



**Financial
Literacy**

Unit

4



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What is a Budget?

Words to know:

- ✓ budget
- ✓ income
- ✓ expenses
- ✓ fixed expenses
- ✓ variable expenses
- ✓ balanced budget
- ✓ unbalanced budget

Do you spend all the money in your pocket? Do you put aside money to pay bills?

A **budget** is a plan of action for your money. It helps you match your expenses to your income. **Expenses** are the amount of money you spend. **Income** is the amount of money you earn. A budget can help you make decisions about how you will spend your money. Making a budget can help you plan for the future.

Why Have a Budget?

Making a budget helps you have enough money to pay your bills. Having a plan can also help you save money. If you do not use a budget, you may run out of money.

How to Make a Budget

You can make a **balanced budget**. First, list your monthly income. Next, list your expenses. There are two types of expenses. **Fixed expenses** stay the same. They are the bills you pay every month. A fixed expense might be your rent or a car payment. **Variable expenses** do not stay the same every month. A variable expense might be a telephone or heat bill.

After listing your monthly expenses, add them together.

Balanced budget – when you earn more than you spend.

Monthly income.....	\$1,225
Expenses	
rent.....	\$ 500
car payment	\$ 250
food.....	\$ 200
phone.....	\$ 50
utilities	\$ 100
gas	<u>\$ 100</u>
Total expenses	\$1,200

Then subtract your total expenses from your monthly income.

Monthly income.....	\$1,225
Monthly expenses ...	– <u>\$1,200</u>
Money left over	\$ 25

The amount left over can be saved. A budget helps you make sure you have money to pay for the things you need. You may also save some money.

People who do not have a budget might spend more than they earn. When you spend more money than you earn, you have an **unbalanced budget**.

Unbalanced budget – when you spend more than you earn.

Monthly income.....	\$1,225
Expenses	
rent.....	\$ 500
car payment	\$ 200
food	\$ 250
phone	\$ 150
utilities	\$ 150
gas	<u>\$ 150</u>
Total expenses	\$1,400

In this example you will subtract the monthly income from the total expenses.

Total expenses	\$1,400
Monthly income.....	– <u>\$1,225</u>
Amount over income	\$ 175

If you spend more money than you earn, you will never have enough money. You will have debt. You will owe money.

Try these examples:

A. Monthly income = \$1,500	
<p>Add these expenses:</p> <p>rent\$400</p> <p>gas.....\$150</p> <p>food.....\$225</p> <p>electric<u>\$100</u></p> <p>Total expenses....._____</p>	<p>Subtract the total expenses from the income:</p> <p>Monthly income_____</p> <p>Monthly expenses- _____</p> <p>Money left over....._____</p>
B. Monthly income = \$2,000	
<p>Add these expenses:</p> <p>rent\$400</p> <p>gas.....\$250</p> <p>car payment.....\$190</p> <p>food.....\$275</p> <p>electric<u>\$150</u></p> <p>Total expenses....._____</p>	<p>Subtract the total expenses from the income:</p> <p>Monthly income_____</p> <p>Monthly expenses- _____</p> <p>Money left over....._____</p>

Now try these examples. Do they show a balanced or an unbalanced budget?

C. Monthly income = \$1,200	
<p>Add these expenses:</p> <p style="margin-left: 20px;">rent \$500</p> <p style="margin-left: 20px;">gas..... \$180</p> <p style="margin-left: 20px;">car insurance \$ 50</p> <p style="margin-left: 20px;">food <u>\$275</u></p> <p>Total expenses..... _____</p>	<p>Compare the total expenses and income:</p> <p style="margin-left: 20px;">Monthly income..... _____</p> <p style="margin-left: 20px;">Monthly expenses..... _____</p> <p style="margin-left: 20px;">What is the difference? _____</p> <p>Check (✓):</p> <p style="text-align: center;">Balanced <input type="checkbox"/> or Unbalanced <input type="checkbox"/></p>
D. Monthly income = \$1,000	
<p>Add these expenses:</p> <p style="margin-left: 20px;">rent \$550</p> <p style="margin-left: 20px;">gas..... \$250</p> <p style="margin-left: 20px;">car insurance \$ 75</p> <p style="margin-left: 20px;">food \$255</p> <p style="margin-left: 20px;">electric <u>\$100</u></p> <p>Total expenses..... _____</p>	<p>Compare the total expenses and income:</p> <p style="margin-left: 20px;">Monthly income..... _____</p> <p style="margin-left: 20px;">Monthly expenses..... _____</p> <p style="margin-left: 20px;">What is the difference? _____</p> <p>Check (✓):</p> <p style="text-align: center;">Balanced <input type="checkbox"/> or Unbalanced <input type="checkbox"/></p>

E. Monthly income = \$1,290	
<p>Add these expenses:</p> <p style="margin-left: 20px;">rent\$550</p> <p style="margin-left: 20px;">gas\$250</p> <p style="margin-left: 20px;">car insurance\$ 75</p> <p style="margin-left: 20px;">food.....\$300</p> <p style="margin-left: 20px;">electric<u>\$250</u></p> <p>Total expenses....._____</p>	<p>Compare the total expenses and income:</p> <p style="margin-left: 20px;">Monthly income_____</p> <p style="margin-left: 20px;">Monthly expenses_____</p> <p style="margin-left: 20px;">What is the difference? _____</p> <p>Check (✓): Balanced <input type="checkbox"/> or Unbalanced <input type="checkbox"/></p>

Expenses: Mark (✓) each of the items on this list as variable or fixed expenses.

- | | | |
|---------------------|--|---|
| 1. Car insurance | <input type="checkbox"/> Fixed expense | <input type="checkbox"/> Variable expense |
| 2. Bus fare | <input type="checkbox"/> Fixed expense | <input type="checkbox"/> Variable expense |
| 3. Food | <input type="checkbox"/> Fixed expense | <input type="checkbox"/> Variable expense |
| 4. House payment | <input type="checkbox"/> Fixed expense | <input type="checkbox"/> Variable expense |
| 5. Entertainment | <input type="checkbox"/> Fixed expense | <input type="checkbox"/> Variable expense |
| 6. Bank loan | <input type="checkbox"/> Fixed expense | <input type="checkbox"/> Variable expense |
| 7. Household items | <input type="checkbox"/> Fixed expense | <input type="checkbox"/> Variable expense |
| 8. Clothing | <input type="checkbox"/> Fixed expense | <input type="checkbox"/> Variable expense |
| 9. Health insurance | <input type="checkbox"/> Fixed expense | <input type="checkbox"/> Variable expense |
| 10. Personal items | <input type="checkbox"/> Fixed expense | <input type="checkbox"/> Variable expense |

Academic & Career Readiness Skills

Now calculate the total fixed and variable expenses for each example.

11. In September, María had the following expenses:

\$740 for house payment	\$33 for personal items
\$142 for food	\$87 for entertainment

Total fixed expenses _____ Total variable expenses _____

12. In April, Ben had the following expenses:

\$267 for car payment	\$122 on a bank loan
\$100 for savings	\$40 for household items
\$86 for groceries	\$18 for movie rental

Total fixed expenses _____ Total variable expenses _____

13. In June, David had the following expenses:

\$670 for rent	\$194 for car payment
\$86 for clothing	\$215 for car repairs
\$120 for food	

Total fixed expenses _____ Total variable expenses _____

Wants Versus Needs

You may buy things because you want them. But do you really need them? Are they necessary? **Needs** are the things that are important to live. Three basic needs are food, clothing, and shelter. **Wants** are things that you would like to have, but don't need to live. Examples are a flat screen TV, jewelry, or a hot tub.

Mark (✓) each of the items on the following list as a **need** or a **want**.

ITEM	WANT	NEED
14. Heat		
15. Designer clothes		
16. Candy		
17. Housing		
18. Beer		
19. Food		
20. Comic books		
21. Income		
22. Electricity		
23. Shoes		

24. How could you solve the problem of an unbalanced budget?

When to Change your Budget:

- ✓ Change your budget if you spend more than you earn.
- ✓ Change your budget if your income or expenses change.

Now you try!

25. Develop your own budget by filling in this chart.

Monthly income = \$	
<p>Enter your expenses:</p> <p>rent \$ _____</p> <p>gas..... \$ _____</p> <p>car insurance \$ _____</p> <p>food \$ _____</p> <p>electric \$ _____</p> <p>other \$ _____</p> <p>..... \$ _____</p> <p>..... \$ _____</p> <p>Total expenses..... \$ _____</p>	<p>Compare your total expenses and income:</p> <p>Monthly income..... _____</p> <p>Monthly expenses..... _____</p> <p>What is the difference? _____</p> <p>Check (✓):</p> <p style="text-align: center;">Balanced <input type="checkbox"/> or Unbalanced <input type="checkbox"/></p>

Show what you know. Respond to these statements based on what you learned in this lesson.

26. Define a budget.

27. Describe the benefits of making a budget.

28. Identify variable expenses.

29. State what it means to have an unbalanced budget.

30. Discuss the difference between needs and wants.

☞ End of Lesson 1 ☞

Bank Accounts

Words to know:

- ✓ banks
- ✓ savings accounts
- ✓ service charge
- ✓ interest
- ✓ checking accounts
- ✓ photo ID

Where do you store money? In a jar in the cupboard? In your shirt pocket? Hiding money in your house is not safe. Carrying large amounts of money is not safe either. What if your house is robbed or burns down? What if you are robbed? Your money will be gone. Keeping money in a bank is a way to save it and protect it.

Using Banks

Banks are businesses. They offer services to *consumers* in order to use their money. Banks use the money to invest and make more money. Banks offer a safe place to keep extra money. They offer a safe way for you to use your money to pay bills.

Savings Accounts

Saving money means you do not spend it. You keep the money to be used in the future. **Savings accounts** are good places to keep your money for long periods of time. U.S. laws protect your money against loss. That means, if something bad happens to the bank, your money is safe. It will be replaced, up to \$250,000. Money in a savings account will be there when you need it. You can add money to your account. You can take money out of the account.

Some banks have special rules for savings accounts. There might be a monthly **service charge**. A service charge is a small fee charged by the bank. The bank might require you to keep a *minimum balance* in the account. The minimum balance is the smallest amount of money you must keep in the account.

Your savings account will earn a small amount of **interest**. Interest is the money a bank pays to use your money. Interest is a percentage of the money in your savings account. It is paid to you each month. Different banks offer different interest rates.

1. You have \$1000 in your savings account in January. It earns 1% interest each month. How much money will you have in your account on February 15th?
(Refer to the Math Review lessons in Unit 2 for help.)

Starting a Savings Account

You don't need a lot of money to start, or open, a savings account. Some banks require \$25. Some banks require more. You will need **picture identification (photo ID)**. Picture identification proves who you are to the bank.

You will be asked for a social security number. You may be able to use an Individual Tax Identification Number (ITIN). Each bank has different rules. It may be possible to get an ITIN from the Internal Revenue Service. You will need some documents to get an ITIN.

The bank will give you a *register* when you open a savings account. A register is a small book. You use it to keep track of the money you put into your account and the money you take out. The money you put in is called a *deposit*. The money you take out is called a *withdrawal*. Banks usually send savings account reports to customers. These reports are called *statements*. You should compare the bank's statements to your register. That helps you make sure there are no mistakes.

2. Sara opened a savings account with \$25. She deposited \$50 to her account every week for six weeks. Yesterday, she took \$30 out of her savings account. How much money does Sara have in her account now?

3. Tomás opened a savings account with \$50. He deposited \$50 on April 4, \$98 on April 20, and \$93 on May 10. On May 13, he withdrew \$25. Use the register below. Show the deposits and withdrawal Tomás made on it.

Savings Account			Total Amount
Beginning Balance			\$ 50.00
Date	Deposit	Withdrawal	

Checking Accounts

Checking accounts hold your money safely in the bank too. However, the money in checking accounts doesn't stay in the bank for long. It is used to pay bills and buy things. Paying some monthly bills with cash is not possible. Car payments, gas and electric bills, and telephone bills are sent from payment centers. You cannot go to them in person to pay a bill.

If you have a checking account, you can pay a bill by writing a check. Most stores will accept checks as payment too. The check is a piece of paper. You write the amount of money you owe and the name of the person or company you want to pay. Then, you sign the check with your name. The check tells your bank to pay the bill. The money will come from your checking account.

John C. Smith Carol L. Smith 2112 Maple Street Newberg, OR 97132	#160 $\frac{412-50}{1721}$ DATE <u>2-5-06</u>
PAY TO THE ORDER OF <u>Harvey's Garage</u>	\$ <u>38.95</u>
<u>thirty-eight and 95/100</u>	_____ DOLLARS
Star Savings and Loan Association 598 Holland Dr Newberg, OR 97132	
MEMO <u>car repairs</u>	<u>John C. Smith</u>
⑆ 93316 8400 762019884 65438029 160	

In the check above, John C. Smith is telling his bank to pay \$38.95 to Harvey's Garage. The bank will take the money from Mr. Smith's checking account.

You need to keep good records for your checking account. You need to know how much money you have to use. If you write a check for more money than you have in your account, you could get into trouble. The checks you write will *bounce*. That means they will not be paid. Your bank will charge you a fee. The company you wrote the check to can also charge you a fee. If you continue to write *bad checks* for more money than you have, you can be arrested.

Keep records of your checking account in your check register. Use it just like a savings account register. Record deposits and check withdrawals. An example is shown here:

Check register

Date	No.	Transaction	Amount of Deposit	Amount of Payment	Balance
					\$ 500.00
2/29/08	100	electric company		75.00	425.00
3/2/08	101	rent		250.00	175.00
3/5/08	102	grocery store		56.00	119.00
3/7/08		deposit	300.00		419.00

Some banks require a minimum balance in checking accounts. If your account balance falls below the minimum, you might be charged a fee. Be sure to record any bank charges or fees in your check register. When you deposit money into your account, the bank will give you a receipt. Keep the receipt in a safe place. Write the amount of the deposit in your register.

Writing a check

You must buy checks from the bank or elsewhere in order to use them. Your checks will be printed to show your name and address, the bank's name and address, and your account number.

There is a specific way to write a check.

Here is an example.

(NAME AND ADDRESS OF PERSON WHO CAN SIGN CHECK)		DATE	CHECK NUMBER
José Martínez 123 Oak Street Buffalo, NY		June 18 20 12	100
(BUSINESS OR PERSON TO BE PAID)		(AMOUNT OF CHECK WRITTEN IN NUMBERS)	
PAY TO THE ORDER OF <u>John Doe Lumber Yard</u>		\$ <u>75.82</u>	
<u>Seventy-five and 82/100</u> DOLLARS		(AMOUNT OF CHECK WRITTEN IN WORDS)	
Citi Bank 222 Main Street Buffalo, NY		(NAME AND ADDRESS OF THE BANK)	
FOR <u>wood for kitchen trim</u>		<u>José</u>	
1:021000021: 44011150753111211 0100		(SIGNATURE)	
(CHECKING ACCOUNT NUMBER)		(REASON FOR CHECK)	

Note the following:

- You must write the amount of the check in numbers and in words.
- You must sign the check with your legal signature.
- Record information from every check you write in your check register.

For the following questions, pretend you are José Martínez.

4. Write a check to pay your rent for \$550. Your landlord's name is John Doe.

José Martínez 123 Oak Street Buffalo, NY	102
	Date _____ 20__
<i>Pay to the Order of</i> _____	\$ <input type="text"/>
	_____ Dollars
Country Bank 222 Main St. Buffalo, NY	
<i>For</i> _____	_____
021000021 440 507532 0102	

5. Write a check for groceries at Wegman's for \$45.69.

José Martínez 123 Oak Street Buffalo, NY	103
	Date _____ 20__
<i>Pay to the Order of</i> _____	\$ <input type="text"/>
	_____ Dollars
Country Bank 222 Main St. Buffalo, NY	
<i>For</i> _____	_____
021000021 440 507532 0103	

6. Write a check to the Telephone Company for \$26.47.

José Martínez 123 Oak Street Buffalo, NY	104 Date _____ 20__
Pay to the Order of _____ \$ 	
_____ Dollars	
Country Bank 222 Main St. Buffalo, NY	
For _____	
021000021 440 507532 0104	

7. Record the information from the three checks you wrote in the register below.
 Your beginning balance is \$700.

Date	No.	Transaction	Amount of Deposit	Amount of Payment	Balance
					\$
----	101	Sample	----	----	----
	102				
	103				
	104				

8. Why should you use savings and checking accounts? Give at least two reasons.

Notes:

☞ End of Lesson 2 ☞

Credit, Debit, and ATM Cards

Words to know:

- ✓ credit card
- ✓ debit card
- ✓ PIN
- ✓ ATM card
- ✓ check register

What is a **Credit Card**? Credit cards are issued by a store, a bank, or a company. A credit card is a thin plastic card. It is used to buy things *on credit*. That means, you buy now and pay later. The store, bank, or company trusts you to pay in the future. A credit card might be used to buy food or restaurant meals. It might be used to buy clothes or furniture. Buying things with a credit card is called *charging*. When you sign a credit card receipt, you are promising to pay in the future. Every credit card has a *credit limit*. A credit limit is the maximum amount you are allowed to charge.

Credit card bills are sent each month. The amount of money you owe is called the *balance*. You can pay the entire balance you owe or you can pay the *minimum amount*. The *minimum amount* is the least amount of payment the bank will accept that month.

If you pay the entire amount you owe, you are finished with that bill. If you pay only the *minimum amount*, you will need to pay more money every month until the balance is completely paid. The bank will charge you *interest* on the amount of money you still owe. Interest is a charge for owing money. Interest charges are added each month you owe money. If you pay late, you will pay even more. You could be charged a late fee. If your card charges high interest, you will end up paying much more than the original price of the item.

Credit cards can be dangerous for some people. It is easy to buy more than you can afford if you can *charge* it. Some people charge too many items with their credit cards. They end up owing thousands of dollars that they cannot afford to pay back. Paying only the minimum amount each month can mean years and years of *debt*. It will take a long time to pay back the money you owe.

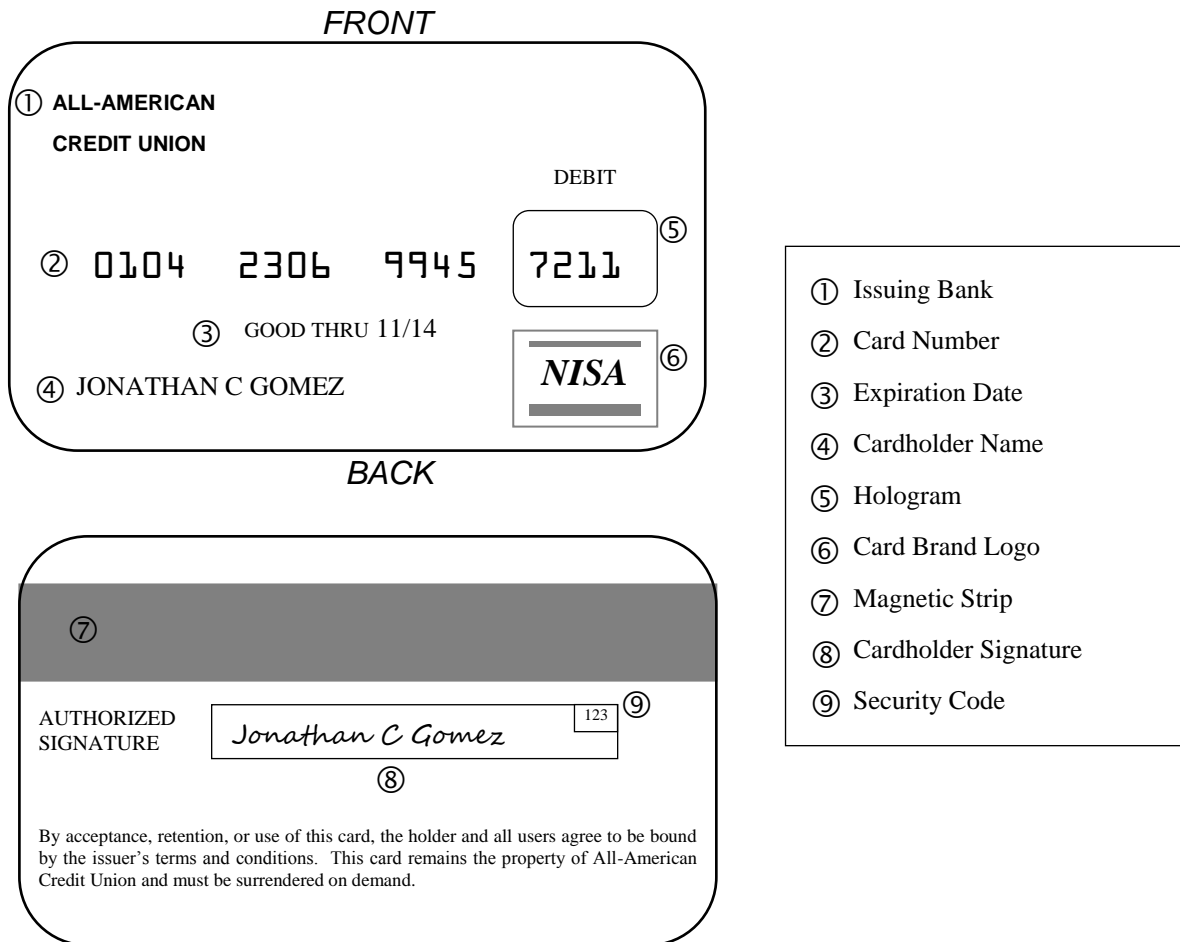
What is a Debit Card?

A **debit card** is also known as a check card. A debit card looks like a credit card but works like a check. You can use a debit card to pay at most stores and restaurants. When you use a debit card, the money is taken from your checking account right away. You must be sure that you have enough money in your bank account to cover the cost of what you are buying.

You will have a **PIN** or **Personal Identification Number**. A PIN is a secret number needed to use your account. Be sure to record the cost of the items you buy with your debit card in your *check register*. Then subtract the amount spent from your balance. A *check register* is the paper record of the money that goes into and out of your checking account.

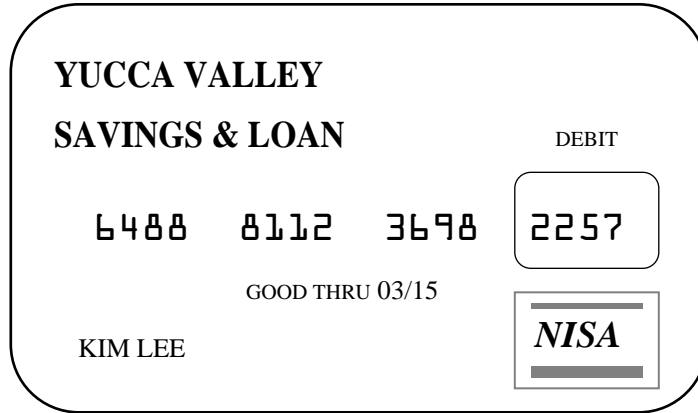
Academic & Career Readiness Skills

Look carefully at this sample debit card.



Always be sure to sign your credit or debit card. This can protect you if another person tries to use your card.

Answer the following questions using the sample card below.



1. What financial institution issued this debit card?

2. What is the debit card number?

3. Who is the card holder?

4. What date is the card good through? _____

5. Where does the cardholder need to sign the debit card?

What is an ATM Card?

An **Automatic Teller Machine card or **ATM card** looks like a credit card. But an ATM card is different. It is only used to get cash from your checking account. An ATM card has your name and your bank's name on it. It may have your account number on it. It can only be used at an ATM machine. An ATM card cannot be used to buy items in a store. The ATM card will have a PIN number that you will need to remember.**

To get cash, you put the card into an ATM machine. Then you enter your PIN. Next you enter the amount of money you would like to take out of the bank. ATMs only give money in \$20.00 bills. Many ATMs charge a fee to use them. Record how much money you take out of your account in your *check register*.

Example: Sandra had a balance of \$353.57 in her checking account. She withdrew \$80.00 from the bank ATM. Her bank charges an ATM fee of \$2.50. How much money is left in Sandra's checking account?

Solution

Add the ATM fee to the cash withdrawal.	\$80.00	— cash withdrawal
	<u>+ 2.50</u>	— ATM fee
	\$82.50	— total withdrawal

Now subtract the total withdrawal from Sandra's balance.

\$353.57	— balance
<u>– 82.50</u>	— total withdrawal
\$271.07	— balance

Sandra has \$271.07 left in her checking account.

Now you try! Use the information given below to answer the questions that follow.

***Kim had a balance of \$433.47 in her checking account on Monday.
Find her balance after each transaction. Carry over the balance
from one day to the next.***

6. On Tuesday, she withdrew \$60.00 from the bank ATM. The ATM fee was \$2.50.

7. On Wednesday, she withdrew \$80.00 from the mall ATM. The ATM fee was \$3.00.

8. On Thursday, she withdrew \$20.00 from the ATM at the grocery store. There was no fee.

9. On Friday, she withdrew \$60.00 from the gas station ATM. The ATM fee was \$2.50.

Using a Check Register

It is important to keep track of how much money you have in your bank account. You should record any money you take out using your debit or ATM card, or with checks you write. A **check register** is a small book where you record your account activity. The amount of money in your account is called the *balance*.

Example: Jamal started with a balance of \$559.32. He made the following payments and withdrawals from his bank account:

April 23 — debit card in the amount of \$92.45 to Green's Drugs for prescriptions

April 24 — ATM cash withdrawal in the total amount of \$41.50 for spending money

April 25 — check #427 in the amount of \$235.00 to Statewide Insurance Company for car insurance

April 30 — ATM cash withdrawal in the total amount of \$81.50 for farm auction

Solution

Subtract the first transaction (Apr 23) from the beginning balance.

$$\begin{array}{r}
 \$559.32 \quad \text{— beginning balance} \\
 - \quad \underline{92.45} \quad \text{— payment to Green's Drugs} \\
 \$466.87 \quad \text{— new balance}
 \end{array}$$

Subtract the next transaction (Apr 24) from the new balance.

$$\begin{array}{r}
 \$466.87 \quad \text{— new balance} \\
 - \quad \underline{41.50} \quad \text{— cash withdrawal} \\
 \$425.37 \quad \text{— new balance}
 \end{array}$$

Subtract the next transaction (Apr 25) from the new balance.

$$\begin{array}{r}
 \$425.37 \quad \text{— new balance} \\
 - \quad \underline{235.00} \quad \text{— cash withdrawal} \\
 \$190.37 \quad \text{— new balance}
 \end{array}$$

Subtract the next transaction (Apr 30) from the new balance.

$$\begin{array}{r}
 \$190.37 \quad \text{— new balance} \\
 - \quad \underline{81.50} \quad \text{— cash withdrawal} \\
 \$108.87 \quad \text{— new balance}
 \end{array}$$

Here is how Jamal recorded his spending.

CHECK NO.	DATE	DESCRIPTION	TRANSACTION AMOUNT (-)		DEPOSIT AMOUNT (+)		BALANCE	
							559	32
<i>Debit</i>	<i>4/23</i>	<i>Green's Drugs</i>	<i>92</i>	<i>45</i>			<i>- 92</i>	<i>45</i>
		<i>prescriptions</i>					<i>466</i>	<i>87</i>
<i>ATM</i>	<i>4/24</i>	<i>Cash withdrawal</i>	<i>41</i>	<i>50</i>			<i>- 41</i>	<i>50</i>
		<i>spending money</i>					<i>425</i>	<i>37</i>
<i>427</i>	<i>4/25</i>	<i>Statewide Insurance Company</i>	<i>235</i>	<i>00</i>			<i>-235</i>	<i>00</i>
		<i>car insurance</i>					<i>190</i>	<i>37</i>
<i>ATM</i>	<i>4/30</i>	<i>Cash withdrawal</i>	<i>81</i>	<i>50</i>			<i>-81</i>	<i>50</i>
		<i>Farm auction</i>					<i>108</i>	<i>87</i>

Now you try! Fill out the register.

10. Lucinda started with a balance of \$524.33. She made the following payments and withdrawals from her bank account:

August 1 — debit card in the amount of \$34.50 to Graham’s Cycles for a gift

August 5 — debit card in the amount of \$22.90 to McDonald’s for dinner

August 6 — ATM cash withdrawal in the amount of \$61.50 for spending money

August 7 — check #563 in the amount of \$114.82 to Galway Gas Company for monthly heating bill

August 9 — ATM cash withdrawal in the amount of \$81.50 to buy groceries

CHECK NO.	DATE	DESCRIPTION	TRANSACTION AMOUNT (-)		DEPOSIT AMOUNT (+)		BALANCE	
							524	33

Notes:

☞ End of Lesson 3 ☞

Money Orders

Words to know:

- ✓ money order
- ✓ receipt

Do you want to send money to someone? What is the safest way to do this? Never send cash in the mail. If the cash is lost or stolen, you do not have a record of it. You will not get the money back. A safer way to send money is to use a **money order**.

How Money Orders Work

A money order is like a check. You don't need an account to use a money order. You can buy one from a bank. You can buy one from the post office. Some stores sell money orders. You buy a money order for the exact amount you need. You will be charged a small fee for it.

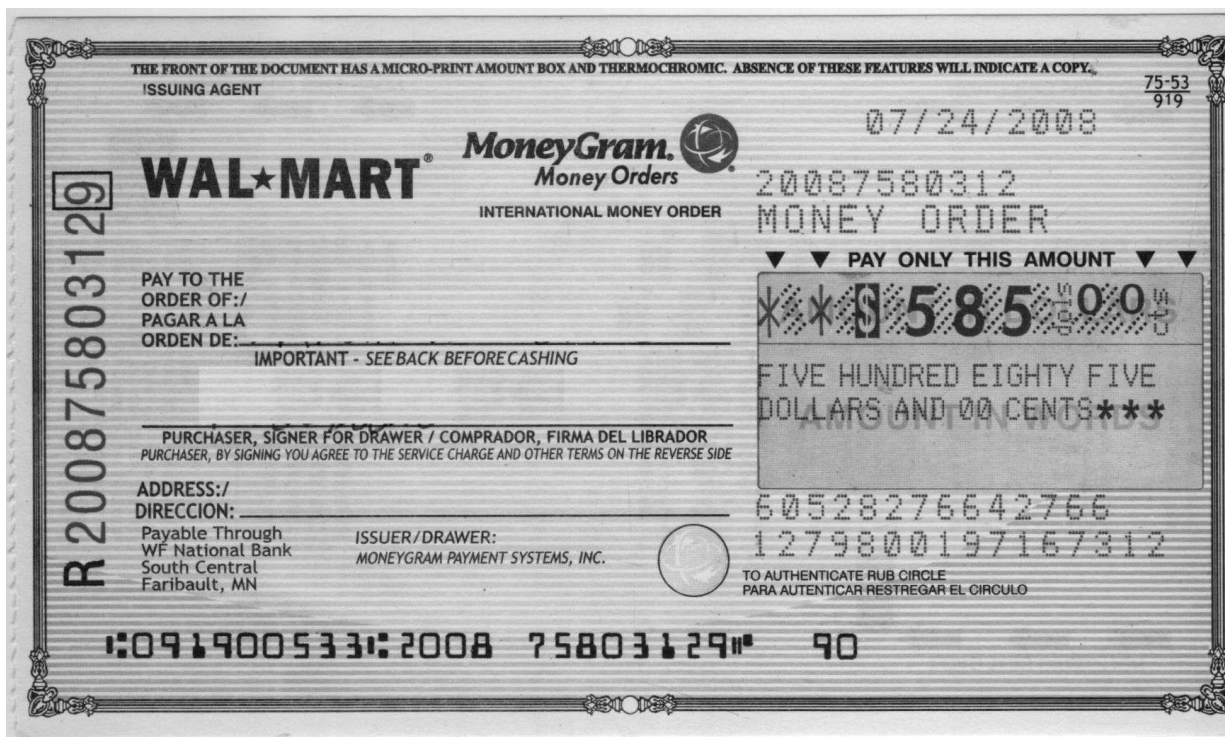
As soon as you get a money order, fill in the information on it. Write in the name of the person or company you are paying. The bank or post office may fill in that information for you. If there is no name on the money order and it is stolen, anyone could get cash for it.

You will get a receipt for your money order. The receipt shows

- who bought it
- the name of the person who can cash it
- the amount of the money order.

Keep the receipt. If the money order is lost or stolen, you can get your money back.

Look at the sample money order that follows. Review it carefully and then answer the questions on the next page.



Academic & Career Readiness Skills

1. Where was the money order purchased? _____
(Hint: Look at the top.)

2. What is the amount of the money order? _____

3. Who is the issuer of the money order? _____

4. What is the date of the money order? _____

5. What bank handles the money? _____

Cashing a Money Order

To cash a money order, you could go to a bank. At some banks, you must have an account in order to cash a money order. You could go to a post office or to a store. You will need a photo ID to prove the money order is for you. A photo ID is picture identification. A driver's license is an example of photo ID. It has your name, address, and picture on it. After you prove that you are the person named on the money order, you will be given the amount written on it.

Now you try!

- Fill out the following money order. Use your name and address. You are paying \$159 to Rochester Gas & Electric at 234 Maple Street, Rochester, NY 14216.

UNITED STATES OF AMERICA MONEY ORDER					
061932748511 SERIAL NUMBER	120629 YEAR MONTH DAY		975656 BANK	\$ U.S. DOLLARS AND CENTS	
<u>PAY TO</u>			<u>FROM</u>		
STREET			STREET		
CITY	STATE	ZIP	CITY	STATE	ZIP
000:80009: 3:		375628172483		56567	

7. Now fill out this money order. You want to pay \$55 for shoes to Sandy's Shoe Catalog Sales at 124 Hill Road, Los Angeles, CA 90034.

UNITED STATES OF AMERICA MONEY ORDER					
439856012711 SERIAL NUMBER	120322 YEAR MONTH DAY	975656 BANK	\$	U.S. DOLLARS AND CENTS	
<u>PAY TO</u>			<u>FROM</u>		
STREET			STREET		
CITY	STATE	ZIP	CITY	STATE	ZIP
000:80009: 3:		375628172483	56567		

Fees for Money Orders

In most cases, you will be charged a small fee to buy a money order. The fee may be set. Or it may depend on the amount of the money order. You may find that a checking account is an easier and cheaper way to pay bills or send money. You learned about checking accounts in Lesson 2.

Example: The Glendale Savings Bank sells money orders according to the fees shown below. Tony wants to buy a money order in the amount of \$35.50. How much will he pay in total?

Solution

Notice from the schedule that the fee for \$35.50 is \$1.45.

FEES	
\$10.00 or less	— \$0.65
\$10.01 to \$50.00	— \$1.45
\$50.01 to \$300.00	— \$1.95

Add the fee to the amount of the money order.

\$35.50 — amount of money order
 + 1.45 — fee
 \$36.95 — total

Tony will pay \$36.95 for the money order.

Example: Mastin’s Grocery Store charges a 2% fee for money orders. There is a minimum charge of \$0.75. Marie wants to buy a money order in the amount of \$36.00. How much will she pay in total?

Solution

Convert the percentage to a decimal.

2% = 0.02 = fee rate as a decimal

Multiply the amount of the money order by the fee rate.

\$36.00 — amount of money order
 x 0.02 — fee rate as a decimal
 \$0.72 — fee

A \$.72 fee is less than the minimum. The store will charge Marie the minimum fee of \$.75.

Add the fee to the amount of the money order.

\$36.00 — amount of money order
 + \$0.75 — fee
 \$36.75 — total

Marie will pay \$36.75 for her money order.

Now you try! The Gas Station sells money orders according to the fees shown at right.

FEES	
\$50.00 or less	— \$0.69
\$50.01 to \$100.00	— \$1.29
\$100.01 or more	— \$1.89

8. Kareem wants a money order in the amount of \$82.00. How much will he pay in total?

9. Tami wants a money order in the amount of \$154.62. How much will she pay in total?

Silver Bank charges a 2% fee for money orders, with a minimum charge of \$0.75.

10. Ruth Morris wants a money order in the amount of \$89.00. How much will she pay in total?

11. Lucy wants a money order in the amount of \$33.50. How much will she pay total?

Notes:

☞ End of Lesson 4 ☛

Loans

Words to know:

- ✓ loan
- ✓ credit risk
- ✓ interest
- ✓ cosigner

Do you ever borrow money? Where can you borrow money? Is borrowing money a good idea?

Sometimes people need large amounts of money to pay for things they need. Cars, houses, and a college education cost thousands of dollars. Or they might need money for a new washing machine or a lawnmower. When you borrow money, you get a **loan**. A loan lets you buy things that you cannot pay for all at once. Using a credit card is one form of a loan.

You might get a loan from a friend or family member. This can cause stress on your friendship or family relationship. There are also people or businesses that make loans to people. They often charge high interest rates. That can make the cost of a loan very expensive. Another option is a bank loan. Banks will loan money to people if the people seem likely to pay back the loan.

How does it work?

To get a bank loan, you must fill out an application. The bank will check the information you give. It must make sure you are a good **credit risk**. That means it is likely you will pay back the money you borrow. You must make enough money to pay back the loan. It also means that you pay your bills on time each month.

When you borrow money, you pay **interest**. Interest is the cost of using someone else's money. Bank loans, like credit cards, have an interest fee. The interest fee is based on how much money you owe.

Example: If you borrow \$1,000.00 at 5% interest a year, you must pay back:

\$1,000.00	\$1,000.00			
<u>X.05</u>	➡	+	<u>50.00</u>	
\$ 50.0000			\$1,050.00	= total loan cost if paid in one year.

** Note: If needed, see Unit 2 to review percentages and decimals.

If you pay off the loan in two years, here is what happens. After one year, your new loan amount is \$1,050.00. In the second year, 5% interest will be added to that amount.

\$1,050.00	\$1,050.00			
<u>X.05</u>	➡	+	<u>52.50</u>	
\$ 52.5000			\$1,102.50	= total loan cost at the end of two years.

Each month, you must pay back a part of money you owe plus the interest fee. Your payment must reach the bank by the due date they set. It must be on time. If you do not pay on time, you will be charged a late fee. That will increase the amount of money you owe.

Bank loans help people get expensive things they need. However, they may take years to repay. Look carefully at this example of a bank loan application. Use it to answer the questions that follow.

Consumer Loan Application	
What type of loan are you applying for? _____, for a term of _____ months.	
Amount requested _____ for the purpose of _____	
Applicant	
Name (First, M.I., Last)	
Social Security Number	Date of Birth
Address	County
City	State Zip Code
How Long (at this address)? Yrs. / Mos.	Home Phone
Previous Address (if less than 1 year)	
City	State Zip Code
Employment	
Employer's Name	Self Employed <input type="checkbox"/> Yes <input type="checkbox"/> No
Address	Phone Number
Occupation (Job)	<input type="checkbox"/> Full Time <input type="checkbox"/> Part Time
How Long Yrs. / Mos.	Gross Salary/Income _____ every _____ (week, two weeks, month, or year)
Previous Job (if less than 3 years)	How long
Other Sources of Income (second job, pension, rental income, etc.)	
Monthly Amount \$	Source
Monthly Amount \$	Source
Nearest Relative	
Name (First, M.I., Last)	Relationship
Address	Phone

Bank Accounts			
Checking with			
Savings with			
Financial Information. List all loans, credit cards, etc.			
Creditor	Purpose	Monthly Payments	Balance
<p>IMPORTANT: READ BEFORE SIGNING</p> <p>I promise that the statements contained herein are true and complete to the best of my knowledge. I understand the lender (the Bank) will keep this application whether approved or declined. I allow the Bank to check my credit and employment history and to answer questions from others about its credit experience with me. The Bank may request a credit report in connection with this application for credit and any credit update, renewal, or extension of this credit. Upon request, the Bank will tell me whether or not a consumer report was obtained, and if such a report was obtained, the Bank will furnish me with the name and address of the consumer reporting agency furnishing the report.</p>			
<p>_____</p> <p>Applicant Signature</p>		<p>_____</p> <p>Date</p>	

1. List three kinds of financial information you must provide on a loan application.
 - a. _____
 - b. _____
 - c. _____

2. The application asks how long you have lived at your address. It also asks how long you have had your job. Why do think the bank wants this information?

Questions to Ask Before Getting a Loan

Each loan will have different interest rates and rules. If possible, check with more than one bank about a loan. Ask questions before you make a decision. Then choose the bank that offers the best loan to fit your needs.

These questions might help you:

- How much income do I need to get the loan?
- How much interest will I have to pay?
- When will I have to start making payments?
- How many payments will I have to make?
- What will my monthly payment amount be?
- How much is the late fee?
- When will I have to pay a late fee?

What is a Cosigner?

Sometimes a bank will not give you a loan. You might get the loan if you have a **cosigner**. A cosigner agrees to repay your loan to the bank if you cannot. A cosigner promises to make your monthly loan payments to the bank if you cannot.

Should You Cosign a Loan for Someone Else?

Think very carefully before you cosign a loan for someone. If you cosign a loan, you could become responsible for paying it back.

What Do You Think?

3. Which of the following is not a good reason to borrow money?
 - a. You need a car to get to work.
 - b. You need to pay college tuition.
 - c. You want to buy a diamond ring.

4. When taking out a loan you should think about:
- a. Whether you really need to borrow money.
 - b. How much you need to borrow.
 - c. Whether the monthly payments will fit in your budget.
 - d. All of the above.
5. A friend asks you to cosign a loan. The friend has had three different jobs in the past two months. He wants to use the loan to buy a \$20,000 truck. Do you think you should cosign the loan? Why or why not?

6. Explain why cosigning a loan might be a problem for you.

7. Pedro is thinking about borrowing money from the bank to buy a new car. What questions should he ask before he signs the loan contract?

∞ End of Lesson 5 ∞

Installment Buying

Words to know:

- ✓ installment buying
- ✓ layaway
- ✓ rent-to-own

Do you need new clothes for work or school? Do you need a crib for your new baby? What if you need something that is on sale, but can't afford it right now?

Let's say you see something you'd really like to buy. Maybe it's a popular new product. Maybe it's something that is on sale this week only. Maybe your refrigerator just broke down and cannot be fixed. You want or need to make a purchase, but you just can't afford it right now. What can you do?

There are ways to buy things without paying for them all at once. A credit card is one way to do this. What if you don't have a credit card? Installment buying may be the answer. ***Installment buying*** means paying for something a little bit at a time. It is sometimes called "buying on time". Installment buying makes it easier to get the things you want or need.

Layaway plans are a form of installment buying. Some national chain stores offer layaway plans. They include Walmart, Kmart, Sears, and Toys R Us. A layaway plan lets you set aside the items you want at their current price. The store holds them for you. You pay for them in pieces or installments over time. When you have paid in full, the items are yours to take home.

Many people use layaway plans to buy Christmas gifts. Popular toys and electronics are often expensive. They also sell out quickly and become unavailable. You can put these items on layaway in September or October. You start paying for them then. By December, they are yours. You have taken them home. They are ready to give at Christmas.



Each store offers its own layaway plan. They are not all the same.

Comparison of Layaway Plans

	Kmart	Sears	Toys R Us	Walmart
Eligible Items	almost anything in the store or online	almost anything in the store; many items online	all toys in the store	toys, electronics, small appliances, floor care, refrigerators, jewelry (\$50 minimum)
Layaway Fee?	\$5	-\$5 for 8 weeks -\$10 for 12 wks.	\$5 + shipping charges	\$15
Down Payment*	\$15 or 10%, whichever is greater	\$20 or 20%, whichever is greater	at least 20% of the order plus tax	\$10 or 10%, whichever is greater
Duration of Plan	-8 weeks -12 weeks (for \$300 or more)	-8 weeks -12 weeks (for \$400 or more)	3 months or 90 days	12 weeks
Payment Due Dates	every two weeks (bi-weekly)	every two weeks (bi-weekly)	customer choice, but 50% must be paid within 45 days	customer choice
Cancellation fee?	\$10	\$15	\$10	--
Late Payment Penalties	-items will be returned to shelf 7 days after missed payment -no refund	-items will be returned to shelf 7 days after missed payment -no refund	-items will be returned to shelf if 50% is not paid within 45 days	-items will be returned to shelf if not picked up by end of plan

(*To figure out your down payment, change the percentage to a decimal. Multiply it by the amount of your layaway purchase.)

1. List three positive features of layaway plans.
 - a. _____
 - b. _____
 - c. _____

2. In your opinion, what are two negative features of layaway plans?
 - a. _____
 - b. _____

3. Refer to the chart. Which store would you use for layaway? Explain why.

Renting to Own

“**Rent-to-own**” stores allow people to rent furniture, electronics, appliances, and other items. Customers rent items that they do not have the money to buy. The money they pay in rent can count toward buying the item. The choice is theirs. The customer pays a weekly or monthly fee. There is no credit check or loan application. However, the customer must sign a legal contract. A rented item can be returned without paying a fee and without hurting the customer’s credit. Rent-to-own stores appeal to many people with poor credit or no credit card. They seem like a good thing.

However, there is a hidden truth about rent-to-own stores. The customer usually pays much more for items by “renting to own”. *Consumer Reports* is an organization that protects buyers in America. It studied rent-to-own stores. Its advice to people is: *Avoid rent-to-own. Using a credit card is a better option. Or wait until you can afford*

to pay for the item you want. These examples show why rent-to-own may not be such a good idea.

- A \$612 laptop computer is offered to rent for \$38.99/week for 48 weeks. The total cost will equal \$1872. That is three times the cost of the laptop.
- A \$1000 clothes washer and dryer will cost the renter \$2700 in total.
- An \$1890 television is offered to rent at \$39.99/week for 104 weeks. Its total price will be \$4159, when all the rent has been paid.

The interest rates of the above examples range from 92% to 311%! The average credit card interest rate is currently 16.89% (as of 9/30/2012). Average rates for personal bank loans vary by state and area. Most are under 15%.

The Positives of Rent-to-Own

“Rent-to-own” stores offer new items to rent. The payments seem easy to afford. People with bad or no credit can furnish their homes from these stores. Sometimes these stores offer free delivery. Some stores also offer service or repairs if anything should break.

The Negatives

The final cost of a rent-to-own item is usually much more than it is worth. You may pay other charges and fees in addition to rent. There are late payment fees. There are fees to re-start your payment program if you are too late in paying. Sometimes renters who pay late receive repeated phone calls and threats from their rent-to-own store.

Be Careful

Before you decide to rent an item, read the contract. Ask questions such as:

- How much, in total, will I be paying for this item?
- Is this something I really need or just want?
- Can I wait until I save the money to pay for it?
- Would it be better to use a credit card or get a personal bank loan?

Do not let the sales person talk you into renting items you do not need.

What do you think?

4. María’s refrigerator stopped working yesterday. The repairman said it could not be fixed. A new refrigerator costs around \$600. María only has about \$100 in her savings account. She can’t afford a new refrigerator. She went to a store that has appliances for rent. María can rent a refrigerator for \$60 a month. She signed a contract to rent it for 18 months. At the end of that time, she will own the refrigerator.

a. How much, in total, will María pay for the refrigerator? _____

b. Was this a good decision? Why or why not?

c. What else could María do to solve her problem?

5. Samuel loves to watch soccer on television. He went to a friend's house last week to watch a game. His friend has TV with a 72-inch screen. Now Samuel wants to watch every game on a big-screen TV. However, he doesn't have enough money to pay for one. Should he go to a "rent-to-own" store to rent a TV? Why or why not?

6. You rent a kitchen table and chairs at \$15 a week for 60 weeks. You also pay 15% interest. What will the total cost of the table and chairs be? _____

Notes:

☞ End of Unit 4 ☞

Name _____
Date _____

Unit 4 Test: Financial Literacy

Matching. Match each term with the correct definition. Write the corresponding letter on the line provided. **[3 points each; 30 points total]**

- | | |
|------------------------------|--|
| _____ 1. balanced budget | a. fee charged for the use of a person's or a bank's money; it is added to loan payments and bank accounts |
| _____ 2. fixed expenses | b. used to send money or pay a bill; it is bought with cash and acts like a check |
| _____ 3. want | c. bills whose amounts do not change from month to month |
| _____ 4. need | d. used to keep your money safe in a bank and to pay bills from |
| _____ 5. interest | e. what you have when you earn more money than you spend |
| _____ 6. savings account | f. something you must have to live |
| _____ 7. checking account | g. a small book you use to keep track of money deposits and withdrawals |
| _____ 8. register | h. purchasing something and paying for it over time, in small amounts of money |
| _____ 9. money order | i. used to keep your money safe in a bank; it can earn you interest |
| _____ 10. installment buying | j. something you desire, but don't really need to live |

Short Answer. Write a short answer in complete sentences to each of the following questions. **[10 points each; 50 points total]**

11. How does a budget help you manage your money?

12. Debit cards and credit cards are used to pay for things without using cash. How is a debit card different from a credit card?

13. What is the danger in using a credit card?

14. List three questions to ask when applying for a loan.

- a. _____
- b. _____
- c. _____

15. What is the biggest problem with using rent-to-own stores?

Vocabulary. You have a job and can save a little money from each paycheck. Choose from the following terms to answer each of the questions below. You may use any of the terms more than once. **[2 points each; 20 points total]**

cash	check	money order	debit card
credit card	loan	layaway	rent-to-own

What form of payment would you use:

- 16. to buy gasoline? _____
- 17. to buy furniture? _____
- 18. when you want to get a new phone? _____
- 19. to buy a car? _____
- 20. when your mother, who lives far away, needs money to pay her bills?

- 21. to pay your electric bill? _____
- 22. to buy groceries? _____
- 23. when your car needs new brakes? _____
- 24. to buy a TV as a birthday gift for someone? _____
- 25. to buy a house? _____

∞ End of ACRES Unit 4 Financial Literacy Test ∞

ACRES Financial Literacy

Unit 4 Test Answer Key

Total = 100 pts.

Matching

3 pts. each; total = 30 pts.

- | | |
|------|-------|
| 1. e | 6. i |
| 2. c | 7. d |
| 3. j | 8. g |
| 4. f | 9. b |
| 5. a | 10. h |

Short Answer

10 pts. each; total = 50 pts.

11. Sample response.

A budget helps you see how much money you earn compared to how much you spend. Based on that, you can make sure that you don't spend too much. You can also decide how much money you can save on a regular basis.

12. Sample response.

A debit card takes money from your checking account right away to pay for your purchase. When you use your credit card, you are promising to pay for the purchase in the future. You will receive a bill for the amount you have charged.

13. Sample response.

It is easy to use a credit card to buy too many things. They may be things that you want rather than need. Buying like this can result in huge debt. Then, you have a bill that may take months or years to pay off.

14. Sample responses.

- a. How much will my monthly payments be?
- b. What is the interest rate?
- c. How long will it take to pay back the loan?

15. Sample response.

By the time you make all the rental payments for the item, you have paid at least twice its original price.

Vocabulary

2 pts. each; total of 20 pts.

Possible answers.

- 16. cash, debit card, or credit card
- 17. loan or layaway
- 18. cash, check, debit card, or credit card
- 19. loan
- 20. money order or check
- 21. check or money order
- 22. cash, debit card, or credit card
- 23. check, debit card, or credit card
- 24. layaway or credit card
- 25. loan