ECONOMICS

Chapter 9

Sources of Capital



**TERMS TO KNOW**

|  |  |
| --- | --- |
| Broker |  |
| Annual Percentage Rate |  |
| Balance |  |
| Bankruptcy |  |
| Bear Market |  |
| Budget |  |
| Bull Market |  |
| Capital Accumulation |  |
| Capital Gain |  |
| Capital Loss |  |
| Compound Interest |  |
| Credit Bureau |  |
| Credit Rating |  |
| Disposable Income |  |
| Diversification |  |
| Finance Charge |  |
| Fixed Expense |  |
| Flexible Expense |  |
| Future |  |
| Infrastructure |  |
| Installment |  |
| Investment |  |
| Investment Bank |  |
| Liquidity |  |
| Maturity |  |
| Principal |  |
| Prospectus |  |
| Real Investment |  |
| Savings Rate |  |
| Simple Interest |  |
| Stock Split |  |
| Time Deposit |  |
| Usury |  |
| Venture Capital |  |
| Yield |  |

WHY SAVE?

► SECURITY ►INTEREST

1. Save for the Unexpected
2. Save for Opportunities
3. Save for Major Purchases
4. Save for Flexibility
5. Save to Achieve Your Goals

Savings Strategies

1. Pay Yourself First
2. Save by the Numbers
3. Reward Yourself
4. Consider your Values
5. Enroll in Automatic Saving
   1. Payroll deductions
   2. Checking Account Transfers

*Think Critically…*

1. Vera wants to save $2,000 to make a down payment on a used car next year. Much of her income as a server in a restaurant comes from tips. Since her tips vary from day to day, she never knows what her income will be for the week. This uncertainty makes it hard for Vera to plan her saving.
   1. How Can Vera plan her saving?
   2. Aside from her goal of saving for a car, how else would regular saving benefit Vera?
2. Why do you need to save for both expected and unexpected expenses? Describe a time in your life when you encountered an unexpected expense and how you handled it.
3. What savings strategy would work best for you? WHY?
4. MATH: Molly has a part-time job that pays her a gross income of $135 each week. Her withholding each week is $39.50. She also babysits. Her saving strategy is to deposit 20% of what she takes home. This week she earned $35 from two babysitting jobs. How much should she deposit in her account?

Calculating Compound Interest

*Principal* ***x*** *Interest Rate* ***x*** *Time* ***=*** *Interest Earned*

1. You put $100 in a savings account with a 3% APR for 3 Years.
2. You put $500 in a CD with a 5% APR for 3 years.
3. You put $1,000 in a money market account with a 4% APR for 4 years.
4. You put $5,000 in a CD with 6% APR for 5 years.

Rule of 72

72 divided by interest rate = # of years needed to

double your money!

|  |  |  |
| --- | --- | --- |
|  | Rate of Return | # of Years |
| 72 divided by | 3% |  |
| 72 divided by | 5% |  |
| 72 divided by |  | 6 |
| 72 divided by |  | 15 |
| 72 divided by | 4% |  |
| 72 divided by |  | 10 |
| 72 divided by | 6% |  |
| 72 divided by |  | 8 |

Types of Savings

**Balance**

**Liquidity**

**Maturity**

|  |  |
| --- | --- |
| **Savings Account**  **Pros:**  **Cons:** | **Money Market Account**  **Pros:**  **Cons:** |
| **Checking Account**  **Pros:**  **Cons:** | **Certificate of Deposit (CD)**  **Pros:**  **Cons:** |
| **Savings Bonds**  **Pros:**  **Cons:** |  |

**Savings Discussion Exercise**

**We’ve talked about different types of savings accounts. Which one is best for an individual depends upon various factors:**

* **What they’re saving for**
* **How comfortable they are with the risk**
* **How liquid they need their savings to be.**

**Consider what type of savings account may be best in the following situations:**

1. If your pet has a medical condition and you think you may have some surprise vet bills in the next year.

*How important is the liquidity of your funds in this example?*

1. If you want to buy a plane ticket to celebrate your grandparent’s 50th wedding anniversary in Hawaii in five years?

*What if you think interest rates will rise in the next year?*

1. If you want to buy a used car sometime in the next six months.

*What if you decide to wait 18 months to buy the car?*

1. If you’re saving now for your own apartment in two years?
2. If you want an emergency fund for unexpected expenses?