

SESSION 3:

Financial Goal Setting, Spending, and Credit

Session Description

Students will have the opportunity to set financial goals, both short-term and long-term goals, and develop a budget.

Talking Points

Setting & Achieving Financial Goals

1. A financial goal is a monetary target to be met by a specific time in order to purchase a good or service (car, down payment on a house, college education, start-up funds for a business, retirement, and so on).
2. Financial goals are met with a systematic financial plan for saving (deciding how much to save each period), investing (deciding what financial assets to purchase with income saved), and spending.
3. A financial plan largely depends on
 - a. the amount of the goal,
 - b. how long a person has until the goal must be met,
 - c. how much can be saved each period, and
 - d. the rate of return earned on investment assets.
4. A person's net worth, or wealth, is the market value of the assets he or she owns minus the market value of the debt, or liabilities, he or she owes.
5. A person's cash flow is the amount of income he or she earns minus the amount of expenses he or she incurs over a given period of time.
6. A person's net worth tends to rise when his or her cash flow is positive—that is, when income is greater than expenses each period.
7. A person's net worth tends to fall when his or her cash flow is negative—that is, when income is less than expenses each period.
8. A budget is a cash-flow plan that decides how a person's income is to be spent each period (all income each period is essentially spent on goods and services, taxes, and savings to purchase goods and services in the future).

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Session 3

9. There are three categories of spending in a typical monthly budget:
 - a. regular spending (goods and services typically purchased every month),
 - b. irregular spending (financed by short-term saving for goods and services purchased on a non-monthly basis during the year), and
 - c. future spending (financed by long-term saving, or investment, for purchasing goods and services more than a year away).
10. Making a budget involves trade-offs—allocating more spending to one item and less to other items—so one must consider the satisfaction per dollar spent on each item.

Spending

1. The fundamental consumer problem is a scarcity of resources from which consumers are able to earn income. This means that people don't have enough income to buy all the goods and services they would like to have. Thus, they must decide how to spend (or allocate) their income in order to best satisfy their unlimited wants.
2. Two general assumptions are made about people's preferences (or the satisfaction they get from consuming goods and services):
 - a. More is preferred.
 - b. Each additional unit of a particular good tends to add less satisfaction than the unit before it.
3. When buying a good or service, people evaluate the good or service according to its features. People maximize their satisfaction by purchasing those goods or services that give them the most satisfaction per dollar spent. So, their preferences, the prices of goods and services, and the prices of alternatives matter in making spending decisions.
4. People choose from a variety of payment methods to buy goods and services.

Credit

1. People receive credit when they obtain the use of someone else's money to purchase goods or services.
2. People who obtain credit are given a loan of money in exchange for their promise to repay the money later plus additional money called interest.
3. Common types of credit include mortgage loans, car loans, student loans, personal loans, and credit cards.
4. Interest is the price borrowers pay for using someone else's money and the price lenders receive for letting someone else use their money.

5. Using credit has both benefits and costs.
6. Benefits of credit include the following:
 - a. acquiring assets to increase your net worth over time,
 - b. the ability to finance emergency purchases,
 - c. payment convenience (purchasing goods and services now as opposed to later),
 - d. a lower cost than using your own invested funds, and
 - e. the ability to take advantage of a lower price for some good or service (to get a good deal).
7. Costs of credit include the following:
 - a. creating a liability that lowers your net worth,
 - b. paying interest and fees,
 - c. purchasing fewer goods and services in the future,
 - d. less available credit for emergencies, and
 - e. increased exposure to identify theft.
8. Credit providers consider the three Cs in deciding to whom they will extend credit:
 - a. capacity—the ability of the creditor to repay the loan;
 - b. character—how honest and reliable the creditor is in paying debts; and
 - c. collateral—assets the creditor has that could be sold later to pay off the loan.
9. People’s credit scores are a measure of their character because credit scores are based largely on their payment history—for example, whether or not they
 - a. pay bills on time,
 - b. pay bills in full,
 - c. stay below their credit limits, or
 - d. have declared bankruptcy.
10. When considering whether credit or a loan is desirable, it is important for people to consider the likely impact of the choice on their personal net worth over time.

Session 3: Standards and Benchmarks

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Money Management

7. Design a financial plan (budget) for earning, spending, saving, and investing.

Spending and Credit

1. Compare the benefits and costs of alternatives in spending decisions.
2. Evaluate information about products and services.
3. Compare the advantages and disadvantages of different payment methods.
4. Analyze the benefits and cost of consumer credit.
5. Compare sources of consumer credit (e.g., credit cards, consumer loans, auto loans, and student loans).
6. Evaluate the terms and conditions of credit cards and consumer loans.
7. Evaluate factors that affect creditworthiness.
8. Explain the purpose and components of credit records.
9. Demonstrate awareness of consumer protection and information (e.g., identity theft, phishing, and scams).
10. Propose ways to avoid or correct credit problems.
11. Describe the rights and responsibilities of buyers and sellers under consumer protection laws.

National Standards for Financial Literacy

Standard 2: Buying Goods and Services, Grade 8 Benchmarks

1. When making choices about what to buy, consumers may choose to gather information from a variety of sources. The quality and usefulness of information provided by sources can vary greatly from source to source. While many sources provide valuable information, some sources provide information that is deliberately misleading.
2. By understanding a source's incentives in providing information about a good or service, a consumer can better assess the quality and usefulness of the information.
3. People choose from a variety of payment methods in order to buy goods and services.
4. Choosing a payment method entails weighing the costs and benefits of the different payment options.
5. A budget includes fixed and variable expenses, as well as income, savings, and taxes.

6. People may revise their budget based on unplanned expenses and changes in income.

Standard 2: Buying Goods and Services, Grade 12 Benchmarks

1. Consumer decisions are influenced by the price of a good or service, the price of alternatives, and the consumer's income as well as his or her preferences.
3. When buying a good, consumers may consider various aspects of the product including the product's features. For goods that last for a longer period of time, the consumer should consider the product's durability and maintenance costs.
4. Consumers may be influenced by how the price of a good is expressed.
7. Governments establish laws and institutions to provide consumers with information about goods or services being purchased and to protect consumers from fraud.

Standard 4: Using Credit, Grade 8 Benchmarks

1. People who apply for loans are told what the interest rate on the loan will be. An interest rate is the price of using someone else's money expressed as an annual percentage of the loan principal.
2. The longer the repayment period on a loan and the higher the interest rate on the loan, the larger is the total amount of interest charged on a loan.
3. A credit card purchase is a loan from the financial institution that issued the card. Credit card interest rates tend to be higher than rates for other loans. In addition, financial institutions may charge significant fees related to a credit card and its use.
4. Borrowers who use credit cards for purchases and who do not pay the full balance when it is due pay much higher costs for their purchases because interest is charged monthly. A credit card user can avoid interest charges by paying the entire balance within the grace period specified by the financial institution.
5. Various financial institutions and businesses make consumer loans and may charge different rates of interest.
7. Lenders charge different interest rates based on the risk of nonpayment by borrowers. The higher the risk of nonpayment, the higher the interest rate charged. The lower the risk of nonpayment, the lower the interest rate charged.

Standard 4: Using Credit, Grade 12 Benchmarks

1. Consumers can compare the cost of credit using the annual percentage rate (APR), initial fees charged, and fees charged for late payment or missed payments.
3. Loans can be unsecured or secured with collateral. Collateral is a piece of property that can be sold by the lender to recover all or part of a loan if the borrower fails

Tools for Teaching the Missouri Personal Finance Competencies

- to repay. Because secured loans are viewed as having less risk, lenders charge a lower interest rate than they charge for unsecured loans.
5. Lenders make credit decisions based in part on consumer payment history. Credit bureaus record borrowers' credit and payment histories and provide that information to lenders in credit reports.
 6. Lenders can pay to receive a borrower's credit score from a credit bureau. A credit score is a number based on information in a credit report and assesses a person's credit risk.
 7. In addition to assessing a person's credit risk, credit reports and scores may be requested and used by employers in hiring decisions, landlords in deciding whether to rent apartments, and insurance companies in charging premiums.
 8. Failure to repay a loan has significant consequences for borrowers such as negative entries on their credit report, repossession of property (collateral), garnishment of wages, and the inability to obtain loans in the future.
 9. Consumers who have difficulty repaying debt can seek assistance through credit counseling services and by negotiating directly with creditors.
 10. In extreme cases, bankruptcy may be an option for consumers who are unable to repay debt. Although bankruptcy provides some benefits, filing for bankruptcy also entails considerable costs, including having notice of the bankruptcy appear on a consumer's credit report for up to 10 years.
 12. Consumers who use credit should be aware of laws that are in place to protect them. These include requirements to provide full disclosure of credit terms such as APR and fees, as well as protecting against discrimination and abusive marketing or collection practices.
 13. Consumers are entitled to a free copy of their credit report annually so that they can verify that no errors were made that might increase their cost of credit.


Common Core State Standards


- CCSS.ELA-Literacy.RH.9-10.1 Cite specific textual evidence to support analysis of primary and secondary sources, attending to such features as the date and origin of the information.
- CCSS.ELA-Literacy.RH.9-10.2 Determine the central ideas or information of a primary or secondary source; provide an accurate summary of how key events or ideas develop over the course of the text.
- CCSS.ELA-Literacy.RH.9-10.4 Determine the meaning of words and phrases as they are used in a text, including vocabulary describing political, social, or economic aspects of history/social science.
- CCSS.ELA-Literacy.SL.9-10.1 Initiate and participate effectively in a range of collaborative discussions (one-on-one, in groups, and teacher-led) with diverse partners on grades 9-10 topics, texts, and issues, building on others' ideas and expressing their own clearly and persuasively.

- CCSS.ELA-Literacy.SL.9-10.1D Respond thoughtfully to diverse perspectives, summarize points of agreement and disagreement, and, when warranted, qualify or justify their own views and understanding and make new connections in light of the evidence and reasoning presented.
- CCSS.ELA-Literacy.L.9-10.6 Acquire and use accurately general academic and domain-specific words and phrases, sufficient for reading, writing, speaking, and listening at the college and career readiness level; demonstrate independence in gathering vocabulary knowledge when considering a word or phrase important to comprehension or expression.
- CCSS.ELA-Literacy.RH.11-12.1 Cite specific textual evidence to support analysis of primary and secondary sources, connecting insights gained from specific details to an understanding of the text as a whole.
- CCSS.ELA-Literacy.RH.11-12.2 Determine the central ideas or information of a primary or secondary source; provide an accurate summary that makes clear the relationships among the key details and ideas.
- CCSS.ELA-Literacy.SL.11-12.1 Initiate and participate effectively in a range of collaborative discussions (one-on-one, in groups, and teacher-led) with diverse partners on grades 11-12 topics, texts, and issues, building on others' ideas and expressing their own clearly and persuasively.
 - CCSS.ELA-Literacy.SL.11-12.1D Respond thoughtfully to diverse perspectives; synthesize comments, claims, and evidence made on all sides of an issue; resolve contradictions when possible; and determine what additional information or research is required to deepen the investigation or complete the task.
- CCSS.ELA-Literacy.L.11-12.6 Acquire and use accurately general academic and domain-specific words and phrases, sufficient for reading, writing, speaking, and listening at the college and career readiness level; demonstrate independence in gathering vocabulary knowledge when considering a word or phrase important to comprehension or expression.


Session 3: Resources

Setting and Achieving Financial Goals

1. Complete one of the following, either the print lesson or the online course:
 - a. Print lesson with PowerPoint and whiteboard resources:
[It's Your Paycheck—KaChing!, Lesson 4: Your Budget Plan](#);
http://www.stlouisfed.org/education_resources/its-your-paycheck-curriculum-unit/
 - b. Online course: It's Your Paycheck—KaChing!, Lesson 4: Your Budget Plan
 - i. Go to www.stlouisfed.org.
 - ii. Choose "Education Resources."
 - iii. Choose  [Teachers: Go directly to the Online Course Login](#) .
 - iv. Create an account or, if you already have an account, log in.
 - v. Register your class for the "It's Your Paycheck—KaChing!, Lesson 4: Your Budget Plan" course.



2. Online course: Budgeting 101
 - a. Go to www.stlouisfed.org.
 - b. Choose "Education Resources."
 - c. Choose  [Teachers: Go directly to the Online Course Login](#) .
 - d. Create an account or, if you already have an account, log in.
 - e. Register your class for the "Budgeting 101" course.

Spending

3. Complete one of the following, either the print lesson or the online course:
 - a. Print lesson with PowerPoint and whiteboard resources:
[It's Your Paycheck—KaChing!, Lesson 3: Cash the Check and Track the Dough](#);
http://www.stlouisfed.org/education_resources/its-your-paycheck-curriculum-unit/
 - b. Online course: It's Your Paycheck—KaChing!, Lesson 3: Cash the Check and Track the Dough
 - i. Go to www.stlouisfed.org.
 - ii. Choose "Education Resources."
 - iii. Choose  [Teachers: Go directly to the Online Course Login](#) .
 - iv. Create an account or, if you already have an account, log in.
 - v. Register your class for the "It's Your Paycheck—KaChing!, Lesson 3: Cash the Check and Track the Dough" course.



4. Essay with Q&A: [“Choices Are Everywhere: Why Can’t We Just Have It All?”](http://research.stlouisfed.org/pageone-economics/uploads/newsletter/2013/PageOneClassroomEdition0113_Opportunity_Costs.pdf); http://research.stlouisfed.org/pageone-economics/uploads/newsletter/2013/PageOneClassroomEdition0113_Opportunity_Costs.pdf
5. Online lessons: Personal Finance 101 Chats (Lessons in the form of instant-messaging chats)
 - a. [Prepaid Debit Cards](http://www.stlouisfed.org/education_resources/personal-finance-101-chats/pf-101-chat-prepaid-debit-cards/) (Explains this form of payment); http://www.stlouisfed.org/education_resources/personal-finance-101-chats/pf-101-chat-prepaid-debit-cards/
 - b. [How to Open a Bank Account](http://www.stlouisfed.org/education_resources/personal-finance-101-chats/pf-101-chat-how-to-open-a-bank-account/) (Provides guidance on opening a bank account); http://www.stlouisfed.org/education_resources/personal-finance-101-chats/pf-101-chat-how-to-open-a-bank-account/
6. [Econ Ed Mobile Learning App](#) (From the Federal Reserve Bank of St. Louis, available on iTunes and Google Play): Beat the Financial Expert (A budget challenge game pitting students’ financial prowess against a seasoned specialist)
 - a. Choose “Budgeting.” Choose “Experiment.” Play the game “Beat the Financial Expert.”


Credit

7. Online course: Credit Cred
 - a. Go to www.stlouisfed.org.
 - b. Choose “Education Resources.”
 - c. Choose  [Teachers: Go directly to the Online Course Login](#).
 - d. Create an account or, if you already have an account, log in.
 - e. Register your class for the “Credit Cred” course.
8. Complete one of the following, either the print lesson or the online course:
 - a. Print lesson with PowerPoint and whiteboard resources: [It’s Your Paycheck—All About Credit, Lesson 6: Credit Reports—and You Thought Your Report Card Was Important](http://www.stlouisfed.org/education_resources/its-your-paycheck-curriculum-unit/ItsYourPaycheck-AllAboutCredit_Lesson6_CreditReports-andYouThoughtYourReportCardWasImportant); http://www.stlouisfed.org/education_resources/its-your-paycheck-curriculum-unit/ItsYourPaycheck-AllAboutCredit_Lesson6_CreditReports-andYouThoughtYourReportCardWasImportant
 - b. Online course: It’s Your Paycheck—All About Credit, Lesson 6: Credit Reports—and You Thought Your Report Card Was Important
 - i. Go to www.stlouisfed.org.
 - ii. Choose “Education Resources.”
 - iii. Choose  [Teachers: Go directly to the Online Course Login](#).
 - iv. Create an account or, if you already have an account, log in.

Tools for Teaching the Missouri Personal Finance Competencies

Session 3

- v. Register your class for the “It’s Your Paycheck—All About Credit, Lesson 6: Credit Reports—and You Thought Your Report Card Was Important” course.
9. Complete one of the following, either the print lesson or the online course:
 - a. Print lesson with PowerPoint and whiteboard resources:
[It’s Your Paycheck—All About Credit, Lesson 7: Creditors’ Criteria and Borrowers’ Rights and Responsibilities](#);
http://www.stlouisfed.org/education_resources/its-your-paycheck-curriculum-unit/
 - b. Online course: It’s Your Paycheck—All About Credit, Lesson 7: Creditors’ Criteria and Borrowers’ Rights and Responsibilities
 - i. Go to www.stlouisfed.org.
 - ii. Choose “Education Resources.”
 - iii. Choose  [Teachers: Go directly to the Online Course Login](#) .
 - iv. Create an account or, if you already have an account, log in.
 - v. Register your class for the “It’s Your Paycheck—All About Credit, Lesson 7: Creditors’ Criteria and Borrowers’ Rights and Responsibilities” course.
10. Complete one of the following, either the print lesson or the online course:
 - a. Print lesson with PowerPoint and whiteboard resources:
[It’s Your Paycheck—All About Credit, Lesson 8: So How Much Are You Really Paying for that Loan?](#);
http://www.stlouisfed.org/education_resources/its-your-paycheck-curriculum-unit/
 - b. Online course: It’s Your Paycheck—All About Credit, Lesson 8: So How Much Are You Really Paying for that Loan?
 - i. Go to www.stlouisfed.org.
 - ii. Choose “Education Resources.”
 - iii. Choose  [Teachers: Go directly to the Online Course Login](#) .
 - iv. Create an account or, if you already have an account, log in.
 - v. Register your class for the “It’s Your Paycheck—All About Credit, Lesson 8: So How Much Are You Really Paying for that Loan?” course.
11. Complete one of the following, either the print lesson or the online course:
 - a. Print lesson with PowerPoint and whiteboard resources:
[It’s Your Paycheck—All About Credit, Lesson 9: To Rent-to-Own or Not to Rent-to-Own](#);
http://www.stlouisfed.org/education_resources/its-your-paycheck-curriculum-unit/

- b. Online course: It's Your Paycheck—All About Credit, Lesson 9: To Rent-to-Own or Not to Rent-to-Own?
- i. Go to www.stlouisfed.org.
 - ii. Choose "Education Resources."
 - iii. Choose  [Teachers: Go directly to the Online Course Login](#).
 - iv. Create an account or, if you already have an account, log in.
 - v. Register your class for the "It's Your Paycheck—Lesson 9: To Rent-to-Own or Not to Rent-to-Own?" course.
12. Online lessons: Personal Finance 101 Chats (Lessons in the form of instant-messaging chats)
- a. [Buy Here Pay Here](http://www.stlouisfed.org/education_resources/personal-finance-101-chats/personal-finance-101-chat-buy-here-pay-here/) (Explains a form of financing provided by car dealers);
http://www.stlouisfed.org/education_resources/personal-finance-101-chats/personal-finance-101-chat-buy-here-pay-here/
 - b. [Payday Loans](http://www.stlouisfed.org/education_resources/personal-finance-101-chats/pf-101-chat-payday-loans/) (Explains possible pitfalls of this type of loan);
http://www.stlouisfed.org/education_resources/personal-finance-101-chats/pf-101-chat-payday-loans/
 - c. [Rent to Own](http://www.stlouisfed.org/education_resources/personal-finance-101-chats/personal-finance-101-rent-to-own/) (Explains rent-to-own contracts);
http://www.stlouisfed.org/education_resources/personal-finance-101-chats/personal-finance-101-rent-to-own/
 - d. [How to Get a Car Loan](http://www.stlouisfed.org/education_resources/personal-finance-101-chats/pf-101-chat-how-to-get-a-car-loan/) (Explains the car-loan process);
http://www.stlouisfed.org/education_resources/personal-finance-101-chats/pf-101-chat-how-to-get-a-car-loan/
13. Online lessons: Financial Forms Explained (Mouse-overs explain the terminology on the financial form shown.)
- a. [Credit Card Statement](http://www.stlouisfed.org/education_resources/financial-forms-explained-credit-card-statement/); http://www.stlouisfed.org/education_resources/financial-forms-explained-credit-card-statement/
 - b. [Credit Card Disclosure Statement](http://www.stlouisfed.org/education_resources/financial-forms-explained-credit-card-disclosure-statement/); http://www.stlouisfed.org/education_resources/financial-forms-explained-credit-card-disclosure-statement/
 - c. [Credit Report](http://www.stlouisfed.org/education_resources/financial-forms-explained-credit-report/); http://www.stlouisfed.org/education_resources/financial-forms-explained-credit-report/
14. [Econ Ed Mobile Learning App](#) (From the Federal Reserve Bank of St. Louis, available on iTunes and Google Play)
- a. Choose "Cost of Credit." Choose "Experiment." Insert an amount borrowed, interest rate, and monthly payment to calculate the length of a loan and interest paid over the life of the loan.

Tools for Teaching the Missouri Personal Finance Competencies

Session 3

- b. Choose "Inflation." Choose "Challenge Questions." Choose "Start the Challenge." Play the game to estimate the cost of goods and services today relative to a year in the past.
- c. Choose "Cost of Credit." Choose "Challenge Questions." Choose "Start the Challenge." Play the game to estimate how many monthly payments it will take to pay off a given loan.