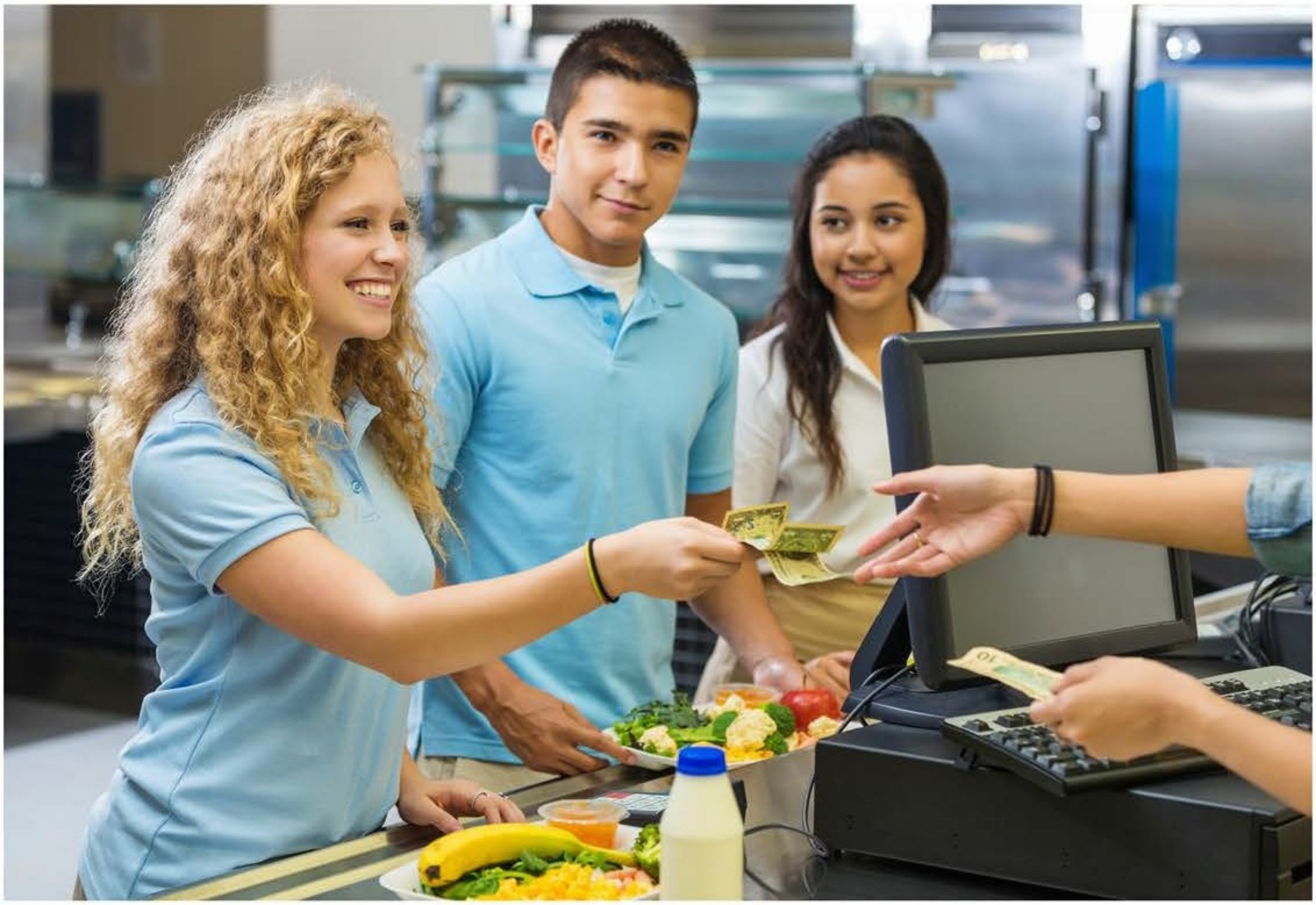
Money Smart **for Grades 9-12**



Educator Guide

FDIC
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WELCOME TO MONEY SMART

Welcome to ***Money Smart***, an exciting interactive exploration of the concepts of money. This standards-aligned, cross-curricular program is designed to promote personal financial education in grades 9 through 12 students and young adults aged 18 to 20. You can use ***Money Smart*** to add engaging and enriching activities to financial literacy and economics instruction. Extension activities support English Language Arts, Math, Social Studies and Economics, and Technology, while also helping your students build the foundation to become financially responsible adults.

In ***Money Smart*** you will find:

- **Twenty-Two Lessons** with hands-on, cross-curricular activities that engage ninth- through twelfth-grade students and young adults aged 18 to 20 in discussing and exploring key financial concepts
- **Teacher Presentation Slides,** which provide helpful visuals, as well as challenge exercises and reflective prompts to support the activities in each lesson
- **A Student Guide** with handouts, worksheets, and resources that let students explore the topics covered in each lesson and apply their new knowledge
- **A Parent/Caregiver Guide** with information about topics being covered in class, conversation starters, online and literary sources, along with conversation starters and family activities to try together

Developing positive financial habits equips students with 21st-century skills and tools that last a lifetime. We hope you and your students enjoy learning about money and its many uses.

We are eager to hear from you about how you use this curriculum. We would like to know what works well and what could be improved to make ***Money Smart*** even better. If you have any questions, we would like to help. Please contact us with your comments and questions via e-mail at **communityaffairs@fdic.gov**.

GETTING STARTED

Money Smart provides a comprehensive, developmentally appropriate program for teens and young adults to build an understanding of key financial concepts.

There are many features that help make the ***Money Smart*** curriculum engaging, motivating, and easy to use. Each lesson includes learning objectives, essential questions, supplies needed, and preparation required, as well as the following features and components to support easy integration of ***Money Smart*** activities into your instructional day.

STANDARDS

Each lesson promotes real-world connections through student-centered learning experiences and aligns to the following education standards, including Common Core State Standards in mathematics and English Language Arts. The **Education Standards Chart** identifies which standards are met in each lesson.

- Financial Literacy Jump$tart Standards
- English Language Arts Common Core State Standards
- Mathematics Common Core State Standards
- National Standards in Economics by Council for Economic Education
- Partnership for 21st-Century Skills

GRADE-LEVEL MODIFICATIONS

Please note the modifications identified throughout the lessons to differentiate learning experiences for beginners and advanced learners. Modifications provide developmentally appropriate activity recommendations and extension opportunities for a wide range of learning levels.

PRESENTATION TIME

Each lesson plan includes an estimated time needed to teach the lesson. Actual time required will vary classroom to classroom. The estimation includes time spent on the **Warm Up**, **Guided Exploration**, **Independent Exploration**, and **Wrap Up**. Activities may also be taught as several short lessons over a period of days or weeks. **Extended Exploration** activities are included to extend financial literacy learning opportunities throughout the year and provide easy ways to integrate the topics into various content areas.

ASSESSMENTS

A variety of assessments will be integrated throughout each of the twenty-two lessons. Assessments are designed to build value, meaning, and context around a topic, while providing teachers with opportunities to evaluate prior student knowledge, and collect evidence of their new understandings of lesson concepts and skills. Pre- (formative) and post- (summative) assessments are noted on the first page of each lesson. Assessments include discussions, reflections, questions and answers, reading, writing, and problem-solving exercises. Student handouts are an especially useful form of written assessment.

LESSON STRUCTURE

Each lesson is designed to include the following:

- **Warm Up** introduces students to the topic and sparks inquiry.
- **Guided Exploration** integrates key financial literacy learning objectives with teacher support and guidance. Through whole-class discussions and activities, students discuss key topics and begin connecting the concepts to the context of their own lives.
- **Money Smart Tips** are provided throughout lessons to offer additional guidance, interesting and relevant financial facts, and additional ideas to help make ***Money Smart*** a success in your classroom.
- **Independent Exploration** activities are designed to engage students in the process of learning through individual discovery, research, and interpretation. These activities are more independent than the Guided Exploration activities and may also be used as homework assignments, for collaborative group work, or independent study.
- **Wrap Up** provides a reflection question or activity to review lesson concepts and allow students to demonstrate their understanding.
- **Extended Exploration** provides teachers with additional opportunities to extend financial literacy concepts throughout the school year within core content areas including English Language Arts and Math. Activities can be completed as a class, in small groups, or by students individually. Useful resources (such as books, web links, games, or videos) are also included to promote even more student engagement. The books and online resources suggested in this guide are just a few of the many available resources that explore these topics, and are not endorsed by the FDIC.
- **Student Handouts** (found in the **Student Guide**) and **Teacher Presentation Slides** provide dynamic instructional support. Student handouts create an opportunity for students to apply their knowledge and for teachers to assess their understanding. Teacher presentation slides offer visuals and interactive activities corresponding with lessons.
- The **Answer Key**, **Glossary**, and **Standards Chart** house all of the information needed to check for understanding, define key terms, and check which activities meet specific education standards. Vocabulary words are **bolded** in each lesson as they are introduced. It may be helpful to distribute copies of the entire glossary to students as a reference.

MONEY SMART AT HOME

The ***Money Smart*** curriculum includes a helpful **Parent/Caregiver Guide** that corresponds to the classroom materials. Families may also use it independently of the curriculum. It contains resources, activities, games, and conversation starters on financial literacy topics covered in each lesson. Use the following ideas to encourage parents to use the guide at home:

- Introduce parents to the ***Money Smart*** program and share the **Parent/Caregiver Guide** at the start of the school year.
- Discuss the ***Money Smart*** program during parent/teacher conferences, or in monthly parent newsletters home, and the importance of building healthy financial habits early on in life.

- Hold a ***Money Smart*** family night. Play games and have students share short skits about financial concepts they have learned.
- Send student handouts from each lesson home in homework folders for parents to review and sign.

MONEY SMART PORTFOLIO

To promote positive financial behaviors and demonstrate the compounding knowledge of financial literacy skills developed throughout the ***Money Smart*** curriculum program, introduce the **Money Smart Portfolio** into your classroom. The **Money Smart Portfolio** is a semester-long project that collects student handouts and activities from each lesson to be presented as a final portfolio.

The portfolio creation recognizes students' financial growth throughout each phase of the learning process. The portfolio also enables students to walk away with a comprehensive resource that may be referred back to anytime a financial question arises in their futures. Using the **Money Smart Portfolio** as a semester-long project also gives students a long-term goal to work toward, while enabling an excellent opportunity for final assessment.

Money Smart Portfolio is designed for the following purposes:

- Assess student understanding from each phase of the program
- Create opportunities for final student self-reflection and personal assessment
- Reaffirm for students the intrinsic nature of financial skills and how one skill and strategy leads to another
- Build long-term vision for students to invest in the program from beginning to end

FINANCIAL LITERACY ALL YEAR LONG

Highlight financial literacy at your school all year long, especially in April, during National Financial Literacy Month and School Library Month.

- Create bulletin boards or posters with students about financial literacy themes learned in ***Money Smart***
- Create a class or school newsletter with students to distribute to the school community about money skills and financial concepts covered in class.
- Publish student handouts and activities from the ***Money Smart*** lessons by sharing them on a classroom blog, website, or through social media.
- Display student work in the classroom, library, and hallways to spread financial literacy throughout the school community.
- Connect with other teachers to integrate real-world applications of financial literacy across all disciplines and classrooms, from Math to English Language Arts and Technology courses.

The more that students are exposed to financial literacy, and the more opportunity they have to practice applying their new knowledge and understanding of concepts, at school and at home, the more prepared they will be to live ***Money Smart*** lives.

LESSON 10: CONVERTIBLE OR CLUNKER?

GRADES 9 – 12 AND AGES 18 – 20

LESSON OVERVIEW

Buying a car is one of the first and most significantly large purchases young people make. Students will use their compounding knowledge to make sensible purchasing decisions in assessing how much car they can afford, issues of maintenance and **insurance**, and evaluating whether financing options such as **loans** and **leases** are appropriate to their situations.

TOPIC: Automobile Purchase

SUBJECT CONNECTIONS: Math, English Language Arts

TIME REQUIRED: 70 minutes *(excluding* **Extended Exploration** *activities)*

LEARNING OBJECTIVES:

Students will be able to…

- Research and identify secured and unsecured installment loans
- Calculate how much car to afford
- Evaluate long-term costs associated with buying a car, including insurance and maintenance
- Explain the difference between leasing and purchasing

SUPPLIES:

- Projector (for teacher presentation slides)
- Access to the Internet **(optional)**

PREPARATION:

- Make copies of student handouts
- Set up projector with presentation slides

STUDENT HANDOUTS:

(found in **Student Guide***)*

- ***Cash, Loans, and Leases***
- ***It's Time to Finance!***
- ***It's Time to Lease!***
- ***Car Comparison***

TEACHER PRESENTATION SLIDES:

- ***Reality Check*** *(2)*
- ***True Cost of Cars***
- ***Secure or Unsecured?***

ESSENTIAL QUESTIONS:

- *What transportation needs do I have?*
- *What are my transportation options?*
- *How do I know whether I can afford a car?*
- *How long do I want to have car payments?*

ASSESSMENT ACTIVITIES:

PRE-ASSESSMENT:

- ***Reality Check*** activity

POST-ASSESSMENT:

- ***Cash, Loans, and Leases*** handout
- **It's Time to Finance!** activity
- **It's Time to Lease!** activity
- ***Car Comparison*** handout
- **Wants Versus Needs** activity

MONEY SMART PORTFOLIO:

- ***Car Comparison*** handout

INSTRUCTION STEPS

WARM UP

REALITY CHECK [10 MINUTES]

Open the lesson by engaging students in the concept of decisions we must weigh when making a purchase, whether it is a large purchase like buying a car or an everyday purchase like buying groceries. Display the first ***Reality Check*** slide and tell students a fictional story about how you dreamed of buying the expensive, fancy car shown on the slide your whole life. Embellish the "want" and "desire" for the luxury vehicle, and convey the longing and pining for such a beautiful ride, including all of the superior features, speed capabilities, and image appeal. Next, tell students that, after all the years of dreaming and hoping, you were finally able to buy the car!

MONEY SMART TIP!

The Reality Check activity can be replaced with any number of items if you prefer to tell a personal narrative rather than a fictional story. For example: you could apply the same warm up by using a designer purse or pair of shoes, a new computer, or a long vacation as the "luxury" item instead of a car.

After giving students a few seconds to respond in surprise and pleasure that you accomplished such a dream, show students the second ***Reality Check*** slide (a toy car similar to the "dream" car), and say, "See, here it is! I bought it!" Students will likely respond with laughter when they realize the "reality check." Use this moment as a springboard to explain that, even though you really wanted the "fancy" car, your financial reality told a different story, and that the toy car option was what your budget could afford.

GUIDED EXPLORATION

CAR LOANS [20 MINUTES]

Ask students what steps they would take if they were interested in buying a car. What questions would they need answered before making a decision? Display the ***True Cost of Cars*** slide and review the questions together as a class. Use the questions to help students see the full landscape of the decision-making process that goes into making such a large purchase and explain that, by thinking through all of the questions, you become an informed buyer, which means you are able to make more financially savvy decisions.

Next, ask students how someone might pay for a car. Explain that one option is an **installment loan**, where you borrow a set amount of money and repay it in fixed monthly payments, or installments, for a specific period of time. Remind students that installment loans are different from open-end credit like credit cards.

Display the ***Secure or Unsecured?*** slide and explain to students the differences between the two types of loans.

- A **secured installment loan** is one in which you offer collateral for the loan. You must give up the collateral to the lender if the loan is not paid back as agreed. The interest rates for secured installment loans are comparatively lower than unsecured loans. A car loan is an example of a secured installment loan.
- An **unsecured installment loan** is a loan that is not secured by collateral. An example of an unsecured installment loan is a student loan or credit card.

Grade-Level Modifications:

Beginner: Spend time connecting back to Lesson 7, *Capacity, Character, Collateral, Capital*, and review with students the concept of collateral. Remind students that giving the lender collateral means that you pledge an asset (for example: your car) to the lender with the agreement that the lender can take it to help repay the loan if you do not make payments as agreed.

Advanced: Expand the discussion on installment loans to include:

Annual percentage rates (APR): The cost of borrowing money (expressed as a percentage rate) on a yearly basis. When shopping for the best loan rates, compare the APRs rather than the interest rates, because APRs reflect both the interest you are charged and any fees. This is the single most important tool to use when comparing loan offers and advertisements.

Fixed-rate loans: A loan that has an interest rate that stays the same throughout the term of the loan. Most installment loans have fixed rates.

Variable-rate loans: A loan that has an interest rate that might change during any period of the loan, as written in the loan agreement or contract.

Finance charges: The dollar amount the loan will cost, including: interest, service charges, and loan fees.

Explain that, whereas some people choose to purchase a car through a secured installment loan, there are other options for financing, including saving up enough cash to purchase the car in full, or leasing a vehicle.

Distribute the ***Cash, Loans, and Leases*** handout and review the advantages and disadvantages for each option. Ask students to reflect on why it is important to understand all of your options. Ask students: *If you were going to purchase a car, which option do you think you would use, and why?*

INDEPENDENT EXPLORATION

Note: These activities are more independent than the Guided Exploration activities and may be used as homework assignments, collaborative group work, or independent study.

IT'S TIME TO BUY! [35 MINUTES]

Distribute the ***It's Time to Finance!*** and the ***It's Time to Lease!*** handouts. You will need volunteers to play a narrator, a car salesman, a young adult, and a parent in each of the skits. Ask for volunteers to act out each of the skits.

> **Grade-Level Modifications:**
>
> **Beginner:** Have students read the scripts individually and then regroup for a class discussion about the two different scenarios.
>
> **Advanced:** Challenge students to come up with their own car, buying and leasing skits and present them to the class by having students work in small groups to write and perform an example of a car, buying experience for financing and leasing a vehicle.

When students are finished performing the skits, briefly discuss each scenario. Ask students: *When you are purchasing a car, what questions should you think about ahead of time? What factors should be considered when leasing?* Remind students that it is important to think about loan terms, interest rates, monthly payments, and costs associated with owning a car, as well as how long a lease term is for, mileage limitations, and purchase price when a lease expires. Additionally, if students are unfamiliar with the concept of cosigning, explain that it is when someone other than the borrower (like a parent or relative) agrees to be responsible for loan payments if the borrower fails to make them.

Next, tell students that they will get an opportunity to put their car-buying skills to the test by researching and assessing different vehicle choices. Distribute the ***Car Comparison*** handout and allow students time to complete the activity.

Invite volunteers to share their research with the class and discuss the different research components that go into the car-buying process.

WRAP UP

NEEDS VERSUS WANTS [5 MINUTES]

Ask students to reflect in a written response or brief discussion what their transportation needs are and whether buying a car now or in the future is the right choice for them. Engage students in reflecting on what goes into the decision making process when it comes to buying a large item like a car.

EXTENDED EXPLORATION

Note: Use the following ideas to extend financial literacy concepts throughout the school year within core content areas through English Language Arts, Math, Social Studies and Economics, and Technology activities, projects, and discussions. Duration of activities will vary.

ENGLISH LANGUAGE ARTS

- **Writing Prompts:**
  - Is it wiser to buy a new, used, or leased car? Why do you think this is the best approach? Argue your position.
  - Write a brief paragraph about the car-buying experience from each of the following different perspectives: the salesman, the buyer, and the car!
- **Suggested Readings:**
  - *Tips for Buying a Car* by CNN: Read advice on how to approach the car-buying process. **http://money.cnn.com/magazines/moneymag/money101/lesson17/**
  - *Confessions of a Car Salesman* by Popular Mechanics: An insider's look at how car salesmen operate, providing useful tips for car buyers. **http://www.popularmechanics.com/cars/news/industry/confessions-of-a-car-salesman-5681350**

MATHEMATICS

- **Activity/Project Ideas:**
  - Have students calculate the cost of a loan by comparing a vehicle's price if they paid cash in full at the time of purchase versus getting a loan with interest spread out over time. Give students multiple loan terms to compare, such as 36, 60, or 72 months, and different APRs to factor in.
  - Have students research the purpose of an amortization schedule for a car loan and related online resources such as amortization calculators. For a more advanced activity, challenge students to create their own amortization schedule for a car loan. For example: students may create an amortization schedule by using online calculators (**http://MyAmortizationChart.com**) or spreadsheet software templates at **http://office.microsoft.com/en-us/templates/loan-amortization-schedule-TC010073881.aspx**.

SOCIAL STUDIES AND ECONOMICS

- **Discussion Topics:**
  - Engage students in a discussion about the changes in supply and market price for new cars under different circumstances, such as the cost of labor increasing or the number of car manufacturers decreasing.
  - Explore with students how advancements in manufacturing technologies, such as hybrid, robotics, and driverless cars, have impacted and will continue to affect the marketplace.

TECHNOLOGY

- **Online Resources:**
  - *Buying and Owning a Car* by the Federal Trade Commission: A comprehensive car-buying source that includes information on buying, leasing, negotiating prices, how to maximize gas efficiency, and more. **http://www.consumer.ftc.gov/topics/buying-owning-car**
  - Auto Loan Calculator: An online calculator that calculates monthly payments for auto loans. **http://www.cars.com/go/advice/financing/calc/loanCalc.jsp?mode=full**
- **Activity/Project Ideas:**
  - Challenge students to create an amortization schedule for a car loan using a spreadsheet software (**http://office.microsoft.com/en-us/templates/loan-amortization-schedule- TC010073881.aspx**) or online calculator at **http://MyAmortizationChart.com**.
  - Have students research multiple informational car websites and assess the credibility of the information they discover. Discuss how to navigate websites to know whether or not a site is delivering quality and informative information versus simply aiming to sell you something.

ANSWER KEY

for Student Handouts

LESSON 10: CONVERTIBLE OR CLUNKER?

Student Handout: *Car Comparison.* Answers will vary. Use handout to assess student ability to conduct research and evaluate and compare data.

GLOSSARY

401k: A plan offered through an employer that gives employees a choice of investment options, typically mutual funds, to save a portion of their salary for retirement.

403b: A plan offered by to employees of public schools, certain non-profits, and some members of the clergy to set aside money for retirement.

Annual Percentage Rate (APR): The cost of borrowing money on a yearly basis, expressed as a percentage rate. For example: a $100 loan repaid in its entirety after one year with a $10 finance charge has an APR of 10%.

Annual Percentage Yield (APY): A percentage rate reflecting the total amount of interest paid on a deposit account based on the interest rate and the frequency of compounding for a year. For example: a $1,000 investment that earns 6% per year pays $60 at year-end and has an APY of 6%.

Asset: An item with economic value, such as stock or real estate.

Auto Insurance: A contract between you and an insurance company in which you agree to pay a fee (premium) and in return, the insurance company agrees to pay for certain expenses associated with an accident or other covered losses on your vehicle. (See also **Insurance**.)

Automated Teller Machine (ATM): A machine, activated by a magnetically encoded card or other medium that can process a variety of banking transactions. These include accepting deposits and loan payments, providing withdrawals, and transferring funds between accounts.

Balance Sheet: A summary of a company's assets, liabilities, and shareholders' equity.

Bank: A financial institution and business that accepts deposits, makes loans, and handles other financial transactions.

Bank Teller: A bank employee who handles routine transactions, such as deposits or withdraws into a bank account.

Beneficiary: Someone who is designated to receive certain benefits after the death of another individual.

Bonds: A debt security, similar to an “IOU”. When you buy a bond, you are lending money to the issuer in exchange for the issuer’s promise to pay you a specified rate of interest and to repay the principal when it "matures," or comes due.

Branch Manager: A bank employee that supervises bank operations at a branch location.

Budget: A plan that outlines what money you expect to earn or receive (your income) and how you will save it or spend it (your expenses) for a given period of time; also called a spending plan.

Capacity: Refers to your ability to repay a loan and other debts.

Capital: Refers to the value of your assets and your net worth.

Career: The type of work a person pursues for the majority of their life that may involve formal education, special training, or be within a specific industry.

GLOSSARY (continued)

Cash Flow: The amount of money flowing in (income) and flowing out (expenses) of a personal budget.

Cash Flow Statement: A summary of the money that comes in (income) and out (expenses) of a household or business over a period of time.

Certificate of Deposit (CD): A special type of savings account offered by banks or credit unions that typically offers a higher rate of interest than a regular savings account. You generally must keep your funds in the CD for a specified period of time to avoid penalties. The end of that time period is called the “maturity date.”

Certified Public Accountant (CPA): An accountant who has passed an examination and met other requirements and has been granted a certificate by a state agency.

Character: In finance, this refers to how you have paid your bills or debts in the past.

Charitable Giving: Money that you give to a nonprofit organization, charity, or private foundation.

Checking Account: A deposit account at a financial institution that allows consumers to make deposits, pay bills, and make withdrawals. Money that is in a checking account is very liquid, meaning it can be easily accessed.

Claim: Request to an insurance company for payment for a covered loss under an insurance policy.

Closing Costs: The expenses incurred by sellers and buyers in transferring ownership in real property. These costs may include the origination fee, attorneys' fees, loan fees, title search and insurance, and recordation fees.

Collateral: An asset that secures a loan or other debt that a lender can take if you default (don’t repay) the money you borrow. For example: if you get a real estate mortgage, the bank's collateral is typically your house.

College Work-Study Program (Federal Work-Study): A program that enables qualifying students to work part time to receive money that helps finance the costs of post-secondary education.

Commercial Property Insurance: Coverage that a business or other entity purchases from an insurer to help cover losses to buildings and contents due to a covered cause of loss, such as a fire. (See also **Insurance**.)

Compound Interest: The interest paid on principal and previously earned interest.

Consumer Installment Loan: Money that a person borrows and agrees to pay back by making a set number of payments over a period of time.

Co-Pay: Also known as a copayment, a fixed amount (for example: $15) you pay for a covered health care service, usually when you get the service.

Corporation: A legal entity that is distinct from the individual(s) who compose the business yet has rights and abilities similar to those of a natural person.

Credit: The ability to borrow money and pay it back later.

Credit Card: A plastic card that can be used to obtain credit (such as to purchase goods and services).

Credit Card Accountability Responsibility and Disclosure Act: A law that prohibits certain practices that are unfair or abusive. The law also makes the rates and fees on credit cards more transparent so consumers can understand how much they are paying for their credit card and can compare different cards.

GLOSSARY (continued)

Credit Report: A record of your credit - and some bill repayment history - and the status of your credit accounts. This information includes how often you make your payments on time, how much credit you have, how much credit you have available, how much credit you are using, and whether a debt or bill collector is collecting money you owe.

Credit Score: A number, roughly between 300 and 800, that measures an individual's credit worthiness. The most well-known type of credit score is the FICO® score. This score represents the answer from a mathematical formula that assigns numerical values to various pieces of information in your credit report.

Credit Union: A not-for-profit financial institution owned by its members and represented by a volunteer board of directors who are elected by the membership. To become a member, you must meet the credit union’s field of membership requirements and open a share account.

Creditworthiness: A creditor's measure of a consumer's past and future ability and willingness to repay debts. (See also **Credit Report** and **Credit Score**.)

Crowdfunding: A process of raising money for a cause or purpose, often online, from multiple people.

Customer Service Representative: A person who provides general information, handles complaints or inquiries, and may help consumers open accounts.

Debit Card: A plastic card that can be used to deposit or withdraw cash from a checking or other bank deposit account, such as at automated teller machines or at retail locations that accept cards.

Debt-to-Assets: Measures the ratio of your monies owed (liabilities such as a car loan) to items that are of value (assets such as property). To calculate, you divide your total liabilities by your total assets. For example: if you own a home that is worth $200,000 (asset), but you have a mortgage of $50,000 left on the home (liability), your debt-to-asset ratio is 25% ($50,000 ÷ $200,000 = 0.25 or 25%).

Debt-to-Equity: A measure of solvency (the ability of a business to pay off its debt if the business were immediately sold) that is calculated by dividing total liabilities by stockholders' equity.

Debt-to-Income: A measure calculated by dividing your monthly debt payments by your gross monthly income. For example: if you pay $200 each month for a car loan and $1,000 each month for a home loan, your total debt payment each month is $1,200 ($200 + $1,000). If your monthly gross income is $4,000, then your debt-to-income ratio is 30% ($1,200 ÷ $4,000).

Deductible: The dollar amount or percentage of a loss that you have to pay before the insurance policy begins to pay.

Deduction: An amount that reduces the amount of income on which a person pays tax.

Direct Loan: A low-interest loan for students and parents to help pay for the cost of a student's education after high school.

Disability Insurance: Protects a person from loss of income due to a covered illness or injury. (See also **Insurance**.)

Diversification: The approach of spreading your money among various investments with the hope that if one investment loses money, the others will make up for those losses; also referred to by the phrase "don't put all your eggs in one basket.

GLOSSARY (continued)

Entrepreneur: An individual who establishes and operates his or her own business.

Equal Credit Opportunity Act: A federal law that prohibits credit-related discrimination on the basis of gender, race, marital status, religion, national origin, age, or receipt of public assistance.

Equity: The difference between the value of a piece of property (such as a house) and any debts for it (such as the amount of a mortgage).

Estate: The property of a person who has died.

Estate Planning: Planning for what will happen with assets or property after death.

Estate Tax: A tax on your right to transfer property at your death.

Executor: Someone who is selected to administer an estate (for example, make sure that the instructions in the will are properly followed).

Expense: The cost of goods and services.

Federal Deposit Insurance Corporation (FDIC): Preserves and promotes public confidence in the U.S. financial system by insuring deposits in banks and thrift institutions for at least $250,000. An independent agency of the federal government, the FDIC was created in 1933 in response to the thousands of bank failures that occurred in the 1920s and early 1930s. Since the start of FDIC insurance on January 1, 1934, no depositor has lost a single cent of insured funds as a result of a failure.

Finance Charge: The total dollar amount paid for credit. For example: a $100 loan repaid with $9 interest plus a $1 service fee has a finance charge of $10.

Financial Advisor: A person who provides financial information and advice.

Financial Aid: Award(s) to individuals to help pay for education expenses.

Financial Planning: Identifying a person's financial goals, needs, and expected earning, saving, investing, insurance, and debt management activities.

Financial Ratios: Useful indicators of financial performance.

Financial Recordkeeping: The documentation of a person's financial affairs, including income earned, taxes paid, and expenses.

Fiscal Policy: A broad term used to refer to the tax and spending policies of the federal government. Fiscal policy decisions are determined by Congress and the governing Administration.

Fixed Expense: An expense that does not change from month to month.

Fixed-Rate Loan: A loan that has an interest rate that does not change.

Free Application for Federal Student Aid (FAFSA): The free application used to apply for federal student aid, such as federal grants, loans, and work-study.

Goal: Something you wish to achieve or accomplish in a specific amount of time.

GLOSSARY (continued)

Grant: A form of financial aid, often based on financial need that does not need to be repaid (unless, for example, you withdraw from school and owe a refund).

Gross Income (Gross Pay): Earnings before deductions (as for taxes or expenses) are subtracted.

Health Insurance: A contract that requires your health insurer to pay some or all of your health care costs in exchange for a premium (money paid).

Home-Based Business Insurance: Protection against certain losses and other risks for those who engage in business activity at their home. (See also **Insurance**.)

Homeowner's Insurance: An insurance policy that covers a homeowner's house, other structures on their property, and personal contents against losses caused by such things as windstorms, fire, and theft. It generally also provides liability coverage (for example: this coverage would be applicable if you are found responsible for the injury of a friend who injures themselves while visiting you). (See also **Insurance**.)

Identity Theft: When someone steals another person's identity to commit fraud, such as by using his or her name or Social Security number to get something. Identity theft is a crime.

Income: Money that you receive from jobs, allowances, gifts, interest, dividends, and other sources.

Income Tax: Taxes on income, both earned (salaries, wages, tips, commissions) and unearned (interest, dividends). Income taxes can be levied on both individuals (personal income taxes) and businesses (business and corporate income taxes).

Individual Retirement Account (IRA): A deposit or investment account that an individual opens and uses to save money for retirement and that has certain tax advantages

Inflation: A rise in the general level of prices of goods and services in an economy over a period of time; the opposite is deflation.

Insurance: A contractual relationship that exists when one party (the Insurer), for a fee (the premium) agrees to reimburse another party (the Insured or third party on behalf of the Insured) for a specific loss.

Insurance Agent: A person who sells insurance policies.

Interest: Money that a bank or other financial institution pays you for keeping money on deposit with them, or the amount of money you pay a bank as a fee when you borrow money. You can earn interest from a bank (such as when you keep money in a saving account) or pay interest (such as when you borrow money).

Inventory Turnover Ratio: A ratio showing how often a company's inventory is sold and replaced during a year or other period of time.

Invest: To put money at risk with the goal of making a profit (return) in the future.

Investment: Using money or time in a way that you expect will bring you a return or increase in value.

Investment Vehicle: The type or methods that a person (or business) can use to invest money.

Investors: People who expect a future financial return from using their money to finance investments.

Job: A specific duty, task, or activity someone completes using his or her time, skills, and energy to earn money.

GLOSSARY (continued)

Joint Tenancy: Equal ownership of property by two or more parties, each of whom has the right of survivorship (for example: when a person dies, their interest in the property is transferred to the other owners).

Lawyer: A person who practices law; also known as an attorney.

Lease: A contract transferring the use of property or occupancy of land, space, structures, or equipment in exchange for rent (generally money).

Lender: An organization or person that lends money with the expectation that it is repaid.

Liability: An amount owed to a person or organization for borrowed funds; responsibility to another for negligence that results in injury or damage.

Liability Insurance: Covers losses that an insured is legally liable, such as for another's personal injury or for property damage. (See also **Insurance**.)

Life Insurance: A form of insurance that will pay money to a beneficiary if the policyholder dies. (See also **Insurance**.)

Limited Liability Company (LLC): An entity formed under state law by filing articles of organization as an LLC. Unlike a partnership, none of the members of an LLC are personally liable for its debts.

Loan: Money borrowed that has to be repaid, generally with interest.

Loan Officer: A bank employee that (depending on the bank) evaluates, authorizes, or recommends approval of loan applications for people and businesses.

Long-Term Care: Services that include medical and non-medical care provided to people who are unable to perform basic activities of daily living, like dressing or bathing. Medicare and most health insurance plans don't pay for long-term care.

Medicare: A health insurance program for people who are 65 or older, certain younger people with disabilities, and people with permanent kidney failure requiring dialysis or a transplant. This program is financed by deductions from wages and managed by the federal Social Security Administration.

Monetary Policy: What the Federal Reserve, the nation's central bank, does to influence the amount of money and credit in the U.S. economy. What happens to money and credit affects interest rates (the cost of credit) and the performance of the U.S. economy.

Money Market Deposit Account: A savings account that offers a higher rate of interest in exchange for larger than normal deposits.

Mortgage (Home Loan): A contract, signed by a borrower when a home loan is made, that gives the lender the right to take possession of the property if the borrower fails to pay off, or defaults on, the loan.

Mutual Funds: An investment tool that pools the money of many investors and invests it in stocks, bonds, and money market assets, or other securities.

Need: Something you must have to survive, such as clothes, shelter, or food.

Net Income (Take-Home Pay): The gross pay minus deductions (such as for taxes, health care premiums, and retirement savings).

GLOSSARY (continued)

Net Worth: The difference between what you own (assets) and what you owe (debts).

Online Banking: A service that enables an accountholder to obtain account information and manage certain banking transactions through the financial institution's web site on the Internet.

Partnership: Two or more persons who join to carry on a trade or business. Each person contributes money, property, labor or skill, and expects to share in the profits and losses of the business. Partners are liable for the partnership’s financial responsibilities.

Paycheck: A check that is used to pay an employee for his or her work.

Pell Grant: Awarded to undergraduate students who have demonstrated financial need.

Perkins Loan: Low-interest federal student loans for undergraduate and graduate students with exceptional financial need.

Personal Exemptions: Reduces the income subject to taxation by the exemption amount.

Pharming: Redirecting Internet requests to false Web sites to collect personal information, which is generally then used to commit fraud and identity theft.

Philanthropy: Giving money or time for the purpose of trying to make life better for others.

Phishing: When fraudsters impersonate a business or government agency to try to get you to give them personal information, such as through an email or text message. Can also be thought of as “fishing for confidential information”.

Pi: A Greek letter that reflects the ratio of the circumference of a circle to its diameter.

Predatory Lending: Certain practices that result in a borrower obtaining a loan that is harmful. These include, among other things, charging excessive fees and interest rates, lending without regard to borrowers’ ability to repay, refinancing borrowers’ loans repeatedly over a short period of time without any economic gain for the borrower, and committing outright fraud or deception (such as falsifying documents).

Premium: The amount of money that has to be paid for an insurance policy.

Profit: The money gained or left over after money spent (expense) is subtracted from money earned (income).

Profit-and-Loss Statement: A financial statement that summarizes the financial performance of a business during a specific period of time, including by outlining the firm’s income, expenses, and the resulting profit or loss.

Policy: Contract between the insured and the insurer.

Power of Attorney: A legal instrument authorizing someone to handle the financial or other business affairs of another person.

Principal: The amount of money originally invested or the money that is borrowed.

Property Insurance: Insurance to protect you against damage that may occur to your property. (See also **Insurance**.)

“Rainy Day” Fund (Emergency Fund): Money set aside to pay for unexpected expenses.

GLOSSARY (continued)

Rate of Return: Profit or loss over a one year period, expressed as a percentage.

Recession: A period of reduced economic activity.

Rent: The amount of money needed to live in or use someone else's property, such as a home, condo, or apartment.

Rent-to-Own: A lease contract that includes an option to buy the product.

Return on Assets: An amount calculated by dividing annual earnings by its total assets.

Return on Investment (ROI): The annual return on an investment, expressed as a percentage of the total amount invested.

Revenue: The total income produced by a given source.

Right of Survivorship: A successor's ability to acquire the property of a decreased individual upon his or her death.

Risk: The possibility that something unplanned or unintended may happen (such as losing money). Uncertainty about outcomes that are not equally desirable. In finance, it refers to the degree of uncertainty about the rate of return and the potential harm that could arise when financial returns are not what the investor expected.

Risk Management: The process of calculating risk and choosing approaches to minimize or manage loss.

Roth IRA: An Individual Retirement Account that you deposit after tax dollars into for accumulation of retirement savings.

Rule of 72: A rough calculation of the time or interest rate needed to double the value of an investment determined by taking the number 72 and dividing it by the interest rate. For example: To figure how many years it will take to double a lump sum invested at an annual rate of 8%, divide 72 by 8, for a result of 9 years.

Salary: Compensation for work paid on a regular basis (bi-weekly/monthly) typically expressed as an annual amount.

Save: To set something, like money, aside to use in the future.

Savings Account: A bank account that you can use to set aside money, and that pays you interest.

Scholarship: Money awarded to students based on academic or other achievements to help pay for education expenses. Scholarships generally do not have to be repaid.

Secured Installment Loan: A loan for which you provide collateral to secure your promise to repay the money you borrow.

Self-Employment Tax: Money that someone who is considered self-employed must pay to the federal government to fund Medicare and Social Security.

Social Security: A federal government program that provides retirement, survivors, and disability benefits, funded by a tax on income.

Sole Proprietorship: A simple structure where there is only one person owning and operating the business.

GLOSSARY (continued)

Spending Plan: Another name for a budget.

Start-Up Capital: Money that is invested to help start a new business.

Stock: An investment that represents a share of ownership in a company.

Student Loans: A sum of money borrowed by an individual to help pay for college with the intent that it will be repaid at a future date, along with any agreed-upon interest.

Tax: Money that has to be paid to a government to provide public goods and services.

Tenancy in Common: Shared ownership of a property in which more than two people hold the title.

Tenancy in Entirety: Shared ownership of a property between a husband and wife, when one dies, the other still owns the property.

Text Message Spam: Similar to e-mail spam, but on your cell phone. Criminals often text offers of free gifts or low-cost credit offers to try to get you to click on a link so they can install malware on your phone or get you to give them information they can use to commit fraud.

Time Value of Money: The concept that a dollar today is not worth the same as a dollar in the future.

Traditional IRA: A retirement savings program to which yearly tax-deductible contributions up to a specified limit can be made. The amount contributed is not taxed until withdrawn. Withdrawal is not permitted without penalty until the individual reaches age 59 and a half.

Trust: A legal arrangement in which one person holds or manages assets or other property for the benefit of another.

Unsecured Installment Loan: A loan that is not secured by an asset (collateral) that a lender could take if you do not repay the loan.

Variable Annuities: A contract between you and an insurance company, under which you make a lump-sum payment or series of payments. In return, the insurer agrees to make periodic payments to you beginning immediately or at some future date.

Variable Expense: Money that a person spends or gives away that varies from month to month.

Variable-Rate Loan: A loan where the interest rate might change.

Want: Something that you would like to have but that you could live without, such as a TV or tickets to a baseball game.

Will: A legal document in which a person conveys information such as how they want their money and assets to be distributed after their death and who should be the guardian of their children.

Money Smart

for Grades 9-12

Student Guide

A fun way to help teens
get smart about money.

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FEDERAL DEPOSIT INSURANCE CORPORATION

TABLE OF CONTENTS

CASH, LOANS, AND LEASES

Factors	Car Loans	Car Leases	Paying All Cash
Ownership potential	The car belongs to you and the bank that gave you the loan until you have paid off the loan. Then, the car becomes yours.	You are essentially renting the car from the dealership. The lease is like a rental agreement. You make monthly payments to the dealership for a set number of months. The car does not belong to you. When the lease ends, you have to return the car to the dealership. You may decide to purchase the car at the end of the lease. The total cost, however, generally ends up being more than it would have been if you had bought the car.	The car belongs to you because you paid for it in full at the time of purchase.
Wear and tear	No additional costs for wear and tear are included in your loan agreement.	Most leases charge you extra money for any damage found at the end of the lease that goes beyond normal wear and tear.	No additional costs for wear and tear are included in your purchase price.
Monthly payments	Payments are higher, but you only pay them for a set term. Then, you own the car.	Payments are lower because you are not purchasing the car; the dealership still owns it. As long as you lease a car, you will continue to make monthly payments.	No monthly payments, but you would have had to save up a large sum of money ahead of time in order to purchase the car in full. This requires setting and sticking to savings goals.
Mileage limitations	There are no mileage restrictions.	Leases restrict the number of miles you can drive the car each year. If you exceed the mileage allowed, you have to pay the dealer for each mile over the limit according to your lease. For example: a dealer may charge you $.15 for every mile that you drive over 24,000 miles in two years. If you drive the car an additional 3,000 miles, you would owe the dealer $450 for those miles.	There are no mileage restrictions.

CASH, LOANS, AND LEASES (continued)

Factors	Car Loans	Car Leases	Paying All Cash
Auto insurance	It is usually less expensive than auto insurance for leased cars. Insurance may cost more during the loan than it will after the loan is repaid because the lender may require more coverage.	It usually costs more if you lease a car than it does if you buy. Most car leases require you to carry higher levels of coverage than purchase agreements do. Some insurance carriers may also consider leasing to be higher risk than purchasing.	Insurance may cost less than if you carried a loan because a lender may require more coverage.
Cost	Purchasing a car is usually more cost effective if you plan to keep the car long-term. In the short term, however, the costs will generally be greater than a car lease, because your total loan amount and monthly payments are likely to be higher.	A lease will probably cost less than a car loan in the short term, because your total lease amount and monthly payments are likely to be lower. On the other hand, if you exceed the mileage on a leased car or decide to buy it outright once your lease has expired, it will end up costing you more.	Paying in cash can be cost effective because you won't need to acquire any debt to own the car. But, saving up enough money to buy a car outright requires planning ahead and saving diligently.

IT'S TIME TO FINANCE!

Characters

- Big Al, the car salesman
- Jasmine
- Rick, Jasmine's father
- Narrator

Narrator: *Jasmine and Rick are walking around Big Al's Super Used Cars lot and Big Al approaches them as they are looking at a blue sports car.*

Al: Hello there, folks! How can I help you this beautiful afternoon?

Rick: Well, my daughter is looking to buy her first car.

Al (looking at Jasmine)**:** Well, alright. What type of car are you looking for?

Jasmine: I'd like a car with satellite radio, a navigation system, air conditioning, sun roof….

Rick (cutting off Jasmine)**:** She wants the best deal you have on the lot…she's paying for this car herself!

Jasmine: Yeah, I know I have to pay for it myself, Dad! I really like this blue one! How much is it?

Al: The sticker here says $10,000…(*Jasmine sighs and frowns.)*…but I think I could drop that down to $9,250.

Jasmine: Well, how much would that be per month?

Al: That depends on the financing. It could be $200 a month for five years with no down payment. Do you have money for a down payment?

Jasmine: Uh, no. I did not realize I would need money for a down payment!

Al: Do you have a job?

Jasmine: Yes, I usually make about $200 a month from babysitting. I do not really have any other expenses, but I do not want to spend everything I make on a car!

Al: I have this nice red car over here. (*Al, Jasmine, and Rick walk toward another car.)* You can finance this one for $125 a month, and then it is yours to own after six years.

Jasmine: I can afford that!!

Rick: Remember, you'll need to pay for insurance, maintenance, gas, and everything else that comes along with owning a car…

IT'S TIME TO FINANCE! (continued)

Jasmine: I really want this one, Dad, and I can afford it!

Al: Step into my office and we can get this little lady her car. (*Al, Jasmine, and Rick walk into Al's office and all sit down*.) OK, now will you be cosigning this loan for your daughter?

Rick: Yes, she's only 17, so I will be cosigning. (*Turning to his daughter.)* Now, you know I expect you to pay the bill on time every month, right? I expect you to be responsible!

Jasmine: Yes, Dad, I know. I'll make sure I have the money to pay for everything…including fuzzy dice!! (*Everyone laughs.*)

Narrator: *Jasmine ends up financing the car for $125 per month for six years. She does not realize that one reason the payment was lower per month was that the term of the loan was extended — meaning she will pay the loan back over a longer time period. This means that she will pay more in interest than if the term of the loan were shorter. After driving the car for two years, Jasmine went to start the car to go to work one morning and it made a funny noise and would not start. It ended up costing $2,000 in repairs! Jasmine was disappointed to find out that the $500 in insurance she paid every year did not cover the repair. Was financing this car the right idea for Jasmine? What should she have looked out for when shopping for a car?*

IT'S TIME TO LEASE!

Characters

- Big Al, the car salesman
- Todd
- Sharon, Todd's mother
- Narrator

Narrator: *Todd and Sharon are walking around Big Al's Super Used Cars lot and Big Al approaches them as they are looking at a green truck.*

Al: Hello there, folks! How can I help you this beautiful afternoon?

Todd: I want a car!!

Sharon (*giving her son a stern look*)**:** Yes, my son is looking for a car he can purchase.

Todd: No, Mom, I want to *lease* a car. I am going to college in two years and I will not be able to take my car on campus. I am just looking for a car for work and to drive to school and stuff until I graduate.

Al: Sounds like you know what you want!

Todd: Yes, sir. It will cost me less in the end and I do not want the long-term loan right now. I only plan on driving around town and I will return the car when the lease expires. So how much does this cool truck cost? (*Points to a nearby truck he has been looking at.)*

Al: I can lease that to you for $200 a month. Is that in your price range?

Todd: Wow, that's a lot more than I thought! I do not have a job right now, so coming up with $200 a month may be difficult. What if I promise that I will get a job, Mom?

Sharon: You cannot just promise to get a job, Todd! I thought you said you had saved some money from working at the restaurant this summer?

Todd: Yeah, I have money for a down payment and the first few payments, but I will need to find a job so I can continue to make the monthly payments.

Al: Maybe you need to come back when you have a job and you know that you can afford this nice truck?

Todd: No! I want it now. I told all my friends that I would drive them to the big game next weekend! I know I can find a job in the next few weeks, and I have the money for the down payment and the first month. (*Turns to Sharon.)* Mom, can I please get this truck??

Sharon: It is your decision, but don't forget that your father and I do not want to cover the payments if you cannot make them.

IT'S TIME TO LEASE! (continued)

Todd: I know, I know! OK, I want to get it!!

Al: Alright, just step into my office and we will see what we can do!

Narrator: *Sharon leases the car on Todd's behalf. Sharon and Todd agree that Todd is responsible for the payment and all expenses. Todd finds a part-time job; however, he did not realize that gas would be so expensive, because he is the one always driving his friends around. Every month he struggles to make the payment. He has to give up buying items like music and clothing just so he can make the lease payment. After two years, Todd turns the leased car back in to the dealership and realizes that he has paid $4,800 for the car, and now he has nothing to show for it! Was this the right choice for Todd? What could he have done differently?*

CAR COMPARISON

Name: ____

There are many different elements to consider when contemplating a car purchase. Research three different types of cars that interest you and find out what the total cost of the cars will be in your area by investigating local car prices, sales tax, and license and registration fees. Use an Internet search engine or the web links below to get started.

- FDIC Consumer News (**https://fdic.gov/consumers/consumer/news/cnspr12/autoloans.html)**
- FTC Consumer Information (**http://www.consumer.ftc.gov/articles/0209-buying-new-car**)
- U.S. Department of Energy Fuel Economy (**http://www.fueleconomy.gov**)
- USA.gov (**http://www.usa.gov/topics/travel/cars.shtml**)

	Car 1	**Car 2**	**Car 3**
Make/Model			
Price			
Sales Tax			
License and Registration Fees			
Misc.			
Total			

What research was surprising to you? Did the cars cost more or less than what you expected? Why?