Financial Fitness for Life

The Parents' Guide to Shaping Up Your Financial Future

Barbara Flowers
Sheryl Szot Gallaher

Grades 6–8

NCEE
National Council on Economic Education

Financial Fitness for Life

The Parents' Guides

TO

Shaping Up Your Financial Future

Grades 6-8

Barbara Flowers
Sheryl Szot Gallaher
John S. Morton
Mark C. Schug

NCEE

National Council on Economic Education

Authors:

THE PARENTS' GUIDE TO SHAPING UP YOUR FINANCIAL FUTURE

Barbara Flowers is Assistant Director of the Center for Entrepreneurship and Economic Education at the University of Missouri-St. Louis. She has worked on numerous economic education publications.

Sheryl Szot Gallaher is the Director of the Office of Economic Education at Governors State University in University Park, Illinois. She was formerly a classroom teacher, Gifted Education Coordinator, and economic education consultant for the Illinois Council on Economic Education.

THE PARENTS' GUIDE TO BRINGING HOME THE GOLD

John S. Morton is Vice President for Program Development at the National Council on Economic Education. Previously, he was a classroom teacher for 30 years and served as President of the Arizona Council on Economic Education. He has written numerous articles and publications in economic education.

Mark C. Schug is Director of the Center for Economic Education and Professor of Curriculum and Instruction at the University of Wisconsin-Milwaukee. He has taught for over 30 years at the middle school, high school, and university levels and has written widely in economic education.

Project Director:

John E. Clow is the Director of the Leatherstocking Center for Economic Education at the State University of New York, College at Oneonta and Professor Emeritus of that college. He is a national award-winning college teacher, speaker, and author in the fields of personal finance, economics, and business education.

Design:

Roher/Sprague Partners

Bank of America

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

ISBN 1-56183-549-8 5 4 3 2 1

Table of Contents

6-8

This Parents' Guide for **Shaping Up Your Financial Future** accompanies the *Financial Fitness for Life* program your son or daughter is studying in school. Each of the five themes to be studied has family activities that go along with the lessons in the theme.

The activities in this Guide reinforce the classroom topics.

Introduction

Dear Parent,

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

For more than 50 years, the National Council on Economic Education (NCEE) has been calling attention to the need to educate our young people effectively in the practical skills of economics and personal finance and showing the best ways to meet that need. The current "financial fitness" program—of which this parent guide is a key component—is a dramatic step in the direction of improving economic and financial literacy. For the first time, NCEE is offering a stand-alone parent guide, and we are very excited about engaging parents in teaching "financial fitness."

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

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

The complete ten-book series contains two parents' guides—one to accompany lessons geared to grades K-5, and another for grades 6-12. In each guidebook, there is an overview of the content covered in the lessons for two of the four grade levels (K-2, 3-5, 6-8, 9-12). Each level has an accompanying teacher guide and student workbook (called *Student Workouts*) or Storybook (K-2), which are correlated with the parent guide. The parent guide contains suggested activities that are fun, that you and your child can do together to enhance learning personal financial principles and skills. Each also contains a listing of additional resources for you.

You will notice that this publication has two sections. One is geared to the curriculum at the 6-8 grade level. The other is for the 9-12 grade level. We suggest that you review the entire book. You may find some activities that may be of interest at whatever level, depending upon your child's mastery of an interest in the concepts. As your child attains higher level skills, you may want to expand the activities you do together.

You want your child to grow up to be an independent, self-supporting individual who makes responsible, informed decisions. So do we! Just as NCEE is the recognized national leader in teaching teachers how to make economics come alive in the classroom, we are grateful to have this significant opportunity to assist parents as teachers of economics that kids can use in their lives—all their lives. And we are very grateful to the Bank of America Foundation for giving us this opportunity.

Robert F. Duvall, Ph.D.
President & Chief Executive Officer
The National Council on Economic Education (NCEE)

Grades 6–8

A Letter to Parents

Dear Parents,

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

- Most people don't know the interest rates on their credit cards.
- Many consumers believe that a product is better simply because it is more expensive.
- The rate of saving in the United States keeps sinking lower and lower.
- Credit card debt for college graduates averages $4,000 per graduate.

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

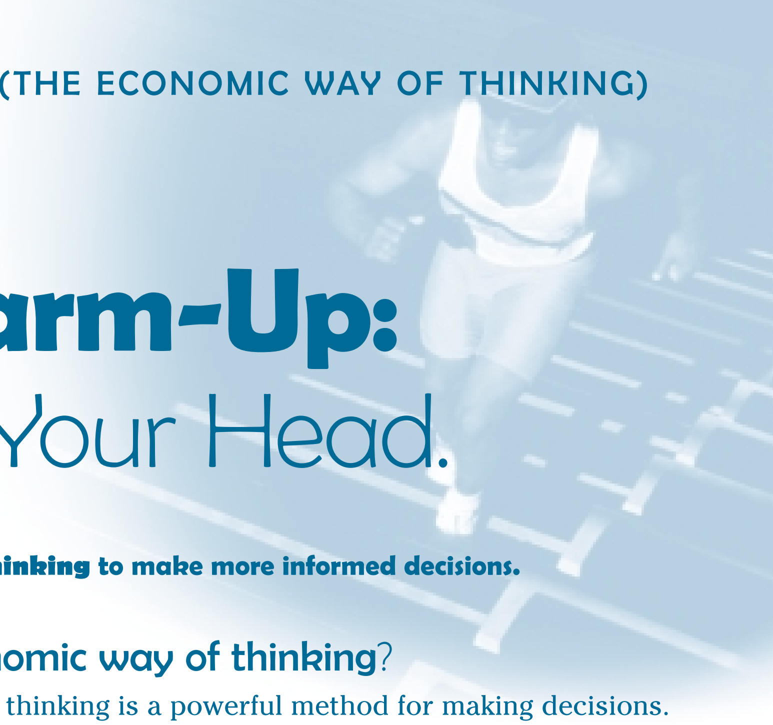
Of course, the best advice comes through actions, not words. By being a sensible money manager yourself, you teach your son or daughter valuable lessons. And if you discuss some family financial decisions with your son or daughter, they can begin to understand a very important lesson—they can't have everything they want. They learn that sensible money management requires skill and self-discipline.

This Guide is a series of economic activities for families to do together. In it, you will discover a simple formula for making important and not so important decisions. Games and grids will show shortcuts to financial and career success. Parents and students can explore everything from the pitfalls of credit cards to the challenges of investing in the stock market. Think of it as exercises in winning at life—an exercise book for **Shaping Up Your Financial Future**.

The Guide follows the Financial Fitness lessons your son or daughter is studying in school. There are five themes, and each theme in this Guide includes the following:

1. FAQs—Frequently Asked Questions about the theme content.
2. Family activity worksheets.
3. Other activities related to the theme area to enrich your son's or daughter's understanding of personal finance and economics.
4. A list of books and Internet sites to add to your understanding.

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



THEME 1

The Warm-Up:
It's All in Your Head.

FAQs

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

1. What is the **economic way of thinking**?

The economic way of thinking is a powerful method for making decisions. It uses COST, CHOICE, INCENTIVES, and CONSEQUENCES as information tools in decision making.

2. Why go to all that trouble?

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

3. What is an **opportunity cost**?

An opportunity cost is what you give up in order to do or have something. If you choose to go to the movies rather than exercise at the gym, your opportunity cost is exercising at the gym.

4. What is an **incentive**?

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

5. What is a **disincentive**?

A police car parked on the shoulder of a highway is a disincentive for speeding.

6. How do you define **consequence**?

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

7. What is the **PACED decision-making process**?

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

a. Name the **P**roblem;

b. List possible **A**lternatives;

c. List the **C**riteria (your requirements) that are most important in making the decision;

d. **E**valuate the Alternatives;

e. Make a **D**ecision.

8. What is a **cost-benefit analysis**?

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

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

A cost-benefit analysis example might be:

CHOICE: Go to the mall with friends or baby-sit for $20.
* Go to mall. COST: no babysitting money. BENEFIT: spend time with friends.
* Baby-sit. COST: miss going to the mall with friends. BENEFIT: earn spending money.

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

10. What is a good decision?

A good decision is one in which the benefit outweighs the cost.

FAMILY ACTIVITY 1

Stretching: Making Choices.

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

	Scarcity of Time	Scarcity of Space	Scarcity of Money
List two alternatives you had to choose between because of scarcity.	1. 2.	1. 2.	1. 2.
Which alternative did you choose?			
What was the opportunity cost?			
What was your incentive?			
List an unidentified consequence of your choice.			
How did you benefit from your choice?			

Incentives — list 3 incentives that could affect a major family decision.

A. Buy a new car ____

____

B. Move to a different town _____________________________________

____

C. Volunteer once a week at a local recycling center ________________

____

FAMILY ACTIVITY 2

Strengthening:
How Can We Decide?

Think about a decision your family will make soon. It could be anything, such as buying a new TV, choosing a new pet, or voting on where to go on a summer vacation. Use the PACED grid to list the alternatives. Mark with a star the criteria that are most important to you.

Criteria → / ↓ Alternatives			

Now answer these questions:

A. What is your choice? ______________________________

____

B. What is the opportunity cost? ______________________________

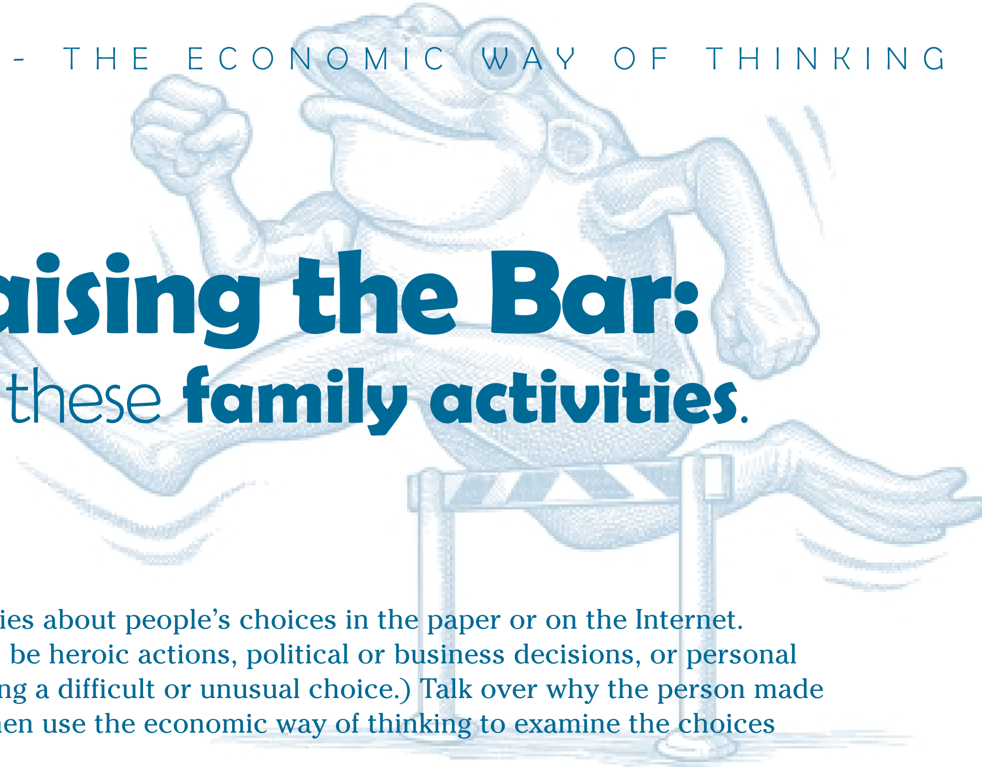
____

C. What are the benefits of this choice? ______________________________

____

D. Is there any trade-off? If so, name it. ______________________________

____



Raising the Bar:
Try these **family activities**.

1. Search for stories about people's choices in the paper or on the Internet. (Choices could be heroic actions, political or business decisions, or personal actions involving a difficult or unusual choice.) Talk over why the person made that choice. Then use the economic way of thinking to examine the choices made.

2. Pick out a TV character's decision from a drama or sit-com you are watching together. Ask the following questions:

- What incentives inspired the character to act?
- What choice was made?
- What was the opportunity cost?
- What were the consequences of the action?
- What might be some unintended consequences?
- Would another choice have been better? Why?

3. Talk over with your son or daughter a decision the family is about to make. Use the economic way of thinking to analyze the choice, using the questions in #2 above.

4. Go to the grocery store with your son or daughter and compare prices, sizes, contents, and quality of particular items which you would generally purchase. Make buying decisions together, based on this comparison shopping. Discuss the importance of knowing the alternatives you have and the criteria that are important in your family. (If three out of four people will not drink grapefruit juice, a two-for-the-price-of-one sale on grapefruit juice won't matter to you—no incentive.)

5. Copy the **PACED** grid and use it to help your son or daughter plan a weekend activity.

Learn More:
Lit and Links.

Lit - Take it to the next level with **Books**:

McQuinn, Conn. *Would You Rather? 150 Wild and Wacky Choices*. Troll Associates, 1998. Contains fun, creative, thought-provoking choices for kids, e.g., would you rather go to Disney World or get a new pet?

Milios, Ruth. *Shopping Savvy*. Rosen Publishing Group, 1992. Helps kids develop good spending habits by offering tips on comparison shopping and setting priorities.

Links - Fine-tune your financial fitness on the **Internet!**

Visit **www.ncee.net** for more ideas, activities, and constantly updated links to great personal finance and economic web sites.

THEME 2

Charting Your Workout:
Career and Other Options.

FAQs

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

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

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

2. What is **SCANS**?

SCANS is the U.S. Department of Labor Secretary's Commission on Achieving Necessary Skills. The SCANS list includes the abilities every worker needs to be successful including reading, writing, math, interpersonal skills, teamwork, and the ability to use technology.

3. Sounds easy enough.

It is. Get a good education by attending class every day, being on time, and completing homework. Get a good resume for future jobs by working at extra projects and extracurricular activities. In the process, discover what you really like to do.

4. What is **productivity**?

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

5. What affects a worker's productivity?

A worker's productivity is affected by three factors: **natural resources, capital resources,** and **human resources**.

- **Natural resources** include land, timber, water, wind, and minerals, or other substances in the land or water. A farmer with rich land can produce more crops per acre than a farmer with poorer quality soil.
- **Capital resources** include buildings, machinery, and equipment used in the business. An accountant can turn out more financial statements in less time by using a computer than with just a paper and pencil.
- **Human resources** refer to the skills, education, and abilities of the worker. This is also called **human capital**. Just as businesses can invest money in equipment and buildings, they can also invest money in workers with special skills or abilities. A skilled worker is more productive than an unskilled worker.

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

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

7. What are the **benefits** of going to school?

The benefits of going to school are:

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

8. What are some **costs** of going to school?

Some costs of going to school are:

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

9. Will a college degree guarantee a high income?

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

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

Entrepreneurs can have slow periods in which they don't make money, or business setbacks that cost them money. An opportunity cost of being your own boss is the lack of the security of a weekly paycheck.

11. How do you develop a **positive work ethic**?

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

FAMILY ACTIVITY
3

Stretching: What Career Interests YOU?

Use the PACED decision-making process to help your child choose a job or career that matches his or her interests.

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

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

Have your son or daughter list four to five job or career areas that appeal to him or her in the left hand column. Rate each *alternative* with + or **-** depending on whether the criterion is met or not met with that job/career.

Criteria → / Alternatives (Job/career) ↓			

Now answer these questions:

A. Which job or career area best matches your son's or daughter's interests? (You can choose a specific career or a more general career area.)

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

C. What extracurricular activities might provide the experiences your child will need?

FAMILY ACTIVITY 3 CONTINUED

Career Interest Self-Assessment.

Use this instrument to help your son or daughter identify his or her interests and how those interests fit with general career areas.

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

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

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

1	2	3	4	5	6

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

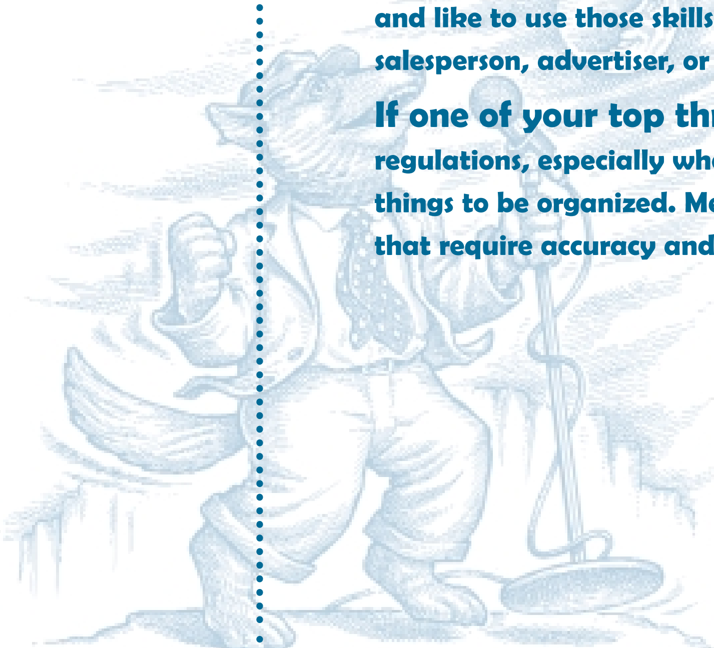
If one of your top three scores is in Box #2, you like to organize and understand things for yourself, but you're not interested in persuading others. You often enjoy working alone and are oriented more toward data and numbers than toward people.

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

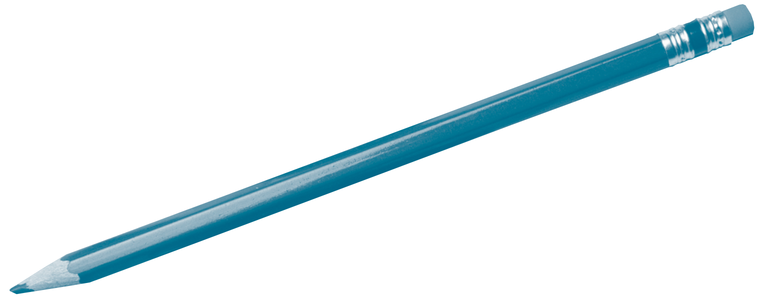
If one of your top three scores is in Box #4, you like to help people learn new things. You'd rather spend an evening talking with a friend than an afternoon playing basketball or skiing. You're a good listener and are interested in people. Friends often come to you for help in solving problems.

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

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



FAMILY ACTIVITY 3 CONTINUED



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

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

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

Which career cluster is YOUR opportunity cost?

Adapted from John Holland, PhD, "Holland Occupational Themes"
http://jobs.esc.state.nc.us/soicc/planning/cla.htm

FAMILY ACTIVITY

4

Strengthening: What Do You Really Do at Work?

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

Student reporter asks:

1. What is your job title? ________________________________

____

2. What is the goal of your work? ____________________________

____

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

____

4. What project did you work on most recently? ____________________

____

5. What tools (capital resources) do you use in your work? ____________

____

6. How do those tools increase your productivity?____________________

____

7. What skills does your job require? __________________________

____

8. How did you get those skills? ______________________________

____

Raising the Bar:
Try these **family activities**.

1. Search for unusual career options with your student, using the Internet or the library. The Bureau of Labor Statistics has a useful web site: **http://www.stats.bls.gov.** Click on Kid's Page for an interesting way to get beyond the traditional approach of looking at only the lawyer, firefighter, doctor, police officer, teacher, sales clerk, and airline pilot list that most students start with.

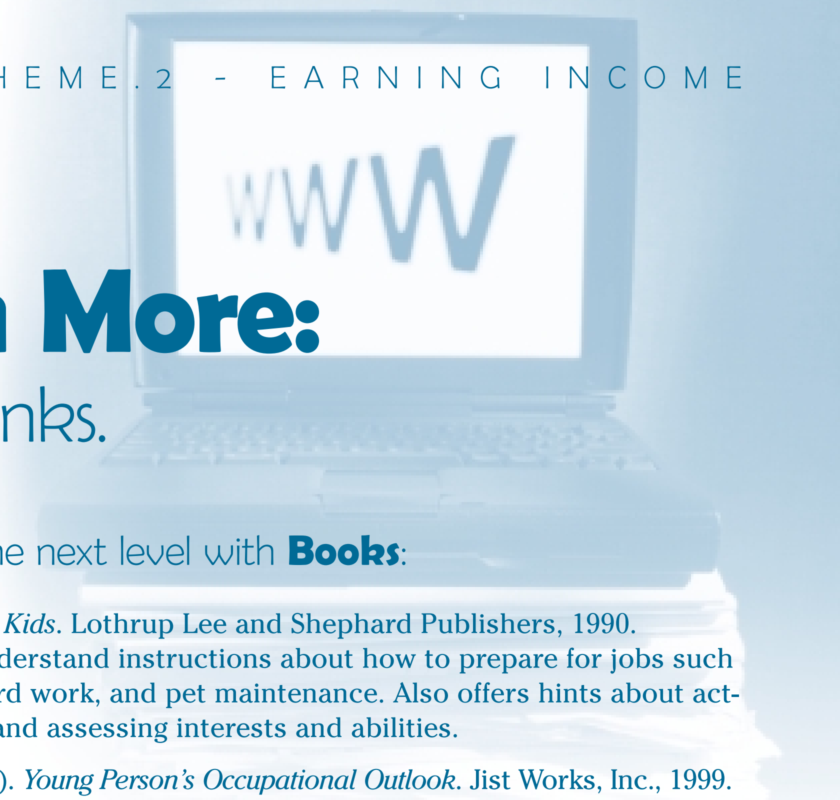
2. Encourage your son or daughter to become involved in extracurricular activities at school or in the community. Experiences as a hospital or animal shelter volunteer, museum or library helper, or intern in a business or arts organization can inspire new ideas about possible careers. Those activities look good on a college application or eventual job resume as well.

3. Search for productive resources everywhere. Talk about the use of natural resources, human resources, and capital resources in your home, in a store, in a fast food restaurant, and in a library. Become aware of what it takes to make things happen.

4. If you know a business owner or a human resources manager, ask him/her to talk about the qualities a new employee must have to get a job. Help your son or daughter prepare questions in advance: How is a worker's productivity measured? What skills do you look for in a potential employee? How can a productive worker move ahead in your company? A human resources manager may be willing to come to your son's or daughter's class and answer questions.

5. See for yourself that statistics show more education leads to higher income. The U.S. Department of Labor's web site has a graph comparing education, salary, and unemployment rates. (The latest available figures are usually a few years old since it takes time to gather the data.) **www.dol.gov/dol/asp/public/fibre/dropout.htm**. Create your own graph together.

6. Create a resume for your son or daughter. Working together, list his or her accomplishments, school activities, and community activities. Use the guide at **www.careerkids.com**. Click on "My First Resume." This is fun to do, but it can serve also as a useful guide to areas that need strengthening for eventual college or job applications.



Learn More:

Lit and Links.

Lit - Take it to the next level with **Books**:

Barkin, Carol. *Jobs for Kids*. Lothrup Lee and Shephard Publishers, 1990.
Gives easy-to-understand instructions about how to prepare for jobs such as child care, yard work, and pet maintenance. Also offers hints about acting responsibly and assessing interests and abilities.

Emmons, Sherri (editor). *Young Person's Occupational Outlook*. Jist Works, Inc., 1999.
Provides a good reference for exploring career opportunities. Contains job descriptions, as well as information about salaries and hints about the education and training needed for various jobs.

Marques, Eva. *One Hundred Jobs for Kids and Young Adults*. Wise Child Press, 1997.
Lists jobs and includes hints about how to develop skills for various occupations. Also contains sections about money management and business etiquette.

Pervola, Cindy and Hobgood, Debby. *How to Get a Job if You're a Teenager.*
Highsmith Press, 2000. Contains a guide to the basic skills needed for any career with resource lists and web sites about job searches.

Links - Fine-tune your financial fitness on the **Internet!**

Visit **www.ncee.net** for more ideas, activities, and constantly updated links to great personal finance and economic web sites. Other sites available at the time of publication include:

www.uhs.berkeley.edu/students/careerlibrary/links/careerme.htm
Contains an interest inventory and links to career exploration web sites.

www.bygpub.com/books/tg2rw/careers.htm
Click on careers for links to salary and resume tips.

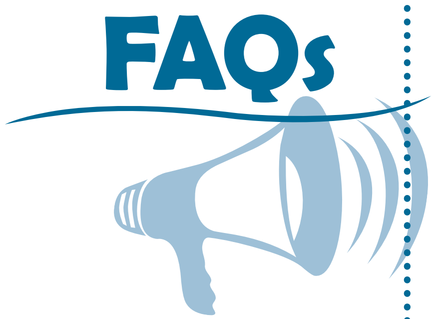
www.mapping-your-future.org/planning/
Suggests 10 steps for planning your career.

THEME 3

Getting to the Gold:

A Penny Saved Isn't Much of an Investment Strategy.

No pain, no gain was the millionaires' mantra before the jocks got it. Find out how to make your money really work for you.



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

The **opportunity cost of saving** for the future is the chance to spend the money now. If your family wants a $30,000 SUV in six years, you may have to give up vacations for three summers, new furniture, most dinners in restaurants, and expensive holiday gifts to help save the money for the car.

2. What is a **long-term goal**?

A **long-term goal (over 5 years)** is a plan to trade immediate gratification for a future benefit. A typical long-term goal might be having enough savings to pay for a college education for a child. Parents might start making deposits to some type of savings account when the child is born. Some high-ticket items can be long-term goals for families of modest means but **short-term goals (under 2 years)** for wealthy families.

Unexpected expenses might reduce a family's opportunity to save, and their short-term goals could become **medium- (2-5 years)** or long-term goals. An **intermediate goal** can be a way to approach a long-term goal in stages so it seems more manageable. For instance, $8,000 saved over four years for probable orthodontist's bills is just $2,000 a year.

3. Why are there different kinds of saving plans?

Different kinds of saving plans carry varying degrees of risk and reward.

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

4. What about **inflation**: when is it a bad thing?

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

5. When is inflation a good thing?

Inflation is good for borrowers. If you have a furniture loan payment of $50 a month for 10 years, that $50 might buy a sweater at the beginning of the loan. But after eight years of inflation, the same sweater might cost $65. The money you pay for the loan buys less after inflation. You are paying off your loan with dollars that are worth less.

6. What is the **function of banks** and other financial institutions?

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

7. Why can **compound interest** make people rich?

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

8. What is the **Rule of 72**?

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

9. What is a **bond**?

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

Different kinds of bonds are:

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

10. How do bonds provide income?

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

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

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

12. What are **stocks**?

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

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

Historically, the return on investments in stocks has been much greater. From 1926 to 1995, the average annual return on stocks was about 10.5% compared to bonds at 5.7%.

14. Why own bonds if stocks pay more?

Stocks are generally more risky. The price of shares can go up and down daily. Bonds have a fixed rate of interest for a long period of time. Big corporations and governments are far less likely to go broke and fail to pay back the value of their bonds at maturity and the interest during each year.

15. What does **"buy low; sell high"** mean?

When people buy stock, they hope to make a profit. One way to do that is to sell the stock at a higher price than the price they paid for it. For example, if you buy 10 shares of XYZ Corporation at $100 a share and you sell it at $200 a share, you will make a profit of $1,000 (minus a commission or fee to the stockbroker).

16. Do you buy stock directly from a company?

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

17. Why does investing in companies matter?

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

18. What are **financial intermediaries**?

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

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

19. What about **risk**?

- All investments carry some degree of risk. Some are riskier than others.
- Regular savings accounts are fully insured up to $100,000 but they typically pay a lower rate of interest than other types of investment. The opportunity to make more money may be lost by opting for a safe place to put savings.
- Stocks can go down, causing investors to lose money. Blue chip stocks have traditionally returned more than 10 percent annually, but there is no guarantee of that return.

20. How do you minimize risk?

Diversify. Investors who mix their holdings among stocks, bonds, mutual funds, and money market accounts can cover a loss in one area with possible gains in another. Even a mixed stock portfolio can help by offsetting stocks that lose value with stocks that increase in value. When investors learn about the different ways to invest, they can decide how much risk they are comfortable with and how to distribute their money for the best and safest return.

21. Should investors keep some money in **"liquid" investments**?

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

FAMILY ACTIVITY 5

Stretching:
Saving and Goals.

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

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

Test Your Financial Fitness

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

FAMILY ACTIVITY 6

Strengthening: The Power of Compounding.

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

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

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

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

Which is the better choice?

The table demonstrates that the second choice is by far the one that will result in higher earnings. In fact, the second choice will make the girl a millionaire in just 28 days!

It's easy to see that as the numbers get bigger, the doubling gets more and more dramatic. Just imagine what the number would be at 35 days or 50 days.

Of course, this brain teaser is fantastic, but compound interest is almost as fantastic. In fact, because of compounding, you can double your money in a pretty short time, depending on the interest rate you are earning. There is a simple way to find out how long doubling will take. It is called the **Rule of 72.**

Just divide 72 by the rate of interest you're earning. The answer is the number of years it takes to double your money.

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

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

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

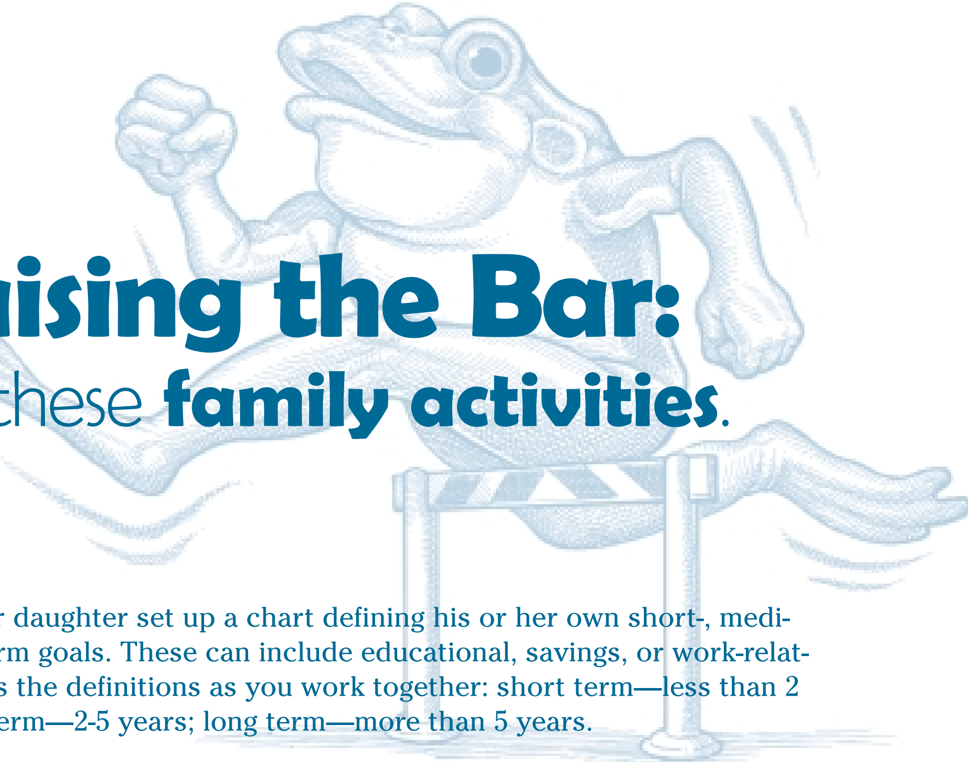
$$72 \div 8 = 9 \text{ years}$$

How long will doubling take if the interest rate is:

3% ____________ **9%** ____________ **10%** ____________

18% ____________ **4%** ____________ **12%** ____________

Answers are given in Appendix A.



Raising the Bar:
Try these **family activities**.

1. Help your son or daughter set up a chart defining his or her own short-, medium-, and long-term goals. These can include educational, savings, or work-related goals. Discuss the definitions as you work together: short term—less than 2 years; medium term—2-5 years; long term—more than 5 years.

2. With your son or daughter, use an Internet interest calculator to show how small amounts of saving can generate large returns when left to accumulate for 10, 20 or 30 years. Discuss how compound interest affects savings plans. Interest calculators can be found by using keywords such as interest calculators (or loan calculators, mortgage calculators).

3. Collect brochures, pamphlets and flyers from local savings institutions. Compare the interest rates. If possible, visit one bank or financial institution and speak with an officer about the advantages and disadvantages of different savings plans.

4. Check out the Dow Jones web site and print a graph that shows the history of the Dow Jones Industrial Average. With your son or daughter, discuss the peaks and valleys of the DJIA as well as its general upward trend.

5. On the graph, track one or two companies included in the Dow Jones Industrial Average. Talk about how the ups and downs of the 30 companies on the Dow can show correct or incorrect information about general trends in the economy. Research the companies you have picked by obtaining their annual reports and looking for current earnings and future expansion plans. Check out their company web sites. Watch their movements on the Dow for several weeks. Consider them with your son or daughter as a potential investment and list reasons why they might be safe or risky.

6. Take your son or daughter to visit a local stockbroker to learn firsthand about how to be a smart investor. Prepare a list of questions with your son or daughter: How do I create a beginning investment plan? Where is the best place to invest my money? How should I diversify my investments? How should my investment strategies change as I grow older?

7. Visit a bank, savings and loan, credit union, and stockbroker with your son or daughter. Design a chart to compare and contrast the services and fees of each financial institution.

Learn More:
Lit and Links.

Lit - Take it to the next level with **Books**:

Bodnar, Janet. *Dr. Tightwad's Money-Smart Kids: Teach Your Kids Sound Values for Wiser Saving, Earning, Spending, and Investing.* Kiplinger Books and Tapes, 1997. Addresses issues such as investment and college tuition but also deals with shorter-term goals, such as savings and allowance. Contains engaging activities about money, saving, and credit.

Briles, Judith. *Raising Money-Wise Kids.* Moody Press, 1996. Helps parents teach kids the value and use of money through quizzes and games. Covers entrepreneurship, credit, careers, and more.

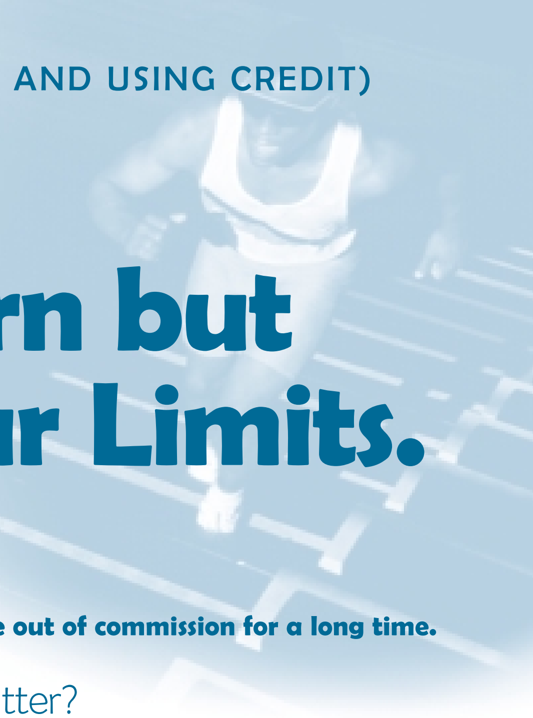
Estess, Patricia Schiff and Barocas, Irving. *Kids, Money, and Values.* F and W Publications, 1994. Helps parents teach children about sensible saving and spending habits. Contains games and puzzles about being a wise consumer.

Harman, Hollis Paige. *Money Sense for Kids.* Barrons Juveniles, 1999. Features the history of money as well as hints about saving and investing. Includes an explanation of interest and a section on stocks and bonds.

Links - Fine-tune your financial fitness on the **Internet!**

Visit **www.ncee.net** for more ideas, activities, and constantly updated links to great personal finance and economic web sites.

THEME 4



Feel the Burn but Respect Your Limits.

FAQs

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

1. Cash or credit card—does it matter?

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

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

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

3. Are all credit cards alike?

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

4. What is the **opportunity cost** of using credit?

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

5. What is a **credit record**?

A credit record is a file of information on how many credit cards or mortgages a consumer has, how often a consumer misses (or meets) payment deadlines, what a consumer currently owes, and whether or not a consumer has had a bankruptcy or a foreclosure. Creditors examine the credit records of applicants before granting credit or loans.

6. How can you see your credit record?

One credit history service, TRW in Orange County, California (800-682-7654), will send you one free report a year. Other credit bureaus or history services, such as Equifax or Trans Union, charge a modest fee for supplying your credit report.

7. What are the **three Cs of Credit**?

Applicants for credit must prove they have **collateral, character,** and the **capacity** to repay.

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

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

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

Some important things to look for are the location of the institution, the convenience of doing business there, the opportunity for electronic or online services, and the fees it charges for various services.

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

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

11. What can a consumer do about **defective merchandise**?

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

The Fine Print

Credit cards are like cars—if you don't know how to use them, you can do a lot of damage. Neway, a non-profit debt management organization, produced the following statistics for 1999:

- The average American household has 10 credit cards.
- The average balance on a credit card is $7,000.
- The average APR (annual percentage rate of interest) is 18.9%.
- Americans paid about $64 million in interest on credit card debt of $565 trillion.
- The typical monthly payment is 90% interest and 10% principal.

Read This!

If your credit card balance is $8,000 and you make the minimum monthly payment at 18% interest, it will take you 25 years and 7 months to pay the debt off. Your total interest paid will be more than $15,000. Your total cost for the goods you originally bought for $8,000 will be $23,432.

FAMILY ACTIVITY 7

Stretching: Credit Card Coin Toss.

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

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

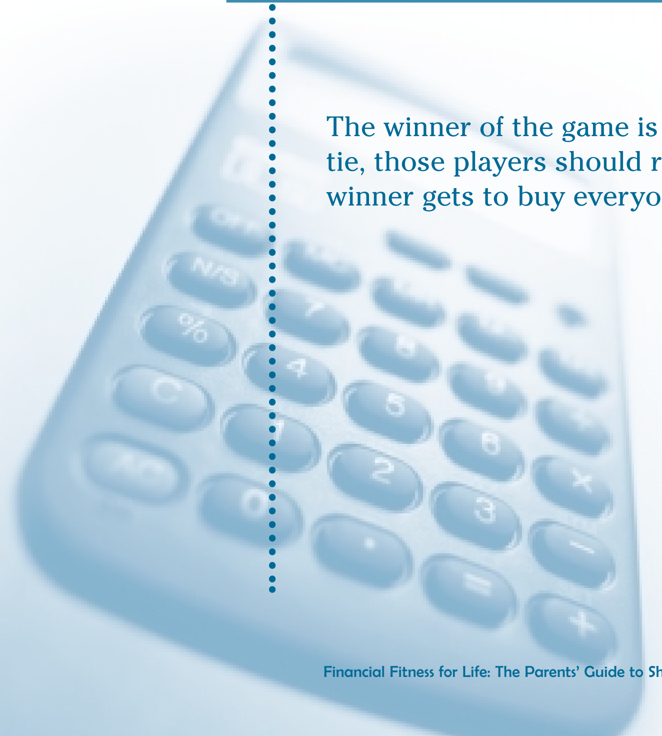
Calculate the fees and interest each player will have to pay back in a year.

Example:

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

Annual fee	None
Interest paid (Avg. acct. balance X APR) ($1000 X .18)	$180
Late fees ($29 X 2)	58
Total	**$238**

The winner of the game is the person with the LOWEST total. If there is a tie, those players should repeat the game until there is one winner. The winner gets to buy everyone else pizza. (Just kidding.)



FAMILY ACTIVITY 7 CONTINUED

Credit Card Coin Toss Game Charts

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

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

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

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

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

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

Raising the Bar:

Try these **family activities**.

1. Use junk mail to learn about credit cards. Examine credit card offers with your son or daughter. Look for the interest rate or rates, the grace period, annual fee, and other features. Compare various card offers and discuss their advantages and disadvantages.

2. Find out which credit cards are accepted where you shop or dine with your son or daughter. Ask why some cards are widely accepted and other cards are not.

3. Call the nearest National Foundation for Credit Counseling office (1-800-388-2227), and make an appointment to visit with your son or daughter. Ask the representative at your meeting what credit card companies look for when they decide to approve or disapprove applicants.

4. Talk about borrowing and lending habits with your son or daughter. Relate risk and creditworthiness to borrowing among school friends and to transactions in the financial world.

5. Clip advertisements from the local paper to compare prices of similar goods and services. Talk about why the same product may be priced differently at different stores.

6. Look at the latest edition of *Consumer Reports* magazine, and check out its method of comparing similar products. If your family is considering a major purchase, do the comparisons with your son or daughter while making the decision.

Learn More:
Lit and Links.

Lit - Take it to the next level with **Books**:

Eighteen Ways to Help Children or Grandchildren Learn the Value of Money.
National Center for Financial Education, Box 34070, San Diego, CA 92163.
Send a stamped, self-addressed envelope for this free pamphlet.

Godfrey, Neale S. *Godfrey's Ultimate Kids' Money Book.* Simon and Schuster, 1998.
Features colorful drawings to illustrate concepts about economic and financial matters.

Karlitz, Gail; Honig, Debbie; and **Lewis, Stephen.** *Growing Money: A Complete Investing Guide for Kids.* Price Stern Sloan, 1999.
Contains the fundamentals of money management explained in a practical way.

Links - Fine-tune your financial fitness on the **Internet!**

Visit **www.ncee.net** for more ideas, activities, and constantly updated links to great personal finance and economic web sites.

THEME 5

Maintenance:
Staying (Financially) Fit Means Staying Informed.

FAQs

When you understand all the options, putting your money through its paces is no sweat.

1. What is sound money management?

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

2. What does "pay yourself first" mean?

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

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

Most banks are members of the **FDIC**, Federal Deposit Insurance Corporation. That means up to $100,000 of your money is fully insured when you place it in the bank.

4. Why should a student have a **budget**?

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

5. How does an **ATM** work?

To use an automatic teller machine, you insert a special plastic card and enter your PIN (Personal Identification Number). ATMs can accept deposits, give cash, allow you to transfer funds between accounts or pay bills, and show the account activity in your savings or checking account.

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

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

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

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

8. What other charges come with a bank account?

Bank service charges might be fees for each check you write, a fee for an insufficient bank balance, fees for all other ATM machines except the bank's, fees for bank-issued credit cards, and charges for seeing a bank officer.

9. Does everyone pay **income taxes**?

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

10. Why are taxes deducted from paychecks?

The government needs tax dollars to pay for the services it provides. So continuous payroll tax deduction provides that money. And it eliminates the huge tax crisis many people would face on April 15th by not saving enough for taxes all year.

11. Who gets **Social Security**?

The largest pool of recipients of Social Security is retired people. Those who have worked enough years to contribute sufficient taxes to the system are eligible for Social Security. There are other beneficiaries as well, such as some people with disabilities and certain dependents.

12. And who pays for Social Security?

Almost everyone who works, pays. The government uses payroll taxes to pay the benefits to retired workers. Employers and employees contribute to that tax.

13. What is a **sales tax**?

A sales tax is a consumer tax. It is a percent of the cost of an item purchased and is added on to the purchase price.

14. What is a **property tax**?

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

15. What are **transfer payments**?

Transfer payments are payments by the government to people. Those payments might be Social Security benefits, unemployment compensation, and public assistance.

FAMILY ACTIVITY

8

Strengthening: The Battle of the Budget Game.

The Hatfields and the McCoys have been feuding forever. A budget is as good an excuse as any. Each family has listed its income and expenses, following the advice of its own financial counselors. The winning "family" will be the one with the most income and the one which puts the most into savings.

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

HATFIELDS Monthly Income		McCOYS Monthly Income	
Farm income	**$3,750.00**	Logging salary	**$3,927.00**
Commission for sale	**125.00**	Commission for sale	**350.00**
Gift from Granny	**288.00**	Gift from Gramps	**103.00**
TOTAL INCOME		**TOTAL INCOME**	
Monthly Fixed Expenses		**Monthly Fixed Expenses**	
Savings (12%)		Savings (14%)	
Car payment (10%)		Car payment (12%)	
Insurance (7%)		Insurance (8%)	
Rent (20%)		Rent (18%)	
Charity (6%)		Charity (8%)	
Monthly Variable Expenses		**Monthly Variable Expenses**	
Doctor bills	**$197.00**	Doctor bills	**158.00**
Food	**581.00**	Food	**527.00**
Clothes	**389.00**	Clothes	**474.00**
Utilities	**296.00**	Utilities	**303.00**
Transportation	**218.00**	Transportation	**126.00**
Entertainment	**192.35**	Entertainment	**164.00**
TOTAL EXPENSES		**TOTAL EXPENSES**	

Now answer these questions about the budgets of the Hatfields and the McCoys.

1. Which family has the most income? ______

2. Which family is putting the most into savings? ______

3. What percent of the Hatfields budget is fixed expenses? ______

   McCoys?? ______

4. How do these budgets show the value that the Hatfields and McCoys put on saving and charitable giving? ______

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

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

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

8. If no one buys wood whistles from the McCoys, what kinds of choices will the McCoys have to make as they adjust their budget? ______

9. If you were the financial advisor to either the Hatfields or the McCoys, what advice would you give them? ______

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

    a. ______

    b. ______

    c. ______

Raising the Bar:
Try these **family activities**.

1. Trade-offs: giving up one thing in order to get something else. When shopping with your son or daughter, ask him or her to look for trade-offs in family spending decisions. Then talk about the trade-offs he or she made when deciding how to spend his or her own money.

2. Create a family budget together with your son or daughter. List your **fixed expenses** (these do not change from month to month) such as mortgage, car payments, rent, and Internet connection. Then list all the **variable expenses**—utilities, food, clothing, long distance phone bills, etc. Compare these to your actual income if you like. Just listing where the money goes (even without revealing the exact figures) is a life lesson for young people. They can see how important a budget is and why family spending decisions involve trade-offs.

3. A Blank-Check Game is a good way to sharpen checking account skills. Give your son or daughter some blank checks and a blank check register. (Most banks will give these to you free.) Set an imaginary bank balance of $1,000. Then let him or her look through store catalogues and advertisements and write “checks” to purchase some items. Make sure he or she writes the checks correctly, records every purchase in the check register, and calculates accurately. Practice with the deposit slips as well.

4. A painless way to learn about taxes, for now, is to get a copy of the 1040EZ **income tax** form (local library, post office, or **www.irs.gov**) and make up an imaginary income. Help your son or daughter compute the taxes on that imaginary income. This is good pre-job training for understanding payroll deductions.

5. See how much **sales tax** your family pays. Save every receipt for two weeks. Have your son or daughter circle the amount of sales tax on each receipt. In two weeks, add up the numbers together. Talk about how paying consumer taxes affects disposable income and about what the government provides with your tax money.

Learn More:

Lit and Links.

Lit - Take it to the next level with **Books**:

Blue, Ron and Blue,Judy. *Raising Money-Smart Kids: How to Teach Your Children the Secrets of Earning, Saving, Investing and Spending Wisely.* Thomas Nelson Publisher, 1992. An easy-to-understand guidebook that shows how parents and children can enjoy a lifetime of financial well-being and security leading to financial independence and family harmony.

Otfinoski, Steve. *The Kid's Guide to Money: Earning It, Saving It, Growing It, Sharing It.* Steven Otfinoski Publisher, 1996. A guide that explains the fundamentals of managing finances and includes chapters on banks, budgets, taxes, and charitable donations.

Pearl, Jayne A. *Kids and Money: Giving Them the Savvy to Succeed Financially.* Bloomberg Bookshelf, 1999. A book that includes the history of money, facts about banks, information about investing, and more. Lots of riddles, games, and brainteasers make this a lively book for parents and children.

Searles, Michael. *Kids & Money, A Hands-on Parents' Guide to Teach Children About Successful Money Management and Business Basics.* Summit Financial Products, Inc., 1996. A comprehensive parents' guide to help teach kids of all ages the value of a dollar.

Links - Fine-tune your financial fitness on the **Internet!**

Visit **www.ncee.net** for more ideas, activities, and constantly updated links to great personal finance and economic web sites.

Possible Answers to Family Activity 1, **Making Choices.**

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

Incentives—List three incentives that could affect a major family decision.

A. *Buy a new car: Damage or costly repairs needed for current car, special promotion with super prices, current car not big enough for family needs.*

B. *Move to a different town: Job change to a different town, better school in another town, lower property taxes in different town, safer neighborhood.*

C. *Volunteer once a week at a local recycling center: Friends are volunteering,and it would be fun to work together; strong commitment to environmental causes; good feeling of contributing to a worthy cause.)*

Answers to Family Activity 6, **The Power of Compounding.**

3% =24 years

4% = 18 years

18% = 4 years

10% = 7.2 years

9% = 8 years

12% = 6 years

APPENDIX

Answers to Family Activity 8, **The Battle of the Budget Game.**

HATFIELDS		McCOYS	
Monthly Income		**Monthly Income**	
Farm Income	$3,750.00	Logging Salary	$3,927.00
Commission for sale	125.00	Commission for sale	350.00
Gifts from Granny	288.00	Gift from Gramps	103.00
TOTAL INCOME	4,163.00	TOTAL INCOME	4,380.00
Monthly Fixed Expenses		**Monthly Fixed Expenses**	
Savings (12%)	$499.56	Savings (14%)	$613.20
Car Payment (10%)	416.30	Car Payment (12%)	525.60
Insurance (7%)	291.41	Insurance (8%)	350.40
Rent (20%)	832.60	Rent (18%)	788.40
Charity (6%)	249.78	Charity (8%)	350.40
Monthly Variable Expenses		**Monthly Variable Expenses**	
Doctor Bills	$197.00	Doctor Bills	158.00
Food	581.00	Food	527.00
Clothes	389.00	Clothes	474.00
Utilities	296.00	Utilities	303.00
Transportation	218.00	Transportation	126.00
Entertainment	192.35	Entertainment	164.00
TOTAL EXPENSES	**$4,163.00**	**TOTAL EXPENSES**	**$4,380.00**

1. The McCoys.

2. The McCoys.

3. Hatfields 55%, McCoys 60%.

4. Both the Hatfields and McCoys believe charitable giving and saving are very important. Both are classified as fixed expenses, meaning that they are “paid first” before the variable expenses.

5. Answers will vary, but the students should respond that both families would have to adjust their variable expenses to cover the high price of gas.

6. Answers will vary, but the students should respond that the McCoys could use the money they save on food expenses to spend more on other variable expenses.

7. The Hatfields save 12 percent of their income now; if they increase to 15 percent they’ll have to spend less on variable expenses. That’s their opportunity cost.

8. If no one buys wood whistles, the McCoys’s income will be reduced by $350. They will have to lower their expenses by that amount by spending less.

9. Answers will vary.

10. Answers will vary, but the students should note that a sensible budget allows people or families to (1) analyze their finances, (2) set earning, spending, and saving goals for the future, and (3) gain the most from their limited resources.