

# 1 Budgeting and Money Management

- 1.1 Budgeting
- 1.2 Checking Accounts
- 1.3 Saving and Investing

**QUICK REFERENCE**

A **budget** is a plan for allocating income for saving and spending.

## 1.1 Budgeting

As an independent adult you have the freedom to make your own financial decisions. But with freedom comes responsibility. It takes planning and practice to learn how to use your income wisely, to pay your bills on time, and to have money left to save for the future.

### What Would a Budget Do for Me?

Everyone has a limited amount of money. A **budget**—a plan for how to save and spend your income—can help you focus your limited financial resources on what’s most important to you. It will help you pay for basics like food, clothing, and shelter. After those expenses are met, it can include optional items such as travel or entertainment. And with savings as part of your budget, you will be on the path to achieve your long-term financial goals.

### How Do I Set Up a Budget?

**Determine Your Income** Make a list of all the steady income you receive, including your pay from after-school and summer jobs and occasional work such as mowing lawns. List only the money you take home after taxes have been withheld from your paycheck.

**Track Your Expenses** To learn where your money goes, keep a record of all your expenses for a month. Save your receipts, and carry a small notebook to jot down purchases when you make them. The list should cover a full month, because not all expenses occur every week.

**Categorize Expenses** When you have a record of your expenses, put them into categories, such as transportation, food, clothing, savings, and entertainment. Figure CPF 1 shows how monthly expenses might be categorized to help set up a budget.



EXPENSES for month	
Week 1	
parking	\$6.00
movie	\$9.00
pizza	\$13.00

**Figure CPF 1 Creating a Budget**

- a Fixed Expenses** Your car payment and auto insurance are examples of fixed expenses.
- b Spending Wisely** Food is a necessity. But packing a lunch, cutting back on snacks, or eating out less often can help your budget.
- c Savings** Pay yourself each month. Limiting fixed expenses and reducing flexible expenses will help you meet your savings goals.
- d Flexible Expenses** Make room in the budget for entertainment, travel, and other fun stuff.

Monthly Expenses		
Category	Current Expenses	Budget
<b>Transportation</b>		
Car payment	\$200	\$200
Insurance	70	70
Gas	60	40
Parking	6	0
Maintenance	50	25
<b>Food</b>		
School lunches	\$85	\$80
Snacks	35	30
Eating out	30	15
<b>Savings</b>	20	50
<b>Clothing</b>	100	50
<b>Entertainment</b>		
Movie tickets	\$27	\$18
Movie rentals	12	12
Recorded music	20	20
<b>TOTALS</b>	<b>\$715</b>	<b>\$610</b>

**Determine Fixed and Flexible Expenses** Identify which expenses must be paid every month and determine what portion of your income they take. Savings should be a fixed amount, not a flexible amount. Money from savings pays for emergencies, large insurance bills that only come due once or twice a year, and major investments such as cars or real estate. What's left is available for flexible expenses like entertainment.

**Set Up a Spending Plan** Now look at your income and expenses. Set out a plan for fixed expenses. Look at the amount left over and allocate it to cover the flexible expenses. If your flexible expenses are cutting into your savings or leading to debt, look for ways to cut your spending. For example, you might eat more meals at home instead of at restaurants, or rent DVDs to watch with friends instead of going out to the movies.

**Check It Out!**

- Create an emergency fund for unexpected expenses.
- Save in advance for holiday or birthday gifts.
- Resist the temptation of impulse buying.

**APPLICATION Budgeting**

1. Which of the expenses in Step 3 will be monthly bills?
2. **Planning a Budget** Suppose you have a job that brings in \$1,150 a month after taxes. You contribute \$350 toward rent and utilities each month for an apartment you share with two other people. You put \$100 each month into a savings account, and you spend about \$50 per month for a cell phone. Of course, you also eat, wear clothes, and go out with friends. You want to buy a car that will cost \$300 per month for payments and insurance. Can you afford it? Plan a budget to see if you can take on this new fixed expense.

# 1 Budgeting and Money Management

## 1.2 Checking Accounts

Banks offer two basic types of accounts: checking and savings. Checking accounts are for immediate expenses. They can help you manage your expenses and pay your bills. The bank records deposits and withdrawals on your checking account, whether they are in the form of paper checks, automated teller machine (ATM) transactions, debit card purchases, or electronic transactions.

### What Are the Benefits of Checking Accounts?

When you earn money on a regular basis, you should have a place to put it. Most people use checking accounts. Not only is your money safe in the bank, but a checking account makes it easy to pay your bills. In order to use electronic banking and ATMs, you need a checking account.

If you keep all your money as cash, your cash may be lost or stolen. It's also difficult to pay bills with cash. A checking account is safe and convenient.

**Opening an Account** By shopping around, you can find an account that suits your situation. Ask questions about fees, interest rates paid on the checking account, charges for printing checks, and any restrictions on the number or size of checks you write. Find out the bank's **minimum balance requirement**, which is the amount of money you must keep in the account in order to avoid fees. Most banks charge a high fee for an **overdraft**, a check or other withdrawal for more than the existing account balance.

You'll need several documents to open an account. Most banks require two forms of identification, one of which should have your photo on it. You must provide your Social Security number, address, and phone number. The bank may also ask for a personal or work reference. The money for an initial deposit may be in the form of cash or a check.

#### QUICK REFERENCE

A **minimum balance requirement** is the amount needed in an account to avoid fees.

An **overdraft** is a check that exceeds the account balance.

Figure CPF 2 Writing a Check

- a** Write the full name of the person or business receiving the check.
- b** Enter the amount in numbers and then in words on the next line.
- c** Sign the check to make it valid. Never sign a blank check.

001

DATE \_\_\_\_\_

PAYEE **a** \_\_\_\_\_ \$ **b**

\_\_\_\_\_ /00 DOLLARS **b**

BANK  
123 Easy Street,  
Anytown, Anywhere **c**

''001 \*12345\*123\* 123456\*123\*' **i**

## What's the Difference Between an ATM Card and a Debit Card?

Once you have a checking account, you have several options for making deposits and withdrawals. You could go to the bank, but that can be time-consuming, and some banks charge a fee for using a human teller. Instead, automated teller machines (ATMs) give you access to your checking account.

**At ATMs** Both ATM cards and debit cards allow you to use an ATM to access your checking account. You can withdraw cash, deposit cash or checks, or transfer money between linked accounts. Both cards require that you enter your personal identification number (PIN) when you use the ATM.

Using an ATM can cost you money. Most ATMs charge a service fee unless you have an account with that bank. Fees range from \$1 to \$3 or more. To avoid this expense, learn where your bank has ATMs near your home, school, and workplace.

**At Stores** You can also use ATM and debit cards at businesses to purchase goods and services. However, debit cards can be used like a credit card—the business swipes your card and you sign for the purchase. With an ATM card, the business must have a keypad for you to enter your PIN. In either case, the money comes directly out of your account. Some stores let you get cash back—with no additional charge—when you make a purchase. For example, if you buy \$20 worth of groceries, you can charge your ATM or debit card \$50 and receive the \$30 difference in cash.

Register all the transactions you make with your ATM or debit card in your checkbook. These transactions will be recorded on the monthly account statement that the bank will send to you, but keep track of them as you go along to avoid overdrawing your account.



### Check It Out!

- Research banking services at several banks.
- Immediately record your deposits and withdrawals—including checks, cash withdrawals, and purchases—in your checkbook register.
- Review your bank statement every month.

## APPLICATION Checking Accounts

1. How is a debit card different from an ATM card?
2. **Finding a bank** Using the Internet, research checking accounts at three banks in your neighborhood. Create a table comparing the services offered and fees charged by the banks. Then write a paragraph identifying the bank you would choose if you wanted to open an account and why you would choose it.

# 1 Budgeting and Money Management

## 1.3 Saving and Investing

What are your dreams? Do you want to go to college, to travel, to own a car and a home, or perhaps to retire early? Saving some of your income each month can help you achieve your dreams. Accidents and unforeseen problems happen to everyone, so it is good to have an emergency fund, too. When you save your money at a bank or invest in a company, they pay you for the privilege of using your funds. If you save and invest wisely, your money will grow, and you won't have to work as hard to achieve your dreams.

### What Are the Benefits of Savings Accounts?

Savings accounts allow you to save money for future expenses. Your money grows in a savings account because banks pay **interest**, a fee for the use of your money. To open a savings account, you'll need the same kinds of identification and other information that you needed to open a checking account.

**Types of Accounts** Banks and credit unions offer a variety of savings accounts including standard accounts, money market deposit accounts, and certificates of deposit (CDs). The minimum balance, interest rates, and other features vary by type of account. Some banks offer better rates than others, so it's important to shop around for the best deal.

Deposits in these accounts are insured by the government. If the bank should fail, the Federal Deposit Insurance Corporation (FDIC) would make sure you got your money back. The FDIC insures each depositor up to \$100,000 at each bank. Retirement accounts are insured up to \$250,000.

Unlike stocks, bonds, and many other investments, you are guaranteed to get a positive return on your money in a government-insured account. Figure CPF 3 summarizes the features of the most common types of accounts used for savings.

#### QUICK REFERENCE

**Interest** is the price paid for the use of money.

**Figure CPF 3 Government-Insured Accounts**

Standard Savings Account	Money Market Account	Certificate of Deposit
A standard savings account requires a small initial deposit and allows you the most access to your money. However, it pays the lowest rate of interest.	A money market account pays higher interest and allows you to write a limited number of checks. But it also requires a higher minimum balance.	Certificates of Deposit (CDs) usually offer the highest interest rates. But you pay a penalty if you withdraw any money before the CD matures.

## When Should I Start Investing?

The purpose of saving is to accumulate readily available cash. Most financial advisors recommend saving an emergency fund that would cover three to six months of expenses. After you have created your emergency fund, you can begin saving for short-term goals such as buying a car or paying for college tuition.

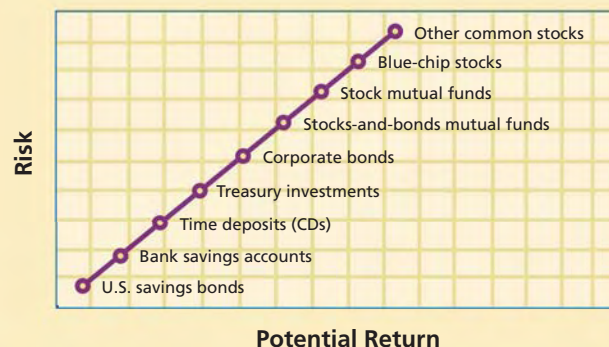
The purpose of investing is to build wealth—that is, to acquire assets that will grow in value over time and give you a pool of assets beyond the income you earn from a job. Building wealth comes from making your money work for you over a long period of time. It is never too early to start this process, even if you can only allocate a small portion of your income to investment. Investing even small amounts on a regular basis over a long period of time can lead to significant growth.

Before saving or investing, pay off any credit card debt. It is almost impossible to earn more from your investments than you are paying in interest on your debt. For example, if you are paying 15 percent interest on a loan, it doesn't make sense to put some of your money in a savings account that only pays 3 percent interest. Pay off the expensive loan first, then start saving.

**Determining Risk** As you learned in Chapter 11, there is an inverse relationship between risk and return—the riskier the investment, the greater the potential return. Figure CPF 4 shows this relationship, with the least risky investments at the bottom of the graph and the riskiest ones at the top. Savings accounts and CDs carry little or no risk because the government insures the principal, and they pay a guaranteed rate of interest. Treasury bonds carry little risk because the U.S. government backs them. Corporate bonds carry greater risk because a company may go bankrupt and be unable to repay its creditors. Stocks offer higher possible returns but are subject to market risks and may decrease rather than increase in value.



Figure CPF 4 Risk and Return



# 1 Budgeting and Money Management

## How Should I Invest?

Consider your investment objective when choosing the type of investment. If you want to use the money to buy a house in five years, you would choose a different type of investment than if you are investing for your retirement. Generally, the sooner you plan to use the money, the more conservatively you should invest. Conversely, the longer you have before you need the money, the easier it will be to recover from any downturns. Figure CPF 5 shows different ways of investing to reach long-term goals.

There are three basic rules for building wealth: start early, buy and hold, and diversify.

**Start Early** By starting to invest early you have a longer time for wealth to build. A longer investment time frame also allows you to take more risks, because you can ride out the fluctuations in the market.

**Buy and Hold** The phrase “buy and hold” describes a disciplined approach to investing. Do research and talk to a financial adviser to make wise decisions, and then hold the investments you make for a long enough period of time to allow your wealth to build. Jumping in and out of the market can lead to significant losses of potential return.

**Diversify** Diversifying helps you maximize your returns and limit risks. You’ve probably heard the saying “Don’t put all your eggs in one basket.” Putting your money in different types of investments allows you to choose different levels of risk.

Figure CPF 5 Investment Options

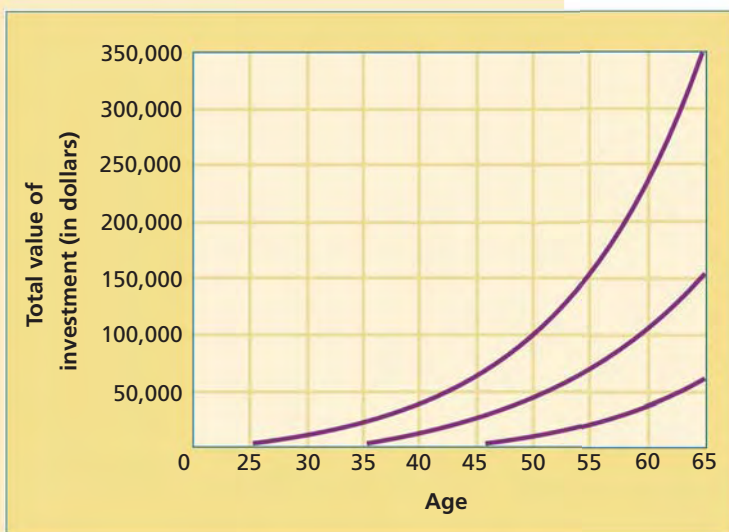
Stocks, Bonds, and Mutual Funds	Employer-Sponsored Retirement Plans	Individual Retirement Accounts (IRAs)
<ul style="list-style-type: none"> <li>• Stocks let you share in corporate profits.</li> <li>• Government and corporate bonds pay a fixed rate of interest.</li> <li>• Mutual funds are an easy way to invest in a large number of different stocks or bonds.</li> <li>• See Chapter 11 for more information.</li> </ul>	<ul style="list-style-type: none"> <li>• 401(k) plans let workers invest money for retirement and defer taxes. Employers may also contribute.</li> <li>• Pension plans are controlled by employers.</li> <li>• Employers may fund employee retirement benefits through profit sharing or stock ownership plans.</li> </ul>	<ul style="list-style-type: none"> <li>• Workers may invest money each year for retirement, tax deferred.</li> <li>• Traditional IRA contributions may be tax deductible.</li> <li>• Roth IRA contributions are not tax deductible but earn tax-free income.</li> <li>• Funds must be held until age 59½—with some exceptions.</li> </ul>

## Figures CPF 6 and 7 The Benefits of Investing Early

FIGURE CPF 6 THE POWER OF COMPOUNDING

Year	Annual Investment (in dollars)	5 Percent Return (in dollars)	Year-end Balance (in dollars)
1	2,000.00	100.00	2,100.00
2	2,000.00	205.00	4,305.00
3	2,000.00	315.25	6,620.25
4	2,000.00	431.01	9,051.26
5	2,000.00	552.56	11,603.82
6	2,000.00	680.19	14,284.01
7	2,000.00	814.20	17,098.21
8	2,000.00	954.91	20,053.12
9	2,000.00	1,102.66	23,155.78
10	2,000.00	1,257.79	26,413.57

FIGURE CPF 7 BUILDING WEALTH OVER TIME



### What Are the Benefits of Starting Early?

Figures CPF 6 and CPF 7 graphically illustrate the benefits of starting your investment program when you are young. The table, Figure CPF 6, shows how a savings account that pays 5 percent interest would grow. Investing \$2,000 each year for 10 years—a total of \$20,000—yields a balance of more than \$26,000 through the benefits of compounding and reinvesting the earnings. If the investments continued at the same pace for 45 years, the total balance would reach almost \$1 million.

The graph, Figure CPF 7, shows the benefits of starting to save for retirement early. The graph shows what happens to three people who invest \$100 per month in a retirement account. It assumes they receive a return on their investments of 8 percent, which approximates the historical average return for the stock market. Someone who begins investing \$100 per month at age 25 has over twice as much at retirement as someone who waits until age 35 and almost six times as much as someone who waits until age 45.

### Check It Out!

- Make regular contributions to your savings account.
- Commit to investing for the long term.
- Diversify your investments.

### Interactive Review

Review Budgeting and Money Management using interactive activities at [ClassZone.com](http://ClassZone.com)

### APPLICATION Saving and Investing

- Suppose you have saved \$1,000 toward the purchase of a car. Which type of savings plan would be best for this money until you are ready to use it? Why?
- Listing Financial Goals** Make a list of financial goals you might want to reach by the time you are 30 years old, then 50 years old, then at retirement age. Think about a plan that might help you achieve these goals. What sort of investments will you make? Write a summary paragraph describing your goals and plans.





# 2 Credit

- 2.1 Types of Credit
- 2.2 Credit Reports
- 2.3 Identity Theft

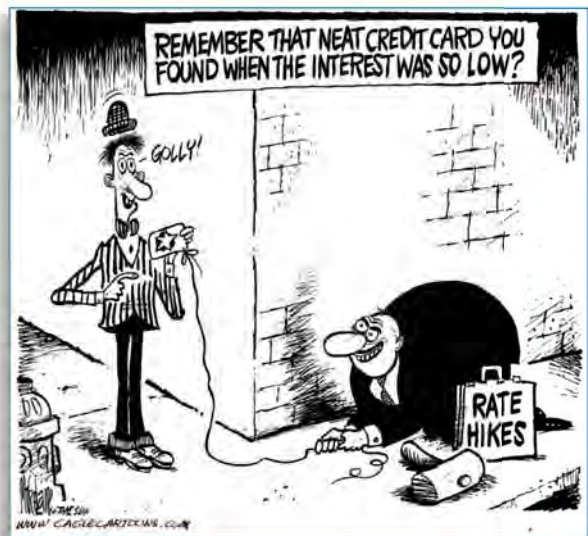
## 2.1 Types of Credit

If you budget wisely and save your money, you will be able to buy what you need most of the time. But sometimes, waiting to accumulate the money to achieve a goal is not the best economic choice. Using credit to make important purchases, such as a college education or a home, often has economic benefits. If you decide to finance a purchase by using credit, you first need to decide what type of credit to use.

### What Is Credit?

**Credit** is the practice of buying goods or services now and paying for them in the future. One form of credit is a **loan**, which is borrowed money that must be repaid with interest. Just as banks pay you interest for the use of your money in a savings account, you have to pay them interest if you want to use their money to buy something. Loans are usually used for large purchases such as a home, automobile, or school tuition.

Credit cards are like short-term loans, because they allow you to buy things without having the cash at the time of purchase. But you will be charged interest if the credit card balance is not paid in full each month, and credit cards usually charge higher interest rates than other loans.



#### QUICK REFERENCE

**Credit** is the practice of making a purchase now and paying for it in the future.

A **loan** is borrowed money repaid with interest.

#### QUICK REFERENCE

The **finance charge** is the total cost of the loan.

The **annual percentage rate (APR)** is the amount of interest charged per year.

### How Much Does Credit Cost?

The cost of credit is called the **finance charge**. It includes the total amount of interest you will pay plus any service charges. The amount of interest you pay depends on the **annual percentage rate (APR)**, the length of the loan, and how often you make payments. With all of these variables, it can be challenging to figure out how much a loan actually costs. But all lenders are

**Figure CPF 8 Costs of Borrowing \$10,000**

Loan	APR (in percent)	Length of Loan (in months)	Monthly Payment (in dollars)	Total Payments (in dollars)	Finance Charge (in dollars)
A	4	36	295.24	10,628.63	628.63
B	8	36	313.36	11,281.11	1,281.11
C	8	60	202.76	12,165.89	2,165.89

required to tell you the total finance charges and the APR. This information should allow you to understand how much a loan will cost and to compare offers from different lenders.

For example, suppose you want to borrow \$10,000 to purchase a car. The finance charge will vary depending on the length of the loan and the interest rate. As you can see in Figure CPF 8, a longer loan might have a lower monthly payment, but it will also have the highest total cost.

### How Do Lenders Decide If I Can Get Credit?

Lenders use three basic criteria to determine if you are creditworthy and can be trusted to repay a loan. The criteria—character, capacity, and capital—are often referred to as the three Cs. These three criteria are based on your past, present, and future financial situation.

**Character** refers to your past record of paying your bills on time. Lenders want to know if you can live within your means, which makes it more likely that you will be able to repay the loan. When you make car payments on time or pay off a department store charge card each month, you build a positive credit history. These actions show that you are financially responsible.

**Capacity** refers to your level of income relative to the size of the loan. A lender will check to see if you have a steady income and if the amount of your income is enough to make the loan payments. The lender may look at your past employment history to see if you are likely to keep your current job or may check with your employer to see if your income will remain steady over the projected term of the loan.

**Capital**—specifically, financial capital—includes your income, savings, and other investments. Lenders will consider how much money you have in the bank as well as assets such as a car or house. If you fail to repay the loan, the lender may be able to take these assets to recover the cost of the loan.

If you are weak on any of these criteria a lender might ask for a cosigner for the loan. A **cosigner** is a person who will assume responsibility for the debt if you fail to repay the loan. Taking out a loan with a cosigner but repaying it yourself is one way you can build up a positive credit history.

#### QUICK REFERENCE

A **cosigner** assumes responsibility for debt if a borrower doesn't repay.



### What Should I Consider When Choosing a Credit Card?

Credit card companies are eager to get young adults to use their cards. But these companies offer a variety of terms, and some of them can be costly. Before you apply for a credit card, carefully examine the terms.

**Annual Fee** Many cards have no annual fee, but some charge \$60 per year or more for membership.

**Interest Rate** The Truth in Lending Act requires that credit card companies state the interest rate in the form of an annual percentage rate (APR). Rates may be fixed, meaning that they will stay the same, or variable, meaning that they are tied to an index and likely to change frequently.

**Grace Period** The grace period is the time between your billing date and the date your payment is due. Late payments may result in stiff fees.

**Minimum Payment** The minimum payment may be a flat amount or a certain percentage of your balance. Paying this amount allows you to avoid paying penalties, but not interest.

**Credit Limit** The credit limit is the maximum amount you can charge. Your available credit is your credit limit minus any outstanding balance.

**Other Fees** There are usually fees for paying late or for spending over your credit limit. There may be a minimum finance charge or amount of interest due, or transaction fees for cash advances.

**Bonuses** Many credit cards offer to give you a bonus based on how much you charge as an incentive to use the card. Some cards offer “cash back”—a refund of a small percentage of your total purchases. Others offer discounts on merchandise or air travel.

### What Should I Know About My Credit Card Statement?

When you pay by credit card, you will receive a record of what you have spent each month called a statement. It will also show any payments or credits to your account. Check your credit card statement right away to make sure all the purchases shown are ones that you made. Also check to be sure the credit card company received your last payment.

Figure CPF 9 points out some of the important information to notice on your credit card statement. Your new balance is the amount you must pay by the due date to avoid paying interest. The finance charge is the interest due on any unpaid balance from your last statement. Notice that the minimum payment is only a small percentage of your new balance. Credit card companies make money if you pay less than the full balance, because they charge you interest on the rest of your balance.

#### WHAT SHOULD I DO IF MY CREDIT CARD IS LOST OR STOLEN?

1. Notify your bank or credit card companies immediately to limit your liability.
2. Report the loss to authorities or law enforcement officials.
3. Keep a list of account numbers and toll-free phone numbers in a safe place.

## Figure CPF 9 Understanding Your Credit Card Statement

- a** The new balance includes all of your purchases for the month, plus any unpaid balance from the last month and interest, plus any fees. To avoid finance charges, pay the entire balance by the due date.
- b** If you cannot pay the entire balance, pay at least the minimum balance by the due date to avoid late fees. The minimum balance may be only a small percentage of your total balance but is usually at least \$10.
- c** The periodic rate is the daily interest rate, that is, the APR divided by the number of days in the year.

CREDITCard PLATINUM				BILLING STATEMENT			
CARD NUMBER	CREDIT LIMIT	AVAILABLE CREDIT	STATEMENT DATE	<b>a</b> NEW BALANCE	PAYMENT DUE	<b>b</b> MINIMUM PAYMENT DUE	
1234 5678 9012 3456	2,000.00	1,954.83	04/25/10	45.17	05/20/10	15.00	
TRANSACTION REFERENCE NUMBER	TRANSACTION DESCRIPTION	TRANSACTION CHARGE DATE	ACTUAL POST	CHARGES (+)	CREDITS (-)		
0123	MANGO GROVE JUICE & NUT BAR	03/26	03/28	13.76			
6543	BART'S COSMIC COMICS	03/30	04/01	25.41			
8901	MONTCLAIR VIDEO MART	03/31	04/03	6.00			
FINANCE CHARGE CALCULATIONS		FINANCE CHARGE SCHEDULE		DAYS IN BILLING CYCLE			
ANNUAL PERCENTAGE RATE	DAILY PERIODIC RATE	CASH ADVANCES	DAILY PERIODIC RATE	CORRESPONDING APR			
13.65%	<b>c</b> 0.037397%	A. BALANCE TRANSFERS, CHECKS	0.037397%	13.65%		30	
		B. ATM, BANK PURCHASES	0.065041%	23.74%			
			0.037397%	13.65%			
PREVIOUS BALANCE	- PAYMENTS	- CREDITS	+ PURCHASES	+ CASH ADVANCES	+ PERIODIC RATE	+ CASH ADVANCE	= NEW BALANCE
53.26	53.26	0.00	45.17	0.00	0.00	0.00	45.17 <b>a</b>
TO REPORT LOST OR STOLEN CARD(S) CALL: (800) 555 5555				NOTICE: SEE REVERSE FOR IMPORTANT INFORMATION			

Pay at least the minimum balance by the due date. Most credit card companies charge high fees for late payments. Allow time for your payment to arrive and be processed before the due date.

### How Is a Credit Card Different from a Debit Card?

Both cards can be used to make purchases. But when you use a credit card you create a loan to repay, while a debit card takes money directly from your checking account. You can use your debit card to get cash from your checking account at an ATM. But if you use your credit card to get cash, you are essentially taking out a loan. Interest begins accruing right away on the amount of the cash advance, and most cards charge an additional transaction fee. It is a very expensive way to get cash.

#### Check It Out!

- Determine all costs and fees for a credit card or loan.
- Check your statement every month for unauthorized expenses.
- Pay on time.

### APPLICATION Types of Credit

1. What are the three Cs, and who uses them?
2. **Determining the Best Offer** Suppose you have offers from three credit card companies. Company A offers a fixed APR of 12 percent and has an annual fee of \$60.00. Company B has no annual fee and offers an introductory rate of 9 percent—but it rises to 18 percent after the first 3 months. Company C offers a fixed APR of 15 percent with an annual fee of \$30. If you pay off your balance each month, which offer is best for you?

## 2.2 Credit Reports

How you handle your finances can determine your ability to qualify for a loan or credit card, to be hired for a job, or to rent an apartment. Your credit report contains much of the information on the three Cs discussed earlier.

### What's a Credit Report?

A **credit report** is a statement by a credit bureau that details a consumer's credit record. Equifax, Experian, and Trans Union are the three companies that handle most credit reporting. The report includes information on your employment, bank accounts, and credit history. It will also indicate if you've had any legal problems regarding your finances, such as bankruptcy. The report shows how well you have handled your financial obligations over the previous 7 to 10 years so lenders can determine if you are a good credit risk.

Credit agencies use the information in your credit report to assign you a **credit score**, a number that rates your credit worthiness. Different agencies use different scoring systems, but higher scores indicate a better credit history. Lenders may charge a lower interest rate to someone with a high credit score.

#### QUICK REFERENCE

A **credit report** describes a consumer's credit record.

A **credit score** is a number that summarizes your credit worthiness.

**Credit Report Users** Lenders evaluate your credit report when you apply for a loan or a credit card. Buying the report from one of the three major companies saves them the time of contacting all your creditors to see how well you've paid your bills. Landlords may also check your credit report before agreeing to rent you an apartment. Some employers check credit scores before hiring people. Because so many people rely on these reports, you should verify the accuracy of the information in the report. Checking your credit reports also helps guard against identity theft. (See 2.3 Identity Theft for more information on this topic.)

#### Where Do I Get My Credit Reports?

online:	www.annualcreditreport.com
phone:	1-877-322-8228
mail:	Annual Credit Report Request Service P.O. Box 105281 Atlanta, GA 30348-5281 (print form at www.annualcreditreport.com)

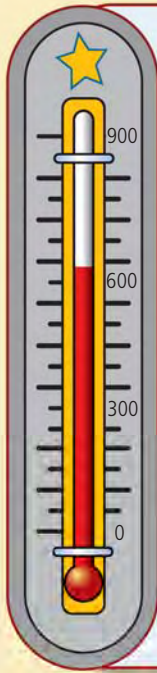
Do not contact the three nationwide consumer credit reporting companies directly for free reports.

### How Do I Get a Copy of My Credit Report?

The Fair Credit Reporting Act makes it easy to access your credit reports (see "Where Do I Get My Credit Reports?" sidebar). By law, you may use this service to order one free copy from each company every 12 months. You provide your name, address, Social Security number, and date of birth. You may be asked other questions to verify your identity.

The government is the only legitimate source for free credit reports.

## Figure CPF 10 How Does Your Credit History Rate?



### Good Rating

- You pay bills in full
- You pay bills on time
- You can cover payments in case of emergency
- You can make payments if you lose your job

### Danger

- More than 25 percent of your take-home pay goes to pay off debt
- You only make minimum payments
- You make payments after the due date
- You open new accounts because the old ones are maxed out
- Creditors harass you

### Overextended

- Creditors repossess (take back) what you bought on credit
- Creditors garnish your wages (take money from your paycheck before you get it)
- You must declare bankruptcy

Avoid other sources that claim to offer free credit reports. Some of them want to sell you unnecessary services, and others want to steal your identity. Also avoid firms that promise to fix your credit rating. Only you can do that.

## How Do I Solve Credit Problems?

The best cure is prevention. You can avoid credit problems by following your budget and paying off your bills on time. But if you recognize any of the signs of danger or overextension shown in Figure CPF 10, you can take action to avoid financial problems.

**Self-Help** These are the first steps for restoring your credit rating.

- Talk to your creditors and explain your situation and your desire to correct it.
- Cut up your credit cards and pay off your debts as soon as possible.
- Create a strict budget and follow it.

**Professional Help** If you are unable to resolve the problems yourself, see a professional counselor. Try nonprofit agencies first. The National Foundation for Credit Counseling can provide referrals. These agencies will provide services and help you to straighten out your debt problems.

### Check It Out!

- Check your credit report yearly.
- Pay your bills on time.
- Watch for the danger signs, and act promptly to correct the problem.

## APPLICATION Credit Reports

1. What groups might use your credit score?
2. **Paying Off Your Bills** Suppose you have a student loan, a car payment, and a credit card with debt. The student loan debt is \$4,000 with interest at APR 8 percent. The car loan is \$8,000 with APR of 4 percent. The credit card debt is \$1,500 with APR of 18 percent. Your grandmother sends you a check for \$1,000 for graduation. Which bill would you put the money towards?

### 2.3 Identity Theft

Your bank accounts, credit cards, and other financial tools are all tied to your name. You've seen what can happen if your credit report shows a poor credit history. What if a poor credit rating is not your fault?

#### QUICK REFERENCE

**Identity theft** is the use of someone else's personal information for criminal purposes.

#### What Is Identity Theft?

**Identity theft** is the use of personal information—such as Social Security numbers, credit card or bank account numbers—to commit fraud and other crimes. Identity thieves steal personal information to run up charges on existing accounts or to open new ones. They may withdraw money from your bank accounts, apply for loans, or use your telephone calling card. It takes victims weeks, months, and sometimes years to correct the damage done after their identity has been stolen.

#### How Can I Protect Myself?

If you know how these thieves operate, you can take measures to protect yourself. While some victims lose their identity through loss or theft of their wallet or purse, almost half of the victims don't know how the thief obtained their information. Here are some of the most common techniques.

**Shoulder Surfing** Identity thieves may watch you as you punch in a calling card or credit card number or your PIN. They might overhear you giving out an account number over the phone. Be conscious of those around you when you use an ATM or give out personal financial information.

**Dumpster Diving** Thieves look through the trash to find discarded credit card statements or other documents with financial information. Put such documents through a shredder before throwing them away.

**Spamming or Phishing** Identity thieves may send unsolicited e-mail (spam) that appears to be from a legitimate source. Or they may telephone and say there is a problem with your account or offer you some benefit if you confirm information.

**Hacking** Sometimes identity thieves will use programs that invade your computer



#### Economics Update

Find an update on identity theft at [ClassZone.com](http://ClassZone.com)

and find your personal data. Or they might direct you to a fake Web site set up to look like that of a bank or other business. Security software can help prevent hacking, but you must pay attention when you give out credit card and other personal information over the Internet. Confirm that the site you visit is legitimate.

### Where Do I Get More Information?

Department of Justice	www.usdoj.gov
Federal Trade Commission	www.consumer.gov or 1-877-ID-THEFT 1-877-(438-4338)
Consumer Action Web Site	www.consumeraction.gov

### What If I Become a Victim?

If you learn that your personal information has been stolen, act immediately to limit the damage. Keep good records of all the steps you take. First, contact one of the three credit reporting companies to place a fraud alert on your credit report. The fraud alert will make it necessary for creditors to contact you before opening new accounts in your name. The Federal Trade Commission and Department of Justice Web sites (see “Where Do I Get More Information?” sidebar) provide toll-free phone numbers and Web site addresses for the credit reporting companies. When you notify one company it will notify the others to place a similar alert on their reports. Once you have placed such an alert, you may order free copies of your report to check for fraudulent activity.

Contact your creditors or banks to close out accounts that have been accessed by thieves or that have been opened without your permission. The FTC Web site also provides a form to dispute new accounts that you did not authorize. You may want to stop payment on any checks that have not cleared and change your ATM account and PIN number.

File a report with the police and get a copy of the report or the report number. Provide as much information as you can. The report will provide proof to your creditors or financial institutions that a crime has been committed. Also file a report with the FTC, which maintains a database of reported cases of identity theft.

### Check It Out!

Remember the word SCAM.

- Be **S**tinky. Only give personal information to people you trust.
- Check your bank and credit card statements regularly.
- Ask for your credit report every 12 months.
- Maintain careful records of all your financial accounts.

### Interactive Review

Review Credit using interactive activities at **ClassZone.com**

### APPLICATION Identity Theft

1. What are some ways that identity theft can occur?
2. **Planning a Response** Take a look in your wallet or purse. What items there could be the source of identity theft? How do you protect yourself from having these items stolen? Review how you would respond if these items were stolen.



# 3 Wise Choices for Consumers

- 3.1 Buying a Car
- 3.2 Financing Your Education
- 3.3 Getting Insurance
- 3.4 Contracts: Reading the Fine Print

## QUICK REFERENCE

**Depreciate** means to decrease in value.

## 3.1 Buying a Car

A car is a symbol of freedom and independence. It is convenient to be able to travel where and when you want. Yet owning a car includes financial obligations. Since it's expensive to own a car, first consider whether you really need one. Is good public transportation, such as a bus or a train, available to get you to work or school? Do you live close enough to ride a bike or to walk? If you don't need a car most of the time, would it make sense to rent a car occasionally or to join a car sharing plan?



### What Should I Consider When Buying a Car?

If a vehicle is definitely in your future, take your time before you make a purchase. A car is a major investment, so it makes sense to do some research. Use the information in Figure CPF 11 as a starting point.

One decision is whether to buy a new car or a used car. New cars cost a lot and **depreciate**, or decrease in value, quickly. On average a new car loses 10 percent of its value as soon as you drive it off the lot. The biggest advantage new cars have is that they are covered by warranties. If something goes wrong, you probably won't have to dip into your savings to pay repair bills.

A used car will cost less but may be less reliable. Many experts suggest that cars that are two to three years old offer the best value. Certified used cars come with limited warranties to cover certain major repairs.

### How Can I Finance the Purchase of a Car?

If you have not saved enough for the total purchase price of a car, you might consider applying for a car loan. Investigate loans before you shop for the car, so that you will know how much you can afford to spend. Call banks and credit unions and check out online banks to find the best interest rate. Find out the length of available loans, total finance charges, and the amount of your monthly payment. Most lenders will require that you have a down payment on the loan. You may also need a cosigner for your loan.

Beware of financing packages offered by car dealers. Combining price negotiations with financing terms generally results in a good deal for the dealer, not for you.

## Figure CPF 11 Buying a Car

### Research

- Decide what kind of vehicle best suits your needs and budget.
- Use Internet or library resources to find out such information as gas mileage, repair costs, safety record, and prices.
- If it's a new car, find out what the dealer paid for the car so you can negotiate a good price.
- If it's a used car, look up the average resale value in a "blue book" (used car price guide).

### Looking for cars

- Visit dealer lots when they are closed to get an idea of what's available without sales pressure.
- Ask family and friends about their car-buying experiences. See if they know a reliable dealer or anyone selling a car.
- Check out "for sale" ads in newspapers, on local bulletin boards, or on Web sites.
- Look for dealer ads in newspapers or on the Internet.



### What Should I Do After I Buy a Car?

Each state has laws about vehicle titles, taxes, registration, and insurance. You can learn what is required from a car dealership or your state's motor vehicle department. Call several insurance agencies to find out how much insurance for your vehicle will cost (also see 3.3 Getting Insurance).

Keep the title, sales receipts, and other important documents in a safe place—not in the glove compartment. Only the registration and proof of insurance should be carried in the vehicle.

### APPLICATION Buying a Car

1. Why should you do research on vehicles before you talk to a dealer?
2. **Planning a Purchase** Choose a particular model of car, new or used. Go to the library or look on the Internet and find information about the car from at least three different sources. Try to learn as much as you can about the car's features, reliability, and pricing, and write down what you learn.

### Used cars

- Check the odometer. Avoid cars with an average of 15,000 miles per year or more.
- Look for rust, dents, and signs of the car having been in an accident.
- Review the vehicle's repair record. Check for regular maintenance such as oil changes.
- Find the vehicle identification number (VIN), and use it to research the car's history through an Internet service.
- Take a test drive. Test the air conditioner, heater, radio, and other equipment.
- Pay a mechanic you trust to examine the car and to list what needs to be repaired.

### The buying experience

- Always go prepared with the information you have gathered.
- Know which options you want and which ones you can live without.
- Get any offer in writing. That way you are very clear on the exact costs.

### Check It Out!

- Consider whether you really need a car.
- Research the car and its price before you talk to a salesperson.
- Be sure you have all the necessary legal documents.

## 3 Wise Choices for Consumers

### 3.2 Financing Your Education

Choosing to go on to college or vocational or technical school after graduation from high school is one of the biggest economic decisions you will make. Getting more schooling will cost you money, but it will pay off in higher salaries and a greater lifetime income. As you learned in Chapter 9, each additional amount of education you receive increases your chances of earning a higher income. More highly educated workers are also less likely to be unemployed. Although the costs of higher education can be daunting, there are many alternatives to help finance your education.

#### How Do I Decide About Higher Education?

**What type of higher education do you want?** Choices include college, vocational school, and technical school. Costs at different types of schools vary widely and may influence the type of education you choose. Generally, public colleges are less expensive than private ones, and community colleges are less expensive than four-year schools. Consider your career goals, interests, and aptitudes, and think about what type of school offers the best value that meets your needs.

**Do you want to start right after high school?** If you want to take a year off, think about what you will do and who will provide your financial support. Consider your income and expenses during that time and what kind of help your parents might give you. Postponing education postpones your future higher earnings and may lead to increased education costs.

**Where do you want to go for schooling?** Are there schools in your state that would meet your needs? Out-of-state tuition is significantly higher than tuition at a public college in your own state. Going away to school generally means higher costs for housing, food, and travel, but it may be important for other reasons.



## What Will Be the Total Cost of Going to School?

Paying for tuition to cover the costs of your coursework is just the beginning of school expenses. A variety of fees to cover student activities, connection to the school's computer network, and other costs are added to tuition. In the 2005–2006 school year, average tuition and fees ranged from about \$2,200 at a public two-year college to about \$5,500 at a public four-year college and more than \$21,200 at a private four-year college. Room and board costs cover housing and food and average more than \$6,600 per year at a public four-year college. You must also buy your textbooks, which may cost as much as \$1,000 per year. Transportation for visits home as well as other personal expenses are also part of the costs of going to school.

### Economics Update

Find an update on the cost of higher education at **ClassZone.com**

## Where Can I Get the Money for Higher Education?

Once you have determined the costs of going to school, you can begin to make decisions about how to pay for your education. Here are some things to think about: Do I have the money to pay for it myself? Will my parents or family help me out? Can I work and study at the same time? Answers to these questions will help you decide if you need financial aid to go on to school.

All the costs of going to school can be daunting. Over 60 percent of students find that they need some financial help. In fact, most students pay much less than the published costs because of financial aid. There are three basic types of financial aid: grants and scholarships, loans, and work-study programs. Figure CPF 12 outlines the characteristics of each type of aid.

**Figure CPF 12 Financial Aid Options**

Grants	Scholarships	Loans	Work-Study Programs
<ul style="list-style-type: none"> <li>do not need to be repaid</li> <li>usually based on need</li> <li>sometimes based on academic merit</li> <li>given by federal and state governments and colleges</li> </ul>	<ul style="list-style-type: none"> <li>do not need to be repaid</li> <li>usually based on academic merit or athletic or artistic ability</li> <li>awarded by colleges, private groups, and the U.S. military</li> </ul>	<ul style="list-style-type: none"> <li>must be repaid</li> <li>federal loans for students</li> <li>federal and private loans for parents</li> <li>subsidized—based on need, some interest paid by government</li> <li>unsubsidized—student pays all interest</li> </ul>	<ul style="list-style-type: none"> <li>college helps student find a job</li> <li>federal government helps pay the salary</li> <li>earnings do not need to be repaid</li> <li>students who work part-time often do better in school</li> </ul>

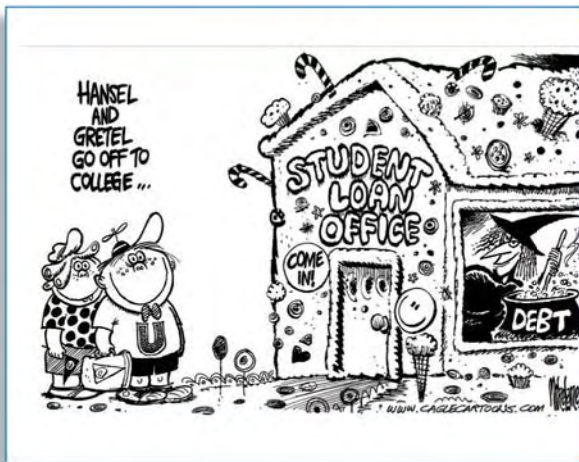


## 3 Wise Choices for Consumers

### How Much Aid Can I Get?

In general, the amount of aid you receive is determined by the difference between the cost of attending school and the amount you and your family can contribute. Schools consider the following when awarding financial aid:

- **Income**—yours and your parents. This is the single most important factor in determining financial aid based on need. Students and families with higher incomes are expected to contribute more.
- **Number of higher education students in your family.** A family with more than one student in college would be expected to contribute less for each one.
- **Family assets and expenses.** Students are expected to contribute a higher percentage of their savings than parents are, so it's better to have more savings in parents' accounts. In general, schools do not consider the value of retirement funds, a home, or personal assets such as automobiles in figuring out a family's contribution. Some schools do consider these assets, so it's important to know how the schools you are interested in figure their aid awards. Unusual medical expenses and other large expenses may be considered in determining a family's contribution.



- **Pool of aid dollars at the school you want to attend.** Schools award aid based on a combination of federal, state, and school funds. A wealthy private school may have more funds available than a state school.
- **Number of students applying for aid at the school you want to attend.** Since each school has a limited amount of funds available for aid, if more students apply for aid there may be less available for each student. The level of need of the students applying might also affect how much individual students receive.

### How Do I Apply?

**Start Early** Meet with your guidance counselor and request financial aid information from schools at least a year before you plan to start school. Begin to research scholarships. Make note of all application deadlines.

**Get a PIN** A personal identification number (PIN) allows you to submit your Free Application for Federal Student Aid (FAFSA) online for faster results. Go to [www.pin.ed.gov](http://www.pin.ed.gov).

**Gather All the Documents You Need** You'll need income tax returns and W-2 forms for you and your parents, as well as information on nontaxable income. You'll also need your Social Security number and driver's license number, along with bank statements and information on mortgage payments and investments.

**Complete the FAFSA** Fill out a paper form or go to [www.fafsa.ed.gov](http://www.fafsa.ed.gov) to apply online. Follow the instructions carefully. You only need to complete one form, which will be used by all the schools to which you are applying.

**Fill Out Any Additional Aid Forms** These forms may be required for some nonfederal aid such as state and school aid or private scholarships. Ask for recommendations from your teachers and other adults who know you well at least a month before scholarship application deadlines. Provide them any necessary forms and a stamped envelope for the recommender to send to the school.

**Review Your Student Aid Report (SAR)** This report is the result of your FAFSA application. Make sure all the information is accurate. Your SAR shows your Expected Family Contribution (EFC), which determines your eligibility for federal student aid based on need.

**Contact Schools' Financial Aid Offices** Make sure all schools you've applied to received all the information they need.

**Compare Your Aid Awards** After you receive responses, decide which school's aid package offers the best combination of grants, scholarships, loans, and work-study.

**Where Do I Get More Information?**

Federal Student Aid Information Center	<a href="http://studentaid.ed.gov">studentaid.ed.gov</a> 1-800-4-FED-AID (1-800-433-3243)
FAFSA on the Web	<a href="http://www.fafsa.ed.gov">www.fafsa.ed.gov</a>
The College Board	<a href="http://www.collegeboard.com">www.collegeboard.com</a>
SallieMae® loans	<a href="http://www.salliemae.com">www.salliemae.com</a>

Your school guidance counselor and the financial aid offices of the schools you are considering also have information.

**Check It Out!**

- Get forms in on time.
- Photocopy all information or print copies of online applications.
- Make sure information is consistent on all forms.

**APPLICATION Financing Your Education**

1. What criteria are used to determine who gets financial aid?
2. **Using a Decision-Making Grid** Using the questions on page 592 and a decision-making grid, determine which type of schooling makes the most economic sense for you.

## 3.3 Getting Insurance

Insurance protects people from the financial effects of unexpected losses. When you buy insurance coverage, your money joins a pool of money from many different people who face similar risks. The system works because the risk is spread over a large group of people. The chances of any one individual suffering a loss are small.

### What Are the Benefits of Insurance?

Most people take out insurance for problems that may be unlikely but would be expensive if they happened: medical treatment for a serious illness or accident, repairing a car damaged in an accident, or replacing valuables stolen from your residence. Such losses are potentially so large that it would be difficult to save enough in an emergency fund to pay for them. Insurance protects you financially against those kinds of losses.

### What Kinds of Insurance Should I Get?

When you buy an insurance policy you purchase a certain amount of protection or coverage. Your payment for this protection is called an insurance **premium**. Many types of insurance require you to pay a **deductible**, which is the amount you pay before the insurance company pays on a loss. Some health insurance requires a **co-pay**, an amount you must pay each time you receive health care under your policy. When you have a loss you submit a **claim**, which is a request for payment, to the insurance company.

Most people start out with car insurance, health insurance, and renter's or personal property insurance. There are other options as well. See Figure CPF 13 for an overview of the basic types of insurance.

Most states require that you carry at least a minimum amount of car insurance in case of injury or property damage caused by your car. Premiums are based on the type of vehicle, your age, your driving record, and other related information. The more coverage you have the more the insurance will cost. If you carry a high deductible, it will reduce the premium.



#### QUICK REFERENCE

A **premium** is amount paid for insurance.

A **deductible** is an amount paid by the insured before the insurance company pays.

A **co-pay** is an amount due when an insured receives health care.

A **claim** is a request for payment on an insured loss.

**Figure CPF 13 Types of Insurance**

Type of Insurance	Protects	Pays
Car	vehicle in case of accident or theft; occupants in case of accident	for property damage and bodily injury, legal costs, and related expenses
Health	policyholder in the event of illness or injury	for doctor and hospital visits, prescription drugs
Homeowner's	structures, land, and personal property	for damage due to fire, theft, or natural disaster
Renter's	personal property	for loss of or damage to personal items
Disability	income when a person cannot work	a percentage of income when a person is out of work due to injury or illness
Life	family when a wage-earner dies	money to the family to meet expenses after death

Health insurance is very costly. Your employer or school may offer insurance plans to cover some or all of your needs. In some states, you may be covered by your parents' health insurance until you graduate from college or reach age 25.

If you live in rented housing, you may want to protect your belongings with renter's insurance or with personal property insurance. Some policies cover the full replacement cost of insured items; others cover only the current value of the items. For example, actual cash value coverage will not cover the full cost of replacing a three-year-old bike that gets stolen.

**Check It Out!**

- Find out if you have insurance coverage at work or through your educational institution.
- See if your insurance covers the current value or the full replacement cost.
- Determine how much you can afford in deductibles.

**What Questions Should I Ask an Insurance Agent?**

- How much does the policy cover? Are there limits each year or for each accident or illness? Are there maximums for certain kinds of losses?
- What levels of deductibles are available? Higher deductibles lower the premiums.
- Are claims paid on actual cash value or on replacement value? The former may cost less, but you will receive less in the event of a loss.
- How often are premiums due—monthly or once or twice per year?

**APPLICATION Getting Insurance**

1. What reasons do people cite for getting insurance?
2. **Selecting Insurance** Explain how having insurance could help in each of the following situations. Case A: Your CD player and 10 CDs are stolen from your car. Case B: You have to have emergency surgery for a fractured leg. Case C: Your car is smashed up by a hit-and-run driver. The damage is well over \$2,000.



## 3.4 Contracts: Reading the Fine Print

### QUICK REFERENCE

A **contract** is a legally binding agreement.

Buying insurance, taking out a loan, signing up for a credit card—all of these involve a formal, legally binding agreement known as a **contract**. The contract may be in the form of a signed document or may be executed on a Web site when you download something from the Internet. These terms and conditions are called the “fine print” because they are often set in small type.

### Why Should I Read the Fine Print?

There’s an old saying: “Education is when you read the fine print. Experience is what you get when you don’t.” By reading the fine print, you will understand exactly what you are agreeing to when you sign a contract. The fine print often contains information about extra charges and fees that may not be displayed in marketing brochures or advertisements.

Consider Michele, a student who signed a cell phone service contract without reading it. When the first bill arrived, it was over \$1,000. She checked the contract and found fine print stating that all text messaging both sent and received was subject to a charge. Even though Michele hadn’t read these terms, she had signed the contract, and she had to pay the bill.

### What Should I Do Before Signing a Contract?

- First, actually read the contract. If it is long or complicated, ask for a copy and take it home to read.
- Clarify all terms or provisions you don’t understand. In a cell phone contract, for example, be clear on peak and off-peak hours, roaming charges, and the cancellation policy. Ask questions until you understand everything clearly. If there are parts you can’t figure out, get advice from a friend before signing.
- Check all figures in the contract. Bring a calculator and figure the costs yourself—don’t depend on the salesperson’s math.
- Make sure any mistakes or omissions are corrected on the contract and initialed by the salesperson.



Figure CPF 14 A Cell Phone Contract

- a** Note how many minutes are included in the basic monthly price.
- b** Asterisks or footnotes often lead to small print that provides important information.
- c** If you exceed the allotted number of text messages, you pay a fee for each one.
- d** If you want to end your contract before it expires, you pay the cancellation fee.
- e** Your signature here shows that you have read and agree to the fine print.

### CellPhone Service Agreement

Monthly calling plan	\$24.95
Total minutes/month (peak)	<b>400</b> <b>a</b>
Unlimited off-peak	\$5.95

Voice mail	Included* <b>b</b>
Additional minutes	\$0.40/minute
Roaming charges (See coverage map and terms for details)	\$1.00/minute

Text messaging	\$3.95
Total outgoing messages/month	<b>100</b>
Additional outgoing messages	\$0.10/each <b>c</b>
Incoming messages	Unlimited Free

Plus federal, state, and local taxes and fees

Contract length	<b>24 months</b>
Cancellation fee	\$150.00 <b>d</b>

**b** \*Accessing voice mail through cellular phone accrues minutes like any other call.  
I acknowledge that I have read and agree to the company's Terms and Conditions

**e** (your signature)

### What Should I Beware of?

- Don't let the salesperson rush you. Take your time and make sure you are certain of the terms of the contract. Even if the salesperson says certain desirable terms are about to expire, you should not sign anything you do not thoroughly understand and agree to.
- Never sign a contract with blank spaces. Make sure every blank on the contract is either filled in or marked through as being not applicable. If you leave blanks, someone might enter something after you sign that you did not want to agree to.
- Don't agree to verbal contracts. Make sure everything is in writing. If you agree to a verbal contract and run into a problem, you have no evidence of what the agreement was. Business agreements are generally too complex for either side to remember all the details.
- Don't leave without getting a copy of the contract. Keep the contract in a safe place. Check your first bill carefully to make sure everything matches the contract. If you have questions, call the company to resolve your concerns.

### Check It Out!

- If it seems too good to be true, it probably is.
- Check all figures on the contract.
- Never sign a contract with blanks not filled in or crossed out.

### APPLICATION Contracts

1. Why shouldn't you agree to a verbal contract?
2. **Evaluating an Offer** Study the ads or commercials for cell phone service. Suppose you are ready to sign a contract for cell phone service. Make a list of the questions you will ask before you sign the contract.

### Interactive Review

Review Wise Choices for Consumers using interactive activities at **ClassZone.com**



# 4 Getting Out on Your Own

- 4.1 Getting a Job
- 4.2 Paying Taxes
- 4.3 Finding an Apartment

## 4.1 Getting a Job

An important step to becoming an independent adult is getting a job. A job allows you to earn money, gain experience, and learn new skills. A career is more than a job. It is a work path that provides satisfaction, challenge, and opportunities for self-expression. Your first jobs help you learn about the world of work and what kind of career you might enjoy.

### Where Can I Look for a Job?

Finding a job that suits your skills and helps advance you along your career path can be challenging. There are many sources of information about jobs, and the more you use, the better your chances of finding a good fit.

**Friends and Family** Talk to them to find out if they know of any job openings. They are the beginning of your network—people who will support you in what you attempt, and whom you support in turn.

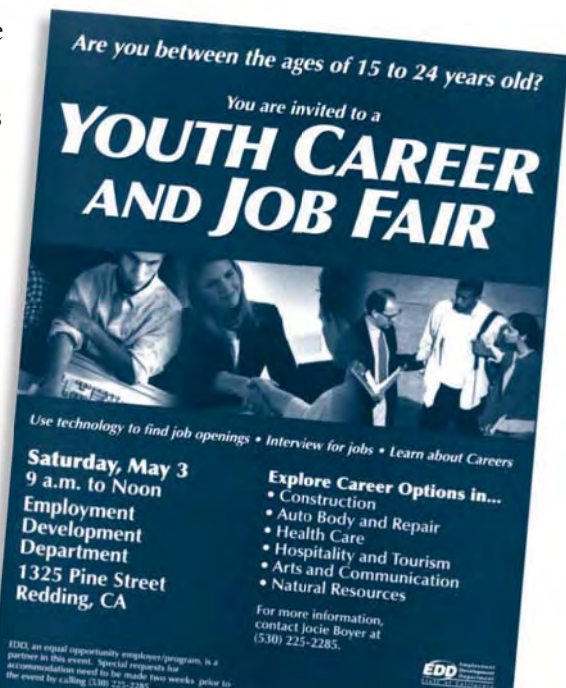
**School Guidance Counselor, or Career Planning or Placement Office** These offices have listings of jobs and intern positions. You can also learn about different careers.

**Internet** Many Web sites offer job listings, places to post your resumé, and other services. America's Job Bank, managed through a partnership between federal and state governments, allows you to tap into career resources, look at job listings all over the country, and post a resumé.

**Newspaper Want Ads** Your local newspaper is a good source for jobs in your area.

**Employment Agencies** Your state and local governments may offer employment services. These public agencies often offer job counseling and training as well as job listings. Private agencies also offer job listings and placement, but they sometimes charge a fee for their services.

**Job Fairs** Job fairs offer the opportunity to talk to many employers in an area or a specific job category in a very short period of time.



## What Do I Need to Apply for a Job?

Before you apply for a job, you will need to prepare materials that introduce you to potential employers and tell them about your qualifications. You will need a resumé, a cover letter, and a list of references. References are people who know you and your work habits and are willing to talk to potential employers. Many jobs will also require that you fill out an application form.

**Resumé** A resumé is a record of your job history and education. It should be truthful and succinct—no more than one page long. Since employers judge you by your resumé, be sure it is visually appealing and free of errors. Figure CPF 15 shows a sample resumé for a recent high school graduate. If you apply for different kinds of jobs, you may want to develop more than one resumé.

**Cover Letter** A cover letter briefly explains why you want the job and how you are qualified for it. Address your letter to the specific individual who is

Cheryl A. Miller  
1909 E. Walnut St. **a**  
Long Beach, CA 90811  
310-555-5678  
camiller89@isp.net

**b Objective** To obtain an entry-level customer service position

**Education** Jefferson High School, 2003-2007

**c Experience**

September 2006–Present

*Sales Associate, Electronics Super Center*

- Advised customers on product features and helped them choose the ones that best met their needs
- Met or exceeded weekly sales quotas
- Developed promotional materials for in-store use

Summer 2006

*Administrative Assistant, Oceanside Computer Center*

- Tracked customer sales and repair orders to improve response time
- Responded to customer questions by phone and email
- Provided office support for staff of six

September 2005–June 2006

*User support, Jefferson High computer lab*

- Developed an orientation program for incoming students
- Helped students use a variety of software applications
- Led a workshop on Web page design

**d Other Skills**

- Proficient in a wide range of application software, including word processing, spreadsheet, database, and presentations
- Internet research

**e Activities and Honors**

- Member of varsity girls' track team
- Captain of debate team

References available upon request

### Figure CPF 15 Writing a Resumé

- a** Include all the information an employer might need to contact you.
- b** Make your objective specific and succinct. Tailor it to the job you are applying for.
- c** List your work experience in reverse chronological order. Include volunteer work if you have little paid work experience. Focus on skills and accomplishments.
- d** List other skills you have that might be useful on the job, even if you have not been able to use them in previous jobs.
- e** Include a section that lists activities, honors, and community service.



## 4 Getting Out on Your Own

designated to receive applications. Open your letter with a strong statement of your interest in this particular job. In the body of the letter, use information from your resumé to explain why you are the best candidate. Close by restating your interest and indicate your intention to follow up to request an interview. Internet and library resources can give you samples of strong cover letters.

**Figure CPF 16** References

Cheryl A. Miller  
1909 E. Walnut St.  
Long Beach, CA 90811  
310-555-5678  
camiller89@isp.net

**References**

Barry Woods  
Assistant Manager  
Electronics Super Center  
1234 Main St.  
Long Beach, CA 90811  
310-555-1357  
bwoods@esc.com

Cynthia North  
Director  
Jefferson High Computer Lab  
461 Grand Oak Boulevard  
Long Beach, CA 90811  
310-555-1234  
c\_north@jefferson.lb.ca.edu

Danielle Curran  
Office Manager  
Oceanside Computer Center  
4916 Oceanside Road  
Long Beach, CA 90812  
310-555-2468  
dmcurren@occ.com

Julie Barnes  
Moderator  
Jefferson High Debate Team  
461 Grand Oak Boulevard  
Long Beach, CA 90811  
310-555-1345  
j\_barnes@jefferson.lb.ca.edu

**References** Before you list someone as a reference, talk with him or her about your job hunt and ask their permission. The list of references should include the person's name, address (either business or home), telephone number, and an e-mail address, if they have one. It's also a good idea to indicate the person's position or relationship to you.

The people you choose as references should know you well enough to be able to describe your skills, experiences, and work habits. Choose people who will be enthusiastic about your abilities based on their experience with you. Typical references include former or current employers, teachers or coaches, or family friends who can vouch for your personal character. Stay in touch with your references during your job hunt. Let them know when they might expect to hear from an employer, and discuss what you would like them to emphasize when they are contacted.

### How Can I Ace the Interview?

If an employer gets a good impression of you from your resumé and cover letter, they may invite you to come in for an interview. The interview is a chance for the employer to learn more about you and for you to learn more about the job and the company.

**The Company and the Job** Do some research on the company to which you are applying. A company's Web site will tell you more about the organization, but you might also find newspaper articles with information about the company. This research will help you to confirm that you are interested in working for the company. It will also show the company that you cared enough about the job to do some investigating before the interview.

Use your research to prepare a set of questions about the organization and the job. Find out as much as you can about the job requirements and responsibilities before discussing such things as pay, hours, or benefits. In some cases, those topics may not come up until a later interview. Remember that both you and the employer want to confirm that you are a good fit for the job and the organization.



**Presenting Yourself** Be ready to answer questions about your qualifications and about how you will fit into the company. You may want to practice answering questions in front of a mirror or with a friend or family member. Make sure your answers are clear and succinct. Take time to think about your responses to unexpected questions. Books and online resources can provide examples of many common interview questions.

Dress appropriately for the job you are seeking. Don't show up to the interview in business attire if you are applying to work where you will get very dirty. By the same token, don't go to an interview for an office job dressed in jeans and a T-shirt. Always appear neat, clean, and well groomed.

Determine how long it will take to get to the interview. Plan to arrive about ten minutes early. Take weather conditions and traffic into consideration. If you are delayed, be sure to call and explain that you will be late.

Bring extra copies of your resumé and list of references. You may want to bring a pad of paper to take notes during the interview. Be sure to get the name and title of each person who interviews you.

**Follow-Up** Write a short thank-you note immediately after the interview to each interviewer. Thank the interviewer for spending time with you. If you still want the job, restate your interest in it. Refer to something you learned in the interview. Express your desire to learn more about the position.

### Check It Out!

- Learn about the company where you are applying.
- Prepare a list of questions about the job and the company.
- Bring extra copies of your resumé and your list of references.
- Be on time for your interview.

## APPLICATION Getting a Job

1. What is the purpose of a resumé?
2. **Writing Your Resumé** Study the resumé in this section. Prepare a personal resumé based on the model. Also assemble a list of people whom you might want to use as references.

# 4 Getting Out on Your Own

## 4.2 Paying Taxes

Benjamin Franklin once said, “In this world nothing is certain but death and taxes.” As you learned in Chapter 14, taxes provide the government with revenue to provide needed services. Recall that the Internal Revenue Service (IRS) is the government agency that collects the federal taxes owed by Americans. Most states also collect taxes. Taxes for the previous year must be paid by April 15 of the current year. For example, taxes for income earned in 2010 would need to be paid by April 15, 2011.

### How Are My Taxes Determined?

The amount you pay in taxes is determined by your filing status and your taxable income. **Filing status** is based on your marital status or whether you have any dependents. A dependent is a child or relative in your household whom you support. People with more dependents have less tax withheld. Employers use the W-4 form, shown in Figure CPF 17, to determine your filing status for withholding taxes from your paycheck. You fill out a W-4 form when you begin a job. As long as you are still dependent on your parents, you claim only one withholding allowance.

The second determinant is your **taxable income**, which is the amount of income subject to taxation after all exemptions and deductions. The higher your income, the higher your taxes will be. Certain income may not be taxed. For example, money can be deducted from your paycheck before taxes to pay for health insurance. Income above a certain level is not subject to Federal Insurance Contributions Act (FICA) taxes for Social Security.

#### QUICK REFERENCE

**Filing status** is based on your marital status or support of dependents.

**Taxable income** is the income subject to taxation after exemptions and deductions.

Figure CPF 17 The W-4 Form

**a** Instructions help you determine how many allowances to claim. A single person with one job who is claimed as a dependent gets one allowance.

**b** Your Social Security number is required on all IRS forms.

**G Child Tax Credit** (including additional child tax credit):

- If your total income will be less than \$55,000 (\$82,000 if married), enter "2" for each eligible child.
- If your total income will be between \$55,000 and \$84,000 (\$82,000 and \$119,000 if married), enter "1" for each eligible child plus "1" **additional** if you have four or more eligible children.

**H** Add lines A through G and enter total here. (Note. This may be different from the number of exemptions you claim on your tax return.)

For accuracy, **complete all worksheets that apply.**

- If you plan to **itemize or claim adjustments to income** and want to reduce your withholding, see the **Deductions and Adjustments Worksheet** on page 2.
- If you have **more than one job** or are **married and you and your spouse both work** and the combined earnings from all jobs exceed \$35,000 (\$25,000 if married) see the **Two-Earner/Two-Job Worksheet** on page 2 to avoid having too little tax withheld.
- If **neither** of the above situations applies, **stop here** and enter the number from line H on line 5 of Form W-4 below.

Cut here and give Form W-4 to your employer. Keep the top part for your records.

Form **W-4** **Employee's Withholding Allowance Certificate** OMB No: 1545-0074  
 Department of the Treasury Internal Revenue Service **2006**

Whether you are entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.

1 Type or print your first name and middle initial. Last name

2 Your social security number

Home address (number and street or rural route)

City or town, state, and ZIP code

3  Single  Married  Married, but withheld at higher Single rate. Note. If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.

4 If your last name differs from that shown on your social security card, check here. You must call 1-800-772-1213 for a new card.

5 Total number of allowances you are claiming (from line H above or from the applicable worksheet on page 2) 5

6 Additional amount, if any, you want withheld from each paycheck 6 \$

7 I claim exemption from withholding for 2006, and I certify that I meet **both** of the following conditions for exemption.

- Last year I had a right to a refund of **all** federal income tax withheld because I had **no** tax liability **and**
- This year I expect a refund of **all** federal income tax withheld because I expect to have **no** tax liability.

If you meet both conditions, write "Exempt" here

Under penalties of perjury, I declare that I have examined this certificate and to the best of my knowledge and belief, it is true, correct, and complete.

Employee's signature (Form is not valid without signature) Date

## Where Do I Get Tax Forms?

Federal and state tax forms are available starting in January each year at post offices (federal forms only), libraries, banks, and IRS or state tax offices. They are also available through official Web sites, or you can order forms through the mail or by phone. The first year you file taxes, you will need to find the forms yourself. After that, you should receive forms in the mail from the state and federal governments at the end of each year. If your tax situation changes significantly from the previous year, you may need to pick up additional forms.



**Form 1040** Most young adults do not have to file complicated tax forms. Generally, the 1040EZ form should be sufficient for your federal taxes. This is a one-page form that has only 12 lines to fill out. The back of the form explains who is eligible to use it. See Figure CPF 18 for a sample of a 1040EZ form.

If you receive more than \$1,500 in interest, you cannot use the 1040EZ form. Likewise, if you receive any dividends or other income from stocks, bonds, or similar investments, you cannot use 1040EZ. Instead, you will need to use form 1040A or 1040. These forms have related forms, known as schedules, for reporting investment income.

Most state tax forms are simple because they are based on the results you obtain from filling out your federal forms.

**The W-2 Form** The W-2 form shows how much you earned during the year and how much you paid in taxes through withholding. The form shows your total gross earnings and the amount of earnings subject to taxation. The amount withheld for each type of tax is also shown, including federal income tax, Social Security and Medicare taxes, and state and local taxes.

At the end of each year, any employer that you have worked for that year must send you a W-2 form. Employers must send the forms in time to arrive at your home by January 31. The W-2 will include copies to file with your federal, state, and local tax returns, as well as one copy for your files.

**Other Forms** When you have savings or investments, your bank or financial institution will send you other forms. Form 1099-INT for savings interest and form 1099-DIV for investment gains should arrive about the same time as your W-2.





# 4 Getting Out on Your Own

## How Do I Fill Out a Tax Form?

Instruction booklets are available in most locations where you find tax forms. You may also download them for free from the IRS or state tax Web sites or request them by mail or phone. The instructions will take you through the steps to fill out the form line by line. They will also provide additional background information that may be helpful, as well as telling you where to go if you need help. Perhaps most important, the instructions contain the tax tables that will tell you how much tax you have to pay once you have determined your taxable income.

Follow the step-by-step instructions to complete each form. Always use correct and verifiable numbers. Making up numbers is considered tax fraud, which can be punishable with severe penalties.

Figure CPF 18 shows a sample of a 1040EZ form.



Figure CPF 18 Filling Out the 1040EZ

- a** Use your W-2 form(s) to find the amount to enter here.
- b** The 1099-INT form shows how much interest you earned.
- c** The amount you enter here depends on your filing status. If you are a dependent, you get the standard deduction but not the personal exemption.
- d** The amount of tax withheld is found on your W-2 form along with earnings.
- e** If you had more withheld than you owe in taxes, you will get money back in the form of a refund. If you didn't have enough withheld, you will have to pay the amount you still owe to the IRS.

Form 1040EZ		Department of the Treasury—Internal Revenue Service		Income Tax Return for Single and Joint Filers With No Dependents 2005		OMB No. 1545-0074	
<b>Label</b> (See page 11). Use the IRS label. Otherwise, please print or type.	<b>L</b> Last name and first name	Last name		Your social security number			
	<b>A</b> If a partner/recipient is not named and listed	Last name		Spouse's social security number			
	<b>R</b> Home address (number and street), if you have a P.O. box, also page 11	Apt. no.		▲ You must enter your SSN(s) above. ▲			
	<b>E</b> City, town, post office, state, and ZIP code. If you have a foreign address, see page 11			Checking a box below will not change your tax or refund.			
<b>Income</b>	1 Wages, salaries, and tips. This should be shown in box 1 of your Form(s) W-2. Attach your Form(s) W-2.		1		<b>a</b>		
<b>Attach Form(s) W-2 here.</b> Enclose, but do not attach, any payment.	2 Taxable interest. If the total is over \$1,500, you cannot use Form 1040EZ. (See page 13).		2		<b>b</b>		
	3 Unemployment compensation and Alaska Permanent Fund dividends (see page 13).		3				
	4 Add lines 1, 2, and 3. This is your <b>adjusted gross income</b> .		4				
5 If someone can claim you (or your spouse if a joint return) as a dependent, check the applicable box(es) below and enter the amount from the worksheet on back. <input type="checkbox"/> You <input type="checkbox"/> Spouse If someone cannot claim you for your spouse if a joint return, enter \$8,200 if single; \$16,400 if married filing jointly. See back for explanation.		5		<b>c</b>			
6 Subtract line 5 from line 4. If line 5 is larger than line 4, enter -0-. This is your <b>taxable income</b> .		6					
<b>Payments and tax</b>	7 Federal income tax withheld from box 2 of your Form(s) W-2.		7		<b>d</b>		
	8a Earned income credit (EIC).		8a				
	8b Nonrefundable combat pay election.		8b				
9 Add lines 7 and 8a. These are your <b>total payments</b> .		9					
10 <b>Tax.</b> Use the amount on line 6 above to find your tax in the tax table on pages 24-32 of the booklet. Then, enter the tax from the table on this line.		10					
<b>Refund</b> Have it directly deposited! See page 19 and fill in 10b, 11c, and 11d.	11a If line 9 is larger than line 10, subtract line 10 from line 9. This is your <b>refund</b> .		11a		<b>e</b>		
	11b Running number <input type="text"/> Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings <input type="checkbox"/> Account number <input type="text"/>		11b				
<b>Amount you owe</b> 12 If line 10 is larger than line 9, subtract line 9 from line 10. This is the <b>amount you owe</b> . For details on how to pay, see page 19.		12		<b>e</b>			
<b>Third party designee</b> Do you want to allow another person to discuss this return with the IRS (see page 19)? <input type="checkbox"/> Yes, Complete the following. <input type="checkbox"/> No		Designee's name		Phone no.		Personal identification number (PIN)	
<b>Sign here</b> Under penalties of perjury, I declare that I have examined this return, and to the best of my knowledge and belief, it is true, correct, and accurately lists all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.		Your signature		Date		Your occupation	
Joint return? See page 11. Keep a copy for your records.		Spouse's signature. If a joint return, both must sign.		Date		Spouse's occupation	
<b>Paid preparer's use only</b>		Preparer's signature		Date		Check if self-employed <input type="checkbox"/> Preparer's SSN or PTIN	
		Firm's name (or yours if self-employed), address, and ZIP code		EN		Phone no.	

## How Do I File My Taxes?

Everyone who receives more than a certain amount of income during the year must file a tax return. Check the tax form instructions or the IRS Web site to determine if you are required to file. Even if you don't owe money, you must file a form if you meet the requirements. And, of course, you will not receive a refund for excess taxes withheld unless you file a tax return. See the "What if I get stuck?" sidebar to find out how to receive help with your taxes.

Before you send in your forms, double check your work. Confirm that you have entered the correct Social Security number; that your income, withholding, and tax figures are correct; and that you have signed your forms. Then make a photocopy of the forms for your own records.

When everything is ready, you can mail all the paperwork to the IRS service center listed on your form. You can also file your tax forms electronically. Electronically filed returns are generally more accurate, and refunds are processed more quickly. The IRS has formed a partnership with several tax software companies to offer the Free File service that allows most taxpayers to prepare and file their taxes electronically for free. You can find more information and instructions on e-filing options on the IRS Web site.

After you file your return, be sure to keep all your forms and copies in a safe place. Keep your tax returns and all related documents for at least three years—the limit if the IRS wants to contest your return.

**Mistakes** The IRS and state tax auditors usually catch simple math mistakes and inform you of them. They then recalculate your taxes and adjust the amount of your refund or taxes owed. If you discover a major error or omission on your form after you submit it, file an amended return as soon as possible. You must file an amended return within three years of the time when the original return was filed. You may have to pay a penalty depending on the type of error involved.

### WHAT IF I GET STUCK?

- Ask a parent or other trusted adult. Most have many years of experience filling out tax forms.
- For federal tax help, go to the IRS Web site. For state tax help use the name of your state and the key words *tax help* to find the Web site.
- For additional help, call the local IRS office (1-800-829-1040) or your state tax office.

### Check It Out!

- The filing deadline is April 15, every year.
- Check everything on your form carefully before submitting it.
- Save your forms and copies for at least three years.

## APPLICATION Paying Taxes

1. Where can you go to get tax forms?
2. **Preparing to Do Your Taxes** Make a list of the documents and information you will need to file federal and state income tax forms. Decide on a location where you will keep the list and the information until it is time to file your taxes.

## 4 Getting Out on Your Own

### 4.3 Finding an Apartment

Most young adults will rent an apartment when they start out on their own because apartments are an affordable type of housing. Moving out of your parents' home or out of a college dormitory into an apartment will give you more freedom. But it also means more responsibilities. You will have to pay monthly bills, shop for groceries, fix meals, clean your apartment, and do laundry. With a little effort, you can find an apartment that suits you.

#### What Should I Consider About Renting an Apartment?

**How much should I spend?** Your housing expenses should amount to no more than about one-fourth to one-third of your take-home pay. These expenses include not only your rent, but also utilities, cable, and any other housing costs. Spending a higher proportion of your income on housing may not leave you enough to meet your other expenses or to have the money you want to enjoy life.

**Should I live by myself or with roommates?** If one-third of your take-home pay only pays rent for a storage locker, you may want to consider sharing a larger apartment with one or more roommates. Roommates can make living in an apartment cheaper and more fun, but they can become a problem if they are irresponsible or have a lifestyle that clashes with your own. Think about how to balance the desire for privacy and your own space with the desire for companionship and help with household expenses and chores. If you decide to live with roommates, consider looking for an apartment together. That way, everyone can commit to the same place, and people will be less likely to grow dissatisfied and leave.

**How do I choose roommates?** Look for individuals you are compatible with, whose personalities and lifestyles are similar to your own. Roommates should be people you can count on, whether it's to pay their share of the rent or to do their share of household chores. Living with other people can bring up conflicts about how to share expenses, use the living space, and keep it clean. You and your roommates will need to communicate to resolve such issues. Consider drawing up an agreement together that spells out the rules that everyone must obey and the responsibilities that each roommate accepts.



## Figure CPF 19 Looking for an Apartment

### Location

- Is it convenient to where you work?
- Is there nearby public transportation or parking?
- Are there grocery stores, self-service laundries, or other stores you need nearby?
- Is the neighborhood safe?

### The Building

- Is it clean and well taken care of?
- Do the other tenants seem friendly?
- Are the lobby and stairwells safe?
- Are there sufficient parking spaces, laundry facilities, or bike rooms?

### Space

- Is there enough room for the number of people living in the apartment?
- Is it suitable for your way of life?
- Are all the roommates happy with the living space and available storage?

### Furnished or Unfurnished

- Do you want it furnished with furniture or do you want to use your own furniture?
- Can you get used furniture from family or friends or purchase inexpensive furniture?
- Does the apartment include appliances, such as a stove and refrigerator?

## What Do I Need to Know About Signing a Lease?

- A **lease** is a contract for renting an apartment for a specific period of time. The contract is between you and your **landlord**, who is the owner of the rental property. A lease is a legal document that obligates you to pay rent and to follow certain rules for a specific period of time. The landlord has responsibilities as well. If you have roommates, whoever signs the lease is responsible even if other roommates fail to pay their part of the rent.
- You may be asked for the first and last months' rent, a security deposit, and possibly cleaning and key fees. When you move out, the landlord will inspect the property and return some or all of the security deposit and fees, depending on what repairs need to be done.
- You may need to provide character references—name, address, and phone number. Generally you should use three people who are not relatives, such as teachers, employers, or supervisors of volunteer work, who can vouch for you.
- You must provide your Social Security number and bank information. If you are employed you will provide employment information.
- If this is your first apartment or you are not employed, you may be asked to have a responsible adult act as a cosigner. This ensures that the landlord will be paid the rent due if you fail to pay.

### QUICK REFERENCE

A **lease** is a contract for renting an apartment.

A **landlord** is the owner of rental property.

### Check It Out!

- Provide a list of references.
- Be prepared for up-front costs such as a security deposit.
- Look at several places before committing to an apartment.

## APPLICATION Finding an Apartment

1. What is a lease?
2. **Analyzing Your Needs** Decide if you would prefer to live alone or with others. If you prefer to live alone, write a paragraph explaining your decision. If you would like to live with others, create a list of roommate rules and responsibilities.

### Interactive Review

Review Getting Out on Your Own using interactive activities at [ClassZone.com](http://ClassZone.com)

## 2.2 Distinguishing Fact from Opinion

**FACTS** are events, dates, statistics, or statements that can be proved to be true. Facts can be checked for accuracy. **OPINIONS** are judgments, beliefs, and feelings of the writer or speaker.

### Understanding the Skill

**STRATEGY: Find clues in the text.** The following excerpt describes economist Sir William Beveridge's 1942 recommendations for creating a welfare state in Great Britain.

**1 Facts:** Look for specific names, dates, statistics, and statements that can be proved.

The first paragraph gives a factual account of the government's plan.

**2 Opinion:** Look for assertions, claims, hypotheses, and judgments.

Beveridge expresses his opinion regarding provision for old age and for medical care.

**3 Opinion:** Look for judgment words that the writer uses to describe policies and events.

Judgment words are often adjectives that are used to arouse a reader's emotions.

**1** The coalition British Government has unveiled plans for a welfare state offering care to all from the cradle to the grave. The Beveridge report proposes a far-reaching series of changes designed to provide a financial safety net to ensure a "freedom from want" after the war is over. Everyone of working age would be expected to pay a weekly national insurance contribution. In return benefits would be paid to the sick, widowed, retired, unemployed and there would also be an allowance for families.

The architect of the report, economist Sir William Beveridge, drew on advice from various government departments. **2** He found provision for old age represented one of the most pressing problems. But there were other failings too. Medical provision was not universally available to all and Britain's achievement, in his words, "fell seriously short" compared with other countries of the world.

At a time when the war was destroying landmarks of every kind, [Beveridge] said, it was a **3** "revolutionary moment in the world's history, a time for revolutions, not for patching."

Source: BBC News

### Make a Chart

Divide facts and opinions in a chart. Summarize and separate the facts from the opinions expressed in the passage.

Facts	Opinions
In 1942 the British government unveiled plans for a welfare state. The plan was based on a report by Sir William Beveridge and was designed to provide British citizens with a financial safety net.	<ul style="list-style-type: none"> <li>The British government's provision for old age represented one of the most pressing problems.</li> <li>Britain's medical provision fell seriously short as compared to that of other countries.</li> <li>It was a revolutionary moment in history.</li> </ul>

### Applying the Skill

Read "Government and Demand-Side Policies" on page 457. Using a chart like the one to the left, summarize the facts, opinions, and judgments stated. Look carefully at the language used in order to separate one from the other.

## 2.3 Evaluating Online Sources

**EVALUATING ONLINE SOURCES** involves making judgments about sites that are available on the Internet—a network of computers associated with universities, libraries, news organizations, government agencies, and other information providers. Each location on the Internet has a home page with its own address, or URL. The international collection of home pages, known as the **WORLD WIDE WEB**, is a good source of up-to-the-minute information as well as in-depth research on economic subjects.

### Understanding the Skill

**STRATEGY: Explore and evaluate the elements on the screen.** The computer screen below shows “Treasury’s Learning Vault,” the education page of the United States Department of the Treasury.

#### 1 Go directly to a Web page.

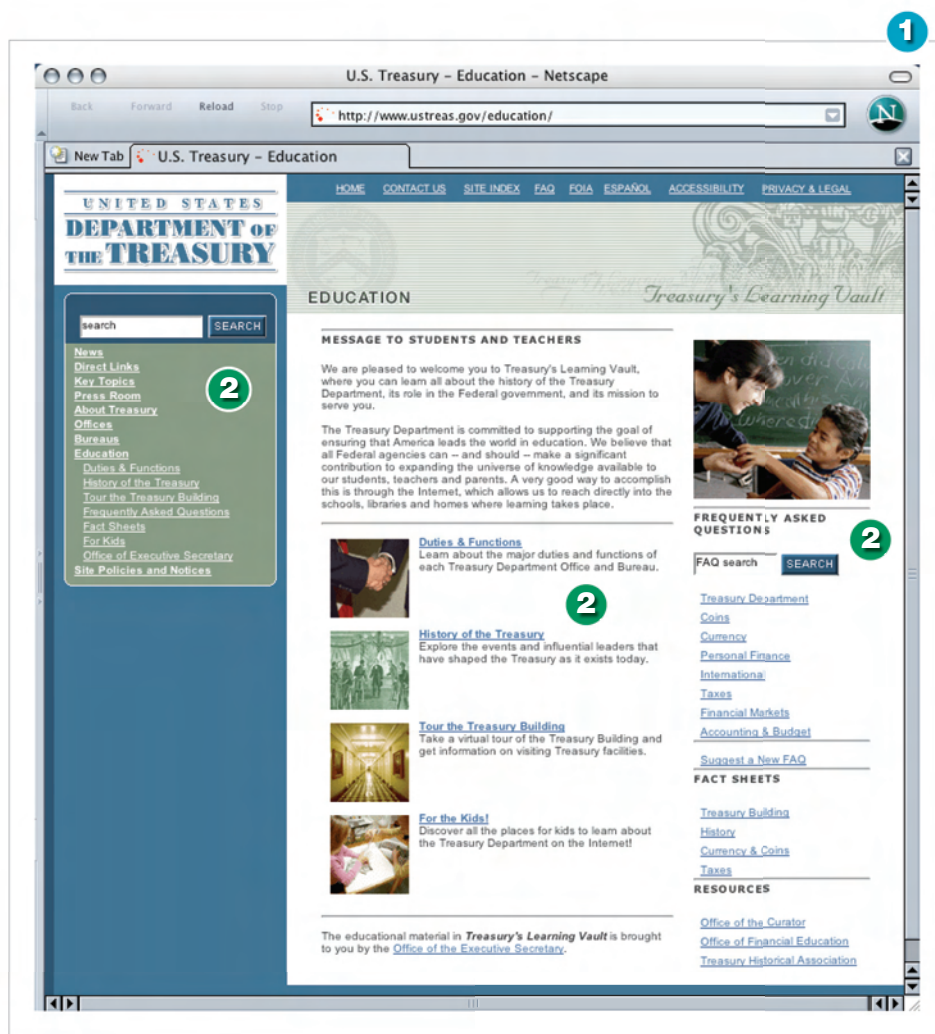
Access the Internet using your Internet Service Provider (ISP). If you know the address of the Web site you want, type it in the address box at the top of your computer screen, then press ENTER or RETURN. (To access the page shown here, type in [www.ustreas.gov/education/](http://www.ustreas.gov/education/).)

#### 2 Explore the features and links.

Click on any one of the images or topics to find out more about a specific subject. These links take you to other pages at this Web site. Some links take you to related information that can be found at other places on the Internet.

#### 3 Evaluate the Web site.

Use the information you gathered in Step 2 to evaluate the Web site. Ask yourself the following questions: Is the information provided by the site useful to an economist or a student of economics? How reliable is this information?



### Applying the Skill

Access the Bureau of Labor Statistics ([www.bls.gov](http://www.bls.gov)) and the Census Bureau ([www.census.gov](http://www.census.gov)) Websites through ClassZone.com. How useful do you think these sites might be to economists? How might economists use the information on these sites?

## 2.4 Interpreting Graphs

**GRAPHS** show statistical information in a visual manner. Economists use graphs to show comparative amounts, ratios, trends, and changes over time. Interpreting graphs will increase your understanding of economic trends and data. **LINE GRAPHS** can show changes over time, or trends. Usually, the horizontal axis shows a unit of time, such as years, and the vertical axis shows quantities. **PIE GRAPHS** are useful for showing relative proportions. The circle represents the whole, such as the entire population, and the slices represent the different groups that make up the whole. **BAR GRAPHS** compare numbers or sets of numbers. The length of each bar indicates a quantity. With bar graphs, it is easy to see at a glance how different categories compare.

### Understanding the Skill

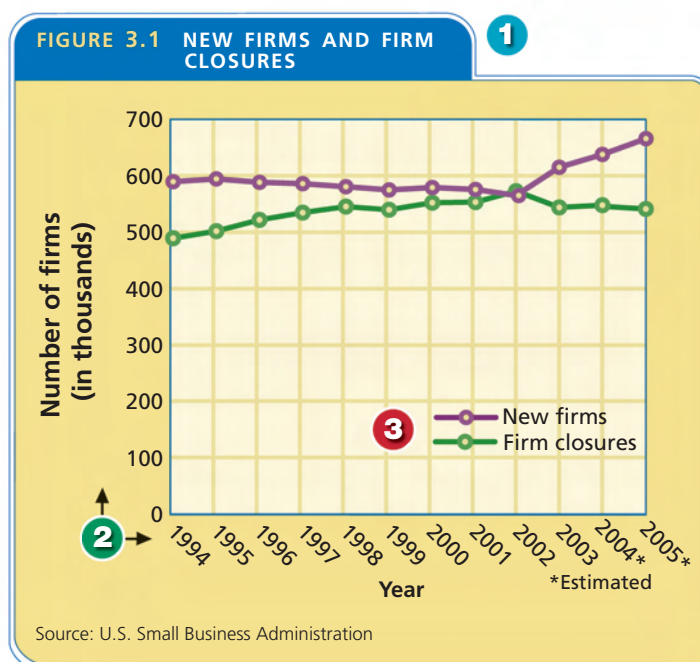
**STRATEGY: Study all the elements of the graph.** This double line graph shows the number of new firms started and the number of firm closures from 1994 to 2005.

**1** Read the title to identify the content of the graph. Here, the title explicitly states the content of the graph—new firms and firm closures.

**2** Read the vertical and horizontal axes. The vertical axis shows the number of firms, and the horizontal axis shows years.

**3** Look at the legend to understand what colors and symbols represent. In this graph, different colored lines are used to represent new firms and firm closures.

**4** Summarize the information shown in each part of the graph. What trend does each line show?



### Write a Summary

Write a summary paragraph to show what you have learned from the graph.

**4** Each year from 1994 to 2005, about 600,000 new firms opened in the United States. During the same time period, anywhere from 500,000 to about 575,000 firms closed. In 2001, there actually were more firm closures than new firms opened. The overall trend shows that nearly as many firms close as open each year.

### Applying the Skill

Turn to page 267 and study Figure 9.7, a graph that provides information on the U.S. labor force. Write a paragraph summarizing what you learn from the graph.

## 2.5 Interpreting Tables

**TABLES** present information in a visual form. Tables are created by simplifying, summarizing, and organizing information into a format that is easy to understand. Tables are the most commonly used charts in Economics books.

### Understanding the Skill

**STRATEGY: Study all the elements of the table.** The table shown here provides statistical information about employment in the United States.

**1** Read the title to identify the main idea of the table. This table provides information on selected aspects of the United States labor force during 2006.

**2** Read the headings to determine how the table is organized. In this table, data is organized by category and by month.

**3** Study the data in the table to understand what the table was designed to show. This table shows economic data regarding employment in the United States during a six-month period in 2006.

**4** Be sure to read any footnotes provided with the table. Footnotes clarify information. For example, (P) indicates that a statistic is preliminary rather than final.

**5** Summarize the information shown in each part of the table. Use the title and side headings to help you focus on what information the table is presenting.

Selected Labor Force Statistics, February to July, 2006 <b>1</b>			
<b>2</b> Month	Unemployment Rate (percent)	New Jobs Added (thousands)	Average Hourly Earnings <sup>1</sup> (in dollars) <b>3</b>
February	4.8	200	16.47
March	4.7	175	16.51
April	4.7	112	16.61
May	4.6	100	16.62
June	4.6	124 <sup>P</sup>	16.69 <sup>P</sup>
July	4.8	113 <sup>P</sup>	16.76 <sup>P</sup>

**Footnotes:**

(P) Preliminary **4**

(1) For production and nonsupervisory workers, in dollars and cents

Source: Bureau of Labor Statistics

**5** The table provides statistical information about employment in the United States. Statistics are given for each of six months, from February through July 2006. The unemployment rate fluctuated between 4.6 and 4.8 percent. There was an increase in the number of jobs each month, with the greatest increase occurring in June and the smallest in May. Average hourly earnings rose fairly steadily from \$16.47 in February to \$16.76 July.

### Applying the Skill

Turn to page 79 and study Figure 3.3. Then write a paragraph summarizing the information presented in the table.



## 2.6 Analyzing Databases

A **DATABASE** is a collection of data, or information, that is organized so that you can find and retrieve information on a specific topic quickly and easily. You can search for specific information without going through the entire database. A database provides a list of all information related to a specific topic.

### Understanding the Skill

**STRATEGY: Study the elements of the database.** First identify the topic. The title “World’s Top Oil Consumers” indicates the criterion for listing the six nations in the database. Look at the categories shown and pose questions about what you can learn from them. For example, in this database you could search for “countries consuming more than 10 million bbls (barrels) per day” and discover that the United States and the European Union fall into that category.

**1 Determine the order of presentation of information.** The six countries in this database are listed according to the amount of oil they consume, from most to least.

**2 Identify the entries included under each heading.** Here, the data in each row relates to one of the six countries listed.

**3 Determine how the categories in the database relate to one another.** This database includes the categories “oil production” and “proved oil reserves.” Both relate to oil consumption. These related categories enable you, for example, to determine which countries, if any, produce less oil than they consume.

**4 Read any labels or footnotes that clarify the nature of the data.** In this database, the figures represent barrels (bbl) of oil. Also note that for purposes of providing statistical information, the EU is considered to be one country.

**5 Note the source of the data.** Is the source reliable? The source of data here is The CIA World Factbook, a respected and reliable source of data on the countries of the world.

World's Top Oil Consumers			
Country	Oil Consumption (Millions of bbl <sup>1</sup> / day)	Oil Production (Millions of bbl <sup>1</sup> / day)	Proved Oil Reserves (Billions of bbl <sup>1</sup> )
United States	20.0	7.6	22.5
European Union <sup>2</sup>	14.6	3.4	7.3
China	6.4	3.5	18.3
Russia	2.8	9.1	69.0
Saudi Arabia	1.8	9.5	262.7
Iran	1.4	4.0	133.3

**Footnotes:**

(1) Barrels  
 (2) For data presentation, treated as a single country

Source: The CIA World Factbook, 2005 data

### Analyze the Database

Consider the kinds of information that you could quickly find from the database. For example, you can search for countries that produce or consume more or less oil than a specific number of barrels per day. Make a list of the kinds of information you could search for in this database.

### Applying the Skill

Turn to page A12 in the Economic Atlas and Statistics and review the information in the two sets of graphs. Create a database for United States industry using statistics for the most recent year shown. Consider the steps listed above when creating your database.