

Scenario and Register II

Record the following transactions on the check register on Page 11. Keep a running balance.

1. You have a beginning balance of \$451.51.
2. You receive your paycheck on June 13 for the amount of \$721.98. One hundred dollars is placed in your savings account before the remainder is deposited into your checking account. Your total deposit is \$621.98.
3. On June 15, you write check number 1170 to the power company to pay your electric bill. The amount is \$51.22.
4. On June 17, you write check number 1171 to the cable company to pay your cable bill. The amount is \$37.65.
5. On June 17, you write check number 1172 to Central Bank to pay your mortgage. The check is for \$651.00.
6. On June 18, you write check number 1173 to Dressed Up to buy clothing. The amount is \$77.53.
7. On June 19, you use your debit card to buy food at Corner Market for \$133.65.
8. On June 19, you receive a paycheck for the amount of \$721.98. One hundred dollars is placed in your savings account before the remainder is deposited into your checking account. The deposit is \$621.98.
9. On June 20, you receive and deposit a dividend check from your investment broker. The amount is \$97.01.
10. On June 21, you use your debit card to pay for a family dinner at Infront Steakhouse. The amount debited is \$54.13.
11. On June 23, you use your debit card at Pacific Hardware to buy some yard goods. The amount debited is \$69.99.
12. On June 24, you write check number 1174 to the Wellness Center for a one-year membership. The check is for \$222.45.

Credit Decisions

Scenario One

Megan will start college soon. She will move out of her parents' house and move into a dormitory on campus. Megan will have many bills. Her parents want to be able to keep track of her expenses while making spending convenient for her. Megan's parents have co-signed on a credit card for her use. They expect her to use the card to pay for tuition, books, and living expenses.

Megan is enjoying school and has made several new friends. Megan's friends in the dorm invite her to go to dinner at local restaurants a couple of times a week. She goes shopping with her roommate on the weekends. Megan also joins a movie club with some other students. They see the latest movies once a week.

Megan doesn't have a job to earn her own money, but she is given a monthly allowance from her parents. The allowance isn't always enough to cover the things she wants to buy. Megan has begun to use the credit card her parents gave her. Megan's parents gave her the card to use for college expenses; they did not expect her to use the card for entertainment and shopping. Before long, Megan has spent more on the card than allowed by the bank. Her parents receive the bill and are concerned about the hundreds of dollars on the card that they did not expect. Megan and her parents meet to discuss the situation.

1. What does it mean to co-sign for a credit card?

2. Why did Megan's parents have to co-sign on the credit card for her?

3. Why was it easy for Megan to spend using the credit card, yet not realize she had spent so much money?

4. What will happen if Megan or her parents do not pay the credit card bill on time?

5. How will the large credit card debt affect other spending by Megan and her parents?

Scenario Two

James is in eighth grade. He earns money during the summer by mowing lawns and caring for neighbors' homes when they go on vacation. James will be out of school for the summer in just four weeks. He is beginning to line up work for the summer. With the jobs he has secured around the neighborhood, James expects to earn about \$150 a month. That amount will likely increase as he gets more jobs.

James wants to buy a new bicycle, but he needs \$100 more than he has in his savings account. James wants to use the bike to call on customers and build his business. James thinks he could get around the neighborhood more easily by bike, rather than walking, which would help him acquire more customers.

James asked his parents for a loan so he can buy the bike now. His parents have agreed to help him. They told James they will buy the bike on their credit card, but James must pay back the loan plus interest owed. Including interest, James will pay his parents \$125.

1. What benefits will James receive from buying the bike on credit now, rather than waiting to earn the cash himself?

2. What benefits will James receive by waiting to earn the cash, rather than buying the bike on credit now?

Scenario Three

Charles is a high school student with a part-time job at a local grocery store. He is making payments on a fairly new car, his pride and joy. Charles is one of the few kids in his crowd at school with a car. He is able to easily go places with his friends, while other kids he knows must rely on their parents for transportation. Charles' parents agreed he could have the car but that he must pay for all his car expenses, such as the car payment, gasoline, and insurance.

Charles had to focus more time on his school assignments, so he cut back his work hours at the grocery store. His paychecks are smaller, and he doesn't have enough money to pay his car payments, insurance, and gasoline bills.

Charles has a credit card that his parents have given him. The card is in his name, although they co-signed on the card for him. Charles has used the card only for emergencies and pays the credit card bill himself. He has always paid all his bills on time. However, in just two months, Charles has charged so much on the card that he has reached the spending limit allowed by the bank.

Charles receives a credit card application in the mail from another company. He completes the application and soon has a second credit card. He continues to make payments on the first card, but also begins making purchases on the new card. The hours he works at the grocery store have not increased, so his income has remained the same while his monthly expenses have increased. Charles finds himself in a difficult situation, unable to pay the bills he is getting.

1. If not managed well, how can Charles' increasing debt affect the rest of his life?

2. Will Charles' situation affect his parents' credit? Explain.

3. Why was it so easy for Charles to get the second credit card?

4. Will it be as easy for Charles to get credit in the future if he doesn't pay the bills he currently has?

5. What are some solutions to Charles' difficult situation?

A Big Decision

Create notes in each column using the Using Credit—A Big Decision information sheet found on Page 17. Use one column to list the advantages of credit and the other column to list the disadvantages of credit.

Advantages of Credit

Disadvantages of Credit

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Credit Scenarios

Read the following scenarios carefully. In each scenario, find either one advantage of using credit or one disadvantage of using credit. Circle the advantages, and underline the disadvantages.

Scenario One

Bill and Sandy were buying their first home. Their real estate agent told them the sellers had accepted their bid on the amount they would pay. They waited eagerly, talking about how excited they were to be moving. Unfortunately, after checking into their credit history, the bank turned down their loan because of nonpayment of past credit card bills.

Scenario Two

Before the Gonzalez family went to Walt Disney World® for a vacation, Mom decided to put most of the money the family had allotted for the trip into a savings account and not carry it with her to the park. She then wouldn't have to worry about losing it or having it stolen. She would use her credit card to pay most of the expenses and then pay for the trip in one lump sum when the credit card bill came.

Scenario Three

Mario left for college and was excited to be on his own. He received several credit card applications and decided that having one card would be helpful while he was away. After receiving the card, Mario found it easy to use and was soon impulsively buying things he thought he really needed. Soon his bill was up to the limit, and someone had to pay it. His parents were not happy with him.

Scenario Four

Greg's father is a race car driver with a sponsor who pays most of his expenses. He is on the road frequently, going from race to race. He finds that using a credit card instead of cash is perfect for him because it allows him to keep a record of what he has spent. He then gives his well-kept records to his sponsor for reimbursement of funds.

Scenario Five

Ricardo bought a motorcycle with a small loan from his credit union. He made regular monthly payments of \$180 for three years until he had it paid off. When he received the motorcycle title and final paperwork and looked them over, he realized that with interest added he had paid the credit union \$140 more for his motorcycle than he would have if he had paid cash.

Scenario Six

Rolanda and her best friend were each given a trip to Europe when they graduated from college. They calculated their expenses and planned on taking a small amount of cash and paying for everything else by check. When researching further with their bank, they were told that a credit card would be a better option because it would be accepted for payment in many places that would not take personal checks.

Scenario Seven

Travis was so proud of his new convertible. He kept it clean and well-maintained. He felt certain his job was secure and didn't think twice about buying a car that was a little more than he could afford. Much to his surprise, his company went through some major changes and, quite unexpectedly, he was laid off. One morning, when he went out to get in his car to go look for a job, he found it gone. At first he thought someone had stolen it. He later found out the bank had repossessed it because he hadn't kept up his payments.

Scenario Eight

Jerri and her father love fishing and camping. They were preparing for their yearly fishing trip and needed a new tent and camp stove. To save time, they ordered these items by telephone from the catalog company and paid for them with a credit card. The items arrived two days later.

Scenario Nine

Randy had used his credit card to buy a watch that didn't work right. He returned it to the store and was given a replacement that also didn't work. He decided he wanted his money back instead of another watch of the same kind. He was told the problem could be easily taken care of because he had charged the watch. He was given full credit on his credit card account for the price of the watch.

Time Means Money

Study the following savings examples carefully. Use these examples to help you answer the questions at the bottom of the page.

Chart 1

Save each week	Percent interest	Savings in 10 years
\$7	5%	\$4,731
\$14	5%	\$9,463

Chart 2

Save each week	Percent Interest	Savings in Years			
		5	10	15	20
\$19.20	5%	\$5,693	\$12,977	\$22,330	\$34,337
\$19.20	6%	\$5,844	\$13,705	\$24,314	\$38,632
\$19.20	7%	\$6,000	\$14,484	\$26,521	\$43,599
\$19.20	8%	\$6,161	\$15,320	\$28,981	\$49,353
\$19.20	9%	\$6,328	\$16,218	\$31,722	\$56,029
\$19.20	10%	\$6,501	\$17,181	\$34,783	\$63,788

Directions: Use the charts above to answer the following questions.

If you save \$19.20 a week:

- At 7% interest for 10 years, you would save: _____
- At 9% interest for 15 years, you would save: _____
- At 6% interest for 20 years, you would save: _____
- At 8% interest for five years, you would save: _____
- At 9% interest for 20 years, you would save: _____

6. If you waited until late in life to start saving, what two things should you try to do?

7. If you save a small amount regularly, what is the best policy to follow to save as much as possible?

8. Which of the three important savings variables do you personally have little control over? Why?

A Case Study

Read the case study below, and answer the questions.

Barbara is a member of the marching band and a sophomore at JA Enterprise High School. She has a part-time job working 20 hours a week at the supermarket for \$5.15 an hour. Her gross monthly income is \$412, and her take-home pay is \$329.60 a month. In her spare time, Barbara babysits for her neighbor, earning about \$60 per month.

Barbara's parents gave her a used compact car, and Barbara pays her own insurance, which is \$100 a month. Her gas and car repairs usually run \$60 a month.

In three weeks, Barbara will be giving a surprise birthday party for her friend Sara. This party will cost Barbara \$50, but she also plans on buying \$50 worth of clothes to wear to the party, and her gift for Sara will cost \$35.

Barbara has to repair her broken MP3 player, and this repair will cost \$79. She also needs to start saving for Christmas, which is in four months, and she usually spends around \$150 on her family's and friends' presents.

Even though Barbara's parents have promised to help pay for her college tuition, she knows she will have to pay for her room, board, and books. Room and board will cost her \$650 for each semester at the state university, and her books will be \$300 for each semester.

1. What is Barbara's net monthly income?

2. How much are Barbara's regular monthly expenses?

3. How much does Barbara have left over after she pays her regular monthly expenses?

4. What are Barbara's short-term goals?

5. What is her long-term (longer than one year) goal?

6. If the party Barbara is giving will cost \$135, how much money will she have left over this month?

7. How much does Barbara need to save every month for the next four months if she wants to have enough money to do her Christmas shopping?

8. Complete Barbara's monthly budget.

Net Monthly Income (NMI)	\$ _____
Transportation: Insurance	\$ _____
Gas and Repairs	\$ _____
Monthly Christmas Shopping Expense	\$ _____
Total Expenses (sum of transportation costs and Christmas)	\$ _____
Balance Remaining (difference between NMI and Total Expenses)	\$ _____

9. How much would Barbara have left over this month if she paid her regular expenses, saved for Christmas, and had a party for Sara? _____

10. How much do you think Barbara would need to put into savings every month to reach her long-term goal? \$ _____

Budget Wise

Review the budgets of Reggie, Anna, and Sam, and answer the questions.

Budget Comparison

	Reggie	Anna	Sam
Net Monthly Income	\$1,500	\$1,500	\$1,500
Expenses			
Rent	\$600	\$500	\$800
Transportation	\$50 (bus fare)	\$400 (sports car)	\$100 (motorcycle)
Savings	\$50	\$100	\$50
Utilities	\$150	\$100	\$300
Clothes	\$150	\$150	\$150
Entertainment	\$500	\$250	\$100
Total Expenses	\$1,500	\$1,500	\$1,500

- When Sam decides to rent a larger apartment, what other category of his budget is most directly affected?

- Why are Sam's utilities higher than the others?

- What trade-offs (opportunity costs) did Anna have to make after choosing to own an expensive sports car?

- Why do you think Reggie chose to spend only \$50 for transportation by riding the bus?

- Other than rent, what budget category seems to be a top priority for Anna?

- Other than rent, what budget category seems to be a top priority for Reggie?

- What budget categories would be most important to you if you planned a personal budget?

- What trade-offs (opportunity costs) would you make if you planned your personal budget today?

The Art of Budgeting

Read the following information about Laurie's financial situation. Using this information, record Laurie's planned and actual budget figures on the next page. Finally, compare the two budgets, and answer the questions at the end.

Laurie's Planned Income and Expenses

Laurie works part time at a bookstore and part time for a veterinarian. Her net monthly income (NMI) from the bookstore is \$500, and her NMI from the veterinarian is \$900.

Planned Primary Monthly Expenses

\$175.00 for rent (sharing with roommates)

\$200.00 for car payment

\$240.00 for car insurance

\$ 50.00 for gas and oil

\$100.00 for food

Planned Secondary Monthly Expenses

\$ 60.00 for clothes

\$100.00 for vocational school

\$ 50.00 for entertainment

\$ 50.00 for personal/household items

Laurie's Actual Income and Expenses

In addition to her NMI of \$1,400, Laurie earned \$50 for working overtime.

Actual Primary Monthly Expenses

\$175.00 for rent

\$200.00 for car payment

\$240.00 for car insurance

\$ 60.00 for gas and oil

\$140.00 for food (including birthday party food, for which she hadn't budgeted)

Actual Secondary Monthly Expenses

\$ 20.00 for parking and bridge tolls

\$185.00 for car repairs

\$ 90.00 for a pair of sneakers

\$ 60.00 for entertainment

\$ 80.00 for personal items

\$ 30.00 for a birthday present

\$160.00 for two speeding tickets

	Planned	Actual
Income		
Bookstore	\$ _____	\$ _____
Veterinarian	\$ _____	\$ _____
Other	\$ _____	\$ _____
Total Monthly Income	\$ _____	\$ _____
Expenses		
Rent	\$ _____	\$ _____
Transportation:		
Car payment	\$ _____	\$ _____
Car insurance	\$ _____	\$ _____
Gas and oil	\$ _____	\$ _____
Parking and tolls	\$ _____	\$ _____
Repairs	\$ _____	\$ _____
Food	\$ _____	\$ _____
Vocational school	\$ _____	\$ _____
Clothing	\$ _____	\$ _____
Entertainment	\$ _____	\$ _____
Personal items	\$ _____	\$ _____
Miscellaneous (birthday present)	\$ _____	\$ _____
Miscellaneous (speeding tickets)	\$ _____	\$ _____
Total Monthly Expenses	\$ _____	\$ _____

How Does Laurie's Budget Look Now?

1. What is the dollar difference between Laurie's planned expenses and her actual expenses?

2. In what areas did she overspend?

3. Where did she get the extra money to spend?

4. Which budget areas seemed to cost her the most?

5. How much money did Laurie have at the end of the month to put into savings or vocational sch
