Unit 1: Fundamentals of Economics

Key Terms (SSEF1a)

Economics: is the study of how individuals, institutions, and society **make optimal choices** under conditions of **scarcity**.

Scarcity: condition that exists because human wants and needs are greater than available resources (LIMITED VS. UNLIMITED RESOURCES)

Choice: to pick out by preference from what is available

Wants: goods and services that people would like to obtain

Needs: items that people must have to live shelter, food, and clothing

Resources: items available to produce goods and services to satisfy human wants and needs.

Incentives: positive and negative rewards that encourage economic behavior such as making purchases or working to increase productivity.

Allocation: the way society deals with scarcity; prices, government regulation, rationing

Factors of Production (SSEF1b)

4 Factors of production (productive resources)

- **Land**: the earth and all of the resources coming from the land (land, forests, water resources, oil)
- **Labor**: efforts and abilities of humans used to produce goods and services. (school teachers, janitors)
- **Capital**: tools, equipment, and facilities involved in creating goods and services and getting them to the consumers(machinery storage, transportation)
- **Entrepreneurship**: individual who organizes the resources for production and distribution, entrepreneurs take risks

WIRP: Wages (for labor), Interest (for capital), Rent (for land), Profit (entrepreneurs)

Economic Decision Making (SSEPF1a)

P.A.C.E.D. is the decision making model that helps you examine the problem you are trying to solve, come up with alternatives, evaluate those alternatives and come to a decisions.

P: Problem

A: Alternatives

C: Criteria

E: Evaluation (of the alternatives)

- **Trade-off:** action of giving up one item or category for another (ex. Guns v Butter)
- **Opportunity cost**: the item or value that is lost when someone makes an economic decision; the next best alternative; the item that is not chosen**(SSEF1d)**

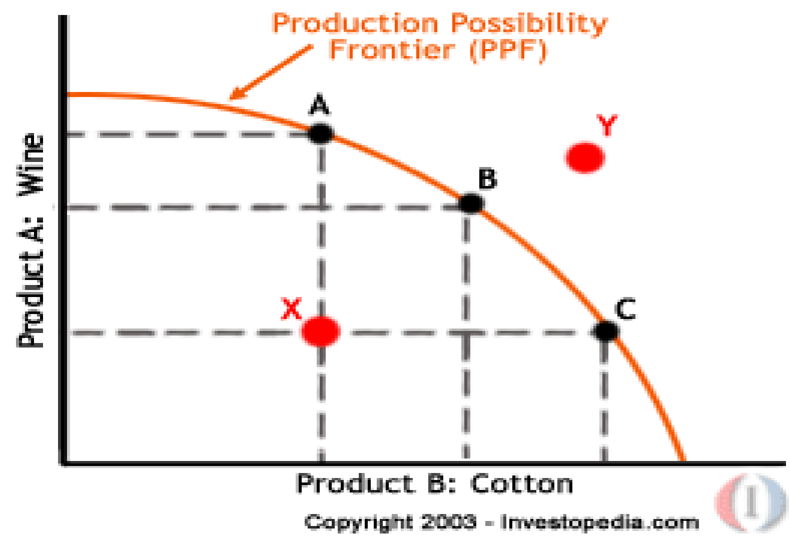
D: Decision (make rational decision) **(SSEF2b)**

- **Marginal utility**: the satisfaction of adding one unit in production or consumption
- **Marginal benefit vs. marginal cost**
- When marginal benefit is **greater than** the cost, the marginal benefit should be obtained.
- When the marginal benefit is **less than** the marginal cost, the desired good is not worth the cost and should not be obtained.
- **Law of diminishing marginal utility**: decreasing satisfaction or usefulness as additional units of a product are acquired.

The Production Possibility Curve (SSEF2a)

The production process takes inputs and uses them to produce outputs. Inputs include land, labor, capital, and entrepreneurs.

The PPF curve measures the maximum combination of two outputs that can be achieved from a given number of inputs. It demonstrates the trade-off among choices, given existing institutions, resources, and technologies.



The curve slopes downward from left to right. This represents the opportunity cost because you always have to give up some product **A** to get more product **B**.
The curve bowed out to represent the principle of increasing marginal opportunity cost: in order to get more of something, one must give up increasing quantities of something else.

- Point **A, B,** and **C** represents efficiency: achieving as much output as possible from a given number of inputs.
- Point **Y** represents an unattainable point at the moment because of limited resources or technology.
- Point **X** represents an attainable point but undesirable.

Reasons for a shift in the PPF curve (**Economic Growth or Loss**)

- Technology (Quality of Resources)
- Land (Resources)
- Population (Resources)
- Education (Quality of Resources)

Specialization and Voluntary Exchange (SSEF 3a, b)

Key Terms

Profit: the money made after producers have paid for all of their costs.
Productivity: the measure of the amount of output produced by a given amount of inputs in a specific period of time.
Specialization: individuals do specific tasks in the production of goods and services. Also regional specialization Example: peaches in Georgia, grapes in California
Division of labor: breaking productive tasks into smaller and more specialized acts. (ASSEMBLY LINE)
Voluntary exchange: is when individuals and businesses freely choose to exchange goods, services, and resource for something else of value.

- Benefits of voluntary exchange
  - Encourages increase productivity and efficiency
  - Encourages inventions and innovations

Economic Systems (SSEF4 a, b)

3 basic economic questions or allocation of resources

1. What will be produced?
2. How will it be produced?
3. For whom will it be produced?

4 types of economies

Traditional economies: Economic activity stems from the rituals, habits or customs.
Strengths: Everyone knows their role. There is little uncertainty about WHAT to produce, HOW to produce. All is based on customs and traditions.
Weaknesses: New ideas are discouraged. There is little variety of goods, services, and ideas about producing them. The tendency away from progress leads to lower standard of living in traditional systems.
Command economies: the central authority or government, makes most of the economic decisions.
Strengths: Changes can be made quickly and efficiently, because the government has control of all resources and makes all decisions about WHAT, HOW and FOR WHOM to produce goods and services.
Weaknesses:

- This system provides few incentives for workers to give their best effort-workers have no say in what is produced and how it is produced (their jobs) and may have no interest in quality of their products. (PEOPLE DON'T ENJOY BEING TOLD WHAT TO DO ALL THE TIME….)
- The government must have many workers to carry out it's work---to many people making decisions can slow the process and increase costs of production.
- The wants and needs of the citizens sometimes go unheeded as the government makes decisions for all (THERE IS LITTLE VARIETY OF GOODS AND SERVICES)
- This system is relatively inflexible and cannot react quickly to daily problems that arise in production.
- New ideas rarely find their way into the economy. Entrepreneurship is squelched.

Market economies: (Free Enterprise System, Capitalism) - producers and consumers make economic decisions and the factors of production are privately owned
Strengths:

- This system can adjust to change gradually.
- Government interference is low, giving consumers freedom to choose what they want to buy and producers freedom to choose what and how to produced goods.
- Decentralized decision making gives more people a voice in the way the economy runs.

- The variety of goods and services provided in a market economy is high, so consumer satisfaction is higher than in systems where there is little variety.

Weaknesses:

- People who cannot work-because they are too old or young, to sick, or otherwise physically unable to do work– are at a disadvantage, because this system rewards productive resources and does not protect non-productive resources. Without some government involvement, these people suffer.
- Success relies on three conditions

  1. **Competition**-producers must be competing with one another to offer the best value for the cost
  2. **Flexibility of resources**- for example a worker must have the freedom to change jobs, if she is dissatisfied with her work.
  3. Access to information should be equal across the economy

- It is difficult for an economic system to guarantee that these conditions are met without government regulations.

Mixed economies: An economy which has the characteristics of a market economy with some government intervention and regulation. Because of this government interference, the United States is said to have a mixed market economy

Role of Government in a Market Economy (SSEF5a,b)

Key Terms

Public goods and services: items such as schools, defense, police and fire protection, parks roads and street lighting provided by government.

Regulation: adding rules or laws established by the government such as taxes, tariff, and subsides.

Deregulation: taking away rules or laws on an industry such as deregulation of transportation.

Government plays an economic role in the free enterprise system in the **protect property rights, provider of goods and services** (parks, police), **regulator** (communication, banking) and **redistribution of income** (healthcare, social security).

Characteristics of Market Economy or Free Enterprise (SSEF5a,b)

Consumer Sovereignty: the idea that individuals are the best judge of their needs and what is in their best interest and that they indicate their choices by their spending decisions.

Voluntary Exchange: buyers and sellers may engage freely in the market to sell what they want, invest their money to sell what they want, invest their money how they want, etc.

Private Property: people have the right to control their possessions as they wish.

Profit Motive: people are free to invest in business ventures with the hope of making a profit or being better off at the end of a period than they were at the beginning.

Economic/Social Goals in the U.S. (SSEF4b)

- **Economic freedom:** the right to make your own economic decisions about where to work, what to buy, etc.
- **Economic Efficiency:** using resources wisely because they are scarce so that more wants and needs can be satisfied in the long run.
- **Economic Equity:** justice and fairness for all. (example: no job discrimination)
- **Economic Security:** protection from bad economic situations such as unemployment. The Social Security program was set up to help meet this goal for those people who are retired and/or disabled.
- **Full Employment:** to provide as many jobs as possible so that everyone has the opportunity to work.
- **Price Stability:** to have stable prices overall with no major inflation (a rise in the general level of prices) because many people have fixed incomes.
- **Economic Growth:** to have better things in the future such as more money, better jobs, etc.

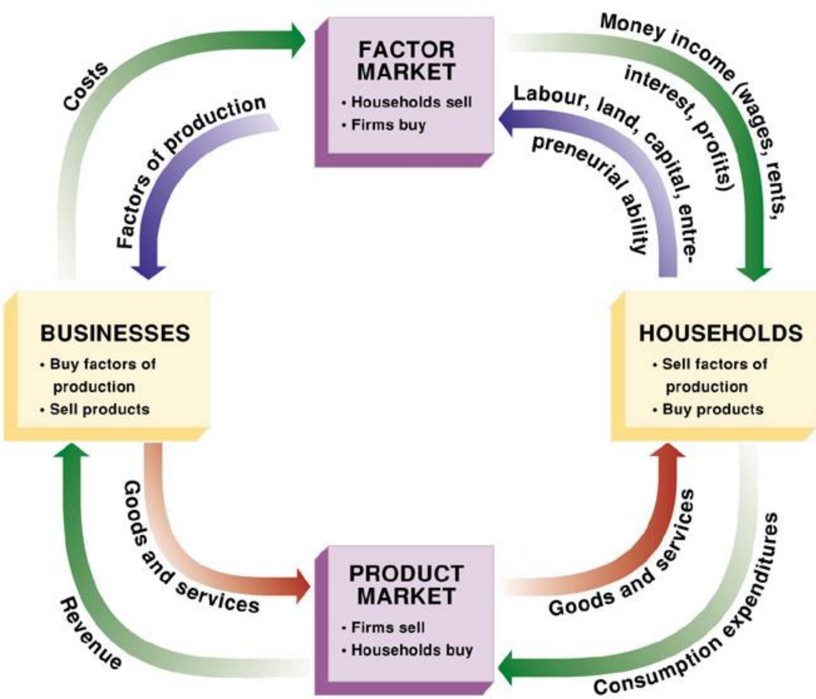
Unit 2: Microeconomics

Microeconomics

Microeconomics: The study of how economic actors (individuals and businesses) make decisions and are impacted by the **allocation** (distribution) resources.

The Circular Flow Diagram

The relationship between goods and services can be shown as a circular flow. The chart shows the exchange of goods/services between the **Factor Market (Resources)** and the **Product Market (Goods).**



Factor Market: where inputs such as land, labor, capital, and other resources are exchanged

Product Market: where households buy finished goods and where businesses sell finished goods.

Economic Interdependence: the reliance on business/households to provide the goods and services that people consume.

<u>Supply and Demand</u>

The law of supply and demand give economist basic information, but when combined they are the key to distribution in the market economy and most important price.

Demand: the relationship between the price of a good or service and the quantity of it that consumers are willing to buy at that price.

Law of Demand: the quantity demanded varies inversely with price.

Price Increases **(P↑)** then Quantity Decreases **(Q↓)** or

Price Decrease **(P↓)** then Quantity Increases **(Q↑)**

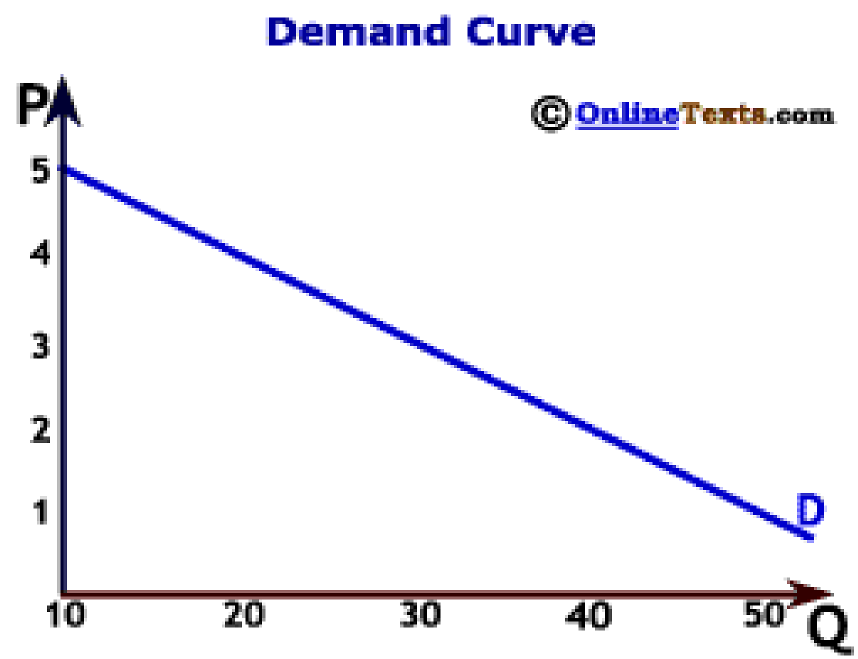
Demand Schedule and Demand Curve: are graphical representations of the law of demand. Both images with show a downward slope, because all else constant, the quantity demand rises as the price falls. (or the inverse)

Demand Schedule

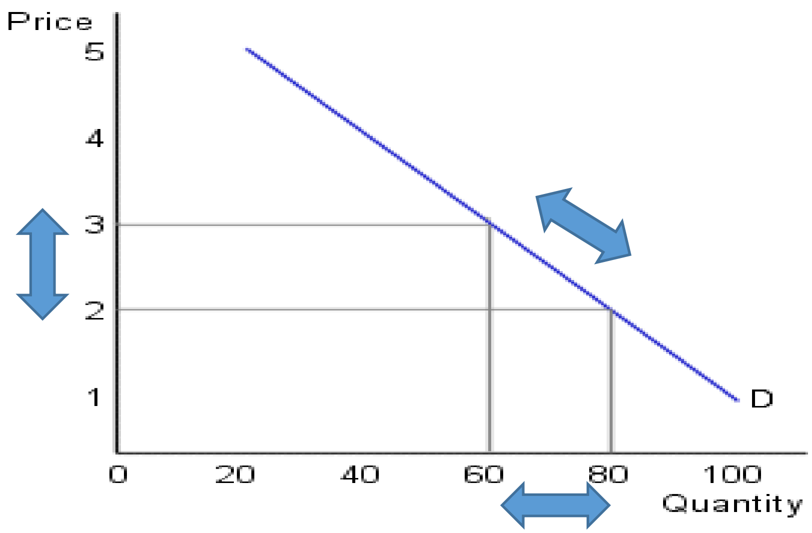
TABLE 1
Demand for Videos

Price	Quantity Demanded
$5	10
$4	20
$3	30
$2	40
$1	50

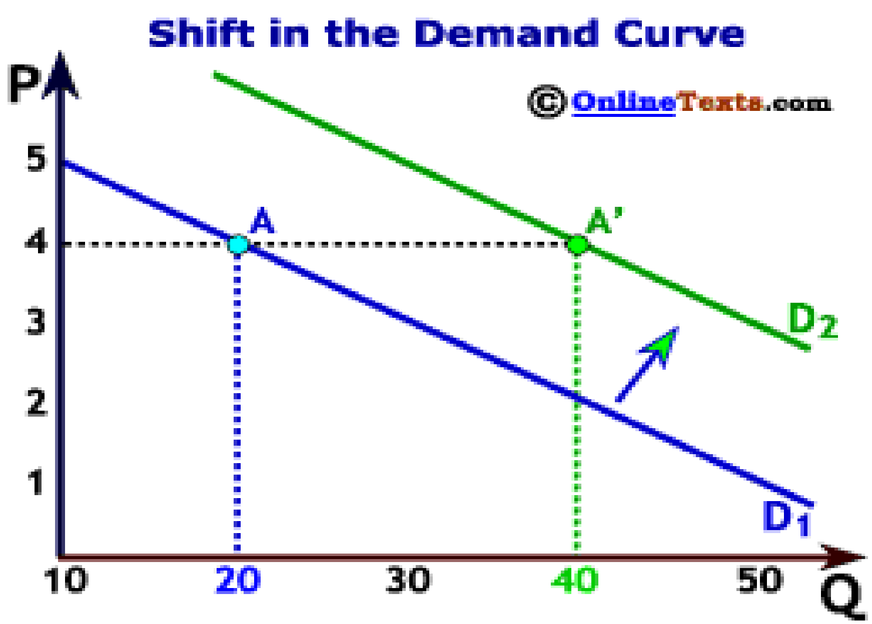
Demand Curve



Change in Quantity Demanded: Movement along a demand curve, caused only buy a change in a good's own price.



Change in Demand: a shift in the entire demand curve, caused by a change in no-price determinants of demand



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Changes in Non-Price Determinants of Demand:

1. Consumer Expectations: The way consumers think about the future will affect the demand for a good.

2. Complementary Goods and Substitute Goods:

- **Complementary Goods:** goods that are normally purchased with other goods. (Milk and Cereal)
- **Substitute Goods:** goods that can be purchased to replace a similar good. (Coke and Pepsi)

3. Changes in Income: if consumer income increases he or she can buy more of a product (Normal goods vs. Inferior goods)

4. Change in Taste and Preferences: consumers buy more products when they are advertised.

5: The Number of Consumers: As population increases, more consumers are buying more products.

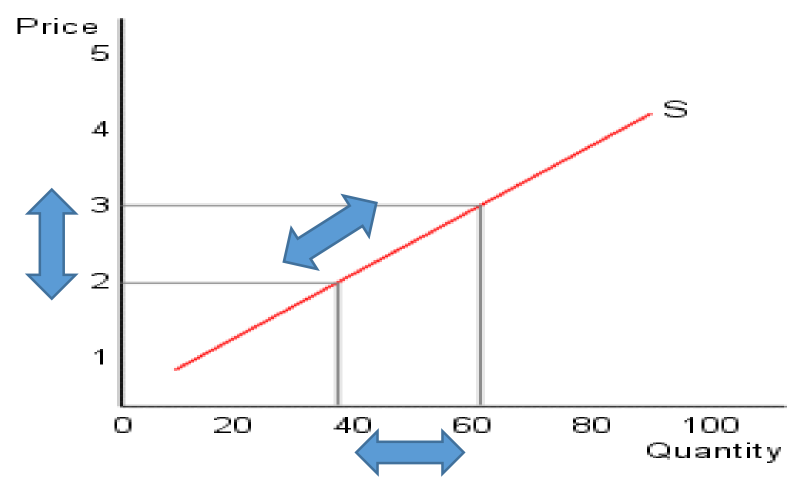
Supply: the amount of a product that would be offered for sale at all possible prices that could exist in the market.

Law of Supply: the quantity supplied varies proportionately with price.

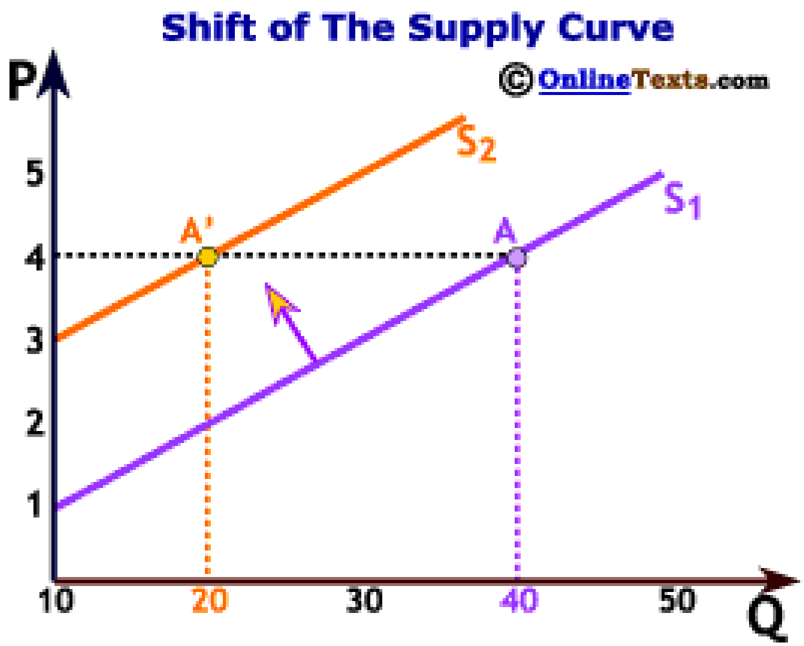
Price Increases **(P↑)** then Quantity Increases **(Q↑)** or

Price Decrease **(P↓)** then Quantity Decreases **(Q↓)**

Change in Quantity Supplied: movement along a supply curve; caused only by a change in a good's own price.



Change in Supply: a shift in the entire supply curve caused by a change in non-price determinants of supply.



Changes in Non-Price Determinants of Supply:

1. Cost of Resources: If the cost of producing a product goes up, then the supply of the product will go down.

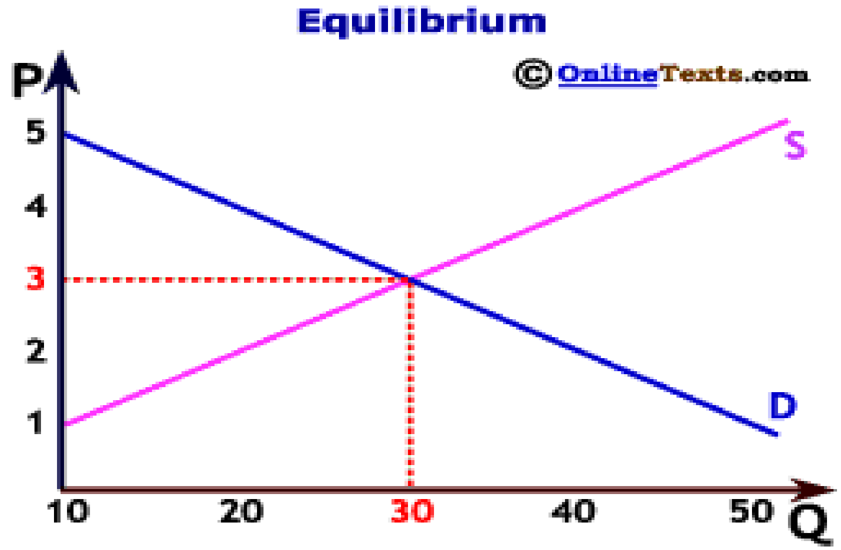
2. Changes in Technology: changes in producer's technology can change the current supply of a product.

3. Changes in Prices of Other Goods: suppose a company makes plastic chair and plastic toys. If the price for plastic chairs goes up, then the result could be too increase of resources to produce chairs thus decreasing the resources used to supply toys.

4. The Number of Producers: changes in the number of sellers in a market can change the current supply of product.

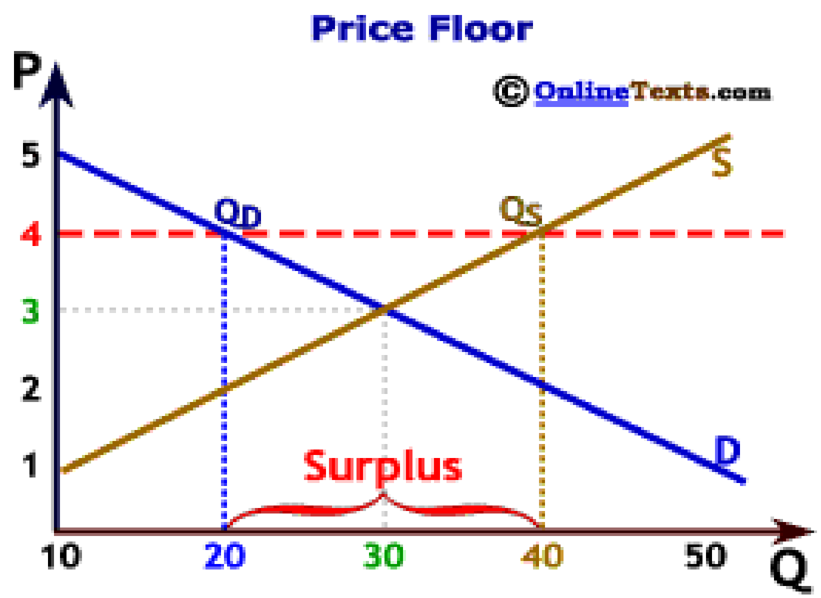
Market or Equilibrium Price

Equilibrium Price: the place where the quantity supplied equals the quantity demanded.

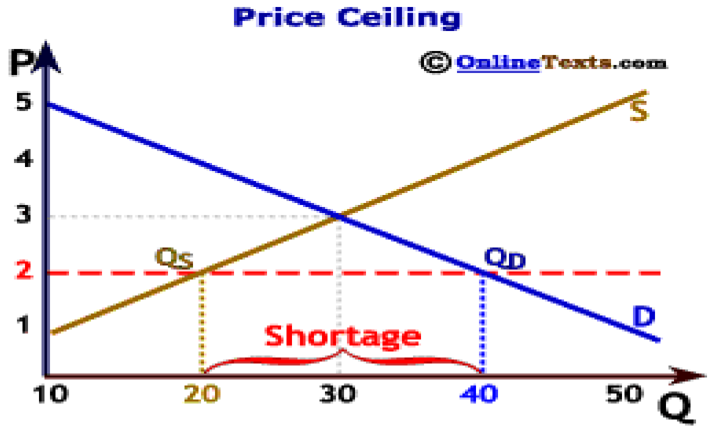


Price Floors and Price Ceilings

Price Floor: when governments set a minimum price for which a product can be sold. To be effective, it must be set above the equilibrium price. However, sometimes a price floor can lead to a surplus of goods. EX. Minimum Wage



Price Ceiling: when government creates a maximum price at which a good can be sold. To be effective, it must be set above the equilibrium price. An increase in demand would then create a shortage of goods and services. Ex. Rent control housing



Elasticity

Elasticity: measures the sensitivity between two economic variables.

Elasticity of Demand: a change in price has a relatively large effect on quantity demanded.

Inelasticity of Demand: a change in price has relatively little effect on quantity demanded. EX. Medicine.

Market Structures

Five Important Features of a Market

1. Number of firms in the markets
2. Barriers of entry, or the ease in which a company enters the market
3. Products created, and whether or not these products are similar, identical, or different.
4. Level of competition and control over price
5. Amount of advertising

Types of Market Structures

1. Perfect (PURE) Competition

- Number of Firms: unlimited
- Barriers to Enter the Market: none or very little
- Products: a single product that is similar throughout the market
- Competition: unlimited, no control over price of good **(PRICE TAKER)**
- Advertisement: none
- Example: Farming-tomatoes, carrots

2. Monopolistic Competition

- Number of Firms: a large number
- Barriers to Enter the Market: low, easy to enter
- Products: products are similar, but not exactly alike.
- Competition: firms must remain aware of their competitor's action, but they do have some control over their own prices
- Advertisement: much
- Example: Airline companies, blue jean companies

3. Oligopoly

- Number of Firms: few (2 to 12 companies controlling a majority of the industry)
- Barriers to Enter the Market: high, difficult
- Products: similar or different
- Competition: much, all firms are aware of one another's prices
- Advertisement: much
- Example: soft drinks, cereal, chips.

4. Monopoly

- Number of Firms: one
- Barriers to Enter the Market: very high, if not impossible
- Products: unique, no substitute
- Competition: none, complete control over price **(PRICE MAKER)**
- Advertisement: None
- Example: local water company, diamond industry

Unit 3: Macroeconomics

Macroeconomics: the study of the economics of a nation as a whole.

Six Measurements of Macroeconomics (SSEMA 1 a, b, c, d, e)

1. Gross Domestic Product or GDP: the market value of all goods and services produced by a country over a specific period of time, usually a year. GDP usually measures all the money spent by a country's consumers, firms, and the government, and then factor in net exports.

- **GDP Formula:** GDP= C+I+G+ X (Exports-Imports)
- C= Consumer Expenditures
- I= Business Investment
- G= Government Expenditures
- X= Net Exports

Other uses of GDP

GDP per Capita: dollar amount of GDP produced on a per-person basis. GDP per Capita measures the standard of living of the people in a country.

Standard of Living: is the rough estimate of the quality of life that people in a country are able to afford.

2. Consumer Price Index or CPI: takes a hypothetical basket of goods and services purchased by a typical household. It then tracks changes in the amount of money required to purchase this same basket of goods and services year after year.

CPI Formula: CPI= (Year 2 basket cost/base year basket cost) x 100

Using the Consumer Price Index (CPI)

- **Inflation:** rise in overall prices in an economy
- **Deflation:** fall in overall prices in an economy
- **Stagflation:** rise in overall prices and unemployment rate in an economy.

Who Benefits and Who Loses from Inflation

Winners: borrowers and people who barter

Losers: savers, lenders, people who live on fixed incomes, people with long-term contracts.

3. Unemployment: a person who is able to work and is looking for work but cannot find a job is considered unemployed.

Natural Rate of Unemployment: is about 5% in the U.S.

Forms of Unemployment

1. **Structural:** unemployment occurs when you have job skill that no one wants, or when a company wants to hire somebody but can't find anyone who has the necessary requirements. **(SKILLS MISS MATCH)**
2. **Frictional:** unemployment due to people leaving a job and looking for one that better fits their interests and abilities. Frictional unemployment is not entirely bad for an economy because it gives people time to find a job that suits their needs.
3. **Cyclical:** people who are laid off as a result of a contracting economy. Cyclical unemployment occurs during a recession, the low part of the business cycle.
4. **Seasonal:** regular seasonal changes in unemployment. Ex. Six Flags

4. Aggregate Supply and Demand

Aggregate Demand: the demand for all goods and services within a country.

Aggregate Supply: the supply of all goods and services within a country.

Shifts in Aggregate Demand

- AD shift to the left: the GDP is falling (higher taxes, saving more)
- AD shift to the right: the GDP is rising (lower taxes, saving less)

Shifts in Aggregate Supply

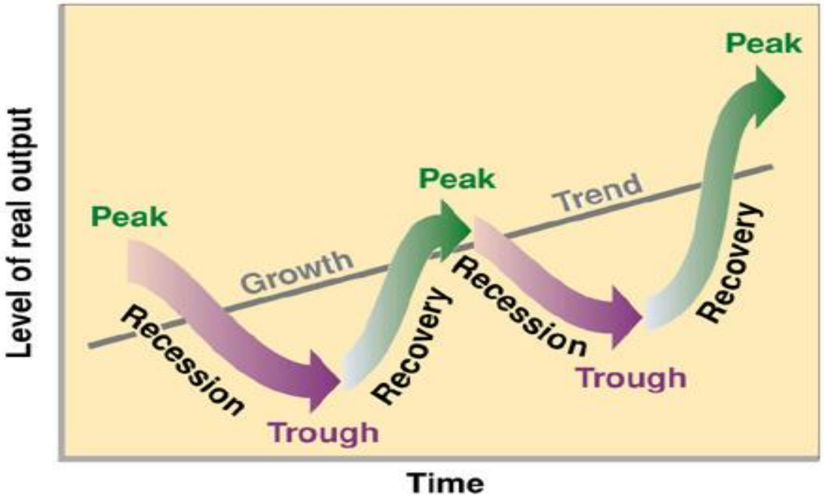
- AS shift to the left: the GDP is falling and inflation (cost of production goes up) could lead to recession
- AS shift to the right: the GDP is rising and no inflation (cost of production goes down, increase in technology)

5. Deficit and National Debt

Deficit: when a country spends more money than it takes in with taxes, in a year.

National Debt: if a government continues to operate a deficit more than 1 year.

6. The Business Cycle: the ups and down of an economy, or how the aggregate demand, aggregate supply, GDP, CPI, national debt, and unemployment rate affect a nation's economy.



Stages of the Business Cycle

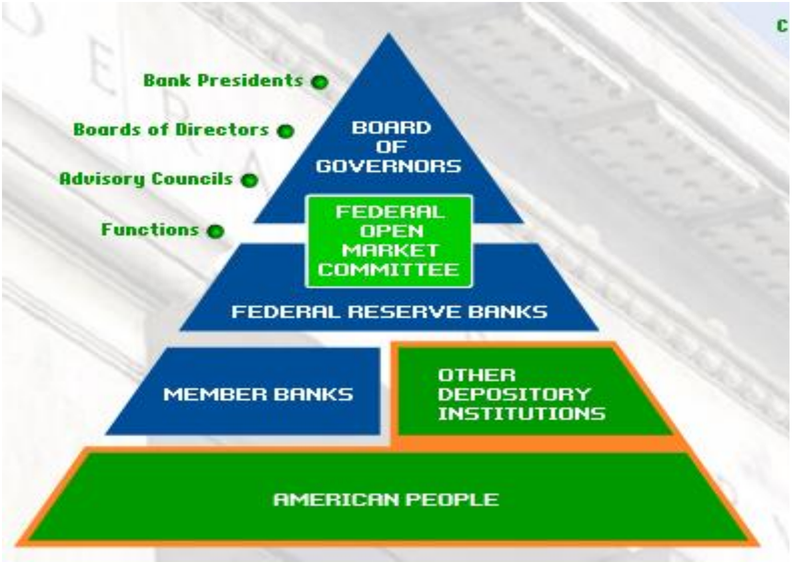
1. **Peak (BOOM):** highest point before recession
2. **Recession:** a decline that lasts at least 6 months
3. **Trough (DEPRESSION):** the lowest point at the end of a recession and before a recovery
4. **Recovery:** the period between the end of a recession and the next peak

<u>Monetary Policy (SSEMA2 a, b, c)</u>

Monetary Policy: refers to changes in the money supply of a nation in order to influence its economy. In the U.S. the money supply is controlled by the Federal Reserve.

The Federal Reserve (also called the Fed): is the bank of banks or the bank of last resorts. The Fed influences monetary policy for two main reasons. It wishes to control inflation and it attempts to curb recessions. The Fed achieves these goals by buying and selling government securities in the open market.

Structure of the Fed



Board of Governors: Presidentially appointed, and independent federal government agency, seven members serving a 14 year term, oversees the operations of the Fed.

Federal Open Market Committee: The Feds key monetary policy maker, makes decisions about economic growth by determining the flow of money (and credit).

Federal Reserve Banks: 12 regional banks with 25 branches, monitors the economy and financial institutions in their districts.

Member Banks: private banks, holds stock in their local Federal Reserve Bank.

Tools use by the Fed to Control the Money Supply

1. Open-Market Operations (BONDS): If the Fed wanted to stimulate the economy to reduce unemployment it could buy securities on the open market. If the Fed wanted to slow down inflation and the economy, it could sell securities on the open market.

2. Discount Rate (DR): The Fed could also manipulate the discount rate, which is the interest rate the Fed charges on loans to banks.

Changing the rate affect whether or not a local bank will take a loan or not from the Fed. If the Fed lowers the discount rate, then local banks will take out more loans and the money supply will increase. If the Fed increases the discount rate, then local banks will not take out more loans and the money supply will decrease (slow down the economy).

3. Reserve Requirement (RR): the percentage of deposits a bank is required to hold in cash **(Usually Around 10%).** The lower the reserve requirement the more local banks can loan money to businesses and individuals, money supply increases. The higher the reserve requirement the less local banks can loan out money, money supply decreases.

How the Monetary Policy Tools Effect the Money Supply

Buy Bonds= Money Supply Increase (Investment↑, GDP↑)
Sell Bonds= Money Supply Decrease (Investment↓, GDP↓)
↑RR= Money Supply Decrease (Investment↓, GDP↓)
↓RR=Money Supply Increase (Investment↑, GDP ↑)
↑DR= Money Supply Decrease (Investment ↓, GDP ↓)
↓DR= Money Supply Decrease (Investment ↑, GDP ↑)

<u>Fiscal Policy (SSEMA3 a, b)</u>

Fiscal Policy: the use of government expenditures **(spending)** and revenue collection **(taxes)** to influence the national economy, specifically GDP.

How Fiscal Policy Tools Effect GDP

↑Taxes= GDP Decrease (↓Consumption, ↓ Investment)
↓Taxes= GDP Increase (↑Consumption, ↑ Investment)
↑Spending= GDP Increase (↑Consumption, ↑Investment)
↓Spending= GDP Decrease (↓Consumption, ↓Investment)

<u>Unit 4: International Economics (SSEIN1a, b, c)</u>

International Economics: the study of how economies in different countries and regions of the world interact and affect one another. International trade allows a country to concentrate on what it does best and trade for what it can't or doesn't produce.

Imports: are those goods that a nation buys from other countries.

Exports: are goods that a nation sells to other countries.

<u>Advantages of International Trade</u>

The terms that economist use to describe a country's economic strengths in relation to another country are absolute advantage and comparative advantage.

Absolute Advantage: when a country can produce more of a good than another country. For example: if the U.S. produces more wood than Canada, then the U.S. has an absolute advantage at producing wood.

Comparative Advantage: when a country can produce a product at a lower opportunity cost than another country. Put another way, given two countries that can both produce sugar and cars, one country should specialize in producing cars and one country should specialize in producing sugar so that they can trade.

Absolute and Comparative Advantage Example:

	Guns per Day	**Butter per Day**
U.S.	**50**	**100**
Canada	**25**	**5**

When looking at the example you should see that the U.S. has the absolute advantage when making guns and butter. But when U.S. looks at the opportunity cost of making Guns or Butter, the U.S realizes that it should make Butter. The U.S. has a Comparative Advantage at making Butter. When Canada looks at the opportunity cost of making Guns or Butter, Canada realizes that it should make Guns. Therefore, when trading the U.S. should trade Butter to Canada in exchange for Canadian Guns. Canada should trade Guns to the U.S., in exchange for U.S. Butter.

Balance of Trade vs. Balance of Payments

Balance of Trade: records the value of all goods and services exported from a country minus the value of all goods and services imported from outside the country.

- **Favorable Balance of Trade or Trade Surplus**: when **country A** EXPORTS more than it IMPORTS. The money flows from **country B** to **country A,** which increases **country A's** GDP and decrease its unemployment rate.
- **Unfavorable Balance of Trade or Trade Deficit:** When **country A** IMPORTS more than it EXPORTS. The money flows from **country A** to **country B**, which decreases **country A's** GDP and increase its unemployment rate.

Balance of Payments: covers all the economic transactions of a country; this includes the trade balance, but it also includes other things such as the transfer of capital goods and changes in country's official reserves.

Free Trade vs. Protectionism

Free Trade: international trade without government restrictions

Protectionism: when governments protects its' country's industries from foreign competition.

Barriers to Trade (Protectionism)

1. **Tariff:** a tax on an imported good
2. **Quota:** a limit on the amount of a good that is allowed in a country.
3. **Standards:** governments employ standards to ensure the safety of imported goods and to make sure these goods comply with local laws.
4. **Subsidies:** a government payment to a local supplier that helps the supplier reduce the cost of producing a good.
5. **Embargo:** when government prohibits the import of a good.

International Organizations and Agreements

Reason for Trade Organizations: since barriers to trade tend to increase prices, many nations often try to reduce the barriers with their economic partners. In theory, this will lead to lower prices for buyers (citizens) within the trading nations, as well as firms that are more competitive on the international market.

Examples of International Organizations and Agreements

The North American Free Trade Agreement (NAFTA): eliminates trade barriers between Canada, Mexico and the United States.

The European Union (EU): eliminates trade barriers between European countries such as France, Germany, Spain and Italy

Association of Southeast Asian Nations (ASEAN): eliminates trade barriers between Southeast Asian Countries such as Vietnam, Thailand, Singapore, Indonesia and the Philippines.

Exchange Rates (SSEIN3 a, b, c, d)

Exchange Rates: measures the price of one nation's currency in the terms of another nation's currency. The exchange rate between two countries depends on how much demand there is for each country's exports at a given time. When there is more demand for a nation A's products, then people need more of nation A's currency to buy their products.

Currency Appreciation: when a nations currency is stronger than another nations currency.

Currency Depreciation: when a nations currency is weaker than another nations currency.

Effects of Currency Appreciation or Depreciation (FOR AMERICANS)

When the dollar is strong,

- Imports increase and are cheaper for Americans to buy
- Traveling to other countries is cheaper for Americans
- U.S. exports decline
- The U.S. trade deficit increases

When the dollar is weak,

- U.S. exports increase and the price of exports go up
- Travel to other countries becomes more expensive for U.S.
- U.S. imports decline and the price of imports increases
- Foreign investment in U.S. businesses increase.

Unit 5: Personal Finance

Main Functions of a Bank is to make money. Then how do they make money? Banks must keep their interest charged greater than their interest earned. **(SSEPF2b)**

- **Interest Charged:** interest the bank charges people or business to borrow money (Personal and Business loans).
- **Interest Earned:** interest the bank pays people or business for the use of their money (Money in savings accounts).

Types of Financial Institutions (SSEPF2a)

1. **Bank:** Banks provide a safe means to store earning. Typically banks offer other services such as direct deposit, check-writing services, debit cards, credit cards and loans (personal, home or business).
2. **Credit Union:** A credit union provides services similar to a bank; the difference is that a credit union only provides these services to its members, and these members own and control the institution.
3. **Savings and Loan:** This organization is like a focused bank; instead of providing a wealth of services, a savings and loan takes deposits and concentrates on the two areas in its name: savings and (mortgage) loans.
4. **Payday Loan Company:** Suppose you need $50 on Wednesday but won't get paid by your job until Friday. Payday companies will give out loans in return for a portion of you upcoming paycheck.

Role of Regulatory Government Agencies

The goal of the government is to provide for the health and safety of its citizens and its businesses. Some regulations protects citizens from corporate abuse.

Two regulatory Agencies are:

1. **Securities and Exchange Commission (SEC):** The SEC is the U.S. government agency that has regulatory authority over all matters dealing with securities. It helps protect investors against fraud committed by companies that sell stocks and bonds.
2. **Federal Depositor's Insurance Corporation (FDIC):** Established by the federal government in 1933 after the bank failure of the Great Depression, the FDIC guarantees deposits in member banks for up to $100,000 per depositor per bank. If the bank fails, the government will make good on your money to the established limits.

Types of Financial Loans and Associated Terms

1. **Mortgage (Home) Loan:** since the cost of a house is often quite high, many people receive a loan called a mortgage to pay for a house. Mortgages are loans that are usually paid out over a considerable length of time, such as 10, 15, or 30 years.
2. **Consumer Loan:** sometimes people just need a little extra money (car, vacation). Consumer loans are not as large as most home loans, but they often have a higher interest rate than a mortgage.
3. **Credit Card:** Money borrowed from a financial institution with the promise to pay back the loan with a higher interest rate. Credit card interest rates are around 18% and the interest typically accrues on a monthly basis.
4. **Interest Rate:** is the amount of money that a lender charges a borrower in exchange for the use of their money.
   - **Simple Interest:** is a rate that is applied only to the value of the principal (interest grows slowly)
   - **Compound Interest:** is interest applied to both the principal and the interest. (you pay interest on interest, grows fast)

Types of Insurance and Associated Terms

1. **Disability Insurance:** provides financial support for the policy holder if they are unable to work because of disabling illness or injury.
2. **Health Insurance:** provides financial support for the cost of private medical treatment.
3. **Liability Insurance:** this is a very broad insurance that covers legal claims against the insured. (auto insurance and homeowners Insurance)
4. **Life Insurance:** when a policy holder dies this provides a monetary benefit to a family or other designated beneficiary, and may specifically provide for income to an insured person's family, burial, funeral and other expenses.

   Types of Life Insurance

   a. Term Life: provides a benefit in the event of death for a certain term of years. (Ex. 20 or 30 years)

   b. Whole Life: provides insurance policy does not end and the premiums paid each month gain in value (like a savings account) so you can withdraw from it in later years.
5. **Workers' Compensation:** this insurance replaces all or part of a worker's wages lost and accompanying medical expenses incurred because of a job-related injury. It is paid for by your employer.

Risk vs. Return on Investing (SSEPF2c)

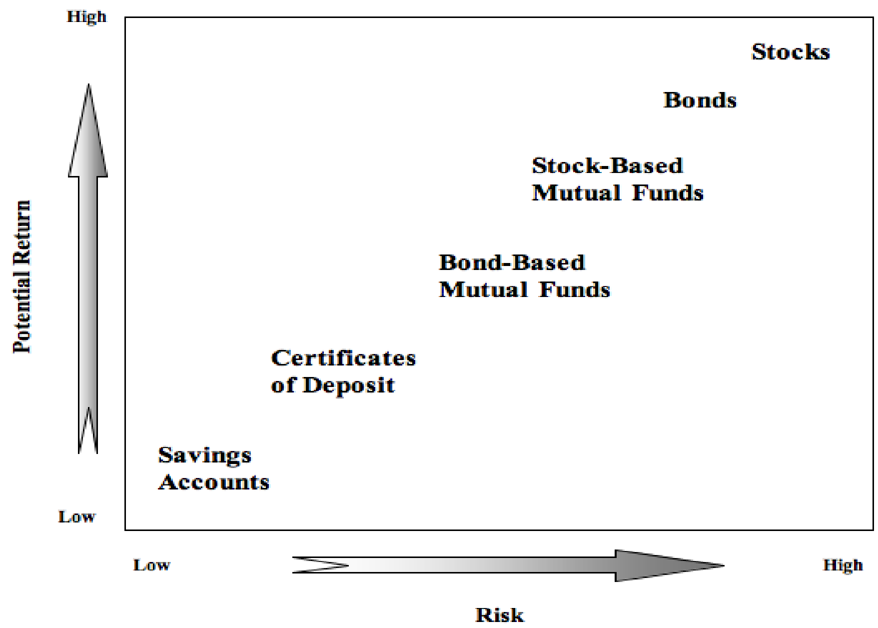
Risk: refers to the chance that an investment might actually end up losing money rather than making money.

Return: refers to the eventual payoff of the investment.

Types of Investments and Associated Terms (SSEPF2d)

1. **U.S. Government Bonds:** When you purchase a bond, you are loaning the government a sum of money in return for interest earned and the original loan. A conservative investment

2. **Certificates of Deposit (CD):** An investment whereby you lend a bank a set amount of money. For the use of your money, you are ensured the return of your loan at maturity and interest over the life of the CD. A conservative investment
3. **Corporate Bonds:** Same as a government bond, just a private business.
4. **Mutual Funds:** A professionally managed, DIVERSIFIED investment that enable investors to pool money with other investors.
5. **Stocks:** Types of securities representing ownership in a corporation. HIGH RISK.



Taxes (SSEPF3 b, c)

Progressive Tax: a tax that imposes a higher percentage of taxation of persons with high incomes than on those with lower incomes, hurts the rich. Example: Income tax

Regressive Tax: a tax that imposes a higher percentage rate of taxation on low incomes than on higher incomes, hurts the poor. Example: Sales tax

Proportional Tax: the tax rate does not change with respect to changes in income. Example: Payroll tax (includes Social Security and Medicare)

Role of Money (SSEMI1)

Medium of Exchange: Anything that is generally acceptable in exchange for goods and services.

Standard of Value: allows you to understand how much something costs in terms of other items. Common measurement in which values are expressed.

Store of Value: an item that maintains value over time. (an apple has a bad store of value)

Forms of Business (SSMI4a)

1. **Sole Proprietorship:** a business owned and run by one person.
   a. **Benefits:** All decision making power belongs to owner and they are easy to start
   b. **Disadvantages:** Owner faces unlimited liability (owner is responsible for loses or debt), hard to raise money and limited life (business dies with owner)
2. **Partnership:** a business jointly owned by two or more people.
   a. **Benefits:** Specialization of owners
   b. **Disadvantages:** Partners face unlimited liability, decision making can be complex, owners share profits and costs
3. **Corporation:** a form of business recognized by law as a separate legal entity having all the rights of an individual.
   a. **Benefits:** Owners have limited liability (not responsible for loses and debt), have long life spans, and easy to raise money for business.
   b. **Disadvantages:** Double taxation (profits that the company make are taxed twice) and corporations are hard to start.