



ELECTIVE

STUDENT BOOK



▶ **Consumer Math | Unit 1**

1. THE IMPORTANCE OF FINANCIAL LITERACY

Imagine that you have invested some money and you receive a financial report in the mail. It states:

“The investment return and principal value of an investment will fluctuate. Thus, an investor’s shares, when redeemed, may be worth more or less than the original cost.”

Since you don’t understand the terms “investment return” and “principal value,” you are having a hard time understanding this statement. You continue to scan the report and notice there are many terms that you do not understand. You toss the report in the recycling bin. However, you wonder if this information on the report should be important to you. Should you pay attention? What is the message in this report? Are you making money on this investment? In order to answer these questions, it is important to understand the meaning of certain words.

In this section, we will explore the importance of financial literacy.

Section Objectives

Review these objectives. When you have completed this section, you should be able to:

1. Define financial literacy.
2. Identify the importance of becoming financially literate.
3. Describe components of a financial plan.
4. Summarize various responsibilities for personal financial decisions.
5. Analyze data, including spreadsheets, as it relates to financial planning.
6. Calculate your net worth.
7. Set measurable short and long-term financial goals.
8. Prioritize financial goals.
9. Evaluate progress in reaching goals.

Vocabulary

Study these words to enhance your learning success in this section.

asset	budget	cash inflow	cash outflow	financial
goal	income	liabilities	liquidity	literacy
long-term goal	net worth	short-term goal	warranty	

Note: All vocabulary words in this unit appear in **boldface** print the first time they are used. If you are unsure of the meaning when you are reading, study the definitions given.

FINANCIAL LITERACY

Financial **literacy** is simply the knowledge about money and what you can do with money. Financial literacy includes knowledge about saving and investing, as well as earning and spending. It even includes knowledge about protecting your money. Financial literacy is the knowledge you need to make smart financial decisions.

Read each item in the following list. Do you think they have anything to do with financial literacy?

1. interest rates on money in a savings account
2. warranties
3. home insurance
4. car payments and terms
5. jobs
6. student loans
7. taxes
8. banks
9. stocks

Did you say “yes” to each item? Remember, financial literacy includes knowledge about anything to do with money. In some way, each of the items in the list is about money. For example, taxes are one way you spend money. And a job is one way to earn money. Homeowner’s insurance? Yes, insurance protects your money! Purchasing a **warranty** on a new automobile in case it breaks down? Yes, a warranty means you won’t have to pay for expensive repairs or defective parts, saving you money.

Financial literacy also includes knowledge of how to complete **financial** tasks. Are the actions in the following list related to financial literacy?

1. open a checking account
2. decide on a career path
3. invest money
4. create a budget
5. select the correct car loan
6. make financial decisions
7. complete tax forms
8. invest wisely
9. purchase a house

Did you say “yes” to each action in the list? Financial literacy includes knowledge about anything to do with money. All of the actions in the list are included in financial literacy.

Complete these activities.

- 1.1** Financial literacy is the knowledge about _____.
- | | |
|----------|----------------------------|
| a. money | b. reading financial books |
| c. banks | d. investing |

- 1.2** Mark "X" on the lines for all items in the list that are included in financial literacy.
- a. _____ selecting a college
 - b. _____ paying taxes
 - c. _____ opening a checking account
 - d. _____ using a credit card to make a purchase
 - e. _____ applying for a credit card
 - f. _____ deciding to rent an apartment
- 1.3** Thomas is thinking about the car he wants to buy in a few years. He doesn't know what he should do now so he'll be able to buy the car. What should Thomas do?
- a. He should try to spend less and put whatever he can in a safe place.
 - b. He should become more knowledgeable about smart ways to save and about car loans.
 - c. He should set aside \$100 per month to put in a savings account.
 - d. He should wait a few years and take out a car loan for the full cost of the car.
- 1.4** Alicia has been keeping money in her room that she has earned from babysitting. What should Alicia do with this money?
- a. She should spend it.
 - b. She should become more knowledgeable about her options for savings accounts.
 - c. She should keep it in a safe place.
 - d. She should put it into a checking account.

Why should you become financially literate?

In the introduction, we started to look at the importance of understanding financial terms. Now, let's take a look at a few more scenarios that demonstrate the importance of becoming financially literate.

EXAMPLE

Ethan would like to get a credit card. He goes onto his bank's website and looks at information on a credit card. He reads:

"The annual percentage rate represents your total finance charges, including transaction fees, fees for cash advances, and balance transfer fees expressed as a percentage."

Ethan has many questions about this statement alone. He's not exactly clear what an annual percentage rate is. He is wondering what a transaction fee is. He is also wondering what a cash advance is. Without the definitions for these words, he is unable to decide if this is the right card for him.

What should Ethan do? Ethan should become more knowledgeable. He can read articles about personal finance, look up the terms on the internet, take a personal finance course, call the credit card company, or ask an expert. An employee at the bank could be very helpful. Becoming financially literate would enable Ethan to read and understand important financial information.

Let's take a look at another example.

EXAMPLE

Susan would like to purchase her first home. She has been working for a while and has saved for a down payment. She calls a realtor, who asks her what her price range is and if she has been approved for a loan. Susan gulps and says, "I don't know." The realtor gives her a few phone numbers to call. She hangs up but is still confused about which step to take next.

What should Susan do? Susan should become more knowledgeable. She needs to figure out how much she could afford each month for her house payment. In addition, she should talk with a loan expert to find out what loan amount and type of loan would be best for her. Becoming financially literate is more than learning the definitions of certain words. It is also about knowing the process or steps to take in a situation.

What could happen if Susan does not become more knowledgeable? She could end up with such high house payments that she can't afford them. Or she could select the wrong type of loan—one that increases monthly mortgage payments in a few years. In this scenario, financial literacy can reduce Susan's stress and save her money.

Let's take a look at one last example.

EXAMPLE

Andrea received her credit card statement. She was surprised to find that she owed \$100 this month, even though she did not purchase anything and her balance was \$0. She called the credit card company, asked some questions, and found that this was her annual fee. She admitted she had read the terms, but did not understand that after the first year she would have to pay an annual fee.

What should Andrea have done? She should have become more knowledgeable before applying for this credit card. She should have looked for a credit card with no annual fee. In this scenario, financial literacy could have saved Andrea money.

As we saw in the three examples, lacking financial knowledge can be frustrating and scary. It can also cost you money. There are many benefits to becoming financially literate. Financial literacy can:

- » reduce stress and frustration
- » save you money
- » save you time
- » increase the return on your invested money

- » help you make smart decisions
- » help you earn more money
- » reduce your risk of losing money
- » help you make smart purchases
- » help you reach your goals

Complete these activities.

- 1.5** Carl started earning a paycheck and wants to invest some of what he earned. In this situation, why is it important for Carl to be financially literate?

- 1.6** List some reasons for becoming financially literate.

Read and reflect on the following quote:

“No matter who you are, making informed decisions about what to do with your money will help build a more stable financial future for you and your family.” -Alan Greenspan

- 1.7** List some financial information you would like to learn about and why it is important for building your financial future.

SELF TEST 2

Write the letter of the vocabulary word that matches the correct definition (each answer, 3 points).

- | | | | |
|-------|-------|--|-----------------|
| 2.01 | _____ | something that causes the possibility of a loss | a. career |
| 2.02 | _____ | a person's usual work; a way of earning a living | b. demand |
| 2.03 | _____ | money received for work | c. mean |
| 2.04 | _____ | a person who takes risks to create a new product or service | d. entrepreneur |
| 2.05 | _____ | the amount available | e. occupation |
| 2.06 | _____ | an occupation or profession, usually requiring training | f. rewards |
| 2.07 | _____ | something that causes or increases personal satisfaction | g. risk |
| 2.08 | _____ | the desire or need for a product or service | h. salary |
| 2.09 | _____ | a fixed amount of money periodically paid to a person for work | i. supply |
| 2.010 | _____ | an average | j. wages |

Write **T** for True or **F** for False (each answer, 2 points).

- | | | |
|-------|-------|---|
| 2.011 | _____ | Supply and demand affect career wages. |
| 2.012 | _____ | A job that is in demand is a job with a good outlook. |
| 2.013 | _____ | Everyone should try to be an NFL quarterback because they earn so much money. |
| 2.014 | _____ | The type of car you drive affects your income. |
| 2.015 | _____ | The skills you have affect your income. |
| 2.016 | _____ | An entrepreneur takes a risk to create a new product or service. |
| 2.017 | _____ | Taxes are an example of a risk. |
| 2.018 | _____ | A risk is something that causes the possibility of a loss. |
| 2.019 | _____ | A job that is in demand is a job with a good outlook. |
| 2.020 | _____ | Everyone should try to be an NFL quarterback because they earn so much money. |

Circle the correct answer (each answer, 4 points).

2.021 Money received for work is/are _____.

- a. mean salary b. wages c. taxes

2.022 When running your own business, an example of a cost would be _____.

- a. profit b. salaries c. revenue

2.023 Work environment is one _____ that you could consider when making a career decision.

- a. criteria b. alternative c. occupation

2.024 An example of a cost is _____.

- a. profits b. revenues c. principal and interest on loans

2.025 One reward of starting your own business is _____.

- a. reducing your risks and stress
b. making a steady income
c. setting your own schedule

2.026 Your _____ will be affected by choices you make about careers, education, and skill development.

- a. income b. schedule c. home

2.027 Your _____ is a factor least likely to affect your income.

- a. friends b. education c. experience

2.028 _____ is the best place to find information about job outlook for a certain job.

- a. A history book b. Social media c. A website about careers

2.029 There are _____ steps in the PACED decision-making process.

- a. five b. three c. six

Complete the activities (each answer, 7 points).

2.030 In one or two sentences, describe some rewards of starting your own business.



2.031 In two to three sentences, describe activities that can help you make a career decision.



SCORE _____



CHECK _____

Teacher

Date

3. UNDERSTANDING INCOME

Income is at the foundation of financial planning. Whatever career you decide to pursue, understanding your income will be important. Let's look at different sources of income, what portion of your income you will receive, and how to plan.

Section Objectives

Review these objectives. When you have completed this section, you should be able to:

16. Identify sources of income.
17. Define key terms such as capital gains, dividends, commission, and interest.
18. Describe factors affecting take-home pay.
19. Identify deductions and withholdings on a pay statement.
20. Give examples of employee benefits.
21. Demonstrate a basic understanding of how income tax works.
22. Identify resources available to gain answers to questions about taxes.
23. Identify taxes that adults pay.
24. Identify the purpose of taxes.

Vocabulary

Study these words to enhance your learning success in this section.

capital gains	commission	deduction	dependent
dividends	employee benefits	FICA	filing status
gross pay	interest	IRS	Medicare
net pay	rent	stockholder	tax return form
taxable income	W-2 form	W-4 form	withholding allowances

Note: All vocabulary words in this unit appear in **boldface** print the first time they are used. If you are unsure of the meaning when you are reading, study the definitions given.

SOURCES OF INCOME

“Money doesn’t grow on trees!” Have you ever heard this saying? It brings up a good question. How do you earn money? You may be surprised to find out that a job is not the only way to obtain money. In this section, you will look at the different ways people earn money or income.

Sources of Income. We use money to make purchases and pay for services. But how do we acquire the money for that? Employment is the primary means of acquiring money, but there are other sources of income, as well. See if you can think of a few more ways that people receive money.

Perhaps you thought of gifts of money, allowance, or the money won in a lottery. Yes, these are sources of income. In some occupations, employees receive tips. A tip is also considered income. You may have had

interest added to your savings account. If you let the bank keep your money, they pay you interest, and this gets added to your savings account. Interest from savings accounts is also considered income.

There are many sources of income. Some potential sources include:

- » salary
- » interest from accounts
- » capital gains
- » dividends from stock
- » commission
- » bonuses
- » gifts
- » winnings
- » tips
- » rent

Some of these income sources are straightforward, and some need more explanation. Let's take a closer look at those that need more explanation.

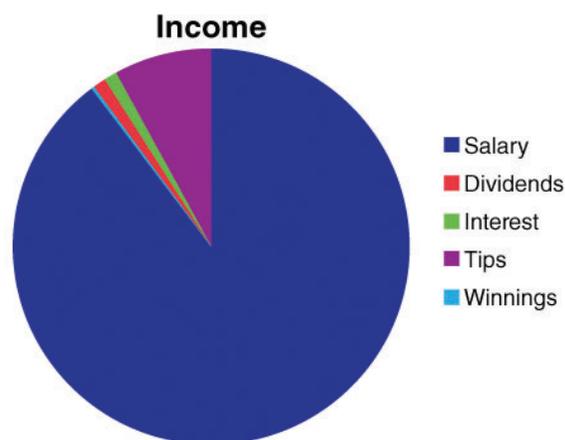
Capital Gains. **Capital gains** is the income earned by the sale of assets, such as stocks or property. The gain is the difference between the purchase price and the selling price. In other words, this is your profit. Let's say you bought stock two years ago for \$2,000. Now you decide to sell the stock. The stock has done well, and now you can sell it for \$3,200. You earned \$1,200. This is a capital gain and is considered income, as well. Let's look at another example. You bought a house ten years ago for \$325,000. You then sold it for \$399,000. What is the capital gain? \$74,000. Again, this is a source of income.

Commission. A **commission** is a fee paid to employees for their sale or services. The fee is usually based on a percentage of the sale price. Some sales representatives work solely on a sales commission, and others receive a salary plus commission. For example, Sharon works at a furniture store. She earns 9 percent commission on each sale. She just made a sale for \$10,000. Nine percent of \$10,000 equals \$900. For this sale, she earned \$900. This is her commission and part of her income.

Dividends. **Dividends** are money paid to people who own stock in a company. It is paid from the company's earnings or profit. A company reports its earnings on a quarterly basis, or once every three months. Based on these earnings, a company decides how much it will reinvest in the company, and how much it will pay the **stockholders**. The amount of dividend you receive depends on how many shares of the stock you own. Anita owns stock in company X. She received her account statement at the end of the year. The statement showed that she owned 600 shares of the stock, worth \$9,552. Her dividends for the entire year were \$337.12. Not bad, but not enough to pay the rent.

Rent. If you own rental property and you rent to another individual, the **rent** you collect from them is a source of income. In addition, if you own a house and you rent a room to a friend or roommate, the rent you collect from such a person is also a source of income.

So, Money Does Grow on Trees! It sounds like people can earn money in so many different ways that it practically grows on trees! How much are people really earning from all of these sources? Shelby asked her Aunt Colleen what percentage of her income comes from tips, interest, salary, dividends, and winnings. Her aunt said nearly 85 percent of her income is from her salary. That means just a small fraction of her income comes from other means.





- 3.5 When a company makes earnings or a profit, and they share this profit with the stockholders, it's called _____.
- a. dividends b. interest c. gains d. tips

Write an X for any answers that apply.

- 3.6 Which of the following are sources of income?
- a. _____ interest deposited into your checking account
- b. _____ the tip your client left you
- c. _____ a few dollars your friend loaned you
- d. _____ a check from your roommate for rent
- e. _____ a gift check from your great aunt

LET'S REVIEW!

There are many sources of income. Although salary is the primary source of income for most people, there are other sources. Other sources of income include commission, tips, interest, dividends, rent, winnings, gifts, and capital gains.

MY PAYCHECK

Kyle received his first paycheck, for which he'd been waiting for two weeks. When he finally looked at it, it seemed like he didn't make as much money as he'd expected. Why? Because deductions were taken out of his paycheck! These deductions included income tax, Social Security tax, Medicare tax, state or local taxes, and health insurance. In this section, we'll analyze a pay statement to understand what gets subtracted from your pay.

The Pay Statement. Have you noticed the piece of paper attached to a paycheck? This is called the earnings statement, or pay statement, and it contains important information about the money deducted or subtracted from your paycheck. **Deductions** are the amounts subtracted from your pay. They include taxes, costs for insurance, and money that you set aside for retirement.

The pay statement is also the part of the check you keep for your records. It's a good idea to check each pay statement to make sure it's correct. After all, payroll departments are made up of regular people, and they can make mistakes too! Let's look at the typical parts of a pay statement.

BIG BOX STORE				EARNINGS STATEMENT		
EMPLOYEE NAME	SOCIAL SEC. NO.	EMPLOYEE ID	CHECK NO.	PAY PERIOD	PAY DATE	
Casey Smith	123-45-6789	101	123	8/01/16-8/15/16	8/22/16	
INCOME	RATE	HOURS	CURRENT TOTAL	DEDUCTIONS	CURRENT TOTAL	YEAR TO DATE
GROSS WAGES			200.00	FEDERAL TAX	8.63	93.51
				FICA SS TAX	12.40	125.40
				FICA MEDICARE	2.90	31.90
				STATE TAX	0.74	8.21
				RETIREMENT	20.00	220.00
YTD GROSS	YTD DEDUCTIONS	YTD NET PAY		TOTAL	DEDUCTIONS	NET PAY
2,800.00	479.02	2,320.98		200.00	44.67	155.33

Image from: consumerfinance.gov

Rate and Hours. If you're an hourly employee, your pay statement will have your rate of pay. This is the amount you're paid per hour. The statement will also list the number of hours you worked during the pay period. Most pay periods cover two weeks.

This Period and Year to Date. Paycheck statements show how much you were paid during the current pay period. This amount appears under the heading "Pay Period." Pay statements also show the total amount you've been paid since the start of the year. This amount appears under the heading, "Year to Date."

Gross Pay and Net Pay. Your gross pay is the total amount you earned before any deductions were taken. The amount earned would include commissions and bonuses, as well. Your **net pay** is the total amount you take home. This is the amount after the deductions have been subtracted.

Now let's take a look at another pay statement. This statement has a little more information, and it more closely resembles what real pay statements look like. See if you can identify deductions, such as federal taxes and FICA. Also, see if you can identify gross pay, net pay, and the pay period.

Deductions. Deductions are the amounts subtracted from your gross pay. Here are some of the deductions you might find on your pay statement:

- Federal and state income tax is the largest deduction from your paycheck. The money helps pay for the military, roads, schools, police departments, and much more.
- Social Security tax is the amount that is sent to the government trust fund and set aside for retirement benefits. This is also called **FICA**. You pay half of this tax and your employer pays the other half.
- **Medicare** tax is the amount that is sent to a federal program that pays for health care for people aged 65 and older. You pay for half of this tax and your employer pays the other half.
- Health insurance is the amount you pay for your insurance plan.
- Life or disability insurance is the amount you pay for insurance. You may be able to choose how much coverage you want to have.
- Retirement plan is the amount you choose to take out and put into your retirement plan.

Federal taxes and FICA are listed on the right side of the statement under "Tax/Deduction." The **gross pay** is the total amount in the income section. The gross pay for this pay period is \$1,730.77, and the gross pay for the year is \$15,748.10. The net pay is labeled "This Check" and is \$1289.65. The pay period is found in the bottom right section and is 02/23/2014 – 03/08/2014.

You may have noticed some additional information on the pay statement, such as vacation and sick time, employee number, and date hired. This information is good to know, but it does not affect your net pay.

Main Street Manufacturing Inc.		123 Main Street, Mytown, AZ 88888		123456		
Brock, Adam S.		221	123-45-6789	03/14/2014		
Income	Rate	Amount	Year	Tax/Deduction	Amount	Year to Date
Reg Earnings			11254.00	Fed Tax	255.58	2073.01
Salary		1730.77	3814.10	FICA	107.31	976.38
Vacation			680.00	Medicare	25.10	228.36
Totals:		1730.77	15748.10	State Tax	53.13	236.22
				Totals:	441.12	3514.07
Leave	Earn	Used	Use-YTD	Balance	Period Beginning:	02/23/2014
Vacation	0.00	0.00	40.00	0.00	Period Ending:	03/08/2014
Sick	0.00	0.00	0.00	16.00	This Check:	1289.65
Main Street Manufacturing Inc.		123 Main Street, Mytown, AZ 88888		123456		
Adam S. Brock				03/14/2014		
456 DesRd.						
Mytown, AZ 88888						
Social Security:	123-45-67894	Employee No.:	221	Fed Status:	Single	
Hire Date:	01/04/2009			Fed Exempt:	1	
Status:	Full-time			State:	AZ, Single, 23, 3	
Department:	001- Front Desk					
Job Title:	Plant Manager					
Badge:	AZP568					
Memo:						

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