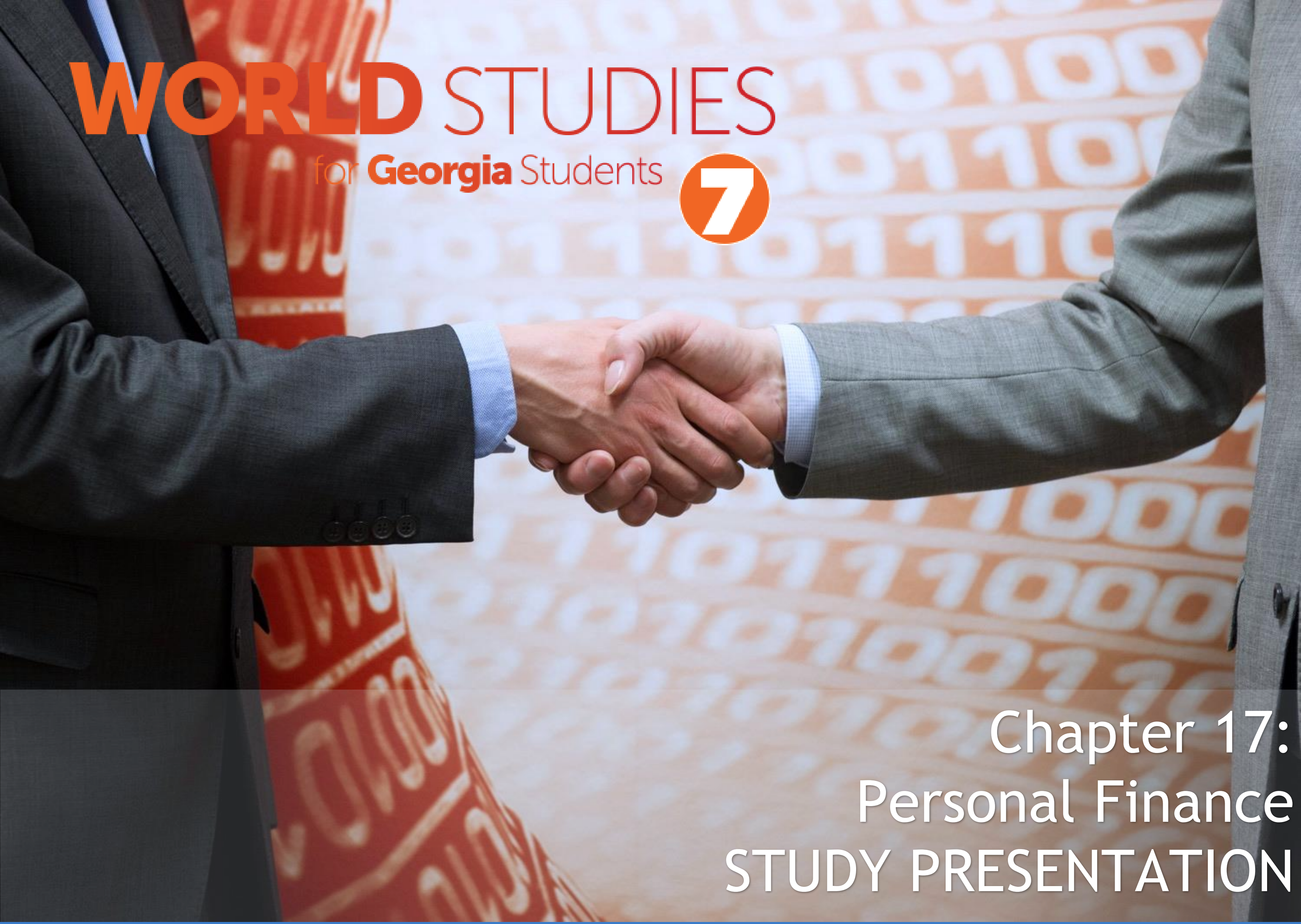

WORLD STUDIES for Georgia Students 7

Chapter 17: Personal Finance STUDY PRESENTATION

Section 1: [Spending Your Money]

Section 2: [Saving and Investing Your Money]

Section 3: [Credit]

Section 1: Spending Your Money

- Essential Question:
  - What are ways people can earn an income?

Section 1: Spending Your Money

- What terms do I need to know?
  - income
  - expense
  - fixed expense
  - variable expense
  - overdraft
  - budget
  - charitable giving
  - philanthropy

Income and Expenses

- **Income** is the money an individual obtains, which can come from a multitude of sources, like a job, gift, or allowance.
- **Expenses** are the spending of some or all of that money for various needs and wants, such as food, shelter, smartphones, hobbies, and more.
- A **fixed expense** is when the expense cost is the same every month, like a loan payment or rent.
- A **variable expense** is when the expense costs different amounts every month, like the grocery bill.
- People with a regular income usually deposit some of their money in a checking account at a bank or credit union.
  - Once here, they may have access to this money by writing checks, using debit or credit cards, or by simply withdrawing the money later.
- It is very important to monitor how much money you have in your account.

Income and Expenses (cont.)

- Someone who writes more checks or spends more money than they have in their bank account will have problems.
- An **overdraft** is when a check or card charge is not backed up by enough money.
  - This is often coupled with overdraft fees, which penalize the spender for overdrafting from their account.
- The best way to prevent this is by managing your money with a budget.
  - A **budget** is a plan for how money will be used.
  - A good budget makes sure the total expenses never exceed the total income.
  - The first expenses in a budget should be focused on needs, with any excess focused on other things.

Charitable Giving

- Another use of money is **charitable giving** to help other people.
  - This can be difficult if one is saving for some event or item, but the donation can help people in the community, make the giver feel good, and the giver can also receive an income tax deduction.
- Some charities people give to are the Red Cross, Salvation Army, religious institutions, universities, and other organizations with the goal to help people.
- The act of giving money for charitable purposes is called **philanthropy**.

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Section 2: Saving and Investing Your Money

- Essential Question:
  - What are the two main types of investment?

Section 2: Saving and Investing Your Money

- What terms do I need to know?
  - interest
  - investment
  - financial investment
  - real investment
  - certificate of deposit (CD)
  - bond
  - stock
  - mutual fund

Saving and Investing

- Saving or investing money means that, rather than spending all income on goods or services now, some income is budgeted for something that will a future benefit or will earn more money.
- Savings accounts usually pay a small amount of interest on the amount deposited in them.
  - **Interest** is money paid regularly by the bank to the account holder for money being saved.
- Saving can provide an emergency fund for job loss or medical bills, but it can also help people acquire enough to achieve a future goal, like buying a car or home.

Type of Investments

- An **investment** is money spent on something with the goal of making a profit.
  - **Financial investments** involve putting money into things like stocks and bonds as a way to make money in the future .
  - **Real investments** involve putting money into something physical like real estate or equipment, like a house.
- Investments can be beneficial, but they can also be risky.
  - Safe investments do not earn as much of a profit as risky ones, but they are also less likely to fall through.
- A safe investment is a bank's **certificate of deposit (CD)**.
  - These tend to have high interest rates, but they must not be touched till a specific time has elapsed.
  - Their growth is affected by the national economy, and they are protected up to a certain dollar amount by the Federal Deposit Insurance Corporation (FDIC).
- Another type of investment is a **bond**.
  - The investor lends money to the government or to a company, with that loan being paid back with interest on a specific date.

Type of Investments (cont.)

- **Stocks** are another kind of investment.
  - A corporation issues shares of a stock, to raise money.
  - The investor who buys the stock is actually buying a part of the company.
  - The investor gets a portion of the profit the company makes based on their amount of shares, which can lead to a high return on your investment.
  - Stocks can also be risky because you could lose your investment if a company goes bankrupt.
- **Mutual funds** put together money from many investors and buys many different stocks and bonds.
  - This is much less risky than buying stocks alone because the money is divided among many different outlets.
  - Mutual funds typically have a money manager who charges a small fee to manage the accounts.

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Section 3: Credit

- Essential Question:
  - Why is it important to use credit wisely?

Section 3: Credit

- What terms do I need to know?
  - credit
  - mortgage
  - repossess
  - credit history
  - credit score

The Importance of Credit

- **Credit** is an arrangement by which a buyer can take possession of something now and pay for it in the future, usually with interest.
- Credit is important to a modern economy, enabling businesses to start up and expand, allowing families to buy homes and cars, and so on.
- Common forms of consumer loans include personal loans, **mortgages** (home loans), and credit cards.

The Responsible Use of Credit

- Borrowing or spending too much on credit can cause financial hardship.
- If a buyer does not allot a certain amount to pay their bills in their budget, their items can be **repossessed** (take possession of) by the lender of the money.
- Credit cards make it very easy to purchase things, but they also make it easy to overspend.
  - Each card company has different policies; some require individuals to pay the balance owed in full each month, while others allow individuals to make minimum pages each month but charge interest on the unpaid amount.

The Responsible Use of Credit (cont.)

- Making payments on time and in full is important to a person's **credit history**.
  - Based on credit history, each individual earns a **credit score** (a number assigned to a person that indicates his or her capacity to repay a loan).
- Financial institutions and businesses check credit scores to decide whether a person qualifies for a loan or credit card.
  - Although this can be controversial, banks and institutions would like to know that they will be repaid for their loans they give.
- Beginning to develop these important financial skills will help you later in life, such as the value of saving and the importance of repaying credit.

The Cost of Credit

- Credit is defined as the opportunity to borrow money in return for a promise to pay later, usually with included interests and fees charged to the borrower.
  - Credit allows a person to purchase an item when there is not enough cash to cover the costs.
- A borrower must pay back the borrowed money, principle, plus money paid to borrow the money, interest.
- Credit cards provide an easy way to make everyday purchases, with the credit on those cards ideally paid back at the end of the month, preventing more costs for the borrower.
  - Credit cards can be used carelessly, which can lead to borrowing more than one can pay back.
  - This can lead to a vicious cycle of payment after payment depending on interest rates.

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