

Unit 3 Economics

Practical Economics:

Credit, Debt, Loans, & Investing

Terms – Practical Economics

- Disposable income: money left after paying all taxes
- Discretionary income: money left after paying for necessities or money that can be saved or spent on luxury items



This image cannot currently be displayed.

Terms – Practical Economics (Con't)

- **Consumerism**: a movement to educate buyers about the purchases and to demand better and safer products from manufacturers.
- **Consumer advocates**: promote the following consumer rights: the right to safety, to be informed, to choose, to be heard, and to redress. EX – Better Business Bureau
- **Federal agencies** :have programs to aid consumers, including the Consumer Product Safety Commission and the Food and Drug Administration
- **Durable goods**: goods designed or expected to last more than 3 years (ex. Household appliances, vehicles, industrial machines)

Terms – Credit/Debt

- **Debit**: electronic transfer of money from a bank account to a merchant.
- **Credit**: To receive funds for services or goods with the intent of paying back those funds in the future.
- **Credit check**: investigation of a person's income, debts, and history of borrowing and repaying debts.
- **Credit bureau**: private business that investigates a person to determine the risk involved in lending money to that person.
- **Credit Rating**: the evaluation of a person's credit worthiness given in a credit score ranging from 300-850.

Terms – Credit/ Debt

- U.S. household consumer debt profile (2016):
- Average credit card debt: **\$16,061**
- Average mortgage debt: **\$172,806**
- Average student loan debt: **\$49,042**
- Average car debt: **\$28,535**

Terms – Credit/Debt

- Usury Law: sets maximum interest rates consumers can be charged.
- Bankruptcy: a legal designation for people who absolutely cannot repay their debts, debtors give up most of what they own to be distributed among creditors, creditors are forced to forgive entire debt. STAYS ON YOUR CREDIT REPORT!!!

Terms – Loans

- **Principal**: amount of money originally borrowed or invested (starting balance).
- **Interest**: amount of money a borrower must pay for the use of someone else's money (usually a percentage rate).
- **Finance charge**: cost of credit expressed in dollars and cents. Includes interest and any other fees.
- **Annual Percentage Rate (APR)**: total cost of credit (interest and fees) expressed as a yearly percentage.

Terms - Loans

- Collateral: something of value (car, home) used to secure a loan.
- Secured loan: a loan backed up with collateral in the event of non-payment.
- Unsecured loan: need no collateral, but may require a cosigner who becomes responsible for repaying the loan in event of non-payment.

Terms - Loans

- **Installment debt**: debt that is repaid in equal payments over a fixed period of time.
- **Mortgage**: installment debt owed on houses, buildings, or land.
- **Amortization**: amortization is the process by which loan principal decreases over the life of a loan. Each mortgage payment is applied in part toward reducing the principal, and toward paying the interest on the loan.

Terms - Loans

- **Fixed rate loan:** The interest rate never changes, it gets “locked in” when the loan originates and is good throughout the life of the loan. A fixed rate might be better when interest rates are very low.
- **Adjustable rate loan (ARM):** The interest rate adjusts to the market rate after a certain time period. An adjustable rate might be better if interest rates are high and you expect them to go down in the next few years.
- **Closing Costs:** fees charged by lenders and third parties related to the purchase of the home. Average 2-5%.
- **Points:** are a form of pre-paid interest. One point equals one percent of the loan amount. For each point purchased, the loan rate is typically reduced by $1/8\%$ (0.125%)

Rent/Lease vs. Buy

- Renters usually sign a lease.
- Be aware of the clauses in your lease; read it carefully.
- Some tenants must place a refundable security deposit in case of damaged property or unpaid rent.
- You will need the cash down payment and closing costs.
- Mortgages involve down payments and interest.
- Be aware of points or fees paid to the lender.
- Property tax, homeowners insurance, and mortgage insurance are often included.
- Can earn equity!

Terms - Investing

- **Time Deposits:** a savings plan or certificates of deposit (CDs) with a high interest rate that increases over time, but a person cannot remove funds before a certain time period or maturity without paying a penalty.
- **Maturity:** the date when the principal and interest is paid off (for loans or investments).
- **Capital Gains:** profits made from the increase in value of an investment over time. Must sell the investment to access the profits.
- **Capital Losses:** losses from the reduction in value of an investment over time.

Terms - Investing

- **Stocks**: a share of ownership in a company that is traded on the stock market.
- **Mutual Funds**: a group of stocks managed by a financial institution or broker.
- **Pension Plans**: IRAs, ROTH IRAs, 401Ks, 403Bs, etc. Long term savings plans for retirement. Some are private and some are provided by employers.
- **Diversification**: Spreading out your investments into various accounts, stocks, mutual funds, etc.

Terms - Investing

- **Treasury Bonds/Bills:** Investments purchased from the gov that require partial payment upfront for a repayment with stated interest over a period of time.
- **New York Stock Exchange:** Largest stock exchange in U.S., located on Wall St., most large publicly traded companies trade here.
- **Dow-Jones Industrial Average:** The average daily increase or decrease in the value of a group of stocks from various industries. Used to indicate overall stock performance for the day.

Financial Institutions

- **Commercial Bank:** Commercial Banks offer the widest range of services.
- **Savings and Loan:** Savings and Loan Associations often have lower interest rates than commercial banks.
- **Credit Union:** Credit Unions are owned and operated by their members; generally have higher interest rates for savings and lower rates for loan.
- **Finance Companies:** collect debt for stores' installment loans; generally have very high interest for loans.