



Applying Economics  
*A Toolkit for Personal Financial Literacy*

# ***Econ Alive!*** **The Power to Choose**

**TCi**<sup>TM</sup>

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# Contents

## **How to Use the Applying Economics Toolkit 1**

### **Section One: Setting Goals and Earning an Income 3**

- Setting Financial Goals 4
- Identifying Your Job Skills 6
- Determining a Career Path 8
- Finding a Job 10
- Writing a Resume and Cover Letter 12
- Preparing for a Job Interview 16
- Filing Your Taxes 18
- Protecting Your Workplace Rights 22
- Starting Your Own Business 24

### **Section Two: Managing Your Money 27**

- Creating a Budget 28
- Comparison Shopping 30
- Avoiding Identity Theft 32
- Choosing and Buying Insurance 34
- Selecting a Car Insurance Policy 36
- Maintaining a Checking Account 38
- Deciding Whether to Buy or Lease a Car 42
- Renting an Apartment 44
- Buying a Home 46

### **Section Three: Saving and Investing 49**

- Banking and Unbanking 50
- Saving Your Money 52
- Investing Your Money 54
- Establishing and Maintaining a Retirement Account 56

### **Section Four: Using Credit and Borrowing 61**

- Being a Savvy Credit Card User 62
- Assessing Credit Card Offers 64
- Applying for Financial Aid 66

### **Financial Fitness Quiz 68**



# How to Use the Applying Economics Toolkit

*Applying Economics: A Toolkit for Personal Financial Literacy* offers flexible, easy-to-use resources that will help your students assess their financial literacy, develop essential financial skills, and begin to plan for their financial futures. The toolkit is divided into four sections that address various aspects of financial literacy.

- Setting Goals and Earning an Income
- Managing Your Money
- Saving and Investing
- Using Credit and Borrowing

The “tools” in each section are two- to four-page reproducible handouts that teach financial literacy skills. The first page of each handout describes the skill and its importance and offers tips to help students begin to develop that particular financial skill. The remaining page or pages provide students with an opportunity to develop the financial skill in an authentic and engaging way, such as through an interview, personal survey, or community research.

The tools can be used to suit the needs of your students. One approach is to use the tools to extend *Econ Alive! The Power to Choose* lessons. Throughout the Lesson Guide, you will find suggestions for which tools to use and when to use them. Another approach is to intersperse the tools throughout the semester, starting with easier ones and moving on to more challenging tools.

The tools might also be used to support a semester- or year-long portfolio project. To facilitate such a project, consider using a checklist like the one on the next page. Assign each tool a point value, and require students to earn a specific number of points (for example, 70 out of a possible 100) by completing tools of their choosing.

Whichever approach you choose, students can complete the tools by working individually, in small groups, or as a class.

At the beginning or end of your economics course, you may wish to measure your students’ financial literacy by using the “Financial Fitness” quiz at the end of the Toolkit. This quiz helps students assess how well they manage their finances. If it is taken at the beginning of the school year, you and your students can use the results to determine which tools to focus on. Taken again later, the quiz can also serve as a postcourse assessment, showing students how far they have come in developing their financial literacy.

However you choose to use this toolkit, teaching financial literacy is an important part of helping your students prepare for life after high school.

## Personal Financial Literacy Portfolio Project

Tool	Points Possible	Points Awarded
Setting Financial Goals		
Identifying Your Job Skills		
Determining a Career Path		
Finding a Job		
Writing a Resume and Cover Letter		
Preparing for a Job Interview		
Filing Your Taxes		
Protecting Your Workplace Rights		
Starting Your Own Business		
Creating a Budget		
Comparison Shopping		
Avoiding Identity Theft		
Choosing and Buying Insurance		
Selecting a Car Insurance Policy		
Maintaining a Checking Account		
Deciding Whether to Buy or Lease a Car		
Renting an Apartment		
Buying a Home		
Banking and Unbanking		
Saving Your Money		
Investing Your Money		
Establishing and Maintaining a Retirement Account		
Being a Savvy Credit Card User		
Assessing Credit Card Offers		
Applying for Financial Aid		
<b>Total Points</b>	100	

## Section One

# Setting Goals and Earning an Income

*“You know you are on the road to success if you would do your job and not be paid for it.”*

—Oprah Winfrey

The first step in gaining financial literacy is to generate an income stream. The tools in this section are designed to help your students become familiar with the job market and begin to think about their place in it.

**Setting Financial Goals**

**Identifying Your Job Skills**

**Determining a Career Path**

**Finding a Job**

**Writing a Resume and Cover Letter**

**Preparing for a Job Interview**

**Filing Your Taxes**

**Protecting Your Workplace Rights**

**Starting Your Own Business**

## Setting Financial Goals

A financial goal is a plan to obtain, save, and manage your money so that you have the amount you need to do the things you want to do. Many of your future goals—such as attending college, buying a car, starting a business, traveling, or retiring—will be expensive. How will you pay for these things? Setting financial goals is an important part of turning those dreams into reality.

### Why set financial goals?

Setting financial goals helps you take charge of your finances. You will be better able to spend responsibly, avoid debt, have money for emergencies, build wealth, and reach your goals.

### How do you set financial goals?

Taking the time to think about what you want for your future is essential to setting clear goals. These tips and the charts on the next page will help you set realistic financial goals.

- 1 Determine your financial goals.** What do you want to accomplish in your life? Some of your goals may be immediate, such as finding an apartment or buying a car. Others may be long term, such as starting your own business or retiring when you turn 60. Make a list and be specific.
- 2 Set target dates.** It is helpful to break down goals by target dates. Short-term goals are your objectives for the next year, medium-term goals cover the next five years, and long-term goals are plans that will take more than five years to reach. Identify realistic target dates for achieving your goals.
- 3 Develop an action plan.** Write a list of the steps you will need to take to achieve each goal. Include any skills, education, supplies, or experience you will need. For example, if you want to open your own photography studio, your action plan might include these steps: take photography classes, research the job requirements and average salaries of photographers, learn about and purchase photography equipment, and locate and lease a studio.
- 4 Calculate the cost.** Estimate what it will cost to reach each goal. For example, how much money will it take to buy a car, pay off your debts, or complete college? Record the amounts on your list.
- 5 Review goals and timelines as needed.** Set a timetable for reviewing your goals, and stick to it. The more often you review your goals and monitor your progress, the more likely it is you will achieve those goals. At least once a year, calculate your *net worth* (assets minus debts) to monitor your progress. Update your goals or timelines as appropriate.
- 6 Start now.** People who identify, record, and regularly review their goals are far more likely to achieve them than those who just go around saying, “I’d really like to . . .” The important thing is to get started now on the path to achieving your goals.



## Identifying and Setting Financial Goals

Follow these directions to set realistic financial goals for yourself.

**Step 1** Determine one to three short-term, medium-term, and long-term goals. Assign a target date by which you would like achieve each goal. Be as specific as possible. For example, if you would like to own your own business by the time you are 30, write down the date of your 30th birthday.

Short term (1 year)	Medium term (1–5 years)	Long term (5+ years)
1.	1.	1.
2.	2.	2.
3.	3.	3.

**Step 2** Circle the two goals above that you would most like to focus on. For each of those two goals, do any research necessary to find out more about how to achieve that goal. For example, if your goal is to buy a car, you will need to research cars, auto loans, and car insurance policies. Then record three to five steps you will need to take to reach that goal. Remember to consider any skills you will need to develop, education you will need to have, or equipment you will need to acquire. Estimate the cost for each step, if any. Then estimate the total cost for each goal.

Goal 1	Goal 2
Goal:	Goal:
Steps:	Steps:
Deadline:	Deadline:
Estimated total cost:	Estimated total cost:

**Step 3** For each goal above, circle one step you can take immediately. Set a deadline for completing that step, and check it off your list upon completion.

## Identifying Your Job Skills

A skill is an ability to do something well. A job skill is an ability that helps you excel in your occupation.

### Why identify your job skills?

Assessing your skills will help you determine what will make you marketable as you search for a job or plan a career. Identifying occupations that you have the abilities for can also help you earn more money. Quite often, the things you are skilled in are also the things you like to do. In a job that you enjoy, you will be inclined to do your best, and you will be likely to find the greatest fulfillment.

### How can you identify your job skills?

Identifying your job skills requires you to look closely at yourself, your likes and dislikes, and your temperament. Use these tips and the skills inventory on the next page to assess your unique skill set.

- 1 Take a skills inventory.** Start with the skills inventory on the next page to assess your strengths. You also can find similar skill-assessment inventories online and in career-planning books from the library. Most college campus career centers provide in-depth self-assessments and career-counseling services.
- 2 Get feedback from others.** Sometimes we do not recognize our most marketable skills, but our abilities often stand out to others. Ask your family and friends about the skills they see in you.
- 3 List your accomplishments.** Make a list of things you have accomplished and enjoyed. You might include events you helped to organize, activities you participated in that helped people or animals, contests you won, school subjects you do well in, and creative or athletic activities that are important to you.
- 4 Match your skills with occupations.** Match your skills with career possibilities. Check out the hundreds of occupational profiles on the U.S. Bureau of Labor Statistics Web site or in career-planning books.

## Identifying Your Job Skills

Use this inventory and survey to help you identify your skills. First, complete the skills inventory by circling a number on the spectrum to indicate your position on each statement.

<b>Communication Skills</b>	strongly disagree		agree		strongly agree
1. I have strong oral communication skills.	1	2	3	4	5
2. I have strong written communication skills.	1	2	3	4	5
<b>Learning and Thinking Skills</b>	strongly disagree		agree		strongly agree
3. I generally learn new things quickly.	1	2	3	4	5
4. I am good at math.	1	2	3	4	5
5. I am skilled at using a computer.	1	2	3	4	5
6. I have strong research skills.	1	2	3	4	5
7. I have good problem solving and applied reasoning abilities.	1	2	3	4	5
8. I have strong critical thinking skills.	1	2	3	4	5
<b>Social Skills</b>	strongly disagree		agree		strongly agree
9. I work well with others.	1	2	3	4	5
10. I have strong leadership skills.	1	2	3	4	5
11. I get along well with customers.	1	2	3	4	5
<b>Workplace Skills</b>	strongly disagree		agree		strongly agree
12. I have strong time management skills.	1	2	3	4	5
13. I am a good planner.	1	2	3	4	5
14. I am detail oriented.	1	2	3	4	5
15. I am good at managing big projects.	1	2	3	4	5
16. I have strong manual or mechanical skills.	1	2	3	4	5
<b>Personal Attributes</b>	strongly disagree		agree		strongly agree
17. I am flexible and adaptable.	1	2	3	4	5
18. I am highly creative.	1	2	3	4	5
19. I am strongly motivated and enthusiastic.	1	2	3	4	5
20. I am very self-confident.	1	2	3	4	5

Now ask two other people—an adult and someone your own age—what skills or attributes they recognize in you. List their responses on a separate sheet of paper.

Based on the survey and the feedback you received, list your top five skills and attributes.

## Determining a Career Path

A career path is a planned progression of jobs within one or more professions. Determining your career path involves a number of steps, beginning with identifying your interests and abilities and then learning how to use them in the job market. Whatever career you decide to pursue, you will need a plan of action to achieve your goals.

### Why choose a career path?

The philosopher Confucius once said, “Choose a job you love, and you will never have to work a day in your life.” Setting goals and laying out a plan of action can help you enter a career you like, instead of settling for a job that is unfulfilling to you. In addition, having a direction can save you time and the high cost of education in a field that is not where your true interests lie. Although you may eventually change careers—which is quite common—having a focus now will help you get started. The skills and work experience you gain can help you even if you pursue another career direction later.

### How do you determine a career path?

After assessing your skills, find out about career options and develop a plan. The career-planning guide on the next page can help you put the tips below to use.

- 1 Begin with self-assessment.** To assess your strengths, weaknesses, and interests, you might take some free career assessment and personality tests online. Also consider talking to school counselors, teachers, and your parents about your strengths and any careers they think you might enjoy.
- 2 Explore career options.** Research a variety of careers to learn about the nature of the work, necessary skills and aptitudes, required education and training, future job outlook, and potential earnings. Find out about occupations by researching information at your school career center, speaking with school guidance counselors, exploring resources on the Internet, and getting information from trade, professional, and union organizations.
- 3 Conduct interviews.** Contact people in a field of interest to you, and conduct informational interviews to learn about their work. When setting up an informational interview, contact the person by telephone, mail, or e-mail, describe your interest in the field, and request a 15-minute meeting in person or by telephone. Prepare your interview questions in advance, and be sure to include topics that most interest you. See the guide on the next page for sample questions. Finally, be sure to write a thank-you note after the interview.
- 4 Develop a plan.** Once you have determined a field of interest, it is time to determine specific actions that will help you reach your career goals. If there are educational requirements, what high school classes can you take to prepare? Are there clubs or activities that would give you more knowledge or experience in your field? Research next steps after high school, such as college, vocational or technical training, internships, or national service (such as the Peace Corps or military service).

## Choosing a Career

Complete these steps to begin determining your career path.

**Step 1** Use the Occupational Outlook Handbook from the Bureau of Labor Statistics, at [www.bls.gov/OCO/](http://www.bls.gov/OCO/), to research three possible careers. Record your findings in the matrix.

Possible Career	Nature of the Work (hours, conditions, responsibilities)	Qualifications (education, training, skills, certification)	Earnings and Job Outlook

**Step 2** Choose the career that most interests you, and find someone who works in that industry. Conduct an informational interview by asking the questions below. On a separate sheet of paper, take notes about the answers you receive.

- What is your job title?
- What are your official responsibilities?
- What do you do during a typical day?
- What do you like best about your job? What do you like least?
- What personality traits, interests, and skills are necessary for success in your job?
- What education, training, and licensing did you need? Are these typical in your field?
- Did anything in high school help prepare you for this career? What would you suggest I do to prepare?
- Is there anything else you would like to tell me about your career?
- Where could I find more information about your career?

**Step 3** Describe two actions you can take while in high school to pursue your chosen career (such as coursework, extracurricular activities, after-school jobs, and volunteer work).

## Finding a Job

A job is an agreement to perform certain tasks in exchange for money. A job generally entails showing up at a particular place to work for a set number of hours under the supervision of a boss. Finding a job can be a job itself. Job hunting starts with a plan and involves an active search for work.

### Why find a job?

Besides enabling you to earn money and gain independence, jobs can help you explore different kinds of work. Sometimes finding your ideal job is a process of trial and error. By trying different jobs, you can discover what kind of work you enjoy or what other directions you might want to explore. Jobs also help you gain experience so you can move forward in forging a career.

### How do you find a job?

Searching for a job requires resourcefulness and persistence. Use these tips and the planning document on the next page to jump-start your search.

- 1 Evaluate yourself and your options.** What do you like to do, and what are you good at? Do you enjoy working with people, animals, or numbers? Do you have mechanical or technical skills? Based on your interests and strengths, make a list of job possibilities and employers to target. Consider internships and temporary work to gain work experience.
- 2 Prepare your resume.** For most jobs, a resume helps prospective employers quickly evaluate candidates. Spend the time to make your resume as good as it can be. (The “Writing a Resume and Cover Letter” tool can help guide you through the process.) Internet resources have detailed guidance about writing resumes and cover letters.
- 3 Check job-search Web sites and newspaper ads.** Search job listings, visit your local career center, and consider posting your resume on job-search Web sites. Look through the newspaper and online classified ads for job listings and job fair announcements. You might also want to contact staffing agencies that help match employers and employees for temporary and permanent jobs.
- 4 Network.** Eighty percent of jobs are not advertised, and over half of available jobs are found by networking. Networking involves telling people you know or meet that you are job hunting. They might be able to connect you directly to employers or jobs or to people who have such connections.
- 5 Make calls, visit employers, and follow up.** Call employers to inquire about openings. Look for “Help Wanted” signs in windows, and visit employers to fill out applications. Have a list of three references with you to submit with applications. Make follow-up calls to companies you have contacted if you have not heard from them in a week. You might say something like, “Hello, my name is Heather. I brought my resume in last week. Have you had a chance to review my qualifications? Would you like to schedule an interview?”

## Conducting a Job Search

Use this planning document to conduct a job search and apply for a position.

**Step 1** Find three jobs that interest you by using three different resources. List the type of resource you used in the top box (for example, “friend of parent” or “staffing agency”), and describe the job in the bottom box.

↓	↓	↓

Which of the three jobs would you most like to apply for? Explain why this job appeals to you.

**Step 2** Gather the materials on the checklist below to prepare to apply for this position.

- Photo identification and Social Security card
- Resume (if applicable)
- A list of three or four references and their contact information. Choose people who know you well, and make sure to talk to them *before* you list them on your reference sheet. Consider asking teachers, coaches, and people who have supervised you in work or volunteer situations.
- A list of previous jobs held. For all prior jobs, include the name of your last supervisor, your supervisor’s contact information, your dates of employment, and your hourly rate.

**Step 3** Obtain a job application for your desired position, and carefully fill out all required information. Be detailed and accurate about yourself and your qualifications. Attach a copy of your completed application to this sheet.

## Writing a Resume and Cover Letter

A resume is a summary of your education, experience, accomplishments, and skills. A resume is usually a one-page document. A cover letter is a letter that you send with your resume to express your interest in a specific job.

### Why write a resume?

Resumes help employers determine which candidates to interview. A resume is a tool to market yourself to employers, so crafting a great resume is important in helping you get an interview and land a job.

### How do you write a resume?

Describing your skills and experience in the right format can give you an effective resume. Use these tips along with the samples and guidelines on the following pages to write a great resume that gets you noticed.

- 1 Choose the right format.** There are three basic formats for resumes. Functional resumes describe a candidate's background in skills clusters such as *Leadership Skills* and *Organizational Skills*. Chronological resumes list work experiences in reverse chronological order, from most to least recent. Combination resumes combine both formats. The functional and combination styles work best for first-time job seekers without extensive work experience because the resumes highlight interests and skills that match the job that is being sought.
- 2 Customize your resume.** Show that you are the perfect match for a job by using key words from the job description to relate your experience and skills. Highlight relevant accomplishments by prioritizing them on your resume. Include the title of the advertised position in your job objective or stated goal at the beginning of your resume.
- 3 Learn resume basics.** Leave out personal pronouns such as "I," "my," and "me." To describe accomplishments, use active verbs such as *created*, *orga-*

*nized*, and *produced* instead of passive constructions such as "was responsible for." Print your resume on high-quality white, off-white, or ivory-colored paper. Learn more about how to write a resume by consulting books and Web sites on the topic.

- 4 Proofread your resume.** Closely read your resume numerous times over several days to check for typos, grammatical errors, and inconsistent capitalization. You may want to ask someone you trust to proofread your resume as well. Make certain that all information, including dates and years, is accurate.

### Why write a cover letter?

A cover letter alerts a company to which job you are applying for. It also highlights why you are a good candidate for a job. Even when not required, cover letters make you look professional and demonstrate your communication skills.

### How do you write a cover letter?

Use these tips and the samples and guidelines on the following pages to write a cover letter that sets you apart from the crowd.

- 1 Research the company.** Research the company's size, what it does, and who its clients are. If possible, find out the name and position of the person to address the letter to.
- 2 Personalize your cover letter.** Prepare a unique cover letter to show that you understand the nature of the job and that you have the skills to succeed. Use this opportunity to relate your personal experience to the company's mission and job requirements.
- 3 Keep it concise.** Limit your letter to one page. Three paragraphs are generally sufficient. Highlight one or two skills, but avoid listing what is in your resume.



## Writing a Resume and Cover Letter

Review the sample resume and cover letter on the next two pages. Then follow the directions on the last page to write your own resume and cover letter.

<b>Peyton Richardson</b>	23 Cavalier Court, Cleveland, OH 44111 216-555-0155 email@email.com
<b>Objective</b>	To obtain a part-time retail sales position
<b>Education</b>	<b>The High School</b> Anticipated graduation May 2014, GPA 3.62
<b>Work Experience</b>	<b>Cleveland Swimming Club, Lifeguard, 2012–2013</b> <ul style="list-style-type: none"> <li>Supervised pool, deck, and surrounding areas.</li> <li>Sold over \$3000 in concession stand items.</li> <li>Maintained pool, wrote reports, and organized records.</li> <li>Taught six swim camp sessions for children and adults.</li> <li>Have CPR and WSI (Water Safety Instructor) certification.</li> </ul>
<b>Volunteer Experience</b>	<b>Child Care, 2010–2012</b> <ul style="list-style-type: none"> <li>Supplied babysitting services for five families.</li> <li>Provided meals, medicine, baths, and supervision for nine children.</li> </ul> <p><b>Prom Committee, Treasurer, 2013–2014</b></p> <ul style="list-style-type: none"> <li>Selected the prom theme by researching options, meeting with design firms, and conducting student opinion surveys.</li> <li>Organized, advertised, and participated in numerous fundraisers to raise money for a \$60,000 prom.</li> </ul> <p><b>Future Leaders of Business, Vice President, 2012–2014</b></p> <ul style="list-style-type: none"> <li>Planned and led a service project to teach senior citizens at local nursing homes how to create and use e-mail accounts.</li> </ul> <p><b>The Mentoring Program, Member, 2010–2013</b></p> <ul style="list-style-type: none"> <li>Mentored two students during their three years in middle school; assisted with schoolwork and social issues.</li> <li>Tutored seven students, chosen by their teachers, in social studies to prepare for the state exam; all seven passed.</li> </ul>
<b>Skills &amp; Abilities</b>	<b>Computer Skills:</b> Word, Excel, PowerPoint, Internet research <b>Languages:</b> Fluent in English and Spanish <b>Personal:</b> Reliable, outgoing, organized
<b>Affiliations &amp; Honors</b>	<b>The High School Newspaper, 2011–2013, Writer and Editor</b> <b>Charity Student Fashion Show, 2013, Participant</b> <b>Cleveland Swimming Club, Employee of the Month, July 2012</b> <b>Tennis Team, 2010, District Doubles Champion</b>

Include your full name, address, phone number, and e-mail address.

Write a specific goal or objective that includes the job title.

List places and years of education and degrees obtained (or date of expected degree).

For each job you have held, list the job title, company name, and the years you worked there. If you have no paid work history, consider other work you have done at your home, school, church, neighborhood, and the like.

Use short statements that begin with action verbs (like *organized*) to describe your daily duties and highlight your achievements.

Include specific numbers when describing your accomplishments, but do not use personal pronouns (such as *I* or *my*).

Include additional sections to highlight your skills and abilities, organizations you belong to, and honors you have received. Be detailed and accurate.

**Formatting tips:** Design your resume to be one page in length. Make it easy to read: use a standard font and size, and be consistent with your use of bullets, boldface, and italics.

## Sample Cover Letter

23 Cavalier Court  
Cleveland, OH 44111  
216-555-0155  
email@email.com

January 9, 2014

Mr. Taylor Andrews  
Hiring Manager  
The Clothing Store  
2002 Buckeye Street  
Cleveland, OH 44179

Dear Mr. Andrews:

I am interested in the part-time sales clerk position at The Clothing Store as advertised on your company's Web site.

I have a wide range of experience in service-oriented jobs and have obtained the necessary skills to be a successful sales clerk. I possess a strong work ethic, as evidenced by the fact that club sponsors have often asked me to fulfill leadership roles.

This position corresponds with my professional interests, as I hope to pursue a career in the fashion industry. In particular, The Clothing Store targets young adults, and I will be able to connect with your customers by understanding their needs.

Thank you for your consideration. My resume is attached for your review. I would appreciate the opportunity to meet with you to discuss how my skills can meet the needs of your company. I look forward to hearing from you.

Sincerely,

Peyton Richardson

Type your one-page cover letter in standard business format. Make sure to demonstrate your communication skills by using proper grammar and spelling.

Address your letter to an appropriate person in the company, and include his or her job title.

**Opening paragraph:** State your reason for writing, and name the position you are applying for. Explain how you heard about the job opening.

**Body paragraph(s):** Briefly explain why you are qualified for the position. Include relevant training, work experience, job-related skills, personality traits, and abilities that relate to the position.

**Closing paragraph:** Thank the employer for considering you. Refer to your resume. End with a statement or question that prompts the employer to call you for an interview.

**Customize your letter:** Based on your research about the company, mention specific details about the job. Explain how you can meet the needs of the employer. Tie the job to your career goals.

## Writing Your Own Resume and Cover Letter

Review the sample resume on the previous page and plan your resume in the table below. Then type and print a final draft.

<b>Name &amp; Contact Information</b>	
<b>Objective</b>	
<b>Education</b>	
<b>Work Experience</b>	
<b>Volunteer Experience</b>	
<b>Skills &amp; Abilities</b>	
<b>Affiliations &amp; Honors</b>	

Review the sample cover letter on the previous page, and plan a cover letter to a potential employer and in the chart below. Then type and print a final draft.

<b>Opening Paragraph</b>	
<b>Body (one or two paragraphs)</b>	
<b>Closing Paragraph</b>	

## Preparing for a Job Interview

After a prospective employer reviews your resume and cover letter, a personal interview might be scheduled. You will meet the employer or several people to discuss your qualifications for the job and possibly take skills or aptitude tests. You might need to perform several interviews during your job search.

### Why prepare for an interview?

A typical first interview takes less than 30 minutes. That means you do not have much time to make a good impression. Planning in advance how to respond to interview questions, highlight your qualifications, and dress for success will increase your chances of getting the job.

### How do you prepare for an interview?

Use these tips and the mock interview on the next page to prepare for an interview.

- 1 Do your research.** Use the Internet, library, and magazines to find out as much as you can about the company, what it does, who its clients are, and the industry it is a part of.
- 2 Plan what to say and ask.** The interviewer will probably ask you some common interview questions. Prepare to discuss your skills and experience by reviewing the job description and identifying examples of how you have used relevant skills in previous jobs and activities. Also prepare some questions you might ask the interviewer to learn more about the position, such as, *Can you describe a typical day for someone in this position? Do you provide opportunities for additional training and education?* Wait until you receive the job offer to ask questions about salary and benefits.
- 3 Practice your presentation.** Conduct mock interviews with a friend or rehearse by videotaping yourself or practicing in front of a mirror. Check your posture, body language, and eye contact. Do you convey self-confidence? Do you answer questions clearly and honestly and show a positive attitude?
- 4 Dress appropriately.** Plan what you will wear. Make certain your outfit is clean and neat. Interviews for most professional jobs require a suit. Avoid casual clothing, such as T-shirts, jeans, flip-flops; revealing clothing; and clothes with stains or tears.
- 5 Take necessary items.** Bring extra copies of your resume for interviewers, and have one for your own reference. Also bring a list of references and copies of recommendation letters, if you have them. Employers may also ask to see your Social Security card or driver's license.
- 6 Be professional.** Get accurate directions to the site and arrive early. If you are unfamiliar with the location, travel there a day or two before your interview. Shake hands when you meet people, and look them in the eye when you speak to them. Be sure to get the names of staff members who interview you and send personal thank-you cards to them.

## Preparing for an Interview

Prepare for and conduct a mock job interview by completing these steps.

**Step 1** On a separate sheet of paper, prepare answers to these questions.

- Tell me about yourself.
- Why do you want to work at this company and in this position?
- How do you personally define success?
- Describe your greatest weakness.
- Tell me about a time when you had a very heavy workload. How did you handle it?
- Describe a time you used good judgment in a challenging situation.
- What have you learned from your previous work experiences (paid or unpaid) that will help you in this position?
- Describe a time you had to work closely with a person you did not get along with. How did you handle the situation?

**Step 2** To prepare for the mock interview, rehearse your answers to the questions above. Also write down a couple of questions you will ask the interviewer to learn more about the job.

**Step 3** Ask a family member or friend to help you practice your interview skills by conducting a mock job interview. Tell your interviewer to follow the instructions below. After you have received feedback, attach your prepared interview answers to this sheet.

**Dear Interviewer:** Thanks for agreeing to conduct this mock job interview. Please follow the steps below, and then return this sheet to the student.

1. Review the possible interview questions above. Circle approximately five questions that you will ask the student during the interview.
2. Stand, shake the student’s hand, and welcome the student to the interview.
3. Conduct the interview by asking the questions you circled. For each question you ask, jot down notes about the student’s answer.
4. Please answer the following questions about the student’s performance during the interview. Then give the student feedback by reviewing each question and offering suggestions for how the student can improve his or her interview skills.

Did the student . . .	Y	N	Comments/Suggestions
hold eye contact, sit up straight, and not fidget?	<input type="checkbox"/>	<input type="checkbox"/>	
shake your hand and use your name?	<input type="checkbox"/>	<input type="checkbox"/>	
answer questions clearly and concisely?	<input type="checkbox"/>	<input type="checkbox"/>	
treat the interview as a conversation?	<input type="checkbox"/>	<input type="checkbox"/>	
convey self-confidence and a positive attitude?	<input type="checkbox"/>	<input type="checkbox"/>	
ask follow-up questions and thank you at the end?	<input type="checkbox"/>	<input type="checkbox"/>	

## Filing Your Taxes

When you have a job, your employer takes money out of your earnings each pay period for income taxes and sends it to the federal government. Individuals are expected to file tax returns annually. Filing a tax return means completing forms to report your earnings from the prior year and to calculate how much more money in taxes you owe or how much should be refunded to you. You must file a federal tax return with the Internal Revenue Service (IRS) by April 15 each year.

### Why file taxes?

Taxes are used to fund the government and its activities. All U.S. residents and citizens who earn income are subject to federal income taxes, which generate income to help the government pay for such things as national defense, social programs, and building projects. Filing a return enables the government to keep track of your tax payments.

### How do you file taxes?

If you need to file a return, a 1040EZ form is usually sufficient. If you are self-employed or own real estate, you need to file a different form. Use these tips and the sample forms on the next page to learn whether you need to file a return and to practice completing one.

**1 Find out whether you need to file.** If you answer yes to one or more of these questions, you will most likely need to file a tax return.

- Did you have federal taxes withheld from your wages?
- Were you self-employed and did you earn more than \$400?
- Did you earn tips that you did not report to your employer?
- Are you being claimed as a dependent on your parents' return, and have you earned more than \$5,350 or received more than \$850 from investments? (If you have a combination of earnings and investment income, review IRS guidelines on the Internet or with a tax accountant.)

**2 Gather paperwork.** You will need your W-2 Wage and Tax Statements from your jobs. If you have interest income, you will need your 1099-INT statements. You should receive these from your employers and banks, respectively. You will also need federal (and maybe state) tax forms. You can get paper or electronic forms online and printed materials at many libraries and U.S. Post Offices.

**3 Fill out the tax form.** Use a calculator to compute the figures, and copy numbers carefully from any worksheets to your tax return. If you need help understanding the directions, talk to a trusted adult or visit [www.irs.gov](http://www.irs.gov), where you can find the answers to many questions. The IRS also provides free tax help; call 1-800-829-1040. Free in-person tax preparation is available in many communities for low- to moderate-income taxpayers through the Volunteer Income Tax Assistance program. Call the IRS information line for further information.

**4 Check your information.** Look over your return. Check that you entered your Social Security number and other figures accurately, that you identified the correct numbers on the tax table, and that your math is accurate. If you want your refund deposited into your account, check that you have entered your account number correctly. Attach your W-2 forms to the 1040EZ form. Make a copy of your tax return for your files.

**5 File your taxes.** File your taxes by midnight on April 15. (If you file later, you may owe interest and penalties.) If you are mailing in your return, see the instructions on the form for where to file. There is nothing to mail in if you are filing electronically and using your personal identification number.

# Filing a 1040EZ Federal Income Tax Form

Use the correct form. Visit [www.irs.gov](http://www.irs.gov) to check which form you need.

You may round all amounts to whole dollars. If you have two or more amounts for one line, add them *before* rounding.

Your employer should send a W-2 form to you by the end of January. Check the amounts on the form carefully. If you do not get a W-2 or find mistakes, request a new one.

If you earned interest on a savings account, it is taxable. The bank should send you a 1099-INT statement with the information. Enter the total amount of interest from all savings accounts.

If you are under 19, unmarried, and living with a parent or guardian, you can be claimed as a dependent.

Department of the Treasury—Internal Revenue Service  
**Form 1040EZ** **Income Tax Return for Single and Joint Filers With No Dependents** **2007** OMB No. 1545-0074

**Label** (See page 8.) **Use the IRS label.** Otherwise, please print or type.

**LABEL HERE**

Your first name and initial	Last name	Your social security number
If a joint return, spouse's first name and initial	Last name	Spouse's social security number
Home address (number and street). If you have a P.O. box, see page 9.		Apt. no.
City, town or post office, state, and ZIP code. If you have a foreign address, see page 9.		

Presidential Election Campaign (page 9)  You  Spouse

**Income**

<b>1</b> Wages, salaries, and tips. This should be shown in box 1 of your Form(s) W-2. Attach your Form(s) W-2.	1
<b>2</b> Taxable interest. If the total is over \$1,500, you cannot use Form 1040EZ.	2
<b>3</b> Unemployment compensation and Alaska Permanent Fund dividends (see page 10).	3
<b>4</b> Add lines 1, 2, and 3. This is your <b>adjusted gross income</b> .	4
<b>5</b> If someone can claim you (or your spouse if a joint return) as a dependent, check the applicable box(es) below and enter the amount from the worksheet on back. <input type="checkbox"/> You <input type="checkbox"/> Spouse If no one can claim you (or your spouse if a joint return), enter \$8,750 if <b>single</b> ; \$17,500 if <b>married filing jointly</b> . See back for explanation.	5
<b>6</b> Subtract line 5 from line 4. If line 5 is larger than line 4, enter -0-.	6
<b>7</b> Federal income tax withheld from box 2 of your Form(s) W-2.	7
<b>8a</b> Earned income credit (EIC).	8a
<b>b</b> Nontaxable combat pay election.	8b
<b>9</b> Add lines 7 and 8a. These are your <b>total payments</b> .	9
<b>10</b> Tax. Use the amount on line 6 above to find your tax in the tax table on pages 18-26 of the booklet. Then, enter the tax from the table on this line.	10
<b>11a</b> If line 9 is larger than line 10, subtract line 10 from line 9. This is your <b>refund</b> . If Form 8888 is attached, check here <input type="checkbox"/>	11a
<b>b</b> Routing number	<input type="checkbox"/> Checking <input type="checkbox"/> Savings
<b>d</b> Account number	
<b>12</b> If line 10 is larger than line 9, subtract line 9 from line 10. This is the <b>amount you owe</b> . For details on how to pay, see page 16.	12

**Payments and tax**

**Refund** Have it directly deposited! See page 75 and fill in 11b, 11c, and 11d or Form 8888.

**Amount you owe**

**Third party designee** Do you want to allow another person to discuss this return with the IRS (see page 16)?  Yes. Complete the following.  No

Designee's name  Phone no.  Personal identification number (PIN)

**Sign here** Under penalties of perjury, I declare that I have examined this return, and to the best of my knowledge and belief, it is true, correct, and accurately lists all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Joint return? See page 6. Keep a copy for your records.

Your signature	Date	Your occupation	Daytime phone number
Spouse's signature. If a joint return, both must sign.	Date	Spouse's occupation	

**Paid preparer's use only**

Preparer's signature	Date	Check if self-employed <input type="checkbox"/>	Preparer's SSN or PTIN
Firm's name (or yours if self-employed), address, and ZIP code	EIN	Phone no.	


For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 32. Cat. No. 11329W Form **1040EZ** (2007)

If you are claimed as a dependent on another person's tax return, you do not qualify for Earned Income Credit. Write 0 on line 8a.

Only you may discuss your tax return with the IRS. To give permission for the IRS to speak with someone else, such as a parent or accountant, complete this section.

Your form is not valid unless you sign it. If you e-file, you will receive special instructions on how to sign your return.

# Sample W-2 Wage and Tax Statement

a Employee's social security number <b>000-00-0000</b>		OMB No. 1545-0008		Safe, accurate, FAST! Use 		Visit the IRS website at <a href="http://www.irs.gov/efile">www.irs.gov/efile</a> .	
b Employer identification number (EIN) <b>00-0000000</b>			1 Wages, tips, other compensation <b>10,686.40</b>		2 Federal income tax withheld <b>1,602.96</b>		
c Employer's name, address, and ZIP code <b>Comany Inc. 123 High Way Anytown, MA 00000</b>			3 Social security wages <b>10,686.40</b>		4 Social security tax withheld <b>662.56</b>		
			5 Medicare wages and tips <b>10,686.40</b>		6 Medicare tax withheld <b>154.95</b>		
			7 Social security tips		8 Allocated tips		
d Control number <b>987654ZYXW</b>			9 Advance EIC payment		10 Dependent care benefits		
e Employee's first name and initial Last name Suff. <b>Jane I. Doe 456 Left Road Anytown, MA 00000</b>			11 Nonqualified plans		12a See instructions for box 12		
			13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		12b		
			14 Other		12c		
					12d		
f Employee's address and ZIP code							
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name	
<b>MA</b>	<b>000-000-000</b>	<b>10,686.40</b>	<b>566.38</b>				

**Form W-2 Wage and Tax Statement 2008** Department of the Treasury—Internal Revenue Service

**Copy B—To Be Filed With Employee's FEDERAL Tax Return.**  
This information is being furnished to the Internal Revenue Service.



## Completing an Income Tax Return

Follow these steps to complete a sample federal income tax return.

**Step 1** Obtain a copy of the current federal income tax Form 1040EZ and instruction book. Visit [www.IRS.gov](http://www.IRS.gov) to download the documents electronically or pick them at your local library or post office.

**Step 2** Use information from the sample W-2 Wage and Tax Statement and the details below to complete the top section and Lines 1 through 9.

- Jane received a 1099-INT statement from her bank showing she earned \$15.67 in interest for the past year.
- Jane did not receive any unemployment compensation for the past year.
- Jane is 18, unmarried, and lives with her parents.

**Step 3** Use the tax table in the instruction book to determine the amount of tax Jane owes. Enter this amount on Line 10.

**Step 4** Calculate the refund Jane is due or the amount of tax she owes. Do not sign, date, or file this return.

## Protecting Your Workplace Rights

Federal and state laws have been established to protect the rights, health, and safety of all workers, including specific laws to protect teen workers. These laws address such issues as wages, how workers are treated, how work-related injuries are handled, and the number of hours teenagers can work.

### Why protect your rights?

As an employee, you have the right to a positive, safe, and fair workplace. If you understand your rights before you begin work, you can be aware of problems that may arise and your options for addressing them.

### What are your rights as an employee?

Federal laws offer basic workplace protections. Here is a summary of some of the most important workplace rights.

- You have a right to a workplace free of hazards. If necessary, protective equipment will be provided, along with training on how to use it. You are permitted to report safety issues to your employer or to the Occupational Safety and Health Administration (OSHA). You may refuse to work if conditions are too dangerous.
- You may work only the number of hours allowed, at the types of work permitted, at the wages required by federal and state labor laws for your age.
- You are entitled to receive payment to cover medical care costs if you are injured or become sick due to your job. You may also be entitled to payment for lost wages.
- You have a right to work without racial or sexual harassment.

There may be other rights protected by your state laws. Go to “Youth Rules!” at the U.S. Department of Labor Web site, [www.youthrules.dol.gov/states.htm](http://www.youthrules.dol.gov/states.htm). Click on your state from the map to find specific information.

### How can you protect your rights?

Use these tips and the poster project on the next page to learn about your rights and responsibilities as a worker.

- 1 **Follow your employer’s health and safety rules and use required safety gear and equipment.** This includes the use of safety equipment when working around hazardous chemicals and on construction sites. Even if being safe means working more slowly, following the rules can protect your health and even save your life.
- 2 **Ask questions.** Request training if it feels necessary. Ask your supervisor or a colleague how to deal with difficult situations as they come up, such as speaking with angry customers, performing complicated tasks, and using machinery.
- 3 **If you feel unsafe at work, tell your supervisor, parent, another adult, or OSHA.** If your employer doesn’t respond to your concerns, you can report a hazardous situation directly to OSHA. Trust your instincts. Do not be afraid to ask questions or even to refuse to do a particular task if you feel it is unsafe.
- 4 **Stay alert and be careful.** When tasks become familiar, people sometimes have a tendency to get careless. Slips, falls, burns, and sprains are common injuries, especially when people rush. Even repetitive strain injuries can be avoided by paying careful attention to how you perform repetitive tasks.
- 5 **Know your resources.** When you begin work, you might be given an employee manual that outlines workplace policies and employee rights. Read it to learn as much as you can about your job. If the company has a human resources department, contact them to find out about any policies that pertain to your position and safety. The U.S. Department of Labor and local labor boards may have more information about employee rights specific to your occupation and location.

## Creating a Poster About Employee Rights

Create a poster to inform teen workers of their rights as employees and to encourage them to protect those rights. Create your poster for your place of employment or for another business employing teens.

**Step 1** Make a list of your rights as an employee. Use print, human, and online resources to research items for your list. Be sure to include any rights that are specific to your state and to your industry.

**Step 2** Narrow your poster content. From the list above, select the three to five most important rights for the workplace or business you are targeting.

**Step 3** Design and make your poster. Your poster should

- have a catchy, interesting title.
- explain why teen workers should protect their rights.
- identify and describe the rights you have selected.
- include one or more appropriate visuals.
- use colorful and creative touches.
- be free of spelling and grammatical errors.

**Step 4** Talk to a manager or someone in the human resources department to get permission to display your poster in an appropriate location.

## Starting Your Own Business

Starting your own business means more than just being your own boss. It means taking a creative idea and figuring out how to implement it. You will have to convince people to take your idea seriously and perhaps even invest in it. When beginning their own businesses, young entrepreneurs typically endure long hours (often unpaid at first), tough decisions, and limited financial resources.

### Why start your own business?

Starting something new is risky, but the potential rewards of owning your own business include independence, job satisfaction, and money. Even if your first venture is not successful, the experience you obtain from the process will be invaluable.

### How do you start your own business?

There is no one right way to launch your own business. Successful entrepreneurs will tell you that the more planning you do ahead of time, the better. Use these tips and the planning guide on the next page to begin researching a business you would like to start.

- 1 Come up with a winning idea.** This is easier said than done, but you need a solid idea that can sell. Think of a new or unavailable product—a good or service—or a current good or service that you can improve upon.
- 2 Research the industry.** Learn as much as possible about your target industry. Find out what similar products or services are available, identify whom your target consumers will be, and research your startup costs, such as equipment, labor, and education.
- 3 Shop your idea around.** Before investing too much time or money, ask people what they think of your idea. Talk to people within the industry, potential customers, and other entrepreneurs. Take their feedback seriously, and be open to letting your idea evolve.
- 4 Write a business plan.** A business plan is simply a written document in which you flesh out the details of your idea. The process itself forces you to think through many of the components of starting a business—such as target consumers, hidden costs, and marketing strategies. As you begin to implement your ideas, you will likely want to return to and revise this plan. Templates for business plans can be found online.
- 5 Start your business.** Set your business plan in motion. You will probably encounter some obstacles along the way, but keep pushing forward. According to Tulane business professor Lisa Amos, “Entrepreneurs average 3.8 failures before final success. What sets the successful ones apart is their amazing persistence.” Good luck!

## Planning a New Business

Follow these steps to begin planning your business. Record your responses on a separate sheet of paper.

**Step 1** Describe your idea for a new business.

**Step 2** Research the industry related to your idea, including answers to these questions.

- What similar products or services are available?
- Where are they sold?
- What do they cost the consumer?
- What are some potential startup costs? Consider factors such as training, materials, employees, and equipment.
- How are similar products or services advertised? Will you need to pay for advertising? If so, how much do you estimate it will cost?

**Step 3** Copy this matrix. Then go out and talk to at least two or three people about your business idea—including potential consumers, people in the industry, and entrepreneurs in other industries—and record their feedback. Based on their responses, revise your description in Step 1.

Person	Affiliation (consumer, in similar industry, entrepreneur)	Things He or She Likes About My Idea	Concerns About My Idea



## Section Two

# Managing Your Money

*“There are plenty of ways to get ahead. The first is so basic I’m almost embarrassed to say it: spend less than you earn.”*

—Paul Clitheroe

No matter how much students earn now or in the future, they will quickly find that managing their money is as important as earning it. The tools in this section are designed to familiarize students with some of the decisions they will need to make as they start to earn money and spend it.

**Creating a Budget**

**Comparison Shopping**

**Avoiding Identity Theft**

**Choosing and Buying Insurance**

**Selecting a Car Insurance Policy**

**Maintaining a Checking Account**

**Deciding Whether to Buy or Lease a Car**

**Renting an Apartment**

**Buying a Home**

## Creating a Budget

A budget is a plan to manage your money by tracking what you earn and spend. Just as a speedometer tells you how fast you are going so you can stay under the speed limit, a budget can help you recognize your spending limit.

### Why create a budget?

A budget helps you have enough money each month to pay for necessary expenses. It allows you to clearly see what you are spending your money on. With a budget, you can see where you can trim costs to pay bills and to save for unexpected expenses, as well as for short- and long-term goals.

### How do you create a budget?

Creating a budget does not have to be complicated. You need to develop a method that helps you identify and track income and expenses. Choose a system that works for you. You may choose to set up your budget in a notebook or on the computer using money-management software. The important thing is to feel comfortable with your system so you use it on an ongoing basis. The guide on the next page will help you create a budget.

**1 Track your income and expenses.** Most people use monthly budgets, but you can use a weekly budget if that is easier. Whatever you decide, first list all your sources of income, including allowance, monetary gifts, and money from jobs and projects. Then identify all the ways you spend money. Start with the expenses you are responsible for, which might include your monthly cell phone bill or school supplies. Then list nonessential items such as daily frozen yogurt or movies with friends. Track your income and expenses by keeping items such as pay stubs and receipts.

- 2 Create budget categories.** A budget is a personal thing, so individualize yours by using spending categories that fit your lifestyle. Revise them as your needs change. Categories might include “Transportation” for car expenses and public transportation costs; “Personal” for clothes, shoes, and gifts; and “Entertainment” for movies, concerts, and CDs. Other useful categories might be “Savings” and “Emergencies.”
- 3 Set realistic budget goals.** If your spending is preventing you from paying bills or setting aside money for long-term goals, you will need to find ways to trim expenses or increase your income. Start with small changes. You may have to revise your budget a few times to find what works. Be sure the goals you set to meet expenses and save for future plans are reachable. Examples of goals include saving for college, setting aside money for emergencies, and spending money more wisely.
- 4 Maintain your budget.** After you set your budget goals, get in the habit of tracking your expenses on a regular basis. You want to ensure that your spending does not begin to overshoot your budget limits and impair your longer-term goals.



## Creating a Monthly Budget

Follow these steps to create a monthly budget for yourself. You may use a notebook or a computer to create your budget. Consider using the template at the bottom of the page to help you.

**Step 1** Identify your monthly income and expenses. List the sources and amounts of regular income for the month, such as an allowance or a job. Total your monthly income. Then list any monthly bills you are responsible for (such as for a cell phone or car insurance).

**Step 2** Keep a log of your spending for at least one week. Record each expense.

**Step 3** Create budget categories for your expenses using the information you have gathered. Group similar expenses together in specific categories. For example, you might group spending on gasoline, parking, car insurance, and bus tickets under “Transportation.” Other categories you might use are “Savings,” “Entertainment,” “School Supplies,” and “Personal Care.”

**Step 4** Create a working monthly budget by setting a realistic amount for each expense category. Your total expenses should not exceed your total income.

**Step 5** Maintain your working monthly budget for at least one month. Record your income, and keep a log of your spending in each category. At the end of the month, total the amounts.

**Step 6** Analyze your working monthly budgeting by comparing your budgeted amounts to your actual amounts. Then answer these questions on a separate piece of paper.

- Was your system of recording easy and useful? Why or why not?
- Were your categories clear and helpful? Why or why not?
- How well did you do in meeting your budgeted amounts?
- What changes and improvements will you make for next month?

Category	Budgeted Monthly Amount	Actual Monthly Amount
Savings		
Transportation		
Entertainment		

## Comparison Shopping

Comparison shopping is a process in which you identify what you want to buy and then choose the best product and place to buy it. You do this by researching as much as you can about the item you want to buy, including features, brands, and vendors.

### Why comparison shop?

Comparison shopping can help you determine the best product for your needs at the best price. Comparison shopping also ensures that you do not make impulse buys.

### How do you comparison shop?

Use these tips and the shopping guide on the next page to learn more about comparison shopping.

- 1 Identify your needs.** What will you use the item for? For instance, if you are buying a laptop, will it be for basic word processing only? Or might you use it for making and sharing videos or designing graphics? To start, identify your price range and the necessary features—the criteria on which you will base your decision. For instance, if you are purchasing a laptop, some features to consider might be adequate processing power, memory, hard disk space, and battery life.
- 2 Research the item.** Read reviews of products that might meet your requirements on the Internet. Reviews and surveys also can be found in consumer publications and in trade magazines. Also talk to people you know who own specific products, and ask about their satisfaction with them.
- 3 Contact stores.** Go to several stores and check out the various products. Ask sales staff about the features that will fit your needs and the brands they recommend. Think ahead about what questions you would like to ask. You might want to write down your questions and note the information you receive.
- 4 Search for savings.** Research prices in stores and on the Internet. Watch newspapers and search the Internet for sales, rebates, and coupons. Ask stores about student discounts. When comparing the cost of an online item versus one purchased from a store, include the cost of tax and shipping in your calculations if they will be charged.

## Comparison Shopping

Use this guide to comparison shop for an item you want to buy.

**Step 1** Choose an item that you are interested in purchasing in the future such as a computer, MP3 player, type of sports equipment, or car.

**Step 2** Answer these questions about the item on a separate sheet of paper. Conduct research using consumer reports, catalogs, trade magazines, or the Internet if you need more information.

- What will you use this item for? Be as specific as possible.
- What is your price range?
- List three features of this item that are most important to you (such as speed, size, and specific functions). Add them to the matrix below.
- List at least three questions you have about the item and about the various brands and models available.

**Step 3** Go to a store that carries many versions of the item. Try to visit a specialty store, where salespeople tend to be more well-informed about the items they carry. Choose at least four products that might meet your needs, and ask a sales representative the questions you listed above and any others you may have.

**Step 4** Copy and complete the matrix on a separate sheet.

	Price	Feature 1: _____	Feature 2: _____	Feature 3: _____	Pros and Cons
<b>Product 1</b> (brand and model)					
<b>Product 2</b> (brand and model)					
<b>Product 3</b> (brand and model)					
<b>Product 4</b> (brand and model)					

**Step 5** Narrow your choice to two products. Then research the products online, in *Consumer Reports*, or by talking to people you know who own the item. Add any information about the products to the matrix.

**Step 6** Determine which item best meets your needs, and explain why.

## Avoiding Identity Theft

Identity theft is the misuse of your personal information for illegal purposes. Every two seconds, there is a new victim of identity theft in the United States. Those most likely to experience the crime are in the 18-to-29 age bracket. Unfortunately, experts expect identity theft to increase in the future. You can take action, though, to help protect your personal information.

### Why protect yourself against identity theft?

An identity thief leaves a trail of bills that leads back to you. You may still be struggling to clear up the mess years later. In the meantime, your credit can be affected. You may have a harder time getting a car, a student loan, or a place to rent or buy. You might be charged higher credit card fees and interest rates. Collection agencies may continue to contact you long after the crime was committed. Your identity may even be used if the thief, posing as you, is apprehended for a crime.

### How can you protect yourself against identity theft?

Use these tips and the self-audit on the next page to help protect yourself from identity theft.

- 1 Become informed.** Learn ways to avoid identity theft and what to do if your information is lost or stolen. Check out resources such as the Federal Trade Commission site, [www.ftc.gov](http://www.ftc.gov). Search for their “Deter, Detect, Defend” page, and take a look at other hyperlinks on the site. Research other Web sites for information and tips.
- 2 Safeguard personal information.** Keep your Social Security card and other personal information in a safe place at home. Do not carry your Social Security card or the number with you, and do not give the number or other personal information over the phone, through the mail, or over the Internet unless you have initiated the contact and know whom you are working with. An identity thief can pose as a representative from a legitimate company.
- 3 Shred financial documents.** Shred your charge receipts, credit card offers, old checks, bank statements, and other personal paperwork. Identity thieves pick through trash to get information.
- 4 Pay attention to bills.** A missing bill may mean an identity thief has changed your billing address. Contact the company immediately. Closely check your credit card statements for charges you did not make, and watch for account statements that are not yours.
- 5 Protect your computer.** Make certain you have firewalls, antispyware, and antivirus software on your home computer and laptop and that those protections are up to date. Don’t click on links sent in e-mails from strangers. Type the Web address into your browser instead.
- 6 Protect your mail.** Take outgoing mail containing checks or other personal information to the post office. Pick up mail from your mailbox as soon as it arrives. Consider getting a locking mailbox or renting a mailbox at a postal facility.

## Performing an Identity Theft Self-Audit

Perform a self-audit to assess your vulnerability to identity theft.

**Step 1** Circle an answer on the spectrum for each statement below.

	always	almost always	some- times	almost never	never
1. I keep paperwork with my personal and financial information in a secure place at all times.	1	2	3	4	5
2. I do not share my personal or financial information electronically in e-mail or online.	1	2	3	4	5
3. I shred paperwork with my personal and financial information before discarding.	1	2	3	4	5
4. I do not conduct personal or financial business on public computers or in public wireless hot spots.	1	2	3	4	5
5. I ignore and close Internet pop-ups asking for my personal or financial information.	1	2	3	4	5
6. I drop off my mail in a secure mailbox and pick up the mail promptly after it arrives.	1	2	3	4	5
7. I know approximately when my bills should arrive and I watch for them.	1	2	3	4	5
8. I review my account statements carefully for unauthorized charges.	1	2	3	4	5
9. I check my free credit report once a year online at <a href="http://www.AnnualCreditReport.com">www.AnnualCreditReport.com</a> .	1	2	3	4	5
10. I know what telephone numbers to call if I detect suspicious activity on my accounts.	1	2	3	4	5
11. I have updated firewall, antispymware, and antivirus software installed on my computer.	1	2	3	4	5
12. I ignore and delete unsolicited e-mails, especially those with links or attachments.	1	2	3	4	5
13. I do not use obvious passwords (such as my birth date, my mother's maiden name, or my Social Security number) for online accounts.	1	2	3	4	5
14. I use privacy settings to limit who can access and post on my pages at social-networking Web sites.	1	2	3	4	5
15. I only post information on my pages at social-networking Web sites that I am comfortable letting others see.	1	2	3	4	5

**Step 2** Answer these questions on another sheet of paper.

- What most surprised you in responding to these statements?
- Which of the actions listed are ideas you had not considered?
- Which of the actions listed are most applicable and important to you?

**Step 3** Identify at least three actions you can take to reduce your vulnerability to identity theft. Perform these actions, and report what you did. Try to provide some evidence for one of your actions, such as the list of phone numbers to call if you detect suspicious activity on your accounts.

## Choosing and Buying Insurance

Insurance is a contract between you and an insurance company in which you pay a certain amount of money per year to the company. In exchange, the company agrees to pay for costs associated with unexpected occurrences. You can buy insurance to protect yourself from financial losses that can occur from such events as accidents, illnesses, theft, fires, or natural disasters.

### Why should you choose and buy insurance?

Events such as accidents, illnesses, and natural disasters can cost thousands of dollars and even lead to bankruptcy. Taking the time to select the right insurance coverage and amounts will help protect you. Not everyone needs all types of insurance.

### How should you go about choosing and buying insurance?

When you buy insurance, you receive a contract called a *policy* that details the amount of money the insurance company agrees to pay in case of losses. The policy also identifies the *premium*, which is the amount you pay each month or year for the coverage. Use the following tips and the activity on the next page to learn more about insurance.

**1 Consider what types of insurance you need.** Begin by thinking about what could create economic losses in your life. Some types of insurance, such as car and health insurance, are critical. Others will depend on your personal circumstances. Once you figure out what types of insurance you need, determine the extent of coverage you want for each type of insurance. For example, if you need to purchase health insurance, you will choose between coverage for emergencies only or more complete primary care. Many people have health insurance through their employers. If you or your family does not, investigate various plans, including temporary

insurance. At the minimum, choose a health plan that includes coverage for costly care, such as hospitalization and treatment, surgery, and emergency room visits.

### Common Types of Insurance

Health insurance

Car insurance

Homeowners' insurance

Renters' insurance

Life insurance

Earthquake insurance

Flood insurance

Disability insurance

Dental insurance

Long-term care insurance

- 2 Call or visit an agent or broker.** An insurance agent works on behalf of one or more insurance companies. An insurance broker does not represent particular companies and can search a broader range of plans. Shop around. Get as much information as possible about policies and premiums from a variety of sources.
- 3 Compare policies and costs.** Check the differences among policies, such as whether they cover specific dollar amounts or a percentage of a loss. Also use the Internet to comparison shop.

## Learning About Insurance

Follow these steps to learn more about different types of insurance.

**Step 1** Choose three types of insurance that interest you. (Do not include car insurance, as there is a separate activity on buying car insurance.)

**Step 2** Call or visit an insurance agent or broker to find out more about each type of insurance. Use this information to complete this matrix.

Type of Insurance	Examples of What It Covers	Range of Costs (annual or monthly)	On a scale of 1 to 5, how important is it to have this insurance in the next 5 years? Why?	On a scale of 1 to 5, how important is it to have this insurance in 10 to 15 years? Why?

## Selecting a Car Insurance Policy

A car insurance policy is a contract between you and an insurance company. You purchase insurance and if something happens to you or your vehicle, the insurance company pays for all or part of the damage. If you own a vehicle, most states will require you to have car insurance. To find the best policy for you, you will need to obtain quotes from different insurance companies by calling them directly or filling in applications online.

### Why shop around to find the best car insurance policy?

First and foremost, shopping around can help you save a lot of money. Similar policies can differ by hundreds of dollars. In addition, depending on your circumstances, you may or may not need certain types of coverage. It is worth the time to compare policies so that you can find the one that is right for you.

### How can you choose the best car insurance policy?

Use these tips and the handout on the next page to find the best car insurance policy for you.

#### 1 Get adequate, but not unnecessary, coverage.

Don't skimp on *liability insurance*, which will cover you for damages to other people or vehicles if you are at fault in an accident. To save money, your best bet is to opt for a higher *deductible*, the amount you must pay before the insurer will cover expenses. But be careful—if you choose a high deductible, your out-of-pocket expense in case of an accident or theft will be much higher. Also, depending on your circumstances, you may not need optional coverage such as towing, locksmith, and free rentals in emergencies. (Of course, if you have the money, these are nice options to have.)

- 2 Get several quotes.** To get a quote, you will have to give the insurer your personal information (age, address, job), as well information about your car such as model, make, year, and VIN (Vehicle Identification Number). Call two or three of the larger and more established companies, as well as a couple of smaller companies. Be wary of online sources that claim they compare all insurance policies for you. Do the comparing yourself, as online sources cannot take all factors into account.
- 3 Talk to an agent.** Most insurance companies have agents who will gladly review their quotes with you and answer questions on coverage options and costs. Make sure to ask how to go about filing a claim and how quickly claims are processed.
- 4 Cash in on discounts.** You can get discounts for a good driving record, having good grades, having an alarm system, and maintaining low annual mileage. In addition, you can sometimes save money if you pay six months in advance instead of in monthly installments. Insurance companies also often give discounts if you purchase other types of insurance from them (a practice called *bundling*).



## Comparing Car Insurance Policies

Review the sample car insurance quote below. Then complete the matrix and answer the questions below to compare two quotes for your vehicle.

Protects you against claims for damages if you cause an accident, including medical expenses, lost wages, and pain and suffering.	<b>Insurance Quote for Vanessa Driver</b>		
The higher the limits, the more coverage you will have in the event of an accident <i>and</i> the higher your total payment will be.	<b>Vehicle:</b> 2004 Nissan Altima <b>VIN Number:</b> 2X4XXX6828734		
Pays for damages you cause to other people's property, such as vehicles, fences, and houses.	<b>Coverage</b>	<b>Limits</b>	
Pays if you are injured by a hit-and-run driver or a driver without car liability insurance.	Bodily Injury	\$100,000 each person \$300,000 each occurrence	
Protects you when the other driver is at fault and his or her limits of liability are lower than the damages you incurred.	Property Damage	\$100,000 each occurrence	
	Uninsured Motorists	\$100,000	
	Underinsured Motorists	\$100,000	
	<b>Deductible</b>		
	Auto Collision Insurance	Actual Cash Value	\$500
	Auto Comprehensive	Actual Cash Value	\$500
	<b>Total Payment for 6 months:</b> \$560		
Pays for damage to your car due to collision with an object, such as a tree.	The sum you pay before the insurer covers expenses. (A higher deductible means a lower total payment).	Pays for damage to your car from almost all causes other than collision, such as theft and fire.	

Copy this matrix. Then contact two insurance companies to obtain a quote for your car (or a parent's or a friend's car). Know the make, model, and year of the car, as well as its Vehicle Identification Number (listed on the title).

	Company 1: _____	Company 2: _____
Bodily injury		
Property damage		
Uninsured/underinsured motorists		
Collision deductible		
Comprehensive deductible		
Total payment (6 months)		

Would you purchase car insurance from either of these companies? If so, which one and why?  
 What advice would you give other students who are looking to buy car insurance for the first time?

## Maintaining a Checking Account

A checking account is an account at a bank, savings and loan, or credit union that allows the holder to write checks against deposited funds. In addition to writing checks, you can also access the funds in your account using a debit card, automatic withdrawals, and online bill-paying. With all these ways to spend the money in your account, it is important to keep careful track of the amount of money you have. It is also important to reconcile your account by comparing your records against the bank's online or paper statement each month.

### Why should you regularly maintain your checking account?

Balancing your checkbook or checking the online balance will let you know for certain how much money is in your account and whether you and your bank agree on what has happened in your account. If you make a math error in your check register or forget to record an ATM withdrawal, you may bounce a check. This can cost you in fees from both your bank and from the company you wrote the check to. Banks can make mistakes as well.

### How do you maintain a checking account?

Balancing your checking account is one of the most basic ways to manage your money. Use these tips and the practice sheet on the next page to help you balance your checking account.

#### 1 Keep track of your checking account activity.

Record your checks, ATM activity, debit card transactions, automatic payments, bank fees, and your deposits in your checking account ledger, by date, at the time they occur. Then do the math to find out how much money you have. This will tell you what your balance is at a glance and help ensure that you don't spend what is not there.

You will also have a much easier time balancing your checkbook each month.

#### 2 Set aside a regular time to balance your account.

Plan a regular time each week to sit down to balance your checking account. By double checking your calculations and keeping them up to date, you will know exactly how much money is in your account.

#### 3 Reconcile your checkbook with your statement.

As soon as your statement arrives in the mail, or monthly using your online statement, compare your calculations with the bank statement. Mark off in your checkbook the payments, deposits, and fees listed in your bank statement. The ending balance in your checkbook should match the ending balance on your bank statement for the statement end date. Checks that you have written but that have not yet been deposited or cleared through the bank will not yet show up on your statement. If you need help, consult the instructions on your bank statement or online.

#### 4 Find and fix errors.

Balancing and reconciling your checkbook regularly will help you to quickly correct any errors that may throw off your account balance. If there is an error by the bank, you typically have 60 days to report it. If you are unable to reconcile your checking account balance with your bank statement, recheck the math in your checkbook. If you still cannot find the error, you might ask someone you trust to review the statement with you, or contact your bank with your questions.

## Balancing and Reconciling a Checking Account Ledger

Complete the tasks below to balance and reconcile a sample checking account.

**Step 1** Create a checking account ledger like the one below. Then use the page of receipts and the following facts to record transactions in your ledger. After recording each transaction, calculate and record the balance in the last column.

- You wrote check 824 to Mobile USA for \$78.65 to pay your cell phone bill on 6/15.
- Two paychecks for \$234.89 each were automatically deposited on 6/12 and 6/26.
- Your car insurance premium to Acme Auto for \$59.08 was automatically withdrawn on 6/25.

Number or Code	Date	Transaction Description	Payment, Fee, Withdrawal (-)	Deposit, Credit (+)	Balance
SC	5/31	Beginning balance			\$161.14
		Enter the name of the company you paid, if appropriate, or a brief description of the transaction (such as <i>cash or paycheck</i> ).	Enter the amount of any payments, fees, or withdrawals.	Enter the amount of any deposits or credits to your account.	

Enter the number of the check or the code for the type of transaction. Here are some typical codes:  
 AD: Automatic deposit      DEP: deposit  
 AP: Automatic payment      SC: Service charge  
 ATM: Cash withdrawal  
 DC: Debit card purchase

Enter the date of each transaction. If you are recording several transactions at one time, order them from least to most recent.

Write in your balance. Calculate the balance by subtracting the amount in the “Payment, Fee, Withdrawal” column or adding the amount in the “Deposit, Credit” column.

**Step 2** Use the sample monthly bank statement to reconcile the checking account by comparing the transactions to the ledger. On the ledger, place a check next to each transaction that is recorded correctly on both the statement and the ledger.

**Step 3** Answer these questions on a separate sheet of paper.

- Is there a difference between the ending balance on the ledger and the bank statement? If so, after checking all your entries and calculations, how can you explain the difference?
- What challenges do you think you would have in maintaining your own checking account?
- What steps might you take to address those challenges?

## Sample Checking Account Receipts

**Bank USA**

DATE: 06/02/08  
 TIME: 02:11 PM  
 MACHINE: B2M07044

4271 MAIN STREET  
 PALO ALTO, CA 94394

TRANSACTION NUMBER 42771      \$40.00  
 WITHDRAWAL FROM CHECKING

THANKS FOR BANKING WITH US!

**Bank USA**

DATE: 06/10/08  
 TIME: 07:28 PM  
 MACHINE: B2M07044

4271 MAIN STREET  
 PALO ALTO, CA 94394

TRANSACTION NUMBER 49980      \$40.00  
 WITHDRAWAL FROM CHECKING

THANKS FOR BANKING WITH US!

**The Diner**  
 17735 S. 4th Street  
 San Jose, CA 95112  
 408-555-6175

Server: Minh      06/08/08  
 06:10 PM      Table 11

Card #XXXXXXXXXXXX4219  
 Approval: 08766

Amount: 20.47  
 + Tip: 5.00  
 = Total: 25.47

X Paul Garcia  
 Approved

Good friends and great food.  
 See you again soon!

\*\*Guest Copy\*\*

**Bank USA**

DATE: 06/30/08  
 TIME: 04:47 PM  
 MACHINE: B2M07044

4271 MAIN STREET  
 PALO ALTO, CA 94394

TRANSACTION NUMBER 55324      \$40.00  
 WITHDRAWAL FROM CHECKING

THANKS FOR BANKING WITH US!

**TOWN CENTER THEATRE**  
 333 TOWN CENTER PLAZA  
 SAN FRANCISCO, CA 94109

DATE: 06/14/08  
 CASHIER-322

ACCT. XXXXXXXXXXXXXXX4219

ONE ADULT TICKET      \$10.50

TOTAL:      \$10.50

CARD XXXXXXXXXXXXXXX4219  
 DEBIT:      \$10.50

APPROVED  
 AUTHORIZATION CODE: 05443

DEPOSIT TICKET

**PAUL GARCIA**  
 15122 MIRANDA AVE.  
 PALO ALTO, CA 94304

DATE 06/05/08

birthday check

**Bank USA**

: 324415655 0087264219 :

CASH	
CHECKS	100.00
SUBTOTAL	
LESS CASH	
NET DEPOSIT	100.00

## Sample Bank Statement for a Checking Account



CHECKING ACCOUNT STATEMENT      ACCOUNT# 324415655 0087264219  
 TRANSACTIONS DATED 06/1 - 06/30

DATE POSTED	TYPE	TRANSACTION	AMOUNT(\$)	BALANCE (\$)
6/1		BEGINNING BALANCE		161.14
6/2	ATM	CASH WITHDRAWAL	-40.00	121.14
6/5	DEP	CHECK DEPOSIT	+100.00	221.14
6/8	DC	THE DINER	-25.47	195.67
6/10	ATM	CASH WITHDRAWAL	-40.00	155.67
6/12	AD	AUTOMATIC PAYCHECK	+234.89	390.56
6/14	DC	TOWN CENTER THEATRE	-10.50	380.06
6/15	824	CHECK 824	-78.65	301.41
6/25	AP	ACME AUTO	-59.08	242.33
6/26	AD	AUTOMATIC PAYCHECK	+234.89	477.22
6/30	ATM	CASH WITHDRAWAL	-40.00	437.22
6/30	SC	MONTHLY BANK FEE	-2.50	434.72

DO YOU HAVE QUESTIONS ABOUT YOUR STATEMENT? CALL US  
 ANYTIME AT 1-800-555-1212 OR VISIT US ONLINE.

## Deciding Whether to Buy or Lease a Car

Leases and loans are different methods of financing a vehicle. Leasing means that you pay a certain amount of money over a specified time period in exchange for the use of a car. At the end of the lease period, you turn the car into the dealer or buy it. With a lease, you are paying for a portion of the car's actual cost—the part you use up during the time you are driving it. When you buy a car, you pay for the entire cost of the vehicle. A car loan can help you finance the purchase of a car.

### How do you decide whether to lease or buy?

Looking at your finances, needs, and lifestyle can help you determine which option—leasing or buying—is right for you. Use these tips and the steps on the next page to decide which option is better.

- 1 Research which car fits your needs and budget.** Identify your driving needs, the vehicle features you are seeking, and what you can afford. Read reviews and research ratings and prices of new and used cars. You can find such information in Consumer Reports' *New Car Buying Guide* or *Used Car Buying Guide*, available in the library, or online resources such as [www.edmunds.com](http://www.edmunds.com).
- 2 Look at initial costs.** Leases are cheaper than car loans in the short term (but almost always the more expensive long-term option). A lease usually requires a lower down payment and has lower monthly payments than a car loan. Short-term considerations are important if you do not have the money upfront for a substantial down payment and for monthly payments that are steeper than a lease. You also can choose a more expensive car if you lease because you are paying only for the time you use it. Whether you lease or buy, you will need to save money for the initial costs.
- 3 Consider short- and long-term use.** If you want to drive an expensive, new car every few years, it makes sense to lease. You also can save on repair

costs by driving a newer model. Ownership gives you the benefit of continuing to use the vehicle or being able to sell or trade it in after you have finished paying for it. Leasing payments do not buy you ownership. If you choose to buy a vehicle after leasing it, you may end up paying more than if you had initially purchased the car with a loan.

- 4 Consider how much driving you will do.** Most leases allow you to drive the vehicle 15,000 miles per year. If you drive more than that, you must also pay a significant amount per mile. You can sometimes purchase extra miles up front, which can save you some money, but there is still an extra cost involved. Purchasing a vehicle allows you freedom from such mileage restrictions.
- 5 Consider your lifestyle and plans.** If you will be transporting your dogs in your vehicle and a surfboard or kayak on top, it might make more sense to buy rather than to lease. You will have to pay for any damages to a vehicle if you lease. If you will be moving in a year or foresee some other life changes that will cause you to terminate your lease early, you may want to consider buying. When you cancel a lease early, you normally have to make all remaining payments, minus adjustments for depreciation that did not occur because you turned the vehicle in early.

## Evaluating Whether to Buy or Lease a Car

Decide whether to buy or lease your next car by following these steps.

**Step 1** Visit car dealerships and Web sites such as [www.edmunds.com](http://www.edmunds.com) to research a car you are interested in purchasing. Choose a car you think you will be able to afford. List the make, model, and price.

**Step 2** Use the “Basic Loan Calculator” and the “Basic Lease Calculator” on [www.edmunds.com](http://www.edmunds.com), or a similar site, to fill out the matrix below. You can also print your results and attach them to this sheet.

	Car Loan (buy new)	Car Lease
Total amount financed		
Length of financing		
Monthly payments		

**Step 3** Does a car lease match your lifestyle? Honestly answer the questions below by checking yes or no.

Do you . . .	Yes	No
Prefer to have lower monthly payments, but pay more in the long run?		
Plan to invest any money saved from having lower car payments?		
Drive fewer than 15,000 miles per year?		
Want to get a new car every three years or so?		
Plan to keep your car in perfect condition (and not modify it)?		
Have a stable income and lifestyle so you can keep the same car for three years?		

If you answered yes to *all* the questions, your lifestyle matches that of a car lease. If you answered no to *any* of the questions, your lifestyle matches that of a car loan.

**Step 4** Have you ever considered buying a used car? Find a used car (2 to 5 years old) that is the same make and model as the car you chose in Step 1. Use the “Basic Loan Calculator” on [www.edmunds.com](http://www.edmunds.com), or a similar site, to determine your monthly payments. What is the difference in monthly payments between buying new versus buying used?

**Step 5** For your next car, do you think you should buy new, buy used, or lease? State which option fits you best, and explain your reasoning using evidence from your self-assessment and from the monthly payment calculators.

## Renting an Apartment

To rent an apartment means to pay to use someone else's apartment. When you rent an apartment, you sign a rental agreement or a *lease*, which is a contract between you and the owner. This document spells out the terms of an agreement, such as how much rent you will pay monthly, how long the lease runs, and how much the security deposit is.

### Why rent an apartment?

Renting is an alternative to buying a house or condominium. Renting allows you the flexibility of living and working in an area without the financial commitment of property ownership. Renting also allows you to move around depending on your personal circumstances, and it costs less money upfront.

### How do you rent an apartment?

Doing some research and budget planning will help you get started. Use these tips and the planning document on the next page to help find and rent an apartment.

- 1 Determine how much you can afford to pay in rent.** Rent should not be much more than 30% of your monthly income. You will also need to factor in the *security deposit*. This payment, which is usually equivalent to one month's rent, covers any damages that occur while you are living in the home. You may have to pay the last month's rent upfront as well.
- 2 Decide what you want.** What area do you want to live in? Is it safe? You can check crime statistics for neighborhoods online or at local police departments. How many bedrooms and bathrooms will you need? What features—such as a yard, parking, and laundry facilities—are important to you?
- 3 Search for rentals.** Check newspaper ads, apartment publications, online resources, and college campus bulletin boards. Ask around about rentals. Search for “for rent” signs in neighborhoods where you want to live.
- 4 Check out apartments.** When you make an appointment to see an apartment, get good directions to the rental, and take someone with you. Check the apartment for such things as locks on the doors and windows, plumbing that works well, and a fire escape if it is on an upper story.
- 5 Fill out a rental application.** Be prepared to give personal references and financial and employment information. As a first-time renter, you can use a parent or other adult as a reference. You also may need a *co-signer*, an adult who agrees to take over the obligations of the lease if you are unable to. The owner will check your credit history and possibly the credit history of your co-signer.
- 6 Review the agreement.** When you are ready to lease or rent, carefully review all the terms of the rental or lease agreement. Make sure any existing damage in the apartment is listed in the document. An agreement by the landlord to fix any problems by a certain date can also be included in the paperwork.



## Comparing Apartments

Use this planning document to help you find a suitable apartment.

**Step 1** Imagine that you have a full-time job that brings home about \$1,600 a month. On a separate sheet of paper, answer these questions.

- Do you want to have a roommate or roommates? If yes, specify how many.
- How much are you willing to pay for rent per month?
- What city and neighborhood do you want to live in?
- Do you need secure parking?
- How many bedrooms and bathrooms do you want?
- Do you or your roommates have pets?

List any other criteria you have for renting an apartment.

**Step 2** Search for three rentals in newspaper ads, apartment publications, or online. Then create and fill out this matrix.

	Apartment 1	Apartment 2	Apartment 3
Location			
Monthly rent			
Included costs (such as water, sewer, garbage)			
Number of bedrooms			
Number of bathrooms			
Parking spot? (Y or N)			
Pet policy			
Additional amenities (such as pool, gym, gated entrance, business center)			

**Step 3** Which apartment is your top choice? Explain why.

## Buying a Home

Buying a home means purchasing a house and the property it stands on using cash or a loan. One of the major steps in buying a home is getting a mortgage, a loan used to finance the purchase of real estate.

### Why buy a home?

Buying a home can be a good investment. Your mortgage payments are going toward owning the property rather than rent, and homes generally increase in value. Owning a home offers tax benefits, too. All the interest and property taxes you pay can be deducted from your gross income, reducing your federal income tax.

### How do you buy a home?

Buying a home is the largest purchase most people will ever make. Use these tips and the exercise on the next page to learn about buying a home.

- 1 Get your finances in order.** Lenders look at your credit score. The better your credit, the more likely you will be able to obtain a mortgage and the better interest rate you will get. Order a copy of your credit report to see what lenders see. Credit reports are generated by three major credit bureaus that collect information about your borrowing habits. Resolve any credit issues your report reveals, and make sure your accounts are in good standing.
- 2 Determine how much you can afford.** What you can afford depends on your monthly expenses, your income, your mortgage interest rate, and the down payment you will put on the property. Many real estate Web sites have online calculators that can help you determine how much you can afford.
- 3 Save for a down payment and other costs.** When you begin planning to buy a home, set aside money for the initial costs. The down payment is an amount you pay upon closing, the day the house becomes yours. Your down payment will likely be at least 15% to 20% of the purchase price. Closing costs—the fees involved in a real estate transaction—will be around 3% to 6% of the purchase price. You will also need between \$250 and \$800 to cover additional costs. In addition, you may need to save to purchase appliances and furniture.
- 4 Find a lender and get preapproved.** Home loans are available through banks, mortgage companies, and credit unions. Check your local newspaper and the Internet for information on interest rates and loan fees. A mortgage broker can help you with this step, as brokers usually sell a variety of loans. Call several lenders, compare interest rates and costs, and negotiate to get the best price you can. Then get preapproved for a mortgage so you know how much you can spend on a home. Also ask lenders about special programs for first-time home buyers.
- 5 Find a realtor and search for homes.** A real estate agent can help you search for homes and assist you in the negotiation process. An experienced agent can help match you with the type of home you want in your price range and help you negotiate a good price. Choose an agent who has at least two years of experience and has had advanced training. To find properties for sale, you can also search home listings in the newspaper and on the Internet.
- 6 Make an offer and get a home inspection.** When you find a home you like, work with your agent to make an offer to the seller. An offer is a contract that specifies the price you are offering. If the seller accepts your offer, hire a home inspector to identify any problems that need to be taken care of.
- 7 Get homeowners' insurance and close.** Shop around for insurance. You will be required to have proof of insurance by the closing, which is the transfer of ownership from seller to buyer and the time when you will sign the final documents. Generally, the down payment and closing costs (additional fees over and above the cost of the property charged by lenders, title companies, appraisers, and the like) are paid at this time.

## Learning About Buying a Home

Find out more about buying a home by interviewing a real estate agent and comparing homes for sale in your area. Here is a guide to help you through the process.

**Step 1** Find a real estate agent in your local area. Politely contact the agent, introduce yourself, and ask if he or she would be willing to talk to you for about 15 minutes so that you can learn more about the home-buying process. If you are not able to meet with the agent in person, conduct your interview over the phone.

**Step 2** To prepare for the interview, carefully review the next page and practice asking the questions below. During the interview, take notes about the agent’s answers to each of the questions.

- What company do you work for? What is your experience buying and selling homes in my area?
- What advice do you have about finding and choosing a home?
- How much should I save for a down payment? What are my options if I do not have a sizable down payment?
- What are the extra costs of buying a home that people often neglect to consider (such as fees, closing costs, and furnishings)?
- What other professionals will I need to work with (such as mortgage brokers and home inspectors)? How do I find and choose them?
- What else do I need to know about buying a home?

Enthusiastically thank the agent for his or her time and ask for the agent’s business card. Send a thank-you note following the interview.

**Step 3** Based on what you learned from your interview, locate two houses, townhouses, or condominiums you might be interested in. For each home, record the location and listing price. Then talk to a mortgage broker or use an online calculator to compare potential monthly payments on a 30-year fixed mortgage.

	Home 1	Home 2
Location		
List price		
Monthly payments		



## Section Three

# **Saving and Investing**

*“If you would be wealthy, think of saving as well as getting.”*

—Benjamin Franklin (1706–1790)

Once students have established an income and acquired some basic money management skills, they will want secure ways to store and invest their money. The tools in this section address how to make money work for you after you have earned it.

**Banking and Unbanking**

**Saving Your Money**

**Investing Your Money**

**Establishing and Maintaining a Retirement Account**

## Banking and Unbanking

Banking means using a bank, savings and loan association, or credit union to deposit and save your money. Banks supply debit cards and checkbooks for easy access to your money. Banks also offer savings accounts that pay you interest for the money you deposit there. About 12 million American households are “unbanked.” These people do not use traditional financial services, such as banks, savings and loan associations, or credit unions. Many people who are unbanked use check-cashing stores.

### Why unbank?

So why do some people choose to use check-cashing stores instead of banks or savings and loans? Some individuals believe that they do not have enough money to open a bank account. Some do not bank because they do not have the necessary identification cards. And some just find check-cashing stores less intimidating than banks.

Check-cashing stores often employ bilingual staff, are open longer hours than banks, and are located in more convenient locations for some people. They also provide additional services that some people need, such as wiring money to another country; paying water, electric, or phone bills; or selling bus passes and phone cards.

### Why bank?

People who use check-cashing stores can spend quite a bit of money on the high fees they are charged. For example, a family making \$20,000 annually might spend \$300 or more a year for check-cashing services. Basic bank services generally cost \$30 to \$60 a year.

Banks offer other benefits and services that check-cashing stores do not, such as debit cards, credit cards, and online banking. They send monthly statements, which can help you keep track of your money. You can earn interest in some accounts, grow your savings, and make investments.

### How do you bank and unbank?

If you want to bank, use these tips and the matrix on the next page to learn more about banking.

- 1 Research banks and accounts.** Investigate banks and different types of accounts online. If an account has a minimum balance requirement, determine whether you can maintain that amount. Find out if there are fees for services such as overdraft protection and ATM usage. Read the fine print closely.
- 2 Consider locations.** Select a bank with locations that are convenient for you. Some banks charge fees if you use another bank’s ATM.
- 3 Investigate opening a savings account.** Consider setting up a savings account with a checking account. A savings account can make it easier to save on a regular basis and pays interest.

If you use a check-cashing store, use these tips and the matrix on the next page to learn more.

- 1 Ask what the fee is in dollars.** Many check-cashing stores post their fees in percentages, making it tough to calculate the cost. Ask what the fee will cost you.
- 2 Get an itemized receipt.** Ask for a receipt that details the amount of the check, the fee, and the amount of cash received. Compare the amounts with the fees you were told or that were posted.

## Examining Banking and Unbanking

Determine whether it makes more sense for you to bank or unbank by completing these three steps.

**Step 1** Find one or two of the closest banks (or savings and loans or credit unions) and one or two of the closest check-cashing stores. An easy way to do this is to get a phone book (perhaps from the library) and check the yellow pages under “Banks” and “Check-cashing Services.”

**Step 2** Visit or call each location and get information to complete the comparison matrix below. You will probably need to speak with someone at each location to find out about the services provided and costs or fees.

### Banking or Unbanking Comparison Matrix

	Bank (or Credit Union or Savings and Loan)	Check-cashing Store
Name and address		
Distance from house or school (How would you get there?)		
Days/hours open		

In the spaces under “Service” below, rank all of these services in order of importance to you:

cash checks    savings account    pay bills    wire money    debit cards  
 exchange foreign currency    bilingual staff    any other service

Find out if the bank or store provides the service and, if so, the cost or fee.

	Bank (or Credit Union or Savings and Loan)		Check-cashing Store	
Service	Does bank provide?	Cost or fee?	Does bank provide?	Cost or fee?
1	yes/no		yes/no	
2	yes/no		yes/no	
3	yes/no		yes/no	
4	yes/no		yes/no	
5	yes/no		yes/no	
6	yes/no		yes/no	
7	yes/no		yes/no	
8	yes/no		yes/no	

**Step 3** Analyze the information in your comparison matrix, and write a paragraph answering this question: *Generally, does it make more sense for you to bank or unbank?* Support your answer with at least two or three reasons.

## Saving Your Money

Saving means putting money aside for short-term goals and unexpected events. Saving is not the same thing as investing, which focuses on long-term financial goals. Three vehicles for saving are savings accounts, money market accounts, and certificates of deposit (CDs). These accounts offer access to your money, pay you interest, and insure your funds through the federal government.

### Why save money?

The purpose of saving is to have money available when you need it. Many financial advisers recommend having at least three months' expenses set aside in a savings account for unexpected situations. Having money saved allows you to deal with situations without going into debt by borrowing money or using a credit card. When you borrow money, you pay interest. But when you have money in savings vehicles, you can actually earn money.

### How do you determine the best ways to save your money?

Identify your short-term savings goals. Then use these tips and the steps on the next page to determine which savings vehicles best match your goals.

**1 Investigate savings vehicles.** Learn about savings accounts, money market accounts, and certificates of deposit.

*Savings accounts* include passbook and statement accounts. A passbook savings account tracks transactions through a booklet that you bring to the bank. With a statement account, which are more common, you receive transaction information in a statement sent through the mail or online.

*Pros:* You have easy access to funds in your savings account. Many savings accounts have a no- or low-minimum-balance requirement.

*Cons:* Savings accounts generally pay the lowest interest rate of the various savings vehicles.

*Money market accounts*, another type of savings account, commonly offer check-writing privileges.

*Pros:* Interest rates fluctuate in money market accounts, but on average they are higher than interest rates for savings accounts. The ability to write checks offers easy access to funds.

*Cons:* A money market account may require a higher initial deposit than a savings account. Some money market accounts require a minimum balance or a fee is charged. Most accounts have a limit on the number of checks you write and other transactions you make.

*Certificates of deposit* offer a guaranteed interest rate for a specified amount of time that your money is kept in the CD. The time period, or term, can range from one month to several years. Usually the longer the term, the higher the interest rate.

*Pros:* CDs generally offer a higher rate of interest than savings or money market accounts.

*Cons:* You cannot remove funds from a CD during a term unless you pay a high penalty. Certain minimum deposits are required to open a CD.

**2 Research interest rates and APY.** Investigate interest rates for various savings vehicles by looking online and contacting banks, savings and loans, and credit unions. Also ask financial institutions what the Annual Percentage Yield (APY) is when you are researching accounts. Institutions can compound interest rates differently—on a daily, weekly, monthly, quarterly, or yearly basis. Compounding means the interest is calculated not just on the principal (the amount you deposited), but also on the interest building in your account. The more often the rate is compounded, the higher the yield and the more you earn in interest.



## Determining the Best Way to Save Your Money

Determine the best way to save your money by completing these steps.

**Step 1** Identify your savings goal. What do you want to save for, and how much do you want to save? (For example: “I want to save \$300 for unexpected car repairs or other emergencies.”)

Savings goal: \_\_\_\_\_

\_\_\_\_\_

**Step 2** Find a bank, savings and loan, or credit union in your community. Visit or call the branch, or visit the institution’s Web site, to get information on the following three kinds of savings vehicles.

**Name of Bank, Savings and Loan, or Credit Union:** \_\_\_\_\_

	Savings Account	Money Market Account	Certificate of Deposit
Interest rate			
Number of withdrawals allowed per month			
Monthly fees			
Minimum balance			
Early withdrawal penalty			

**Step 3** Based on your savings goal and the information you researched, write one or two paragraphs explaining which type of savings vehicle is the best for you and why. Be sure to reference your savings goal and at least three categories of information from the matrix above in your explanation.

## Investing Your Money

Investing means putting some of your money in a stock, bond, mutual fund, or other investment option with the intention of having it earn more money for you over time. Determining how to invest depends on several factors, including how much risk you are comfortable with and how much time you have to reach your investment goals.

### Why determine how to invest your money?

Different investments can have different outcomes. Careful investing can decrease your chances of losing your money and increase the possibility of a greater return. Return is the amount of money gained or lost on an investment.

### How do you determine an investment strategy?

You have a wide range of investment options and strategies to choose from. Use these tips and the quiz on the next page to learn about investing your money.

- 1 Determine your risk tolerance and investment time horizon.** Your *risk tolerance* is how much of a chance you are willing to take with your investments. Risk tolerance varies by personality and other factors such as age. Your *investment time horizon* is the length of time you have to achieve your investment goals.
- 2 Decide what type of investor you are.**
  - Conservative, or low-risk, investors seek a guaranteed rate of return on their investments. These investors might be nearing retirement or needing to use their invested money soon.
  - Moderate, or medium-risk, investors can live with some fluctuation. They have some time before they retire for their money to grow.
  - Aggressive, or high-risk, investors can handle market swings and are willing to lose principal in the short term to achieve the highest possible long-term rate of return. They typically have *at least* 10 to 15 years for investments to grow.
- 3 Determine the best investments for you.** Financial advisers suggest spreading your money across several types of investments to minimize your risk. This strategy is called *diversification*.
  - Low-risk investments include government bonds, which pay a specified sum at a certain time. The government is essentially borrowing money from you and paying you interest. Bonds work like this. You purchase a bond from the government and the government returns the original amount, plus interest earned, after a set time period.
  - Medium-risk investments include corporate bonds and mutual funds. Corporate bonds are like government bonds, but they pay higher interest rates and tend to be riskier. Mutual funds pool the savings of many investors and place the money in stocks, bonds, and other investments.
  - High-risk investments include stocks, which represent a piece of ownership in a company. Stocks can be riskier than other investments because the company you are investing in may earn low profits or even lose money.
- 4 Make sure your investments outpace inflation.** Inflation is the rise in the price of goods and services over time. If your investments do not have a higher return than the rate of inflation, you will lose money on your investment. For instance, a bond that pays 3% interest annually is not a good investment if the inflation rate is 4%.
- 5 Seek the advice of a financial adviser.** If you are ready to invest, make an appointment with a financial adviser. Explain to the adviser your financial situation and investment goals, and ask for guidance in assessing your options.

## Determining the Type of Investor You Are

Take this quiz to determine whether you are a conservative, moderate, or aggressive investor.

### Time Horizon

**1. When do you expect to begin withdrawing money from your account?** Points

- |                     |    |
|---------------------|----|
| a. 0 to 5 years     | 0  |
| b. 5 to 10 years    | 5  |
| c. 10 years or more | 10 |

**2. Once you withdraw money, how long do you expect to continue making withdrawals from your account?** Points

- |                                      |    |
|--------------------------------------|----|
| a. Withdraw all the money right away | 0  |
| b. 1 to 9 years                      | 5  |
| c. 10 years or more                  | 10 |

### Risk Tolerance

**3. The table shows the potential profits and losses on three accounts—A, B, and C—during a one-year period. The account with the largest potential profit also has the largest potential loss.**

Account	A	B	C
Possible profit	+40%	+20%	+10%
Possible loss	-20%	-10%	-5%

**Which account would you prefer to hold?**

- |              |        |
|--------------|--------|
|              | Points |
| a. Account A | 15     |
| b. Account B | 10     |
| c. Account C | 5      |

**4. Below are three possibilities for the profits and losses on a \$1,000 investment. Which scenario are you most comfortable with?** Points

- |                                                                                  |    |
|----------------------------------------------------------------------------------|----|
| a. Account value at the end of one year could be anywhere from \$950 to \$1,100. | 0  |
| b. Account value at the end of one year could be anywhere from \$850 to \$1,300. | 5  |
| c. Account value at the end of one year could be anywhere from \$750 to \$1,500. | 10 |

**5. High long-term average profits are associated with greater risk. Which statement best describes your investment goals?** Points

- |                                                                              |    |
|------------------------------------------------------------------------------|----|
| a. Keep risk to a minimum while trying to achieve slightly higher profits.   | 5  |
| b. Balance moderate levels of risk with moderate levels of profit.           | 10 |
| c. Maximize long-term profits by accepting large fluctuations in my account. | 15 |

**6. I am comfortable with investments that may frequently experience large short-term losses in value, as long as there is a potential for high long-term profits.** Points

- |                      |    |
|----------------------|----|
| a. Agree             | 15 |
| b. Disagree          | 5  |
| c. Strongly disagree | 0  |

### MATCH YOUR SCORES

- Add your scores for Questions 1 and 2. Find this “time horizon score” across the top of the table.
- Add your scores for Questions 3 to 6. Find this “risk tolerance score” on the left side of the table.
- The intersection point indicates the type of investor you may be.

		Time Horizon Score		
		0–6	7–13	14–20
Risk Tolerance Score	10–25	conservative	conservative	moderate
	26–40	conservative	moderate	aggressive
	41–55	moderate	moderate	aggressive

Answer these questions.

1. What type of investor are you? Why?
2. Given your investor type, what investments might you want to research for the future? Why?

## Establishing and Maintaining a Retirement Account

During the years you are working, it is important to invest a portion of your earnings in a retirement account. Money in a retirement account can be invested in various things, such as stocks, bonds, and money market funds. The growth in the account can provide you with income when you retire.

### Why start a retirement account?

When you are ready to retire, where will your income come from? If you are no longer working, how will you pay for housing and other bills? Smart planning in the early years of your career can pay off big at retirement. The earlier you start investing, the more money you will have at retirement.

### How do you establish and maintain a retirement account?

There are various types of retirement plans, including individual retirement accounts (IRAs) and company plans. Different accounts are appropriate for different people. Use the following information and tips, as well as the scenarios on the next two pages, to learn more about retirement accounts.

- 1 Start as early as possible.** If you plan to stop working eventually, you will need a sizeable amount of money saved to fund your retirement. For most people, the only way to prepare financially is to set up one or more retirement accounts. Starting to save for retirement early is crucial, since the more time your money has to grow, the more money you will have at retirement.
- 2 Find out whether your employer has a matching plan.** Many employers offer matching plans. A matching plan is like getting free money for your account, as the employer “matches” part of the contributions their employees make. It makes sense to contribute as much as you can to your retirement account to reap the benefits of a matching plan.
- 3 Set up your retirement account.** Whatever type of retirement account you set up, talk to the plan administrator to determine the best way to invest the money in the account. Depending on the type of account, you (or your plan administrator) will select the investments your money will go into. If it did not get invested, your money would sit in your account and not grow, or grow at a very low rate.
- 4 Manage your retirement account.** By reinvesting the interest you earn on your investments, the money in your retirement account will grow even faster. However, sometimes you will experience a loss in your account, such as when you have invested in stocks that have gone down in value. You can manage your account at such times by leaving your money where it is or moving it into another investment.
- 5 Think long term.** When you set up a retirement account, think of it as a permanent investment, since your retirement is depending on it. Though most plans allow you to borrow against your account, avoid doing so unless it is a true emergency. Likewise, keep your long-term goals in mind when maintaining your investments. There will always be short-term losses, but they should be offset by the long-term gains in your account.

## Preparing for Retirement

### Scenario 1: Investing Early

Suppose you set up a retirement plan, such as an IRA, shortly after you graduate from high school. You contribute just \$500 a year (a little less than \$10 a week). As you approach retirement age 40 years later, how much money will you have saved? Complete these steps, which assume you earned an average of 7% interest per year, to calculate the value of your retirement account.

**Step 1** Use a calculator and the following formula to compute the value of your account at the end of Year 1. Record the amount in the appropriate place in the table below. Remember, the starting value of the account is \$500. Check your calculations with your teacher to make sure you are computing correctly.

$$\text{Principal} \times 1.07 = \text{Ending value}$$

Starting value of account.

You earn 7% interest on the principal.

**Step 2** Use the following formula to calculate the ending value of your account for each of the years listed below. Remember that the principal, or the value of the account at the beginning of the year, is just the value of the account at the end of the previous year. Record the amounts in the appropriate places. Check your calculations with your teacher to make sure you are computing correctly.

$$(\text{Yearly contribution} + \text{Principal}) \times 1.07 = \text{Ending value}$$

How much you add to the account each year.

Value of account at beginning of year.

You earn 7% interest on the principal.

Scenario 1: Contribute \$500 a year.			
Year 1: _____	Year 2: _____	Year 3: _____	<i>(Skip to Year 8.)</i>
Year 8: \$5,488.99	Year 9: _____	Year 10: _____	<i>(Skip to Year 18.)</i>
Year 18: \$18,189.48	Year 19: _____	Year 20: _____	<i>(Skip to Year 28.)</i>
Year 28: \$43,173.26	Year 29: _____	Year 30: _____	<i>(Skip to Year 38.)</i>
Year 38: \$92,320.15	Year 39: _____	Year 40: _____	

**Step 3** Calculate the total amount contributed and the ending value of the account.

Total amount contributed (\$500 x 40 years): \_\_\_\_\_

Ending value of account: \_\_\_\_\_

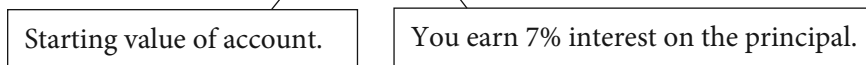
Interest earned (ending value of account – total amount contributed): \_\_\_\_\_

**Scenario 2: Investing Late**

Suppose you waited to set up a retirement plan until 12 years after you graduate from high school. You are now well-established in your career and can afford to contribute twice as much, or \$1,000 a year. As you approach retirement age, how much money will you have saved? Complete these steps, which assume you earn an average of 7% interest per year, to calculate the value of your retirement account.

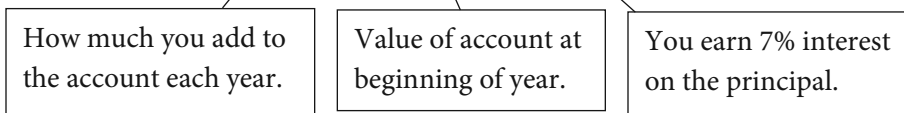
**Step 1** Use a calculator and the following formula to compute the value of your account at the end of Year 12. Record the amount in the appropriate place in the table below. Remember, the starting value of the account is \$1,000. Check your calculations with your teacher to make sure you are computing correctly.

$$\text{Principal} \times 1.07 = \text{Ending value}$$



**Step 2** Use the following formula to calculate the ending value of your account for each year listed below. Record the amounts in the appropriate places on the table below. Check your calculations with your teacher to make sure you are computing correctly.

$$(\text{Yearly contribution} + \text{Principal}) \times 1.07 = \text{Ending value}$$



Scenario 2: Contribute \$1,000 a year.			
Year 12: _____	Year 13: _____	Year 14: _____	<i>(Skip to Year 18.)</i>
Year 18: \$ 9,259.80	Year 19: _____	Year 20: _____	<i>(Skip to Year 28.)</i>
Year 28: \$32,999.03	Year 29: _____	Year 30: _____	<i>(Skip to Year 38.)</i>
Year 38: \$79,697.69	Year 39: _____	Year 40: _____	

**Step 3** Calculate the total amount contributed and the ending value of the account.

Total amount contributed (\$1,000 x 29 years): \_\_\_\_\_

Ending value of account: \_\_\_\_\_

Interest earned (ending value of account – total amount contributed): \_\_\_\_\_

Now answer these questions on a separate sheet of paper.

1. In which scenario did you contribute more to your retirement account? In which scenario did you earn more interest? How can you explain the difference?
2. Given what you learned in each scenario, explain what would happen if you started out contributing \$500 a year right away and gradually increased that amount every year or two.
3. List two or three things you can do to maximize the money you will have when you are ready to retire.

## “Preparing for Retirement” Guide for Teachers

Consider calculating the amounts for Years 1, 2, and 3 as a class before having students compute the remaining values on their own.

Here are the correct calculations for Scenario 1.

<b>Scenario 1: Contribute \$500 a year.</b>		
Year 1: \$535.00	Year 2: \$1,107.45	Year 3: \$1,719.97
Year 8: \$5,488.99	Year 9: \$6,408.22	Year 10: \$7,391.80
Year 18: \$18,189.48	Year 19: \$19,997.75	Year 20: \$21,932.51
Year 28: \$43,173.26	Year 29: \$46,730.39	Year 30: \$50,536.52
Year 38: \$92,320.15	Year 39: \$99,317.56	Year 40: \$106,804.78

Total amount contributed ( $\$500 \times 40$  years): \$20,000

Ending value of account: \$106,804.78

Interest earned: \$86,804.78

Here are the correct calculations for Scenario 2.

<b>Scenario 2: Contribute \$1,000 a year.</b>		
Year 12: \$1,070.00	Year 13: \$2,214.90	Year 14: \$3,439.94
Year 18: \$9,259.80	Year 19: \$10,977.99	Year 20: \$12,816.45
Year 28: \$32,999.03	Year 29: \$36,378.96	Year 30: \$39,995.49
Year 38: \$79,697.69	Year 39: \$86,346.53	Year 40: \$93,460.79

Total amount contributed ( $\$1,000 \times 29$  years): \$29,000

Ending value of account: \$93,460.79

Interest earned: \$64,460.79





## Section Four

# Using Credit and Borrowing

*“Money often costs too much.”*

—Ralph Waldo Emerson (1803–1882)

Students are frequently inundated with credit card offers upon graduating from high school. Credit card debt is a growing issue, and learning early how to manage credit responsibly is an essential tool for a sound financial life. The tools in this section introduce students to the importance of good credit and skills for maintaining credit.

**Being a Savvy Credit Card User**

**Assessing Credit Card Offers**

**Applying for Financial Aid**

## Being a Savvy Credit Card User

You do not always have to have the cash in hand or even in your bank account to buy what you want. You can often buy on credit, which means another institution pays on your behalf, with the agreement that you will pay eventually, possibly with interest. When you use a credit card, you agree to repay the credit card company the original amount of your purchase—plus interest, if you take more than about a month to pay.

With a credit card, the temptation to purchase items you cannot pay for is high. Being a savvy credit card user means knowing how to use a credit card responsibly and understanding the effect that credit card use can have on your credit report. A credit report is like a report card informing lenders about your debt history.

### Why be a savvy credit card user?

Good credit can help you buy “big ticket” items, like a home or car, and increase your chances of getting lower interest rates on loans and better deals on car insurance. Accumulating credit card debt can create financial and emotional turmoil. Problems with your credit history can make it difficult to get a car loan, rent an apartment, or even get a cell phone service plan.

### How can you be a savvy credit card user?

Credit cards come in handy at critical times and, if used wisely, can help you build a credit history. Use these tips and the activity on the next page to become a savvy credit card user.

- 1 **Spend only what you can afford.** Keep track of what you spend. Use your card only when you know you can pay for the purchase within the next month.
- 2 **Pay off your balance or keep it low.** Credit card companies make their money when you do not pay the full amount you owe. The amount you do not pay off is called your balance. Credit card companies typically charge you 10% to 20% of the *balance*, called *interest*, every single month. If you do not pay off your balance right away, that interest can really add up. People who end up over their heads in debt often got there because they did not pay off their credit card balances or keep them low.
- 3 **Pay bills on time.** Pay your credit card bills by the due date. If you are late on a payment, you will be charged a late fee, your interest rate may increase, and your credit can be damaged. Pay your bill as soon as possible after you realize you are late, as every day counts. If you cannot pay on time, contact the credit card company before you miss a payment to make arrangements for another payment date. Ask the creditor if your late fee can be waived.
- 4 **Pay more than the minimum due.** Making only the minimum credit card payment required increases the amount of time you will be paying off your purchases. As the interest adds up, you will end up paying a lot more. For example, if you made a \$200 purchase and then made only the minimum \$10 monthly payments, it would take you 2 years plus \$40 in interest to pay for the purchase. If you cannot pay off your balance in full, pay as much as you can beyond the minimum payment each month.
- 5 **Avoid taking cash advances.** Cash advances start incurring interest as soon as you take out the money, and the interest rate can be higher than the rate for purchases. You will likely also be charged a cash advance fee.
- 6 **Review your monthly statements.** Check your monthly bill for any errors. If fees or transactions are incorrect, contact the creditor immediately and ask that the issues be corrected.
- 7 **Monitor your credit reports.** You can receive free reports from the three main credit bureaus every 12 months. You can do this online. Check your reports for errors and dispute any incorrect information. Also check for evidence of credit card accounts that you did not establish to make sure you have not been a victim of identify theft.

## Using a Credit Card Responsibly

In college, Jasmine used credit cards to purchase things she could not really afford. She planned to make the minimum payments throughout college and pay the balances off once she graduated and got a job. However, once the introductory interest rates ended, she found herself paying nearly 20% interest on each card. Soon she was late on her payments. After graduation, other expenses—like rent, groceries, and utilities—competed for her money. When she requested a copy of her credit report, this is some of what she saw.

**Open accounts:** Lists any accounts you currently have.

**Date opened:** Lists the date you opened the account. The longer you have had an account in good standing, the better your credit record.

OPEN ACCOUNTS									
CREDITOR	DATE REPORTED	DATE OPENED	CREDIT LIMIT	BALANCE	PAST DUE	30	60	90+	STATUS
WESTERLAND BANK	10/09	02/05	\$5000	\$4797	\$0	0	0	0	AS AGREED
M'S STORE	10/09	05/05	\$500	\$158	\$0	2	1	0	AS AGREED
EASTERLAND BANK	10/09	06/08	\$4000	\$1015	\$98	0	0	0	AS AGREED

**Credit limit:** Shows how much credit you have been extended. Try to keep your balance to no more than 25% of your limit.

**Balance:** Displays your balance on the date of the credit report. Keep your balance as low as possible by always paying more than the minimum due.

**Past due 30/60/90+:** Lists the amounts, if any, you are currently late in paying. The “30,” “60,” and “90+” columns list the number of times you were that many days late. To establish a good credit rating, it is extremely important that you have no late payments.

DEROGATORY ACCOUNTS									
CREDITOR	DATE REPORTED	DATE OPENED	CREDIT LIMIT	BALANCE	PAST DUE	30	60	90+	STATUS
CREDIT EXPRESS	10/08	09/05	\$5000	\$3306	\$3306	–	–	–	COLLECTION

**Derogatory accounts:** Lists any accounts that were closed (in the last 7 to 10 years) because you did not pay your bills. Having anything in this section will limit your ability to get new credit.

**Status:** Shows how the account was closed. In this instance, it was sent to collection, meaning the company could not get payment from Jasmine so they sold the debt to a collection agency.

Now answer these questions.

1. Based on Jasmine’s credit report, which of the tips did she follow pretty well? Which of the tips did she not follow very well? Give evidence for your answers.
2. What might be some of the consequences for Jasmine of her credit report?
3. What are three or four things you can do to build good credit?

## Assessing Credit Card Offers

You set up a credit card account with a bank or other institution so that you may charge purchases or services or get a cash advance up to a certain limit. To find a card that best suits your needs, you will want to assess the details in credit card offers. There is a lot you need to understand to decipher such offers. Two of the most important terms are these:

- **Interest** is the price you pay for borrowing money. When you borrow money from a bank, for instance, you pay a percentage of what you borrow to that bank. Interest is how credit card companies make money.
- The **Annual Percentage Rate (APR)** is the yearly rate of interest you pay on an unpaid credit card balance. Unpaid balances can get you in trouble because you end up paying high interest rates over time. The item you buy today at a seemingly good price will be more expensive when you are still paying interest on it months or years later.

### Why assess credit card offers?

Using credit cards can easily get you into debt. More than 75% of all families now carry a credit card, and around 60% of those families have unpaid credit card balances. To save money and stay out of debt, it's important to know which credit card terms and services are best for you.

### How do you assess credit card offers?

If you decide to get a credit card, carefully look over several offers as terms can vary greatly among cards. Use these tips and the guidelines on the next page to learn about assessing credit card offers.

- 1 Evaluate the features of the offers.** In case you carry a balance or get cash advances, a lower APR and lower cash advance fees are important. It is a good idea to pay your bill in full each month, so you might want to choose a card that gives you a longer grace period for doing so. A *grace period* is the number of days you have to pay off your bill

before a finance charge is triggered.

- 2 Consider the rewards.** Some credit cards come with rewards, such as airline miles, rebates, discounts on various goods and services, and donations to charitable causes. While enticing, these benefits sometimes come with other costs, such as higher interest rates or annual fees. Carefully evaluate the pros and cons of any such rewards.
- 3 Know and keep track of your interest rate.** Read the fine print. You may be lured to a credit card by a zero or low-interest APR “teaser” rate. Look at how long the introductory rate will last and what the rate will then increase to. If you might carry a balance on your credit card beyond the introductory rate, look for the card with the lowest APR on purchases after the promotional rate, even if the introductory rate is a little higher. After the introductory rate, continue to keep track of your interest rate, as it can change. If the rate changes, call your credit card company to find out why.
- 4 Understand the fees and charges.** If you are transferring a credit card balance to another card with a low interest rate, find out if there is a fee to transfer your balance—called a *balance transfer fee*—and what it is. Then decide whether you will save more money by transferring to a lower interest rate or staying where you are and paying off the balance. Also find out if there are finance charges on cash advances and interest due on unpaid balances. Some credit card companies also come with an annual fee—a fee you pay each year for the privilege of using the card.

## Examining Credit Card Offers

Examine the sample credit card offer below. Then follow the steps below to compare several credit card offers.

Note that the initial APR expires after 8 months.

No annual fee can be a great feature. However, if you think you might carry a balance on the card, make sure this feature is not offset by a higher APR.

This means that if you transfer funds from another credit card, you will not be charged for this one transaction.

After 8 months, the APR increases to 16%.

If you fail to pay your minimum payment on time even once, your APR automatically increases to 30%.

For every cash advance, you will be charged a fee.

For every balance transfer, you will be charged a fee.

### ABC Credit Card Details

- 0% APR for 8 months on purchases, cash advances, and balance transfers
- No annual fee
- No minimum income required
- No balance transfer fee with this offer

After the promotional period ends, your standard variable purchase APR is 16%. The standard variable cash advance APR is 23%. However, if you default under any agreement you have with us, all your APRs may automatically increase up to the 30% variable default rate. The transaction fee for cash advances is 4% of the amount of each cash advance. The transaction fee for balance transfers is 5% of the amount of each balance transfer. However, we will waive the balance transfer transaction fee on balances you transfer in response to this offer. Additional terms and conditions apply. Subject to credit approval.

Obtain three credit card offers from magazines, newspapers, the Internet, the mail, or a credit card statement from an existing account. Then complete this matrix to compare the offers.

Name of Credit Card	Intro APR (%)	Post- intro APR (%)	Annual Fee	Balance Transfer Fee	Cash Advance Fee	Rewards

Explain the pros and cons of each credit card. Would you select one of these cards? Why or why not?

## Applying for Financial Aid

Financial aid is money lent or given to help a student pay for college. A college education can be very expensive, but financial aid can help provide the funds you need. Types of financial aid include loans, which need to be repaid, as well as grants, scholarships, and work-study awards, which do not need to be repaid. Financial aid is offered through colleges and universities, federal and state governments, nonprofit organizations, and private institutions, such as businesses.

### Why apply for financial aid?

Financial aid can allow you to obtain the college education you desire. It can also help you to attend college without the stress of worrying about how to pay for it. The federal government provides around 60% of all student aid by offering more than \$80 billion dollars annually in funding. There are plenty of other nonfederal resources to tap as well.

### How do you apply for financial aid?

It is never too early to start looking for financial aid. You will want to research the options early so that you identify important deadlines, especially for grants and scholarships. Use these tips and the research guide on the next page to learn about applying for financial aid.

- 1 Complete your FAFSA.** The first step is completion of the Free Application for Federal Student Aid. The FAFSA is used to determine your eligibility for federal student aid, such as grants, loans, and work-study awards. Most states and schools also use FAFSA application information to award aid. The application requires financial information from you and your parents. To meet the deadline early in the year, you may need to use estimated figures for tax return information and submit the real numbers later. Go to the Federal Student Aid site at [www.FAFSA.ed.gov](http://www.FAFSA.ed.gov) to complete and submit your FAFSA online.
- 2 Learn about aid programs.** There are many types of aid and many sources of information about financial aid. Take some time to familiarize yourself with the research tools available. A good first stop is your school college counselor and your local or college library.  
  
Look on the Internet for federal, state, and local aid programs, but beware of scams. For example, the application process for the FAFSA is free, but if you enter “.com” instead of “ed.gov” at the end of the FAFSA Web address, you will access a site that charges a fee to submit the FAFSA. Also be cautious of organizations that charge a fee to find you financial aid. You can receive the help you need through free resources such as your school and the Federal Student Aid site.
- 3 Pay special attention to scholarships.** One of the great things about scholarships is that they do not need to be repaid. Scholarships offered by colleges are often for students with particular majors or special talents, but they also are awarded to students with good grades and financial need. Other kinds of scholarships are available through civic and faith organizations as well as from companies that offer funds to children of their employees. To access links to free scholarship databases, go to the Federal Student Aid Web site.
- 4 Get accurate information.** It is essential that you keep track of your paperwork as well as the requirements and deadlines of the various aid programs you apply to. Many college and aid applications will require your school transcripts, recommendations, and essays, as well as personal interviews. Find out about these and other requirements and get started early enough that you have time to complete your applications well before the deadlines.

## Applying for Scholarship Financial Aid

Prepare yourself to apply for scholarship financial aid by completing these tasks.

**Step 1** Conduct a free scholarship search at the U.S. Department of Education student aid Web site, [www.studentaid.ed.gov](http://www.studentaid.ed.gov). Click on “Financial Aid and Scholarship Wizard” and search using keywords identifying your academic or professional interest (history, engineering, teaching, and so on), your special interests or talents (artistic, athletic, leadership, and the like), or your personal profile (such as location, gender, or ethnicity).

**Step 2** Identify four scholarships for which you are eligible and would like to apply. Research and record the appropriate information in the matrix below.

Scholarship Name	Scholarship Qualifications (GPA, year in school, academic interest)	Scholarship Contact Information (name, Web site, address, e-mail)	Application Materials (form, essay, interview, transcript, references)	Application Deadline

**Step 3** Select one of the scholarships from your matrix. Make a checklist of the steps you need to take to prepare your application, such as obtaining an official transcript from your school, writing a personal essay, and participating in a phone interview. Write your checklist on a separate sheet of paper.

## Financial Fitness Quiz

This quiz from Rutgers University assesses an individual's financial fitness. It has been taken by hundreds of people of all ages. In 2002, the average score was 65% and the score of people ages 12 to 24 was 56%. Use the quiz to evaluate your financial fitness and determine the steps you need to take to become more financially savvy. Consider taking this quiz again every few years to see if your score improves.

1. I have a bank checking account (or credit union share draft account) with which to pay bills.  
 yes       no
2. I have enough money each month to pay my rent or mortgage payment and other household expenses.  
 always       usually       sometimes  
 seldom       never
3. I have enough money to pay for an emergency, such as a large car repair.  
 always       usually       sometimes  
 seldom       never
4. I have written financial goals with a date and dollar cost (e.g., \$10,000 for a car in 2010).  
 always       usually       sometimes  
 seldom       never
5. I have a written plan (budget) for spending and/or saving my money.  
 always       usually       sometimes  
 seldom       never
6. I keep organized financial records and can find important documents easily.  
 always       usually       sometimes  
 seldom       never
7. I know my federal marginal tax bracket (e.g., 15%).  
 always       usually       sometimes  
 seldom       never
8. I calculate my net worth (assets minus debts) annually.  
 always       usually       sometimes  
 seldom       never
9. I save regularly for long-term financial goals, such as education for my children, a house, or retirement.  
 always       usually       sometimes  
 seldom       never
10. I have at least three months' expenses set aside in a readily accessible account (e.g., money market mutual fund).  
 always       usually       sometimes  
 seldom       never
11. I increase my savings when I receive a salary increase.  
 always       usually       sometimes  
 seldom       never
12. I have a personal investment account for retirement (e.g., 401(k), 403(b), IRA) other than a pension funded by my employer.  
 yes       no
13. I have money spread across more than one type of investment (e.g., stocks, bonds, mutual funds, CDs).  
 always       usually       sometimes  
 seldom       never
14. The average after-tax yield of my savings and investments over the long term is greater than the rate of inflation.  
 always       usually       sometimes  
 seldom       never
15. I have adequate insurance to cover "big" unexpected expenses, such as a hospital bill, disability, or liability for damages to others.  
 always       usually       sometimes  
 seldom       never



16. I have a current will.  
 yes       no
17. Less than 20 percent of my monthly take-home pay goes to my credit cards, student loans, and car payments.  
 always       usually       sometimes  
 seldom       never
18. I pay credit card bills in full to avoid interest charges.  
 always       usually       sometimes  
 seldom       never
19. I comparison shop for major purchases by checking at least three sources.  
 always       usually       sometimes  
 seldom       never
20. I avoid impulse purchases and don't use shopping as a form of recreation.  
 always       usually       sometimes  
 seldom       never

**Scoring Guide:** Calculate your score by counting the number of each type of response. Multiply each number by the given points and add the totals to determine your final score.

	Number of Responses	Times	Points	Equals	Total
Yes		X	5	=	
No		X	1	=	
Always		X	5	=	
Usually		X	4	=	
Sometimes		X	3	=	
Seldom		X	2	=	
Never		X	1	=	
<b>Final Score</b>				=	

**Key:** Once you have your final score, find your financial fitness level and read the accompanying advice.

Score	Financial Fitness Level
0–20	You need lots of help, but don't despair! It's never too late to take action to improve your finances.
21–40	You are headed for financial difficulty! Now is the time to take action to reverse the trend.
41–60	You are doing a fair job of managing your finances and have taken some steps in the right direction.
61–80	You are doing a good job and are above average in managing your finances!
81–100	You are in excellent financial shape. Keep up the good work!













