Chapter 5

Starting Solid: Finances 101

Degrees of Learning:
1. Develop a financial vocabulary.
2. Learn how to create a budget.
3. Learn about the pros and cons of using credit cards.

One of the most important skills that you can develop is learning how to effectively manage your money. Whether you are a student, parent, teacher, business person, or community leader, knowing how to manage money is important for your success.

In this chapter, you will first examine your relationship to money management and you will learn some financial vocabulary words. You will then learn about:

- The basics about banking, particularly about checking and savings accounts.
- Budgets – what they look like and how to create one.
- Job pay rates and annual income.
- Credit cards – the good and the bad.

Pull out your calculator, sharpen your math skills, and let's get started on Finances 101!

Tools for Life:

1. Budgeting your finances.
2. Being smart about saving.
3. Being credit card savvy.

Reflection on Finances

What do you think it means to create and maintain a finance budget?

What is your experience with budgets, either personally, through your family, or your job?

What does money management mean to you?

What are your current attitudes around managing your money?

What are your current values around managing your money?

What are your beliefs around managing your money?

Financial Management Word List

Directions: Connect the words in the left column with the definitions in the two right columns. Write the words on the line below each definition.

Debt

Deposit

Down Payment

Interest

Invest

Lend

Checkbook

Overdrawn

Payment

Profit

Stocks

Compound

Insurance

Coupon

Credit

Balance

Bankruptcy

Mortgage

Bounce

Equity

an agreement in which you pay a company money and they pay your costs if you have an accident, injury, etc.

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a charge for borrowed money, generally a percentage of the amount borrowed

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a legal agreement in which a person borrows money to buy property (such as a house) and pays back the money over a period of years

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a method of paying for goods or services at a later time, usually paying interest as well as the original money

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to put money in a bank account

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a part of the full price paid at the time of purchase or delivery with the balance to be paid later

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to pay interest on both an amount of money and the interest it has already earned

____

the value of a piece of property (such as a house) after any debts that remain to be paid for it (such as the amount of a mortgage) have been subtracted

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to commit money in order to earn a financial return

____

a share of the value of a company which can be bought, sold, or traded as an investment

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an amount in excess especially on the credit side of an account

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when a check cannot be paid or accepted by a bank because of a lack of money in the account

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the excess of the selling price of goods over their cost

____

an amount of money that you owe to a person, bank, company, etc

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a condition of financial failure caused by not having the money that you need to pay your debts

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usually small piece of printed paper that lets you get a service or product for free or at a lower price

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a book of checks

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an amount of money that is paid for something

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to give money to someone who agrees to pay it back in the future

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to draw upon (an account, allowance, etc.) in excess of the balance standing to one's credit or at one's disposal

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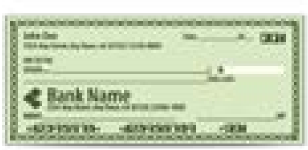
Banking 101

Back in the old days, people who did not trust banks would hide their treasures in and around their homes. Walls, mattresses, under floor boards, and holes dug deep into the ground were great places to stash money and valuable objects. And although these hiding places were accessible and perhaps safe from the casual thief, natural disasters such as fires, tornadoes, earthquakes and floods could destroy a home and wipe out a family's entire savings.

Since banks evolved over the past century with more regulated systems, most people now use some type of bank account through which they manage their money. Different types of accounts include savings and checking, money market and certificate of deposit. In addition, banks offer loans and credit cards. Savings accounts are places where individuals keep money they don't need to access right away. A checking account is used to pay for personal items or bills, either through checks or an ATM (debit) card. Savings, money market and certificate of deposit accounts pay interest on the amount that is in each account.

The two types of accounts that you will likely use are savings and checking. In this chapter, each of these accounts will be discussed, particularly how to put money into and draw money out of each type of account. There will be a brief discussion on money market and certificate of deposit accounts, followed by a more extensive discussion on credit cards later on in this chapter.

Checking Account



A checking account is the easiest way to both deposit and access the money you have in the bank. When you receive a check, either through your employer, your parents, or others, you deposit the check into a checking account. The bank keeps a record of your deposit and credits your checking account with the exact amount of the check.

To take money out of your checking account, you can either write checks or use a debit card to access your funds. When you give someone a check, you are making a legal commitment to pay for something – items or services for example – and you must have sufficient funds in your account to cover the amount of the check. Otherwise, the bank will not pay on the check. In which case, you will be responsible for both extra bank fees and paying the amount of the check to the payee (the person you wrote the check to). Nowadays, people use debit cards more than checks to pay for things such as groceries, gas, clothing, and other merchandise.

What are some differences between checks and debit cards? Checks can be sent through the mail, purchases and payments by debit cards are electronic or by phone only. There can be extra fees attached to using debit cards, which is not an issue when writing checks. You will need to keep and use a private pin number (passcode) with a debit card, which you will not need to do when writing a check.