An investor can choose among a variety of investment options to make a plan that suits his needs.

GROUP PROJECT

When one thing happens, it may cause a series of events to happen, one after another. Explain the series of possibilities that can occur due to a change in interest rates.

1. An increase in interest rates
2. A decrease in interest rates

List the advantages and disadvantages (risks) for each choice below. Then choose the one that is best for you.

<table>
<thead>
<tr>
<th>Choice</th>
<th>Advantages</th>
<th>Disadvantages</th>
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<tbody>
<tr>
<td>A</td>
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</table>

1. A company obtains money for use in expanding its business by issuing to buyers, who will share the money made on the sale of the company's stock.
2. A statement on a check written by your bank promises to pay a stated amount of money when the check is cashed.
3. An investment in one’s own home, condominium, or co-op and has often proven to be wise.
4. A states the amount of deposit, the maturity, and the rate of interest being paid. Saver must leave their money.
5. A is attractive to people with limited money to invest. The investor pays half the face value. The full face value is the amount the investors can get back if they hold the bond to maturity.
6. A is an investment in one’s own home, condominium, or co-op and has often proven to be wise.
7. A company obtains money for use in expanding its business by issuing to buyers, who will share the money made on the sale of the company’s stock.
8. A certificate a company or government issues in exchange for borrowed money. It promises to pay a stated amount of money when it matures.
9. A is an investment in one’s own home, condominium, or co-op and has often proven to be wise.
10. A company obtains money for use in expanding its business by issuing to buyers, who will share the money made on the sale of the company’s stock.
11. A certificate a company or government issues in exchange for borrowed money. It promises to pay a stated amount of money when it matures.
12. A is an investment in one’s own home, condominium, or co-op and has often proven to be wise.

You have many options of places and ways to invest your money. This exercise will help you make a plan that suits your needs.

1. A states the amount of deposit, the maturity, and the rate of interest being paid. Saver must leave their money.
2. A is attractive to people with limited money to invest. The investor pays half the face value. The full face value is the amount the investors can get back if they hold the bond to maturity.
3. A is an investment in one’s own home, condominium, or co-op and has often proven to be wise.
4. A states the amount of deposit, the maturity, and the rate of interest being paid. Saver must leave their money.

Did members work well together?

Risks:

1. Employees have no security or job security.
2. They are at risk of losing their job.
3. Employees may be forced to accept lower pay.
4. Companies can easily replace workers.
5. Some workers may not have the skills needed.
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173. Some workers may not have the skills needed.
A person who buys a stock for $20 and sells it for $30 has earned $10 in
profit per share.

You and your students can visit tx.ett.glencoe.com—the Web site companion to Economics Today and
Tomorrow. This innovative integration of electronic and
print media offers your students a wealth of opportuni-
ties. The student text directs students to the Web site for
the following options:

• Chapter Overviews
• Self-Check Quizzes
• Student Web Activities
• Textbook Updates

Answers are provided for you in the Web Activity
Lesson Plan. Additional Web resources and Interactive
Puzzles are also available.

Use the Glencoe Web site for additional resources. All essential content is covered in the Student Edition.

Additional Resources

Reading for the Student
Real Life Consumer Economics, revised ed. New York:
Scholastic Books, 1990. Lessons on food, clothing, and
shelter; money and credit; and taxes and economics.

Multimedia Material
Investments and Risk Capital. From the Running Your
Own Business Series. Videotape, 24 min. Public Television
Library, 475 L’Enfant Plaza, SW, Washington, D.C. 20024
## Chapter 6 Resource Manager

### Section Resources

<table>
<thead>
<tr>
<th>Reading Objectives</th>
<th>Reproducible Resources</th>
<th>Technology/Multimedia Resources</th>
</tr>
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</table>
| **Section 1**  
*Why Save?*  
• When should you save?  
• How do passbook, statement, and money market accounts differ?  
• What are the advantages of time deposits? | Reproducible Lesson Plan 6-1  
Daily Lecture Notes 6-1  
Guided Reading Activity 6-1  
Reading Essentials and Study Guide 6-1  
Daily Focus Activity 42  
Section Quiz 6-1*  
Reinforcing Economic Skills 24 | Daily Focus Transparency 42  
Vocabulary PuzzleMaker CD-ROM  
Interactive Tutor Self-Assessment Software  
MindJogger Videoquiz  
Presentation Plus!  
ExamView® Pro Testmaker |
| **Section 2**  
*Investing: Taking Risks With Your Savings*  
• How do stocks and bonds differ?  
• What investment funds are available in stock and bond markets? | Reproducible Lesson Plan 6-2  
Daily Lecture Notes 6-2  
Guided Reading Activity 6-2  
Reading Essentials and Study Guide 6-2  
Daily Focus Activity 43  
Section Quiz 6-2* | Daily Focus Transparency 43  
Economic Concepts Transparency 10  
Vocabulary PuzzleMaker CD-ROM  
Interactive Tutor Self-Assessment Software  
MindJogger Videoquiz  
NBR’s *Economics & You*  
Interactive Economics!  
Presentation Plus!  
ExamView® Pro Testmaker  
Economic Survival: A Financial Simulation |
| **Section 3**  
*Special Savings Plans and Goals*  
• What kinds of retirement investments are available?  
• How much should you save and invest? | Reproducible Lesson Plan 6-3  
Daily Lecture Notes 6-3  
Guided Reading Activity 6-3  
Reading Essentials and Study Guide 6-3  
Daily Focus Activity 44  
Section Quiz 6-3* | Daily Focus Transparency 44  
Vocabulary PuzzleMaker CD-ROM  
Interactive Tutor Self-Assessment Software  
MindJogger Videoquiz  
NBR’s *Economics & You*  
Presentation Plus!  
ExamView® Pro Testmaker |

*Also available in Spanish*
ACTIVITY

From the Classroom of

Roger C. Lyder
Pelham High School
Pelham, New Hampshire

Finding a Job

Have students research a particular career and create a presentation for the class. Research the educational entry requirements, salary ranges, growth prospects, prime locations, and offshoots. Students should interview a person in that career in order to get an insider’s view.

Then have students practice writing their resumes. These should include their school experience, skills, work experience, and references. ECON: 7A, 23A, 23C, 24C-D

Block Schedule

Activities that are particularly suited to use within the block scheduling framework are identified throughout this chapter by the following designation: "BLOCK SCHEDULING"

National Council on Economic Education

The Economics America and Economics International Programs

Voluntary Standards Emphasized in Chapter 6

Content Standard 12 Students will understand that interest rates, adjusted for inflation, rise and fall to balance the amount saved with the amount borrowed, thus affecting the allocation of scarce resources between present and future uses.

Content Standard 10 Students will understand that institutions evolve in market economics to help individuals and groups accomplish their goals. Banks, labor unions, corporations, legal systems, and not-for-profit organizations are examples of important institutions.

Resources Available from NCEE

• Personal Finance Economics: Wallet Wisdom
• Learning from the Market: Integrating the Stock Market Game™ Across the Curriculum
• Personal Decision Making: Focus on Economics

To order these materials, or to contact your State Council on Economic Education about workshops and programs, call 1-800-338-1192 or visit the NCEE Web site at http://www.nationalcouncil.org
**Why It’s Important**

Why should you save? What is the difference between saving and investing? This chapter will explain reasons for saving, as well as the various institutions and investments in which to put your money.

**Chapter Overview**

Most Americans make more income at their jobs than they require for immediate necessities. At the same time, however, many large purchases cost more than a worker earns in a single pay period. Thus, wage earners must decide whether to save their extra earnings for large purchases or invest them for future use. Chapter 6 describes various types of savings accounts and investment opportunities and explains the advantages and disadvantages of each.

**CHAPTER LAUNCH ACTIVITY**

Have students imagine they have $5,000 to save or invest as they please. Offer students the following savings and investment options: a money market account, paying 4 percent interest, on which they can write four checks each month; a three-year certificate of deposit (CD) that pays 6 percent interest; a stock whose value has nearly tripled in the last 18 months. Call on volunteers to identify the option they would choose and why. After students have offered their answers, lead the class in a discussion of two very important factors in savings and investment decisions—risk and return.

**ECON: 1A-B, 3A, 4B, 11B, 23A, 23D, 23G**
**Economists define saving as the setting aside of income for a period of time so that it can be used later. You may already be saving some of your income for a future use, such as buying a DVD system or continuing your education. See Figure 6.1 on page 142. As you read this section, you’ll learn why saving is important to you and the economy as a whole.**

**Deciding to Save**

Any saving that you do now may be only for purchases that require more funds than you usually have at one time. When you are self-supporting and have more responsibilities, you will probably save for other reasons, such as having funds in case of emergencies and for your retirement.

**Results of Saving**

When an individual saves, the economy as a whole benefits. Saving provides money for others to invest or spend. Saving also allows businesses to expand, which provides increased income for consumers and raises the standard of living.
**CHAPTER 6**

**SECTION 1, Pages 141–144**

# 2 Teach

## Guided Practice

**L1 Understanding Ideas** Write the following terms on the board, leaving ample space between each term: passbook savings account, statement savings account, money market deposit account, certificate of deposit. Call on volunteers to identify what they think are the advantages and disadvantages of each. (As guidance, you might suggest that the advantage of a passbook savings account is easy availability of funds, while the disadvantage is a relatively low interest rate.) Note responses on the board. Conclude by asking students which type of account they might use to save for the following: a new coat, a car, a retirement account. In a closing discussion, have students explain their choices.

**ECON: 1A, 3A, 4B, 5A-B, 8A, 11B, 23A**

### Daily Lecture Notes 6-1

**Lecture Launcher**

- Americans saved around 4.5 percent of their disposable income. By 1991, that had almost doubled to 6 percent. Why do people save money? (Who are they trying to help by saving?)

**Fill-in-the-Blank**

- People save for purchases that require more funds than available, for emergencies, and for retirement.
- People benefit from individuals who save because people have more money to invest or spend, leading to expanding business.

**Illustrative Question**

Why is individual saving good for the economy? (When people save they have more income available for spending in the future. Today you may be saving for a stereo, whereas in the future you may save for a college education. How does saving affect your future spending habits?)

### Where to Save

Generally, when people think of saving, they think of putting their funds in a savings bank or a similar financial institution where it will earn interest. Interest is the payment people receive when they lend money, or allow someone else to use their money. A person receives interest on his or her savings plan for as long as funds are in the account.

In comparison shopping for the best savings plan, you need to consider the trade-offs. Some savings plans allow immediate access to your money but pay a low rate of interest. Others pay higher interest and allow immediate use of your money, but require a large minimum balance.

### Savings Accounts

Passbook savings accounts are also called regular savings accounts. With a **passbook savings account**, the depositor receives a booklet in which deposits, withdrawals, and interest are recorded. A customer must present the passbook each time one of these transactions, or business operations, takes place.

A **statement savings account** is basically the same type of account. Instead of a passbook that must be presented for each transaction, however, the depositor receives a monthly statement showing all transactions. The chief appeal of these accounts is that they offer easy availability of funds. The depositor can usually withdraw funds at any time without paying a penalty— forfeiting any money—but there is a trade-off. The interest paid on passbook and statement accounts is low compared to the interest on other savings plans.

---

**Refer to Inclusion for the Social Studies Classroom Strategies and Activities for students with different learning styles.**
A money market deposit account (MMDA) is another type of account that pays relatively high rates of interest and allows immediate access to money through checks. The trade-off is that these accounts have a $1,000 to $2,500 minimum balance requirement. Customers can usually make withdrawals from a money market account in person at any time, but they are allowed to write only a few checks a month against the account.

**Time Deposits**

The term time deposits refers to a wide variety of savings plans that require a saver to deposit his or her funds for a certain period of time. The period of time is called the **maturity**, and may vary from seven days to eight years or more. Time deposits are often called **certificates of deposit** (CDs), or savings certificates. CDs state the amount of the deposit, the maturity, and the rate of interest being paid.

Time deposits offer higher interest rates than passbook or statement savings accounts. The longer the maturity, the higher the interest rate that is paid. For example, a CD with a short-term maturity of 90 days pays less interest than a CD with a two-year maturity. Savers who cash a time deposit before maturity pay a penalty.

**Insuring Deposits**

When the stock market collapsed in 1929, the resulting crisis wiped out people’s entire savings. Congress passed, and President Franklin Roosevelt signed, legislation to protect deposits. This legislation created the Federal Deposit Insurance Corporation (FDIC).

Today there are several federal agencies that insure most banks and savings institutions. See Figure 6.2 on page 144. Each depositor’s money in a particular savings institution is insured up to $100,000. If an insured institution fails, each depositor will be paid the full amount of his or her savings up to $100,000 for each legally separate account.

**Comparing Saving Rates**

The percent of income that Americans save fell steadily in the 1990s. Today, the saving rate—the percentage of disposable personal income saved—stands well below 4 percent. How does this compare to the saving rates of other countries? Below are some recent statistics on saving rates for several industrialized nations.

<table>
<thead>
<tr>
<th>Country</th>
<th>Savings Rate</th>
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<tbody>
<tr>
<td>Canada</td>
<td>4.6%</td>
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<td>France</td>
<td>12.5%</td>
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<td>Germany</td>
<td>12.4%</td>
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<tr>
<td>Great Britain</td>
<td>11.6%</td>
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<tr>
<td>Italy</td>
<td>13.4%</td>
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<td>Japan</td>
<td>13.2%</td>
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**Independent Practice**

**L2 Gathering Information** Have students work in small groups to investigate the interest rates paid on passbook savings accounts, statement savings accounts, money market deposit accounts, and certificates of deposit at local banks today. Have groups present their findings in a brief report. Encourage students to extend their report by calculating the return after a year for each account on a deposit of $5,000.

**ECON:** 8A-B, 23A, 23G, 24D

**3 Assess**

**Meeting Lesson Objectives**

Assign Section 1 Assessment as homework or an in-class activity.

- Use Interactive Tutor Self-Assessment Software to review Section 1.
L2 Analyzing Information Have students analyze the interest rates for checking and savings accounts at banks in your area. Then have students discuss their findings with the class. **ECON:** 11A

**Reteach**

Ask students to analyze the section by writing topic sentences for each of the major subheadings. **ECON:** 23A

**Reading Essentials and Study Guide 6–1**

- **Understanding Key Terms**
  1. **Define** saving, interest, passbook savings account, statement savings account, money market deposit account, time deposits, maturity, certificates of deposit.
  2. What are three reasons that people save?
  3. **Graphic Organizer** Use a chart like the one below to explain the differences among passbook, statement, and money market savings accounts.

<table>
<thead>
<tr>
<th>Type of account</th>
<th>Similarities</th>
<th>Differences</th>
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<tbody>
<tr>
<td>Passbook savings account</td>
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<td>Low minimum deposit, low interest rates</td>
</tr>
<tr>
<td>Statement savings account</td>
<td>Relatively easy availability of funds</td>
<td>Low minimum deposit, low interest rates</td>
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<tr>
<td>Money market deposit account</td>
<td>Relatively easy availability of funds</td>
<td>Relatively high minimum deposit, relatively high interest rates</td>
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- **Applying Economic Concepts**
  4. What are the advantages of time deposits?
  5. **Saving** Why is it more difficult for the beginning saver to open a money market deposit account than a passbook savings account?

- **Critical Thinking Activity**
  6. **Synthesizing Information** If your bank pays 5.5 percent interest on savings deposits, what is the simple interest paid in the third year on an initial $100 deposit? What is the total amount in the account after three years? What is the amount after three years if the interest was compounded annually? For help in understanding interest rates, see page xxii in the Economic Handbook.

**SECTION 1 Assessment Answers**

1. All definitions can be found in the Glossary.
2. to make large purchases, for emergencies, for retirement
3. | Type of account | Similarities | Differences |
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<tbody>
<tr>
<td>Passbook savings account</td>
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<td>Relatively high minimum deposit, relatively high interest rates</td>
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4. Time deposits offer higher interest rates than passbook or statement savings accounts.
5. Money market accounts often require initial deposits of $1,000 to $2,500.
6. $5.50; $116.50; $117.42
People use electronic spreadsheets to manage numbers quickly and easily. Formulas may be used to add, subtract, multiply, and divide the numbers in the spreadsheet. If you make a change to one number, the totals are recalculated automatically for you.

**Learning the Skill**
All spreadsheets follow a basic design of rows and columns. To understand how to use a spreadsheet, follow the steps on the left.

**Practicing the Skill**
Study the spreadsheet on this page.
1. Which cell is highlighted? What information is found in the cell?
2. What formula would you type in which cell to calculate the average life expectancy of both males and females in Sri Lanka?
3. What formula would you type in which cell to find the GNP per capita of the South Asian countries listed?

**Application Activity**
Use a spreadsheet to enter your test scores and your homework grades. At the end of the grading period, input the correct formula and the spreadsheet will calculate your average grade.

---

### Answers to Practicing the Skill

1. C6; the population (in millions) of India in mid-1998
2. =(D9+E9)/2; F9
3. =B4+B5+B6+B7+B8+B9; B11

### Application Activity
Spreadsheets will vary according to students’ test scores and homework grades.
Investing: Taking Risks
With Your Savings

**Reading Objectives**

1. How do stocks and bonds differ?
2. What investment funds are available in stock and bond markets?

**Cover Story**

“Some day we’ll all invest this way,” runs the slogan, while the screen shows a relaxed man on a yacht tickling his laptop computer. Hardly the traditional picture of how shares are bought and sold: on a crowded floor, full of jostling, shouting traders in lurid polyester jackets. But the soaring share prices of electronic brokers suggest that investors, at least, believe online trading is the way of the future.

**Stocks and Bonds**

Corporations are formed by selling shares of stock (also called securities). By issuing stock for sale, a company obtains funds for use in expanding its business and, it hopes, in making a large profit. Shares of stock entitle the buyer to a certain part of the future profits received by the corporation.

**Reader’s Guide**

**Terms to Know**
- stockholders
- capital gain
- capital loss
- tax-exempt bonds
- savings bonds
- Treasury bills
- Treasury notes
- Treasury bonds
- broker
- over-the-counter market
- mutual fund
- money market fund

**Answers to the Reading Objectives questions are on page 153.**

**Preteaching Vocabulary**
- Vocabulary PuzzleMaker

**SECTION 2 RESOURCE MANAGER**

**Reproducible Masters**
- Reproducible Lesson Plan 6–2
- Reading Essentials and Study Guide 6–2
- Guided Reading Activity 6–2
- Section Quiz 6–2
- Daily Focus Activity 43
- Daily Lecture Notes 6–2

**Multimedia**
- Daily Focus Transparency 43
- Economic Concepts Transparency 10
- Vocabulary PuzzleMaker CD-ROM
- Interactive Tutor Self-Assessment Software
- ExamView® Pro Testmaker
- NBR’s Economics & You
- Interactive Economics!
- Economic Survival: A Financial Simulation
and assets of the corporation selling the stock. The person buying stock, therefore, becomes a part owner of the corporation. As proof of ownership, the corporation issues stock certificates. See Figure 6.3.

Stock Returns  Stockholders, or owners of stock, make money from stock in two ways. One is through dividends, the money return a stockholder receives on the amount he or she originally invested in the company. The corporation may declare a dividend at one or more times during a year. Dividends typically are paid only when the company makes a profit.

The other way people make money on stock is by selling it for more than they paid for it. Some people buy stock just to speculate, hoping that the price will increase greatly so they can sell it at a profit. They do not buy it for the dividends.

Capital Gains and Losses  Suppose a person buys stock at $20 a share and sells it for $30. The profit of $10 per share is called a capital gain. The person has had an increase in his or her capital, or wealth, of $10 a share. Of course, the value of stock may also fall. If a person decides to sell stock at a lower price than he or she paid for it, that person suffers a capital loss. Money may be made or lost on bonds in much the same way.

Bonds  Instead of buying stock, people with money to invest can buy bonds. A bond is a certificate issued by a company or the government in exchange for borrowed money. It promises to pay a stated rate of interest over a stated period of time, and then to repay the borrowed amount in full at the end of that time. A bondholder lends money for a period of time to a company or government and is paid interest on that money. At the end of the period, the full amount of borrowed money is repaid. The period of time is called the bond’s maturity.

Unlike buying stock, buying a bond does not make a bondholder part owner of the company or government that issued the bond. The bond becomes part of the debt of the corporation or government bonds are considered a relatively safe investment.

Daily Lecture Notes 6–2
L1 Understanding Ideas  Have students identify the various kinds of investments sold by the government. Then call on a volunteer to come to the board to list these investments by the amount of funds they require. Finally, ask students to suggest why government bonds are considered a relatively safe investment.

ECON: 4B, 11B-C, 15A, 23A, 23D

Guided Practice

Have students study the stock certificates pictured in Figure 6.3. ASK: How is owning stock a form of saving? By buying stock, the investor is choosing to set aside, rather than spend, current income.

ECON: 11C, 23A

Meeting Special Needs

Hearing Disability  Students with hearing difficulties may be especially interested in learning about the hand signals and gestures that are an integral part of trading on the floor of some stock exchanges. Encourage students to research and learn these signals, and then demonstrate them to the class.  ECON: 23A, 24D

Refer to Inclusion for the Social Studies Classroom Strategies and Activities for students with different learning styles.
According to a survey conducted in 1999, 48 percent of households in the United States owned stocks or mutual funds. Just 16 years earlier, in 1983, stock ownership among American households stood at just 19 percent. ECON: 11C

**Differences Between Stocks and Bonds**

**Stocks**

1. All corporations issue or offer to sell stock. That act is what makes them corporations.
2. Stocks represent ownership.
3. Stocks do not have a fixed dividend rate (except preferred stocks).
4. Dividends on stock are paid only if the corporation makes a profit.
5. Stocks do not have a maturity date. The corporation issuing the stock does not repay the stockholder.
6. Stockholders (except those with preferred stock) can elect a board of directors who control the corporation.
7. Stockholders have a claim against the property and income of a corporation only after the claims of all creditors (including bondholders and holders of preferred stock) have been met.

**Bonds**

1. Corporations are not required to issue bonds.
2. Bonds represent debt.
3. Bonds pay a fixed rate of interest.
4. Interest on bonds normally must always be paid, whether or not the corporation earns a profit.
5. Bonds have a maturity date. The bondholder is to be repaid the value of the bond, although if the corporation goes out of business, it does not normally repay the bondholders in full.
6. Bondholders usually have no voice in or control over how the corporation is run.
7. Bondholders have a claim against the property and income of a corporation that must be met before the claims of any stockholders, including those holding preferred stock.

**Tax-Exempt Bonds** Local and state governments also sell tax-exempt bonds. The interest on these types of bonds, unlike bonds issued by companies, is not taxed by the federal government. Interest that you earn on bonds your own city or state issues is also exempt from city and state income taxes. Tax-exempt bonds are good investments for wealthier people who would otherwise pay high taxes on interest earned from investments.

**Figure 6.4**

**Did You Know**

According to a survey conducted in 1999, 48 percent of households in the United States owned stocks or mutual funds. Just 16 years earlier, in 1983, stock ownership among American households stood at just 19 percent. ECON: 11C

**Cooperative Learning**

Play the game “Investment—What Am I?” Select two or three students to act as quiz leaders. Have them use index cards to write three clues to the identity of each financial asset—one asset per index card. Organize students into teams. Have a quiz leader read clues from an asset card to a specified team. If the team correctly identifies the asset after the first clue, it receives three points. If it identifies the asset after two clues, it receives two points, and one point if the identification is made after three clues. If the team fails to identify the asset after three clues, then other teams may attempt to. After all asset cards have been used, tally scores and announce the winner. ECON: 4B, 11B-C, 23A, 24D
Savings Bonds  The United States government issues savings bonds as one of its ways of borrowing money. They range in face value from $50 up to $10,000. The purchase of a U.S. savings bond is similar to buying a bank’s certificate of deposit. A very safe form of investment, savings bonds are attractive to people with limited money to invest. Another attraction is that the interest earned is not taxed until the bond is turned in for cash.

A person buying a savings bond pays half the bond’s face value. You could purchase a $50 bond, then, for only $25. The bond increases in value every 6 months until its full face value is reached. (The Rule of 72 tells you how long it takes for the bond to mature: Divide the number 72 by the interest rate.) If you choose to redeem a U.S. savings bond before it matures, you are guaranteed a certain rate of interest, which changes depending on rates of interest in the economy.

T-Bills, T-Notes, and T-Bonds  The Treasury Department of the federal government also sells several types of larger investments. Treasury bills mature in 3 months to 1 year. The minimum amount of investment for Treasury bills is $1,000. Treasury notes have maturity dates of 1 to 10 years, and Treasury bonds mature in 10 or more years. Notes and bonds are sold in minimums of $1,000. The interest on all three of these government securities is exempt from state and local income taxes, but not from federal income tax.

Stock and Bond Markets  Stocks are bought and sold through brokers or on the Internet. A broker is a person who acts as a go-between for buyers and sellers. If an investor is interested in buying or trading corporate shares, he or she can contact a brokerage firm, which will perform the service for a fee.

Thousands of full-service brokerage firms throughout the country buy and sell stocks daily for ordinary investors. The fees they charge to perform the trades—up to $500—depend on the dollar amounts invested or traded. Today, however, if an investor has an account with an Internet brokerage firm, the cost for the same trade may be as low as $7.

Economic Connection to...  History

Savings Bonds  During World War II special savings bonds—called war bonds—were issued to raise funds for the war effort. These bonds were issued in denominations of $10, $25, $50, $75, $100, $200, $500, $1,000, $10,000, and $100,000, and could be purchased at 75 percent of the face amount.
CHAPTER 6
SECTION 2, Pages 146–153

Independent Practice

L3 Writing a Report Randomly assign the following media to students: radio and television, news magazines, and the Internet. Have students research what kinds of investment information and advice are available on their assigned media. Ask students to write a detailed report and critique of one example they locate. Call on volunteers to present their reports to the class.

ECON: 4B, 23A, 23C, 24B-C, 27A

ECONOMIC SURVIVAL
A Financial Simulation

To help students learn to manage their own finances, have the class play the game Economic Survival: A Financial Simulation, in which each student enters the workforce, rents an apartment, and deals with everyday events. The simulation takes five days to complete and may be extended for an additional two weeks.

Visual Instruction FIGURE 6.5

After students have viewed Figure 6.5, point out that the New York Stock Exchange was founded in May 1792 by a group of 24 brokers. They met under a tree on what today is Wall Street.

There are well over 100 online brokerage firms, with more springing up on the Web every day. It is estimated that 10 million American investors use the Internet to make trades every year.

Stock Exchanges Brokerage houses communicate with the busy floors of the stock exchanges. See Figure 6.5. The largest stock exchange, or stock market, is the New York Stock Exchange (NYSE) in New York City. There are also supplemental stock exchanges and regional exchanges—such as the Midwest Stock Exchange in Chicago—and exchanges in other countries—such as the London and Tokyo stock exchanges.

To be listed on these exchanges, a corporation offering stock must prove to the exchange that it is in good financial condition. Most of the companies traded on stock exchanges are among the largest, most profitable corporations in the country.

Over-the-Counter Markets Stocks can also be sold on the over-the-counter market, an electronic marketplace for stocks not listed on the organized exchanges. The largest volume of over-the-counter stocks are quoted on the National Association of Securities Dealers Automated Quotations (NASDAQ) national market system, which merged with the American Stock Exchange in 1998.

Buying Stocks or Bonds If you decide to buy stocks or bonds, you may wish to contact a broker (by phone or through the Internet). You pay the broker a fee to purchase the stock at one of the stock exchanges. The stock exchanges act as a market between buyers and sellers of securities, or stocks.

Minorities and the Stock Market Studies have found that the vast majority of American stockholders are white. African Americans and Hispanics each account for only 5 percent of investors, while only 2 percent of investors are Asian. Recently, investment companies have made efforts to tap these underserved minority markets. One company has undertaken regular surveys of African American investors to see how it might better serve them. Other companies advertise prominently in business magazines aimed at Hispanics and Asians. Still others have translated prospectuses for their various financial assets into Spanish and Chinese.

ECON: 4A-B, 16A
Unlike organized stock exchanges, over-the-counter stocks are not traded in any specific place. Brokerage firms hold shares of stocks that they buy and sell for investors. For example, assume that XYZ Corporation is a company that sells computers. If an investor wanted to buy stock in it, he or she would check the NASDAQ listings in the local newspaper or on the Internet. This table of over-the-counter stocks would list XYZ Corporation, the number of shares of stock sold the day before, and the price at which shares were bought and sold that day. The investor would then call a broker or use the Internet to buy a certain number of shares. Usually stocks are sold in amounts of 100 shares, but some brokers will handle smaller amounts.

**Bond Markets** The New York Exchange Bond Market and the American Exchange Bond Market are the two largest bond exchanges. Bonds, including U.S. government bonds, are sold over-the-counter and on the Internet.

**Mutual Funds** Many people invest in the stock market by placing some of their savings in a **mutual fund**, an investment company that pools the money of many individuals to buy stocks, bonds, or other investments. See Figure 6.6. Most mutual funds hold a variety of stocks or bonds. Losses in one area are likely to be made up by gains in another.

One popular mutual fund invests in stocks used in an index. An index is a measuring system that tracks stock prices over the long run. The Dow-Jones Industrial Average (DJIA) and Standard & Poor’s (S&P) are the two most common indexes. The DJIA tracks

**International Bonds** Foreign governments also issue bonds. However, for the most part they are available only in large denominations, usually starting at $1 million. As a result, only institutional investors—pension funds and insurance companies, for example—purchase these international bonds. Another unique aspect of international bonds is that interest and principal payments often are made in the currency of the issuing country rather than in dollars.  

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**Careers**

**Stock Broker**

**Job Description**
- Relay investors’ stock orders to the floor of a securities exchange
- Offer financial counseling and advice on the purchase or sale of particular securities

**Qualifications**
- College degree
- Pass a state licensing exam and the General Securities Registered Representative Exam

**Median Salary:** $53,700
**Job Outlook:** above average

—Occupational Outlook Handbook, 2000–01

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**Visual Instruction**

**Figure 6.6**

**Mutual Funds** The small investor should find out how the mutual fund he or she may choose has performed compared to index funds over a period of several years. Why are index funds watched so closely?

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**Extending the Content**

**International Bonds** Foreign governments also issue bonds. However, for the most part they are available only in large denominations, usually starting at $1 million. As a result, only institutional investors—pension funds and insurance companies, for example—purchase these international bonds. Another unique aspect of international bonds is that interest and principal payments often are made in the currency of the issuing country rather than in dollars.  

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**3 Assess**

**Meeting Lesson Objectives**

Assign Section 2 Assessment as homework or an in-class activity.

Use Interactive Tutor Self-Assessment Software to review Section 2.
The Dow-Jones and S&P

The Dow was created in 1896 by Charles Dow, cofounder of Dow Jones & Co. It soon became a permanent feature in the company’s newspaper, The Wall Street Journal, which is one of the world’s most influential business publications. The Dow index grew from its original 12 stocks to 30 by 1928.

It wasn’t until 1926 that Standard & Poor’s introduced a broader stock index, which tracked the nation’s 90 biggest companies. The now-familiar S&P 500 stock index expanded in 1957 to include the 500 biggest companies.

Although it may seem odd that the Dow uses only 30 companies to measure a market with more than 10,000 stocks, those 30 companies have a combined market value of over $2.5 trillion. The S&P’s 500 companies have a combined market value of $10.5 trillion—more than three-fourths of the nation’s publicly owned stocks.

Money Market Funds

One type of mutual fund, called a money market fund, normally uses investors’ money to buy the short-term debt of businesses and banks. Most money market funds allow investors to write checks against their money in the fund. Any check, however, must be above some minimum amount, usually $500. The investor then earns money only on the amount left in the account.

Banks, savings and loan associations, and savings banks now offer a similar service, called money market deposit accounts (MMDA). A major advantage of MMDAs is that the federal government insures them against loss. Mutual funds and money market funds are not insured by the federal government.

Critical Thinking Activity

Synthesizing Information

Have students analyze the economic impact of the following investments and decide which will provide the best return at the end of one year.

1. $8,000 invested in a corporate bond paying annual interest of 6 percent
2. $9,000 invested in $25 stock whose value grows by 5 percent over the year
3. $10,000 invested in a government bond paying annual interest of 4 percent

$8,000 invested in a corporate bond—return will be $480, as compared to $450 for stock and $400 for government bond

ECON: 1B, 4B, 11B-C, 23A, 23G
Government Regulations

The stock market is heavily regulated today, both at the state and federal levels. The Securities and Exchange Commission (SEC), created by the Securities Exchange Act of 1934, is responsible for administering all federal securities laws. It has regulatory authority over brokerage firms, stock exchanges, and most businesses that issue stock. It also investigates any dealings among corporations, such as mergers, that affect the value of stocks.

Congress passed the Securities Act in an attempt to avoid another stock market crash like that of 1929. The act requires that all essential information concerning the issuing of stocks or bonds be made available to investors. To accomplish this, a registration statement must be filed with the federal government. A brief description, called a prospectus, must be given to each potential buyer of stocks or bonds. It lists the amount offered, the price, and the company’s projected use for the money raised by the stocks or bonds. Mutual funds must also distribute a prospectus describing the fund and the way in which the money will be invested.

States also have securities laws. These are designed mostly to prevent schemes that would take advantage of small investors.

Understanding Key Terms

1. Define stockholders, capital gain, capital loss, tax-exempt bonds, savings bonds, Treasury bills, Treasury notes, Treasury bonds, broker, over-the-counter market, mutual fund, money market fund.

Reviewing Objectives

2. How do stocks and bonds differ?
3. Graphic Organizer Use a diagram like the one below to list at least three investment funds available in stock and bond markets.

Applying Economic Concepts

4. Financial Markets List five possible investments you could make if you had $10,000 in available funds. Rank them from highest return to lowest return.

Critical Thinking Activity

5. Synthesizing Information Analyze the stocks on the New York Stock Exchange and over-the-counter market by checking the NYSE and NASDAQ quotes listed in the newspaper. Find a stock from each listing that had a net change of more than 2 percent. What corporations were they? For help in reading the financial page, see page xxiii in the Economic Handbook.

4 Close

Encourage students to discuss their financial goals. Then ask them to identify the kinds of investments that they believe would further these goals. ECON: 23A, 23G

Input the text
John W. Rogers, Jr.
ENTREPRENEUR (1958–)

John W. Rogers, Jr., is one of the country’s best managers of stocks of small and medium-sized companies. Beginning in 1983 with money from associates and his parents, Rogers founded Ariel Capital Management, Inc.

Rogers explains what researchers look for in an ideal stock for the Ariel Fund, the first of their three mutual funds:

“Our ideal stock-investment characteristics are really four things. The most important is that the company is in the kind of industry where they have barriers to entry to stop the competition from coming in, and the kind of strong brand-name and customer awareness that brings back customers time and time again. . . .

The second thing is the quality of the product and the quality of the management. . . .

And the third thing is valuation, and how many other people understand the stock as well as we do. If a stock is cheap, we want to understand why its future is going to be better. . . .

The final thing is size. We are always looking at smaller companies with new ideas, $1.5 billion or less.”

Ariel Capital Management, Inc., fund portfolios contain a wide array of companies—from drugstores to book publishers. Ariel has favored newspaper stocks. Rogers explains why:

“These are wonderful businesses to have, because they are basically little monopolies. . . . You have a lot of pricing power because you’re the only game in town, both with how much it costs to buy the newspaper, and also what your advertisers have to pay to put their ads inside the newspaper.”

Checking for Understanding

1. What characteristics does Rogers look for in an ideal stock?
2. Why does Rogers favor newspaper stocks?

Answers to Checking for Understanding

1. the existence in the industry of barriers to entry to stop the competition from coming in; the quality of the product and the quality of the management; the company’s valuation; and the company’s size
2. because newspapers are basically little monopolies and because newspapers are likely to be around in the future
Cover Story

Kiplinger’s Personal Finance Magazine, August 2000

With two medical degrees in the family—and lots of education debt—Paul and Heidi Geis know how expensive college can be. No wonder their 18-month-old, Aiden, already has a college fund. But what may be surprising is that his tuition kitty resides 2,000 miles away from the Geises’ home in Pittsburgh—in Utah’s college-savings plan...

Utah is among several states that have dramatically improved their college-savings plans over the past year.

One of the reasons that people save is to send their children to college. Another reason is to have income to spend when they retire. In addition to their savings, most Americans will need additional sources of income for the years after they stop working. As you read this section, you’ll learn what those additional sources of income are, and the amount of risk involved in these investments.

Investing for Retirement

Many individuals have company retirement plans called pension plans that provide retirement income. One of the most common types is a 401(k) plan, in which you allow a certain portion of

Saving and Investing

1. What kinds of retirement investments are available?
2. How much should you save and invest?

READER’S GUIDE

Terms to Know
• pension plans
• Keogh Plan
• individual retirement account (IRA)
• Roth IRA
• diversification

Reading Objectives

1. What kinds of retirement investments are available?
2. How much should you save and invest?

Answers to the Reading Objectives questions are on page 159.

Preteaching Vocabulary

Vocabulary PuzzleMaker

SECTION 3 RESOURCE MANAGER

Reproducible Masters

• Reproducible Lesson Plan 6–3
• Reading Essentials and Study Guide 6–3
• Guided Reading Activity 6–3
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Multimedia

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• Vocabulary PuzzleMaker CD-ROM
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• ExamView® Pro Testmaker
• MindJogger Videoquiz
• NBR’s Economics & You
• Presentation Plus!

Student Edition TEKS

Page 154: 4A-B, 7A, 9C, 10A, 19D, 23A
Page 155: 1B, 3A, 4B, 11A-C, 23A, 24A

1. What are the requirements for withdrawals for each type of IRA plan?
2. Which IRA plan lets an investor deduct contributions from his or her taxes?

Traditional IRAs
• available to anyone with earned income under the age of 70 1/2
• annual contributions are the lesser of $2000 or 100% of earned income
• must withdraw the minimum distribution amount no later than April of the year after turning 70 1/2
• tax deductions can occur if the person contributed to no other retirement plans, or if a person contributed to another plan

Roth IRAs
• available to anyone with earned income who, if single, has an AGI of $110,000 or who, if married, has an AGI of $160,000
• annual contributions have a maximum of $2000 if single with an AGI of $95,000, $4000 if married with an AGI of $150,000
• no mandatory withdrawal age, but no income tax withdrawal after age 59 1/2
• no tax deductions

Both
• retirement plans
• maximum annual contributions of $2000
• withdrawals in a lump sum or installments
• no withdrawals until age 59 1/2

4444

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Answers

1. Traditional IRAs must withdraw a minimum distribution no later than April of the year after turning 70 1/2. Roth IRAs have no mandatory withdrawal age and no income taxes deducted after age 59 1/2.

2. Both}
Inefficient Readers Students who have problems decoding unfamiliar words often skip over them. In many cases, however, they are successful in comprehending the words based on the context of the sentence. Ask students to scan the section for unfamiliar words. Have them write these words in their notebooks and try to guess the meaning of the words based on the context. ECON: 23A, 24A
50 years or so, buying a home, condominium, or co-op has proven to be a wise investment in many parts of the country. Resale values have soared at times, especially during the late 1970s. In the early 1980s and again in the early 1990s, however, the growth in the price of housing slowed in some areas, particularly in California and parts of the Northeast. By the end of the 1990s, values everywhere were once again on the upswing.

Buying raw, undeveloped land is a much riskier investment. No one can guarantee that there will be a demand in the future for a particular piece of land. The same is true for housing, but most people do not buy housing for the purpose of reselling it.

Real estate, either as raw land or developed land, is not very easy to turn into cash on short notice. As shown in Figure 6.7, sometimes real property for sale stays on the market for long periods of time. This difficulty in getting cash for your investment is one of the trade-offs involved when investing in real estate. You cannot get your funds as quickly as you could if you had invested in stocks, bonds, a bank CD, or some other savings plan.

How Much to Save and Invest?

Saving involves a trade-off like every other activity. The more you save today, the more you can buy and consume a year from now, 10 years from now, or 30 years from now. You will, however, have less to spend today. Deciding what percentage of income to save depends on the following factors:

- How much do you spend on your fixed expenses?
- What are your reasons for saving?
- How much interest can you earn on your savings and, therefore, how fast will your savings grow?
- How much income do you think you will be earning in the future?

If you expect to make a much higher income tomorrow, you have less reason to save a large percentage of today’s income. It is a good idea, however, to have some sort of savings plan. There are several questions to answer before you decide on this plan:
spreading of

...Assessment Software

homework or an in-class activity.

Meeting Lesson Objectives

Assign Section 3 Assessment as homework or an in-class activity.

Use Interactive Tutor Self-Assessment Software.

Answer: The market value of these bonds could fall. Also, some of the companies that issued the bonds may go out of business and not be able to repay the bonds at maturity.

Risk and Return The lower the risk, the lower the return. Perhaps the most risk-free investment is an insured passbook savings account. You could also invest your savings in the stock or bond market directly, although these are the riskiest investments. The market value of stocks can rise and fall dramatically and so, too, can the value of your investment. Why do bond-based mutual funds carry a risk?

• What degree of risk are you willing to take?
• How important is it that your savings be readily available in case you need immediate cash?
• Will your standard of living at retirement depend largely on your accumulated savings?

Amount of Risk Such questions are difficult to answer because there are so many ways to save and invest. Perhaps the most important factor to consider is the amount of risk that you are willing to take with your savings.

If you put a lesser amount in the more risky types of investments, you will have some security with your savings and have some funds readily available should you need cash in a hurry. You may also have a chance of making high returns, as risk and return are directly related. Figure 6.8 ranks various investments according to risk.

Spreading Out Your Investments Investing your savings in several different types of accounts lowers the overall risk. If one investment turns sour, the others may do better. Financial planners call spreading out your investments diversification. See Figure 6.9. Mutual funds, for example, help you diversify.

Risk and Return...
When you have very little income and cannot afford any investment losses, you should probably put your savings in insured accounts in a local bank or savings and loan, or you should buy U.S. government savings bonds. The greater your income and the more savings you have, the more you can diversify into stocks, corporate bonds, and so on.

Values Your values may also determine where you invest your savings. If you believe that your community needs more development, you might choose to put your savings in a local savings and loan that guarantees that a large percentage of its investments are made in community loans. You may also choose to invest in stocks issued by environmentally responsible companies or companies that have aggressive equal opportunity programs.

Understanding Key Terms
1. Define pension plans, Keogh Plan, individual retirement account (IRA), Roth IRA, diversification.

Reviewing Objectives
2. What are three ways of investing for retirement?
3. Graphic Organizer Use a diagram like the one in the next column to explain how a person should determine the amount to save and the amount to invest.

Applying Economic Concepts
4. Risk-Return Relationship If you had money to invest, in which type of account would you invest? Why?

Critical Thinking Activity
5. Drawing Conclusions Bonds yield a more certain return than stocks. Why do individuals, nonetheless, invest in stocks?

Reteach
Have students outline the section using the main headings as the basic outline. **ECON: 23A**

**SECTION 3, PAGES 155–159**

4 Close
Lead students in a discussion of the following: If you could give one piece of advice on investing, what would it be? Why? **ECON: 11B, 23A, 23D**

**SECTION 3 ASSESSMENT ANSWERS**
1. All definitions can be found in the Glossary.
2. Keogh Plans, IRAs, real estate investments present fixed expenses, reasons for saving, savings growth rate, future income needs
3. Answers will vary. Ensure that students’ answers demonstrate an understanding of the relationship between risk and return.
4. While the risk is greater, there is a chance of obtaining higher returns.
It pays to be astute. Tuition and fees have risen 94% since 1989, nearly triple the 32.5% increase in inflation. The sticker price—tuition, fees, and room and board—for a year of undergraduate education ranges from $33,000 at Ivy League schools down to $10,500 at state universities.

The good news is that rising financial aid, now at $60 billion nationally, is softening the blow. The first thing to do when investigating aid packages is to head for the Internet. A few days of pointing and clicking can have a lifelong pay-off. You’ll learn such tips as:

- Don’t go the early-admission route if you want aid. Your commitment means they know they’ve got you.
- If you have stock set aside for college, sell it before January 1 of your child’s junior year in high school.
- Apply to at least six colleges, from dreams to sure bets. Then, with offers in hand, negotiate.

If you are set on a specific college, it helps to have strong offers from direct competitors. Negotiations can be done face-to-face, by phone, or by faxing other offers with a polite cover letter. A well-spoken student may get better results than a pushy parent.

Cash-strapped students are also saving thousands by enrolling at a public college and later transferring to a private school or starting at a junior college (average tuition of $1,500 a year) and moving on to a state university.


Think About It

1. What are the three actions you should follow when applying for college aid?
2. What is another alternative for cash-strapped students?
Why Save?

- Economists define *saving* as the nonuse of income for a period of time so that it can be used later.
- Saving done by an individual provides money for others to invest or spend and allows businesses to expand.
- Individuals have many places to invest their savings, including *savings accounts* and *time deposits*.
- With a *passbook savings account*, the depositor receives a booklet in which deposits, withdrawals, and interest are recorded.
- A *money market deposit account (MMDA)* is another type of account that pays relatively high rates of interest and allows immediate access to money through checks. The trade-off is that these accounts have a $1,000 to $2,500 minimum balance requirement.
- Time deposits, such as *certificates of deposit (CDs)*, offer higher rates of *interest*, but you must leave your funds on deposit for longer periods of time.
- The FDIC insures deposits up to $100,000 in commercial banks and savings banks.

SECTION 2 Investing: Taking Risks With Your Savings

- Shares of stock entitle the buyer to a certain part of the future profits and assets of the corporation selling the stock.
- *Stockholders* make money from stock through dividends and by selling their stock for more than they paid for it.
- Companies and all three levels of government sell bonds to borrow money. These include *tax-exempt bonds; savings bonds;* and *Treasury bills, notes,* and *bonds*.
- Stocks are bought and sold through *brokers* or on the Internet.
- Stocks of large corporations are usually traded on the organized stock exchanges, whereas stocks of smaller, new corporations usually are sold on the *over-the-counter market*.
- Many people invest in the stock market by placing some of their savings in a *mutual fund*, an investment company that pools the money of many individuals to buy stocks, bonds, or other investments.

SECTION 3 Special Savings Plans and Goals

- When they retire, most Americans will need additional sources of income besides their savings.
- *Pension plans*, the *Keogh Plan*, and *individual retirement accounts (IRAs)* are ways to increase your retirement dollars.
- Buying real estate is another form of investing for your retirement, but it carries a much higher risk.
- When deciding how much and what to invest in, consider *diversification* in order to spread out your investment risk.

Economic Journal

**Saving and Investing** Ask students to think about and list items they wish to buy. Suggest that they divide their “wish lists” into long-term goals (expensive items) and short-term goals (less expensive items). Then have students identify options of how they will save to make these purchases. **ECON:** 1B, 3A, 5A-B, 11B, 23A, 23C, 25B
CHAPTER 6
Assessment and Activities

Identifying Key Terms

Write the letter of the definition in Column B that correctly defines each term in Column A.

<table>
<thead>
<tr>
<th>Column A</th>
<th>Column B</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. mutual fund</td>
<td>a. an increase in wealth realized when a person sells an asset</td>
</tr>
<tr>
<td>2. savings bond</td>
<td>b. a less risky way to invest in stocks and bonds</td>
</tr>
<tr>
<td>3. capital gain</td>
<td>c. a government security attractive to small investors</td>
</tr>
<tr>
<td>4. statement savings account</td>
<td>d. savings plan that issues a monthly summary of your transactions</td>
</tr>
<tr>
<td>5. time deposit</td>
<td>e. retirement plan organized by a company</td>
</tr>
<tr>
<td>6. diversification</td>
<td>f. savings plan that requires savers to leave their funds in a financial institution for a specified length of time</td>
</tr>
<tr>
<td>7. pension plan</td>
<td>g. spreading of investments among several different types of accounts to lower overall risk</td>
</tr>
</tbody>
</table>

Recalling Facts and Ideas

Section 1

1. What is the main advantage of passbook and statement savings accounts?
2. Why is a bank certificate of deposit called a time deposit?
3. Why are deposits of up to $100,000 in banks and savings institutions often considered very safe?

Section 2

4. What is the basic difference between a stock and a bond?
5. What are two advantages of United States savings bonds?
6. What terms describe the difference between the purchase price of a stock and the sale price of a stock?
7. What kind of investment company hires professionals to manage the investments of a pool of investors?
8. What government agency regulates stock and bond markets?

Section 3

9. What are three common types of pension plans for individuals?
10. What are some of the ways you can decide how much you should save?
11. “Don’t put all your eggs in one basket.” This quote is an example of what principle of investing?

Thinking Critically

1. set up three separate accounts of $100,000 each
2. When people buy U.S. savings bonds, they are loaning money to the United States government. Therefore, this increases the government’s debt.
3. Charts will vary.
Thinking Critically

1. **Identifying Alternatives** Suppose you have $300,000 that you want to save. The FDIC only insures up to $100,000. What can you do to make sure all your funds are insured by the FDIC?

2. **Understanding Cause and Effect** How does buying a U.S. savings bond increase the United States government’s debt?

3. **Categorizing Information** Assume that you have $100,000 in savings. Create a chart like the one below to list the investments you might make and what percentage of the $100,000 you would invest in each. In the last column, explain how your choices will achieve investment diversification.

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>% of Funds</th>
<th>Diversification</th>
</tr>
</thead>
<tbody>
<tr>
<td>One particular stock</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A mutual stock fund</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Treasury bonds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential real estate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial real estate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gold</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diamonds</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Reviewing Skills**

**Using a Spreadsheet** Contact at least five financial institutions in your area. Ask them for the interest rate they offer for a passbook savings account, a certificate of deposit, and a money market deposit account with a minimum balance of $1,000 and a maturity of 16 months. Use the information you obtain as the basis for a spreadsheet showing interest rates in your community. Then prepare a bar graph of the interest rates available and present your information to the class.

**Technology Activity**

**Using the Internet** Choose two stocks on the New York Stock Exchange, and follow their prices for two weeks in the financial pages of a newspaper or on the Internet. You will need to read only the last column of figures. Note the daily closing prices for each stock, and then make a line graph showing the stocks’ performance over the two-week period.

**Analyzing the Global Economy**

Call on students to share their findings with the class. Then lead the class in a discussion of why these types of stock might be in demand.

ASK: Which of the following investments has the greatest risk factor? The greatest potential return?

- a. certificate of deposit
- b. stocks
- c. stock-based mutual fund

The answer to both questions is b, since risk and return are directly related. **ECON: 11B-C, 23A**

**Applying Economic Concepts**

**Scarcity and Choice** List your short-term savings goals, such as saving to buy a new portable DVD player. Explain the typical ways in which you can save for such a purchase. Then list your long-term savings goals, such as saving for a house or retirement. Explain how you can achieve these goals. What is the major difference between the two ways of saving?

**Technoology Activity**

Use the Internet or business magazines to research what stocks are in demand in Italy, Finland, Israel, and Japan. Present the results of your research to the rest of the class.

**Cooperative Learning Project**

Working in groups of four, research what $100,000 placed in each one of the following investments 10 years ago would be worth today. Rank and compare the rates of return. Obtain your information in the library, on the Internet, or through a securities brokerage firm.

**Applying Economic Concepts**

Answers will vary but should reflect that short-term savings plans focus on flexibility, while long-term savings plans focus on earnings.

**Cooperative Learning Project**

Students might present their findings in a table or chart.
In Unit 2 you learned how trade-offs shape consumer decisions regarding credit, food products, clothing, automobiles, housing, and saving. In this lab, you will design a strategy for earning, spending, saving, and investing your resources.

**Tools Needed**
- Copies of Tables 1 and 2
- Newspapers with advertisements for apartment rentals and auto sales
- Ads from local grocery stores
- Magazines with photos of apartments, automobiles, and furniture
- Pencil
- Calculator

**Procedures to Follow**

1. You will be sharing living quarters with another person. Annually you make $16,640, of which $1,800 goes to pay taxes. Monthly you earn $1,236.66. Your total expenditures will include the items listed in Table 1.

2. Analyze the newspaper ads to select an apartment to rent. List the rental fee in Table 1.

3. Plan your weekly menus in Table 2, then multiply these by 4 to budget your food expenses for 1 month. Use the ads from grocery stores to select and price the food products needed for your menus.

4. Decide on a type of car to buy. Analyze the newspaper ads to obtain the monthly payment for an automobile.

5. From the magazines, select items of furniture to furnish your apartment.

6. Visit or call the following places to obtain prices or monthly fees for other necessities: phone company, electric company, gas company, auto insurance, furniture store, and medical insurance. Optional costs include IRA deductions and purchases of stocks and bonds.

7. Fill in your costs in Table 1.
Answers to Lab Report Analysis

The largest monthly expense is rent. The rest of the students’ budgets will vary, however. In a review session of this Economics Lab, have students compare and discuss their budgets.

Use the results of your cost analyses in Table 1 to draw a bar graph visually showing how your income compares to your expenditures. Draw your graph on poster board to use in a presentation to the rest of the class. In your presentation you should also include visuals of the type of apartment you chose to rent, the furniture you selected, the type of automobile you bought, evidence of car and medical insurance costs, and your calculations for credit card interest fees.

<table>
<thead>
<tr>
<th>Table 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>CATEGORIES OF EXPENDITURES</td>
</tr>
<tr>
<td>Rent</td>
</tr>
<tr>
<td>Rental insurance</td>
</tr>
<tr>
<td>Telephone</td>
</tr>
<tr>
<td>Electricity</td>
</tr>
<tr>
<td>Gas heat</td>
</tr>
<tr>
<td>Car payment</td>
</tr>
<tr>
<td>Car insurance</td>
</tr>
<tr>
<td>Car expenses (gas and repairs)</td>
</tr>
<tr>
<td>Furniture expenses</td>
</tr>
<tr>
<td>Clothing expenses</td>
</tr>
<tr>
<td>Food (Eating in)</td>
</tr>
<tr>
<td>Eating out</td>
</tr>
<tr>
<td>Medical insurance</td>
</tr>
<tr>
<td>Medical expenses</td>
</tr>
<tr>
<td>Credit card bill</td>
</tr>
<tr>
<td>Savings account</td>
</tr>
<tr>
<td>Checking account</td>
</tr>
<tr>
<td>Stocks and bonds</td>
</tr>
<tr>
<td>IRA or Roth IRA</td>
</tr>
<tr>
<td>Entertainment</td>
</tr>
<tr>
<td>Laundry and Toiletries</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td>TOTAL OF EXPENSES</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Table 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>MENUS</td>
</tr>
<tr>
<td>Monday</td>
</tr>
<tr>
<td>Tuesday</td>
</tr>
<tr>
<td>Wednesday</td>
</tr>
<tr>
<td>Thursday</td>
</tr>
<tr>
<td>Friday</td>
</tr>
<tr>
<td>Saturday</td>
</tr>
<tr>
<td>Sunday</td>
</tr>
</tbody>
</table>

3 Assess

Have students answer the Lab Report Analysis questions.

4 Close

Discuss with students the trade-offs they made to minimize costs and meet their wants. Ask them if they would like to change these trade-offs and, if so, why.

ECON: 1B, 5A-B

? Did You Know

Vacations are one expense not included in the Economics Lab budget. In 1999, the average American spent a little under $1,000 on a summer vacation.