, such as social security, veterans’ benefits, and welfare, to people who do not supply current goods, services, or labor in exchange for these payments.

Unearned income – Money received for which no exchange was made, such as a gift.

Unemployment rate – The percentage of people without jobs who were actively seeking work within the past 30 days.

Wages – Payment for work, usually calculated in periods of an hour.

Wants – Desires that can be satisfied by consuming a good or service.

Wealth – Accumulated assets such as money and/or possessions, often as a result of saving and investment.

Withholding—The amount of an employee’s income that an employer sends directly to the federal, state, or local tax authority as partial payment of that individual’s tax liability for the year. When people start new jobs they are required to complete a W-4 form on which they indicate their filing status and the number of allowances.