



Chapter

20

Personal Finance and Economics

Rob Gage



Why It Matters

Whatever goals or dreams you may have, the way you live your life will be determined, at least in part, by your relationship to money: how you get it and how you use it. The opportunities you create for yourself are greatly affected by the money habits you form when you are young. **Why is it important for you to make rational buying decisions?**



BIG Ideas

Section 1: Managing Your Money

You and everyone around you are consumers and, as such, play an important role in the economic system. As a consumer and a citizen, you will make many economic decisions every day.

Section 2: Planning and Budgeting

We all make economic choices. Opportunity cost, scarcity, and supply and demand influence the decisions we make. Following a budget can be valuable to you.

Section 3: Saving and Investing

We all make economic choices. Opportunity cost, scarcity, and supply and demand influence the decisions we make. It is important for financial security to start the habit of saving.

Section 4: Achieving Your Financial Goals

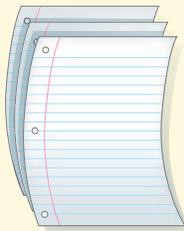
We all make economic choices. Opportunity cost, scarcity, and supply and demand influence the decisions we make. Our personal interests, wants, and abilities affect our career choices.

◀ Family spending their vacation dollars camping

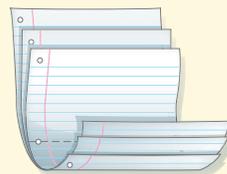
FOLDABLES™ Study Organizer

Comparing Information Study Foldable Make the following Foldable to help you compare the rights and responsibilities of consumers with regards to their personal finances.

Step 1 Lay three sheets of paper on top of one another, about one inch apart at the top.



Step 2 Fold up the bottom edges of the paper to form 6 tabs.



Step 3 When the tabs are all the same size, crease the paper to hold the tabs in place and staple the sheets together. Label the Tabs as shown.

Staple together along the fold.

○	consumer number
○	consumer income
○	consumer task
○	consumer expectations
○	substitutes
○	complements

Reading and Writing As you read the chapter, organize information about the different forces that affect the impact of demand on the economy. Write facts under each appropriate tab.



Section
1

Managing Your Money

Guide to Reading

Big Idea

You and everyone around you are consumers and, as such, play an important role in the economic system.

Content Vocabulary

- consumer (p. 539)
- disposable income (p. 539)
- discretionary income (p. 539)
- consumerism (p. 540)
- comparison shopping (p. 541)
- warranty (p. 542)

Academic Vocabulary

- reject (p. 539)
- alternative (p. 541)

Reading Strategy

Identifying As you read, create a diagram like the one below to list your rights as a consumer.



Real World Economics Do you make smart decisions when you shop? Making the best use of your money is a skill you can learn and practice throughout your life. Food shopping is a prime example of a way to shop economically. This young woman is looking at two different brands of cereal. This strategy, called comparison shopping, can help a consumer find the best product for the price. As it becomes more difficult for families to meet their basic budgetary needs, smart shopping techniques become more necessary to stretch the family dollar.

▼ Comparing prices can help you find the best buy



NORTH CAROLINA STANDARDS
Civics and Economics

- 7.02** Explain how scarcity influences producers and consumers to make choices.
- 8.07** Identify and describe the roles and functions of various economic institutions and business organizations.



Right to a Safe Product A new worker gets on-the-job training at a California restaurant. Restaurants must meet standards of cleanliness and quality assurance for the protection of their clientele. **Analyzing What is the purpose of the Consumer Bill of Rights?**

Consumer Rights

Main Idea To make good economic decisions as consumers, we need to be aware of our rights and responsibilities.

Economics & You Have you ever bought a product or service that did not work the way it was advertised? What did you do? Read to find out more about your rights as a consumer.

The American free enterprise system gives numerous economic rights and protections to individuals such as you, your teachers, your relatives, and your friends. You have the right to enter into just about any profession or business in which you are interested. You have the right to buy the products and brands that you like and to **reject**, or pass on, others. As a **consumer**, or someone who buys a product or service, you also have responsibilities.

Two Types of Income

One of your fundamental rights as a consumer is to spend the money you earn as you wish. Your role as a consumer depends on your available income and how much of it you choose to spend or save. There are two basic types of income: disposable income and discretionary income.

Disposable income is the money that remains after all taxes on it have been paid. People spend their disposable income on many kinds of goods and services. First, they usually buy necessities, such as food, clothing, and housing.

Discretionary income is the money remaining after paying for necessities. Discretionary income can be used to satisfy wants, including luxury items and savings accounts. Regardless of the size of a person's income, spending one's income requires, or needs, constant decision making. As a consumer, each person has choices to make.



Protecting Consumer Rights

Throughout much of history, consumer rights could be summed up in one Latin phrase: *caveat emptor*, or “let the buyer beware.” In this section, you will learn how **consumerism**—a movement to educate buyers about the purchases they make and to demand better and safer products from manufacturers—affects you personally.

Over the years, Congress has passed a number of laws to protect consumer rights. Many of the laws involve labeling. For example, the Fair Packaging and Labeling Act requires every package to have a label identifying its contents and its weight. The Food, Drug, and Cosmetic Act requires packages to list their ingredients according to the amount of each. Other laws protect consumers’ health and safety. An early example is the Pure Food and Drug Act, passed in

Food Labels The U.S. Food and Drug Administration requires packaged foods to display labels giving key information about their contents. **Explaining How** does this information help consumers?



1906. It requires manufacturers of foods, cosmetics, and drugs to prove that their products are safe.

Many private groups and organizations have taken on the task of protecting individual consumers. One of the oldest groups is the Better Business Bureau (BBB). In 2005, there were more than 120 Better Business Bureaus located in principal cities in the United States. Surprisingly, business groups rather than consumers run these organizations. These businesspeople recognize that the key to success lies in earning the trust of their customers. They provide information about local businesses and warn consumers about dishonest business practices. They also investigate consumer complaints.

Consumer Bill of Rights

In the 1960s, a special effort was made to help consumers. President John F. Kennedy and, later, President Richard Nixon emphasized five consumer rights:

1. Consumers have the *right to a safe product*, one that will not harm their health or lives.
2. Consumers have the *right to be informed* for protection against fraudulent, deceitful, or grossly misleading information, advertising, labeling, or other practices, and to be given the facts necessary for making informed choices.
3. Consumers have the *right to choose* to have available a variety of products and services at competitive prices.
4. Consumers have the *right to be heard*—the guarantee that consumer interests will be listened to when laws are being written.
5. Consumers have the *right to redress*—the ability to obtain from the manufacturer adequate payment if a product causes financial or physical damage.

Reading Check Summarizing What is the purpose of the Better Business Bureau?



Consumer Responsibilities

Main Idea In addition to rights, consumers also have responsibilities.

Economics & You Have you ever regretted spending money on something? Read more to find out how you can make sure you do not make mistakes when it comes to making purchases.

In earlier chapters, you discovered that with every right comes certain responsibilities. With the right to vote, for example, comes the responsibility of staying informed. In the same way, our rights as consumers require some responsibilities on our part.

Smart Buying Strategies

Many consumer responsibilities might also be described as smart buying strategies. These are among the most important:

- Gathering information and finding out as much as we can about the products we buy so that we recognize good quality. Consumer magazines and Web sites often provide trustworthy information about product quality and other consumers' experiences.
- Using advertising carefully to help us learn about products and services and the best places to buy them. At the same time, we must be sure we are not swayed by advertising that appeals to our emotions, tries to get us to buy things we do not need or want, or uses questionable techniques to convince us to buy certain products.
- After you have gathered the information about the product you want, you must decide *where* to buy it. It is generally worthwhile to get information on the types and prices of products available from different stores or companies.



Protecting Consumers The president of Consumers for Auto Reliability, Rosemary Shahan (right), and Assemblywoman Cindy Montanez of San Fernando, California, promote a bill designed to protect used car buyers. **Describing** What is your first step if you purchase a faulty product?

This process is known as **comparison shopping**. To comparison shop effectively, read newspaper advertisements, make telephone calls, and visit different stores.

- Looking at both brand-name and usually cheaper but nearly identical generic products
- Balancing the costs and benefits of buying used items, ordering by mail, and **alternative**, or different, methods of making purchases

We cannot always rely on stores and businesses to protect us. We must take steps to protect ourselves.

Other Responsibilities

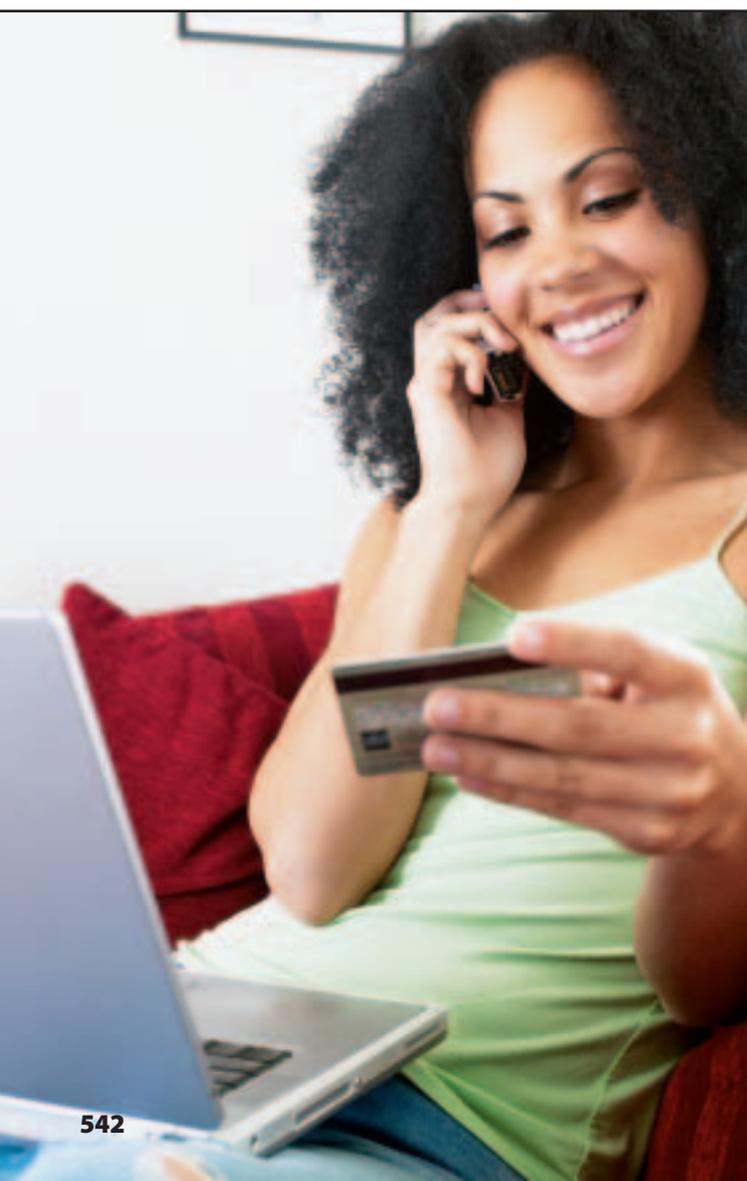
What are some other consumer responsibilities? Here is an important one: If a product or service is faulty, it is the consumer's responsibility to initiate the problem-solving process.



Reporting a Faulty Product If you purchase a faulty product or service, you should do the following:

- Report the problem immediately.
- Do not try to fix a product yourself; home repair may cancel the **warranty**, the promise of a manufacturer or a seller to repair or replace a faulty product within a certain time period.
- Contact the seller or manufacturer, state the problem, and suggest a fair solution.
- Keep an accurate record of your efforts to get the problem solved. Include the names of the people you speak or write to.

Making Purchases Shopping online or by telephone saves time. **Evaluating** **What do you think is the main disadvantage of shopping from home?**



- Allow each person reasonable time, such as three weeks, to solve the problem before contacting another source.
- If you need to contact the manufacturer in writing, type your letter or send an e-mail directly.
- Keep a copy of all communications.
- Keep your composure. The person who will help you solve your problem is probably not responsible for the problem.

Making Fair Complaints Another responsibility of consumers is to exhibit ethical behavior by respecting the rights of producers and sellers. For example, a responsible consumer does not try to return a used item because it has been advertised elsewhere for a lower price or claim it is faulty if he or she has broken it.

Buyers feel they have a right to expect honesty from sellers. In turn, sellers feel they have a right to expect honesty from buyers. For example, suppose you purchase a DVD player from a store but drop it on the way to your house. Because you dropped it, it does not play as well as it would have. You could, of course, go back to the store and tell the seller that the DVD player you bought does not work properly—without mentioning the fact that you dropped it—but that would be dishonest. You have a responsibility when making a complaint to provide the seller with the whole truth as you know it.

Seeking Help If you have a complaint that you cannot settle with the seller, you have a responsibility to report this fact to the appropriate government agency. Remember, as a consumer, you have the right to voice your complaints, and you also have a responsibility to exercise your rights.

Reading Check Explaining What is a warranty and why is it important to consumers?

Civics ONLINE

Student Web Activity Visit glencoe.com and complete the Chapter 20 Web Activity.



Making Buying Decisions

Main Idea Buying a product or service costs more than money; it also costs the time it takes to make the purchase and the opportunity cost of not buying something else.

Economics & You How do you make the decision about whether to buy a product or service? Read to find out what factors consumers should take into account when making a purchase.

The first decision a consumer must make is whether or not to buy an item. How many times do you actually think about the reasons for the purchase you are about to make? Do you think about whether you really need the item? Should you wait until there is a sale on the item you want? Do you consider the trade-offs involved?

After you have decided to make a purchase, at least two scarce resources are involved—income and time. Before you spend your discretionary income, you need to invest time in obtaining information about the product you wish to buy. Suppose you decide to buy a mountain bike. The time you spend visiting stores and checking models and prices is a cost to you.

Second, virtually all the steps in consumer decision making involve an opportunity cost. Remember that opportunity cost is the value of the highest alternative choice you did *not* make. Suppose your friend recently purchased athletic shoes. You want to buy a pair yourself. Before you do, however, ask yourself, “What can’t I buy or do if I buy these shoes?” In other words, you must decide if the shoes are worth what you must give up to buy them.

Reading Check Explaining How does opportunity cost affect the decision to buy something?

Section 1 Review

Vocabulary

- Define** the following terms and use them to write a short essay about making buying decisions: *consumer, disposable income, discretionary income, consumerism, comparison shopping, warranty.*

Main Ideas

- Explaining** What is the right to redress?
- Describing** How does comparison shopping help the consumer?
- Explaining** What scarce resources are involved in making a buying decision?

Critical Thinking

- BIG Ideas** Describe two examples of how you educate yourself about a product before buying it.
- Identifying** As you read, create a diagram like the one below to list your responsibilities as a consumer.



CITIZENSHIP Activity

- Expository Writing** Which of the consumer responsibilities do you think is the most important? Why? Explain your choice in a one-page essay.



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Section
2

Planning and Budgeting

Guide to Reading

Big Idea

We all make economic choices. Opportunity cost, scarcity, and supply and demand influence the decisions we make.

Content Vocabulary

- budget (p. 545)
- income (p. 545)
- expense (p. 546)
- credit (p. 547)
- annual percentage rate (APR) (p. 547)
- collateral (p. 547)
- bankruptcy (p. 549)

Academic Vocabulary

- exceed (p. 545)
- status (p. 547)

Reading Strategy

Describing As you read, use a graphic organizer like the one below to describe the steps in making a budget.



Real World Economics Do you know how to create a budget? College students often have to learn to budget for the first time in their lives. This Clemson University student is shocked by the cost of his textbooks. Over the last twenty years, the price of textbooks has risen at twice the rate of inflation. With textbooks becoming so much more expensive, many students resort to using credit cards to purchase their books. That can add to their accumulating debt.

▼ Freshman student Noel Cole of Asheville, North Carolina



NORTH CAROLINA STANDARDS
Civics and Economics

7.02 Explain how scarcity influences producers and consumers to make choices.

7.03 Compare examples of tradeoffs and opportunity costs of economic choices.



Bill Aron/PhotoEdit

Making a Budget—and Sticking to It!

Main Idea Making and following a budget can help you organize your financial life.

Economics & You Have you ever had to say no to a concert, dance, game, or other event because you did not have enough money? If so, learning more about budgets can help you make sure there is enough money in your wallet for the things you would really like to do.

The best way to get a handle on your spending is to make a **budget**. What is a budget? It is a careful record of all the money you earn and spend. A budget tells you exactly where your money goes. Using a budget can help you make your expenses match your income.

Mr. Micawber, a famous character from Charles Dickens’ novel *David Copperfield*, made it very clear to young David why a budget is important: “Annual income twenty pounds, annual expenditure nineteen six, result happiness. Annual income twenty pounds, annual expenditure twenty pounds ought and six, result misery.” Mr. Micawber meant that if your expenses **exceed**, or go beyond, your income by even sixpence [six pennies], you are in big trouble.

A budget is more than a record. It can also be a tool. It can help you plan and cut down on unwise spending and provide a road map toward saving for things you really want.

Basic Budgeting Terms The basic terms used in making and using a budget are the same, whether you are a high school student or the president of a giant company. Your **income** is the money you earn.

Budgeting A family works out their monthly budget. As a student, you might think you do not earn enough money to need a budget. You might be surprised to learn how much further your money goes when you budget. **Defining What is income?**



Political Cartoons



Chris Britt/Copley News Service

The high cost of gasoline was the inspiration for this cartoon by Chris Britt.

1. What is the setting for this cartoon?
2. How does the cartoonist use exaggeration to help make his point?
3. Why do you think Britt decided to have the driver own an SUV?
4. Do you think the cartoonist is making a statement about high gas prices, SUVs, or both?

Your **expenses** are the money you spend on everything, including what you choose to save. Balance is the amount of money you have left over after you subtract all your expenses. A surplus means you have more income than expenses; a deficit means you have more expenses than income. This unhappy situation—deficit—is also known as a negative balance.

How to Make a Budget

Creating and organizing a personal budget is not difficult. Anyone who knows addition, subtraction, multiplication, and division, can accomplish it. Follow these steps to organize a budget:

1. Make a list of everything you spend for a couple of weeks. Include entertainment, clothing, food, personal items, gifts, transportation, contributions and donations, and savings. You might also want to have a category, or group listing, for other or miscellaneous expenses.

It is important to record *everything* you spend.

2. For the same time period, record everything you earn and its source. Sources might be your allowance, job earnings, payment for household chores, or gifts; again, include a category for other or miscellaneous income.
3. Now that you have recorded your data, analyze it. Do you need to reduce expenses? Where could you cut costs? Would you rather increase your income? Can you work extra hours at your job or advertise your services to neighbors?
4. It is a good idea to have a little surplus for emergency expenses or extra contributions to your savings account.
5. Monitor your spending; use your budget data as a tool for taming any unruly finances. Make changes as needed.

Reading Check **Defining** What is a budget?



Credit

Main Idea Credit can be a valuable item in your financial toolbox; however, as with all tools, you have to know how to use it correctly.

Economics & You Have you ever received a credit card offer in the mail? Did you know how to evaluate it? Read more to find out what to look for the next time an offer for a credit card shows up.

A character in a play by William Shakespeare gave some famous advice when he warned, “Neither a borrower nor a lender be.” However, it is not very practical today; in fact, almost everyone, along with almost all businesses, sometimes borrows money.

Offers Through the Mail Do you receive “pre-approved” credit card offers in the mail, some with low introductory rates? **Speculating** Is it important to compare terms and fees before you agree to open a credit card account? Explain.



Many of us also lend it. The key is using **credit**—borrowing money to pay for something now while promising to repay it later.

Recognizing Credit Terms

Understanding how credit works in our society requires knowing some important terms.

- A lender is the person who loans someone the money to buy an item.
- A borrower receives the loaned money.
- Interest is the cost for the use of the money.
- The **annual percentage rate (APR)** is the annual cost of credit expressed as a percentage of the amount borrowed.
- A credit rating is an evaluation of the likelihood of a borrower to default on, or be unable to repay, a loan. It is based on the borrower’s previous credit experiences, financial situation, job history, **status**, or rank, and other information.
- **Collateral** is property, such as a house, car, or other valuable item, that a borrower pledges as security for a loan. If a borrower fails to repay a loan, the lender can seize the collateral as payment.

Sources of Credit

Banks, credit unions, and finance companies all offer credit to consumers. So do stores that sell relatively expensive merchandise, such as clothing, electronics, appliances, or furniture. Home mortgages and car loans are other popular types of credit. Large credit purchases usually require a down payment, or a part of the purchase price, when you make the purchase. The remaining unpaid balance is then divided into equal monthly payments.

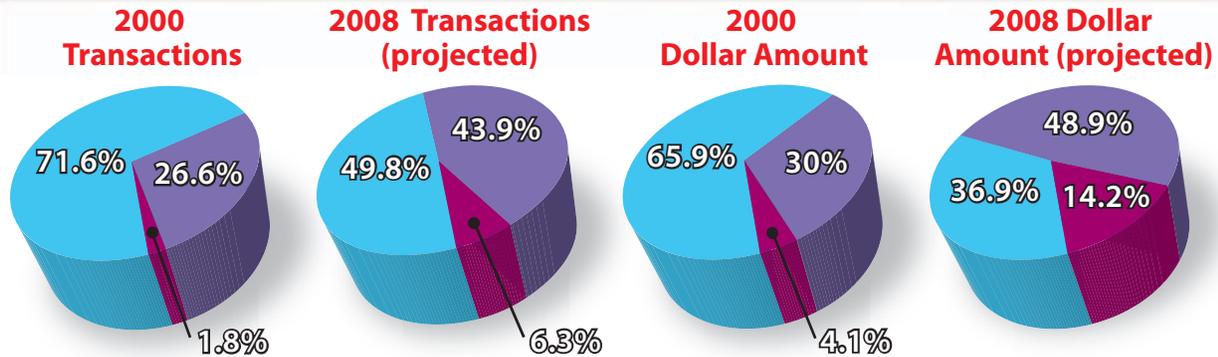
Credit Cards Perhaps the most common type of credit today is the credit card. Issued by banks, credit card companies, and stores, a credit card allows you to charge, or pay using borrowed money, for goods and services up to the value of a preset monthly limit.



Methods of Payment

Graphs In Motion

See StudentWorks™ Plus or glencoe.com.



Methods of Payment

- Paper*
- Cards
- Electronic

* Paper = cash, checks, money orders, food stamps.

Credit Card and Debit Card Transactions

	Credit		Debit	
	2000	2008 (projected)	2000	2008 (projected)
Number of Cards (in millions)	1,425	1,513	235	293
Spending (in billions of dollars)	1,458	2,604	448	1,630

Source: Statistical Abstract of the United States, 2006.

Analyzing Graphs and Charts

1. **Analyzing** What method of payment was most used to pay bills in 2000?
2. **Create** a bar graph that illustrates the information in the credit and debit chart.

When you apply for a credit card, the issuer checks your credit rating and assigns a dollar limit based on what it thinks you can afford to pay back. To avoid interest charges, you must pay off your full credit balance each month. You are charged a fee if your monthly payment is late. High interest charges on unpaid balances add up quickly and have even brought financial ruin to some unlucky or careless consumers.

Here is an eye-opening example: Say you buy an item that costs \$2,000 with a credit card that charges 18 percent interest. If you

pay off the entire bill immediately, you pay \$0 in interest. If you make only the minimum 4 percent payment, over time, it will take you more than 10 years to pay for the item, and you will have paid \$1,142 in interest. Thus, the \$2,000 item will have cost you \$3,142.

Credit: Benefits and Drawbacks

Americans use credit to make many purchases. The total amount of funds borrowed and lent each year is enormous. Used wisely, credit can be a valuable tool for consumers. It allows you to obtain something you want without waiting until you can save the entire purchase price.



Making monthly payments on time can teach you financial discipline. Analyzing your financial situation to see if you can afford to use credit for something you want is an important life skill.

However, credit also carries serious dangers. Many people have gotten in over their heads because they bought more than they could afford. The easy availability of credit, followed by lack of income to pay back the borrowed money, has left millions of people in **bankruptcy**, or the inability to pay debts. A bankruptcy judgment remains on your credit rating from seven to ten years, making it almost impossible for you to get a loan or to receive credit during that time.

Your Responsibilities as a Borrower

Being a responsible borrower means having a plan to make all the payments on your loan or credit purchase in a timely manner.

Your budgeting skills will help make sure you can afford a monthly loan or credit payment, along with other necessities. The time to make sure you can afford a credit purchase is *before* you close the deal. You also need to understand all aspects of the agreement: What is the APR? How long will you make payments? What are the penalties for late payments? Are there extra fees?

Tips for Students As long as they are over 18 years old, students can get a credit card without asking their parents to cosign. Debt advisers say students should hold a credit card on which they can carry only a small balance and must pay off monthly. They should pay more than the minimum on credit cards. Furthermore, they should not charge purchases they can pay for in cash, such as food and gas.

 **Reading Check Explaining** Why do you need to know the APR of your loan or credit purchase?

Section Review 2

Vocabulary

- Write** a paragraph about planning and budgeting in which you use at least five of these terms: *budget, income, expense, credit, annual percentage rate (APR), collateral, bankruptcy*.

Main Ideas

- Explain** the difference between a surplus and a deficit.
- Identify** three sources of credit.

Critical Thinking

- Describing** What can a budget help you do?
- BIG Ideas** Create a table like the one below to list three questions you should consider when deciding whether to use credit.

Decision to Use Credit
1.
2.
3.

- Explaining** Why is it important to maintain a good credit rating?

CITIZENSHIP Activity

- Expository Writing** Think of an item for which you have been saving. How long will it take you to save the funds needed to purchase this item? What are you not buying in the meantime? Explain what you are giving up to buy that particular item. Answer these questions in a one-page paper.



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Financial Literacy

Making a Budget

A good budget is a useful tool. It can help you

- understand your actual financial situation.
- fill your basic and material needs.
- gradually achieve your objectives.
- avoid debt.
- save.

In this activity, you will design a strategy for earning, spending, and investing your resources.

Step A: Tools Needed

- ✓ Copies of Table “My Monthly Budget”
- ✓ Newspapers with advertisements for apartment rentals and auto sales
- ✓ Ads from local grocery stores
- ✓ Magazines with photos of apartments, automobiles, and furniture
- ✓ Pencil
- ✓ Calculator



Step B: Procedures to Follow

1. Annually you make \$16,640, of which \$1,800 goes to pay taxes. Monthly you earn \$1,236.66. Your total expenditures will include the items listed in the table.
2. Analyze the newspaper ads to select an apartment to rent. List the rental fee in the table. Also consider the cost of rental insurance.
3. Plan your weekly menus. Then multiply supplies by 4 to budget your food expenses for one month. Use the ads from grocery stores to select and price the food products needed for your menus.
4. Decide on a type of car to buy. Analyze the newspaper ads to obtain the approximate monthly payment for an automobile.
5. From the magazines, select items of furniture to furnish your apartment.
6. Call the following places or ask family members to obtain prices or monthly fees for other necessities: phone company, electric company, gas company, auto insurance, furniture store, medical insurance, and other costs.
7. Fill in your costs in the table. When you complete the table, subtract the total expenses from your earnings for the month to find out how much money you have remaining.

My Monthly Budget

CATEGORIES OF EXPENSES	MONTHLY COST
Rent	
Rental insurance	
Telephone	
Electricity	
Gas heat	
Car payment	
Car insurance	
Car expenses (gas and repairs)	
Furniture expenses	
Clothing expenses	
Groceries	

CATEGORIES OF EXPENSES	MONTHLY COST
Medical insurance	
Medical expenses	
Credit card bill	
Entertainment and dining out	
Laundry and toiletries	
Other	
Monthly earnings	\$ 1,236.66
Subtract total monthly expenses	
Total remaining	



Analyzing Economics

- Identifying** What is your largest monthly expense?
- Calculating** How much money did you have left at the end of the month?
- Explaining** What expense(s) surprised you the most? Why?
- Calculating** What expenditures did you have to reduce to be able to pay your other monthly expenses?



Section
3

Saving and Investing

Guide to Reading

Big Idea

We all make economic choices. Opportunity cost, scarcity, and supply and demand influence the decisions we make.

Content Vocabulary

- save (p. 553)
- interest (p. 554)
- principal (p. 555)
- return (p. 557)
- stock (p. 557)
- dividend (p. 557)
- bond (p. 557)
- mutual fund (p. 558)

Academic Vocabulary

- establish (p. 553)
- fund (p. 553)
- interval (p. 557)

Reading Strategy

Comparing and Contrasting

As you read, use a chart like the one below to explain how savings accounts, checking accounts, and money market accounts are similar and how they differ.

Type of Account	Similarities/ Differences
Savings accounts	
Checking accounts	
Money Market accounts	

Real World Economics For most teenagers, getting a driver's license and a first car marks a major move into adulthood. But how will they pay for that car? Heather Kimble's mother, Lorene, helped Heather get a debit card, a checking account, and a savings account to learn how to manage the money she earns from an after-school job in Corning, New York. Buying a car was her goal. Learning to save money can be hard, but this is one lesson from which most people will benefit.

▼ Heather Kimble gets backup from mother, Lorene



NORTH CAROLINA STANDARDS
Civics and Economics

- 7.02** Explain how scarcity influences producers and consumers to make choices.
- 7.03** Compare examples of tradeoffs and opportunity costs of economic choices.
- 8.08** Evaluate the investment decisions made by individuals, businesses, and the government.



Saving for the Future

Main Idea Saving part of your income is the key to meeting many of your short-term and long-term financial goals.

Economics & You Do you know the old fable of the grasshopper and the ants? Unlike the industrious ants, the grasshopper did not bother to put aside food for the winter, and he was left hungry. Read more to find out how you can avoid being a financial grasshopper.

Everyone has long-term goals: what you want to do, where you want to live, how you want to spend your time. One way to help you reach your long-term *purchasing* goals is to save. To **save** means to set aside income for a time so you have it to use later. It is that part of your income that you do not spend. You may already be saving some of your income for a future use, such as buying a car or continuing your education.

Think of saving as a regular “expenditure” item; think of what you “buy” with it. Many people simply save what is left over at the end of the month. This attitude downgrades saving to a less important position than purchasing goods and services.

Why Save?

Saving money can be a difficult habit to **establish**, or create. There are many good reasons for saving. Most people cannot make major purchases, such as a car or a house, without putting aside money to help pay for them. Saving also comes in handy in emergencies. In addition, people can save for luxuries, such as a nicer car or a vacation.

When individuals save, the economy as a whole benefits. Your saving makes money available for others to invest or spend. Saving also allows businesses to borrow from a savings bank to expand, which provides greater income for consumers and raises the standard of living.



Deciding to Save No matter how you do it, it is important to save some of your money. **Explaining** What is an advantage of making regular deposits to a savings account?

Saving Regularly

To make it easier for people to save, some employers will withhold a fixed amount from employees’ paychecks. This money is automatically deposited into the participating employees’ savings accounts. Many people, however, handle the responsibility themselves. Each week or month, they budget a specific amount of money to put aside for savings. There is a budget line for savings right next to the lines for food, movies, gas, and other necessities.

Easy Availability Generally, when people think of saving, they think of putting their **funds**, or money, in a savings bank or a similar financial institution. A major appeal of savings accounts is that they offer easy availability of funds. The depositor can usually withdraw funds at any time without paying a penalty—forfeiting any money.

American Biography

María Otero (1950–)

María Otero joined ACCIÓN International in 1986 and has served as president and CEO of the private, nonprofit organization since 2000. ACCIÓN provides loans and business training to poor women and men who start their own businesses. Since 1996,

ACCIÓN-affiliated programs have issued \$9.4 billion in loans to nearly 4 million people.

“We don’t need to give people charity,” says Otero. “We need to give people opportunity and access.”

Otero believes the programs not only help businesses get started now, but will “manifest . . . in the education and

choices that will open up for their children. . . . The power of putting capital in the hands of poor people enables them to create their own wealth and invest in their children.”

Born in La Paz, Bolivia, Otero and her family moved to Washington, D.C., when she was 12. After attending Johns Hopkins University, Otero returned to Bolivia to work. She says, “I really had to determine who I was. Living in Bolivia as an adult and preparing myself to then come back and do more graduate work in economics was very significant. That’s what helped me accept that I could be both Bolivian and American.”



Making a Difference

CITIZENSHIP

At first, Otero studied literature but decided to give up literature for political economics. **Speculating**
Why do you think she made this decision?

Earning Interest Another advantage of depositing your money in a savings account is that it will earn interest. **Interest** is the payment people receive when they lend money, or allow someone else to use their money. In this case, the financial institution pays interest to the person with the savings account. The institution can lend these funds to someone else, who will in turn pay interest to the financial institution for the use of the money. A person receives interest on his or her savings for as long as funds are in the account.

Deciding About Your Saving

It is important to remember that the more money you put in a savings account, and the longer you keep the money deposited, the more interest you will earn, and the larger your account will grow.

Saving and Trade-Off Saving involves a trade-off, as does every other activity. The more you save today, the more you can buy a year from now, 10 years from now, or 30 years from now. You will, however, have less to spend today.

Deciding how much to save depends on your answer to several questions: How much do you spend on your everyday expenses? What are your reasons for saving? How much interest can you earn on your savings and, therefore, how fast will your savings grow? How much income do you think you will be earning in the future? If you expect to make a much higher income tomorrow, you have less reason to save a large percentage of your income today. It is a good idea, however, to have some type of savings plan.

Reading Check Explaining How do the savings of individuals benefit the entire economy?



Types of Savings

Main Idea A variety of options is available to allow you to save money.

Economics & You Benjamin Franklin said, "A penny saved is a penny earned." Read to find out how this advice applies to you and your financial future.

While savings accounts are probably the best-known way to save, there are other ways, too.

Saving and Checking Accounts

You can open a savings account at a bank, savings and loan, or credit union. These institutions accept people's money, pay them a fairly low rate of interest, and loan the money on deposit to other customers

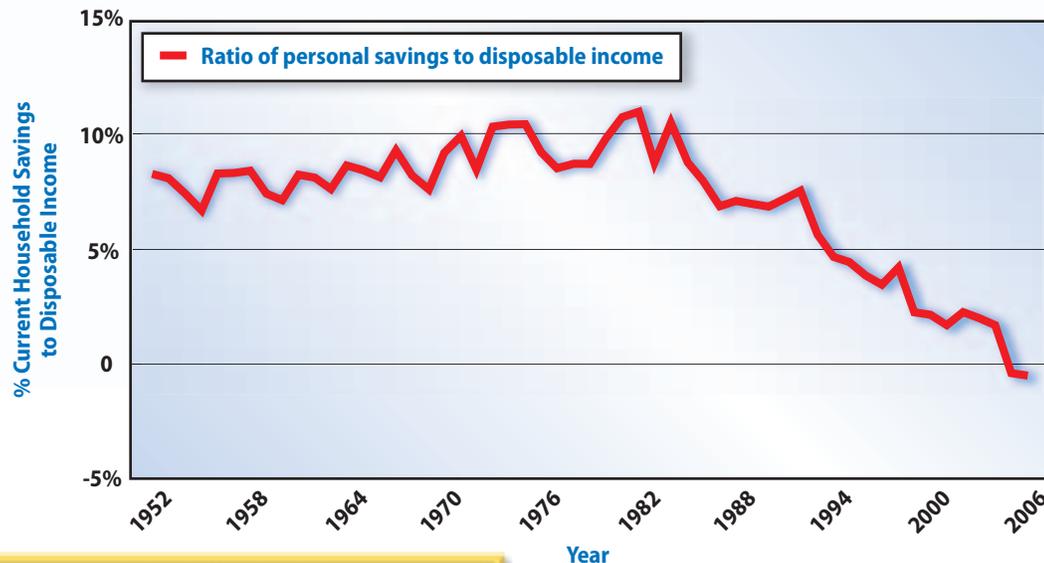
of the institution. You can withdraw your money at any time, and the interest you earn is added automatically to your **principal**, or the amount you initially deposited. You cannot write a check on a savings account. To do that, you will need a checking account.

Just as with a savings account, you make deposits into a checking account. When you write a check, the banking institution pays out of the funds in your checking account. You must be careful not to write checks that exceed the amount of money in your checking account. The way to protect yourself from "bouncing" a check is to keep a record of each check you write.

Some institutions pay a small amount of interest on checking accounts, but most do not. Some charge you a per-check or monthly fee, while others do not. Some institutions require you to keep a minimum amount in your checking account.

The Savings Rate, 1952–2006

Graphs In Motion
See StudentWorks™ Plus or glencoe.com.



Analyzing Graphs

- Calculating** During what periods of time did the savings rate surpass 10 percent?
- Analyzing** What general trend started in 1982? Do you expect this to continue or change?

Source: U.S. Department of Commerce:
Bureau of Economic Analysis.



If your funds fall below the minimum, they charge you a monthly fee. Many institutions now offer a debit card. This allows you to pay for a purchase directly from your checking account instead of writing a paper check.

Money Market Funds and Certificates of Deposit

A money market account is similar to a checking account in that it allows you to write checks, usually for larger amounts, against the money you have deposited. It is like a savings account because it pays interest, often a little higher than that on savings accounts. Yet another way to save is with certificates of deposit (CDs).

CDs are a kind of time deposit, in which you agree to deposit a sum of money with a financial institution for a certain amount of time, usually at least a year. In return, the institution guarantees you a set rate of interest that will be added to your principal when the CD matures, or comes due. The rate of interest on a CD is almost always higher than that on a savings account. Why? You have less flexibility to withdraw your money; if you want to withdraw it before the stated date, you must pay a substantial penalty. In general, longer-term CDs pay you a higher rate of interest as a reward for locking up your money for a longer period of time.

 **Reading Check** **Contrasting** What are some differences between checking and savings accounts?

Types of Savings Accounts



	DEFINITION	RETURN	TIME FRAME
Bank Savings Accounts	Accounts at a bank, savings association, or credit union	Interest rate is relatively low	Depositor can withdraw money at any time
Certificates of Deposit	Bank notes for a set period of time at a fixed rate of interest	Interest rates are usually higher than rates for bank savings accounts	Vary, generally from 6 months to 5 years
Money Market Accounts	Savings accounts offered by banks that require a high minimum balance	Interest rates are usually higher than rates for regular bank savings accounts	Depositor may withdraw funds at any time
U.S. Savings Bonds	The U.S. government issues savings bonds as one of its ways of borrowing money.	Interest rate is usually higher than rates on bank savings accounts	Good for medium- and long-term savings goals

Analyzing Charts

1. **Comparing** How do bank savings accounts and certificates of deposit differ?
2. **Explaining** What is an advantage of a money market account? What is a disadvantage?



Investments

Main Idea Making wise investments in a variety of stocks and bonds is an important part of achieving long-term financial goals.

Economics & You Have you ever gone together with friends and pooled your money to buy something you could all use? Read to find out how this idea is the foundation for many key investment practices.

Savings accounts, money market accounts, and CDs are considered investments, but their **return**, or profit earned by the investor, is usually low. Almost all investors also invest in stocks and bonds, which have averaged a higher return over the years than savings accounts, money market accounts, and CDs. If people are willing to take a chance on earning a higher rate of return, however, they can invest their savings in other ways, such as in stocks and bonds.

Stocks

When you buy shares of **stock**, you are buying partial ownership in a company. If the company does well, the value of your share will probably go up. If the company does not do well, your share will likely be worth less than you paid for it. You can sell it at any time, hopefully for more than you paid, and the difference is your profit.

Dividends Some companies also pay shareholders a portion of company earnings at regular **intervals**, or periods, based on the number of shares people hold. This payment, called a **dividend**, can substantially increase your profit from owning stock.

Greater Risk Stocks generally earn a higher return than other investments because they carry greater risk. There is no guarantee, as with government-protected savings accounts

(protected by the Federal Deposit Insurance Corporation [FDIC]) and CDs, that you will make money on your stock investment. In fact, if the company goes out of business, you will lose your entire investment.

Bonds

Whereas stocks represent ownership of a company, buying a **bond** is lending money to a company or government. Unlike buying stock, buying a bond does not make a bondholder part owner of the company or government that issued the bond.

Company Bonds Companies issue bonds to raise money for new equipment, research, or other business expenses. Companies pay bondholders a certain rate of interest over a set number of years. Bonds also carry risk; the company could become unable to pay you your interest or make final repayment of the principal.

Stock as an Investment Millions of people all over the world buy and sell shares of stock every day. Stock certificates like these are issued to people who have invested in a corporation. **Describing What are two ways stockholders can make money from their investments?**





Government Bonds The U.S. government, along with cities and states, also borrows money to pay for its expenses. The United States issues savings bonds, along with other bonds called Treasury bills, notes, and bonds. U.S. government bonds are considered among the safest of all investments because they are backed by the financial strength of the U.S. government. The government pays interest on these bonds, but it builds the interest into the redemption price rather than sending checks on a regular basis.

A person buying a savings bond pays half the bond's face value. You could purchase a \$50 bond for only \$25. The bond increases in value every six months until its full face value is reached. (The *Rule of 72* tells you how long it takes for the bond to mature: Divide the number 72 by the interest rate.) If you redeem a U.S. savings bond before it matures you are guaranteed the interest rate, which changes depending on the rates of interest in the economy.

Mutual Funds

Many investors find it easier to invest in stocks and bonds using **mutual funds**. Mutual funds are pools of money from many people who are invested in a selection of individual stocks and/or bonds chosen by financial experts. Your return is based on the experts' choices of investments. Mutual funds are less risky than investments in individual stocks and bonds. Mutual funds usually own several hundreds—or thousands—of different stocks and bonds. Spreading your investment among many stocks or bonds limits the loss if one individual stock or bond performs poorly.

Many popular mutual funds are tracked by a government regulated index. An index is a measuring system that tracks stock prices over the long term. The Dow Jones Industrial Average (DJIA) and the Standard & Poor's (S&P) are the two most common indexes.

Reading Check Explaining What is the relationship of an investment's risk to its potential return?

Section Review 3

Vocabulary

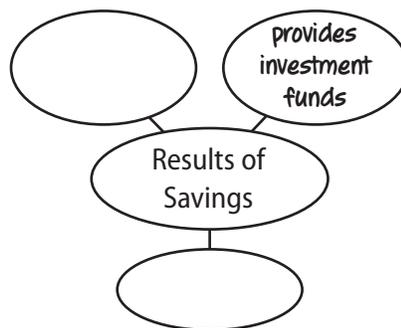
- Write** a paragraph about saving and investing in which you use at least five of these terms: *save, interest, principal, return, stock, dividend, bond, mutual fund*.

Main Ideas

- Explain** how the decision to save involves trade-offs.
- Comparing** How is a money market account similar to a checking account?
- Contrasting** What is the basic difference between a stock and a bond?

Critical Thinking

- BIG Ideas** Saving affects you as well as others. On a graphic organizer like the one below, list three results of saving.



- Explaining** Why are certificates of deposit described as time deposits?

- Explaining** How does buying a U.S. savings bond increase the United States government's debt?

CITIZENSHIP Activity

- Expository Writing** List your short-term savings goals, such as saving to buy a new iPod. Then list your long-term savings goals, such as saving for a house. In a short essay, explain the major differences between the two kinds of saving.



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Section

4

Guide to Reading

Big Idea

We all make economic choices. Opportunity cost, scarcity, and supply and demand influence the decisions we make.

Content Vocabulary

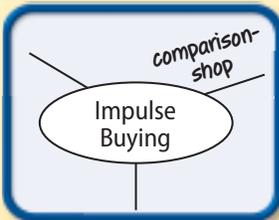
- impulse buying (p. 561)

Academic Vocabulary

- evaluate (p. 560)
- commit (p. 562)
- eliminate (p. 562)

Reading Strategy

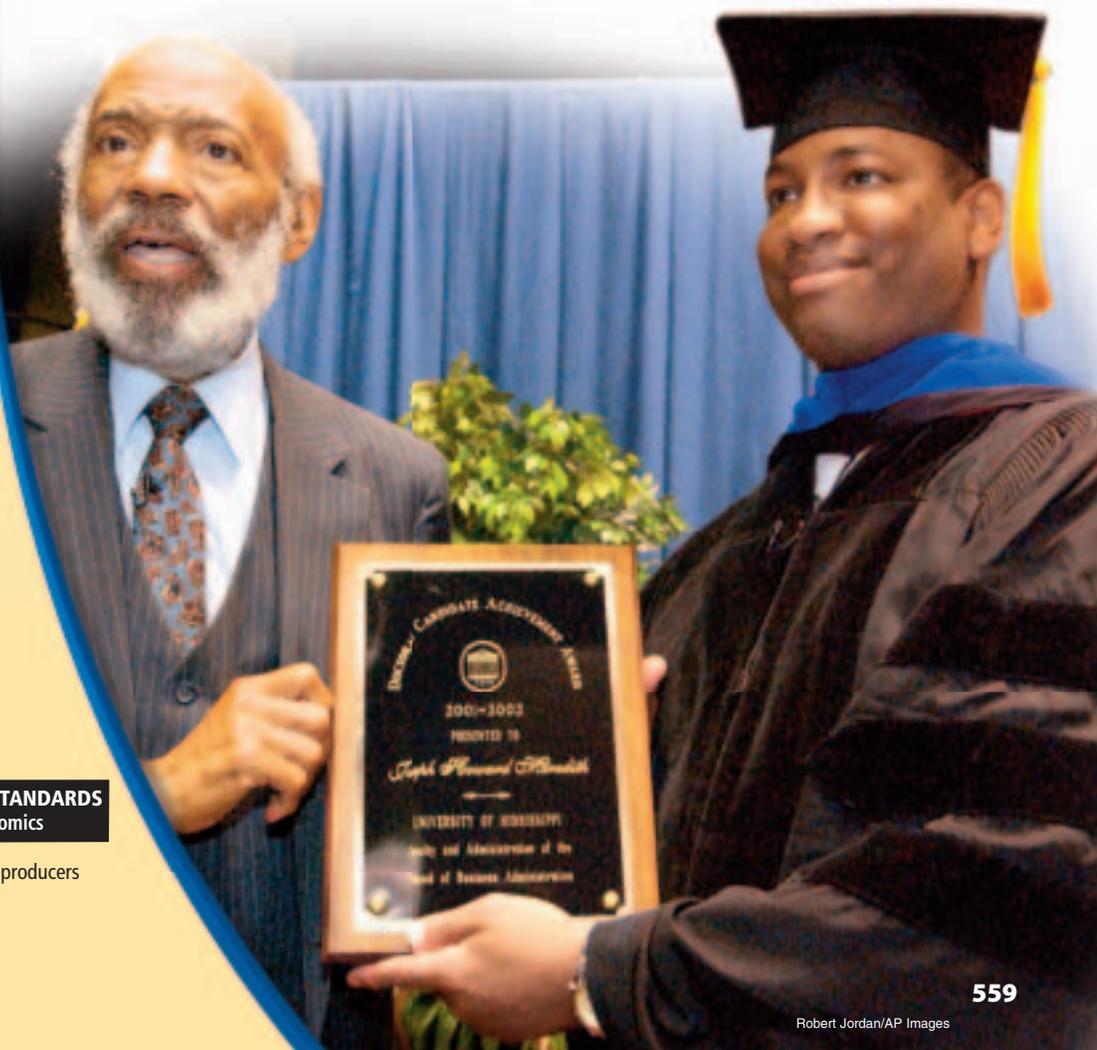
Describing As you read, use a diagram like the one below to describe three ways to keep impulse buying in check.



Achieving Your Financial Goals

Real World Economics James Meredith struggled to be admitted to the University of Mississippi in 1962, at that time an all-white school in the South. It took a federal court order to get him into the segregated college of his choice. Forty years later, his son, Joseph, completed a PhD in business administration at the same school. But race was not the big problem anymore. It was rather how to pay for this college education. With tuition costs increasing as much as 50 percent over three years in some states, saving to pay for college requires financial planning.

▼ James and Joseph Meredith



NORTH CAROLINA STANDARDS
Civics and Economics

7.02 Explain how scarcity influences producers and consumers to make choices.



What Kind of Spender Are You?

Main Idea Careful spenders avoid pitfalls, such as impulse buying, on their way to meeting their financial goals.

Economics & You Have you ever bought something expensive on the spur of the moment and regretted it later? Read to find out more about how to avoid budget breakers like this.

As you learned, managing your money, budgeting, and saving and investing money are aimed at the same target: helping you reach your financial goals. These goals today may be modest—things such as being able

to afford a movie every weekend, taking a skiing or rafting trip, or saving ten dollars a week. However, as you get older, you can be sure that your goals will get bigger. You may want to buy a car or a house or to continue your education. All of these things take a lot of money. That is why, when setting and monitoring, or examining, your current financial goals, it is useful to **evaluate**, or review, your spending habits.

Impulse Buying

Do you know what it means to be impulsive? One definition is “acting on feelings or emotions without thinking about consequences.” When it is paired with buying, it is easy to see how the combination can ruin a carefully organized budget.

Analyzing Advertising

Advertising claim

- “Our battery lasts twice as long.”
- “Detwiler Cheese—33% more flavor.”



- “With regular use, Beachfront Shampoo helps control dandruff.”
- “Plews Cleaner makes your sink virtually spotless.”



- “You’re worth it—so our new automobile is the only car for you.”
- “Our cola is the official thirst quencher of the American League.”



- Quarterback Sammy Sutcliffe says, “I eat Harbor Mist Cereal every morning.”

Why they are misleading

These ads make **unfinished claims**: the product has “more” or is “better” but does not finish the comparison.

Often words in ads such as *help* and *virtually* draw the reader’s attention away from the facts: the shampoo does not eliminate dandruff; it *helps* control it with *regular use*. These terms are called **weasel words**.

These ads are based on **snob appeal**. By purchasing the product, you are one of a select group.

The **testimonial** says that a well-known public figure uses the product or service, so you should, too.

Analyzing Charts

1. **Analyzing** What advertising technique uses a famous person to sell a product?
2. **Explaining** How is a testimonial meant to convince a consumer to use a product?



Fuel for Thought



Looking for a little “fuel” for thought? Jon Russell, 17, of Scarborough, Maine, might have just what you are looking for!

QUESTION: Your club is called ECOS. What does it stand for?

ANSWER: Environmental Club of Scarborough. I started the group three years ago with four friends to promote

environmental awareness.

Q: How are you doing that?

A: We traveled through our school with a rolling Dumpster on Friday afternoons, collecting paper waste and bottles for recycling. With the steadily increasing price of oil, we will soon need a cheaper form of fuel. So ECOS is converting a small school bus to run on waste vegetable oil.

Q: Did you say vegetable oil?

A: Yes. At a fraction of the cost per gallon of gasoline, it’s a very thrifty solution. Our nation is too dependent on oil and other nonrenewable sources of energy. I hope our biofuel bus will help others understand that change toward renewable sources of energy is both possible and economical. We’ll use data collected from the biofuel bus to introduce our project to local and state governments.

We hope our work will have an impact on their lawmaking decisions.



ECOS members work on school bus

Making a Difference

CITIZENSHIP

Why does Jon believe we should use renewable energy sources?

Marketers know that many consumers buy on impulse. That is why there is such a dazzling display of inexpensive items near the checkout line at the grocery or department store. One of your greatest challenges as a careful consumer is to avoid **impulse buying**.

Danger Signals Here are signals you may be an impulse buyer:

- You buy lots of things you do not really want and do not need.
- Buying things makes you feel better.
- You are always borrowing money from friends because you have spent yours.
- You quickly lose interest in something you have bought.

Even rational consumers can fall prey to the danger of impulse buying.

Tips Here are some tips to keep your impulse buying under control and keep it from ruining your budget.

- Have a line in your spending budget for impulse items of any kind. You will then know how much you have to spend—if anything—on impulse purchases.
- Make a list of things you really need—and take the list when you shop.
- If you see something very tempting, take a break. Leave the store, walk around, and decide whether you really need the item. Better yet, go away and come back tomorrow, after thinking hard about the purchase.
- If you have decided you really do need something, comparison-shop. You may find a better price somewhere else.
- Be careful with online buying. It is easy to charge things online.
- Record all impulse purchases in the spending part of your budget. You need to know how much you are spending on impulse items so you can try to control it.

Reading Check Explaining How can impulse buying ruin your budget?



Your Goals and Your Buying Decisions

Main Idea The buying decisions you make can have a major impact on your life and career choices.

Economics & You Do you have a long-term plan for meeting your financial goals? Read to find out how the decisions you make can play a key role in achieving these goals.

It is important to consider your economic goals when you make buying decisions. The kinds of buying decisions you make help reveal what kind of a decision-maker you are and how **committed**, or dedicated, you are to your goals.

Now or Later?

Suppose you work after school and on weekends to save money for a new computer. That is your long-term goal. You also

see many things that you would like to buy now. If you buy these things, you will find it harder to accomplish your long-term goal. Which option do you choose? You could buy what you want now and reduce, postpone, or even **eliminate**, or throw out, the chances of buying the computer. Or you could buy less of what you want now and increase the chances of buying the computer later. Long-term goals often conflict with short-term spending decisions.

Long-term planning becomes even more crucial the farther out you go. For example, many students need to save as well as borrow money to further their education. Statistics show that people with more post-high school education earn significantly more money over their working lives than those who complete only high school. Therefore, making the financial sacrifices necessary to continue your education is likely to pay off in a big way later.

Reading Check Explaining In what way can long-term goals conflict with short-term spending decisions?

Section Review 4

Vocabulary

1. **Define** *impulse buying*. Provide an example of impulse buying.

Main Ideas

2. **Identify** three ways you can cut down on impulse buying.
3. **Explaining** Why is it important to consider your goals when making a buying decision?

Critical Thinking

4. **Concluding** Explain whether you think impulse buying is more common when purchasing expensive or inexpensive items.

5. **BIG Ideas** “You should always shop until you find exactly what you are looking for at the lowest possible price.” Do you agree or disagree? Explain your answer.
6. **Classifying** On a chart like the one below, provide two examples of short-term buying goals and two examples of long-term buying goals.

Short Term	Long Term
1.	1.
2.	2.

CITIZENSHIP Activity

7. **Creative Writing** Write a conversation between you and a telemarketer who is trying to sell you something you do not want or need. What does the telemarketer say? What do you say?



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Buying Strategy

- Making consumer decisions involves deciding the following:
 - whether to spend your money
 - what you will purchase
 - how to use your purchase.
- Comparison shopping involves making comparisons among brands, sizes, and stores.

Consumerism

Consumer rights include

- the right to safety
- the right to be informed
- the right to choose
- the right to be heard
- the right to redress



Negotiation to purchase a car

Budget

- A budget is an organized plan for spending and saving money.
- What you do with the information in a budget is up to you. No one can force you to spend less and save more unless you want to.

Credit

- When buying on credit, the amount you will owe is equal to the principal plus interest.
- Financial institutions that provide credit include commercial banks, savings and loan associations, and credit unions.

Saving and Investing

- It is important to get into the habit of saving.
- Individuals have many places to invest their savings, including savings accounts and certificates of deposit.
- Shares of stock entitle the buyer to a certain part of the future profits and assets of the corporation that is selling the stock.



Department store shopping in Paris



Entertainment spending



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North Carolina End-of-Course Test Civics and Economics Practice

TEST-TAKING TIP

Pay attention to other test questions as you read. Sometimes the information in one question contains help for another.

Reviewing Vocabulary

Directions: Choose the word(s) that best completes the sentence.

- The cost of credit expressed as a percentage of the amount borrowed is the _____.
A surplus **C** credit rating
B APR **D** interest
- A _____ remains on a person's credit rating for at least seven years, making it almost impossible to get a loan.
A warranty **C** charge
B deficit **D** bankruptcy
- A bank adds the interest you earn to your _____, the amount you initially deposited.
A mortgage **C** principal
B debit card **D** loan
- Some companies pay shareholders a _____ at regular intervals, based on the number of shares they hold.
A dividend **C** time deposit
B return **D** bond

Reviewing Main Ideas

Directions: Choose the best answer for each question.

Section 1 (pp. 538–543)

- The Pure Food and Drug Act and the Fair Packaging and Labeling Act are examples of _____.
A smart buying strategies
B extended warranties
C protecting consumer rights
D comparison shopping

- The value of the highest alternative choice that a consumer did not make is the _____.
A time deposit
B down payment
C balance of payments
D opportunity cost

Section 2 (pp. 544–549)

- To avoid interest charges on a credit card, a consumer must _____.
A pay off the full balance each month
B make no charges at the end of the month
C pay the minimum monthly amount
D pay half the monthly balance
- Millions of people have been left in bankruptcy by the _____.
A lack of collateral
B easy availability of credit
C annual percentage rate
D high down payment requirement

Section 3 (pp. 552–558)

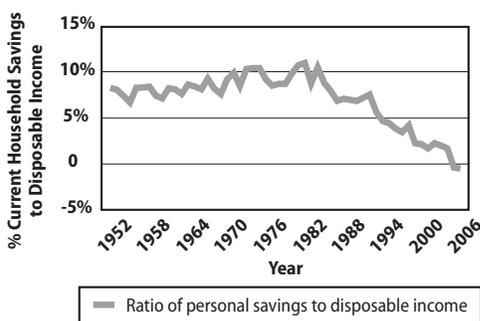
- Because certificates of deposit (CDs) require investors to lock up their money for a longer period of time than a regular savings account _____.
A banks rarely sell CDs
B there is no penalty for cashing them in
C CDs pay a higher rate of interest
D CDs pay lower rates of interest
- Compared to stocks and bonds, mutual funds are generally _____.
A less risky investments
B longer term investments
C higher risk investments
D shorter term investments

Section 4 (pp. 559–562)

11. If you are an impulse buyer, you may find that
- A you quickly lose interest in things you buy.
 - B you buy things that you do not need.
 - C you buy things that make you feel better.
 - D do all of the above.

Critical Thinking

Directions: Base your answers to questions 12 and 13 on the chart below and your knowledge of Chapter 20.



Source: U.S. Department of Commerce: Bureau of Economic Analysis.

12. Because savings not only benefit investors but also provide capital for businesses to grow, the chart indicates that in the future _____.
- A business will hire more people soon
 - B consumers have little money to spend
 - C business growth could slow down
 - D interest rates will begin to fall
13. Which of the following economic conditions characterized the United States between 1980 and 2006?
- A Consumer credit and savings increased.
 - B Savings increased; consumer credit decreased.
 - C Consumer credit increased, savings decreased.
 - D Savings and consumer credit decreased.

Document-Based Questions

Directions: Analyze the following document and answer the short-answer questions that follow.

Bankrate.com asked economist Joel Naroff whether America’s negative savings rate was a problem. The following is his reply.

To some extent we’re spending way beyond our means. We’re drawing down on wealth that has come from equities or, more importantly, our homes. Economists worry because we’ve gone through an environment where housing prices have soared, and we’ve spent a lot of the wealth that was generated.

The probability that over the next three years we’ll see that same increase in property values is pretty low, and there’s the possibility that prices will fall. What that says to economists is that the probability that we’ll draw that kind of money from equity again is small. If we spend a lot of the wealth and we don’t have that money going forward, consumer spending slows and the economy slows.

—Joel Naroff

14. According to Naroff, where are Americans getting the money to spend that they are not earning? Why are some economists worried?
15. How could spending our wealth today affect tomorrow’s economy?

Informational Writing

16. Is consumer debt still rising? At what rate? Do research to determine how fast such debt is growing and make some predictions about how it will affect the future.



For additional test practice, use Self-Check Quizzes—Chapter 20 on glencoe.com.

Need Extra Help?

If you missed question...	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Go to page...	547	549	555	557	540	543	548	549	556	558	560	553	553	553	553	548