IT'S YOUR PAYCHECK!

Produced by the Federal Reserve Bank of St. Louis

CENTRAL TO AMERICA'S ECONOMY®
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Overview

In 2005, the Federal Reserve Bank of St. Louis was a partner in a community initiative to educate teens about how to manage their personal finances. As part of the initiative, a program called *Your Paycheck* was developed. This program involved college students teaching personal finance concepts to new, teenage employees of local businesses.

In 2007, as part of its economic and financial education program, the St. Louis Fed decided to develop its own personal finance curriculum—called *It's Your Paycheck!*—for use by high school educators, with similar and expanded content based on *Your Paycheck*.

It's Your Paycheck! is designed for use in high school personal finance classes. The curriculum contains three sections—"Know Your Dough," "KaChing!" and "All About Credit." The lessons in each of these sections use various teaching strategies to engage students and give them opportunities to apply the concepts taught. Each lesson includes black-line masters of the handouts and visuals needed to teach the lesson. In addition, PowerPoint, SMART Notebook, and ActivInspire files are available for use with each lesson.

In 2014, the curriculum was revised to incorporate information about banks and financial services that had changed since 2007, update dates and data, and provide exercises that align more closely with Common Core State Standards.

The end of each lesson lists the standards and benchmarks with which the lesson correlates for the National Financial Literacy Standards and the Voluntary National Economics Standards, both published the Council on Economic Education, as well as the Common Core State Standards.

The content of the lessons has also been adapted into nine online courses available on the Federal Reserve Bank of St. Louis website—www.stlouisfed.org/education_resources.

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Unit A: Know Your Dough

Lesson 1: Invest in Yourself

Students are divided into four groups to produce name tents. Each group produces name tents in a different way to highlight different levels of human capital. Students identify ways in which people invest in their human capital. Students use the Bureau of Labor Statistics *Occupational Outlook Handbook* to analyze unemployment, educational attainment, and median weekly income data for 2012. They work with a partner to create a graphical representation of the data and share their examples with the class. As an assessment, they write several sentences that describe the unemployment, educational attainment, and median weekly income data and explain the likely impact of investment in human capital on potential earnings and unemployment. A second assessment asks students to use the *Occupational Outlook Handbook* to select an occupation of interest and outline the investments in human capital they must make to obtain that occupation.

Lesson 2: "W" Is for Wages, W-4, and W-2

Students compute the gross pay for fictional John Dough given his hourly wage and the number of hours worked. They compare gross pay with net pay. They learn what FICA and federal income taxes are. They learn how to complete Form W-4 and about Form W-2. In the assessment, students re-read the information provided on a W-4 and provide a more easily understood explanation to a friend in an e-mail.

Unit B: KaChing!

Lesson 3: Cash the Check and Track the Dough

Students learn about checking accounts, savings accounts, and check-cashing services. They learn the components of a check and how to organize and enter information into a bank account register, balance a monthly account statement, and write a check. They also learn why maintaining account records is important.

Lesson 4: Your Budget Plan

Students work in pairs to participate in a "Track Star" game that illustrates positive and negative spending behaviors. Each pair analyzes the game results, identifies effective and ineffective budgeting behaviors, and generates a list of budgeting principles.

Lesson 5: Savvy Savers

Students calculate compound interest to identify benefits of saving in interest-bearing accounts. They learn the "rule of 72" and that it applies to both investments and debt. They apply the rule of 72 to several savings scenario. They learn that there is a relationship between the level of risk for an investment and the potential reward or return on that investment.

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Unit C: All About Credit

Lesson 6: Credit Reports—and You Thought Your Report Card Was Important

Students read informational text and discuss the advantages and disadvantages of using credit and the importance of maintaining a good credit history. Students read a scenario about a young person's use of a credit card and answer questions regarding repayment. Students learn about credit history, credit reports, and the three credit bureaus. Students read a scenario and write an essay addressing the key points of the lesson.

Lesson 7: Creditors' Criteria and Borrowers' Rights and Responsibilities

Students discuss key terms related to credit and learn how creditors use capacity, character, and collateral as criteria for making loans. Students learn about credit rights and responsibilities. Groups use role-play scenarios to identify and discuss the rights and responsibilities of using credit.

Lesson 8: So How Much Are You Really Paying for That Loan?

Students learn what a payday loan is and the high cost involved in using such a loan. They work in groups to calculate the cost of loans at given annual percentage rates (APRs). As an assessment, students select four scenarios involving payday lending, offer reasons why payday loans might not be the best alternative, and suggest other options for financing what the individuals want.

Lesson 9: To Rent-to-Own or Not to Rent-to-Own?

Students review the elements of a contract. They discuss the characteristics of rent-to-own contracts and compare the cost of those contracts with the outright purchase of goods.

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Lesson 1: Invest in Yourself

Standards and Benchmarks (see page A-10)

Lesson Description

Students are divided into four groups to produce name tents. Each group produces name tents in a different way to highlight different levels of human capital. Students identify ways in which people invest in their human capital. Students use the Bureau of Labor Statistics *Occupational Outlook Handbook* to analyze unemployment, educational attainment, and median weekly income data for 2012. They work with a partner to create a graphical representation of the data and share their examples with the class. As an assessment, they write several sentences that describe the unemployment, educational attainment, and median weekly income data and explain the likely impact of investment in human capital on potential earnings and unemployment. A second assessment asks students to use the *Occupational Outlook Handbook* to select an occupation of interest and outline the investments in human capital they must make to obtain that occupation.

Grade Level

6-12

Concepts

Human capital

Investment in human capital

Objectives

Students will

- define human capital and investment in human capital,
- give examples of investment in human capital,
- describe the relationship between a person's level of education and income-earning potential, and
- describe the relationship between educational attainment and unemployment.

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Time Required

60 minutes

Materials

- Handout 1, one copy for each student
- Two sheets of light-colored construction paper per student plus one sheet for the teacher
- One sheet of chart paper for each pair of students
- One dark-colored marker for each student
- Markers for each pair of students

Procedure

1. Explain that students will participate in the personal finance unit *It's Your Paycheck* to learn more about earning income, paying taxes, managing income, and using credit.

2. Tell students that the first activity involves creating name tents for display on their desks for the class and for guest speakers.

3. Demonstrate how to produce a name tent as follows. (Students are to observe the process and not make name tents at this time.)
   - Fold the piece of construction paper in half, shorter edges (8½") together. Crease the center fold. The folded paper should measure 8½" x 5½".
   - Open the page to 8½" x 11".
   - Fold the bottom 8½" edge to the middle crease. Crease the fold.
   - Open the page to 8½" x 11".
   - Fold the top 8½" edge to the middle crease. Crease the fold.
   - The paper should now have four sections, each measuring approximately 2¾" x 8½".
   - Starting from one end of the paper, count down three rectangles. Print your first name in large letters in the rectangle.
   - Turn the paper upside-down. Again count down three rectangles and print your first name in large letters in the rectangle.
   - Fold the paper to create a tent with your name displayed on both sides.

4. Divide the students into four groups. Explain that the students will now make their own name tents and that each group will have different rules they must follow.

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Explain the rules as follows:

- Group 1: Each of you will remain seated to produce your own name tent, using only one hand, your nondominant hand—that is, the hand with which you do not write—to produce the name tent. You must keep your dominant hand behind your back. You may not assist one another.
- Group 2: Each of you will remain seated to produce your own name tent, using only one hand, your dominant hand—that is, the hand with which you write—to produce the name tent. You must keep your nondominant hand behind your back. You may not assist one another.
- Group 3: Each of you will remain seated to produce your own name tent, using both hands. You may not assist one another.
- Group 4: Each of you will produce your own name tent while standing and using only one hand—your nondominant hand—to produce the name tent. You must keep your dominant hand behind your back. You may not use the desk, table, or chair. You may not assist one another.
- None of the groups may begin producing name tents until the class is told to begin.
- When you finish folding your name tent, raise your hand.
- You will be timed and will have a maximum of two minutes to make your name tent.

5. Draw the following table on the board and use this to tally students as they raise their hands upon completing the name tent.

	Group 1	**Group 2**	**Group 3**	**Group 4**
30 seconds				
60 seconds				
90 seconds				
120 seconds				

6. Distribute a piece of construction paper to each student. Remind the students that each group must fold their name tents according to the rules described. Students are to raise their hands when they have finished their own name tent. Tell students they may begin. As students raise their hands, record tallies on the board next to the appropriate group number and time segment.

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7. After two minutes, ask everyone to stop producing name tents and discuss the following:
   - Who found it very difficult to produce name tents? (*Students in Group 4*) Why? (*Standing and folding with one hand—the nondominant hand—made it nearly impossible.*)
   - What difficulties did those in other groups encounter making the name tents? (*Likely responses include the following: Group 1—hard to fold with one hand, very hard to fold using only nondominant hand, difficult to write with nondominant hand; Group 2—hard to fold with one hand; Group 3—likely few or no difficulties.*)
   - In general, which group of students finished most quickly? (*Group 3*) Why? (*Students in this group were able to use both hands and were able to remain seated.*)
   - In general, which group of students took the longest time to finish? (*Group 4*) Why? (*Students in this group had to use only their nondominant hands and had to stand.*)

8. Define **human capital** as the knowledge and skills that people obtain through education, experience, and training. Point out that people are able to invest in their human capital by going to school, pursuing additional training, and developing skills through practice.

9. Explain that the process of managing income includes saving and investing for the future. An important investment that students make in their future is their **investment in human capital**. Define investment in human capital as the efforts people put forth to acquire and improve human capital. These efforts include education, experience, and training.

10. Point out that in the activity, those who had fewer constraints or limits when producing name tents represent those with more human capital.

11. Explain that people with more skills, education, and training tend to be more productive and, as a result, earn higher incomes. In the name-tent activity, Group 4 represents those with the smallest investment in human capital—high school dropouts. Group 1 represents high school graduates. Group 2 represents high school graduates with additional training—associate degrees, bachelor's degrees, or trade school. Group 3 represents those who pursue advanced degrees.

12. Explain that people develop human capital throughout life. Learning to read and compute are examples. Discuss the following and record student examples on the board:
    - What are examples of human capital you possess—that is, the knowledge and skills that you have now from your education, experience, and training?

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(*Answers will vary but may include the ability to read, write, compute, play the piano, play chess, draw, use various woodworking tools, use a computer, or work well with others.*)

- What investments have you made or will you make to develop and maintain your human capital? (*Answers will vary but may include reading, completing homework, practicing the piano, joining the chess club, attending a special art class, attending a computer class, or making furniture and other wood items.*)
- If you want to own your own business in the future, what human capital might you need? (*Answers will vary but may include management skills, accounting skills, computer skills, or communication skills.*)
- What investments might you make to develop this human capital? (*Answers will vary but may include pursuing a college degree in business or accounting, reading professional journals, or shadowing someone who owns a business.*)

13. Visit http://www.bls.gov/ooh/a-z-index.htm as a class. Explain that the Bureau of Labor Statistics (BLS) developed the *Occupational Outlook Handbook* website to provide information about careers. Ask a student to name an occupation in which he or she is interested. Use the alphabetical search to find that occupation in the *Handbook*. Point out that the site provides the following information:
    - Median income for the occupation
    - The amount of education required to enter this field
    - Whether or not work experience is required
    - How much, if any, on-the-job training is required
    - The number of jobs available in the field in 2012
    - The expected growth rate of jobs in this field from 2012 to 2022
    - The projected numeric change in the number of jobs available in this field over the next decade
    - A description of what people in this field do
    - A description of the type of environment in which people in this occupation work
    - A link to a list of similar occupations
    - A link to a site that provides key characteristics of occupations and workers

14. Pair the students and distribute a copy of *Handout 1: Educational Attainment, Income, and Unemployment Data*, a piece of chart paper, and markers to each pair. Review the directions.

15. Allow time for students to complete the task and then ask the pairs to share their illustrations. (*Answers will vary.*) Discuss the following:

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- What type of relationship exists between education and median income? (*A positive [direct] relationship exists—as the level of education increases, the median income increases.*)
- Why does this relationship exist? (*Education is an investment in human capital. People with more human capital are likely to be more productive. Businesses are willing to pay more-productive workers more.*)
- What type of relationship exists between education and unemployment? (*A negative [indirect] relationship exists—as the level of education increases, the unemployment rate decreases.*)
- Why does this relationship exist? (*People with more education have more skills and are generally more productive. As a result, in general they have less difficulty and spend less time finding a job, and businesses are less likely to lay them off.*)

16. Point out that the income data on Handout 1 and on the BLS website are given as median income rather than mean (or average) income. Discuss the following:
    - What is the difference between mean and median? (*Students should explain that the mean is the average. All terms are added and the sum is divided by the number of terms. Median is the middle number. It is found by arranging data from the lowest value to the highest value, then finding the middle value.*)
    - Why might it be beneficial to report a median instead of a mean? (*A mean [average] can be substantially skewed by a single number, while a median is not as dramatically affected.*) Note that economists generally favor using a median when looking at groups of numbers, particularly income, where a small number of high earners can skew the mean upward.

17. (Optional) Explain the following to clarify the difference between mean and median:
    - Say you want to calculate the average and median incomes for seven full-time high school students with incomes that are fairly low and vary widely.
    - The students' incomes range in $1,000 increments from $1,000 to $7,000. To calculate the mean (or average), you must add the incomes of all the students and divide by the number of students in the group: $1,000 + $2,000 + $3,000 + $4,000 + $5,000 + $6,000 + $7,000 = $28,000; $28,000 ÷ 7 = $4,000. So, in this case, the mean is $4,000.
    - To find the median, you put the incomes in order of value from lowest to highest and find the middle number: $1,000, $2,000, $3,000, **$4,000**, $5,000, $6,000, $7,000. In this case, the median is $4,000.
    - In this example, $4,000 is both the mean and median, so it doesn't seem to matter which measure is used. However, let's add one more student to the group—a student entrepreneur who earns $150,000 per year.
    - The new mean is calculated as follows: $1,000 + $2,000 + $3,000 + $4,000 + $5,000 + $6,000 + $7,000 + 150,000 = $178,000; $178,000 ÷ 8 = $22,250.

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- With the addition of one student, the average income of the group increased from $4,000 to $22,250. Although $22,250 is the mathematically correct average, it might seem misleading to say that the average income of people in the group is $22,250 since everyone in the group except the entrepreneur earns far less than that.
- Because there are now two middle numbers, to calculate the median, you need to find the average of the two middle numbers: $1,000, $2,000, $3,000, **$4,000**, **$5,000**, $6,000, $7,000, $150,000. The new median is $4,500.
- The median income for the group increased from $4,000 to $4,500. Thus, the median income for the group—$4,500—better reflects the actual earnings of the people in the group than the mean.

18. Explain that part of planning for your financial future includes making a strong investment in your own human capital. Learning about earnings and managing income is an investment in human capital.

19. Distribute new pieces of construction paper to students who were not able to complete their name tents or to students whose name tents were illegible and allow them time to create new tents.

Closure

20. Review the key points of the lesson by discussing the following:
    - What is human capital? (*The knowledge and skills that people obtain through education, experience, and training*)
    - What is investment in human capital? (*Efforts people put forth to acquire and improve human capital*)
    - How do people invest in human capital? (*Through education, experience, and training*)
    - In general, how does investment in human capital through education affect income? (*In general, there is a positive [direct] relationship between the amount of education people have and the amount of income they earn; that is, the more education people have, the greater income they earn.*)
    - Why is this the case? (*In general, those with more investment in human capital have more skills and are likely to be more productive. Businesses are willing to pay more-productive workers more.*)
    - In general, how does investment in human capital through education affect the likelihood of being unemployed? (*In general, there is a negative [indirect] relationship between the amount of education people have and the likelihood that they will be unemployed; that is, the more education people have, the less likely they will become unemployed.*)

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- Why is this the case? (*In general, those with more investment in human capital have more skills and are likely to be more productive. In general, they spend less time looking for a job and are less likely to be laid off.*)

Assessment

21. Ask students to write a paragraph explaining the relationship between educational attainment and income, the relationship between educational attainment and unemployment, and the impact of human capital on earning income and unemployment.

22. Have students review the *Occupational Outlook Handbook* at http://www.bls.gov/ooh/. Have them select an occupation in which they are interested, identify the human capital that they currently possess that would be important for this occupation (reading, mathematics, people skills, writing, and so on), and identify investments in human capital that they must make to attain this occupation (additional training and education, computer skills, and so on).

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Handout 1: Educational Attainment, Income, and Unemployment Data

Unemployment rate in 2013	Educational attainment	Median weekly earnings in 2013
2.2%	Doctoral degree	$1,623
2.3	Professional degree	1,714
3.4	Master's degree	1,329
4.0	Bachelor's degree	1,108
5.4	Associate degree	777
7.0	Some college, no degree	727
7.5	High school diploma	651
11.0	Less than a high school diploma	472

NOTE: Data are for persons 25 years old and older. Earnings are for full-time wage and salary workers.

SOURCE: Bureau of Labor Statistics, Current Population Survey.

Directions: Working with a partner, illustrate the relationships between median income and educational attainment and between unemployment and educational attainment by creating a graph or chart (line, bar, or pie).

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Standards and Benchmarks

National Standards for Financial Literacy

Standard 1: Earning Income. Income for most people is determined by the market value of their labor, paid as wages and salaries. People can increase their income and job opportunities by choosing to acquire more education, work experience, and job skills. The decision to undertake an activity that increases income or job opportunities is affected by the expected benefits and costs of such an activity. Income also is obtained from other sources such as interest, rents, capital gains, dividends, and profits.

- **Benchmark 1, Grade 8:** Careers are based on working at jobs in the same occupation or profession for many years. Different careers require different education and training.
- **Benchmark 2, Grade 8:** People make many decisions over a lifetime about their education, jobs, and careers that affect their incomes and job opportunities.
- **Benchmark 3, Grade 8:** Getting more education and learning new job skills can increase a person's human capital and productivity.
- **Benchmark 4, Grade 8:** People with less education and fewer job skills tend to earn lower incomes than people with more education and greater job skills.
- **Benchmark 5, Grade 8:** Investment in education and training generally has a positive rate of return in terms of the income that people earn over a lifetime.

National Standards in Economics

Standard 13: Income. Income for most people is determined by the market value of the productive resources they sell. What workers earn primarily depends on the market value of what they produce.

- **Benchmark 4, Grade 8:** More productive workers are likely to be of greater value to employers and earn higher wages than less productive workers.
- **Benchmark 5, Grade 8:** People's incomes, in part, reflect choices they have made about education, training, skill development, and careers. People with few skills are more likely to be poor.

Standard 15: Economic Growth. Investment in factories, machinery, new technology, and the health, education, and training of people stimulates economic growth and can raise future standards of living.

- **Benchmark 1, Grade 4:** When workers learn and practice new skills, they improve their productivity by improving their human capital.
- **Benchmark 4, Grade 8:** Increases in productivity can result from advances in technology or increases in physical or human capital.

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Common Core State Standards: Grades 6-12 Literacy in History/Social Studies & Technical Subjects

History/Social Studies

- Craft and Structure

  CCSS.ELA-Literacy.RH.6-8.4: Determine the meaning of words and phrases as they are used in a text, including vocabulary specific to domains related to history/social studies.

  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.

- Integration of Knowledge and Ideas

  CCSS.ELA-Literacy.RH.6-8.7: Integrate visual information (e.g., in charts, graphs, photographs, videos, or maps) with other information in print and digital texts.

  CCSS.ELA-Literacy.RH.9-10.7: Integrate quantitative or technical analysis (e.g., charts, research data) with qualitative analysis in print or digital text.

Science and Technical Subjects

- Integration of Knowledge and Ideas

  CCSS.ELA-Literacy.RST.6-8.7: Integrate quantitative or technical information expressed in words in a text with a version of that information expressed visually (e.g., in a flowchart, diagram, model, graph, or table).

  CCSS.ELA-Literacy.RST.9-10.7: Translate quantitative or technical information expressed in words in a text into visual form (e.g., a table or chart) and translate information expressed visually or mathematically (e.g., in an equation) into words.

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Lesson 2: "W" Is for Wages, W-4, and W-2

Standards and Benchmarks (see page A-30)

Lesson Description

Students compute the gross pay for fictional John Dough given his hourly wage and the number of hours worked. They compare gross pay with net pay. They learn what FICA and federal income taxes are. They learn how to complete Form W-4 and about Form W-2. In the assessment, students re-read the information provided on a W-4 and provide a more easily understood explanation to a friend in an e-mail.

Grade Level

6-12

Concepts

FICA tax

Form W-2

Form W-4

Gross pay

Income

Income tax

Net pay

Taxes

Wages

Objectives

Students will

- define income, taxes, and wages,
- explain what the FICA tax is,
- explain the difference between gross pay and net pay,

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- explain what Form W-4 is used for,
- explain what Form W-2 is, and
- rewrite the technical language found on a W-4 form.

Time Required

60-75 minutes

Materials

- Visual 2.1
- Handouts 2.1 and 2.2, one copy of each for each student and one copy of each for the teacher to use as visuals
- Handout 2.3, one copy for each student
- Handout 2.3—Answer Key for the teacher to use as a visual
- Optional: Personal Finance 101–Chat–W-4; http://www.stlouisfed.org/education_resources/personal-finance-101-chats/personal-finance-101-chat-w-4/

Procedures

1. Ask the students the following questions:
   - Why do people work? (*To earn income*)
   - How many of you already have paying jobs outside of work you do at home? (*Answers will vary.*)
   - If you already have a job, what were some challenges you faced when you started your job? (*Answers will vary but may include getting to work on time, having to work overtime, or working late on a school night.*)
   - What were some surprises you had about working? (*Answers will vary but may include that, after taxes or other deductions, their paychecks were much smaller than anticipated.*)

2. Explain that **income** is the payment people receive for providing resources in the market. When people work, they provide human resources (labor) and in exchange they receive income in the form of **wages**. Wages are usually computed by multiplying an hourly pay rate by the number of hours worked. People may also earn salaries for providing labor. Rather than an hourly pay scale, salaries are generally an annual amount paid monthly or bimonthly for a specified number of hours, usually a 40-hour work week. (Note: People also receive income in the form of interest, profit, and rent.) Discuss the following:

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- What hourly wage might you and other teenagers in this area earn? (*Answers will vary.*)
- How many hours would you expect to work at a part-time job during the school year? (*Answers will vary.*)
- How many hours would you expect to work at a part-time job during the summer? (*Answers will vary.*)

3. Display *Handout 2.1: John A. Dough's Pay Stub* and distribute a copy to each student. Ask a student to read the information about John A. Dough in the paragraph above the pay stub. Discuss the following:
   - How much income did John A. Dough earn during his first pay period? (*$10 x 24 hours = $240*) Record the amount on Handout 2.1 under "This Period" across from "Regular Pay" and have the students do the same on their copies.
   - Explain that because this is his first paycheck, the amount that John received for this pay period is the same as the year-to-date (YTD) amount.
   - Under "YTD," enter $240 across from "Regular Pay" and have the students do the same.
   - Point out that John had no overtime or holiday pay this period; so, total pay for this period and year-to-date are also $240. Enter $240 in the "Total Pay" row under "This Period" and "YTD." Have the students do the same.

4. Refer the students to the **"Net Pay"** line at the bottom of Handout 2. Point out that net pay is the amount that John actually received. Discuss the following:
   - Why did John earn $240 and receive only $191.86? (*Answers will vary; some students may know or realize from the stub that people have taxes and other deductions withheld from their pay.*)

5. Refer students to the "Deductions" section of the pay stub. Explain that people pay **taxes**. Taxes are government fees on business and individual income, activities, products, or property that people are required to pay. The tax revenue collected is used to provide government goods and services for citizens and to allow the government to operate. People also voluntarily have money deducted from their paychecks for expenses such as medical insurance or savings in retirement accounts. **Gross pay** is the amount people earn per pay period before any deductions or taxes are paid. **Net pay** is the amount people receive after taxes and other deductions are taken out of gross pay.

6. Explain that one tax many people pay is federal **income tax**. Income tax is a tax on the amount of income people earn. People pay a percentage of their income in taxes. People who earn more pay a higher percentage of their income in taxes. Discuss the following:
   - How much federal income tax was withheld from John's check? (*$24.74*)

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- What percentage of his income was withheld for federal income tax? (*$24.74/$240.00 = 0.10 = 10%*)
- John works in a state that has a state income tax. How much was withheld for state income taxes? (*$5.04*)
- Why wasn't money deducted from John's check for medical insurance or retirement savings plans such as a 401(k)? (*Answers will vary. Students may not know.*) Explain that John isn't a full-time employee and doesn't receive a benefits package, so money wasn't deducted for insurance or retirement savings.
- How did John's employer know what percentage of John's income to deduct for federal income taxes and state income taxes? (*Answers will vary, but some students may know that employees must complete various forms that give the employer the information needed to determine this.*)

7. Explain that once people are hired for a job, there are various forms they must complete. One of these is **Form W-4**. This is a federal form. There are state forms that must be completed as well, which vary from state to state. Explain the following:
   - Form W-4 is a form required by the Internal Revenue Service (IRS).
   - The W-4 allows employers to determine what amount of income tax they should deduct from each employee's paycheck based on that person's situation, such as whether he or she is married or single.
   - Even if you are a student, it isn't likely that you are exempt from tax withholdings.
   - Each April, anyone who earned income must file a federal income tax return with the IRS. If over the course of the year more of your income than necessary was withheld, you will receive a refund from the federal government.
   - Employees are expected to complete the W-4 accurately and honestly when starting a new job or if their status changes in some way.
   - If you make mistakes such as entering the wrong Social Security number or using a nickname, you could delay or prevent receipt of any tax refund you are owed.

8. Display *Handout 2.2: Form W-4* and distribute a copy to each student. Explain that the form is completed for John A. Dough. Have a student read the paragraph above the form about John Dough. Then, ask a student to read the paragraphs on the form titled "Exemption from withholding" and "Note." Point out that an exemption reduces the amount of income that is subject to tax. Taxpayers can claim a personal exemption and exemptions for people who are dependent on the taxpayer. For example, each dependent a parent claims reduces the amount of income on which the parent pays taxes.

9. Either (i) visit http://www.stlouisfed.org/education_resources/personal-finance-101-chats/personal-finance-101-chat-w-4/ and work through the chat or (ii) discuss the following:

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- Why can't John claim exempt status? (*His parents still claim him as a dependent.*)
- What number did John enter on line B? (*"1" because he is single with only one job*)
- What did John enter on line C? (*Nothing.*) Why? (*He is not married.*)
- What did John enter on line D? (*Nothing.*) Why? (*He has no dependents [children].*)
- Why did John leave line E blank? (*He is not the head of a household.*)
- What did John enter on line F? (*Nothing.*) Why? (*He has no child or dependent-care expenses.*)
- What did John enter on line G? (*Nothing.*) Why? (*He has no children.*)
- What total did John enter on line H? (*"1"*)

10. Point out that exempt does not mean that the person does not have to pay other kinds of taxes such as Social Security taxes. Discuss the following:
    - FICA stands for Federal Insurance Contributions Act. The **FICA tax** is a U.S. payroll tax used to fund Social Security and Medicare.
    - Social Security is a federal program that provides benefits for retirees, the disabled, and the minor children of deceased workers.
    - Medicare is a federal program that provides health insurance for people 65 years of age or older and people under 65 with certain disabilities.
    - Employees and employers each pay a share of the FICA tax: For 2013, the employee's share was 7.65 percent (6.2 percent for Social Security and 1.45 percent for Medicare) and the employer's share was also 7.65 percent of the employee's gross income. So, the total FICA tax in 2013 was 15.3 percent of an employee's gross income.

11. Redisplay Handout 2.1. Discuss the following:
    - How much was withheld for Social Security from John Dough's check? (*0.062 × $240 = $14.88*)
    - How much was withheld for Medicare from John Dough's check? (*0.0145 × $240 = $3.48*)
    - John's employer, ABC Mart, also paid $14.88 in Social Security and $3.48 in Medicare for John, but these payments are not indicated on the pay stub.
    - Self-employed people are responsible for paying the entire FICA percentage because they are both employer and employee.

12. Display *Visual 2.1: Form W-2 Wage and Tax Statement*. Explain that this is another important form related to working. This form is a summary of a person's earning and tax withholding for an entire year. Workers receive a personalized Form W-2 from their

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employers around the end of January for the previous year's work. The forms can arrive in the mail, be provided in person or, with the worker's consent, received electronically.

13. Explain that this is what the W-2 for John Dough looked like at the end of the year. Note the text in the bottom left-hand corner that says, "To Be Filed With Employee's FEDERAL Tax Return." Point out that it is important for people to hold on to their W-2 form(s) when they receive them. People are required to submit their W-2 form(s) to the IRS with their tax return. Tell students to refer to John Dough's W-2 to answer the following questions:
    - How much did John earn in 2013? (*$5,140*)
    - At a wage of $10 per hour, how many hours did John work to earn $5,140? (*514 hours*)
    - How much was withheld for federal income tax in 2013? (*$514.00*)
    - How much was withheld for the Social Security tax? (*$318.68*)
    - How much was withheld for the Medicare tax? (*$74.53*)

14. Point out that on the W-2 box 3 is "Social Security wages" and box 5 is "Medicare wages and tips." John is required to pay these taxes on the full amount he earned—$5,140. However, there is a Social Security income cap that changes from year-to-year. Once people have earned the cap amount, they do not pay Social Security tax on additional earnings. For example, in 2013 the cap was $113,700. A person who earned more than $113,700 did not pay Social Security taxes on additional earnings.

15. Remind the students that taxpayers are required to complete a form reporting income earned and taxes paid in the previous year, which must be submitted by April 15 of the current year to the IRS. The 1040EZ is the simplest form to submit. If during 2013 John paid more income tax than he was required to, he will receive a refund from the federal government. Discuss the following:
    - Taxes are collected on a "pay as you go" principle, which means that as people earn income, they pay taxes rather than waiting until the end of the year to pay all taxes.
    - Many people, therefore, try to adjust the amount of money they have withheld so that they pay the correct amount of taxes for each paycheck. That way, they don't have to pay additional taxes when they submit their income tax form.
    - Some people, however, prefer to receive a refund each year; so, they purposely pay more than they need to pay per pay period. This is often referred to as "forced savings." The government collects the money during the year and refunds it to the taxpayer after they submit an income tax form. The taxpayer then has a lump sum to purchase a large item or place in savings.
    - Note that the government does not pay you interest on your overpayment. Therefore, it might be a better idea to have the correct amount withheld rather

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than overpaying and to instead put your savings in an interest-bearing account during the year.

- Were you surprised to learn that workers receive less income than they actually earn? (*Answers will vary; most students will likely have known taxes were deducted but perhaps not the actual amounts.*)

16. Point out that nearly all workers feel surprised when they see their first paycheck and find that the amount they thought they would receive is reduced because of various deductions. Explain the following:
    - Everyone in the United States is required to pay taxes on the money he or she earns.
    - Employers are required by law to send the money withheld from employees' pay to various federal and state agencies. The tax revenue collected from workers is added together to pay for the goods and services that federal, state, and local governments provide for citizens and to pay the costs of operating the government.

17. Discuss the following:
    - What are some goods and services the federal government provides for citizens? (*Answers will vary but may include roads, bridges, national parks, and national defense.*)
    - What are some goods and services that state governments provide for their citizens? (*Answers will vary but may include state roads, state parks, state troopers, and public education.*)
    - What are some goods and services that local governments provide for their citizens? (*Answers will vary but may include street lights, fire and police protection, and public education.*)

Closure

18. Review the key points of the lesson by discussing the following:
    - What are wages? (*Wages are a form of income people receive for work they do.*)
    - What is income? (*Income is payment people receive for providing resources in the market.*)
    - What are taxes? (*Taxes are government fees on business and individual income, activities, products, or property that people are required to pay.*)
    - What is gross pay? (*Gross pay is the amount people earn in a pay period before any deductions or taxes are taken out.*)
    - What is net pay? (*Net pay is take-home pay; it is the amount received after taxes and deductions have been taken out of gross pay.*)

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- What is the FICA tax? (*The FICA tax is a tax resulting from the Federal Insurance Contributions Act.*)
- What does the FICA tax fund? (*Social Security and Medicare*)
- Who pays the FICA tax? (*Both employees and employers pay the FICA tax.*)
- What is Form W-4 and for what is it used? (*Form W-4 is a form that must be completed by an employee before starting a job. It is used by the employer to determine the amount of federal and state income tax to withhold for the employee.*)
- What is Form W-2? (*Form W-2 is a form employers must provide to each employee shortly after year-end to report annual income and withholding for the employee's tax return.*)

Assessment

19. Distribute a copy of *Handout 2.3: Assessment* to each student. Instruct students to read the directions and complete the handout.

20. Display *Handout 2.3: Assessment—Answer Key* and allow students to check their answers.

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Visual 2.1: Form W-2 Wage and Tax Statement

John Dough received a Form W-2 Wage and Tax Statement from his employer, ABC Mart, before January 31 of the current year for his work the previous year, as required by the IRS. His completed Form W-2 is below.

XXXX	a Employee's social security number 123-45-6789	OMB No. 1545-0008	Safe, accurate, FAST! Use IRS e-file. Visit the IRS website at *www.irs.gov/efile*.
b Employer identification number (EIN) XXXX		1 Wages, tips, other compensation $5,140	2 Federal income tax withheld $514.00
c Employer's name, address, and ZIP code ABC Mart 10 Washington St. Our Town, USA 12345		3 Social security wages $5,140	4 Social security tax withheld $318.68
		5 Medicare wages and tips $5,140	6 Medicare tax withheld $74.53
		7 Social security tips	8 Allocated tips
d Control number		9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial / Last name / Suff. John A. Dough 123 Main Street Our Town, USA 12345 f Employee's address and ZIP code		11 Nonqualified plans	12a See instructions for box 12 Code
		13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b Code
		14 Other	12c Code
			12d Code

15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name
XX	XXXX	$5,140	$107.94	XX	XX	XX

Form **W-2** **Wage and Tax Statement** **2013** Department of the Treasury—Internal Revenue Service

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

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Handout 2.1: John A. Dough's Pay Stub

John Dough is 16 years old and recently started his first job at ABC Mart. The pay stub for his first two weeks of work is below.

		Allowances	
ABC Mart	**John A. Dough**	**Federal**	1
SSN	123-45-6789	**State**	1
Employee ID	98765		
Pay Period	1/1/13 to 1/14/13	**Hourly Rate**	$10.00
Pay Date	2/3/13		
		Hours Worked This Pay Period	
		Regular	24
		Overtime	0
		Holiday	0

Earnings		
	This Period	**YTD**
Regular Pay		
Overtime Pay	$0.00	$0.00
Holiday Pay	$0.00	$0.00
Total Pay		

Deductions		
	This Period	**YTD**
Federal Income Tax	$24.74	$24.74
Social Security Tax (FICA)	$14.88	$14.88
Medicare Tax (FICA)	$3.48	$3.48
State Income Tax	$5.04	$5.04
Medical Insurance	$0.00	$0.00
Retirement [401(k)]	$0.00	$0.00
Total Deductions	$48.14	$48.14

Net Pay		
	This Period	**YTD**
Gross Pay	$240.00	$240.00
Total Deductions	$48.14	$48.14
Net Pay	$191.86	$191.86

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Handout 2.2: Form W-4

When John Dough started his first job at ABC Mart in Our Town, USA, he filled out Form W-4 below. He is 16 years old, is not married, and does not have any children. John's parents still claim him as a dependent on their tax return.

Form W-4 (2013)

Purpose. Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. Consider completing a new Form W-4 each year and when your personal or financial situation changes.

Exemption from withholding. If you are exempt, complete **only** lines 1, 2, 3, 4, and 7 and sign the form to validate it. Your exemption for 2014 expires February 17, 2015. See Pub. 505, Tax Withholding and Estimated Tax.

Note. If another person can claim you as a dependent on his or her tax return, you cannot claim exemption from withholding if your income exceeds $1,000 and includes more than $350 of unearned income (for example, interest and dividends).

Exceptions. An employee may be able to claim exemption from withholding even if the employee is a dependent, if the employee:

- Is age 65 or older,
- Is blind, or
- Will claim adjustments to income; tax credits; or itemized deductions, on his or her tax return.

The exceptions do not apply to supplemental wages greater than $1,000,000.

Basic instructions. If you are not exempt, complete the **Personal Allowances Worksheet** below. The worksheets on page 2 further adjust your withholding allowances based on itemized deductions, certain credits, adjustments to income, or two-earners/multiple jobs situations.

Complete all worksheets that apply. However, you may claim fewer (or zero) allowances. For regular wages, withholding must be based on allowances you claimed and may not be a flat amount or percentage of wages.

Head of household. Generally, you can claim head of household filing status on your tax return only if you are unmarried and pay more than 50% of the costs of keeping up a home for yourself and your dependent(s) or other qualifying individuals. See Pub. 501, Exemptions, Standard Deduction, and Filing Information, for information.

Tax credits. You can take projected tax credits into account in figuring your allowable number of withholding allowances. Credits for child or dependent care expenses and the child tax credit may be claimed using the **Personal Allowances Worksheet** below. See Pub. 505 for information on converting your other credits into withholding allowances.

Nonwage income. If you have a large amount of nonwage income, such as interest or dividends, consider making estimated tax payments using Form 1040-ES, Estimated Tax for Individuals. Otherwise, you may owe additional tax. If you have pension or annuity iincome, see Pub. 505 to find out if you should adjust your withholding on Form W-4 or W-4P.

Two earners or multiple jobs. If you have a working spouse or more than one job, figure the total number of allowances you are entitled to claim on all jobs using worksheets from only one Form W-4. Your withholding usually will be most accurate when all allowances are claimed on the Form W-4 for the highest paying job and zero allowances are claimed on the others. See Pub. 505 for details.

Nonresident alien. If you are a nonresident alien, see Notice 1392, Supplemental Form W-4 Instructions for Nonresident Aliens, before completing this form.

Check your withholding. After your Form W-4 takes effect, use Pub. 505 to see how the amount you are having withheld compares to your projected total tax for 2014. See Pub. 505, especially if your earnings exceed $130,000 (Single) or $180,000 (Married).

Future developments. Information about any future developments affecting Form W-4 (such as legislation enacted after we release it) will be posted at *www.irs.gov/w4*.

Personal Allowances Worksheet (Keep for your records.)

A	Enter "1" for **yourself** if no one else can claim you as a dependent	**A**	
B	Enter "1" if: • You are single and have only one job; or • You are married, have only one job, and your spouse does not work; or • Your wages from a second job or your spouse's wages (or the total of both) are $1,500 or less.	**B**	1
C	Enter "1" for your **spouse.** But, you may choose to enter "-0-" if you are married and have either a working spouse or more than one job. (Entering "-0-" may help you avoid having too little tax withheld.)	**C**	
D	Enter number of **dependents** (other than your spouse or yourself) you will claim on your tax return	**D**	
E	Enter "1" if you will file as **head of household** on your tax return (see conditions under **Head of household** above)	**E**	
F	Enter "1" if you have at least $2,000 of **child or dependent care expenses** for which you plan to claim a credit (**Note.** Do **not** include child support payments. See Pub. 503, Child and Dependent Care Expenses, for details.)	**F**	
G	**Child Tax Credit** (including additional child tax credit). See Pub. 972, Child Tax Credit, for more information. • If your total income will be less than $65,000 ($95,000 if married), enter "2" for each eligible child; then **less** "1" if you have three to six eligible children or **less** "2" if you have seven or more eligible children. • If your total income will be between $65,000 and $84,000 ($95,000 and $119,000 if married), enter "1" for each eligible child	**G**	
H	Add lines A through G and enter total here. (**Note.** This may be different from the number of exemptions you claim on your tax return.) ►	**H**	1

For accuracy, **complete all worksheets that apply.**

- If you plan to **itemize** or **claim adjustments to income** and want to reduce your withholding, see the **Deductions and Adjustments Worksheet** on page 2.
- If you are **single and have more than one job** or are **married and you and your spouse both work** and the combined earnings from all jobs exceed $50,000 ($20,000 if married), see the **Two-Earners/Multiple Jobs Worksheet** on page 2 to avoid having too little tax withheld.
- If **neither** of the above situations applies, **stop here** and enter the number from line H on line 5 of Form W-4 below.

Separate here and give Form W-4 to your employer. Keep the top part for your records.

Form **W-4** Department of the Treasury Internal Revenue Service

Employee's Withholding Allowance Certificate

► **Whether you are entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.**

OMB No. 1545-0074

2013

1 Your first name and middle initial: John A.	Last name: Dough	**2** Your social security number: 123-45-6789
Home address (number and street or rural route): 123 Main Street	**3** ☒ Single ☐ Married ☐ Married, but withhold at higher Single rate. **Note.** If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.	
City or town, state, and ZIP code: Our Town USA 12345	**4** If your last name differs from that shown on your social security card, check here. You must call 1-800-772-1213 for a replacement card. ► ☐	

5	Total number of allowances you are claiming (from line **H** above **or** from the applicable worksheet on page 2)	**5**	1
6	Additional amount, if any, you want withheld from each paycheck	**6**	$
7	I claim exemption from withholding for 2014, and I certify that I meet **both** of the following conditions for exemption. • Last year I had a right to a refund of **all** federal income tax withheld because I had **no** tax liability, **and** • This year I expect a refund of **all** federal income tax withheld because I expect to have **no** tax liability. If you meet both conditions, write "Exempt" here ►	**7**	

Under penalties of perjury, I declare that I have examined this certificate and, to the best of my knowledge and belief, it is true, correct, and complete.

Employee's signature (This form is not valid unless you sign it.) ► John A. Dough **Date** ► Jan. 11, 2013

8 Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.) ABC Mart, 10 Washington St., Our Town	**9** Office code (optional)	**10** Employer identification number (EIN)

For Privacy Act and Paperwork Reduction Act Notice, see page 2. Cat. No. 10220Q Form **W-4** (2014)

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Handout 2.3: Assessment (Page 1 of 4)

Directions: An actual Form W-4 is provided below. Read the information, review the form, and answer the questions that follow.

Form W-4 (2013)

Purpose. Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. Consider completing a new Form W-4 each year and when your personal or financial situation changes.

Exemption from withholding. If you are exempt, complete **only** lines 1, 2, 3, 4, and 7 and sign the form to validate it. Your exemption for 2014 expires February 17, 2015. See Pub. 505, Tax Withholding and Estimated Tax.

Note. If another person can claim you as a dependent on his or her tax return, you cannot claim exemption from withholding if your income exceeds $1,000 and includes more than $350 of unearned income (for example, interest and dividends).

Exceptions. An employee may be able to claim exemption from withholding even if the employee is a dependent, if the employee:

- Is age 65 or older,
- Is blind, or
- Will claim adjustments to income; tax credits; or itemized deductions, on his or her tax return.

The exceptions do not apply to supplemental wages greater than $1,000,000.

Basic instructions. If you are not exempt, complete the **Personal Allowances Worksheet** below. The worksheets on page 2 further adjust your withholding allowances based on itemized deductions, certain credits, adjustments to income, or two-earners/multiple jobs situations.

Complete all worksheets that apply. However, you may claim fewer (or zero) allowances. For regular wages, withholding must be based on allowances you claimed and may not be a flat amount or percentage of wages.

Head of household. Generally, you can claim head of household filing status on your tax return only if you are unmarried and pay more than 50% of the costs of keeping up a home for yourself and your dependent(s) or other qualifying individuals. See Pub. 501, Exemptions, Standard Deduction, and Filing Information, for information.

Tax credits. You can take projected tax credits into account in figuring your allowable number of withholding allowances. Credits for child or dependent care expenses and the child tax credit may be claimed using the **Personal Allowances Worksheet** below. See Pub. 505 for information on converting your other credits into withholding allowances.

Nonwage income. If you have a large amount of nonwage income, such as interest or dividends, consider making estimated tax payments using Form 1040-ES, Estimated Tax for Individuals. Otherwise, you may owe additional tax. If you have pension or annuity iincome, see Pub. 505 to find out if you should adjust your withholding on Form W-4 or W-4P.

Two earners or multiple jobs. If you have a working spouse or more than one job, figure the total number of allowances you are entitled to claim on all jobs using worksheets from only one Form W-4. Your withholding usually will be most accurate when all allowances are claimed on the Form W-4 for the highest paying job and zero allowances are claimed on the others. See Pub. 505 for details.

Nonresident alien. If you are a nonresident alien, see Notice 1392, Supplemental Form W-4 Instructions for Nonresident Aliens, before completing this form.

Check your withholding. After your Form W-4 takes effect, use Pub. 505 to see how the amount you are having withheld compares to your projected total tax for 2014. See Pub. 505, especially if your earnings exceed $130,000 (Single) or $180,000 (Married).

Future developments. Information about any future developments affecting Form W-4 (such as legislation enacted after we release it) will be posted at *www.irs.gov/w4*.

Personal Allowances Worksheet (Keep for your records.)

A Enter "1" for **yourself** if no one else can claim you as a dependent . . . . . **A** _____

B Enter "1" if:
- You are single and have only one job; or
- You are married, have only one job, and your spouse does not work; or
- Your wages from a second job or your spouse's wages (or the total of both) are $1,500 or less.

. . . **B** _____

C Enter "1" for your **spouse.** But, you may choose to enter "-0-" if you are married and have either a working spouse or more than one job. (Entering "-0-" may help you avoid having too little tax withheld.) . . . . . **C** _____

D Enter number of **dependents** (other than your spouse or yourself) you will claim on your tax return . . . . . **D** _____

E Enter "1" if you will file as **head of household** on your tax return (see conditions under **Head of household** above) . . **E** _____

F Enter "1" if you have at least $2,000 of **child or dependent care expenses** for which you plan to claim a credit . . . **F** _____
(**Note.** Do **not** include child support payments. See Pub. 503, Child and Dependent Care Expenses, for details.)

G **Child Tax Credit** (including additional child tax credit). See Pub. 972, Child Tax Credit, for more information.
- If your total income will be less than $65,000 ($95,000 if married), enter "2" for each eligible child; then **less** "1" if you have three to six eligible children or **less** "2" if you have seven or more eligible children.
- If your total income will be between $65,000 and $84,000 ($95,000 and $119,000 if married), enter "1" for each eligible child . . . **G** _____

H Add lines A through G and enter total here. (**Note.** This may be different from the number of exemptions you claim on your tax return.) ► **H** _____

For accuracy, **complete all worksheets that apply.**
- If you plan to **itemize** or **claim adjustments to income** and want to reduce your withholding, see the **Deductions and Adjustments Worksheet** on page 2.
- If you are **single and have more than one job** or are **married and you and your spouse both work** and the combined earnings from all jobs exceed $50,000 ($20,000 if married), see the **Two-Earners/Multiple Jobs Worksheet** on page 2 to avoid having too little tax withheld.
- If **neither** of the above situations applies, **stop here** and enter the number from line H on line 5 of Form W-4 below.

---------- **Separate here and give Form W-4 to your employer. Keep the top part for your records.** ----------

Form **W-4**
Department of the Treasury
Internal Revenue Service

Employee's Withholding Allowance Certificate

► **Whether you are entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.**

OMB No. 1545-0074
2013

1 Your first name and middle initial	Last name	**2 Your social security number**
Home address (number and street or rural route)	**3** ☐ Single ☐ Married ☐ Married, but withhold at higher Single rate. **Note.** If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.	
City or town, state, and ZIP code	**4 If your last name differs from that shown on your social security card, check here. You must call 1-800-772-1213 for a replacement card.** ► ☐	

5 Total number of allowances you are claiming (from line **H** above **or** from the applicable worksheet on page 2) **5** _____

6 Additional amount, if any, you want withheld from each paycheck . . . . . **6** $ _____

7 I claim exemption from withholding for 2014, and I certify that I meet **both** of the following conditions for exemption.
- Last year I had a right to a refund of **all** federal income tax withheld because I had **no** tax liability, **and**
- This year I expect a refund of **all** federal income tax withheld because I expect to have **no** tax liability.

If you meet both conditions, write "Exempt" here . . . . . ► **7** _____

Under penalties of perjury, I declare that I have examined this certificate and, to the best of my knowledge and belief, it is true, correct, and complete.

Employee's signature
(This form is not valid unless you sign it.) ► **Date** ►

8 Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.)	**9** Office code (optional)	**10** Employer identification number (EIN)

For Privacy Act and Paperwork Reduction Act Notice, see page 2. Cat. No. 10220Q Form **W-4** (2014)

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Handout 2.3: Assessment (Page 2 of 4)

1. What do the words "exempt" and "exemption" mean on the form?

2. Parents claim their children as dependents on their tax returns. In terms of the amount of taxes paid, what does it mean to claim someone as a dependent?

3. Angela Smith is a 23-year-old college graduate with her first job. She is not married, and she has no children. Her parents no longer claim her as a dependent. She is having trouble filling out her W-4 form. Write Angela an e-mail telling her why she must fill it out. Restate the information and instructions in the W-4 form to make it easier for her to complete.

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Handout 2.3: Assessment (Page 3 of 4)

Directions: Review Angela's second pay stub below and answer the questions on the next page.

		Allowances	
Grayline Electric	**Angela Smith**	**Federal**	1
SSN	234-56-7890	**State**	1
Employee ID	56789		
Pay Period	2/1/13 to 2/28/13		
Pay Date	3/3/13		

Earnings		
	This Period	**YTD**
Regular Pay	$4,125.00	$8,250.00
Vacation	$0.00	$0.00
Total Income/Pay	$4,125.00	$8,250.00

Before Tax Deductions		
	This Period	**YTD**
Medical Insurance	$90.00	$180.00
Retirement [401(k)]	$247.50	$495.00
Total Before Tax Deductions	$337.50	$675.00

Taxes		
	This Period	**YTD**
Federal Income Tax	$598.87	$1,197.74
Social Security Tax (FICA)	$255.75	$511.50
Medicare Tax (FICA)	$59.81	$119.62
Total	$914.43	$1,828.86

	This Period	**YTD**
Gross Pay	$4,125.00	$8,250.00
Total Deductions	$1,125.93	$2,503.86
Net Pay	$2,873.07	$5,746.14

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Handout 2.3: Assessment (Page 3 of 4)

1. What is Angela's gross pay for this pay period? _____

2. What is Angela's net pay for this pay period? _____

3. Define net pay:

4. Define taxes:

5. For what do governments use tax revenues?

6. How much has Angela paid in FICA taxes so far this year? _____

7. What does FICA stand for, and how are FICA taxes collected used?

8. How much did Angela pay in federal income tax this pay period? _____

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Handout 2.3: Assessment—Answer Key (page 1 of 2)

1. What do the words "exempt" and "exemption" mean on the form?

   If a person is exempt, they do not have to pay federal income tax. A person must meet specific criteria in order to be exempt. Exempt does not mean that the person does not have to pay other kinds of taxes such as Social Security taxes.

   An exemption reduces the amount of income that is subject to tax. Taxpayers can claim personal exemption and exemptions for people who are dependent on the taxpayer.

2. Parents claim their children as dependents on their tax returns. In terms of the amount of taxes paid, what does it mean to claim someone as a dependent?

   Each dependent a parent claims reduces the amount of income on which taxes must be paid.

3. Angela Smith is a 23-year-old college graduate with her first job. She is not married, and she has no children. Her parents no longer claim her as a dependent. She is having trouble filling out her W-4 form. Write Angela an e-mail telling her why she must fill it out. Restate the information and instructions in the W-4 form to make it easier for her to complete.

   Answers will vary. Students might say something like the following:

   Hi Angela,

   You must complete the W-4 form so that your employer knows how much money to take out of your gross pay for federal income taxes and the FICA tax. You are not exempt from paying taxes, so you must fill out the Personal Allowance Worksheet. You are not a head of household, so that paragraph does not apply to you. You are not eligible for tax credits; you do not have a large amount of nonwage income such as interest on savings or dividends on stock you own; you only have one job; you are not married; and you are not an alien. So, none of the other paragraphs apply to you.

   You can enter a "1" on line A because no one else is claiming you as a dependent.

   You can enter a "1" on line B because you are single and have only one job.

   You should not enter a "0" on line C because you are not married.

   You should not enter a "0" on line D because you have no children or other dependents.

   You should not enter anything on lines E, F, or G because you are not the head of a household, you do not have child or dependent-care expenses, and you are not eligible for a child tax credit.

   Add the numbers you entered on lines A though G and write the total on line H. In your case, the total is 2.

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Handout 2.3: Assessment—Answer Key (page 2 of 2)

1. What is Angela's gross pay for this pay period?

   $4,125.00

2. What is Angela's net pay for this pay period?

   $2,873.07

3. Define net pay:

   Net pay is the remainder after all deductions and taxes are subtracted from gross pay.

4. Define taxes:

   Taxes are government fees on business and individual income, activities, products, or property.

5. For what do governments use tax revenues?

   Governments use tax dollars to operate and to provide goods and services for the public.

6. How much has Angela paid in FICA taxes so far this year?

   $631.12 ($511.50 + $119.62)

7. What does FICA stand for, and how are FICA taxes collected used?

   FICA stands for Federal Insurance Contributions Act. FICA taxes are used for (i) Social Security payments to workers who are retired, the disabled, and minor children of deceased workers and for (ii) Medicare, which is health insurance for people 65 years of age or older and people under 65 with certain disabilities.

8. How much did Angela pay in federal income taxes this pay period?

   $598.87

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Standards and Benchmarks

National Standards for Financial Literacy

Standard 1, Earning Income: Income for most people is determined by the market value of their labor, paid as wages and salaries. People can increase their income and job opportunities by choosing to acquire more education, work experience, and job skills. The decision to undertake an activity that increases income or job opportunities is affected by the expected benefits and costs of such an activity. Income also is obtained from other sources such as interest, rents, capital gains, dividends, and profits.

- **Grade 8, Benchmark 11:** Social Security is a government program that taxes the income of current workers to provide retirement, disability, and survivor benefits for workers or their dependents.
- **Grade 12, Benchmark 7:** Taxes are paid to federal, state, and local governments to fund government goods and services and transfer payments from government to individuals. The major types of taxes are income taxes, payroll (Social Security) taxes, property taxes, and sales taxes.
- **Grade 12, Benchmark 8:** Peoples' sources of income, amount of income, as well as the amount and type of spending affect the types and amounts of taxes paid.

Common Core State Standards: Grades 6-12 Literacy in History/Social Studies, Science, & Technical Subjects

History/Social Studies

- Craft and Structure

  CCSS.ELA-Literacy.RH.6-8.4: Determine the meaning of words and phrases as they are used in a text, including vocabulary specific to domains related to history/social studies.

  CCSS.ELA-Literacy.RH.9-10.4: Determine the meaning of words and phrases as they are used in the text, including figurative and connotative meanings; analyze the cumulative impact of specific word choices on meaning and tone (e.g., how the language evokes a sense of time and place; how it sets a formal or informal tone).

Science and Technical Subjects

- Key Ideas and Details

  CCSS.ELA-Literacy.RST.6-8.2: Determine the central ideas or conclusions of a text; provide an accurate summary of the text distinct from prior knowledge or opinions.

  CCSS.ELA-Literacy.RST.6-8.3: Follow precisely a multistep procedure when carrying out experiments, taking measurements, or performing technical tasks.

  CCSS.ELA-Literacy.RST.9-10.2: Determine the central ideas or conclusions of a text; trace the text's explanation or depiction of a complex process, phenomenon, or concept; provide an accurate summary of the text.

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CCSS.ELA-Literacy.RST.9-10.3: Follow precisely a complex multistep procedure when carrying out experiments, taking measurements, or performing technical tasks, attending to special cases or exceptions defined in the text.

CCSS.ELA-Literacy.RL.11-12.2: Determine two or more themes or central ideas of a text and analyze their development over the course of the text, including how they interact and build on one another to produce a complex account; provide an objective summary of the text.

CCSS.ELA-Literacy.RL.11-12.3: Analyze the impact of the author's choices regarding how to develop and relate elements of a story or drama (e.g., where a story is set, how the action is ordered, how the characters are introduced and developed).

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Lesson 3: Cash the Check and Track the Dough

Standards and Benchmarks (see page B-26)

Lesson Description

Students learn about checking accounts, savings accounts, and check-cashing services. They learn the components of a check and how to organize and enter information into a bank account register, balance a monthly account statement, and write a check. They also learn why maintaining account records is important.

Grade Level

6-12

Concepts

Bank account register

Check

Checking account

Check-cashing services

Direct deposit

Overdraft

Savings account

Objectives

Students will

- compare checking accounts, savings accounts, and check-cashing services;
- explain what checks, debit cards, automatic deposits, and electronic payments are and how they are used;
- explain the importance of maintaining records of deposits to, withdrawals from, and payments from a bank account;
- explain the importance of balancing a bank account; and
- demonstrate filling out and balancing a bank account register.

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Time Required

60-75 minutes

Materials

- Visuals 3.1, 3.2, and 3.3
- Handout 3.1, one copy cut apart
- Handout 3.2, one copy for each student
- Handout 3.3, one copy for each student and one for the teacher to use as a visual
- Handout 3.4, one copy for each pair of students
- Handout 3.4—Answer Key, one copy for each pair of students and one copy for the teacher to use as a visual
- Handout 3.5, one copy for each student and one copy for the teacher to use as a visual
- Handout 3.5—Answer Key for the teacher
- Handout 3.6, one copy for each student
- Handout 3.6—Answer Key for the teacher
- A calculator for each student

Procedure

1. Distribute to two students the cards from *Handout 3.1: How to Turn a Paycheck into Cash*. Have the student with card number 1 read the card. Discuss the following:
   - How many of you have a savings or checking account? (*Answers will vary.*)
   - Why do you have savings and/or checking accounts? (*Answers will vary but may include the following: My parents made me. Banks are a safe place to keep money. An account was needed to deposit a regular paycheck.*)

2. Explain the following:
   - A **checking account** is an account held at a bank, credit union, or other financial institution in which account owners deposit funds. Account owners have the privilege of writing checks on their accounts and are able to use ATM cards and debit cards to access funds.
   - A **savings account** is an account at a bank, credit union, or other financial institution in which account owners deposit funds. Account owners are paid interest on the amount deposited in their accounts. Account owners have the ability to withdraw funds but do not write checks on these accounts. The number of withdrawals in a given period of time may be limited.

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3. Have the student with card number 2 read the card. Discuss the following:
   - How many of you have heard of or used (or had a family member use) a **check-cashing service**? (*Answers will vary.*)
   - Why do people use check-cashing services? (*They likely don't have checking or savings accounts. The services are quick and convenient.*)

4. Distribute a copy of *Handout 3.2: What Do You Know?* to each student. Divide the class into pairs. Instruct the pairs to read each statement and decide whether the statement is true or false. Explain that they should be prepared to share their answers.

5. Allow time for pairs to work and then ask individual pairs to share their answers. They should give a thumbs-up if they think the statement is true and a thumbs-down if they think the statement is false. Explain each statement as noted.

   a. People are able to make deposits to and withdrawals from both savings accounts and checking accounts. (*True*)

   b. Check-cashing services charge minimal fees for cashing checks. (*False*)

      The fees for check-cashing services vary, but these companies charge either a percentage of the check amount or a minimum fee to cash a check—typically up to $10 each time a check is cashed. For example, if you cash a $100 paycheck and you have to pay a $10 fee, you are paying 10 percent of your earnings to cash that check.

   c. People with a savings or checking account are usually able to cash checks for free or a small fee (less than a few dollars a month) at the bank where they have an account. (*True*)

      Often students can take advantage of low or no monthly fees that many banks and credit unions offer to students. A student who has a no-fee student checking account would not pay a fee to cash a check. If savings or checking accounts do have fees, they rarely add up to more than a few dollars a month. Therefore, the monthly fees, if any, for a basic savings or checking account are usually less than the fee charged by a check-cashing service to cash just one check.

   d. There are fees or costs associated with a checking account. (*True*)

      There are fees associated with a checking account. For example, there are fees for ordering checks and fees if an **overdraft** occurs and you have requested that the bank cover your overdrafts. An overdraft occurs when the account holder authorizes a withdrawal through a check, ATM withdrawal, debit card purchase, or electronic payment when the account does not have enough money to cover the transaction. Fees may also be charged if you are required to keep a certain amount (a "minimum balance") in your account and you don't. If you lose a check and ask the bank to issue a "stop-payment order" for the check in case someone finds it and tries to cash it, you'll also be charged a fee.

   e. Savings accounts pay interest on the balance in the account. (*True*)

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Keeping your savings in an account that earns interest is a way to make your savings grow.

f. It isn't legal for companies to require employees to use **direct deposit**. (*False*)

A direct deposit is money deposited electronically directly into a payee's bank account from a payer's bank account. It is legal for companies to require employees to receive paychecks by direct deposit, and many companies do have this requirement. Businesses actually consider direct deposit to be an employee benefit because direct deposit is considered to be more convenient, safer, and more efficient than cashing paper checks.

g. With a checking account, you can write checks to pay for many types of goods and services. (*True*)

If you have a checking account, for example, you could write a check to pay for your school yearbook or pay your car insurance.

h. There are no fees associated with savings accounts. (*False*)

There may be fees associated with a savings account. For example, you may be required to have a minimum balance. If the amount in your account falls below that amount, you may be charged a fee. Also, there may be a limit on how often you may make a withdrawal from a savings account. If you make more withdrawals than allowed, you may be charged a fee.

i. You may use an ATM or debit card with both savings and checking accounts. (*True*)

You can make arrangements with your bank to have a debit card that you can use to make withdrawals and deposits from your checking and/or savings accounts.

j. Check-cashing services are open more hours than banks and credit unions and have convenient locations. (*True*)

Check-cashing services are open evenings and weekends, and they are conveniently located. Banks and credit unions may be open fewer hours, but ATMs allow 24-hour access to your money. You will have to pay a fee to use an ATM outside your bank's network; however, the fee for getting your money is much less than the fee charged by a check-cashing service. Also, your paycheck can be in your account available to you on payday through direct deposit.

k. Banks and credit unions are safe places to keep your money. (*True*)

The Federal Deposit Insurance Corporation (FDIC) insures deposits in checking and savings accounts up to $250,000 per person per institution.

6. Discuss the following:

- How well did you answer the questions on Handout 3.2? (*Answers will vary.*)
- What would you do if your employer didn't require direct deposit? Would you open a checking or savings account, or would you use a check-cashing service? Why? (*Answers will vary.*)

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- Suppose your company requires direct deposit and you open a checking account. How will you know how much money is in the account, particularly as you begin to withdraw, spend, and make additional deposits? (*Answers will vary.*)

7. Explain that it is really important to know how much money is available in an account to avoid an overdraft—that is, taking out more money than is in the account. When a person overdraws an account, the bank charges the account holder a fee. The fee can be quite high—as much as $35 per overdraft. Discuss the following:

   - If you want to keep track of the money in your account, what information do you need? (*Answers will vary, but some students may suggest that you need a list of all your deposits and withdrawals, including all scheduled payments.*)

     To keep track of the money in your bank account, you need to know the amount of each deposit, each withdrawal (including from ATMs), each automatic payment, each check you write, and each purchase you make with a debit card.

   - How could you keep track of the money moving in and out of your account—that is, your financial transactions? (*Answers will vary but may include a computer spreadsheet, computer program, phone app, or notepad.*)

8. Explain that banks and credit unions provide each account holder a **bank account register**. A bank account register is essentially a table in which account holders record their financial transactions to keep track of their money.

   Banks and credit unions provide online banking services to also allow account holders to use the Internet to transfer money electronically and view all of the financial transactions recorded for their accounts, including all deposits and withdrawals.

9. Explain that students will view a bank account register as well as an online list of recent transactions. Both are tools used to record deposits and withdrawals from a checking account. Explain that deposits include cash and checks deposited by the customer and direct deposits—the electronic transfer of funds. Withdrawals can be made several ways, particularly when making payments.

10. Explain that bank customers can make payments using checks. Display *Visual 3.1: Check Out Checks* and discuss the following:

    - Each check has a unique number in the top right-hand corner. The check number is also the final set of digits along the bottom of the check. When you write a check, you should record the check number in your bank account register.

    - Each check has a place to enter the date the check was written. You should also enter the date in your bank account register.

    - Each check has a line to enter the name of the person or company to which the check is being written. This line often begins with "Pay to the order of." You should also enter the name of the payee in your bank account register.

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- Each check has two places to record the amount of the check. One is on the line under "Pay to the order of." Here you spell out the dollar amount of the payment rather than use numerals. The other place you record the amount is in the box to the right of the dollar sign. Here you write the payment amount using numerals. It is important that your spelled-out check amount matches the numerical amount because the spelled-out amount is the legally binding amount. You should also enter the amount of the check in your bank account register.
- Each check has a signature line. By signing the check, you give your bank permission to transfer money from your account to the account of the person, or company, to whom you have written the check.
- Each check shows a bank routing number, which is the same on all of your checks. This is the first nine digits at the bottom of the check and indicates the financial institution responsible for payment. These numbers are the electronic address for your bank. If you use direct deposit or wish to allow automatic payments from your account, such as a payment for your car insurance, you will have to include this number on the payment instructions.
- Each check displays the account number. This is the second set of numbers along the bottom of the check. You will have to include your account number when arranging direct deposits to or automatic payments from your account.
- Each check provides a memo line. Use this line for notes that may be helpful to you or the payee. When you view a copy of the check online, you will be able to see the memo line.
- Below the check is an example of a bank account register in which people can record transactions. Many people use their bank's online banking tools instead of writing checks. However, you should still record all of your transactions in the bank account register.

11. Display *Visual 3.2: John Dough's Online Bill Payment Center*. Explain that this is a screenshot of John's online bill payment center after he set up payments on January 31. As shown in the "Pending Payments" section, in a previous session, John chose February 2 as the payment date for his cell phone bill, gasoline credit card, and rent. He chose February 17 as the payment date for his car insurance. The two payments John has just entered, one for his cable bill and one for his electric bill, will move into the Pending Payments section after he hits the "Submit Payments" button. These two bills will be paid on February 5. Ask the following questions:
    - What is the total amount of John's pending payments (before he adds the two new payments)? (*$1,024.48*)
    - What is the available balance in his checking account as of January 31, 2015? (*$1,405.36*)
    - Is his available balance sufficient to cover his pending payments? (*Yes*)
    - What will be his available balance after his pending payments are made on February 2? (*$459.88*)

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12. Display *Handout 3.3: John Dough's Online Transactions List* and distribute a copy and a calculator to each student. Explain that the bank they choose will keep a list of transactions similar to this one. Discuss the following while having students take turns identifying the transactions. Students should identify the date of the transaction, the type of transaction, the amount of the transaction, whether the transaction is a credit or a debit, and the new balance.

02/01/15		**Electronic deposit Technix Corp.**		**$856.83**	**$1,405.36**

- This transaction is John Dough's salary paid by direct deposit.
- This transaction is a credit.
- The amount is added to John's balance of $548.53, making his new balance $1,405.36.

02/02/15		**Web-authorized pmt Cell Nation**	**$82.48**		**$1,322.88**

- John did not write a check for this payment but, rather, used the online bill payment feature offered through his bank. Paying bills online is a convenient way to make and keep track of those withdrawals. It eliminates the expense of checks, envelopes, and postage. Also, it takes less time than paying by check.
- This transaction is an $82.48 web-authorized payment to Cell Nation.
- This transaction is a debit.
- $82.48 is subtracted from John's balance, making his new balance $1,322.88.

02/02/15		**Web-authorized pmt Gasoline Alley**	**$113.00**		**$1,209.88**

- This transaction is a $113.00 web-authorized payment to Gasoline Alley.
- This transaction is a debit.
- John's new balance is $1,209.88.

02/02/15		**Web-authorized pmt Rosewood Prop.**	**$750.00**		**$459.88**

- This transaction is a $750.00 web-authorized payment to Rosewood Properties for John's rent.
- This transaction is a debit.
- John's new balance is $459.88.

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02/03/15		**ATM withdrawal**	**$60.00**		**$399.88**

02/03/15		**ATM out-of-network fee**	**$1.50**		**$398.38**

- These two entries are the result of one transaction. John made an ATM withdrawal of $60.00 and was charged a $1.50 out-of-network ATM fee.
- Both transactions are debits.
- John's new balance is $398.38.
- If John has used an ATM in his network, he would not have had to pay a fee. Fees for using an out-of-network ATM vary but can be as high as $6. Some banks have broader ATM networks and lower fees, which is worth considering when choosing a bank.

02/05/15		**Purchase with PIN Hamburger Haven**	**$15.63**		**$382.75**

- "Purchase with PIN" means a debit card was used and the account holder had to enter a personal identification number (PIN) on a key pad. Bank customers can get a debit card tied to their checking account. The debit card can be used for payment at stores, restaurants, and gas stations, among other places. When a debit card is used, payment is withdrawn directly from the cardholder's bank account.
- This transaction is a $15.63 debit-card purchase at Hamburger Haven.
- This transaction is a debit.
- John's new balance is $382.75.

02/05/15		**Web-authorized pmt Community Cable**	**$52.00**		**$330.75**

- This transaction is a $52.00 web-authorized payment to Community Cable.
- This transaction is a debit.
- John's new balance is $330.75.

02/05/15		**Web-authorized pmt Midwest G&P**	**$52.67**		**$278.08**

- This transaction is a $52.67 web-authorized payment to Midwest G&P.
- This transaction is a debit.
- John's new balance is $278.08.

02/05/15		**Purchase with PIN Gas 'n Go**	**$14.68**		**$263.40**

- This transaction is a $14.68 debit-card purchase at Gas 'n Go.
- This transaction is a debit.
- John's new balance is $263.40.

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02/06/15	**128**	**Check view**	**$20.00**		**$243.40**

- This transaction is $20 for check #128. (John wrote this check to his niece for her birthday about a week earlier.)
- February 6 is the date the check was cashed.
- This transaction is a debit.
- John's new balance is $243.40.
- The "view" link in the middle box allows you to view a copy of the check online.

02/08/15		**ATM withdrawal Bank of Everywhere**	**$60.00**		**$183.40**

- This transaction is a $60 ATM withdrawal from an ATM operated by John's bank. He did not have to pay a fee.
- This transaction is a debit.
- John's new balance is $183.40.

02/09/15		**Debit Food for Less**	**$63.87**		**$119.53**

- This transaction is a $63.87 debit-card purchase at Food for Less (a grocery store).
- This transaction is a debit.
- John's new balance is $119.53.

02/15/15		**Electronic deposit Technix Corp.**		**$862.09**	**$981.62**

- This transaction is an $862.09 direct deposit from John Dough's employer.
- This transaction is a credit.
- John's new balance is $981.62.

13. Explain that many people sign up for automatic payments to their service providers, such as electric companies, gas companies, insurance companies, and phone companies. With automatic payment, a bill is paid automatically from a person's checking or savings account on the payment due date. This payment method differs from the online-payment feature banks offers. Automatic payments are set up through individual companies and not through the bank. These payments won't appear on the account's online recent transactions list until payment is made.

14. Display *Visual 3.3: John Dough's Bank Account Register*. Instruct students to compare John Dough's personal bank account register on Visual 3.3 with the online bank-provided recent transactions list on Handout 3.3.

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- In what ways are the lists similar? (*Both lists contain information about deposits and withdrawals.*)
- In what ways are the lists different? (*John's personal bank account register has the following entries that are not on the recent transactions list:*

  2/02, Safe Gecko (web-authorized pmt on 2/17), $79.00

  2/15, Zoe Dough (car pmt #5), check #129, $225.00

  2/16, Debit, C-Stop, $18.57

  2/16, Auto pay, Metro Health payment, $105.00
- Why would there be an online payment on the bank account register that is not on the recent transactions list? (*The payment has not yet been made and is on the online pending payments list for the account. The transaction will not appear on the recent transactions list until it is paid.*)
- Why would there be a check listed on the bank account register that is not listed on the recent transactions list? (*The person to whom John wrote the check has not cashed it or deposited it yet. The check will only appear on John's online recent transactions list after it is cashed.*)
- Why would there be a debit on the bank account register that is not on the recent transactions list? (*The payment was likely made on the same date as the recent transactions list. It hasn't been processed yet.*)
- Why would John's payment to Metro Health appear on his bank account register but not on the recent transactions list? (*Automatic payments are debited on a schedule. On 2/16, John noted the payment in his bank account register. Although the automatic payment is scheduled for 2/16, it may not appear as paid on the recent transactions list until the day following the payment date, in this case 2/17. Automatic payments do not appear on the pending payments list because they are not set up through the bank. They are set up through the individual companies being paid.*)
- Which list provides a more accurate report of John's transactions and bank account balance? (*John's bank account register is a more accurate report of his balance because it contains a record of checks that have been written but not cashed, payments that are pending, and automatic payments that have been requested but haven't been paid.*)
- John holds a credit card issued by the Bank of Everywhere. He would like to pay the entire balance on the card, which amounts to $621.00. Would you advise John to pay the entire balance this month or just some portion of the balance? Why or why not? (*John should not pay the entire balance this month. Even though his recent transactions list shows he has a balance of $981.62, his balance will be only $554.05 after the online payment scheduled for 2/17 [$79.00], check #129 is cashed [$225], the debit card purchase on 2/16 is processed [$18.57], and the automatic payment scheduled for 2/16 is processed [$105.00].*)

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15. Explain that students will now record transactions to practice keeping track of an account balance. Divide students into pairs. Distribute a copy of *Handout 3.4: What's the Balance?* to each pair of students. Continue to display Visual 3.3 as a guide.

16. Explain that Andrew Anakoa has not been entering his transaction information into a bank account register or an online spreadsheet. He has kept receipts, but he doesn't know his current balance. Tell the pairs to enter the transactions chronologically into the bank account register on Handout 3.4 and determine Andrew's balance. Allow time for students to work.

17. Display *Handout 3.4: What's the Balance?—Answer Key* and distribute a copy to each pair of students. Discuss the following:
    - What are fees that Andrew paid? (*$1.50 for use of an out-of-network ATM*)
    - What was Andrew's balance on June 8? (*$35.80*)
    - What would happen if Andrew tried to withdraw $40, make a debit purchase for $40, or write a check for $40 on June 8? (*Although Andrew could go ahead and write a check, and the bank might allow him to use his debit card, he wouldn't have enough money in his account to cover the expense. If Andrew had opted for overdraft protection, the bank would allow the card to be used—so the person or business would be paid—and charge him an overdraft fee. That fee can be very high—as much as $35.00 for each overdraft. If Andrew had not chosen overdraft protection, if he used a check, the bank would return the check to the person or business Andrew paid and Andrew would pay an overdraft fee. For a debit card transaction, his card would be declined at the point of the purchase.*)
    - Why is it important for people to keep records of all deposits to and withdrawals from an account? (*Answers will vary but should include the following: to be certain that you do not spend money that isn't in your account, to avoid overdrafts and fees, to manage your spending, and to make sure that you can verify that the bank has recorded account transactions accurately.*)

18. Explain that when people have bank accounts, they receive bank statements every month or quarter in the mail and/or the bank provides account information online. The statement lists all transactions made during a given period and allows account holders to determine if their records match the bank records. Display *Handout 3.5: Balancing Andrew Anakoa's Bank Account* and distribute a copy to each student. Refer students to Handout 3.4—Answer Key. Discuss the following and refer to Handout 3.5 as you go through the process of balancing Andrew's checking account with the students:
    - The first step in balancing an account is to put a check mark in the account register by all checks that have cleared and all deposits that have been credited to the account.

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- What is the first item listed on the bank statement? (*A $155.76 deposit on May 1*) Find that item on the check register and put a check next to the item. It is important to place a check mark next to the item on the bank statement, too.

19. Tell students to continue placing check marks in the bank account register by items listed on the bank statement until reaching the bottom of the bank statement. When students have completed this process, explain that the next step is to enter the ending balance shown on the bank statement in the box on the bank statement worksheet. Discuss the following (refer to Handout 3.5—Answer Key as needed):

    - What is the ending balance on the bank statement? (*$192.52*) Enter the ending balance on the displayed handout and ask the students to do the same.
    - Are there any deposits listed in the bank account register that do not appear on the bank statement—that is, deposits that do not have a check mark by them? (*No.*)
    - If there were additional deposits, they would be added to the balance on the statement because the bank has not recorded those transactions on this bank statement. Because there are no additional deposits, the total is equal to the ending balance—$192.52. Demonstrate this procedure by entering the total on Handout 3.5 and ask the students to do the same.
    - Are there any debits—checks, ATM withdrawals, or debit purchases—with no check mark in the bank account register? (*Yes*) Are there any fees that do not have a check mark by them? (*Yes*) List these items in the "Enter items outstanding" area of the worksheet and ask the students to do the same.
    - Items outstanding must be added together and recorded on the "Total items outstanding" line. (*$156.72*) Add the outstanding items and ask the students to do the same.
    - The total amount outstanding is subtracted from the ending balance. (*$192.52 – $156.72 = $35.80*) Write the total balance on Handout 3.5 and ask the students to do the same.
    - The total balance should match the amount shown as the balance in the bank account register. (*$35.80*)
    - If the statement balance and the bank account register balance do not match, you have made an error. It could be a small entry error—for example, entering $8.97 when the debit amount was actually $9.97. It could also be that you failed to enter a debit or ATM withdrawal or service fee in your bank account register. And, there is always the possibility that the bank has made an error.

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Closure

20. Review key points of the lesson by discussing the following:
    - What are some advantages of having a checking or savings account? (*Answers will vary but may include that money is safe in a bank, money deposited may earn interest depending on the type of account, there are low or no fees for cashing checks, banks provide a record of transactions, and you likely have 24-hour access to your money through ATMs.*)
    - What is a disadvantage of using check-cashing services? (*Their fees are very high.*)
    - Why is it important to maintain account records and keep track of bank account balances? (*To avoid paying overdraft fees, to make certain the records are accurate and show the correct balance, and to know where your money is going*)

Assessment

21. Distribute a copy of *Handout 3.6: Assessment* to each student. Review the instructions and allow time for students to work.

22. Review student answers using *Handout 3.6: Assessment—Answer Key*.

23. Instruct students to send Sandra a memo advising her of the problems they found in her record-keeping and explaining the value of keeping accurate records of her income and expenditures.

24. Assign a brief essay in which students provide an argument for or against using checking accounts. Arguments in favor of using checking accounts should include the following:
    - You can make deposits and withdrawals.
    - There are no fees for cashing checks.
    - There are low or no fees for writing checks.
    - Checks can be used to pay for goods and services.
    - Transactions are recorded by the bank.
    - There is 24-hour access to your money through ATMs.
    - A debit card can be tied to the account.
    - Money is safe in a bank.

    Arguments against using checking accounts should include the following:
    - Overdrafts result in large fees.
    - A minimum balance may be required to receive free checking.
    - Check-cashing services are open more hours than banks.

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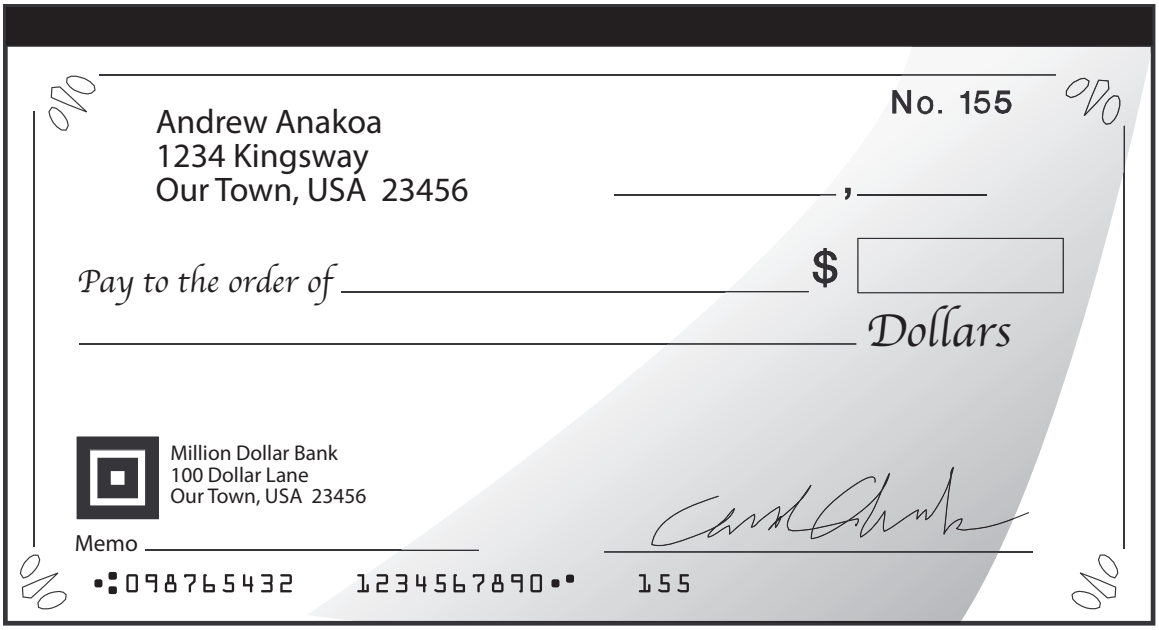
Visual 3.1: Check Out Checks



Bank Account Register							
Check Number	**Date**	**Transaction**	**Payment (Debit)**	**✓**	**Fee (Debit)**	**Deposit (Credit)**	**Balance**

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Visual 3.2: John Dough's Online Bill Payment Center

Bank of Everywhere YOUR NEIGHBOR, YOUR BANK!

My Accounts | Payment Center | Funds Transfer | Cash Advance | Online Statements | Make a Deposit

Message Center | Help

Checking Account xxxxxxxx5189 **January 31, 2015**

Available Balance $1,405.36

Schedule a Payment

Biller Name	Amount	Pay Date
Community Cable xxxxxxxx5895	$52.00	02/05/15
Cell Nation xxxx09-7		
Gasoline Alley xxxxx5960		
Midwest Gas & Power xxxxxx49385	$52.67	02/05/15
Rosewood Properties		
Safe Gecko Ins.		
Zoe Dough		

Submit Payments

Pending Payments

Biller Name	Amount	Pay Date
Cell Nation	$82.48	02/02/15
Gasoline Alley	$113.00	02/02/15
Rosewood Prop.	$750.00	02/02/15
Safe Gecko Ins.	$79.00	02/17/15
Total	$1,024.48	

Recently Paid

Biller Name	Amount	Pay Date
Cell Nation	$83.09	01/02/15
Gasoline Alley	$52.50	01/02/15
Midwest Gas & Power	$113.00	01/02/15
Rosewood Prop.	$750.00	01/02/15
Safe Gecko Ins.	$79.00	01/17/15
Community Cable	$52.00	12/31/14

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Visual 3.3: John Dough's Bank Account Register

Bank Account Register							
Check Number	**Date**	**Transaction**	**Payment (Debit)**	**✓**	**Fee (Debit)**	**Deposit (Credit)**	**Balance**
							$548.53
128	01/30	Lottie Dough (birthday)	$20.00				$528.53
	02/01	Paycheck				$856.83	$1,385.36
Online	2/02	Cell Nation	$82.48				$1,302.88
Online	02/02	Gasoline Alley	$113.00				$1189.88
Online	02/02	Rosewood Properties	$750.00				$439.88
Online	02/02	Safe Gecko (pmt on 2/17)	$79.00				360.88
ATM	02/03	Cash (out of network)	$60.00		$1.50		$299.38
Debit	02/05	Hamburger Haven	$15.63				$283.75
Debit	02/05	Gas 'n Go	$14.68				$269.07
Online	02/05	Community Cable	$52.00				$217.07
Online	02/07	Midwest G&P	$52.67				$164.40
ATM	02/08	Cash	$60.00				$104.40
Debit	02/09	Food for Less	$63.87				$40.53
	02/15	Paycheck				$862.09	$902.62
129	02/15	Zoe Dough (car pmt #5)	$225.00				$677.62
Debit	02/16	C-Stop	$18.57				$659.05
Auto pay	02/16	Metro Health payment	$105.00				$554.05

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Handout 3.1: How to Turn a Paycheck into Cash

1. John Dough got his first job. He thought he had done everything he needed to do to start working, but then there was a surprise. His employer, ABC Mart, doesn't issue paper paychecks. Employees must have a savings or checking account at a bank or credit union. The company pays its employees by direct deposit to a bank account only. John doesn't have a bank account and isn't so sure that he wants one. ABC Mart gave him the forms he must complete for the direct deposit. Now, John is going to talk with his mom about opening a bank account.

2. Alesandra Monter has a summer job at 62 Flavors and Counting ice cream shop. She received her first paycheck and took it to the Check 'n Cash store down the street. She had to pay a $7 fee to have her check cashed, but now she has lots of cash in her wallet.

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Handout 3.2: What Do You Know?

Directions: Working with a partner, read each statement and then decide together whether the statement is true (T) or false (F). Circle your answers. Be prepared to share your answers with the class.

T or F a. People are able to make deposits to and withdrawals from both savings accounts and checking accounts.

T or F b. Check-cashing services charge minimal fees for cashing checks.

T or F c. People with a savings or checking account are usually able to cash checks for free or a small fee (less than a few dollars a month) at the bank where they have an account.

T or F d. There are fees or costs associated with a checking account.

T or F e. Savings accounts pay interest on the balance in the account.

T or F f. It isn't legal for companies to require employees to use direct deposit.

T or F g. With a checking account, you can write checks to pay for many types of goods and services.

T or F h. There are no fees associated with savings accounts.

T or F i. You may use an ATM or debit card with both savings and checking accounts.

T or F j. Check-cashing services are open more hours than banks and have convenient locations.

T or F k. Banks and credit unions are safe places to keep your money.

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Handout 3.3: John Dough's Online Recent Transactions List

Bank of Everywhere YOUR NEIGHBOR, YOUR BANK!

Online Banking for John Dough **February 16, 2015**
Checking Account xxxxxxxx5189
Account Balance $981.62 **Available Balance $981.62**

Recent Transactions

Date	Check Number	Description	Payment (Debit)	Deposit (Credit)	Balance
					$548.53
02/01/15		Electronic deposit Technix Corp.		$856.83	$1,405.36
02/02/15		Web-authorized pmt Cell Nation	$82.48		$1,322.88
02/02/15		Web-authorized pmt Gasoline Alley	$113.00		$1,209.88
02/02/15		Web-authorized pmt Rosewood Prop.	$750.00		$459.88
02/03/15		ATM withdrawal	$60.00		$399.88
02/03/15		ATM out-of-network fee	$1.50		$398.38
02/05/15		Purchase with PIN Hamburger Haven	$15.63		$382.75
02/05/15		Web-authorized pmt Community Cable	$52.00		$330.75
02/05/15		Web-authorized pmt Midwest G&P	$52.67		$278.08
02/05/15		Purchase with PIN Gas 'n Go	$14.68		$263.40
02/06/15	128	Check view	$20.00		$243.40
02/08/15		ATM withdrawal Bank of Everywhere	$60.00		$183.40
02/09/15		Debit Food for Less	$63.87		$119.53
02/15/15		Electronic deposit Technix Corp.		$862.09	$981.62

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Handout 3.4: What's the Balance?

Directions: Andrew Anakoa recently opened a bank account but has not tracked his financial transactions in a bank account register. Using his receipts, he jotted this list of expenditures. Record his transactions in chronological order in the bank account register and calculate his current balance.

Andrew Anakoa's Transactions

Check Number	Date	Transaction	Amount
97	6/8	Books Galore	$16.25
	5/1	Paycheck	$155.76
	5/2	ATM withdrawal	$40.00
	5/5	Debit – Grocery Gallery	$47.30
	5/17	Safety First Insurance (online)	$95.00
	5/17	World Cellular (online)	$45.00
96	5/22	Hannah Anakoa (b'day)	$20.00
	5/31	Debit – Picture Posers (Sr. pictures deposit)	$69.00
	5/16	Paycheck	$128.30
	5/31	Paycheck	$155.76
	6/2	Debit – Hamburger Haven	$9.97
	6/4	ATM withdrawal (fee $1.50)	$60.00

Andrew Anakoa's Bank Account Register

Bank Account Register							
Check Number	Date	Transaction	Payment (Debit)	✓	Fee (Debit)	Deposit (Credit)	Balance
	5/1	Paycheck				$155.76	$155.76

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Handout 3.4: What's the Balance?—Answer Key

Andrew Anakoa's Bank Account Register

Bank Account Register							
Check Number	**Date**	**Transaction**	**Payment (Debit)**	**✓**	**Fee (Debit)**	**Deposit (Credit)**	**Balance**
	5/1	Paycheck				$155.76	$155.76
ATM	5/2	Withdrawal	$40.00				$115.76
Debit	5/5	Grocery Gallery	$47.30				$68.46
	5/16	Paycheck				$128.30	$196.76
Online	5/17	Safety First Insurance	$95.00				$101.76
Online	5/17	World Cellular	$45.00				$56.76
96	5/22	Hannah Anakoa	$20.00				$36.76
	5/31	Paycheck				$155.76	$192.52
Debit	5/31	Picture Posers (Sr. pictures deposit)	$69.00				$123.52
Debit	6/2	Hamburger Haven	$9.97				$113.55
ATM	6/4	Withdrawal	$60.00		$1.50		$52.05
97	6/8	Books Galore	$16.25				$35.80

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Handout 3.5: Balancing Andrew Anakoa's Bank Account

Bank Statement

Andrew Anakoa
1234 Kingsway
Our Town, USA 23456

Million Dollar Bank
100 Dollar Lane
Our Town, USA 23456

Statement Period: 5/1/15-5/31/15
Account Number: 1234567890

Date	Item	Withdrawal	Deposit Amount	Balance
1-May	Opening balance/deposit			$155.76
2-May	ATM withdrawal	$40.00		$115.76
5-May	Debit card	$47.30		$68.46
16-May	Deposit		$128.30	$196.76
17-May	Online	$95.00		$101.76
17-May	Online	$45.00		$56.76
25-May	Check #96	$20.00		$36.76
31-May	Deposit		$155.76	$192.52
31 May ENDING BALANCE				**$192.52**
Check #	Amount			
#96	$20.00			

In your bank account register, place a check mark beside each check paid, ATM or debit withdrawal made and certified, and deposit credited.

Enter the ending balance shown on this bank statement	**$**
Enter deposits that do not appear on this statement.	
TOTAL (Ending balance plus deposits not shown on this statement)	
Enter items outstanding (withdrawals that have been entered in the bank account register but do not appear on this statement).	
TOTAL ITEMS OUTSTANDING	**$**
Subtract TOTAL ITEMS OUTSTANDING from the amount listed on the TOTAL line above and record the new amount on the TOTAL BALANCE line.	
TOTAL BALANCE	**$**
The TOTAL BALANCE should equal the balance in your bank account register. If it does not, then your account does not balance and there is an error.	

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Handout 3.5: Balancing Andrew's Anakoa's Bank Account—Answer Key

Bank Statement

Andrew Anakoa
1234 Kingsway
Our Town, USA 23456

Million Dollar Bank
100 Dollar Lane
Our Town, USA 23456

Statement Period: 5/1/15-5/31/15
Account Number: 1234567890

Date	Item	Withdrawal	Deposit Amount	Balance
1-May	Opening balance/deposit			$155.76
2-May	ATM withdrawal	$40.00		$115.76
5-May	Debit card	$47.30		$68.46
16-May	Deposit		$128.30	$196.76
17-May	Online	$95.00		$101.76
17-May	Online	$45.00		$56.76
25-May	Check #96	$20.00		$36.76
31-May	Deposit		$155.76	$192.52
31 May ENDING BALANCE				**$192.52**
Check #	Amount			
#96	$20.00			

In your bank account register, place a check mark beside each check paid, ATM or debit withdrawal made and certified, and deposit credited.

Enter the ending balance shown on this bank statement	***$192.52***
Enter deposits that do not appear on this statement.	*$0.00*
TOTAL (Ending balance plus deposits not shown on this statement)	**$192.52**
Enter items outstanding (withdrawals that have been entered in the bank account register but do not appear on this statement).	
Debit	*$69.00*
Debit	*$9.97*
ATM	*$60.00*
Fee	*$1.50*
Check #97	*$16.25*
TOTAL ITEMS OUTSTANDING	***$156.72***
Subtract TOTAL ITEMS OUTSTANDING from the amount listed on the TOTAL line above and record the new amount on the TOTAL BALANCE line.	
TOTAL BALANCE	***$35.80***
The TOTAL BALANCE should equal the balance in your bank account register. If it does not, then your account does not balance and there is an error.	

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Handout 3.6: Assessment

Directions: Reorder Sandra Sherril's transactions, record them in chronological order in the bank account register, and calculate her current balance.

Sandra Sherril's Transactions

Check Number	Date	Transaction	Amount
	6/10	Deposit (check from John D.)	$28.13
	6/15	Paycheck	$150.80
ATM	6/1	ATM withdrawal	$40.00
Debit	6/5	PB Gasoline	$47.30
Online	6/16	Insurance Geek (car insurance)	$95.00
	5/31	Paycheck	$167.00
Online	6/16	City Cellular	$38.00
Check #117	6/5	Kylie Devers	$20.00
ATM	6/2	Withdrawal (out-of-network fee $1.50)	$20.00
Debit	6/25	Hamburgers to Go	$8.68
Debit	6/26	Clothes Rack	$18.72
Debit	6/12	Vending Venues	$15.26
ATM	6/12	Withdrawal (out-of-network fee $1.50)	$20.00

Bank Account Register							
Check Number	Date	Transaction	Payment (Debit)	✓	Fee (Debit)	Deposit (Credit)	Balance

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Handout 3.6: Assessment—Answer Key

Bank Account Register							
Check Number	**Date**	**Transaction**	**Payment (Debit)**	**✓**	**Fee (Debit)**	**Deposit (Credit)**	**Balance**
	5/31	Paycheck				$167.00	$167.00
ATM	6/1	ATM withdrawal	$40.00				$127.00
ATM	6/2	ATM withdrawal out of network	$20.00		$1.50		$105.50
	6/4	Deposit (check from John D.)				$28.13	$133.63
Debit	6/5	PB Gasoline	$47.30				$86.33
#117	6/5	Kylie Devers	$20.00				$66.33
	6/12	ATM withdrawal out of network	$20.00		$1.50		$44.83
	6/15	Paycheck				$150.80	$195.63
Debit	6/16	Vending Venues	$15.26				$180.37
Online	6/16	Insurance Geek	$95.00				$85.37
Online	6/16	City Cellular	$38.00				$47.37
Debit	6/25	Hamburgers to Go	$8.68				$38.69
Debit	6/26	Clothes Rack	$18.72				$19.97

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Standards and Benchmarks

National Standards in K-12 Personal Finance

Planning and Money Management Overall Competency: Organize and plan personal finances and use a budget to manage cash flow.

Standard 3: Describe how to use different payment methods.

- **Expectation 3, 8th Grade:** Compare the costs of cashing a third-party check at various local financial institutions, including check-cashing services.
- **Expectation 1, High School:** Demonstrate skill in basic financial tasks including scheduling bill payments, writing a check, reconciling a checking/debit account statement, and monitoring printed and/or online account statements for accuracy.

National Standards for Financial Literacy

Standard 3: Saving. Saving is the part of income that people choose to set aside for future uses. People save for different reasons during the course of their lives. People make different choices about how they save and how much they save. Time, interest rates, and inflation affect the value of savings.

- **Benchmark 1, Grade 8:** Banks and other financial institutions loan funds received from depositors to borrowers. Part of the interest received from these loans is used to pay interest to depositors for the use of their money.

Standard 5: Financial Investing. Financial investment is the purchase of financial assets to increase income or wealth in the future. Investors must choose among investments that have different risks and expected rates of return. Investments with higher expected rates of return tend to have greater risk. Diversification of investment among a number of choices can lower investment risk.

- **Benchmark 1, Grade 8:** Financial assets include a wide variety of financial instruments including bank deposits, stocks, bonds, and mutual funds. Real estate and commodities are also often viewed as financial assets.

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Lesson 4: Your Budget Plan

Standards and Benchmarks (see page B-41)

Lesson Description

Students work in pairs to participate in a "Track Star" game that illustrates positive and negative spending behaviors. Each pair analyzes the game results, identifies effective and ineffective budgeting behaviors, and generates a list of budgeting principles.

Grade Level

6-12

Concepts

Budget

Expenses

Fixed expenses

Income

Periodic expenses

Variable expenses

Objectives

Students will

- define budget, income, expenses, variable expenses, periodic expenses, and fixed expenses;
- give examples of effective and ineffective budgeting behavior;
- give examples of variable, fixed, and periodic expenses; and
- explain why some emergency savings is important when implementing good budgeting.

Time Required

45 minutes

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Materials

- Handout 4.1, cut into strips
- Handouts 4.2 (copied on 11″ × 17″ paper if desired), 4.3 (copied on colored paper if desired), and 4.4, one copy of each for each pair of students
- Handouts 4.5, one copy for each student and one for the teacher to use as a visual
- Handout 4.5—Answer Key for the teacher
- Handout 4.6, one copy for each student
- Handout 4.6—Answer Key for the teacher
- Scissors for each student
- One calculator for each student

Procedure

1. Distribute a definition strip from *Handout 4.1: Definitions* to three students and instruct each to wait until he or she is called on to read the definition.

2. Write the word **budget** on the board and ask the students to write down three words or phrases that come to mind when they think about that term. Ask students to share answers. (*Answers will vary but may include spending, saving, money, spending plan, or credit.)*

3. Explain that budget may be used as a noun or a verb. Call on the student who has the definition of budget from Handout 4.1 to read the definition aloud to the class.

4. Write the word **income** on the board and ask students what the term means. (*Answers will vary but may include the money one makes, money received, or job pay.*) Call on the student who has the definition of income from Handout 4.1 to read the definition aloud to the class.

5. Write the word **expenses** on the board and ask students what the term means. (*Answers may vary but may include spending money, payments, or costs.*) Call on the student who has the definition of expenses from Handout 4.1 to read the definition aloud to the class.

6. Tell students that they are going to work in pairs to play a board game called Track Star. The objective of the game is to see which of the two players can finish running the track first. Players advance by moving their game piece based on the information on game cards.

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7. Divide students into pairs. Distribute *Handout 4.2: Track Star Game Board* to each pair of students. Tell students that the two competitors in the game are "Jet Stream" and "Whoosh." Each pair is to decide who will be Jet Stream and who will be Whoosh.

8. Distribute to each pair of students two pair of scissors, one copy of *Handout 4.3: Jet Stream's Game Cards,* and one copy of *Handout 4.4: Whoosh's Game Cards*. Tell the students to cut out their character cards and game pieces and then shuffle the cards, being careful not to mix up the individual character's cards, and place them face down on the appropriate spaces on the game board.

9. Explain the directions for playing the game as follows:
   - Whoosh goes first.
   - To play, draw a game card from the top of your character's stack, read it to your partner, follow the directions, and place the used card at the bottom of the stack.
   - If the card drawn instructs the character to move back one or more spaces and the game piece is on the first space, the player should put that card at the bottom of the card stack and draw another card in order to move forward from the start space.
   - Alternate taking turns until someone wins the game by crossing the finish line.
   - If you land on an instruction space, follow the instructions.
   - No player should move farther back than the first space.

10. Tell students to raise their hands when they finish the game. At that time, give each student a copy of *Handout 4.5: Savvy Spending and Saving Principles*. Tell students to develop answers as a pair but both students should record their answers.

11. Allow time for students to complete the handout and then discuss the following:
    - Which expenses did both Whoosh and Jet Stream have in the game? (*A friend's birthday party gift, a flat tire repair, and the increased price of movie tickets*)
    - What do these expenses have in common? (*Answers will vary but may include the following: They are all unexpected expenses. A flat tire repair and the increased price of movie tickets are things over which they have no control. The movie tickets and the birthday gift are optional expenses, but fixing the flat tire is not an optional expense.*)

12. Explain that expenses are often categorized as fixed, variable, or periodic. **Fixed expenses** are expenses that occur each month in a regular amount, such as rent or a car payment. **Variable expenses** are expenses that change from one time period to the next, such as food and gasoline. **Periodic expenses** are expenses that occur several times a year, such as car insurance.

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13. Discuss the following:
    - What are some examples of variable expenses and periodic expenses mentioned in the game? (*Variable expenses: movie, concert, shirt at a concert, and miscellaneous cash expenses; periodic expenses: friend's birthday gift, flat tire, Monster music purchase, and a guitar*)

14. Point out that there were no references to fixed expenses in the game. Discuss the following:
    - What are some examples of fixed expenses for Whoosh and Jet Stream? (*Answers will vary but may include rent or a car payment.*)

15. Display Handout 4.5. Call on students for answers and fill in the visual so that all students will see the answers. See *Handout 4.5: Savvy Spending and Saving Principles—Answer Key* for suggested answers.

16. Discuss the following:
    - Based on the list of successful spending and saving principles, what advice would you give Whoosh? (*Answers will vary but may include the following: Keep track of your expenses, keep receipts, track the money in your bank account, pay bills on time, and save for unexpected and periodic expenses.*)

Closure

17. Review the key points of this lesson by discussing the following:
    - What is budgeting? (*Budgeting is managing one's income and expenses by creating a plan.*)
    - What is income? (*Income is the payment people receive for providing resources in the marketplace. When people work, they provide human resources (labor) and in exchange they receive income in the form of wages or salaries. People also earn income in the forms of rent, profit, and interest.*)
    - What are expenses? (*Expenses are costs incurred for goods and services.*)
    - What are fixed expenses? (*Fixed expenses are expenses that occur each month in a regular amount.*)
    - What are some examples of fixed expenses? (*Rent, a mortgage payment, and a car payment*)
    - What are variable expenses? (*Variable expenses are expenses that change from one time period to the next.*)
    - What are some examples of variable expenses? (*Food, entertainment, gasoline, clothing, and eating out*)
    - What are periodic expenses? (*Periodic expenses are expenses that occur several times a year.*)

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- What are some examples of periodic expenses? (*Gifts for birthdays or other special occasions, health insurance, and car insurance*)
- Why do you think the game board included the following spaces? "Buy friend birthday gift. Move back 1 space." "Flat tire repair. Move back 1 space." "Movie tickets increase in price. Move back 1 space." (*Even savvy spenders/savers like Jet Stream have unexpected and periodic expenses for which they should be prepared if possible.*)
- What are some important principles to keep in mind if you want to be a savvy spender/saver? (*Answers will vary but should include the following: Save before spending. Have an emergency fund. Make informed choices. Plan for periodic expenses. Create a budget and be sure that your expenses don't exceed your income.*)

Assessment

18. Distribute *Handout 4.6: Maria's Story—Assessment* and have students follow the directions to create a budget. (Budgets may vary but expenses should not exceed income.)

19. Optional: Have students exchange their completed Handout 4.6 with another student and instruct them to check each other's budget for Maria, making sure the math is correct and expenses do not exceed income.

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Handout 4.1: Definitions

Budget (noun)

An itemized summary of probable income and expenses for a given period; a plan for managing income, spending, and saving during a given period of time.

Budget (verb)

To plan or manage income and expenses.

Income

The payment people receive for providing resources in the marketplace. When people work, they provide human resources (labor) and in exchange they receive income in the form of wages or salaries. People also earn income in the forms of rent, profit, and interest.

Expenses

Costs incurred for goods and services.

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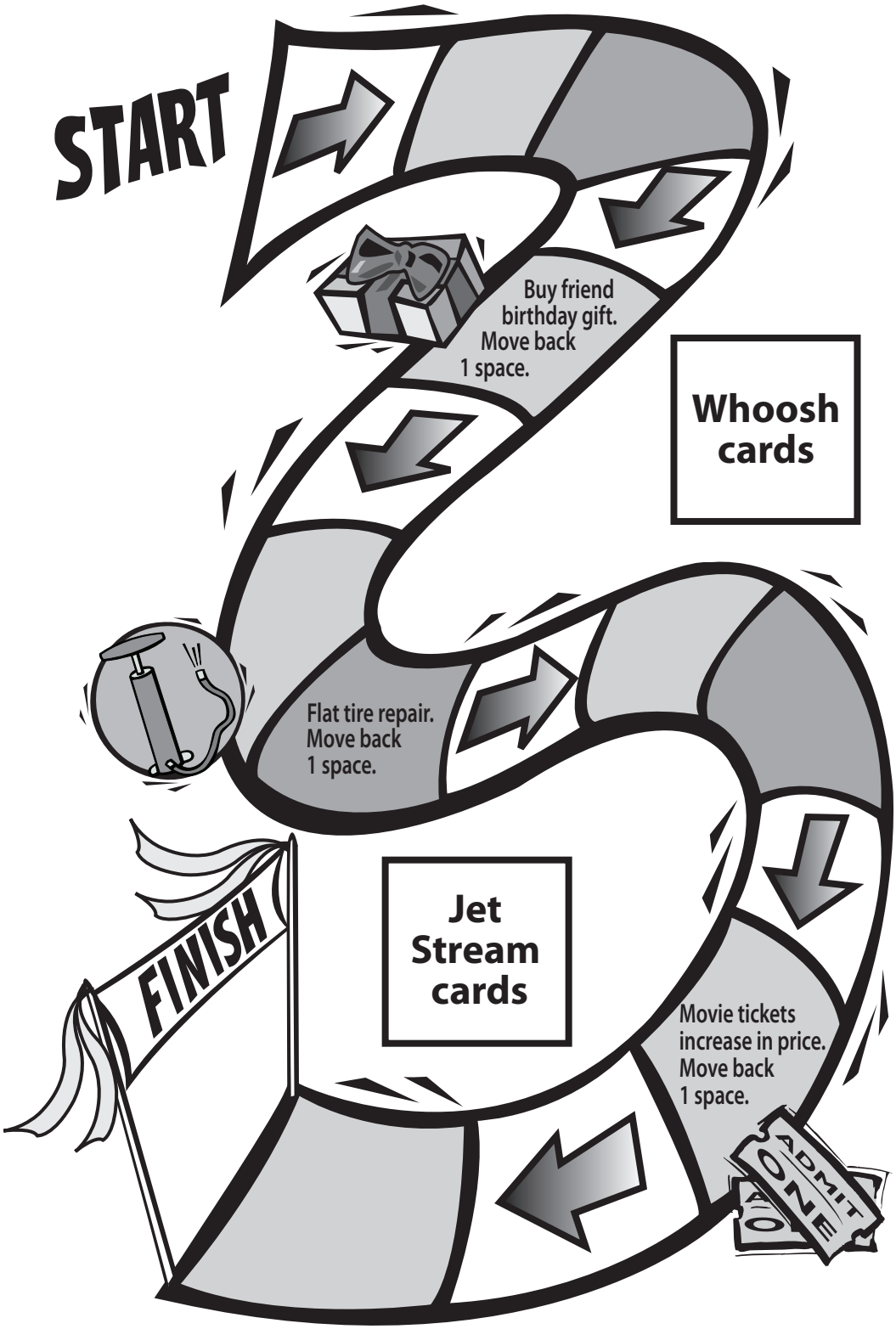
Handout 4.2: Track Star Game Board



NOTE: Game board can be photocopied at 200% to fit on 11″ × 17″ paper.

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Handout 4.3: Jet Stream's Game Cards

	★ You established a savings account and put 10% of your paycheck into that account before spending on other things. Move forward 3 spaces.	★ You put 5% of your paycheck in a fund for unexpected expenses. Move forward 1 space.
★ You elected to receive your paycheck by direct deposit. Move forward 1 space.	★ You waited until you received your first paycheck before you spent your earnings. Move forward 2 spaces.	★ When your expenses were greater than your income, you reworked your budget so that your income was equal to or greater than your expenses. Move forward 3 spaces.
★ You started keeping track of your miscellaneous cash expenditures so that you'd know where your money is going. Move forward 2 spaces.	★ At the end of the month, you compared your actual spending with your budget and noted categories where you overspent. Move forward 2 spaces.	★ Based on your monthly income, you created a budget. Move forward 2 spaces.
★ You received a bill from Monster Music and paid it by the due date. Move forward 2 spaces.	★ You withdrew $20 cash from an ATM, kept the receipt, and recorded the withdrawal. Move forward 2 spaces.	★ You received your monthly bank statement and balanced your checkbook. Move forward 3 spaces.

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Handout 4.4: Whoosh's Game Cards

	You established a savings account and put 10% of your paycheck into that account before spending on other things. Move forward 3 spaces.	You did not put money from your paycheck in a fund for unexpected expenses. Move back 1 space.
You threw away your receipt after withdrawing cash from your ATM and forgot to record it. Move back 2 spaces.	You made a budget based on your gross pay rather than your net pay. Move forward 2 spaces for creating a budget but move back 1 space for basing it on gross pay rather than net pay.	You didn't double-check your math when you created a budget and do not have an accurate amount for your monthly expenses. Move back 2 spaces.
You notice you always run out of cash but have no idea where you spend it—you do not keep track of your miscellaneous cash transactions. Move back 2 spaces.	To stay within your entertainment budget, you didn't purchase any candy or soft drinks while at the movie theatre. Move forward 2 spaces.	You purchased a shirt at a concert without having any money in your budget for this. Move back 1 space.
You received a bill from Instruments Inc. for a guitar you purchased and mailed the payment on the due date. Move back 2 spaces because your payment will be late.	You got $20 cash from the ATM, kept the receipt, and recorded the withdrawal. Move forward 2 spaces.	You received your monthly bank statement but never got around to balancing your account. Move back 3 spaces.

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Handout 4.5: Savvy Spending and Saving Principles

Instructions: Look at Jet Stream's and Whoosh's cards from the Track Star game. Sort the cards into two sets: one that indicates successful spending or saving behavior (i.e., the cards moved play forward) and one that indicates unsuccessful spending or saving behavior (i.e., the cards moved play backward). Use the instructions on the cards to create lists of successful and unsuccessful spending and saving principles or guidelines. For example, for the card that says, "You got $20 cash from your ATM machine, kept the receipt, and recorded the withdrawal. Move forward 2 spaces," you might write "Keep receipts of financial transactions," or "Record all financial transactions."

Successful Spending and Saving Principles	Unsuccessful Spending and Saving Principles

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Handout 4.5: Savvy Spending and Saving Principles—Answer Key

Instructions: Look at Jet Stream and Whoosh's cards from the Track Star game. Sort the cards into two sets: one that indicates successful spending or saving behavior (i.e., the cards moved play forward) and one that indicates unsuccessful spending or saving behavior (i.e., the cards moved play backward). Use the instructions on the cards to create lists of successful and unsuccessful spending and saving principles or guidelines. For example, for the card that says, "You got $20 cash from your ATM machine, kept the receipt, and recorded the withdrawal. Move forward 2 spaces," you might write "Keep receipts of financial transactions," or "Record all financial transactions."

Successful Spending and Saving Principles	Unsuccessful Spending and Saving Principles
Create a budget so your expenses don't exceed your income.	Forget about taxes when estimating the amount of your paycheck.
Don't spend money you don't have.	Don't have a "rainy day" fund for unexpected expenses.
Keep track of your cash expenditures.	Don't worry about recording cash transactions.
Balance your bank accounts.	Don't worry about keeping receipts of financial transactions.
Keep receipts of financial transactions, including ATM withdrawals.	Don't bother to balance your bank accounts. Your bank knows how much money you have, even if you don't.
Establish a savings account and save 10% of your income.	Don't hesitate to make an unplanned purchase. You can always make up that expenditure by cutting back on something else.
Pay your bills on time.	Don't worry about mailing your bill payments in advance of their due dates.
Avoid buying things that aren't in your budget.	Pay all your bills and spend on miscellaneous items before putting money into a savings account.
Save for unexpected expenses.	Don't double-check your math.

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Handout 4.6: Maria's Story—Assessment (page 1 of 2)

Maria is one of your best friends. She keeps complaining that she runs out of money each month before she gets paid and that she isn't able to save any money. She's asked you to help her make a budget based on her income from two part-time jobs. She handed you a crumpled paper with the following record of her expenditures for last month. Before you help her make a budget, help her balance her monthly transactions by filling in the last column on the table below. To obtain the balance, add income and subtract expenditures and withdrawals.

Date	Transaction	Expenditure	Income or Withdrawal	Balance
2/1	Paycheck—direct deposit		$210.20	
2/1	ATM cash & fee		–$21.50	
2/1	Movie and soft drink	$9.50		
2/3	Gasoline	$35.50		
2/5	Music downloads	$17.80		
2/10	Old Army clothes	$43.47		
2/12	ATM cash		–$40.00	
2/15	Jewelry at Clara's	$14.99		
2/16	Paycheck—direct deposit		$200.25	
2/25	Quarterly car insurance payment to parents	$125.50		
2/29	Monthly car payment to parents	$95.00		

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Handout 4.6: Maria's Story—Assessment (page 2 of 2)

Using the information on the previous page, help Maria make a budget so that her expenditures do not exceed her monthly income of $410.45 and she can begin to save some money. Be sure to allocate at least $50 per month for gasoline because Maria has to use her car to get to work. Categorize her expenses appropriately. Use the form below. If your first budget attempt goes over her income, use the second column.

	1st Budget attempt	2nd Budget attempt
Income		
Earnings		
Other (gifts, etc.)		
Total income		
Fixed expenses		
Variable expenses		
Period expenses		
Emergency savings		
Total expenses		
Total income less expenses		

On the back of this page, write a note to Maria explaining what a budget is and what fixed, variable, and periodic expenses are. Explain ways in which Maria might reduce her current expenditures to meet her budget and begin to save. Explain why having an emergency fund is important. Identify at least three savvy spending and saving principles that might help Maria and explain why they would help her.

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Handout 4.6: Maria's Story—Assessment Answer Key

Maria is one of your best friends. She keeps complaining that she runs out of money each month before she gets paid and that she isn't able to save any money. She's asked you to help her make a budget based on her income from two part-time jobs. She handed you a crumpled paper with the following record of her expenditures for last month. Before you help her make a budget, help her balance her monthly transactions by filling in the last column on the table below. To obtain the balance, add income and subtract expenditures and withdrawals.

Date	Transaction	Expenditure	Income or Withdrawal	Balance
2/1	Paycheck—direct deposit		$210.20	$210.20
2/1	ATM cash & fee		–$21.50	$188.70
2/1	Movie and soft drink	$9.50		$179.20
2/3	Gasoline	$35.50		$143.70
2/5	Music downloads	$17.80		$125.90
2/10	Old Army clothes	$43.47		$82.43
2/12	ATM cash		–$40.00	$42.43
2/15	Jewelry at Clara's	$14.99		$27.44
2/16	Paycheck—direct deposit		$200.25	$227.69
2/25	Quarterly car insurance payment to parents	$125.50		$102.19
2/29	Monthly car payment to parents	$95.00		$7.19

NOTE: No answer key is provided for page 2 of the assessment as budgets will vary.

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Standards and Benchmarks

National Standards for Financial Literacy

Standard 2: Buying Goods and Services: People cannot buy or make all the goods and services they want; as a result, people choose to buy some goods and services and not buy others. People can improve their economic well-being by making informed spending decisions, which entails collecting information, planning, and budgeting.

- Benchmark 7, Grade 4: Planning for spending can help people make informed choices. A budget is a plan for spending, saving, and managing income.
- Benchmarks 5, Grade 8: A budget includes fixed and variable expenses, as well as income, savings, and taxes.
- Benchmark 6, Grade 8: People may revise their budget based on unplanned expenses and changes in income.

National Standards in Economics

Standard 13: Income for most people is determined by the market value of the productive resources they sell. What workers earn depends, primarily, on the market value of what they produce.

- Benchmark 2, Grade 8: To earn income, people sell productive resources. These include their labor, capital, natural resources, and entrepreneurial ability.

Common Core State Standards: English Language Arts

Reading: Informational Text

- Key Ideas and Details, Grade 8

CCSS.ELA-Literacy.RI.8.3: Analyze how a text makes connections among and distinctions between individuals, ideas, or events (e.g., through comparisons, analogies, or categories).

- Key Ideas and Details, Grades 9-10

CCSS.ELA-Literacy.RI.9-10.1: Cite strong and thorough textual evidence to support analysis of what the text says explicitly as well as inferences drawn from the text.

Common Core State Standards: Literacy in History/Social Studies, Science, and Technical Subjects

History/Social Studies, Grades 9-10

- Craft and Structure

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.

Science & Technical Subjects, Grades 6-8

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- Key Ideas and Details

CCSS.ELA-Literacy.RST.6-8.2: Determine the central ideas or conclusions of a text; provide an accurate summary of the text distinct from prior knowledge or opinions.

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Lesson 5: Savvy Savers

Standards and Benchmarks (see page B-56)

Lesson Description

Students calculate compound interest to identify benefits of saving in interest-bearing accounts. They learn the "rule of 72" and that it applies to both investments and debt. They apply the rule of 72 to several savings scenario. They learn that there is a relationship between the level of risk for an investment and the potential reward or return on that investment.

Grade Level

6-12

Concepts

Compound interest

Interest

Non-interest-bearing account

Principal

Risk-reward relationship

Rule of 72

Saving

Objectives

Students will

- explain the difference between a non-interest-bearing account and an interest-bearing account,
- calculate interest compounded semiannually,
- explain and demonstrate the rule of 72, and
- describe the risk-reward relationship.

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Time Required

45 minutes

Materials

- Handouts 5.1, 5.2, and 5.3, one copy of each for each student
- Handout 5.1—Answer Key, one copy for the teacher to use as a visual
- Handout 5.2—Answer Key, one copy for the teacher to use as a visual
- Handout 5.3—Answer Key, one copy for the teacher to use as a visual
- One calculator for each student

Procedure

1. Begin by asking students the following:
   - What does it mean to be a saver? (*Answers may vary but may include purposely setting aside money to spend later, not spending all of your income, having money left after paying expenses, or having income greater than expenses.*)
   - What do you suppose it means to be a savvy saver? (*Answers may vary but may include being a smart saver, knowing about places to save one's money, or knowing about different types of savings accounts.*)

2. Explain that **saving** is not spending on current consumption or taxes. Distribute a copy of *Handout 5.1: Maria's Savings Decision* to each student. Explain that the students will likely realize the difference between a saver and a savvy saver when they examine Maria's story. Call on a student to read aloud the Introduction on Handout 5.1.

3. Explain the following:
   - A **non-interest-bearing account**, also called a zero-interest account, is one in which no interest is paid on the **principal**. Principal is the original amount of money deposited or invested, excluding any interest.
   - **Interest** is the price of using someone else's money. When people place their money in a bank, the bank uses the money to make loans to others. In return, the bank pays the account holder interest. There are various types of interest-bearing accounts that vary by the amount of interest paid and how often interest is paid.
   - **Compound interest** is interest computed on the sum of the original principal and accrued (accumulated or earned) interest. For example, an account that pays 5 percent interest "compounded semiannually" means that every six months ½ of 5 percent interest—that is, 2.5 percent interest—is paid on the principal and any accrued interest.

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4. Show students how to calculate 5 percent interest compounded semiannually by working through numbers 1 through 3 on Handout 5.1. (Refer to *Handout 5.1: Maria's Savings Decision—Answer Key* for answers.)

5. Distribute a calculator to each student and instruct students to complete number 4 on Handout 5.1 on their own.

6. Display Handout 5.1—Answer Key and review the answers to number 4.

7. Discuss the following:
   - What could Maria have bought with the $50.63 of interest she might have earned on her savings? (*Answers will vary.*)
   - Would Maria classify as a saver or a savvy saver? (*Saver*) Why? (*She didn't invest her money in a way that would give her a return on her investment—that is, an account that would pay her interest on her principal.*)
   - Why might Maria have kept her $1,000 in a non-interest-bearing account rather than putting it in an interest-bearing account? (*Answers may vary but may include that she was financially lazy—not proactive—or that she may not understand the importance of compound interest.*)
   - Imagine that instead of $1,000, Maria's grandmother had given her $10,000. After three years, how much interest would $10,000 have earned with an account that pays 5 percent interest compounded semiannually? (*$1,596.93*)
   - Why is time—that is, the number of months you have your money in an interest-bearing account—a very important factor in accumulating savings? (*Answers may vary but should include that the sooner you start saving, the sooner you start earning interest—not only on your principal but also on accrued interest. Your money works for you over time.*)

8. Ask students to raise their hands if they would like their savings to double over a period of years. (*Most students will likely want their savings to double.*) Discuss the following:
   - How long would it take for Maria's $1,000 to double if she kept the money in a non-interest-bearing account? (*It would never double.*)
   - How long do you think it will take for Maria's $1,000 to double if she puts the money in a savings account that pays compound interest? (*Answers will vary.*)

9. Explain that the **rule of 72** is a method to estimate the number of years it will take for a financial investment (or debt) to double in value at a given annual interest rate. You divide 72 by the interest rate to determine the approximate number of years it will take the investment (or debt) to double in value.

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10. Share and explain the following:
    - For example, consider a savings account with a 5 percent annual interest rate: 72 ÷ 5 = 14.4. The principal in this savings account will double in a little over 14 years.
    - The rule of 72 assumes people leave their money in an account without taking away from it or adding to it. It is not an exact number, but it serves as a good estimate.

11. Distribute a copy of *Handout 5.2: The Rule of 72* to each student and instruct them to complete the handout by following the directions. When students have completed Handout 5.2, display *Handout 5.2: The Rule of 72—Answer Key* to review the answers.

12. Discuss the following:
    - Does the amount of interest an account pays have much of an impact on how long it will take for your money to double? (*Yes. The higher the interest rate, the less time it will take for your money to double.*)
    - Interest rates vary over time, but savings accounts are considered a safe place to save your money because for most savings accounts your principal is guaranteed—it cannot go down. Savings accounts generally pay interest annually in the 0.5 percent to 1.5 percent range, depending on current financial conditions in the economy. This reflects the risk-reward relationship.
    - The **risk-reward relationship** is the idea that there is a direct relationship between risk of the loss of principal and the expected rate of return. The higher the risk of loss of principal for an investment, the greater the potential reward. Conversely, the lower the risk of loss of principal for an investment, the lower the potential reward. Therefore, savings accounts are considered very low risk; so their reward as compared with other investment options, is a relatively low yield, or interest rate.
    - The rule of 72 applies not only to investments but also to debt, because it shows approximately how fast your debt will double at a given interest rate.
    - What annual interest rate do credit cards charge? (*Interest rates on credit cards vary over time and under different financial conditions in the economy, but generally credit cards charge a relatively high interest rate.*) Point out that credit cards can charge high rates because credit card companies bear a risk when loaning funds to their cardholders.
    - If a credit card charges an 18 percent annual interest rate, approximately how long would it take for your debt to double if you made no payment on the debt? (*4 years; 72 ÷ 18 = 4*)

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Closure

13. Review the key points of this lesson by discussing the following:
    - What is a non-interest-bearing account? (*A non-interest-bearing account is one that pays no interest on the principal.*)
    - What is interest? (*Interest is the price of using someone else's money.*)
    - What is compound interest? (*Compound interest is interest computed on the original principal and accrued interest.*)
    - What interest rate would a savings account or a low-risk investment likely pay—would it be a low, medium, or high interest rate—and why? (*They would each pay a low interest rate because of the risk-reward relationship.*)
    - What does the rule of 72 estimate? (*The rule of 72 estimates the number of years it will take for a financial investment—or debt—to double in value at a given annual interest rate.*)

Assessment

14. Give each student a copy of *Handout 5.3: Charlie's Financial Goal* and tell them to follow the instructions on the handout. Allow time for students to complete the handout and then display *Handout 5.3: Charlie's Financial Goal—Answer Key* to review students' answers.

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Handout 5.1: Maria's Savings Decision (page 1 of 2)

Introduction: One year ago, Maria received $1,000 from her grandmother with instructions to save it for college two years from now. She deposited the money in her checking account, which pays her no interest. She had considered putting the $1,000 in a savings account that paid 5 percent interest compounded semiannually, but she never got around to it. How much money did Maria lose by leaving her $1,000 in a non-interest-bearing account for 12 months? Follow the steps below to find the answer.

1. Interest compounded semiannually is added to the principal in an account every six months. Follow the steps to calculate interest compounded semiannually, and write the answers in the chart below:

   Step 1: Convert the annual interest rate to a decimal. In this case, 5 percent becomes 0.05.

   Step 2: Divide the annual interest rate (as a decimal) by 2 to determine the interest paid every six months. In this case, (0.05 ÷ 2) = 0.025. (So, for this scenario, every six months the saver would receive 0.025 percent interest on the principal and on any accumulated interest.)

   Step 3: Multiply the principal (plus any accrued interest) by the interest rate to get the amount paid in dollars. Round to the nearest hundredth (for example, $25.625 = $25.63). (Note that the principal will change each time interest accrues.)

   Step 4: Add principal and interest to get the new principal.

   Step 5: Repeat steps 2 and 3 to calculate interest and principal for each six-month time period.

Months	Principal (p)	Interest rate (i)	p + i
6	$1,000.00		
12			

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Handout 5.1: Maria's Savings Decision (page 2 of 2)

2. Fill in the following chart for Maria's two savings options.

Type of account	Original principal	Interest after 12 months	Total principal and interest after 12 months
Zero-interest checking account	$1,000.00		
Savings account with 5% interest compounded semiannually	$1,000.00		

3. Maria lost $_____ by keeping her money in a non-interest-bearing account rather than putting it in an account that paid a 5 percent interest rate compounded semiannually.

4. Complete the chart by using the information from question 1 for months 6 and 12 and then calculate the interest paid at 18 months, 2 years, and 3 years for an account that pays a 5 percent interest rate compounded semiannually. Round to the nearest hundredth. Remember that the principal will change each time interest accrues.

Months	Principal (p)	Interest rate (i)	p + i
6	$1,000.00	$	$
12	$	$25.63	$
18	$	$	$
24 (2 years)	$1,076.90	$	$
30	$	$27.60	$
36 (3 years)	$	$	$

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Handout 5.1: Maria's Savings Decision—Answer Key (page 1 of 2)

Introduction: One year ago, Maria received $1,000 from her grandmother with instructions to save it for college two years from now. She deposited the money in her checking account, which pays her no interest. She had considered putting the $1,000 in a savings account that paid 5 percent interest compounded semiannually, but she never got around to it. How much money did Maria lose by leaving her $1,000 in a non-interest-bearing account for 12 months? Follow the steps below to find the answer.

1. Interest compounded semiannually is added to the principal in an account every six months. Follow the steps to calculate interest compounded semiannually, and write the answers in the chart below:

   Step 1: Convert the annual interest rate to a decimal. In this case, 5 percent becomes 0.05.

   Step 2: Divide the annual interest rate (as a decimal) by 2 to determine the interest paid every six months. In this case, (0.05 ÷ 2) = 0.025. (So, for this scenario, every six months the saver would receive 0.025 percent interest on the principal and on any accumulated interest.)

   Step 3: Multiply the principal (plus any accrued interest) by the interest rate to get the amount paid in dollars. Round to the nearest hundredth (for example, $25.625 = $25.63). (Note that the principal will change each time interest accrues.)

   Step 4: Add principal and interest to get the new principal.

   Step 5: Repeat steps 2 and 3 to calculate interest and principal for each six-month time period.

Months	Principal (p)	Interest rate (i)	p + i
6	$1,000.00	*$25.00*	*$1,025.00*
12	*$1,025.00*	*$25.63*	*$1,050.63*

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Handout 5.1: Maria's Savings Decision—Answer Key (page 1 of 2)

2. Fill in the following chart for Maria's two savings options.

Type of account	Original principal	Interest after 12 months	Total principal and interest after 12 months
Zero-interest checking account	$1,000.00	*$0*	*$1,000.00*
Savings account with 5% interest compounded semiannually	$1,000.00	*$50.63*	*$1,050.63*

3. Maria lost $__*$50.63*__ by keeping her money in a non-interest-bearing account rather than putting it in an account that paid a 5 percent interest rate compounded semiannually.

4. Complete the chart by using the information from question 1 for months 6 and 12 and then calculate the interest paid at 18 months, 2 years, and 3 years for an account that pays a 5 percent interest rate compounded semiannually. Round to the nearest hundredth. Remember that the principal will change each time interest accrues.

Months	Principal (p)	Interest rate (i)	p + i
6	$1,000.00	*$25.00*	*$1,025.00*
12	*$1,025.00*	$25.63	*$1,050.63*
18	*$1,050.63*	*$26.27*	*$1,076.90*
24 (2 years)	$1,076.90	*$26.92*	*$1,103.82*
30	*$1,103.82*	$27.60	*$1,131.42*
36 (3 years)	*$1,131.42*	*$28.29*	*$1,159.71*

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Handout 5.2: The Rule of 72

Directions: The rule of 72 is a method to estimate the number of years it will take for a financial investment, including savings, to double in value at a given annual interest rate. You divide 72 by the interest rate to determine the approximate number of years it will take the investment to double in value. For each bar below, begin at 0 years and shade in the bar horizontally to indicate the number of years it would take for money to double at the noted annual interest rate. Please use a pencil.

Your money will double in…	0 years	10 years	20 years	30 years	40 years	50 years
If your interest rate is…						
2% (72 ÷ 2)						
4% (72 ÷ 4)						
6% (72 ÷ 6)						
8% (72 ÷ 8)						
12% (72 ÷ 12)						

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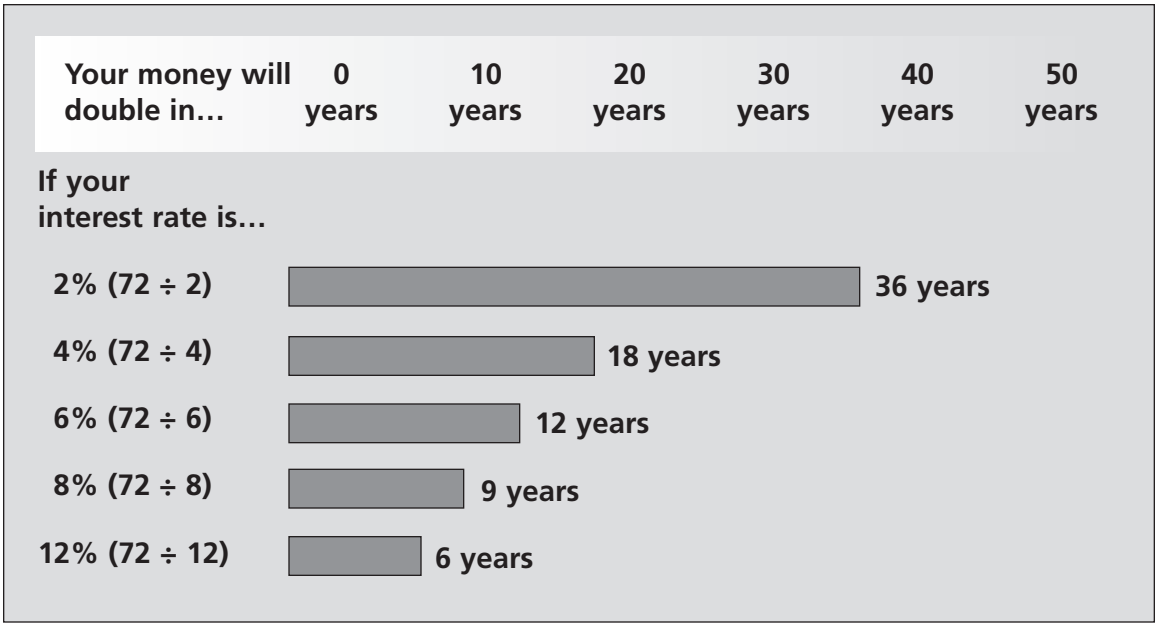
Handout 5.2: The Rule of 72—Answer Key

Directions: The rule of 72 is a method to estimate the number of years it will take for a financial investment, including savings, to double in value at a given annual interest rate. You divide 72 by the interest rate to determine the approximate number of years it will take the investment to double in value. For each bar below, begin at 0 years and shade in the bar horizontally to indicate the number of years it would take for money to double at the noted annual interest rate. Please use a pencil.



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Handout 5.3: Charlie's Financial Goal

1. Charlie is saving to buy a car a year and a half from today. He has $12,000 in a savings account with a 2 percent interest rate compounded quarterly. How much will Charlie have in his savings account after 18 months? Calculate his balance in the chart below. Round to the nearest hundredth.

Months	Principal (p)	Interest rate (i)	p + i
3	$12,000.00		
6			
9			
12			
15			
18			

2. How long will it take Charlie's money to double with a 2 percent interest rate compounded quarterly? _____

3. Charlie wants to explain the risk-reward relationship to his nephew, who is a sophomore in high school. If you were Charlie, how would you explain this relationship?

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Handout 5.3: Charlie's Financial Goal—Answer Key

1. Charlie is saving to buy a car a year and a half from today. He has $12,000 in a savings account with a 2 percent interest rate compounded quarterly. How much will Charlie have in his savings account after 18 months? Calculate his balance in the chart below. Round to the nearest hundredth.

Months	Principal (p)	Interest rate (i)	p + i
3	$12,000.00	*$60.00*	*$12,060.00*
6	*$12,060.00*	*$60.30*	*$12,120.30*
9	*$12,120.30*	*$60.60*	*$12,180.90*
12	*$12,180.90*	*$60.90*	*$12,241.80*
15	*$12,241.80*	*$61.21*	*$12,303.01*
18	*$12,303.01*	*$61.52*	*$12,264.53*

2. How long will it take Charlie's money to double with a 2 percent interest rate compounded quarterly? (*36 years*)

3. Charlie wants to explain the risk-reward relationship to his nephew, who is a sophomore in high school. If you were Charlie, how would you explain this relationship? (*When you invest your money, the higher the risk of loss of principal for an investment, the higher the potential reward. So, relatively safe places to put your money—in a savings account at a bank, for example—yield a relatively low reward because the risk of losing your principal is very low.*)

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Standards and Benchmarks

National Standards in Economics

Standard 12: Interest rates, adjusted for inflation, rise and fall to balance the amount saved with the amount borrowed, which affects the allocation of scarce resources between present and future uses.

- Benchmark 1, Grade 8: An interest rate is a price of money that is borrowed or saved.

National Standards in Personal Finance

Saving and Investing Overall Competency: Implement a diversified investment strategy that is compatible with personal goals.

Standard 1: Discuss how saving contributes to financial well-being.

- Expectation 2, 12th Grade: Identify and compare saving strategies, including "paying yourself first," using payroll deduction, and comparison shopping to spend less.

Standard 3: Evaluate investment alternatives.

- Expectation 2, 12th Grade: Compare the risks and returns of various investments.

Common Core Standards: Reading Standards for Literacy in History/Social Studies, Science, and Technical Subjects, Grades 6-12

History and Social Studies

- Key Ideas and Details

  CCSS.ELA-Literacy.RH.6-8.3: Identify key steps in a text's description of a process related to history/social studies (e.g., how a bill becomes law, how interest rates are raised or lowered).

- Craft and Structure

  CCSS.ELA-Literacy.RH.6-8.4: Determine the meaning of words and phrases as they are used in a text, including vocabulary specific to domains related to history/social studies.

  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.RH.11-12.4: Determine the meaning of words and phrases as they are used in a text, including analyzing how an author uses and refines the meaning of a key term over the course of a text (e.g., how Madison defines *faction* in *Federalist* No. 10).

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- Integration of Knowledge and Ideas

  CCSS.ELA-Literacy.RH.6-8.7: Integrate visual information (e.g., in charts, graphs, photographs, videos, or maps) with other information in print and digital texts.

  CCSS.ELA-Literacy.RH.9-10.7: Integrate quantitative or technical analysis (e.g., charts, research data) with qualitative analysis in print or digital text.

  CCSS.ELA-Literacy.RH.11-12.7: Integrate and evaluate multiple sources of information presented in diverse formats and media (e.g., visually, quantitatively, as well as in words) in order to address a question or solve a problem.

Writing

- Text Types and Purposes

  CCSS.ELA-Literacy.WHST.6-8.1: Write arguments focused on *discipline-specific content*.

  CCSS.ELA-Literacy.WHST.6-8.1B. Support claim(s) with logical reasoning and relevant, accurate data and evidence that demonstrate an understanding of the topic or text, using credible sources.

  CCSS.ELA-Literacy.WHST.6-8.1C. Use words, phrases, and clauses to create cohesion and clarify the relationships among claim(s), counterclaims, reasons, and evidence.

  CCSS.ELA-Literacy.WHST.6-8.1E. Provide a concluding statement or section that follows from and supports the argument presented.

  CCSS.ELA-Literacy.WHST.6-8.2: Write informative/explanatory texts, including the narration of historical events, scientific procedures/experiments, or technical processes.

  CCSS.ELA-Literacy.WHST.6-8.2B. Develop the topic with relevant, well-chosen facts, definitions, concrete details, quotations, or other information and examples.

  CCSS.ELA-Literacy.WHST.6-8.2C. Use appropriate and varied transitions to create cohesion and clarify the relationships among ideas and concepts.

  CCSS.ELA-Literacy.WHST.6-8.2D. Use precise language and domain-specific vocabulary to inform about or explain the topic.

  CCSS.ELA-Literacy.WHST.6-8.2F. Provide a concluding statement or section that follows from and supports the information or explanation presented.

  CCSS.ELA-Literacy.WHST.9-10.1: Write arguments focused on *discipline-specific content*.

  CCSS.ELA-Literacy.WHST.9-10.1A: Introduce precise claim(s), distinguish the claim(s) from alternate or opposing claims, and create an organization that establishes clear relationships among the claim(s), counterclaims, reasons, and evidence.

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CCSS.ELA-Literacy.WHST.9-10.1C: Use words, phrases, and clauses to link the major sections of the text, create cohesion, and clarify the relationships between claim(s) and reasons, between reasons and evidence, and between claim(s) and counterclaims.

CCSS.ELA-Literacy.WHST.9-10.1E: Provide a concluding statement or section that follows from or supports the argument presented.

CCSS.ELA-Literacy.WHST.9-10.2: Write informative/explanatory texts, including the narration of historical events, scientific procedures/experiments, or technical processes.

CCSS.ELA-Literacy.WHST.9-10.2B: Develop the topic with well-chosen, relevant, and sufficient facts, extended definitions, concrete details, quotations, or other information and examples appropriate to the audience's knowledge of the topic.

CCSS.ELA-Literacy.WHST.9-10.2C: Use varied transitions and sentence structures to link the major sections of the text, create cohesion, and clarify the relationships among ideas and concepts.

CCSS.ELA-Literacy.WHST.9-10.2D: Use precise language and domain-specific vocabulary to manage the complexity of the topic and convey a style appropriate to the discipline and context as well as to the expertise of likely readers.

CCSS.ELA-Literacy.WHST.9-10.2F: Provide a concluding statement or section that follows from and supports the information or explanation presented (e.g., articulating implications or the significance of the topic).

CCSS.ELA-Literacy.WHST.11-12.1: Write arguments focused on *discipline-specific content*.

CCSS.ELA-Literacy.WHST.11-12.1B: Develop claim(s) and counterclaims fairly and thoroughly, supplying the most relevant data and evidence for each while pointing out the strengths and limitations of both claim(s) and counterclaims in a discipline-appropriate form that anticipates the audience's knowledge level, concerns, values, and possible biases.

CCSS.ELA-Literacy.WHST.11-12.1C: Use words, phrases, and clauses as well as varied syntax to link the major sections of the text, create cohesion, and clarify the relationships between claim(s) and reasons, between reasons and evidence, and between claim(s) and counterclaims.

CCSS.ELA-Literacy.WHST.11-12.1E: Provide a concluding statement or section that follows from or supports the argument presented.

CCSS.ELA-Literacy.WHST.11-12.2: Write informative/explanatory texts, including the narration of historical events, scientific procedures/experiments, or technical processes.

CCSS.ELA-Literacy.WHST.11-12.2B: Develop the topic thoroughly by selecting the most significant and relevant facts, extended definitions, concrete details, quotations, or other information and examples appropriate to the audience's knowledge of the topic.

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CCSS.ELA-Literacy.WHST.11-12.2C: Use varied transitions and sentence structures to link the major sections of the text, create cohesion, and clarify the relationships among complex ideas and concepts.

CCSS.ELA-Literacy.WHST.11-12.2D: Use precise language, domain-specific vocabulary and techniques such as metaphor, simple, and analogy to manage the complexity of the topic; convey a knowledgeable stance in a style that responds to the discipline and context as well as to the expertise of likely readers.

CCSS.ELA-Literacy.WHST.11-12.2E: Provide a concluding statement or section that follows from and supports the information or explanation provided (e.g., articulating implications or the significance of the topic).

- Production and Distribution of Writing

CCSS.ELA-Literacy.WHST.6-8.4: Produce clear and coherent writing in which the development, organization, and style are appropriate to task, purpose, and audience.

CCSS.ELA-Literacy.WHST.9-10.4. Produce clear and coherent writing in which the development, organization, and style are appropriate to task, purpose, and audience.

CCSS.ELA-Literacy.WHST.11-12.4: Produce clear and coherent writing in which the development, organization, and style are appropriate to task, purpose, and audience.

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Lesson 6: Credit Reports—and You Thought Your Report Card Was Important

Standards and Benchmarks (see page C-15)

Lesson Description

Students read informational text and discuss the advantages and disadvantages of using credit and the importance of maintaining a good credit history. Students read a scenario about a young person's use of a credit card and answer questions regarding repayment. Students learn about credit history, credit reports, and the three credit bureaus. Students read a scenario and write an essay addressing the key points of the lesson.

Grade Level

6-12

Concepts

Credit

Creditor

Credit cards

Credit history

Credit report

Interest

Interest rate

Objectives

Students will

- define credit and creditor,
- define interest and interest rate,
- compare the advantages and disadvantages of using credit,

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- identify the three credit bureaus,
- explain the importance of maintaining a good credit history, and
- identify features on a credit report.

Time Required

60-75 minutes

Materials

- Visual 6.1
- Visual 6.1, one copy for each student (optional)
- Visual 6.2
- Visual 6.2, one copy for each student (optional)
- Visual 6.3
- Handout 6.1, one copy for each student
- Handout 6.2, one copy for each student

Procedure

1. Begin the lesson by asking the following question:
   - How would you obtain goods or services if you did not have any money? (*Answers will vary but may include borrowing from family or friends, saving, or using a credit card.*)

2. Explain that in today's lesson students will analyze the advantages and disadvantages of using **credit** and possible future effects of using credit.

3. Distribute *Handout 6.1: Facts About Credit* to each student. Divide students into pairs. Instruct the pairs to work together to read the handout and answer the questions at the bottom. Discuss students' answers:
   a. What is credit? (*Credit is the granting of money or something else of value in exchange for a promise of future repayment.*)
   b. What are some advantages of using credit? (*Buying and using things now while paying for them in the future, buying more expensive items you could not afford to pay for all at once; in the case of credit cards: convenience, not having to carry cash, being able to pay for things in an emergency, having your expenditures tracked, being able to spend in an emergency, and possibly receiving perks from your credit card company [e.g., cash back or travel rewards]*)

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c. What are some disadvantages of using credit? (*Spending money you don't have; ease of overextending yourself and buying more than you can afford; regarding loans—and credit cards if you do not pay the full balance each month: paying more than you would if you paid cash; having a greater likelihood of identity theft; and if you use credit poorly, the inability to get future credit or the loss of opportunities*)

d. What is a **credit card**? (*A credit card is a convenient form of borrowing with a revolving line of credit. This means that the card can be used repeatedly to buy products or services, up to a specific dollar amount called a credit limit.*)

e. What is **credit history**? (*Credit history is a report of a person's payment activity over a period of time. A person's credit history is listed in a* ***credit report***.)

f. Why is it important to maintain a good credit history? (*A good credit history makes it easier for you to obtain credit in the future. Generally, those with a good credit history are able to pay lower* ***interest rates*** *for credit. Also, your credit history can affect your ability to rent a house or apartment or get a job.*)

g. How do **creditors** determine a person's credit history? (*Creditors pay a fee to one of the three credit bureaus to receive that person's credit report.*)

h. What are the three credit bureaus? (*Experian, TransUnion, and Equifax*)

i. How can you check your credit reports? (*You can request a free copy of your credit report from each credit bureau annually.*)

j. Why is it a good idea to check your credit reports each year? (*To correct errors and to identify any fraudulent activities*)

4. Display *Visual 6.1: Credit Costs*. Have a student read the paragraph and then discuss the following:

- What interest rate was Katarina charged for using the credit card? (*21 percent*)
- Point out that an interest rate is the percentage of the amount of a loan that is charged for the loan.
- Once Katarina pays off the sound system, how much **interest** will she have paid? (*$197.00 [$697.00 – $500.00 = $197.00]*)
- What could Katarina have done to reduce the amount of interest she paid? (*Answers will vary but may include that she could have paid more than the minimum payment each month or obtained a lower interest rate.*)
- Point out that if Katarina had paid only $10 more each month, she would have made only 31 payments and would have spent only $605 for the $500 sound system.
- How might missing a payment affect Katarina's ability to get credit in the future? (*Creditors look at credit history, so not paying bills on time could negatively affect Katarina's ability to get credit in the future.*)

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5. Display *Visual 6.2: Consumer Credit Report* and (if desired) distribute a copy to each student. Discuss the following:
   - Section "A" of the credit report contains information about the consumer, including name, address, and employment.
   - Section "B" contains information about each credit account in the consumer's name, including the name of each creditor. A creditor is a person, financial institution, or business that lends money.
   - What are the credit accounts recorded on Mikhail's credit report? (*Monster Music, Our Town Bank, and Sallie Mae*)
   - There are circles, squares, and triangles under each account. A solid triangle (▲) indicates a payment at least 30 days late. Two years ago Mikhail was at least 30 days late with his February and March payments for Monster Music.
   - What does an open square (□) indicate? (*Not applicable*)
   - Notice that all of the squares are blank under the Sallie Mae loan; it is a student loan, and Mikhail does not have to start repaying it until he finishes school.
   - What does a solid circle (●) indicate? (*A payment at least 60 days late*)
   - Has Mikhail been 60 days late with any payments? (*No*)
   - What does a solid square (■) indicate? (*A payment at least 90 days late*)
   - Notice that Mikhail has not been 90 days late with any payments either.
   - Section "C" contains a list of publicly available information about legal matters affecting the consumer's credit. There is nothing listed here in Mikhail's report. If he had filed for bankruptcy, that information would have appeared in section C.
   - Section "D" contains a list of creditors that have inquired about the consumer's credit history. Creditors inquire about a consumer's credit history before granting the consumer credit. Mikhail's creditors are listed in this section.
   - A landlord will inquire about a consumer's credit before renting that consumer an apartment or house. This inquiry would appear here, too.
   - An employer may inquire about a potential employee's credit history. This inquiry would appear on the report as well.
   - It is also possible to see a creditor listed that did not grant credit but reviewed the credit report.
6. Display *Visual 6.3: Keys to a Solid Credit History (and Saving Money)*. Remind students that even they should be concerned about their individual credit histories. Discuss the following key principles and steps to establishing and maintaining a good credit history.
   - **Establish a credit history.**
     - For example, open a bank account or purchase a cell phone contract.

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- **Pay *all* your bills on time each month.**
  - Payments 30 days or more late will be noted on your credit reports.
  - You will avoid expensive late fees if you pay your bills on time.
- **Pay all your bills in full each month.**
  - The less you owe, the better your credit history will look to potential creditors.
  - You will avoid interest charges if you pay all your bills in full each month.
- **Don't open too many credit card accounts.**
  - Every credit card account you have appears on your credit reports.
  - Even if you don't use a credit account that appears on your credit reports, creditors will consider how much you could potentially spend if you used all of your accounts.
- **Monitor your credit card usage.**
  - Check your monthly credit card statements to make sure that you have not been charged for something you did not purchase. If you have, call the credit card company immediately. Your credit card—or at least your account number—may have been stolen.
  - Evaluate the interest you are charged each month (if you do not pay your credit cards in full each month) and create a plan so you can pay down your debt and then pay off your cards in full each month.
- **Check your credit reports each year.**
  - Request a free copy of your credit report from each of the three credit bureaus annually.
  - Clear up any inaccuracies on your credit reports.

Closure

7. Review the key points of the lesson by discussing the following:
   - What is credit? (*Credit is the granting of money or something else of value in exchange for a promise of future repayment.*)
   - Who are creditors? (*Creditors are people, financial institutions, or businesses that lend money.*)
   - What is interest? (*Interest is the price of using someone else's money; it is the price of credit.*)
   - What are some of the advantages of using credit? (*Answers will vary but should include the following: convenience, buying and using things now while paying for them later, buying more expensive items you couldn't afford to pay for all at once, not having to carry cash, being able to pay for things in an emergency, having your expenditures tracked, and possibly receiving perks from the credit card company [e.g., cash back or travel rewards].*)

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- What are some of the disadvantages of using credit? (*Answers will vary but should include the following: spending money you don't have; ease of overextending yourself and buying more than you can afford; if you do not pay your bill in full each month, paying more than you would if you paid cash; having a greater likelihood of identity theft; and if you use credit poorly, the inability to get future credit or the loss of opportunities*)
- Why is it best to pay your credit card balance in full every month? (*The less you owe, the better your credit history will look to potential creditors. You will avoid paying large amounts of interest.*)
- If you can't pay the entire balance each month, what should you do? (*You should make the largest payment possible to avoid larger interest payments.*)
- What is a credit history? (*A credit history is a record of a person's payment activity or behavior over a period of time.*)
- Why is it important to establish and maintain a good credit history? (*Your credit history affects many aspect of your life. A poor credit history results in higher interest and difficulty obtaining credit in the future. It can also prevent you from renting an apartment or even getting a job.*)
- What is a credit report? (*A credit report is a loan and bill payment history kept by a credit bureau.*)
- How are credit reports used by financial institutions and other potential creditors? (*They review credit reports of potential borrowers to determine the likelihood that a future debt will be repaid and may or may not grant credit.*)
- What is a credit bureau? (*A credit bureau is an organization that compiles credit information on individuals and makes it available to businesses for a fee.*)
- What are the three credit bureaus? (*Equifax, Experian, and TransUnion*)

Assessment

8. Distribute a copy *Handout 6.2: Credit Assessment* to each student. Review the directions and allow time for students to work. Use *Handout 6.2: Credit Assessment—Answer Key* to review students' work.

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Visual 6.1: Credit Costs

Katarina Smavern is 18 and wants a new sound system that costs $500. She doesn't have that much money saved. Her friend tells her, though, about a credit card promotion at a local electronics store. Katarina heads to the store and opens an account—she can buy the sound system and take it home with her that day. She is so excited that she doesn't give much thought to the 21 percent interest rate. "I have a job now," she thinks to herself, "So, I'll be able to pay this off in no time. The interest rate doesn't really matter because the minimum monthly payment isn't very much." Katarina buys the sound system, takes it home, and pays only the minimum payment due each month.

Credit card summary for sound system purchased on January 24, 2014

Month 1	
Initial credit card balance	$500.00
Minimum payment due	–$25.00*
Interest charged (grace period)	0
Month 2	
Credit card balance	**$475.00**
Minimum payment due	–$23.75*
Interest charged: 21% × ($475/12) =	+$8.31
Month 3	
Credit card balance	**$459.56**
Minimum payment due	–$22.98*
Interest charged: 21% × ($459.56/12) =	+$8.04
3-month overview	
Credit card balance at the end of three months	**$444.62**
Amount repaid: $25.00 + $23.75 + $22.98 =	$71.73
Amount by which debt was reduced: $500.00 – $444.62 =	$55.38
Amount paid to credit card company in interest charges: $8.31 + $8.04 =	$16.35

*As the balance owed on the credit card changes, the minimum monthly payment changes. In this case, the balance is becoming slightly smaller, so the minimum monthly payment is slightly less.

If Katarina continues to make only the minimum monthly payments, she will have to make 52 payments and spend $697.

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Visual 6.2: Consumer Credit Report

A

Consumer Information		**Date of Report: 2/3/2014**
Name:	**Mikhail Turner**	**SSN:** 123-45-6789
Spouse:	N/A	**Date of Birth:** 1/1/92
Current Address		**Previous Address**
321 Any Street		123 Main Street
Our Town, USA		Our Town, USA

Employment Data

Employer Name:	ABC Mart	**Employer Name:**	N/A
Location:	Our Town	**Location:**	N/A
Date Hired:	1/11/10	**Date Hired:**	N/A

B

Account History Information

Monster Music	**Balance:**	$85.78	**Pay Status:**	As Agreed
Our Town, USA	**High Balance:**	$500.00	**Loan Type:**	Credit card
	Credit Limit:	$500.00	**Date Opened:**	1/24/10
	Past Due:	$0		

Two-Year Payment History:

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
○	○	○	○	○	○	○	○	○	○	○	○
○	▲	▲	○	○	○	○	○	○	○	○	○

Our Town Bank	**Balance:**	$1,900	**Pay Status:**	As Agreed
Our Town, USA	**High Balance:**	$4,500	**Loan Type:**	Automobile
	Credit Limit:	N/A	**Date Opened:**	1/3/12
	Past Due:	$0		

Two-Year Payment History:

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
○	○	○	○	○	○	○	○	○	○	○	○
○	○	○	○	○	○	○	○	○	○	○	○

Sallie Mae	**Balance:**	$5,000	**Pay Status:**	As Agreed
Washington, DC	**High Balance:**	$5,000	**Loan Type:**	Educational
	Credit Limit:	N/A	**Date Opened:**	8/5/12
	Past Due:	N/A		

Two-Year Payment History:

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
□	□	□	□	□	□	□	□	□	□	□	□
□	□	□	□	□	□	□	□	□	□	□	□

C

Public Record Information

None

D

Inquiry Information

Creditor Name	Date of Inquiry	Credit Bureau
Sallie Mae	8/5/12	TransUnion
Monster Music	1/24/10	Experian
Our Town Bank	1/3/12	Equifax

□ Not Applicable ○ Current ▲ 30 days late ● 60 days late ■ 90 days late

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Visual 6.3: Keys to a Solid Credit History (and Saving Money)

- **Establish a credit history.**
  - For example, open a bank account or purchase a cell phone contract.
- **Pay *all* your bills on time each month.**
  - Payments 30 days or more late will be noted on your credit reports.
  - You will avoid expensive late fees if you pay your bills on time.
- **Pay all your bills in full each month.**
  - The less you owe, the better your credit history will look to potential creditors.
  - You will avoid interest charges if you pay all your bills in full each month.
- **Don't open too many credit card accounts.**
  - Every credit card account you have appears on your credit reports.
  - Even if you don't use a credit account that appears on your credit reports, creditors will consider how much you could potentially spend if you used all of your accounts.
- **Monitor your credit card usage.**
  - Check your monthly credit card statements to make sure that you have not been charged for something you did not purchase. If you have, call the credit card company immediately. Your credit card—or at least your account number—may have been stolen.
  - Evaluate the interest you are charged each month (if you do not pay your credit cards in full each month) and create a plan so you can pay down your debt and then pay off your cards in full each month.
- **Check your credit reports each year.**
  - Request a free copy of your credit report from each of the three credit bureaus annually.
  - Clear up any inaccuracies on your credit reports.

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Handout 6.1: Facts About Credit (page 1 of 3)

Directions: Read the handout and answer the questions that follow.

Credit is the granting of money or something else of value in exchange for a promise of future repayment. Credit is not free. People pay a price for using credit—interest. Interest is the price of using credit—that is, the price of using someone else's money. Interest is an expense for the borrower and income for the lender. Usually, borrowers pay a given interest rate—that is, the percent of the amount of the loan that will be charged as interest. In addition to paying interest, borrowers may also pay fees for using credit. Fees may be charged to service and maintain credit accounts and if a loan payment is late.

There are advantages and disadvantages of using all types of credit. As stated, one advantage of credit is the opportunity to buy and use things now while paying for them later. In addition, you can buy things you might not be able to afford if you had to pay for them all at once—for example, a car or a house. In the case of credit cards, advantages include convenience, not having to carry cash, being able to pay for things in an emergency, ease of tracking your expenses, and possibly receiving perks from your credit card company, such as cash back or travel rewards. Disadvantages of credit include spending money you don't have; the ease of overextending and buying more than you can realistically afford; giving up things in the future to pay for things you bought in the past; and if you don't pay your bills in full each month, paying more for things than you would if you paid cash. If you pay off your credit cards each month, you don't have to pay interest; but if you don't, the interest charges are fairly high. When you use credit cards, it can be easier for someone to steal your identity.

Credit cards are a frequently used type of credit. They represent an agreement between a lender—the institution issuing the card—and the cardholder. A credit card offers a convenient form of borrowing with a revolving line of credit. This means that the card can be used repeatedly to buy products and services up to a specific dollar amount called a credit limit. The credit card company determines the credit limit based on a credit cardholder's credit history. Credit cardholders must pay a minimum amount of the card balance each month to avoid fees.

Banks, credit unions, savings and loans, retail stores, and other businesses issue credit cards. You may have even received an application for a credit card. It is common for students graduating from high school or starting college to receive credit card applications in the mail. It is important to understand some basic information about using credit cards and credit in general so that you use credit wisely and maintain a strong credit history. A credit history is a report of a person's payment activity over a period of time.

A person's credit history is listed in a credit report. A credit report is similar to a school transcript. Your school transcript is a report that shows whether you completed high school, college, and so forth and how well you performed. Your education and your performance could affect your ability to move into other programs or jobs. Similarly, throughout your life a credit report will record your credit history and will be even more important than your school transcript.

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Handout 6.1: Facts About Credit (page 2 of 3)

Credit reports are maintained by credit bureaus and provided to creditors for a fee. Credit reports include a list of all of the credit a person has been granted (e.g., credit cards and loans) and his or her payment history, which notes if any payments have been 30 days or more late. In addition, unpaid bills turned over to a collection agency, items repossessed because of failure to repay a loan, and legal actions (for example, bankruptcy) will be noted on a credit report.

Financial institutions and other potential creditors review credit reports to determine the likelihood that the person seeking credit will repay a debt. If you do not demonstrate the ability and willingness to repay what you have borrowed in the past, your ability to obtain credit in the future will be limited, the cost of future credit may be higher, and you could miss out on opportunities. For example, you may have to pay a higher interest rate if you are considered a risky borrower or you may have to pay more for car insurance. Insurance companies check credit histories because there is a correlation between risky financial behavior and risky driving behavior. In addition, if you want to rent an apartment, the landlord may check your credit history. When you apply for a job, the potential employer may check your credit history, because it may give them insight into your character. So, even teenagers should be concerned about their credit history because it may affect their ability to obtain credit or even get a job.

Mistakes can and do happen on credit reports, so it is important for you to monitor your credit history. If you find inaccuracies, get them cleared up and off your report. In addition check your reports for fraudulent activities, which could help you prevent or flag identity theft. In the United States, three credit bureaus maintain credit reports: Equifax, Experian, and TransUnion. You may request a free copy of your credit report once every 12 months from each of the three bureaus. And, it is a good idea to do so. Such requests may be made through the site www.annualcreditreport.com or by phone.

a. What is credit?

b. What are some advantages of using credit?

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Handout 6.1: Facts About Credit (page 3 of 3)

c. What are some disadvantages of using credit?

d. What is a credit card?

e. What is a credit history?

f. Why is it important to maintain a good credit history?

g. How do creditors determine someone's credit history?

h. What are the three credit bureaus?

i. How can you check your credit reports?

j. Why is it a good idea to check your credit reports each year?

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Handout 6.2: Credit Assessment

Directions: Read the following paragraph and write an essay addressing the following points:

- the advantages and disadvantages of using credit cards,
- why a credit card isn't "free money," and
- the importance of reviewing your credit reports annually.

Your friend Todd is a college student. Last week when Todd was at the mall, a credit card company was distributing credit card applications. Everyone who completed an application received a T-shirt and a Frisbee. Todd completed the credit card application and collected the freebies. He is excited because he thinks that he will have "free money"—he'll be able to buy whatever he wants whenever he wants and won't have to worry about paying for it right away. Todd's roommate told Todd to get a copy of his credit reports and review them. Todd doesn't know what a credit report is. He comments to you, "I'm already getting credit. Why do I need to look at some reports?"

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Handout 6.3: Credit Assessment—Answer Key

	Below Basic	Basic	Proficient	Advanced
Advantages of credit	One advantage noted	Two advantages noted	Three advantages noted with some explanation	Three or more advantages noted with thorough explanations and relevant examples
Advantages: convenience, buying and using things now while paying for them later, buying more expensive items you couldn't afford to pay for all at once, not having to carry cash, being able to pay for things in an emergency, having your expenditures tracked, and possibly receiving perks from the credit card company (e.g., cash back or travel rewards)				
Disadvantages of credit	One disadvantage noted	Two disadvantages noted	Three disadvantages noted with some explanation	Three or more disadvantages noted with thorough explanations and relevant examples
Disadvantages: spending money you don't have; ease of overextending yourself and buying more than you can afford; if you do not pay in full each month, paying more than you would if you paid cash; having a greater likelihood of identity theft; and if you use credit poorly, the inability to get future credit or the loss of opportunities				
Why a credit card isn't "free money"	One cost of credit noted	Two costs of credit noted	Three costs of credit noted with some explanation	Three costs of credit noted with thorough explanations and relevant examples
Costs of credit: interest payments, fees if you don't pay on time, and the inability to buy something in the future				
Importance of reviewing your credit reports	The purpose of a credit report noted	One reason for maintaining good credit reports noted	Two reasons for maintaining good credit reports noted with rationale of their importance	Two or more reasons for maintaining good credit reports noted and explanation of the need to check your credit reports annually
Importance of reviewing your credit report: A credit report shows your payment history. Bad credit reports could prevent you from getting future credit, renting an apartment, or getting a job. Errors can occur on a credit report, so it is important to check for errors and have them corrected. You can flag or prevent identity theft by looking at your credit reports. You can see how much total credit you have open on your credit reports. An annual check of your credit reports can help you maintain a good credit report (if you have a good payment history).				

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Standards and Benchmarks

National Standards in Personal Finance

Financial Responsibility and Decision Making Overall Competency: Apply reliable information and systematic decision making to personal financial decisions.

Standard 1: Take responsibility for personal financial decisions.

- Expectation 1, 8th Grade: Identify ways to be a financially responsible young adult.

Standard 2: Find and evaluate financial information from a variety of sources.

- Expectation 1, 12th Grade: Determine whether financial information is objective, accurate, and current.

Standard 4: Make financial decisions by systematically considering alternatives and consequences.

- Expectation 3, 8th Grade: Evaluate the results of a financial decision.
- Expectation 6, 12th Grade: Give examples of how decisions made today can affect future opportunities.

Credit and Debt Overall Competency: Maintain creditworthiness, borrow at favorable terms, and manage debt.

Standard 1: Identify the costs and benefits of various types of credit.

- Expectation 4, 8th Grade: Give examples of "easy access" credit.
- Expectation 6, 8th Grade: Discuss potential consequences of using "easy access" credit.

Standard 2: Explain the purpose of a credit record and identify borrowers' credit report rights.

- Expectation 4, 12th Grade: Identify organizations that maintain consumer credit records.
- Expectation7, 12th Grade: Discuss ways that a negative credit report can affect a consumer's financial future.

Standard 3: Describe ways to avoid or correct credit problems.

- Expectation 2, 12th Grade: List actions that a consumer could take to reduce or better manage excessive debt.

Common Core State Standards: Grades 6-12 Literacy in History/Social Studies, Science, and Technical Subjects

History/Social Studies

- Key Ideas and Details

  CCSS.ELA-Literacy.RH.6-8.2: Determine the central ideas or information of a primary or secondary source; provide an accurate summary of the source distinct from prior knowledge or opinions.

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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.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.

- Craft and Structure

  CCSS.ELA-Literacy.RH.6-8.4: Determine the meaning of words and phrases as they are used in a text, including vocabulary specific to domains related to history/social studies.

  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.

- Integration of Knowledge and Ideas

  CCSS.ELA-Literacy.RH.6-8.7: Integrate visual information (e.g., in charts, graphs, photographs, videos, or maps) with other information in print and digital texts.

  CCSS.ELA-Literacy.RH.9-10.7: Integrate quantitative or technical analysis (e.g., charts, research data) with qualitative analysis in print or digital text.

Writing

- Text Types and Purposes

  CCSS.ELA-Literacy.WHST.6-8.1: Write arguments focused on *discipline-specific content*.

  CCSS.ELA-Literacy.WHST.9-10.2: Write informative/explanatory texts, including the narration of historical events, scientific procedures/experiments, or technical processes.

  CCSS.ELA-Literacy.WHST.11-12.1: Write arguments focused on *discipline-specific content*.

  CCSS.ELA-Literacy.WHST.11-12.1.A: Introduce precise, knowledgeable claim(s), establish the significance of the claim(s), distinguish the claim(s) from alternate or opposing claims, and create an organization that logically sequences the claim(s), counterclaims, reasons, and evidence.

  CCSS.ELA-Literacy.WHST.11-12.1.B: Develop claim(s) and counterclaims fairly and thoroughly, supplying the most relevant data and evidence for each while pointing out the strengths and limitations of both claim(s) and counterclaims in a discipline-appropriate form that anticipates the audience's knowledge level, concerns, values, and possible biases.

  CCSS.ELA-Literacy.WHST.11-12.1.C: Use words, phrases, and clauses as well as varied syntax to link the major sections of the text, create cohesion, and clarify the relationships between claim(s) and reasons, between reasons and evidence, and between claim(s) and counterclaims.

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CCSS.ELA-Literacy.WHST.11-12.1D: Establish and maintain a formal style and objective tone while attending to the norms and conventions of the discipline in which they are writing.

CCSS.ELA-Literacy.WHST.11-12.1.E: Provide a concluding statement or section that follows from or supports the argument presented.

- Production and Distribution of Writing

  CCSS.ELA-Literacy.WHST.6-8.4: Produce clear and coherent writing in which the development, organization, and style are appropriate to task, purpose, and audience.

  CCSS.ELA-Literacy.WHST.9-10.4: Produce clear and coherent writing in which the development, organization, and style are appropriate to task, purpose, and audience.

  CCSS.ELA-Literacy.WHST.11-12.4: Produce clear and coherent writing in which the development, organization, and style are appropriate to task, purpose, and audience.

- Research to Build and Present Knowledge

  CCSS.ELA-Literacy.WHST.6-8.9: Draw evidence from informational texts to support analysis, reflection, and research.

  CCSS.ELA-Literacy.WHST.9-10.9: Draw evidence from informational texts to support analysis, reflection, and research.

  CCSS.ELA-Literacy.WHST.11-12.9: Draw evidence from informational texts to support analysis, reflection, and research.

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Lesson 7: Creditors' Criteria and Borrowers' Rights and Responsibilities

Standards and Benchmarks (see page C-33)

Lesson Description

Students discuss key terms related to credit and learn how creditors use capacity, character, and collateral as criteria for making loans. Students learn about credit rights and responsibilities. Groups use role-play scenarios to identify and discuss the rights and responsibilities of using credit.

Grade Level

6-12

Concepts

Capacity

Character

Collateral

Credit

Creditor

Credit responsibilities

Credit rights

Interest

Objectives

Students will

- define credit and creditor,
- define interest,
- identify and describe criteria lenders use to make loans, and
- explain the rights and responsibilities related to using credit.

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Time Required

45-60 minutes

Materials

- Visual 7.1
- Handout 7.1, one copy of each for each student
- Handout 7.1—Answer Key for the teacher
- Handout 7.2, enough copies cut apart to provide one numbered scenario card for each member of four groups
- Handout 7.3, one copy for each student
- Handout 7.4, one copy for each student
- A sheet of notebook paper for each student

Procedure

1. Define **credit** as the granting of money or something else of value in exchange for a promise of future repayment. Explain that the ability to have and use credit is a privilege earned by exhibiting behaviors related to some broad characteristics that creditors consider when making lending decisions. These characteristics are called the three C's of credit: **character**, **capacity**, and **collateral**. Ask the students the following:
   - What do you think character, capacity, and collateral mean? (*Answers will vary.*)

2. Remind the students that credit is not free. People pay a price for using credit—**interest**. Interest is the price of using credit—that is, the price of using someone else's money. Interest is an expense to the borrower and income to the lender. When people borrow money from a bank, they pay interest to the bank because they are borrowing money deposited in the bank by other people. Those who deposit their money in the bank receive interest as payment for allowing others to use their money.

3. Tell the students that, in addition to interest, people also pay fees for using credit. There may be fees charged to service and maintain credit accounts and other fees if a loan is not paid on time.

4. Tell the students that when a person applies for credit, the **creditor**—that is, the person, financial institution, or business that lends the money—will look at different types of information to evaluate the potential borrower. Specifically, creditors review information to determine how well the borrower satisfies the three C's of credit: capacity, character, and collateral.

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5. Display *Visual 7.1: The 3 C's of Credit*. Explain that a creditor is interested in the answers to the following three questions:
   - Capacity—Does the borrower have the ability to repay the loan? Factors that affect a borrower's ability to repay the loan include how much money the borrower makes, how long the borrower has been at his or her current job, and how much debt the borrower already has relative to income.
   - Character—Will the borrower repay the loan? The primary factor that affects character is the borrower's past bill-paying history. The creditor wants to know if the borrower has paid his or her bills and if he or she has paid them on time.
   - Collateral—Is there a financial asset or a piece of property that a creditor can take if the borrower fails to repay the loan? Collateral provides protection for the creditor if the borrower fails to repay the loan. For example, if a borrower fails to repay a car loan, the creditor can repossess the car. The car is collateral for a car loan.

6. Remind students that people earn the privilege of using credit; this privilege is based to a great extent on their capacity, character, and collateral. Consumers should be aware, though, that with that privilege comes consumer **credit rights** and **credit responsibilities**. Credit rights are the protections put in place by law to help people obtain and maintain credit. Credit responsibilities are the actions or behaviors in which people should engage when they use credit.

7. Tell the students that they are going to be involved in a role-play activity. They are going to play the part of either a person seeking credit or someone who is providing credit, that is, a creditor. Distribute a copy of *Handout 7.1: Your Credit Rights and Responsibilities* to each student. Tell the students they will use the handout with the role-play activity, but first the class will review the rights and responsibilities statements on the handout. Review the statements with the students.

8. Divide the class into four groups. Distribute scenario cards from *Handout 7.2: Role-Play Scenarios* to each group member. Distribute Scenario 1 cards to Group 1, Scenario 2 cards to Group 2, and so on. Instruct the students to read their group's scenario silently and allow time to do so.

9. Refer students to Handout 7.1. Instruct the students to discuss which rights or responsibilities could be demonstrated in their group's role-play scenario.

10. Instruct students to work individually and circle on the handout the rights and/or responsibilities they believe apply to the people described in their group's scenario. For example, if a person in a scenario accepts a credit offer without comparing it with other offers and without knowing the interest rate and fees associated with that card, the student should circle "Compare offers for similar types of credit. For example, compare different credit card offers or the cost (fees and interest charges) of a loan from different sources."

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11. Instruct the groups to discuss how to transform their scenario into a short skit that the group members will perform in front of the class. Each group is to discuss the rights they individually circled and then as a group select two rights, two responsibilities, or a combination of one right and one responsibility that the people in their skit should have adhered to or been aware of and clearly present these items in their skit. Allow time for students to prepare the skits.

12. Explain that the students will serve as the audience for all skits except their own. Instruct students to complete Handout 7.1 based on the skits, including their own, as follows:
    - Mark the handout to indicate which rights or responsibilities are related to each skit by entering the group number on the line in front of the right or responsibility.
    - More than one group number may be listed on any line.
    - Because each skit is supposed to emphasize more than one right or responsibility, you may mark more than one right or responsibility for each skit.
    - Mark the handout for your own group now.

13. Have each group perform its skit.

14. After the skits are performed and tallies recorded, ask for volunteers from Groups 1, 2, and 3 to read the rights and responsibilities that they marked for Group 4. Have the students explain why they marked those statements.

15. Have a volunteer from Group 4 tell the class what rights and responsibilities the group was trying to illustrate in their skit and explain why.

16. Repeat procedures 13 and 14 until all skits have been discussed. Suggested answers for each skit are provided on *Handout 7.1: Your Credit Rights and Responsibilities—Answer Key*.

17. Distribute a copy of *Handout 7.3: Three C's Assessment* to each student. Review the directions with the students and have them complete and then turn in the handout. Correct and return the handout to the students. You may wish to review Procedure number 5 when you discuss their answers. Below is the answer key for Handout 7.3:

    1. *CH*
    2. *CH*
    3. *CA*
    4. *CO*
    5. *CH*

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Closure

18. Review the key points of the lesson by discussing the following:
    - What is credit? (*The granting of money or something else of value in exchange for a promise of future repayment*)
    - Who are creditors? (*People, financial institutions, or businesses that lend money*)
    - What is interest? (*The price of using someone else's money; the price of credit*)
    - What is capacity? (*A borrower's ability to repay a debt*)
    - What are factors that affect a borrower's capacity? (*How much money the borrower makes, how long the borrower has been at his or her current job, and how much debt the borrower has relative to income*)
    - What is character? (*A borrower's reputation for paying bills and debts based on past behavior*)
    - What is collateral? (*Property required by a lender and offered by a borrower as a guarantee of payment on a loan; also, a borrower's savings, investments, or the value of the asset purchased that can be seized if the borrower fails to repay a debt*)
    - If you have a car loan, what serves as collateral? (*The car*)
    - What are some of the rights we have when we use credit? (*Use Handout 7.1 to review rights.*)
    - What are some of the responsibilities we have when we use credit? (*Use Handout 7.1 to review responsibilities.*)

Assessment

19. Distribute *Handout 7.4: Darryl's Credit Debacle* to each student. Instruct the students to read Darryl's story and write a short essay detailing the credit rights and credit responsibilities evident in the story. They may reference Handout 7.1 if necessary.

20. Use the guidance below to correct student essays.

    Items that students should include in their essay about "Darryl's Credit Debacle":

    - **You have the right to know why you were denied credit.** Darryl wisely asked why he had been denied credit.
    - **You have the right to see your personal information on credit reports.** The salesman first said Darryl couldn't see the credit report, but then said yes when Darryl said it was his right.
    - **Organizations that use credit reports are required to help you understand the report.** The salesman explained a few key components of the credit report.

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- **If you are denied credit because of something on your credit report, the lender must give you the name, address, and telephone number of the credit bureau that provided the credit report.** The salesman told Darryl the name of the company that provided the credit report.
- **You have the right to have errors in credit reports corrected.** When Darryl noticed an error, he called the store and the credit agency and successfully cleared up the matter.
- **Pay your bills on time.** Darryl had late payments, which were reported on his credit report.
- **Pay your credit card balances in full each month.** Since Darryl had late payments, it is clear that he did not pay his balances in full.
- **Don't ignore credit problems. Much of your credit history can remain on your credit report for seven years or more.** Darryl cleared up the error on his credit report as soon as he learned about it. He did not ignore it.
- **Compare offers for similar types of credit.** Darryl should have checked the cost of the loan from other sources.
- **When you borrow money, know what you are agreeing to.** Darryl quickly filled out the application and should have taken more time to read the agreement carefully.

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Visual 7.1: The Three C's of Credit

Capacity

A borrower's ability to repay debt

Character

A borrower's reputation for paying bills and debts based on past behavior

Collateral

Property required by a lender and offered by a borrower as a guarantee of payment on a loan. Also, a borrower's savings, investments, or the value of the asset purchased that can be seized if the borrower fails to repay a debt

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Handout 7.1: Your Credit Rights and Responsibilities (page 1 of 2)

Directions: Place the group number or numbers on the line next to the rights and responsibilities you identify for each skit. Different groups' skits may represent the same rights or responsibilities and each group may have more than one right or responsibility.

Credit Rights

_____ You have the right to see your personal information on credit reports.

_____ Organizations that use credit reports are required to help you understand the report.

_____ You have the right to have errors in your credit reports corrected.

_____ You have the right to know why you were denied credit.

_____ If you are denied credit because of something in your credit report, the lender must give you the name, address, and telephone number of the credit bureau that provided the credit report.

_____ You have the right to know who has requested information about your credit history. This information is included on your credit reports.

_____ Creditors cannot make decisions based on sex, national origin, marital status, color, race, religion, or age, nor can they ask for this information.

_____ Neither the length of the loan, that is, the term, nor the interest rate may be changed for a fixed-rate loan.

_____ Lenders must notify you within 30 days of their decision to make a loan to you or not.

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Handout 7.1: Your Credit Rights and Responsibilities (page 2 of 2)

Credit Responsibilities

_____ Pay all your bills on time.

_____ Pay off your credit card balances in full each month.

_____ Compare offers for similar types of credit. For example, compare different credit card offers or the cost (fees and interest charges) of a loan from different sources.

_____ Make informed, reasonable choices about credit usage.

_____ Know how much you can afford to spend.

_____ Keep your receipts for purchases/returns to check against purchases/returns listed on credit card statements.

_____ Check monthly statements to make sure charges are correct.

_____ Understand that if a deal sounds too good to be true, it probably is.

_____ When you borrow money, know what you are agreeing to.

_____ Make certain that you know the interest rate and fees you are paying for a loan and the interest rate and fees associated with any credit card for which you apply.

_____ Notify credit card companies and financial institutions immediately when credit cards, debit cards, or checks are lost or stolen.

_____ Don't ignore credit problems. Much of your credit history can remain on your credit report for seven years or more.

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Handout 7.1: Your Credit Rights and Responsibilities—Answer Key (page 1 of 2)

Directions: Place the group number or numbers on the line next to the rights and responsibilities you identify for each skit. Different groups' skits may represent the same rights or responsibilities and each group may have more than one right or responsibility.

Credit Rights

__2__ You have the right to see your personal information on credit reports.

__2__ Organizations that use credit reports are required to help you understand the report.

_____ You have the right to have errors in your credit reports corrected.

__2__ You have the right to know why you were denied credit.

_____ If you are denied credit because of something in your credit report, the lender must give you the name, address, and telephone number of the credit bureau that provided the credit report.

_____ You have the right to know who has requested information about your credit history. This information is included on your credit reports.

_____ Creditors cannot make decisions based on sex, national origin, marital status, color, race, religion, or age, nor can they ask for this information.

_____ Neither the length of the loan, that is, the term, nor the interest rate may be changed for a fixed-rate loan.

_____ Lenders must notify you within 30 days of their decision to make a loan to you or not.

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Handout 7.1: Your Credit Rights and Responsibilities—Answer Key (page 2 of 2)

Credit Responsibilities

_____ Pay all your bills on time.

3 Pay off your credit card balances in full each month.

1, 2, 4 Compare offers for similar types of credit. For example, compare different credit card offers or the cost (fees and interest charges) of a loan from different sources.

2 Make informed, reasonable choices about credit usage.

1, 3 Know how much you can afford to spend.

3 Keep your receipts for purchases/returns to check against purchases/returns listed on credit card statements.

3 Check monthly statements to make sure charges are correct.

_____ Understand that if a deal sounds too good to be true, it probably is.

2 When you borrow money, know what you're agreeing to.

1, 2, 4 Make certain that you know the interest rate and fees you are paying for a loan and the interest rate and fees associated with any credit card for which you apply.

_____ Notify credit card companies and financial institutions immediately when credit cards, debit cards, or checks are lost or stolen.

_____ Don't ignore credit problems. Much of your credit history can remain on your credit report for seven years or more.

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Handout 7.2: Role-Play Scenarios

Group 1

Alissa recently graduated from high school. She received cash gifts totaling $500 from friends and relatives. She decided to put that money in a savings account at the bank. She also took a job at a local athletic shoe store. She read an ad in the local newspaper about a sound system for her car for $850. It was a great system and at an even greater price! Her friend told her about a wonderful credit card offer at the electronics store. When Alissa arrived at the electronics store, a salesperson told her that if she opened an account that day, she could have the system installed and drive away with some great sound. Alissa was very excited and said to herself, "I have a great job now. I'll be able to pay this off in no time, which means the interest rate doesn't really matter."

Group 2

Carlos was shopping at his favorite electronics store when he found the home theater system of his dreams. When he asked about payment options, the salesperson presented him with the in-store credit plan. The salesperson started to rattle off the details of the loan, but Carlos told him to save his breath—he wasn't concerned with the details, he just wanted to take the system home that day. He quickly filled out the forms and turned them in. The salesperson took the forms back to get approval from the store manager. In a few minutes the salesperson returned with bad news; his application was denied. Carlos asked for a reason, but the manager asked Carlos to leave the store.

Group 3

Max uses his credit card to buy many things. He earns "cash-back points" for using the card. He normally pays the entire balance each month. Last month, he purchased a new monitor, but later that day he had to purchase a new tire. He decided he couldn't afford the new monitor and returned it unopened the next day. When he checked his next credit card statement, he noticed that the refund for the monitor was not listed. He called the credit card company's toll-free number and talked to a customer service representative named Susan. She checked his account and said there was no record of a refund. She asked if he had a receipt for the return. He told her he was just not good at keeping track of all those little slips of paper.

Group 4

Amanda was at the mall and signed up for a credit card in order to get the freebies being offered. Two weeks later, a PassWorld card arrived in her mailbox, accompanied by reams of fine print. She didn't read the materials. Instead, she called her father and said, "I just got a credit card in the mail. I haven't used it, but I'm not afraid to. I just need to know whether there is an interest charge." Her father explained the advantages and disadvantages of using credit cards. His final words were "Never spend more in a month than you can pay in full when you receive the bill."

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Handout 7.3: Three C's Assessment

Directions: Identify which one of the Three C's of credit each statement represents. Write **CO** for collateral, **CA** for capacity, or **CH** for character in the space provided.

1. _____ Angela is very willing to work and keep her business running. Even though January and February were difficult months because of the weather, she kept her credit card payments current.

2. _____ Jordan contacted Equifax Credit Bureau to request a copy of her credit report to make sure that it shows that she always pays her bills and pays them on time.

3. _____ Fred owns a very successful motorcycle repair shop in the city. The first year was a struggle, but now he is earning a profit each month.

4. _____ Franklin owns a small house he received in his mom's will when she passed away. He wants to borrow some money to put a new roof on the 20-year-old home.

5. _____ Enrique, who works for Earth Bank, reviewed Barbara's loan application and saw that she had borrowed money from a local bank and an out-of-state bank and had paid off both of the loans. He called the local bank to verify the information with its loan officer.

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Handout 7.4: Darryl's Credit Debacle

Directions: Read Darryl's story below and write a short essay detailing the credit rights and credit responsibilities evident in the story. You may reference *Handout 7.1: Your Credit Rights and Responsibilities*.

Darryl went to visit Arena Used Cars because he had his eye on a red 1967 Ford Mustang on its lot. Darryl talked with a salesman, Nathan, about the features and condition of the car. It was just what Darryl wanted. Darryl told Nathan he didn't have the cash to pay for the car but would like to buy it on credit. Nathan said that he could work out a credit plan that would be just perfect for Darryl. All Darryl had to do was fill out a credit application. Darryl quickly filled out the application and gave it to Nathan. Nathan took the application and said he would be back in a few minutes. After a short time, Nathan returned with some bad news: Arena Used Cars could not extend any credit to Darryl. Darryl asked why, but Nathan shrugged and said it just wasn't possible for the dealership to grant him credit. Nathan didn't provide any specific reasons. Fortunately, Darryl knew about his credit rights and told Nathan that he had a right to know why his credit application had been denied. Nathan then told Darryl that he was denied credit based on his credit report. Darryl asked Nathan to show him the report, and he did. Darryl verified his personal information, and Nathan explained a few key components of the report. Darryl knew he needed more time, though, to examine the credit report more fully. Nathan told Darryl he had gotten the report from TransUnion and gave him the necessary contact information for that company.

When Darryl got home, he went online to access his credit report. As he looked over the report, he noticed that it said he had not paid a few bills on time. He thought back and realized it was correct because he had forgotten to pay his credit card bill on time a few times that year. Then he noticed an error on the report. An electronics store claimed he had not paid his store credit card bill. Darryl had never even heard of the company and did not have a credit card from that store. He called the electronics store and the credit agency and eventually cleared the matter up. A week later Darryl signed the loan papers for the Mustang.

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Standards and Benchmarks

National Standards for Financial Literacy

Standard 4: Credit allows people to purchase goods and services that they can use today and pay for those goods and services in the future with interest. People choose among different credit options that have different costs. Lenders approve or deny applications for loans based on an evaluation of the borrower's past credit history and expected ability to pay in the future. Higher-risk borrowers are charged higher interest rates; lower-risk borrowers are charged lower interest rates.

- **Benchmark 1, Grade 4:** Interest is the price the borrower pays for using someone else's money.
- **Benchmark 4, Grade 4:** Borrowers who repay loans as promised show that they are worthy of getting credit in the future. A reputation for not repaying a loan as promised can result in high interest charges on future loans, if loans are available at all.
- **Benchmark 7, Grade 8:** 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.
- **Benchmark 3, Grade 12:** 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 to repay. Because secured loans are viewed as having less risk, lenders charge a lower interest rate than they charge for unsecured loans.
- **Benchmark 5, Grade 12:** Lenders make credit decisions based in part on consumer payment history. Credit bureaus record borrowers' credit and payment histories and provide the information to lenders in credit reports.
- **Benchmark 8, Grade 12:** 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.

Common Core State Standards: English Language Arts

Reading: Informational Text

- Key Ideas and Details

  CCSS.ELA-Literacy.RI.8.3: Analyze how a text makes connections among and distinctions between individuals, ideas, or events (e.g., through comparisons, analogies, or categories).

  CCSS.ELA-Literacy.RI.9-10.1: Cite strong and thorough textual evidence to support analysis of what the text says explicitly as well as inferences drawn from the text.

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Common Core State Standards: Literacy in History/Social Studies, Science, and Technical Subjects, Grades 6-12

History/Social Studies

- Craft and Structure

  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.

Science & Technical Subjects

- Key Ideas and Details

  CCSS.ELA-Literacy.RST.6-8.2: Determine the central ideas or conclusions of a text; provide an accurate summary of the text distinct from prior knowledge or opinions.

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Lesson 8: So How Much Are You Really Paying for That Loan?

Standards and Benchmarks (see page C-46)

Lesson Description

Students learn what a payday loan is and the high cost involved in using such a loan. They work in groups to calculate the cost of loans at given annual percentage rates (APRs). As an assessment, students select four scenarios involving payday lending, offer reasons why payday loans might not be the best alternative, and suggest other options for financing what the individuals the want.

Grade Level

6-12

Concepts

Annual percentage rate (APR)

Interest

Interest rate

Loan

Payday loan

Objectives

Students will

- define loan, payday loan, interest, interest rate, and annual percentage rate;
- calculate annual percentage rates; and
- explain key facts regarding payday loans.

Time Required

60 minutes

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Materials

- Handout 8.1, one copy of each for each student
- Handout 8.2, one copy of each for each student and one for the teacher to use as a visual
- Handout 8.3, one copy for each student
- A calculator for each student

Procedure

1. Introduce the topic by asking the following questions:
   - Have you ever borrowed money from someone? (*Answers will vary.*)
   - What are some examples of things for which you have borrowed money? (*Answers will vary but may include lunch, gas, clothes, or a movie ticket.*)
   - Have you ever lent money to someone? (*Answers will vary.*)
   - How did the person who borrowed the money spend it? (*Answers will vary but may include to buy lunch, gas, clothes, or a movie ticket.*)

2. Define a **loan** as a sum of money provided temporarily on the condition that the amount borrowed be repaid, usually with interest.

3. Explain that when people borrow money, they are using money that belongs to someone else. The price of using someone else's money is **interest**. Explain that the amount of interest on a loan is often expressed as an **interest rate**, such as 5 percent, which is the percentage of the amount of a loan that must be repaid (in addition to the amount borrowed) over a specified time period.

4. Define **annual percentage rate** (APR) as the percentage cost of credit on an annual basis. Explain that lenders are required by law to disclose APRs to borrowers. Discuss the following:
   - An APR may differ from the stated interest rate.
   - An APR is the total cost of credit a consumer pays per year of a loan—it combines the interest paid over the life of the loan and all fees that are paid up front, which together are called finance charges. APRs are commonly used to compare loan costs from different lenders to help consumers make better-informed choices. (Note: Rules regarding fees that must be included in an APR are different for mortgage loans than for auto loans and short-term loans.)
   - APR does not affect the monthly payment on a loan. The monthly payments are a function of the interest rate and length of the loan.

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5. Explain that the following information is needed to calculate an APR:
   - the amount of credit—the loan—to be received,
   - the dollar amount of the credit costs—that is, the fees and interest charges associated with the loan, and
   - the length (term) of the loan.

6. Explain that the length of a loan is often referred to as the "term" of the loan. Computing an APR of a loan longer than a year requires some complicated mathematics. In these cases, it is easier to use an APR calculator, such as the one found at http://www.efunda.com/formulae/finance/apr_calculator.cfm. Tell the students you are going to calculate APRs of loans. Discuss the following:
   - For example, let's say you borrow $3,000 to buy a used car. The amount financed is $3,000.
   - To calculate the APR of this loan, you must know the dollar amount of the credit costs—that is, the fees and interest charges associated with the loan. Examples of fees include loan-processing fees and underwriting fees. Let's say that for your $3,000 loan, the loan-processing fee is $50 and the interest rate is 7 percent. (Note: When using an APR calculator, it is not necessary to know the dollar amount paid in interest; knowing the interest rate is enough.)
   - In the case of the $3,000 car loan, let's say the term is 24 months.
   - (Input the information into the calculator.) Entering this information into the APR calculator tells us that this loan, with a stated interest rate of 7 percent, has an APR of 8.63791 percent.
   - (Recalculate the loan with a 6 percent interest rate and a $100 fee.) If another dealer offered a stated interest rate of 6 percent for a two-year loan but charged a $100 fee, the APR would be 9.24659 percent.
   - Obviously, APR is as important to consider as the stated interest rate when comparing loans. Even though the interest rate on the second loan is lower, the APR is higher because the fee is higher.

7. Distribute a copy of *Handout 8.1: Calculating the APR of a Short-Term Loan* and a calculator to each student. Tell the students that the handout includes the steps for calculating an APR of a short-term (less than a year) loan. Review the steps with the students. Use the following example to calculate an APR on the board: A consumer borrows $500 for car repairs. The sum of the up-front fees and interest charges is $50. The term of the loan is 21 days.

   Step 1: Add all fees and interest charges to calculate total fees: $50.

   Step 2: Divide the total fees by the amount financed (borrowed): $50/$500 = 0.1.

   Step 3: Multiply the answer by the number of days in a year—365: 0.1 × 365 = 36.5.

   Step 4: Divide the answer by the term of the loan in days: 36.5/21 = 1.7381.

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Step 5: Move the decimal point two places to the right and add a percent sign: 1.7381 becomes 173.8% (rounded) to state the APR.

SOURCE: http://stoppaydaypredators.org/.

8. Remind students that an APR expresses the cost of a loan by incorporating not only the interest paid based on the stated interest rate but all up-front fees paid by the borrower. This becomes very important when comparing loans and analyzing the cost of short-term loans. Instruct the students to complete the problems on Handout 8.1. Allow time for the students to complete their work and then review their answers as follows:

Calculation	Finance charge	Loan amount	Term	APR
A. [($5/$500) × 365]/14 = 26%	$5	$500	14 days	26%
B. [($12/$200) × 365]/21 = 104%	$12	$200	21 days	104%
C. [($5/$750) × 365]/14 = 17%	$5	$750	14 days	17%

9. Review the definition of APR as the percentage cost of credit on an annual basis. Remind the students that an APR is the total cost of credit to the consumer each year of a loan. APRs make it easier to compare loan options and help consumers make better-informed choices. Point out that the APRs of the short-term loans on Handout 8.1 were much higher than the APR of the car loan—a longer-term loan.

10. Discuss the following:
    - Have you or people you know used short-term loans to buy things? (*Answers will vary.*) Point out that when fees and interest are combined for short-term loans, the APRs become very high, as illustrated by the short-term loans on Handout 8.1.
    - Have you ever heard advertisements for payday loans? (*Answers will vary.*) Explain that these are short-term loans that typically have very high APRs.

11. Explain the following:
    - A **payday loan** is usually a small, short-term loan intended to cover a borrower's expenses until his or her next payday.
    - A payday loan may also be called a "paycheck advance" or "payday advance."
    - Usually, the initial term for a payday loan is two weeks.
    - Payday loans are also sometimes called "cash advances," although that term can also refer to cash provided through a prearranged line of credit, such as a credit card.

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12. Display *Handout 8.2: Payday Loan Fact Sheet* and distribute a copy to each student. Ask students to read the sheet, and then discuss the following:
    - What is the amount of a typical payday loan? (*$300*)
    - What fees are charged for a payday loan? (*Loan fees and, if the loan is extended past the initial term, rollover fees*)
    - When rollover fees are included, what is the common range of APRs for payday loans? (*About 390 to 780 percent, depending on the amount and length [term] of the loan*)
    - What percentage of borrowers do not repay their payday loans? (*About 91 percent*)
    - What percentage of payday loans go to repeat borrowers? (*99 percent*)
    - Do any states prohibit or greatly restrict payday loans? (*Yes—as of 2010, 12 states and the District of Columbia prohibit payday loans; 6 states allow only low-cost payday loans by severely restricting the interest rate and fees payday loan companies can charge. Many other states in which payday loans are legal restrict some payday lender practices by prohibiting rollover loans or loan refinancing.*) The states that prohibit payday loans are Arizona, Arkansas, Connecticut, Georgia, Maryland, Massachusetts, New Jersey, New York, North Carolina, Pennsylvania, Vermont, and West Virginia. The six states that allow only low-cost payday loans are Maine, Oregon, Montana, Colorado, Ohio, and New Hampshire.

      SOURCE: National Conference of State Legislatures, http://www.ncsl.org/default.aspx?tabid=12473; and Consumer Federation of America Payday Loan Consumer Information, http://paydayloaninfo.org/.

      (Note: Students might find it of interest that payday lenders were labeled "loan sharks" during the Great Depression. [This is the origin of the term.])
13. Divide the class into groups. Instruct the groups to each use the information on Handout 8.2 as a guide to develop a short public service announcement (commercial) aimed at high school students that outlines the drawbacks of using a payday loan. Have the groups deliver the announcements in class, and then discuss with the class which group was most effective in delivering the message and illustrating the facts in the handout.

Closure

14. Review the key points of the lesson by discussing the following:
    - What is a loan? (*A loan is a sum of money provided temporarily on the condition that the amount borrowed be repaid, usually with interest.*)
    - What is interest on a loan? (*Interest is the price of using someone else's money.*)
    - What is an APR (annual percentage rate)? (*An APR is the percentage cost of credit on an annual basis; it is the total cost of credit a consumer pays per year of a loan—it combines the interest paid over the life of the loan and all fees that are paid up front, which together are called finance charges.*)

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- Why it is important for consumers to know what an APR is and be able to calculate it? (*An APR is the total cost of credit to the consumer and allows the consumer to compare loan options and to make better-informed decisions.*)
- What help is available online for consumers to determine the APRs of long-term loans such as car loans or mortgages? (*APR calculators are available online.*)
- What loan information must a consumer have to use an APR calculator? (*The dollar amount of the loan, the length (term) of the loan, fees, and the interest rate*)
- What are the steps for calculating the APR of a short-term loan?

  Step 1: Add all fees and interest charges to calculate total fees.

  Step 2: Divide the total fees by the amount financed (borrowed).

  Step 3: Multiply the answer by the number of days in a year—365.

  Step 4: Divide the answer by the term of the loan in days.

  Step 5: Move the decimal point two places to the right and add a percent sign.

- What is a payday loan? (*A payday loan is a small, short-term loan intended to cover a borrower's expenses until his or her next payday.*)
- What are the disadvantages of a payday loan? (*Disadvantages of payday loans include high APRs, additional fees, and increased debt.*)
- Why do people use payday loans? (*Answers will vary but should include that people use payday loans to buy goods and services they want or to pay a bill when they don't have enough money to do so.*)

Assessment

15. Distribute a copy of *Handout 8.3: Assessment* to each student. Students will choose four scenarios and write arguments for each against payday lending and suggest alternative ways of solving the problem.

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Handout 8.1: Calculating the APR of a Short-Term Loan

Steps for calculating the annual percentage rate (APR) of a loan with a term of one year or less.

Step 1: Add all fees and interest charges to calculate total fees.

Step 2: Divide the total fees by the amount financed (borrowed).

Step 3: Multiply the answer by the number of days in a year—365.

Step 4: Divide the answer by the term of the loan expressed in days.

Step 5: Move the decimal point two places to the right and add a percent sign.

SOURCE: http://stoppaydaypredators.org/.

Directions: For each problem below, calculate the APR. Use the steps found above. Show your work. Round answers to the nearest whole number.

A. Andrew borrowed $500 to repair his car. The finance charge on the loan was $5, and the term of the loan was 14 days. What was the APR of Andrew's loan?

B. Shondra borrowed $200 for the books she needed for her second semester of college. The finance charge on the loan was $12, and the term of the loan was 21 days. What was the APR of Shondra's loan?

C. Mario borrowed $750 to pay a doctor bill. The finance charge on the loan was $5, and the term of the loan was 14 days. What was the APR of Mario's loan?

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Handout 8.2: Payday Loan Fact Sheet

- The term of a payday loan is usually two weeks—until the next paycheck—and the loan (the amount borrowed plus fees) must be paid back in full at the end of the term.
- Lenders charge "rollover fees" when borrowers want to extend the loan beyond the original term.
- Annual percentage rates (APRs) are commonly 390 percent to 780 percent when loan fees and rollover fees are included.
- A typical payday loan is about $300.
- The borrower can give a postdated check to a lender to be held until the next paycheck is deposited.
- Approximately 91 percent of borrowers are unable to repay their payday loans at the end of a term.
- Approximately 99 percent of payday loans go to repeat borrowers, and government reports conclude that the industry relies on repeat (rollover) borrowers.
- Fees paid on payday loans that exceed 90 days amount to approximately $4.2 billion annually.
- Currently, 12 states and the District of Columbia prohibit payday loans; 6 states allow only low-cost payday loans by severely restricting the interest rate and fees payday loan companies can charge. Many other states in which payday loans are legal restrict some payday lender practices by prohibiting rollover loans or loan refinancing.
- Payday lenders have partnered with national banks in some states to avoid state prohibitions and restrictions.

SOURCE: http://www.careprogram.us/; http://www.paydayloaninfo.org/; http://www.pewtrusts.org/en/research-and-analysis/reports/2012/07/19/who-borrows-where-they-borrow-and-why; http://www.responsiblelending.org/; and http://www.stlouisfed.org/publications/br/articles/?id=524.

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Handout 8.3: Assessment

Directions: Read and select four of the following scenarios. Answer the questions for the selected scenarios.

- Renaldo lives and works in Metroland. He has been unable to pay his full rent for three months. His landlord is threatening to evict him if doesn't catch up on his rent. He is thinking about visiting a payday lender in his community. He normally pays all of his bills on time, but he has struggled the past few months because he had to pay for car repairs. He has a savings account at a local bank, and he has the money to pay the rent. However, using this money would leave him with no emergency savings. Why shouldn't he use a payday lender? What could he do instead?

- Henry has been traveling more than 30 miles one way to visit his new girlfriend each evening. His truck does not get very good gas mileage, so he has to fill up almost every day. His truck payment is due in a few days, and he doesn't have enough money to pay it. He needs his truck to get to and from work each day. He thinks taking out a payday loan would help. Why shouldn't he use a payday loan? What could he do instead?

- Brandi lent her brother $400 to pay for his emergency room visit. Unfortunately, he was unable to return to work because of his injury, and he doesn't have short-term disability insurance. He can't pay his sister back, and she needs the money for day care. Without day care she'll be unable to go to work herself. She has an account at the local credit union, and she pays her bills regularly. She is thinking about visiting a payday lender in her community. Why isn't this a good idea? What could she do instead?

- Alex left her purse on the bus—with her company-provided cell phone inside. It is now her responsibility to replace the phone with the same or a newer model. The same phone will cost her $250 plus the activation fee. She just spent the last of her paycheck on new shoes. She has a credit card, but she is concerned about the 18% APR her credit card will charge if she doesn't pay the full amount of the bill when it comes in. She is considering visiting a payday lender in her community. What are the reasons for not using a payday loan service? What could she do instead?

- Jamie borrowed $150 from a payday loan service to pay for her car insurance. Now that it is time to pay the loan back, she doesn't have the money. Why shouldn't she just extend the loan? What could she do instead?

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Handout 8.3: Assessment—Answer Key (page 1 of 2)

Directions: Read and select four of the following scenarios. Answer the questions for the selected scenarios.

- Renaldo lives and works in Metroland. He has been unable to pay his full rent for three months. His landlord is threatening to evict him if doesn't catch up on his rent. He is thinking about visiting a payday lender in his community. He normally pays all of his bills on time, but he has struggled the past few months because he had to pay for car repairs. He has a savings account at a local bank, and he has the money to pay the rent. However, using this money would leave him with no emergency savings. Why shouldn't he use a payday lender? What could he do instead?

Answers will vary but may include the following: The fees and interest charged by a payday lender are high. His best option would be to use his savings to pay the rent and then start saving again. He could also borrow money from family or friends, find a roommate, find a less expensive place to live, get a second job, or cut other expenses.

- Henry has been traveling more than 30 miles one way to visit his new girlfriend each evening. His truck does not get very good gas mileage, so he has to fill up almost every day. His truck payment is due in a few days, and he doesn't have enough money to pay it. He needs his truck to get to and from work each day. He thinks taking out a payday loan would help. Why shouldn't he use a payday loan? What could he do instead?

Answers will vary but may include the following: The fees and interest charged by a payday lender are high. He could borrow money from family or friends, visit his girlfriend less often, or reduce his gas costs by purchasing a fuel-efficient vehicle or using public transportation.

- Brandi loaned her brother $400 to pay for his emergency room visit. Unfortunately, he was unable to return to work because of his injury, and he doesn't have short-term disability insurance. He can't pay his sister back, and she needs the money for day care. Without day care she'll be unable to go to work herself. She has an account at the local credit union, and she pays her bills regularly. She is thinking about visiting a payday lender in her community. Why isn't this a good idea? What could she do instead?

Answers will vary but may include the following: The fees and interest charged by a payday lender are high. She could ask her brother to watch her child or ask the day care to work out a payment plan. She could also arrange a loan through her credit union. The interest charged by the credit union for the loan would be much less than the fees and interest charged by a payday lender.

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Handout 8.3: Assessment—Answer Key (page 2 of 2)

- Alex left her purse on the bus—with her company-provided cell phone inside. It is now her responsibility to replace the phone with the same or a newer model. The same phone will cost her $250 plus the activation fee. She just spent the last of her paycheck on new shoes. She has a credit card, but she is concerned about the 18% APR her credit card will charge if she doesn't pay the full amount of the bill when it comes in. She is considering visiting a payday lender in her community. What are the reasons for not using a payday loan service? What could she do instead?

Answers will vary but may include the following: The fees and interest charged by a payday lender are high. She could charge the phone on her credit card. The 18% APR for her credit card is low relative to the fees she would have to pay for a payday loan. She could also borrow the money from family or friends, return the shoes, or work out a payment plan with her employer.

- Jamie borrowed $150 from a payday loan service to pay for her car insurance. Now that it is time to pay the loan back, she doesn't have the money. Why shouldn't she just extend the loan? What could she do instead?

Answers will vary but may include the following: She shouldn't extend the loan because she might be in the same situation again and face higher and higher charges from rollover fees and interest. She could borrow money from family or friends, sell items at a garage sale, or pay the payday loan in full and try to negotiate an alternative arrangement with the creditor of a different bill.

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Standards and Benchmarks

National Standards in K-12 Personal Finance Education

Financial Responsibility and Decision Making Overall Competency: Apply reliable information and systematic decision making to personal financial decisions.

Standard 1: Take responsibility for personal financial decisions.

- Expectation 1, 8th Grade: Identify ways to be a financially responsible young adult.

Standard 2: Find and evaluate financial information from a variety of sources.

- Expectation 1, 8th Grade: Analyze and evaluate advertising claims.
- Expectation 1, 12th Grade: Determine whether financial information is objective, accurate, and current.

Credit and Debt Overall Competency: Maintain creditworthiness, borrow at favorable terms, and manage debt.

Standard 1: Identify the costs and benefits of various types of credit.

- Expectation 2, 8th Grade: Explain how interest rate and loan length affect the cost of credit.
- Expectation 5, 8th Grade: Given an "easy access" loan amount and a two-week borrowing fee, calculate the interest rate for the loan period and its annual equivalent.

Common Core State Standards: Grades 6-12 Literacy in History/Social Studies, Science, and Technical Subjects

History/Social Studies

- Craft and Structure

  CCSS.ELA-Literacy.RH.6-8.4: Determine the meaning of words and phrases as they are used in a text, including vocabulary specific to domains related to history/social studies.

- Integration of Knowledge and Ideas

  CCSS.ELA-Literacy.RH.6-8.7: Integrate visual information (e.g., in charts, graphs, photographs, videos, or maps) with other information in print and digital texts.

Writing

- Text Types and Purposes

  CCSS.ELA-Literacy.WHST.6-8.1: Write arguments focused on *discipline-specific content*.

  CCSS.ELA-Literacy.WHST.6-8.1.A: Introduce claim(s) about a topic or issue, acknowledge and distinguish the claim(s) from alternate or opposing claims, and organize the reasons and evidence logically.

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CCSS.ELA-Literacy.WHST.6-8.1.B: Support claim(s) with logical reasoning and relevant, accurate data and evidence that demonstrate an understanding of the topic or text, using credible sources.

CCSS.ELA-Literacy.WHST.6-8.1C: Use words, phrases, and clauses to create cohesion and clarify the relationships among claim(s), counterclaims, reasons, and evidence.

CCSS.ELA-Literacy.WHST.6-8.1.D: Establish and maintain a formal style.

CCSS.ELA-Literacy.WHST.6-8.1.A: Provide a concluding statement or section that follows from and supports the argument presented.

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Lesson 9: To Rent-to-Own or Not to Rent-to-Own?

Standards and Benchmarks (see page C-61)

Lesson Description

Students review the elements of a contract. They discuss the characteristics of rent-to-own contracts and compare the cost of those contracts with the outright purchase of goods.

Grade Level

6-12

Concepts

Annual percentage rate (APR)

Contract

Elements of a contract

Rent-to-own contract

Objectives

Students will

- define contract and annual percentage rate (APR),
- explain the elements of a contract,
- evaluate the terms and costs of a rent-to-own contract, and
- compare rent-to-own costs with outright purchases.

Time Required

60 minutes

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Materials

- Visual 9.1
- Handouts 9.1, 9.2, and 9.3, one copy of each for each student
- Handout 9.2—Answer Key for the teacher
- Handout 9.4, one copy for each student (optional)
- Handout 9.4—Answer Key for the teacher

Procedure

1. Explain that a **contract** is an exchange, promise, or agreement between two parties that is enforceable by law. Ask the following:
   - What are examples of contracts you have heard about? (*Answers will vary but may include contracts between professional athletes and team owners, union workers and management, or cell phone users and providers.*)

2. Distribute *Handout 9.1: Key Elements of a Contract* and ask for student volunteers to read each element aloud.

3. Discuss the following:
   - What consideration might a professional athlete give a team owner? (*Answers will vary but may include how long he or she will play for the team or the minimum level of performance the player will provide.*)
   - What consideration might a team owner give a professional athlete? (*Answers will vary but may include a salary, the guaranteed length of the contract, or performance bonuses.*)
   - Describe some conditions of a contract you might have with your parents to mow the lawn every two weeks. (*Answers will vary but may include how much you will be paid, the day or time the lawn must be mowed, or additional tasks required [for example, edging or sweeping].*)
   - What conditions might make a contract void? (*One of the parties is mentally impaired and does not understand the conditions of the contract, one of the parties is a minor, or the contract involves an illegal act.*)
4. Explain that consumers may enter into a contract with a business when they make a purchase. Discuss the following:
   - Have you seen or heard advertisements for rent-to-own stores? (*Answers will vary.*)
   - What types of products do rent-to-own ads usually offer? (*Answers will vary but may include furniture, appliances, or televisions.*)

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5. Display *Visual 9.1: Rent-to-Own Contract Facts* and review (as follows):

   A lease is a legal contract that outlines the terms under which one party agrees to rent property from another party. A **rent-to-own contract** is a basic lease contract with the option to purchase the good leased and generally adheres to the following terms:

   - No down payment or credit check is required.
   - A consumer (renter) can get immediate delivery of new furniture, appliances, or other goods.
   - The merchandise may be rented by the week or month.
   - The consumer owns the merchandise after all payments have been made.
   - If the merchandise is kept for a minimum amount of time, there is no penalty charged for returning it.
   - If a payment is missed, the consumer must return the merchandise—that is, it will be repossessed—and will receive nothing in return for the payments made (except the benefit of having used the merchandise).

6. Explain that if people want to use furniture or appliances for just a few weeks or months, renting may be a good choice. On the other hand, if their goal is to own the merchandise, purchasing it outright most likely will cost less. Tell the students that about 75 percent of customers return a rental item within the first four months, and fewer than 25 percent of customers actually rent long enough to own the item.

7. Point out that a rent-to-own contract is not written as a loan; therefore, annual percentage rates (APRs) are not disclosed, and financial disclosure laws do not always apply to rent-to-own contracts. An **annual percentage rate (APR)** is the percentage cost of credit on an annual basis. (Note: For a more detailed explanation of APR, see Unit C, Lesson 8.) APR may differ from the stated interest rate of a loan because it is the total cost of credit to the consumer—it includes all fees and any other upfront charges in addition to the stated interest rate. Therefore, because an APR includes the real cost of credit, comparing the APRs of different loan options can help consumers make better-informed choices.

8. Explain that rent-to-own contracts are popular because they allow consumers with inadequate credit to get immediate use of expensive merchandise without providing a down payment. In addition, these contracts allow consumers to try something before buying it.

9. Remind the students that the three **key elements of a contract** are competent parties, consideration, and mutual agreement. Discuss the following:

   - How does the requirement of competent parties factor into a rent-to-own contract? (*The individuals involved must understand the conditions of the contract. The store may not initiate a contract with someone who is mentally impaired or a minor.)*

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- What considerations are given by each party—the store and the renter—in a rent-to-own contract? (*The renter agrees to make payments to the store. The store agrees to provide merchandise. The renter agrees that the merchandise may be repossessed by the store if the renter fails to make a payment. The store agrees that the renter may return the merchandise without penalty after a specified amount of time.*)
- How is mutual agreement established in a rent-to-own contract? (*The store provides a written contract.*) Point out that it is the responsibility of the renter to read the contract carefully to understand the terms before signing the contract.

10. Explain that when consumers consider a rent-to-own contract, before making a decision it is important to compute the total cost of the contract and compare it with the cost of purchasing the good outright. Distribute a copy of *Handout 9.2: Rent-to-Own Costs vs. Retail Prices* to each student. Divide the class into groups of three. Have the students fill in the blanks on the chart. Tell the groups that they will be sharing their answers with the class and that each group should appoint a spokesperson.

11. Review Handout 9.2 by asking the spokespersons to provide the answers. (Answers are provided on Handout 9.2—Answer Key.)

12. Discuss the following:
    - How is the total cost of a rent-to-own contract computed? (*The monthly payment amount is multiplied by the number of payments.*) (Note: Any fees are included in the monthly payment.)
    - Which column has the higher final costs—the rent-to-own cost column or the retail price column? (*The rent-to-own cost column*)
    - When might purchasing merchandise, such as furniture or an appliance, with a rent-to-own contract be beneficial to purchasing it outright? (*It may be beneficial to choose a rent-to-own contract if you want the merchandise for a only short time or you want to try it before you purchase it.*)
    - What are the drawbacks of purchasing with a rent-to-own contract? (*Purchasing merchandise with a rent-to-own contract usually costs more than purchasing it outright because of the fees and interest charged. Financial disclosure laws do not always apply to rent-to-own contracts. No matter how many payments you have made, if you miss a payment, you will lose the merchandise rented.*)
    - Do the differences between the retail prices and the rent-to-own costs on Handout 9.2 seem significant to you? (*Answers will vary.*)
    - What do you notice about the differences between the retail prices and the rent-to-own costs? (*The rent-to-own costs are from 80 percent [chrome car wheel and laptop] to 368 percent [gaming system] more than the retail prices.*)
    - Why are rent-to-own costs higher? (*Rent-to-own stores incur the risk of loss or damage to the merchandise and must repair or replace damaged merchandise. If*

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renters fail to make payments, rent-to-own stores incur the costs of repossessing the merchandise.)

Closure

13. Review the key points of the lesson by asking the following:
    - What is a contract? (*An exchange, promise, or agreement between two parties that is enforceable by law*)
    - What are the key elements of a contract? (*Competent parties, consideration, and mutual agreement*)
    - What is a rent-to-own contract? (*A basic lease contract with the option to purchase the item leased*)
    - Why is purchasing merchandise with a rent-to-own contract usually more expensive than buying it outright? (*Rent-to-own contracts charge fees and interest. Rent-to-own stores incur the risk of repossessing the merchandise and repairing or replacing the merchandise.*)
    - What are the disadvantages of a rent-to-own contract? (*Purchasing merchandise with a rent-to-own contract usually costs more than purchasing it outright because of the fees and interest charged. Financial disclosure laws do not always apply to rent-to-own contracts. No matter how many payments you have made, if you miss a payment, you will lose the merchandise.*)

Assessment

14. Distribute a copy of *Handout 9.3: Assessment* to each student. Instruct the students to read the scenario and answer the questions.

    Handout 9.3—Answer Key

    a. How much money did José save by buying the television using an installment loan? (*$1,080 – $558.72 = $521.28*)

    b. What are the advantages of José's choice? (*Answers will vary but may include that he saved money on his purchase and will pay off the loan in 12 months rather than 72 months.*) Point out that José also gathered information about the payments and recognized that he could lose the television and money if he missed a payment.

    c. If you were José, what would you do with the money you saved? (*Answers will vary but may include purchasing other things, depositing the savings into a savings account, purchasing a savings bond, or paying off another bill.*)

15. As an optional assessment, distribute *Handout 9.4: Figuring Percentages*. Instruct students to follow the directions and the example on the handout to complete the chart. Use *Handout 9.4: Figuring Percentages—Answer Key* to check students' work.

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Visual 9.1: Rent-to-Own Contract Facts

A lease is a legal contract that outlines the terms under which one party agrees to rent property from another party. A rent-to-own contract is a basic lease contract with the option to purchase the good leased and generally adheres to the following terms:

- No down payment or credit check is required.
- A consumer (renter) can get immediate delivery of new furniture, appliances, or other goods.
- The merchandise may be rented by the week or month.
- The consumer owns the merchandise after all payments have been made.
- If the merchandise is kept for a minimum amount of time, there is no penalty charged for returning it.
- If a payment is missed, the consumer must return the merchandise—that is, it will be repossessed—and will receive nothing in return for the payments made (except the benefit of having used the merchandise).

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Handout 9.1: Key Elements of a Contract

Competent parties

The individuals involved in a contract must be competent parties able to understand the conditions of the contract—that is, what they are agreeing to. For example, a mentally impaired person (for example, from drugs or illness) might not understand the conditions of the contract, and it is unlikely that a court would hold such a person to the contract. Generally, minors (usually those under age 18) may not enter into a binding contract without parental consent unless it is for necessities of life (for example, food or clothing) or a student loan.

Consideration

Consideration is what is exchanged in a contract and is the reason for the contract—one party gives something up and the other party provides something. Money is the most common consideration. Other examples of consideration include property, goods, and a promise to do or not to do something. Agreeing to perform an illegal act is not a valid consideration, and any contract that includes such an agreement would be void.

Mutual agreement

Mutual agreement is when both parties in a contract agree to the essential details, rights, and obligations of the contract. Mutual agreement may be given in writing or verbally.

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Handout 9.2: Rent-to-Own Costs vs. Retail Prices

Directions: Calculate the missing information in the chart.

Merchandise description	Rent-to-own payments	Rent-to-own cost	Retail price	Difference
50″ Plasma TV	$279.99 per month for 12 months		$1,449.50	$1,910.38
Gaming system bundle	_____ per month for 12 months	$1,170.00	$250.00	$920.00
22″ Chrome car wheel	$266.48 per month for 12 months	$3,197.76	$1,776.50	
Laptop computer	$149.99 per month for 12 months	$1,799.88		$799.95
Refrigerator	$139.99 per month for 12 months		$799.99	
Smooth-top, self-cleaning range	$139.99 per month for 12 months	$1,679.88	$764.99	
Electric guitar	$60.75 per month for 12 months		$405.00	

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Handout 9.2: Rent-to-Own Costs vs. Retail Prices—Answer Key

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50″ Plasma TV	$279.99 per month for 12 months	***$3,359.88***	$1,449.50	$1,910.38
Gaming system bundle	***$97.50*** per month for 12 months	$1,170.00	$250.00	$920.00
22″ Chrome car wheel	$266.48 per month for 12 months	$3,197.76	$1,776.50	***$1,421.26***
Laptop computer	$149.99 per month for 12 months	$1,799.88	***$999.93***	$799.95
Refrigerator	$139.99 per month for 12 months	***$1,679.88***	$799.99	***$879.89***
Smooth-top, self-cleaning range	$139.99 per month for 12 months	$1,679.88	$764.99	***$914.89***
Electric guitar	$60.75 per month for 12 months	***$729.00***	$405.00	***$324.00***

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Handout 9.3: Assessment

Directions: Read the scenario and answer the questions.

José is trying to decide whether to purchase a new TV with a rent-to-own contract or an installment loan. Primo Electronics has the TV he wants for $500. José can get a one-year installment loan from the store at a 21 percent interest rate. An advertisement for the nearby rent-to-own store says they have the same model available for $15 a week. José heads to the rent-to-own store for more information. The assistant manager tells José that he could own the television in 72 weeks. José multiplies $15 × 72 to see what the rent-to-own option will cost. The total is $1,080.

The manager tells José that if he misses one payment, the rent-to-own store will take back the TV. José calculates that if he makes 50 payments on time (50 × $15), he would spend a total of $750 up to that point. If he missed the next payment, though, he realizes he would lose the TV and be out the $750.

José decides to purchase the TV from Primo Electronics instead. He obtains a one-year installment loan with a 21 percent interest rate. His monthly payments will be $46.56, totaling $558.72 for the life of the loan.

a. How much money did José save by buying the television using an installment loan?

b. What are the advantages of José's choice? Explain your answer.

c. If you were José, what would you do with the money you saved?

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Handout 9.4: Figuring Percentages

Directions: For each item in the chart below, determine the rent-to-own cost as a percentage of the retail price as follows:

1. Divide the difference between the two prices by the retail price.
2. Move the decimal two places to the right to change the answer from a decimal to a percentage.
3. Round to the nearest hundredth (two decimal places).

   The first answer is provided for you and was computed as follows:
   $1,910.38/$1,449.50 = 132%

Merchandise description	Rent-to-own payments	Rent-to-own cost	Retail price	Difference	Difference divided by retail price
50" Plasma TV	$279.99 per month for 12 months	$3,359.88	$1,449.50	$1,910.38	**132%**
Gaming system bundle	$97.50 per month for 12 months	$1,170.00	$250.00	$920.00	
22" Chrome car wheel	$266.48 per month for 12 months	$3,197.76	$1,776.50	$1,421.26	
Laptop computer	$149.99 per month for 12 months	$1,799.88	$999.93	$799.95	
Refrigerator	$139.99 per month for 12 months	$1,679.88	$799.99	$879.89	
Smooth-top, self-cleaning range	$139.99 per month for 12 months	$1,679.88	$764.99	$914.89	
Electric guitar	$60.75 per month for 12 months	$729.00	$405.00	$324.00	

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Handout 9.4: Figuring Percentages—Answer Key

Directions: For each item in the chart below, determine the rent-to-own cost as a percentage of the retail price as follows:

1. Divide the difference between the two prices by the retail price.
2. Move the decimal two places to the right to change the answer from a decimal to a percentage.
3. Round to the nearest hundredth (two decimal places).

   The first answer is provided for you and was computed as follows:
   $1,910.38/$1,449.50 = 132%

Merchandise description	Rent-to-own payments	Rent-to-own cost	Retail price	Difference	Difference divided by retail price
50″ Plasma TV	$279.99 per month for 12 months	$3,359.88	$1,449.50	$1,910.38	*132%*
Gaming system bundle	$97.50 per month for 12 months	$1,170.00	$250.00	$920.00	*368%*
22″ Chrome car wheel	$266.48 per month for 12 months	$3,197.76	$1,776.50	$1,421.26	*80%*
Laptop computer	$149.99 per month for 12 months	$1,799.88	$999.93	$799.95	*80%*
Refrigerator	$139.99 per month for 12 months	$1,679.88	$799.99	$879.89	*110%*
Smooth-top, self-cleaning range	$139.99 per month for 12 months	$1,679.88	$764.99	$914.89	*120%*
Electric guitar	$60.75 per month for 12 months	$729.00	$405.00	$324.00	*80%*

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Standards and Benchmarks

National Standards in K-12 Personal Finance

Financial Responsibility and Decision Making Overall Competency: Apply reliable information and systematic decision making to personal financial decisions.

Standard 1: Take responsibility for personal financial decisions.

- Expectation 2, 8th Grade: Give examples of the benefits of financial responsibility and the costs of financial irresponsibility.

Standard 4: Make financial decisions by systematically considering alternatives and consequences.

- Expectation 3, 8th Grade: Evaluate the results of a financial decision.
- Expectation 6, 12th Grade: Give examples of how decisions made today can affect future opportunities.

Standard 5: Develop communication strategies for discussing financial issues.

- Expectation 3, 12th Grade: Give examples of contracts between individuals and between individuals and businesses, and identify each party's basic responsibilities.

Common Core State Standards: Grades 6-12 Literacy in History/Social Studies, Science, and Technical Subjects

History and Social Studies

- Key Ideas and Details

  CCSS.ELA-Literacy.RH.6-8.2: Determine the central ideas or information of a primary or secondary source; provide an accurate summary of the source distinct from prior knowledge or opinions.

- Craft and Structure

  CCSS.ELA-Literacy.RH.6-8.4: Determine the meaning of words and phrases as they are used in a text, including vocabulary specific to domains related to history/social studies.

- Integration of Knowledge and Ideas

  CCSS.ELA-Literacy.RH.6-8.7: Integrate visual information (e.g., in charts, graphs, photographs, videos, or maps) with other information in print and digital texts.

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Annual percentage rate – The percentage cost of credit on an annual basis and the total cost of credit to the consumer. APR combines the interest paid over the life of the loan and all fees that are paid up front. (Lessons 8 and 9)

Automatic teller machine (ATM) card – A form of debit card used in a cash to access an account by using a code. (Lesson 3)

Bank account register – A tool in which an account holder lists his or her initial balance in an account and then records all debits and credits in order to maintain an accurate record of account activity and an accurate balance. (Lesson 3)

Bank statement – A statement given to accounts holders bank or credit union to keep them informed of all transactions they made during the statement period. These statements are sent on a regular basis or posted online. (Lesson 3)

Budget – An itemized summary of probable income and expenses for a given period. A budget is a plan for managing income, spending, and saving during a given period of time. (Lesson 4)

Capacity – A borrower's ability to repay debt. (Lesson 7)

Character – A borrower's reputation for paying bills and debts based on past behavior. (Lesson 7)

Check – A printed form directing a bank to withdraw money from an account and pay it to another account. (Lesson 3)

Checking account – An account held at a bank or credit union in which account owners deposit funds. Account owners have the privilege of writing checks on their accounts and are able to use ATM cards and debit cards to access funds. (Lesson 3)

Check-cashing services – Businesses that provide services such as cashing all types of checks, including payroll, insurance, tax refund, settlement, government, and Social Security payments. These businesses may also provide other services, such as payday loans, money orders and money wires. (Lesson 3)

Collateral – Property required by a lender and offered by a borrower as a guarantee of payment on a loan. Also, a borrower's savings, investments or the value of the asset purchased that can be seized if the borrower fails to repay a debt. (Lesson 7)

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Competent parties – The individuals involved in a contract, who must be able to understand the conditions of the contract. (Lesson 9)

Compound interest – Interest computed on the sum of the original principal and accrued interest. (Lesson 5)

Consideration – What each party of a contract gives up in exchange for what the other party is providing. (Lesson 9)

Contract – An exchange, promise, or agreement between two parties that is enforceable by law. For example, a car buyer agrees to pay the amount financed at an agreed upon interest rate for the length of the contract. (Lesson 9)

Credit – The granting of money or something else of value in exchange for a promise of future repayment. (Lessons 6 and 7)

Credit cards – Cards that represent an agreement between a lender—the institution issuing the card—and the cardholder. Credit cards may be used repeatedly to buy products or services or to borrow money on credit. Credit cards are issued by banks, savings and loan associations, retail stores, and other businesses. (Lesson 6)

Credit history – A person's payment activity over a period of time. (Lesson 6)

Credit report – A loan and bill payment history kept by a credit bureau and used by financial institutions and other potential creditors to determine the likelihood a future debt will be repaid. (Lesson 6)

Credit reporting bureau – An organization that compiles credit information on individuals and businesses and makes it available to businesses for a fee. (Lesson 6)

Credit responsibilities – The actions or behaviors in which people should engage when they use credit. (Lesson 7)

Credit rights – The protections put in place by law to help people obtain and maintain credit. (Lesson 7)

Creditor – A person, financial institution, or other business that lends money. (Lessons 6 and 7)

Credits – Additions or deposits to an account. In a bank account register, credits are added to the balance. (Lesson 2)

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Debits – Charges to or withdrawals from an account. In a bank account register, debits are subtracted from the balance. (Lesson 3)

Debit card – A plastic card similar to a credit card that allows money to be withdrawn payments made directly from the holder's bank account. (Lesson 3)

Direct deposit – An electronic transaction in which money is deposited directly into a payee's bank account from a payer's bank account. (Lesson 3)

Elements of a contract – Competent parties, consideration, and mutual agreement are the elements of a contract that must be present to make the contract legal and enforceable. Competent parties are the individuals involved in a contract, who must be able to understand the conditions of the contract. Consideration is what each party of a contract gives up in exchange for what the other party is providing. Mutual agreement is that each party to a contract is clear as to the essential details, rights, and obligations of the contract. (Lesson 9)

Exempt (from withholding) – Free from withholding of federal income tax. A person must meet certain income, tax liability, and dependency criteria. This does not exempt a person from other kinds of tax withholding, such as the Social Security tax. (Lesson 2)

Exemption – Amount that taxpayers can claim for themselves, their spouses, and eligible dependents. There are two types of exemptions—personal and dependency. Each exemption reduces the income subject to tax. The exemption amount is a set amount that changes from year to year. (Lesson 2)

Expenses – The costs people incur for goods and services. Expenses are often categorized as fixed, variable, or periodic. Fixed expenses are those that occur each month in a regular amount, such as rent, car payments, and mortgage payments. Variable expenses are those that change from one time period to the next, such as food, clothing, gasoline, and entertainment. Periodic expenses are those that occur several times a year, such as car insurance and life insurance payments. (Lesson 4)

Federal income tax – The tax the federal government levies on personal income. The federal income tax provides for national programs such as defense, foreign affairs, law enforcement, and interest on the national debt. (Lesson 2)

Federal Insurance Contributions Act (FICA) tax – A tax or required contribution that most workers and employers pay. FICA is a payroll tax used to fund Social Security and Medicare. (Lesson 2)

Fees – Money charged to review your application for credit or to service your credit account, such as maintenance fees or late fees. Banks also often charge fees for servicing bank accounts, such as charges for using a non-bank ATM. (Lessons 2, 6, and 7)

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File a return – To mail or otherwise transmit to an Internal Revenue Service (IRS) service center a taxpayer's information, in specified format, about income and tax liability. This information (the return) can be filed on paper, electronically, or by telephone. (Lesson 2)

Fixed expenses – Expenses that occur each month in a regular amount, such as rent, car, or mortgage payments. (Lesson 4)

Form W-2, Wage and Tax Statement – A summary of a person's earning and tax withholding for an entire year. Employers must provide a W-2 to employees by the end of January for the previous year's employment to report annual income and withholding for the employees' tax returns. (Lesson 2)

Form W-4, Employee's Withholding Allowance Certificate – A form completed by the employee and used by the employer to determine the amount of income tax to withhold. (Lesson 2)

Gross pay – The amount people earn per pay period before any deductions or taxes are paid. (Lesson 2)

Human capital – The knowledge and skills that people obtain through education, experience, and training. (Lesson 1)

Income – The payment people receive for providing resources in the marketplace. When people work, they provide human resources (labor) and in exchange they receive income in the form of wages or salaries. People also earn income in the form of rent, profit, and interest. (Lessons 2 and 4)

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). (Lesson 2)

Interest – The price of using someone else's money. When people place their money in a bank, the bank uses the money to make loans to others. In return, the bank pays interest to the account holder. Those who borrow from banks or other organizations pay interest for the use of the money borrowed. (Lessons 5, 6, 7, and 8)

Interest rate – The percentage of the amount loaned that is charged for a loan. Also, the percentage paid on a savings account. (Lessons 6 and 8)

Internal Revenue Service (IRS) – The federal agency that collects income taxes in the United States. (Lesson 2)

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Investment in human capital – The efforts people put forth to acquire human capital. These efforts include education, experience, and training. (Lesson 1)

Loan – A sum of money provided temporarily on the condition that the amount borrowed be repaid, usually with interest. (Lesson 8)

Medicare tax – A payroll tax that is part of FICA, collected from most employees and employers to fund the hospital insurance provided under the Medicare system. Used to provide medical benefits for certain individuals when they reach age 65. Workers, retired workers, and the spouses of workers and retired workers are eligible to receive Medicare benefits upon reaching age 65. (Lesson 2)

Mutual agreement – That each party to a contract is clear as to the essential details, rights, and obligations of the contract.

Net pay – Gross pay minus deductions and taxes. (Lesson 2).

Non-interest bearing account – An account in which no interest is paid on the principal, which is the amount of deposit or account balance. Also called a zero-interest account. (Lesson 5)

Overdraft – The result of an account holder authorizing a withdrawal through a check, ATM, debit card purchase, or electronic payment when the account does not have enough money to cover the transaction. (Lesson 3)

Payday loan – A small, short-term loan that is intended to cover a borrower's expenses until his or her next payday. May also be called a paycheck advance or a payday advance. (Lesson 8)

Payroll deduction – Amounts subtracted from gross pay, which results in your net pay. (Lesson 2)

Periodic expenses – Expenses that occur several times a year, such as car insurance or life insurance payments. (Lesson 4)

Principal – The original amount of money deposited or invested, excluding any interest or dividends. Also refers to the original amount of a loan without any interest. (Lesson 5)

Rent-to-own contract – A contract that allows consumers to get immediate delivery on new furniture, appliances, or other items. There is no down payment or credit check required. If the consumer keeps the rental item for a minimum amount of time, there is no penalty charged for returning it. If the renter misses a payment, the contract requires them to return the item. (Lesson 9)

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Risk-reward relationship – The idea that there is a direct relationship between risk of loss of principal and expected rate of return. The higher the risk of loss of principal for an investment, the greater the potential reward. Conversely, the lower the risk of loss of principal for an investment, the lower the potential reward. (Lesson 5)

Rule of 72 – A method to estimate the number of years it will take for a financial investment (or debt) to double its value (or cost). Divide 72 by the interest rate (percentage) to determine the approximate number of years it will take the investment (debt) to double its value (cost). (Lesson 5)

Saving – Not spending on current consumption or taxes. Saving involves giving up some current consumption for future consumption. (Lesson 5)

Savings account – An account with a bank or credit union in which people can deposit their money for future use and earn interest. (Lesson 3)

Social Security tax – A payroll tax that is part of FICA (Federal Insurance Contributions Act) and is collected from most employees and employers to fund Social Security, which provides old-age, survivors', and disability income. (Lesson 2)

Taxes – Government fees on business and individual income, activities, property, or products that people are required to pay. Tax revenue collected is used to provide government goods and services to citizens and to allow government to operate. (Lesson 2)

Tax refund – Money owed to taxpayers when their total tax payments are greater than the total tax. Refunds are received from the government. (Lesson 2)

Variable expenses – Expenses that change from time period to time period, such as food, clothing, gasoline, and entertainment. (Lesson 4)

(W-2) – See "Form-W2"

(W-4) – See "Form-W4"

Wages – Income earned for providing human resources (labor) in the market. Wages are usually computed by multiplying an hourly pay rate by the number of hours worked. (Lesson 2)

Withholding allowance – The amount of money that an employer withholds from an employee's paycheck. This money is deposited for the government on behalf of the individual taxpayer. (It will be credited against the employee's tax liability when he or she files a return.) Employers withhold money for federal income taxes, Social Security taxes, and state and local income taxes in some states and localities. (Lesson 2)

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