

# **Personal Finance: The Last Unit and Most Useful Unit of ECON!**

**Unit Test Next Friday  
August 16, 2013**

# SSEPF1

o The student will apply rational decision making to personal spending and saving choices.

# SSEPF1a

o Explain that people respond to positive and negative incentives in predictable ways.

# Incentives

○ Positive incentives –  
actions that benefit the  
consumer in some way

○ Negative incentives –  
actions that do not benefit  
the consumer

# ***“Human Nature***

## ***Effect”***

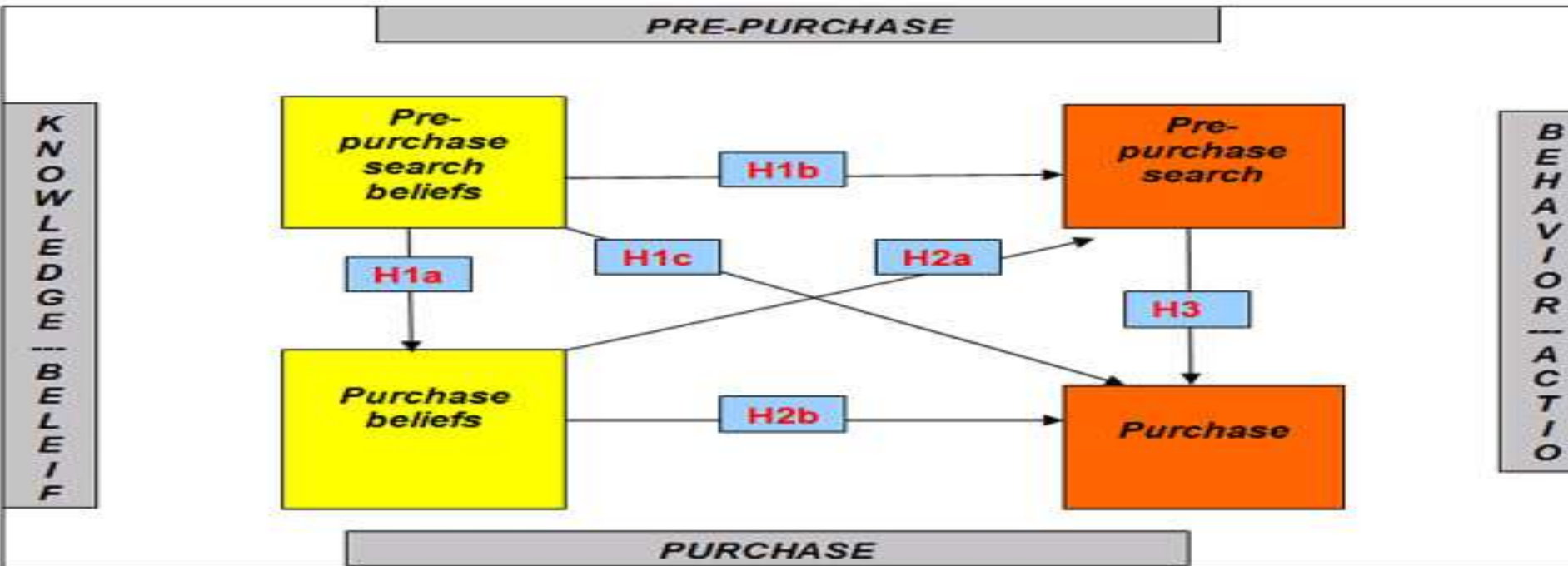
o These incentives are predictable because of the “Human Nature Effect”

o If something is good for us, we will do it

o If something is not good for us, we will not do it

# SSEPF1B

○ Use a rational decision making model to select



# Rational Decision Making Models

○ These models have the following information:

○ Options (The goods or services you wish to make a decision on)

○ Criteria (the list of objectives the good/service needs to meet in order to be the correct item)

○ **Price**

○ **Your choice**

○ **Your choice**

○ **Your choice**



o The item that meets all of the criteria and it is what you want it is the RATIONAL DECISION

o Or

o Always consider the marginal costs and marginal benefits of your decisions in order to make a rational decision.

○ Create a savings or financial investment plan for a future goal



# Why Savings?

- Sacrificing a small benefit now in exchange for a larger benefit later
- Savings-money deposits placed securely in a bank/financial institution for later use.

o Interest- the money pays you for use of your savings (yes you get paid to save your money)

o Investments- money you pay into a business with the expectation, but NOT guarantee, of future rewards, if the business earns a profit.

○ When you make a financial plan, you need to set goals, work out a process for achieving your goals, and then put your plan into action by setting priorities and making choices.

o Short terms goals such as:  
<Senior Trip/PC Spring Break>  
can be achieved by you  
immediately putting a portion of  
the money in an interest earning  
savings account.

## SSEPF2

o The student will explain that banks and other financial institutions are businesses that channel funds from savers to investors.

# SSEPF2.A

o Compare Services  
offered by different  
financial  
institutions



# Financial Institutions

- Banks

- Credit Unions

- Credit Card Companies

- Financial Investment Firms

- Mortgage Lending Firms

# Types of Financial Services

- Checking accounts
- Savings/Money Market accounts
- Credit Cards
- Unsecured Debt (credit cards, personal loans)

○ Secured debt (mortgage, automobile, property)

○ Financial advise

○ CD/Bond/Mutual Fund  
Advise

# Bank:

- Is a corporation in which stockholders own and manage them in order to make a profit. Banks make money by granting loans that charge interest.
- stores deposits and makes loans in order to earn a profit

# Working Banks:

- Receive deposits of money, extend credit, and provide loans. Banks use the money their customers deposit to make loans to people who want to buy a house, a car, or other expensive items in return the bank pays you interest.



# Credit Union

○ Is not-for-profit financial institution that is owned and controlled by its members, usually people who work in the same company or the same occupation.

A photograph of a modern brick building with a curved roofline. The building features large windows and a prominent entrance. A circular inset in the top right corner provides a magnified view of a window frame. Three vehicles are parked in the foreground: a black pickup truck, a silver sedan, and a white sedan.

Delta Community  
Credit Union

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**Job Title:** Delta Community Credit Union  
**Location:** Eagles Landing, Georgia  
**General Contractor:** Level 5, LLC  
**Architect:** Summer / Wise & Associates

**United Panel  
Corporation**

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- They offer checking and savings accounts as well as offer loans
- Offer higher interest rates on savings/lower rates on loans.
- Exclusive only certain members may join
- Money is protected by the government

# Savings and Loan Associations

- Saving institutions designed to aid home building (*It's a Wonderful Life*)
- Majority of its deposits from consumers, rather than businesses, and lends most of its money to home buyers.

# SSEPF2

○ Explain reasons for the spread between interest charged and interest earned.

# Interest:

o-Money charged when money is borrowed (Profit for the bank the borrower pays back the money plus interest.)

oOR

oMoney earned when it is placed in a financial institution (Profit for the saver which is paid by the bank )

## SSEPF 2.C

○ Give examples of the direct relationship between risk and return.

# RISK

o- The financial action you take in investing your money over a period of time.

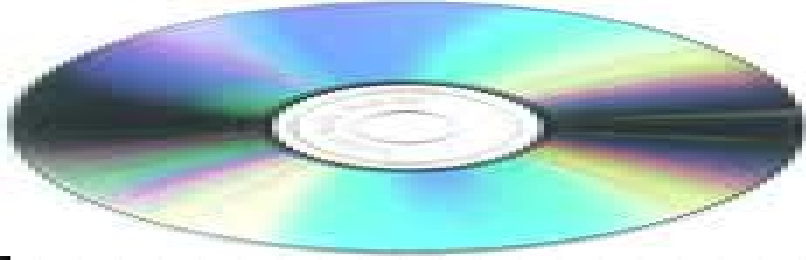


- Risk and return have a positive relationship
- The higher the risk, usually the higher the return and the lower the risk the lower the return

## SSEPF 2.D

○ Evaluate a variety of savings and investment options; include stocks, bonds, and mutual funds





## CD:

o Certificate of Deposit: a deposit you promise to leave in the bank for a specific amount of time, usually a year or more, in exchange for a higher rate of interest. (very safe, but instant access carries a penalty)

o  $50,000 \times 7\% = \underline{\hspace{2cm}}$  the amount a person will earn at the end of the year.

o provide a small  
but steady return



# Bonds:

lending money to a business or government with a promise of higher returns than those offered by a bank savings or CD's. The money is paid back little by little until “Maturity date” usually several years later.

# Stocks

part ownership in a company offering higher risks and potentially higher returns than other investments



# ***Mutual Funds:***

○ Pools of money from many investors and uses it to buy a variety of stocks and bonds called a portfolio. Mutual funds offer a compromise by including low-risk, low-return stocks with some high-risk, high-return stocks

## **SSEPF3 -**

**o The student will explain how changes in monetary and fiscal policy can have an impact on an individuals' spending and savings choices.**

# Monetary Policy

o- policy the decide  
whether banks should  
encourage/discourage  
making loans

# Fiscal Policy

- o– government spending and revenue used to determined by fluctuations in the economy
- oExample: Federal Reserve dropped interest rates at .04%
- oPeople do not save as much money because of the low interest rate.



-Federal Government  
spends \$1 Billion in  
transportation

o Give example of who benefits and loses from inflation.

# Reminder :

- Inflation – rise in the general amount of prices
- Deflation – decrease in the general amount of prices
- Both of these elements do work with Supply and Demand looking for market equilibrium

# Benefits of Inflation

- More money in the economy
- More demand for products (at the beginning)
- More people will buy/sell



## Who loses?

- People on fixed income are hurt because their paycheck will buy fewer goods and services.

# Loses of Inflation

- Higher prices
- People start to drop out the market  
(They stop buying products)
- People lose more money and have lower real incomes
- Industries lose more money and have lower incomes

# Who Wins?

○ People repaying a loan with fixed interest will benefit because they can repay their loan with money that is worth less!

o Auto-loan holders. Auto-loan holders who bought before inflation and locked in a relatively low interest rate benefit from high inflation because they pay off a sizable debt with devalued dollars



## SSEPF 3.B

○ Define progressive, regressive, and proportional taxes.

# Progressive Tax

- a. Are those in which people with higher incomes pay a larger proportion, or percentage of their income than people with lower incomes pay

- a tax where the percentage paid rises as income level rises
  - Tax goes up as paycheck increases (graduated tax) and Personal income tax.
  - Current U.S. System of Taxation

# Regressive Tax-

o tax where the percentage paid decreased as income level rises

o Tax goes down as paycheck increases

o Wealthy people like Regressive taxing because the more money you have the less you need the government.

○ Excise tax- an extra sales tax or “sin tax” on items such as alcohol and tobacco

○ Property tax- imposed on land and buildings

# Proportional

- a. People with higher incomes pay the same proportion of their incomes as people with lower incomes

b. rate of tax stays the same  
regardless of income level

o Flat tax

o There is an incentive for  
wealthy to spend money  
under the flat tax structure

# System (Internal Revenue)

## ○ Levels of Income

○ 0 – 24,999

○ 25,000 – 39,999

○ 40,000 – and up

○ If the U.S. went to the flat tax structure, the IRS would go away and over 500,000 jobs would be lost.



# SSEPF3.C

○ Explain how an increase in sales tax affects different income groups

# How does Sales Tax affect incomes?

- o The lower an income, the more money people are paying in taxes
- o The higher an income, the less money you are paying in taxes.
- o This is in theory

o An increase on sales tax has a larger negative effect on low income groups that buy only essential items each month.

# SSEPF 4

o The student will evaluate the costs and benefits of using credit

# SSEPF4.a

○ List factors that affect credit worthiness

# Credit

o The ability to obtain goods and services now, based on an agreement to pay for them later.

# Creditworthy

○ Are you able to pay the money back?

○ Are you likely to pay the money back?

# Credit History

o To decide if you are likely to repay the loan, the bank looks at your employment history and your credit history.>>>>>>>>>>>

o How well have you managed your bills and credit in the past?



# Did You KNOW

o Your credit  
history follows  
you for your  
whole life?

# Do you have Collateral?

○ Something the bank could take away from you if you do not repay the loan....

# It is up to YOU!!

- Fixed expenses- amount you must pay every month for rent, utilities, transportation
- Variable expenses- the amount you usually spend on food, entertainment, new clothes, etc.

# o Different Types of Credit Card Companies

o Visa

o MasterCard

o Discover

o American Express

## ○ Payments Forms:

○ Rollover – Gives the individual the ability to pay over time. The minimum amount due in a given statement period

- Pay-off – must pay off the entire balance at the end of the statement period, or there will be massive penalties

○ You agree to pay a fixed amount per month for a specified number of months- and then make all the payments on time-to show your credit worthiness!

# Credit Score Ratings

These numbers are determined by a method created by FICO Fair Isaac Company

○ These numbers range from 350 to 850



o Excellent: Over 750

o Very Good: 720 and up

o Acceptable: 660 – 720

o Uncertain: 620 – 660

o Risky: less than 620

**o Your score is  
based on the  
following  
formula**

35% Payment History

30% On the amount you currently owe

15% On the length of your credit history

10% On the number of new accounts you've applied for or opened

10% On the mix of credit accounts you currently have

# Best Ways to improve Credit Scores:

Pay your bills on time

Don't over-extend your credit debt

Don't have more than two cards

Don't max out your limits

# Factors in Credit:

○ Payment History

○ Current Credit Score

○ Regular Income

# SSEPF 4.B

○ Compare interest rates on loans and credit cards from different institutions

o The cost of using credit is expressed in an interest rate which is a percentage of the total amount owed

o The amount of interest charge per year, rather than per month (APR)

o Annual Percentage Rate



# Fixed Interest

○ Never  
changes.

# Variable Interest

○ Can go up any  
time or down  
at anytime!

**Bank  
A**

**Bank  
B**

**Bank  
C**

**APR**

**7.5%**

**19%**

**22%**

**Annual  
Fee**

**\$40**

**\$0**

**\$100**

# SSEPF4.C

○ Explain the difference between simple and compound interest rates

# Simple Interest

○ Means that you are charged interest **ONLY** on the original amount of the loan:

$$\begin{aligned} \text{○ } \$1,000 + (.10 \times \$1,000) &= \\ \$1,000 + \$100 &= \$1,100 \end{aligned}$$

$$I = P * r * t$$

# Annual Fee

○ A yearly charge just for having the card whether you use it or not.

# Compound Interest

○ Interest charged on credit cards if you do not pay off the full amount every month....the interest is charge not only on the original amount you borrowed, but on the existing amount you owe.

# SSEPF5

**o The student will describe how insurance and other risk-management strategies protect against financial loss.**



## SSEPF5.A

○ List various types of insurance such as automobile, health, life, disability, and property.

# SSEPF5.B

○ Explain the costs and benefits associated with different types of insurance.

# Insurance

oIs to provide financial protection against different kinds of risk we face in life.

# Insurance Policy

- A written agreement between you and insurance company.
- Explains what kinds of losses the company will cover, how much it will pay to cover these losses, and how much you will pay for this protection.

# Coverage Limits

- o The maximum amount the company will pay you for your loss.

# Deductible

○ Is the amount of loss that you must pay yourself before the company will step in and pay the rest.

# Claim

○ A request for  
payment of your  
losses

# Automobile

o– In case of an accident, the car and driver are covered in damages (property). Your insurance tends to cover the other driver and vehicle



# Liability Coverage

○ Pay for any personal injuries or property damage.

# Collision Coverage

o Pay for any damage to your own car.

# Health Insurance

○ Cover medical costs (5)  
and/or a co-pay.

Options on doctors  
within your insurance  
network

# Life –

○ When you die, the money that is left to cover your costs

# Beneficiary

o The Person you want to receive the money (from Insurance Policy) when you die

# Term life Insurance

○ Is Cheaper pays a higher death benefit. However, you can only buy a policy for a limited term, or period of time. When the term is over you have to buy a new policy at a higher price...has no cash value.

# Whole Life Insurance

- Expensive, and pays less of a death benefit. However, it provides coverage for your whole life and the premiums never increase.
- Investment with cash value that increases over time
- You can withdraw or borrow against this accumulated cash value for emergencies or to pay for major expenses such as college tuition.

# Disability –

o If you suffer an illness or injury that keeps you from working for extended period, this insurance will pay you 75% of your monthly income until you recover.



# Property –

- In the event of a fire, theft, or act of God, your belongings are covered if you have enough
- Protects the value of your house
- Renters can purchase, “Renters Insurance”

# **SSEPF6**

- o- **The student will describe how the earning of workers are determined in the marketplace**

- a. Identify skills that are required to be successful in the workplace
- b. Explain the significance of investment in education, training, and skill development.