NAME______________________________________ Class Period ______

ECONOMICS
HOMEWORK ASSIGNMENTS
DUE FRIDAY, MAY 1, 2009

I. Savings Concepts

Economics can be divided into two simple behaviors—accumulating money or losing money. In personal financial planning, this means saving money or spending money. Your goal is to live well, within your means, while providing for a comfortable living and a secure future. So, what do you need to do now to enact your future life plan? Adjust your current spending so you are able to meet two basic savings guidelines.

1. Experts recommend you have an emergency savings fund that contains three to six months' of your current living expenses. For example, if it costs you $400 a month for lunches, gas for your car, entertainment, & clothing, you should have $1,200–$2,400 in some type of an easy-access savings account.

2. Experts recommend that you save 10 percent of your take-home pay for your long-term goals and large expense items. This may be for a car, a vacation or a college education, as well as your retirement fund.

Here is how to begin:

Start now! When you are young, time is on your side. Take advantage of it. The sooner you start saving, the more money you'll accumulate over time. You will benefit from "compound interest" when you reinvest the interest you earn on your savings, because your interest earns more interest. For example, if you start an account with a 6 percent interest rate, with an initial deposit of $100 and add $100 to it monthly for 20 years, your money will total $46,766. Of that figure, $22,766 is in compound interest alone.

After you decide what you can afford to save from each pay check, put that money in your account immediately before you begin paying bills or buying anything. If you have a job, arrange for a payroll deduction program that automatically transfers money from your paycheck into your savings account. It's easier to save money when you don't have the chance to spend it!

While this sounds easy, the reality is that people save far less than they should. To identify your savings habits and the barriers that may stop you from reaching your savings goals, take the quiz below. Check those statements that apply to you.

List these items on your homework answer sheet.

- ❑ My emergency fund is less than it should be.
- ❑ I use my savings account to pay my bills.
- ❑ I often borrow money from family and friends.
- ❑ I currently save less than 10 percent of my income.
- ❑ I have been overdrawn in my checking account.
- ❑ I spend money if I have any left at the end of the month.
- ❑ I currently have no savings goals.
- ❑ I can only afford to make the minimum payment on my credit cards each month.
- ❑ I sometimes spend now, thinking I can save later.
- ❑ I don't save at all.

If you checked three or more items, you need to take a serious look at your savings habits. Your success at saving involves more than setting up a plan. It also requires discipline. Saving can hurt in the short term, but the long-term benefits are great.

II. Investing Concepts

You can earn money in two ways: from wages you are paid from a job and interest you earn from savings and investments. In a recent survey, the majority of students said a checking account or savings account was the best way to save money. These are good places to begin, but there are other ways to earn money. The savings vehicles you use depend on how much time you have to meet your savings goals, how much you earn and how comfortable you are with risk.

Savings vehicles have different interest rates, and these rates fluctuate according to economic conditions. The general rule to follow is that the higher the risk, the higher the potential rate of return—or loss. (Risk means you can lose money.) The chart below identifies the level of risks, common savings vehicles and the potential return.

Risk Level	Savings Vehicles	Potential Return
Low	Savings accounts Certificates of deposit Money-market accounts	Low
Medium	Mutual funds Blue-chip stocks Corporate bonds	Medium to high
High	Aggressive growth stocks Commodities Junk bonds	Large gains and large losses

When you buy stocks, you are buying "shares" of ownership in the company. The price of the stock can fluctuate and some stocks are riskier than others.

When you buy bonds, you are loaning money to a corporation or a government for a specific period of time. Bonds are usually not as risky as stocks.

When you buy a mutual fund, you are buying stocks and bonds through a company that employs a financial professional to manage the performance of the fund for a fee. There is less risk because the fund manager can change the mix to match the growth objectives of the fund.

The current economy plays a big role in people's investment choices. In uncertain times, financial advisers can be more cautious in their investment recommendations. Use the Internet and your economics glossary, to define the terms below and then answer the following question – Which of these are you most likely to invest in? Explain on your answer sheet.

Cash—savings accounts, money-market accounts, certificates of deposit

Life insurance—whole life insurance, term life insurance

Bonds—savings bonds, zero-coupon bonds, municipal bonds

III. End of the Marking Period Alert

All work that you have to complete and all of the tests that you need to make-up must be submitted by Friday, May 1, 2009 to be considered for your second marking period grade. Make sure to use SnapGrades or see me to find out what you are missing or to get additional assignments to make up work.