

**Tools for Teaching**  
*the* **Missouri**  
**Personal Finance Competencies**

Developed by the Federal Reserve Bank of St. Louis

**Federal Reserve Bank of St. Louis**  
[http://www.stlouisfed.org/education\\_resources/](http://www.stlouisfed.org/education_resources/)

**Tools for Teaching the Missouri Personal Finance Competencies**

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# Tools for Teaching *the* Missouri Personal Finance Competencies

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## Preface

In April 2004, the Missouri Commissioner of Education appointed a task force to review high school graduation requirements and recommend constructive measures to benefit students, schools, and the economy. As the task force concluded its work, the Missouri General Assembly issued a resolution encouraging the task force to recommend a mandated personal finance course to the State Board of Education. In 2005, the State Board of Education adopted new requirements, including a half-unit (one-semester) personal finance course for all students who graduate from public high schools in Missouri. The requirements began with the graduating class of 2010. Missouri students may satisfy the course requirement in one of three ways: (i) passing a semester-long course in personal finance; (ii) passing a course in which personal finance content is embedded and then take an online personal finance test through the Missouri Department of Elementary and Secondary Education (MODESE) (with individual school districts determining a passing grade); or (iii) testing out of the course requirement by passing the MODESE test with a score of at least 90 percent, the minimum set by the state.

Also in 2004, the MODESE Division of Career Education contracted with the Missouri Center for Career Education to lead the development of learner outcomes and other specific components deemed necessary for appropriate personal finance education. The center developed the personal finance course competencies in 2005 (see the appendix). The economic education team at the Federal Reserve Bank of St. Louis prepared this resource, *Tools for Teaching the Missouri Personal Finance Competencies*, to help Missouri teachers and students meet those competencies.

# Overview

This manual is divided by topic into five sessions. Each session lists a variety of resources on the given topic(s) for use over multiple class periods. The majority of these resources are available online for free; one lesson is from Virtual Economics 4.0<sup>®</sup>. The class time required to use each resource varies and could require a few minutes or the entire class period. Online courses are designed to be completed by students individually.

Each session includes the following sections:

## **Session Description**

The session description indicates the overall purpose of the session.

## **Talking Points**

The talking points provide simple wording of the main concepts in the session. These points are not tied to a particular resource and are not intended to be presented in their entirety as listed; rather, teachers are encouraged to reference the talking points as needed.

## **Standards and Benchmarks**

This list includes an accumulation of the standards and benchmarks met by using all of the resources recommended for each session. The standards referenced are the Missouri Personal Finance Competencies, National Standards for Financial Literacy, and Common Core State Standards.

## **Resources**

The type, number, and sources of resources recommended vary by session. Although you may elect to pick and choose which resources to use, for optimal learning it is recommended they be used in the order listed, as they were selected to build topically.

## Links to Resources

### Personal Finance Standards


- [Missouri Personal Finance Competencies](http://dese.mo.gov/sites/default/files/personal_finance_competencies.pdf);  
[http://dese.mo.gov/sites/default/files/personal\\_finance\\_competencies.pdf](http://dese.mo.gov/sites/default/files/personal_finance_competencies.pdf)
- [Council for Economic Education, National Standards for Financial Literacy](http://www.councilforeconed.org/resource/national-standards-for-financial-literacy/);  
<http://www.councilforeconed.org/resource/national-standards-for-financial-literacy/>
- [Common Core State Standards](http://www.corestandards.org/); <http://www.corestandards.org/>

### Glossary

- Federal Reserve Bank of St. Louis, [Page One Glossary of Terms](http://research.stlouisfed.org/pageone-economics/pages/glossary.php);  
<http://research.stlouisfed.org/pageone-economics/pages/glossary.php>

## Using Online Courses from the Federal Reserve Bank of St. Louis

The recommended resources include free online courses from the Federal Reserve Bank of St. Louis. These interactive courses are designed for students to complete individually online. Once registered, teachers gain access to a “Management Panel” that allows them to preview the courses and monitor student use and scores. To register, complete the following:

1. Go to [www.stlouisfed.org](http://www.stlouisfed.org).
2. Choose the “Education Resources” tab.
3. Choose  Teachers: Go directly to the Online Course Login .
4. In the pop-up window, choose “Visit the Instructor Management Panel.”
5. To register as an instructor, choose “Register.”
6. Enter the required information and press “Submit.”
7. An email will be sent to you with a link to the Management Panel and your temporary instructor code and password.
8. Sign in and create a new password. Going forward, you will log in using your email address and chosen password.
9. Depending on your needs, choose either “Courses” or “Video Q&A” in the top navigation bar.
10. To see descriptions, choose individual course/video names in the left-hand column. Course/video descriptions will appear in the right-hand column.
11. To preview a given course/video, choose “Preview Course/Video” above the description. (Note: Some courses/videos have multiple lessons or are part of a series. You will be able to preview each individual item.)
12. To select a course/video for student use, choose “Add to Classroom” above the description. You will be prompted to add a classroom and students if you have not done so already.
13. To access log-in information for your students, choose the “My Classrooms” tab in the top navigation bar. In the left-hand column, choose the desired classroom name. Under the student names that appear in the right-hand column, choose either “Print Log-In Information” or “Email Log-In Information” and follow the prompts.
14. To review student progress, choose individual course/video names in the left-hand column (on the “My Classroom” page). In the navigation bar at the top of the right-hand column, choose “Student Progress.” From the same navigation bar, choose the “Discussion” tab to read/post discussion board items, the “Polling Questions” tab to push polling questions to students, and the “Survey” tab to complete a teacher survey about the given course/video.

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# SESSION 1: SCARCITY and CHOICE (DECISIONMAKING)

## Session Description

Scarcity of resources requires individuals, organizations, and governments to make decisions. Students will experience decisionmaking in several ways by completing activities regarding choosing a college and buying a computer.

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## Talking Points

1. Economics is fundamentally about scarcity—not having enough resources to produce all of the goods and services that would satisfy the wants of individuals or society in general.
2. People face scarcity of marketable resources (land, labor, capital, and entrepreneurship). This scarcity limits their ability to earn income.
3. Because of limited income and limits to their time, people must make choices about allocating/rationing what is available.
4. The PACED model provides a five-step process for making decisions:
  - P:** Identify the **problem**. Usually, the problem is related to scarcity.
  - A:** List **alternatives**—the options you will choose from.
  - C:** Select **criteria**—the things that are important to you in making the decision.
  - E:** **Evaluate** alternatives based on the criteria.
  - D:** Make a **decision**.
5. Even though people may face the same problem and alternatives, they may have different criteria and evaluate the alternatives differently based on those criteria. So, faced with the same problem, people do not necessarily make the same decision.
6. The PACED model is not about finding the “correct” choice for everybody; it is about making a careful, well-informed decision for yourself.

## Session 1: Standards and Benchmarks

### Missouri Personal Finance Competencies

#### *Money Management*

2. Interpret the opportunity costs of financial decisions.
3. Evaluate the consequences of personal financial decisions.
4. Apply a decision-making process to personal financial choices.

### National Standards for Financial Literacy



All six standards have a focus on decisionmaking.

### Common Core State Standards

- CCSS.ELA-Literacy.RH.9-10.4 Determine the meaning of words and phrases as they are used in a text, including vocabulary describing political, social, or economic aspects of history/social science.
- CCSS.ELA-Literacy.SL.9-10.1 Initiate and participate effectively in a range of collaborative discussions (one-on-one, in groups, and teacher-led) with diverse partners on grades 9–10 topics, texts, and issues, building on others' ideas and expressing their own clearly and persuasively.
- CCSS.ELA-Literacy.SL.9-10.4 Present information, findings, and supporting evidence clearly, concisely, and logically such that listeners can follow the line of reasoning and the organization, development, substance, and style are appropriate to purpose, audience, and task.
- 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.11-12.4 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*).
- 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.
- CCSS.ELA-Literacy.SL.11-12.1 Initiate and participate effectively in a range of collaborative discussions (one-on-one, in groups, and teacher-led) with diverse partners on grades 11–12 topics, texts, and issues, building on others' ideas and expressing their own clearly and persuasively.
  - CCSS.ELA-Literacy.SL.11-12.1B Work with peers to promote civil, democratic discussions and decision-making, set clear goals and deadlines, and establish individual roles as needed.

- CCSS.ELA-Literacy.SL.11-12.4 Present information, findings, and supporting evidence, conveying a clear and distinct perspective, such that listeners can follow the line of reasoning, alternative or opposing perspectives are addressed, and the organization, development, substance, and style are appropriate to purpose, audience, and a range of formal and informal tasks.

## Session 1: Resources

1. Online course: The Art of Decisionmaking
  - a. Go to [www.stlouisfed.org](http://www.stlouisfed.org).
  - b. Choose "Education Resources."
  - c. Choose  Teachers: Go directly to the Online Course Login .
  - d. Create an account or, if you already have an account, log in.
  - e. Register your class for "The Art of Decisionmaking" course.
  
2. Online course: Opportunity Cost
  - a. Go to [www.stlouisfed.org](http://www.stlouisfed.org).
  - b. Choose "Education Resources."
  - c. Choose  Teachers: Go directly to the Online Course Login .
  - d. Create an account or, if you already have an account, log in.
  - e. Register your class for the "Opportunity Cost" course.
  
3. Online videos: Personal Finance 101 Conversations
  - a. [Episode 14, FAFSA 101](http://www.stlouisfed.org/education_resources/personal-finance-101-conversations/episode-14-fafsa-101/) (7:43); [http://www.stlouisfed.org/education\\_resources/personal-finance-101-conversations/episode-14-fafsa-101/](http://www.stlouisfed.org/education_resources/personal-finance-101-conversations/episode-14-fafsa-101/)
  - b. [Episode 15, College Choice 101](http://www.stlouisfed.org/education_resources/personal-finance-101-conversations/episode-15-college-choice-101/) (5:26); [http://www.stlouisfed.org/education\\_resources/personal-finance-101-conversations/episode-15-college-choice-101/](http://www.stlouisfed.org/education_resources/personal-finance-101-conversations/episode-15-college-choice-101/)
  - c. [Episode 16, Financial Aid 101](http://www.stlouisfed.org/education_resources/personal-finance-101-conversations/episode-16-financial-aid-101/) (8:38); [http://www.stlouisfed.org/education\\_resources/personal-finance-101-conversations/episode-16-financial-aid-101/](http://www.stlouisfed.org/education_resources/personal-finance-101-conversations/episode-16-financial-aid-101/)
  
4. Any table from *Consumer Reports*
  - a. Share as a real-world example of the PACED model in action.

## **SESSION 2:**

# **Earning Income and Paying Taxes**

### **Session Description**

Students will learn about sources of income for most people and the type of income related to each source. They will learn about human capital and the return to investments in human capital. They will learn about government transfer programs. They will also learn about income and payroll taxes, gross income, and net income.

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### **Talking Points**

#### *Money Management*

1. People earn income by providing resources in the marketplace.
  - a. If they provide labor, they receive income in the form of a wage or salary.
  - b. If they provide natural resources—land or trees or resources found underground—they earn rent.
  - c. People can earn interest income from letting other people borrow their money.
  - d. People earn interest when they keep money in savings accounts and CDs. People also earn interest, dividends, and capital appreciation or gains through financial investments that they make.
  - e. People who own or start new businesses (entrepreneurs) earn income in the form of profit.
2. Some people receive income support from the government because they have low incomes or because they qualify in some other way for government assistance. For example, people who are retired receive Social Security payments and people with low incomes are eligible for welfare payments. Both Social Security and welfare payments are transfer payments because money is transferred from those currently working to those receiving welfare or Social Security.
3. The choices people make over their lifetimes about education, jobs, and careers affect their incomes and their opportunities.
4. People with more education and more job skills tend to earn higher incomes than those with less education and fewer job skills.
5. Getting more education and learning new job skills can increase a person's human capital and productivity. Human capital is the education and skills that a person possesses.

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6. Investing in human capital involves obtaining more education and more job skills. Such investments generally pay off with higher levels of income over a lifetime. However, there are opportunity costs associated with obtaining education, training, and skills.
7. A career is based on working at the same type of job/occupation or profession for many years. Different careers require different types of education and training.
8. People choose jobs or careers for which they are qualified based on the income they expect to earn and the benefits they expect to receive. Benefits include things such as health insurance coverage and retirement plans. People also make choices based on expected job satisfaction, independence, risk, family, or location.

### *Taxes, Government Transfer Programs, and Employee Benefits*

1. Income earned from working and most other sources of income are taxed. Taxes are required payments to the government. Governments use the revenue from these taxes to operate and provide goods and services.
2. Taxes that most people pay on income include
  - a. federal income taxes and, in some states, a state income tax;
  - b. payroll taxes for the Federal Insurance Contributions Act (FICA), which include both Social Security payments and Medicare payments; and
  - c. taxes on interest and dividends earned as well as taxes on capital gains.
3. The amount of income tax and FICA paid affects net pay.
  - a. Gross pay is the amount people earn for the work that they do.
  - b. Net pay is the amount people receive after taxes and other deductions are taken out.
4. How much income tax a person pays is tied to the amount they earn and the information they report to their employer on the W-4 form. The form tells employers what factors to consider when determining the amount of tax an employee pays and include whether the employee
  - a. is single or married,
  - b. is the head of a household, or
  - c. has a spouse who is employed.
5. Another factor that affects an employee's net pay is deductions for employee benefits. For example, if the company offers health care, typically an employee pays a portion of the monthly cost. This payment is deducted from the employee's pay. And, if the

company provides a 401(k) or Roth 401(k) retirement account, the employee's contributions are deducted each pay period either before or after taxes are paid, depending on the type of retirement account.

6. Once all taxes and other payments are deducted from a paycheck, the amount remaining is net pay.
7. Once people pay their bills, the amount remaining is their disposable income.

## Session 2: Standards and Benchmarks

### Missouri Personal Finance Competencies

#### *Income*

1. Identify components and sources of income.
2. Analyze how career choice, education, skills, and economic conditions affect income and goal attainment.
3. Relate taxes, government transfer payments, and employee benefits to disposable income.

### National Standards for Financial Literacy

#### *Standard 1: Earning Income, Grade 8 Benchmarks*

2. People make many decisions over a lifetime about their education, jobs, and careers that affect their incomes and job opportunities.
3. Getting more education and learning new job skills can increase a person's human capital and productivity.
4. People with less education and fewer job skills tend to earn lower incomes than people with more education and greater job skills.
5. Investment in education and training generally has a positive rate of return in terms of the income that people earn over a lifetime.
6. Education, training, and development of job skills have opportunity costs in the form of time, effort, and money.
8. Entrepreneurs take the risk of starting a business because they expect to earn profits as their reward, despite the fact that many new businesses can and do fail. Some entrepreneurs gain satisfaction from working for themselves.
9. Interest, dividends, and capital appreciation (gains) are forms of income earned from financial investments.
10. Some people receive income support from government because they have low incomes or qualify in other ways for government assistance.
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.

#### *Standard 1: Earning Income, Grade 12 Benchmarks*

1. People choose jobs or careers for which they are qualified based on the income they expect to earn and the benefits, such as health insurance coverage or a retirement plan that they expect to receive.



2. People choose jobs or careers for which they are qualified based on non-income factors, such as job satisfaction, independence, risk, family, or location.
3. People vary in their willingness to obtain more education or training because these decisions involve incurring immediate costs to obtain possible future benefits. Discounting the future benefits of education and training may lead some people to pass up potentially high rates of return that more education and training may offer.
4. People can make more informed education, job, or career decisions by evaluating the benefits and costs of different choices.
5. The wage or salary paid to workers in jobs is usually determined by the labor market. Businesses are generally willing to pay more productive workers higher wages or salaries than less productive workers.
6. Changes in economic conditions or the labor market can cause changes in a worker's income or may cause unemployment.
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.
8. People's 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

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


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

## Session 2: Resources

### *Income and Earning Income*

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

NOTE: The introductory activity in the online course is different from the activity in the print lesson.

2. Online videos: Personal Finance 101 Conversations (NOTE: Making education decisions is related to this unit as well as Session 1 [Decisionmaking], so these videos are included in both sessions.)
  - a. [Episode 14, FAFSA 101](#) (7:43); [http://www.stlouisfed.org/education\\_resources/personal-finance-101-conversations/episode-14-fafsa-101/](http://www.stlouisfed.org/education_resources/personal-finance-101-conversations/episode-14-fafsa-101/)
  - b. [Episode 15, College Choice 101](#) (5:26); [http://www.stlouisfed.org/education\\_resources/personal-finance-101-conversations/episode-15-college-choice-101/](http://www.stlouisfed.org/education_resources/personal-finance-101-conversations/episode-15-college-choice-101/)
  - c. [Episode 16, Financial Aid 101](#) (8:38); [http://www.stlouisfed.org/education\\_resources/personal-finance-101-conversations/episode-16-financial-aid-101/](http://www.stlouisfed.org/education_resources/personal-finance-101-conversations/episode-16-financial-aid-101/)
3. Print lesson with whiteboard resources: [Government Spending and Taxes](#);  
[http://www.stlouisfed.org/education\\_resources/government-spending-and-taxes/](http://www.stlouisfed.org/education_resources/government-spending-and-taxes/)

### *Paying Taxes*


4. Complete one of the following, either the print lesson or the online course:
  - a. Print lesson with PowerPoint and whiteboard resources:  
[It's Your Paycheck—Know Your Dough, Lesson 2: "W" Is for Wages, W2 and W4](#);  
[http://www.stlouisfed.org/education\\_resources/its-your-paycheck-curriculum-unit/](http://www.stlouisfed.org/education_resources/its-your-paycheck-curriculum-unit/)

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## Session 2

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- b. Online course: It's Your Paycheck—Know Your Dough, Lesson 2: "W" Is for Wages, W2, and W4
  - i. Go to [www.stlouisfed.org](http://www.stlouisfed.org).
  - ii. Choose "Education Resources."
  - iii. Choose  [Teachers: Go directly to the Online Course Login](#) .
  - iv. Create an account or, if you already have an account, log in.
  - v. Register your class for the "It's Your Paycheck—Know Your Dough, Lesson 2: "W" is for Wages, W2, and W4" course.
  
5. Online lessons: Personal Finance 101 Chats (Lessons in the form of instant-messaging chats)
  - a. [W-4](#) (Provides instruction for how to complete a W-4 form);  
[http://www.stlouisfed.org/education\\_resources/personal-finance-101-chats/personal-finance-101-chat-w-4/](http://www.stlouisfed.org/education_resources/personal-finance-101-chats/personal-finance-101-chat-w-4/)
  - b. [1040 EZ](#) (Provides instruction for how to complete a 1040-EZ form);  
[http://www.stlouisfed.org/education\\_resources/personal-finance-101-chats/pf-101-chat-1040ez/](http://www.stlouisfed.org/education_resources/personal-finance-101-chats/pf-101-chat-1040ez/)

## **SESSION 3:**

# **Financial Goal Setting, Spending, and Credit**

### **Session Description**

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

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### **Talking Points**

#### *Setting & Achieving Financial Goals*

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

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### Session 3

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

#### *Spending*

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

#### *Credit*

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

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

## Session 3: Standards and Benchmarks

### Missouri Personal Finance Competencies

#### *Money Management*

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

#### *Spending and Credit*

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

### National Standards for Financial Literacy

#### *Standard 2: Buying Goods and Services, Grade 8 Benchmarks*

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



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

***Standard 2: Buying Goods and Services, Grade 12 Benchmarks***

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

***Standard 4: Using Credit, Grade 8 Benchmarks***

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

***Standard 4: Using Credit, Grade 12 Benchmarks***

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

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**Tools for Teaching the Missouri Personal Finance Competencies**

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



### Common Core State Standards

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


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

## Session 3: Resources

### *Setting and Achieving Financial Goals*



1. Complete one of the following, either the print lesson or the online course:
  - a. Print lesson with PowerPoint and whiteboard resources:  
[It's Your Paycheck—KaChing!, Lesson 4: Your Budget Plan](http://www.stlouisfed.org/education_resources/its-your-paycheck-curriculum-unit/);  
[http://www.stlouisfed.org/education\\_resources/its-your-paycheck-curriculum-unit/](http://www.stlouisfed.org/education_resources/its-your-paycheck-curriculum-unit/)
  - b. Online course: It's Your Paycheck—KaChing!, Lesson 4: Your Budget Plan
    - i. Go to [www.stlouisfed.org](http://www.stlouisfed.org).
    - ii. Choose "Education Resources."
    - iii. Choose  [Teachers: Go directly to the Online Course Login](#) .
    - iv. Create an account or, if you already have an account, log in.
    - v. Register your class for the "It's Your Paycheck—KaChing!, Lesson 4: Your Budget Plan" course.
  
2. Online course: Budgeting 101
  - a. Go to [www.stlouisfed.org](http://www.stlouisfed.org).
  - b. Choose "Education Resources."
  - c. Choose  [Teachers: Go directly to the Online Course Login](#) .
  - d. Create an account or, if you already have an account, log in.
  - e. Register your class for the "Budgeting 101" course.

### *Spending*

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

4. Essay with Q&A: [“Choices Are Everywhere: Why Can’t We Just Have It All?”](http://research.stlouisfed.org/pageone-economics/uploads/newsletter/2013/PageOneClassroomEdition0113_Opportunity_Costs.pdf); [http://research.stlouisfed.org/pageone-economics/uploads/newsletter/2013/PageOneClassroomEdition0113\\_Opportunity\\_Costs.pdf](http://research.stlouisfed.org/pageone-economics/uploads/newsletter/2013/PageOneClassroomEdition0113_Opportunity_Costs.pdf)
5. Online lessons: Personal Finance 101 Chats (Lessons in the form of instant-messaging chats)
  - a. [Prepaid Debit Cards](http://www.stlouisfed.org/education_resources/personal-finance-101-chats/pf-101-chat-prepaid-debit-cards/) (Explains this form of payment); [http://www.stlouisfed.org/education\\_resources/personal-finance-101-chats/pf-101-chat-prepaid-debit-cards/](http://www.stlouisfed.org/education_resources/personal-finance-101-chats/pf-101-chat-prepaid-debit-cards/)
  - b. [How to Open a Bank Account](http://www.stlouisfed.org/education_resources/personal-finance-101-chats/pf-101-chat-how-to-open-a-bank-account/) (Provides guidance on opening a bank account); [http://www.stlouisfed.org/education\\_resources/personal-finance-101-chats/pf-101-chat-how-to-open-a-bank-account/](http://www.stlouisfed.org/education_resources/personal-finance-101-chats/pf-101-chat-how-to-open-a-bank-account/)
6. [Econ Ed Mobile Learning App](#) (From the Federal Reserve Bank of St. Louis, available on iTunes and Google Play): Beat the Financial Expert (A budget challenge game pitting students’ financial prowess against a seasoned specialist)
  - a. Choose “Budgeting.” Choose “Experiment.” Play the game “Beat the Financial Expert.”



### Credit


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

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

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

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### Tools for Teaching the Missouri Personal Finance Competencies

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



## **SESSION 4:**

# **Saving, Investing, and Protecting**

### **Session Description**

Students will learn about the importance of saving, the various options for financial investments, and how to protect and insure against loss.

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### **Talking Points**

#### *Saving*

1. People's income is saved, spent on goods and services, or used to pay taxes. People choose between immediate spending and saving for future consumption. Because some people are less patient than others, they choose immediate spending over saving.
2. Setting a savings goal can serve as an incentive to encourage people to save. And, having a savings plan helps people reach their savings goals.
3. People may choose to save money in many places. For example, they can save at home, at a commercial bank, a credit union, or a savings and loan.
4. Banks and other financial institutions often pay interest on deposits. People also deposit money in banks because banks are a safe place to keep money.
5. Banks and other financial institutions loan money they receive from depositors (deposits) to borrowers. Banks charge borrowers interest for the loans. Part of the money received as interest from these loans is used to pay interest to depositors for the use of their money.
6. An interest rate is usually expressed as an annual percentage of the amount saved. The interest rate paid on savings and charged on loans, like all prices, is determined in a market. When interest rates increase, people earn more on their savings and their savings grow more quickly. Principal is the initial amount of money deposited on which interest is paid.
7. Compound interest is the interest that is earned on the principal and the interest already earned.
8. The value of a person's savings in the future is determined by the amount saved and the interest rate. The earlier people begin to save, the more savings they will be able to accumulate (all other things equal) as a result of compound interest.

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## Session 4

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9. People save money for different reasons, including higher education, retirement, unexpected events, and large purchases such as cars and homes.
10. To assure savers that their deposits are safe from bank failures, federal agencies guarantee depositors' savings in most commercial banks and savings associations up to a set limit.
11. The interest rate that banks quote is the nominal, or stated, interest rate. The real interest rate expresses the rate of return on savings, adjusted for inflation; that is, the real interest rate is the nominal interest rate minus the rate of inflation. Inflation reduces the value of money, including savings.
12. Usually real interest rates are positive because people expect to be compensated for deferring the use of savings from the present to the future—that is, they expect to be paid interest for letting someone else use their money now instead of using it themselves now.
13. The nominal interest rate tells savers and investors how the dollar value of their savings or investments will grow. The real interest rate tells savers and investors how the purchasing power of their savings or investments will grow.
14. Discounting the future value of a sum of money based on an interest rate allows you to compare money received (or paid) in the future with money held today.
15. Government policies can create incentives and disincentives for people to save. Employer benefit programs also create incentives and disincentives for saving.

### *Investing*

1. After people save enough of their income to cover emergencies, they must make choices about investing their savings so that they might grow at a higher rate of return.
2. A financial investment involves the purchase of a financial asset. Financial assets include a variety of financial instruments, such as bank deposits, stocks, bonds, and mutual funds. Real estate and commodities are also often viewed as financial assets. As discussed earlier, depositors receive interest on money deposited in bank accounts. Investors also receive interest when they own a corporate or government bond or make a loan.
3. When people buy corporate stock, they are purchasing ownership shares in a business. If the business is profitable, share owners expect to receive income in the form of dividends and/or an increase in the stock's value. An increase in the value of an asset such as a stock is called a capital gain. If the business is not profitable, share owners could lose the money they have invested.

4. As with other goods and services, buyers and sellers in financial markets determine the price of financial assets and thus influence the rates of return on those assets. The prices of financial assets reflect what is known about the assets. These prices adjust to new financial news/information. The prices of financial assets are also affected by interest rates, changes in domestic and international economic conditions, monetary policy, and fiscal policy.
5. The rate of return on financial investments includes interest payments, dividends, and capital appreciation expressed as a percentage of the amount invested.
6. Risk is the chance of loss or harm. In the case of financial investments, there is financial risk, with a range of possible outcomes including loss of the investment. Higher-risk investments have a wider range of possible returns. The rate of return earned from investments varies with the amount of risk. In general, the higher the expected rate of return, the higher the risk of loss and vice versa.
7. Some people are more willing to take risk than others. How much risk people are willing to take depends on factors such as personality, income, and family situation.
8. The real return on a financial investment is the nominal (stated) interest rate minus the rate of inflation.
9. Any expenses associated with buying, selling, and holding financial assets decrease the rate of return from an investment. Federal, state, and local tax rates vary on different types of investments and affect the after-tax rate of return on the investment.
10. In general, an investment with relatively high risk will have a lower market price and therefore a higher rate of return than an investment with relatively low risk.
11. Short-term investments generally have lower rates of return than longer-term investments.
12. Diversification involves investing in different types of financial assets in order to lower investment risk.
13. People planning to invest should be aware of the following common poor choices based on faulty logic:
  - a. selling assets at a loss based on the belief that losses weigh more heavily than gains, and
  - b. investing only in assets that are more familiar (i.e., employer's stock or domestic stocks).

14. People planning to invest should recognize that “If it sounds too good to be true, it is.”
15. There is a role for government when individuals do not have access to competitive financial markets or do not have complete information about alternative investments. The Securities and Exchange Commission (SEC), the Federal Reserve, and other government agencies regulate financial markets.

### *Protecting*

1. As noted earlier, risk is the chance of loss or harm. Risk from accidents or unexpected events is an unavoidable part of life. People face personal financial risk when unexpected events damage health, income, property, wealth, or future opportunities.
2. People can choose to accept some risk, take steps to avoid or reduce risk, or transfer risk to others through the purchase of insurance. Each option has costs and benefits. Most people are willing to pay a small cost now if it means they can avoid a possible larger loss later.
3. People often judge potential risk incorrectly because when they hear of harmful events—for example, a storm or fire—they tend to think such events occur more often than they actually do.
4. One way to prepare for unexpected losses is to save for emergencies. Self-insurance involves accepting risk and saving money on a regular basis to cover a potential loss.
5. Insurance is a tool for protecting against risk. People choose different amounts of insurance coverage based on their willingness to accept risk as well as their occupation, lifestyle, age, financial profile, and the price of insurance.
  - a. Insurance allows people to transfer the costs of a potential loss to a third party by paying a fee (called a premium).
  - b. Insurance companies create insurance contracts (policies) by analyzing the outcomes of individuals who face similar types of risks.
  - c. Insurance companies create pools of funds from which to compensate individual policyholders who experience a large loss by collecting relatively small amounts of money (premiums) from policyholders on a regular basis.
  - d. People pay higher prices (premiums) for insurance policies that guarantee higher levels of payment (coverage) in the event of a loss.
  - e. Insurance companies charge higher premiums to cover higher-risk individuals and events because the risk of monetary loss is greater for these individuals and events.
  - f. Often, having insurance results in people taking more risk than they normally would, thus increasing the probability or size of a potential loss.

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- g. Policy features such as deductibles and copayments are cost-sharing features that encourage the policyholder to take steps to reduce the potential size of a loss (claim).
        - h. People can lower insurance premiums by behaving in ways that show they pose a lower risk. For example, taking a safe-driving course or being a nonsmoker may lower a person's car insurance premium.
  6. There are a variety of types of insurance:
    - a. Health insurance provides funds to pay for health care in the event of illness. It may also pay the cost of preventive care.
    - b. Large health insurance companies can often negotiate with doctors, hospitals, and other health-care providers for lower prices for their policyholders.
    - c. Disability insurance provides funds to replace income lost while an individual is ill or injured and unable to work.
    - d. Property and casualty insurance (e.g., renters insurance and car insurance) pays for damage or loss to the insured's property. These types of insurance often include liability coverage in the event that someone is harmed by the insured or on the insured's property.
    - e. Life insurance pays benefits to the insured's beneficiaries in the event that the policyholder dies.
  7. There are times when people may be required by governments or certain types of contracts (e.g., home mortgages) to purchase some types of insurance.
  8. Beyond private insurance, some government-benefit programs provide a social safety net to protect individuals from economic hardship or loss caused by unexpected events. These include government transfer programs such as Social Security disability benefits, unemployment insurance, workers' compensation, Medicare, and Medicaid.
  9. Social networking sites and other online activity can make individuals vulnerable to harm caused by identify theft or misuse of their personal information. Identity theft can result in loss of assets, wealth, and future opportunities. Managing personal information and carefully choosing the environments in which such information is revealed help individuals reduce and insure against the risk of loss due to identity theft.
  10. There are federal and state regulations designed to provide some remedies and assistance for victims of identity theft.

## Session 4: Standards and Benchmarks

### Missouri Personal Finance Competencies

#### *Money Management*

5. Summarize how inflation affects spending and saving decisions.
6. Evaluate how insurance (e.g., auto, home, life, medical and long-term health) and other risk-management strategies protect against financial loss.

#### *Spending and Credit*

9. Demonstrate awareness of consumer protection and information (e.g., identity theft, phishing, and scams).

#### *Saving and Investing*

1. Compare consumer choices for saving and investing.
2. Explain the relationship between saving and investing.
3. Examine reasons for saving and investing (e.g., time value of money).
4. Compare the risk, return, liquidity, manageability, and tax aspects of investment alternatives.
6. Analyze factors affecting the rate of return on investments (e.g., Rule of 72, simple interest, and compound interest).

### National Standards for Financial Literacy

#### *Standard 3: Saving, Grade 8 Benchmarks*

1. 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.
2. For the saver, an interest rate is the price a financial institution pays for using a saver's money and is normally expressed as an annual percentage of the amount saved.
3. Interest rates paid on savings and charged on loans, like all prices, are determined in a market.
4. When interest rates increase, people earn more on their savings and their savings grow more quickly.
5. Principal is the initial amount of money upon which interest is paid.
6. Compound interest is the interest that is earned not only on the principal but also on the interest already earned.
7. The value of a person's savings in the future is determined by the amount saved and the interest rate. The earlier people begin to save, the more savings they

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will be able to accumulate, all other things equal, as a result of the power of compound interest.

***Standard 3: Saving, Grade 12 Benchmarks***

1. People choose between immediate spending and saving for future consumption. Some people have a tendency to be impatient, choosing immediate spending over saving for the future.
2. Inflation reduces the value of money, including savings. The real interest rate expresses the rate of return on savings, taking into account the effect of inflation. The real interest rate is calculated as the nominal interest rate minus the rate of inflation.
3. Real interest rates typically are positive because people expect to be compensated for deferring the use of savings from the present into the future. Higher interest rates increase the rewards for saving.
4. The nominal interest rate tells savers how the dollar value of their savings or investments will grow; the real interest rate tells savers how the purchasing power of their savings or investments will grow.
5. Money received (or paid) in the future can be compared to money held today by discounting the future value based on the rate of interest.
6. Government agencies supervise and regulate financial institutions to help protect the safety, soundness, and legal compliance of the nation's banking and financial system.
7. Government policies create incentives and disincentives for people to save.
8. Employer benefit programs create incentives and disincentives to save. Whether or how much an employee decides to save can depend on how the alternatives are presented by the employer.

***Standard 5: Financial Investing, Grade 8 Benchmarks***

1. 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.
2. Interest is received from money deposited in bank accounts. It is also received by owning a corporate or government bond or making a loan.
3. When people buy corporate stock, they are purchasing ownership shares in a business. If the business is profitable, they will expect to receive income in the form of dividends and/or from the increase in the stock's value. The increase in the value of an asset (like a stock) is called a capital gain. If the business is not profitable, investors could lose the money they have invested.
4. The price of a financial asset is determined by the interaction of buyers and sellers in a financial market.

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**Tools for Teaching the Missouri Personal Finance Competencies**

5. The rate of return on financial investments consists of interest payments, dividends, and capital appreciation expressed as a percentage of the amount invested.
6. Financial risk means that a financial investment has a range of possible returns, including possibilities of actual losses. Higher-risk investments have a wider range of possible returns.
7. The rate of return earned from investments will vary according to the amount of risk. In general a trade-off exists between the security of an investment and its expected rate of return.

### *Standard 5: Financial Investing, Grade 12 Benchmarks*

1. The real return on a financial investment is the nominal return minus the rate of inflation.
2. Federal, state, and local tax rates vary on different types of investments and affect the after-tax rate of return on an investment.
3. Expenses of buying, selling, and holding financial assets decrease the rate of return from an investment.
4. Buyers and sellers in financial markets determine prices of financial assets and therefore influence the rates of return on those assets.
5. An investment with greater risk than another investment will commonly have a lower market price, and therefore a higher rate of return, than the other investment.
6. Shorter-term investments will likely have lower rates of return than longer-term investments.
7. Diversification by investing in different types of financial assets can lower investment risk.
8. Financial markets adjust to new financial news. Prices in those markets reflect what is known about those financial assets.
9. The prices of financial assets are affected by interest rates. The prices of financial assets are also affected by changes in domestic and international economic conditions, monetary policy, and fiscal policy.
10. Investors should be aware of tendencies that people have that may result in poor choices. These include avoiding selling assets at a loss because they weigh losses more than they weigh gains and investing in financial assets with which they are familiar, such as their own employer's stock or domestic rather than international stocks.
11. People vary in their willingness to take risks. The willingness to take risks depends on factors such as personality, income, and family situation.
12. An economic role for governments exists if individuals do not have complete information about the nature of alternative investments or access to competitive financial markets.



13. The Securities and Exchange Commission (SEC), the Federal Reserve, and other government agencies regulate financial markets.

***Standard 6, Protecting and Insuring, Grade 8 Benchmarks***

1. Personal financial risk exists when unexpected events can damage health, income, property, wealth, or future opportunities.
2. Insurance is a product that allows people to pay a fee (called a premium) now to transfer the costs of a potential loss to a third party.
3. Insurance companies analyze the outcomes of individuals who face similar types of risks to create insurance contracts (policies). By collecting a relatively small amount of money, called a premium, from each policyholder on a regular basis, the company creates a pool of funds to compensate those individuals who experience a large loss.
4. Self-insurance is when an individual accepts a risk and saves money on a regular basis to cover potential loss.
5. Insurance policies that guarantee higher levels of payment in the event of a loss (coverage) have higher prices.
6. Insurance companies charge higher premiums to cover higher-risk individuals and events because the risk of monetary loss is greater for these individuals and events.
7. Individuals can choose to accept some risk, to take steps to avoid or reduce risk, or to transfer risk to others through the purchase of insurance. Each option has different costs and benefits.
8. Social networking sites and other online activity can make individuals vulnerable to harm caused by identity theft or misuse of their personal information.

***Standard 6, Protecting and Insuring, Grade 12 Benchmarks***

1. Probability quantifies the likelihood that a specific event will occur, usually expressed as the ratio of the number of actual occurrences to the number of possible occurrences.
2. Individuals vary with respect to their willingness to accept risk. Most people are willing to pay a small cost now if it means they can avoid a possible larger loss later.
3. Judgment regarding risky events is subject to errors because people tend to overestimate the probability of infrequent events, often because they've heard or seen a recent example.
4. People choose different amounts of insurance coverage based on their willingness to accept risk, as well as their occupation, lifestyle, age, financial profile, and the price of insurance.

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**Tools for Teaching the Missouri Personal Finance Competencies**

5. People may be required by governments or by certain types of contracts (e.g., home mortgages) to purchase some types of insurance.
6. An insurance contract can increase the probability or size of a potential loss because having the insurance results in the person taking more risks. Policy features such as deductibles and copayments are cost-sharing features that encourage the policyholder to take steps to reduce the potential size of a loss (claim).
7. People can lower insurance premiums by behaving in ways that show they pose a lower risk.
8. Health insurance provides funds to pay for health care in the event of illness and may also pay for the cost of preventive care. Large health insurance companies can often negotiate with doctors, hospitals, and other health care providers to obtain lower health care prices for their policyholders.
9. Disability insurance is income insurance that provides funds to replace income lost while an individual is ill or injured and unable to work.
10. Property and casualty insurance (including renters insurance) pays for damage or loss to the insured's property and often includes liability coverage for actions of the insured that cause harm to other people or their property.
11. Life insurance benefits are paid to the insured's beneficiaries in the event of the policyholder's death. These payments can be used to replace wages lost when the insured person dies.
12. In addition to privately purchased insurance, some government benefit programs provide a social safety net to protect individuals from economic hardship created by unexpected events.
13. Loss of assets, wealth, and future opportunities can occur if an individual's personal information is obtained by others through identify theft and then used fraudulently. By managing their personal information and choosing the environment in which it is revealed, individuals can accept, reduce, and insure against the risk of loss due to identify theft.
14. Federal and state regulations provide some remedies and assistance for victims of identity theft.





### Common Core State Standards



- CCSS.ELA-Literacy.RH.9-10.1 Cite specific textual evidence to support analysis of primary and secondary sources, attending to such features as the date and origin of the information.
- CCSS.ELA-Literacy.RH.9-10.2 Determine the central ideas or information of a primary or secondary source; provide an accurate summary of how key events or ideas develop over the course of the text.
- CCSS.ELA-Literacy.RH.9-10.4 Determine the meaning of words and phrases as they are used in a text, including vocabulary describing political, social, or economic aspects of history/social science.

- CCSS.ELA-Literacy.SL.9-10.1 Initiate and participate effectively in a range of collaborative discussions (one-on-one, in groups, and teacher-led) with diverse partners on grades 9-10 topics, texts, and issues, building on others' ideas and expressing their own clearly and persuasively.
  - CCSS.ELA-Literacy.SL.9-10.1D Respond thoughtfully to diverse perspectives, summarize points of agreement and disagreement, and, when warranted, qualify or justify their own views and understanding and make new connections in light of the evidence and reasoning presented.
- CCSS.ELA-Literacy.L.9-10.6 Acquire and use accurately general academic and domain-specific words and phrases, sufficient for reading, writing, speaking, and listening at the college and career readiness level; demonstrate independence in gathering vocabulary knowledge when considering a word or phrase important to comprehension or expression.
- CCSS.ELA-Literacy.RH.11-12.1 Cite specific textual evidence to support analysis of primary and secondary sources, connecting insights gained from specific details to an understanding of the text as a whole.
- CCSS.ELA-Literacy.RH.11-12.2 Determine the central ideas or information of a primary or secondary source; provide an accurate summary that makes clear the relationships among the key details and ideas.
- CCSS.ELA-Literacy.SL.11-12.1 Initiate and participate effectively in a range of collaborative discussions (one-on-one, in groups, and teacher-led) with diverse partners on grades 11-12 topics, texts, and issues, building on others' ideas and expressing their own clearly and persuasively.
  - CCSS.ELA-Literacy.SL.11-12.1D Respond thoughtfully to diverse perspectives; synthesize comments, claims, and evidence made on all sides of an issue; resolve contradictions when possible; and determine what additional information or research is required to deepen the investigation or complete the task.
- CCSS.ELA-Literacy.L.11-12.6 Acquire and use accurately general academic and domain-specific words and phrases, sufficient for reading, writing, speaking, and listening at the college and career readiness level; demonstrate independence in gathering vocabulary knowledge when considering a word or phrase important to comprehension or expression.


## Session 4: Resources

### Saving

1. Complete one of the following, either the print lesson or the online course:
  - a. Print lesson with PowerPoint and whiteboard resources:  
[It's Your Paycheck—KaChing!, Lesson 5: Savvy Savers](http://www.stlouisfed.org/education_resources/its-your-paycheck-curriculum-unit/);  
[http://www.stlouisfed.org/education\\_resources/its-your-paycheck-curriculum-unit/](http://www.stlouisfed.org/education_resources/its-your-paycheck-curriculum-unit/)
  - b. Online course: It's Your Paycheck—KaChing!, Lesson 5: Savvy Savers
    - i. Go to [www.stlouisfed.org](http://www.stlouisfed.org).
    - ii. Choose "Education Resources."
    - iii. Choose  [Teachers: Go directly to the Online Course Login](#) .
    - iv. Create an account or, if you already have an account, log in.
    - v. Register your class for the "It's Your Paycheck—KaChing!, Lesson 5: Savvy Savers" course.
2. Online course: Soar to Savings
  - a. Go to [www.stlouisfed.org](http://www.stlouisfed.org).
  - b. Choose "Education Resources."
  - c. Choose  [Teachers: Go directly to the Online Course Login](#) .
  - d. Create an account or, if you already have an account, log in.
  - e. Register your class for the "Soar to Savings" course.
3. Online course: Paying and Receiving Interest
  - a. Go to [www.stlouisfed.org](http://www.stlouisfed.org).
  - b. Choose "Education Resources."
  - c. Choose  [Teachers: Go directly to the Online Course Login](#) .
  - d. Create an account or, if you already have an account, log in.
  - e. Register your class for the "Paying and Receiving Interest" course.
4. Online course: Time Value of Money
  - a. Go to [www.stlouisfed.org](http://www.stlouisfed.org).
  - b. Choose "Education Resources."
  - c. Choose  [Teachers: Go directly to the Online Course Login](#) .
  - d. Create an account or, if you already have an account, log in.
  - e. Register your class for the "Time Value of Money" course.

5. Online Video Q&A (Short videos followed by a few multiple-choice questions)
  - a. No-Frills Money Skills, Episode 1: Growing Money (7:21)
    - i. Go to [www.stlouisfed.org](http://www.stlouisfed.org).
    - ii. Choose "Education Resources."
    - iii. Choose  [Teachers: Go directly to the Online Course Login](#) .
    - iv. Create an account or, if you already have an account, log in.
    - v. Register your class for the "No-Frills Money Skills, Episode 1, Growing Money" video.
  - b. No-Frills Money Skills, Episode 2: Ways to Save: 401(k) and Roth 401(k) (11:12)
    - i. Go to [www.stlouisfed.org](http://www.stlouisfed.org).
    - ii. Choose "Education Resources."
    - iii. Choose  [Teachers: Go directly to the Online Course Login](#) .
    - iv. Create an account or, if you already have an account, log in.
    - v. Register your class for the "No-Frills Money Skills, Episode 2: Ways to Save: 401(k) and Roth 401(k)" video.
6. [Econ Ed Mobile Learning App](#) (From the Federal Reserve Bank of St. Louis, available on iTunes and Google Play): Beat the Expert (A budget challenge game pitting students' financial prowess against a seasoned specialist)
  - a. Choose "Budgeting." Choose "Experiment." Play the game "Beat the Financial Expert."

### *Investing*




7. Print lesson with PowerPoint and whiteboard resources: [Diversification and Risk](#); [http://www.stlouisfed.org/education\\_resources/diversification-and-risk/](http://www.stlouisfed.org/education_resources/diversification-and-risk/)
8. Online Video Q&A (Short videos followed by a few multiple-choice questions)
  - a. No-Frills Money Skills, Episode 3: Getting into Stocks (8:58)
    - i. Go to [www.stlouisfed.org](http://www.stlouisfed.org).
    - ii. Choose "Education Resources."
    - iii. Choose  [Teachers: Go directly to the Online Course Login](#) .
    - iv. Create an account or, if you already have an account, log in.
    - v. Register your class for the "No-Frills Money Skills, Episode 3: Getting into Stocks" video.

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### **Tools for Teaching the Missouri Personal Finance Competencies**

## Session 4

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- b. No-Frills Money Skills, Episode 4: Understanding Bonds (12:44)
    - i. Go to [www.stlouisfed.org](http://www.stlouisfed.org).
    - ii. Choose “Education Resources.”
    - iii. Choose  [Teachers: Go directly to the Online Course Login](#) .
    - iv. Create an account or, if you already have an account, log in.
    - v. Register your class for the “No-Frills Money Skills, Episode 4: Understanding Bonds” video.
  - c. Tools for Enhancing The Stock Market Game™: Invest It Forward™, Understanding Capital Markets—High School and College (5:33)
    - i. Go to [www.stlouisfed.org](http://www.stlouisfed.org).
    - ii. Choose “Education Resources.”
    - iii. Choose  [Teachers: Go directly to the Online Course Login](#) .
    - iv. Create an account or, if you already have an account, log in.
    - v. Register your class for the “Tools for Enhancing The Stock Market Game™: Invest it Forward™, Understanding Capital Markets—High School and College” video.
9. Online course: Time Value of Money
- a. Go to [www.stlouisfed.org](http://www.stlouisfed.org).
  - b. Choose “Education Resources.”
  - c. Choose  [Teachers: Go directly to the Online Course Login](#) .
  - d. Create an account or, if you already have an account, log in.
  - e. Register your class for the “Time Value of Money” course.
10. [Econ Ed Mobile Learning App](#) (From the Federal Reserve Bank of St. Louis, available on iTunes and Google Play): Beat the Expert (A budget challenge game pitting students’ financial prowess against a seasoned specialist)
- a. Choose “Budgeting.” Choose “Experiment.” Play the game “Beat the Financial Expert.”

### *Protecting*

11. Print lesson: [Making Personal Finance Decisions](#), Unit Ten: Protecting—The Insurance Game: Is Insurance Worth Buying? (Minnesota Council on Economic Education); [http://www.mcee.umn.edu/sites/mcee.umn.edu/files/mpfd-\\_units\\_one-ten.pdf](http://www.mcee.umn.edu/sites/mcee.umn.edu/files/mpfd-_units_one-ten.pdf)

12. Online lesson: Personal Finance 101 Chats (Lessons in the form of instant-messaging chats)
  - a. [Car Insurance](http://www.stlouisfed.org/education_resources/personal-finance-101-chats/pf-101-chat-car-insurance/); [http://www.stlouisfed.org/education\\_resources/personal-finance-101-chats/pf-101-chat-car-insurance/](http://www.stlouisfed.org/education_resources/personal-finance-101-chats/pf-101-chat-car-insurance/)
  
13. Print lesson: Financial Fitness for Life (9-12) (Virtual Economics® 4.0)
  - a. Lesson 10: Managing Risk
  
14. Consumer information: [Identity Theft](http://www.consumer.ftc.gov/features/feature-0014-identity-theft) (Federal Trade Commission); <http://www.consumer.ftc.gov/features/feature-0014-identity-theft>





# SESSION 5: The Federal Reserve System

## Session Description

Students will learn about the Federal Reserve System and its role in the economy.

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## Talking Points

1. The Federal Reserve System (often referred to as “the Fed”) is the central bank of the United States. “Central bank” is the generic name given to a country’s primary monetary authority. Generally, a nation’s central bank is responsible for determining the money supply, supervising and regulating banks, providing banking services for the government, and lending to banks.
2. Congress created the Federal Reserve System in 1913. The Fed must work within the objectives Congress established, yet Congress gave the Federal Reserve autonomy to carry out its responsibilities without political pressure. The Federal Reserve System is a central bank under public control, with many checks and balances.
3. The nation’s periodic episodes of banking panics were one of the most serious concerns that led Congress to create the Federal Reserve and establish the following as its responsibility: safe, sound, and competitive practices in the nation’s banking system. To accomplish this, Congress included the Fed among those responsible for regulating the banking system and supervising financial institutions.
  - a. Regulation refers to the written rules that define acceptable behavior and conduct for financial institutions. Regulations help establish safe, sound banking practices and protect consumers in financial transactions.
  - b. The nation’s banking system is only as safe and sound as the banks within the system. The Federal Reserve examines banks regularly to identify and contain bank risks.
4. The Fed has three main parts: (1) the Board of Governors, (2) 12 regional Reserve Banks, and (3) the Federal Reserve Open Market Committee (FOMC).
5. The Board of Governors (BOG), also called the Federal Reserve Board, is an agency of the federal government located in Washington, D.C. It is the Fed’s centralized component. The BOG consists of seven members who are appointed by the president of the United States and confirmed by the Senate to staggered 14-year terms, which expire every 2 years. Fed governors guide the Federal Reserve’s policy actions. Longer, staggered terms ensure the Fed’s political independence as a central bank.
  - a. The president of the United States appoints two Fed governors to serve 4-year terms as Chair and Vice Chair of the BOG.

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## Tools for Teaching the Missouri Personal Finance Competencies

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- b. The Chair reports to Congress twice a year regarding the Fed’s monetary policy objectives, testifies before Congress on numerous other issues, and meets periodically with the Secretary of the Treasury.
6. The structure of the Federal Reserve is complex, yet effective. Reserve Banks operate somewhat independently but under the general oversight of the BOG.
7. Federal Reserve Banks are often called the “bankers’ banks” because they provide services to commercial banks similar to the services commercial banks provide to their customers. Federal Reserve Banks authorize or distribute currency and coin to banks, lend money to banks, and process electronic payments.
8. Reserve Banks also serve as fiscal agents for the U.S. government. They maintain accounts for the U.S. Treasury, process government checks, and conduct government securities auctions.
9. Economists at Reserve Banks conduct regional, national, and international research; prepare Reserve Bank presidents for their participation on the FOMC; and distribute information about the economy through publications, speeches, educational workshops, and websites.
10. The FOMC is the Fed’s chief body for monetary policy.
  - a. By tradition, the Chair of the FOMC is also the Chair of the BOG. The FOMC includes the 7 Fed governors and the 12 District Reserve Bank presidents.
  - b. At any time, only 12 of the members vote on policy decisions. These include the 7 members of the BOG, the president of the Federal Reserve Bank of New York, and 4 other Reserve Bank presidents. Although Reserve Bank presidents vote on a rotating basis, all of them attend and participate in deliberations at FOMC meetings even when they are not voting members.
  - c. The FOMC typically meets eight times a year in Washington, D.C. If economic conditions require additional meetings, the FOMC can and does meet more often.
11. The Federal Reserve System has a dual mandate from Congress. By law, the Fed must pursue the economic goals of price stability and maximum employment. It does this by managing the nation’s system of money and credit—in other words, by conducting monetary policy. The Fed can pursue expansionary and/or contractionary monetary policy.
12. Expansionary policy actions are intended to increase economic activity, and contractionary policy actions are intended to moderate or decrease economic activity.
  - a. Expansionary monetary policy refers to actions taken by the Federal Reserve to increase the growth of the money supply and the amount of credit available.

- b. Contractionary monetary policy refers to actions taken by the Federal Reserve to decrease the growth of the money supply and the amount of credit available.
13. The Fed has four main tools to achieve its monetary policy goals:
- a. Open market operations
    - i. Open market operations refers to the Fed buying and selling government securities from its portfolio. It is the most frequently used monetary policy tool by far.
    - ii. Buying and selling securities affects an important interest rate called the federal funds rate. The federal funds rate is the interest rate that banks charge one another for overnight loans. It is an important rate because it influences other interest rates in the economy. For example, if the federal funds rate rises, home loan rates and car loan rates will likely rise as well. The FOMC establishes a target for the federal funds rate and then uses open market operations to move the rate toward that target.
    - iii. The term “open market” means that market forces and not the Fed itself decide with which securities dealers the Fed will buy and sell government securities—that is, various securities dealers compete against each other in the government securities market based on price.
    - iv. The Fed’s purchase of government securities is referred to as expansionary monetary policy and its sale of government securities as contractionary monetary policy.
      - 1. Expansionary monetary policy
        - a. Purchases of government securities increase bank reserves, making more funds available for lending. This action puts downward pressure on the federal funds rate. Policymakers call this easing, or expansionary monetary policy.
        - b. When the Fed buys government securities through securities dealers in the bond market, the money it pays the dealers is ultimately deposited into the bank accounts of the banks, businesses, and individuals for whom the dealers sold the securities.
        - c. Those deposits become part of the funds in commercial bank accounts and thus part of the funds that commercial banks have available to lend.
        - d. Because banks want to lend money, to attract borrowers they decrease interest rates, including the rate they charge each other for overnight loans (the federal funds rate).
      - 2. Contractionary monetary policy
        - a. Sales of government securities reduce bank reserves. Less money available for lending tends to raise the federal funds rate. Policymakers call this tightening, or contractionary monetary policy.

- b. When the Fed sells government securities, buyers pay from their bank accounts, which reduces the amount of funds held in bank accounts.
  - c. Because there is less money in bank accounts, banks have less money available to lend.
  - d. When banks have less money to lend, the price of lending that money—the interest rate—goes up, and that includes the federal funds rate.
- b. The discount rate
- i. The discount rate is the interest rate Reserve Banks charge commercial banks for short-term loans. The discount rate influences other interest rates. Federal Reserve lending at the discount rate complements open market operations in achieving the target federal funds rate and serves as a backup source of liquidity for commercial banks. Reserve Banks and the BOG make changes to the discount rate.
  - ii. Lowering the discount rate is expansionary monetary policy because lower interest rates encourage lending and spending by consumers and businesses.
  - iii. Raising the discount rate is contractionary monetary policy because higher interest rates discourage lending and spending by consumers and businesses.
- c. Reserve requirements
- i. A reserve requirement is the portion of deposits the Fed requires banks to hold in cash, either in their vaults or on deposit at a Federal Reserve Bank. The BOG has sole authority over changes to reserve requirements. The Fed rarely changes reserve requirements.
  - ii. A decrease in reserve requirements is expansionary monetary policy because it increases the funds available in the banking system to lend to consumers and businesses.
  - iii. An increase in reserve requirements is contractionary monetary policy because it reduces the funds available in the banking system to lend to consumers and businesses.
- d. Interest on reserves
- i. The Fed has fairly recently added a tool, interest on reserves. Interest on reserves is interest paid by the Federal Reserve on required and excess reserves held by banks at Federal Reserve Banks.
  - ii. While many central banks around the world have paid interest on reserves for some time, the Fed did not implement this policy until 2008.
  - iii. Banks can choose to either hold their reserves, including excess reserves, on deposit at a Federal Reserve Bank and earn interest or use their excess reserves to make loans to businesses and individuals and charge interest.

- iv. The Federal Reserve can influence banks' decisions to hold excess reserves at the Fed or lend to customers by increasing or decreasing the interest rate paid on excess reserves.
- v. Raising interest rates on reserves is contractionary monetary policy. Reducing interest rates on reserves is expansionary monetary policy.

## Session 5: Standards and Benchmarks

### Missouri Personal Finance Competencies

#### *Money Management*

9. Analyze the role of the Federal Reserve in controlling the money supply.

### National Standards for Financial Literacy

#### *Standard 3: Saving, Grade 8 Benchmarks*

3. Interest rates paid on savings and charged on loans, like all prices, are determined in a market.

#### *Standard 3: Saving, Grade 12 Benchmarks*

6. Government agencies supervise and regulate financial institutions to help protect the safety, soundness, and legal compliance of the nation's banking and financial system.

#### *Standard 4: Using Credit, Grade 8 Benchmarks*

6. Interest rates on loans fluctuate based on changes in the market for loans.

#### *Standard 5: Financial Investing, Grade 12 Benchmarks*




4. Buyers and sellers in financial markets determine prices of financial assets and therefore influence the rates of return on those assets.
13. The Securities and Exchange Commission (SEC), the Federal Reserve, and other government agencies regulate financial markets.

### Common Core State Standards




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

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

## Session 5: Resources

1. Print lesson with PowerPoint: [The Fed's Toolbox](http://www.stlouisfed.org/education_resources/the-feds-toolbox/);  
[http://www.stlouisfed.org/education\\_resources/the-feds-toolbox/](http://www.stlouisfed.org/education_resources/the-feds-toolbox/)
  
2. Online course: In Plain English
  - a. Go to [www.stlouisfed.org](http://www.stlouisfed.org).
  - b. Choose "Education Resources."
  - c. Choose  [Teachers: Go directly to the Online Course Login](#) .
  - d. Create an account or, if you already have an account, log in.
  - e. Register your class for the "In Plain English" course.
  
3. Complete one of the following, either the print lesson or the online course:
  - a. Print lesson with PowerPoint and whiteboard resources:  
[The Great Depression Curriculum Unit, Lesson 6: Could It Happen Again?](http://www.stlouisfed.org/education_resources/great-depression-curriculum-unit/);  
[http://www.stlouisfed.org/education\\_resources/great-depression-curriculum-unit/](http://www.stlouisfed.org/education_resources/great-depression-curriculum-unit/)
  - b. Online course: The Great Depression Curriculum Unit, Lesson 6: Could It Happen Again?
    - i. Go to [www.stlouisfed.org](http://www.stlouisfed.org).
    - ii. Choose "Education Resources."
    - iii. Choose  [Teachers: Go directly to the Online Course Login](#) .
    - iv. Create an account or, if you already have an account, log in.
    - v. Register your class for the "The Great Depression Curriculum Unit, Lesson 6: Could It Happen Again?" course.
  
4. Online course: Monetary Policy
  - a. Go to [www.stlouisfed.org](http://www.stlouisfed.org).
  - b. Choose "Education Resources."
  - c. Choose  [Teachers: Go directly to the Online Course Login](#) .
  - d. Create an account or, if you already have an account, log in.
  - e. Register your class for the "Monetary Policy" course.
  
5. Online Video Q&A (Short videos followed by a few multiple-choice questions)
  - a. In Plain English (13:52)
    - i. Go to [www.stlouisfed.org](http://www.stlouisfed.org).
    - ii. Choose "Education Resources."



- iii. Choose  Teachers: Go directly to the Online Course Login .
- iv. Create an account or, if you already have an account, log in.
- v. Register your class for the “In Plain English” video.
- b. Classroom Economist: How Can Monetary Policy Affect the Economy? (4:27)
  - i. Go to [www.stlouisfed.org](http://www.stlouisfed.org).
  - ii. Choose “Education Resources.”
  - iii. Choose  Teachers: Go directly to the Online Course Login .
  - iv. Create an account or, if you already have an account, log in.
  - v. Register your class for the “Classroom Economist: How Can Monetary Policy Affect the Economy?” video.
- c. Classroom Economist: Why Monetary Policy Is Important for Everybody (3:23)
  - i. Go to [www.stlouisfed.org](http://www.stlouisfed.org).
  - ii. Choose “Education Resources.”
  - iii. Choose  Teachers: Go directly to the Online Course Login .
  - iv. Create an account or, if you already have an account, log in.
  - v. Register your class for the “Classroom Economist: Why Monetary Policy Is Important for Everybody” video.



# APPENDIX

## Missouri Personal Finance Competencies

### Income (I)

1. Identify components and sources of income.
2. Analyze how career choice, education, skills, and economic conditions affect income and goal attainment.
3. Relate taxes, government transfer payments, and employee benefits to disposable income.

### Money Management (MM)

1. Explain how limited personal financial resources affect the choices people make.
2. Identify the opportunity costs of financial decisions.
3. Evaluate the consequences of personal financial decisions.
4. Apply a decision-making process to personal financial choices.
5. Summarize how inflation affects spending and saving decisions.
6. Evaluate how insurance (e.g., auto, home, life, medical and long-term health) and other risk-management strategies protect against financial loss.
7. Design a financial plan (budget) for earning, spending, saving, and investing.
8. Demonstrate how to use the services available from financial institutions.
9. Analyze the role of the Federal Reserve in controlling the money supply.

### Spending and Credit (SC)

1. Compare the benefits and costs of alternatives in spending decisions.
2. Evaluate information about products and services.
3. Compare the advantages and disadvantages of different payment methods.
4. Analyze the benefits and cost of consumer credit.
5. Compare sources of consumer credit (e.g., credit cards, consumer loans, auto loans, and student loans).
6. Evaluate the terms and conditions of credit cards and consumer loans.
7. Evaluate factors that affect creditworthiness.
8. Explain the purpose and components of credit records.
9. Demonstrate awareness of consumer protection and information (e.g., identity theft, phishing, and scams).

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### Tools for Teaching the Missouri Personal Finance Competencies

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## Appendix

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10. Propose ways to avoid or correct credit problems.
11. Describe the rights and responsibilities of buyers and sellers under consumer protection laws.

### **Saving and Investing (SI)**

1. Compare consumer choices for saving and investing.
2. Explain the relationship between saving and investing.
3. Examine reasons for saving and investing (e.g., time value of money).
4. Compare the risk, return, liquidity, manageability, and tax aspects of investment alternatives.
5. Demonstrate how to buy and sell investments.
6. Analyze factors affecting the rate of return on investments (e.g., Rule of 72, simple interest, and compound interest).
7. Evaluate sources of investment information.
8. Examine how agencies that regulate financial markets protect investors.
9. Demonstrate how to evaluate advisors' credentials and how to select professional advisors and their services.

SOURCE: Missouri Center for Career Education (<http://www.mcce.org>). Published June 2005