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PERSONAL FINANCE HANDBOOK

GLOSSARY

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ACKNOWLEDGMENTS

Creating a Budget

A tiny drip from your bathtub faucet can send thousands of gallons of water down the drain each year. Your money can dribble away, too.

An \$8 pizza, a \$12 pair of sunglasses, \$20 at the movies—they don't seem like much at the time. But a lifetime pattern of careless spending can be painful, even ruinous. Money problems can cause stress, wreck personal relationships, and trap people in jobs they don't like just so they can pay their bills. What a way to live your life!

Start a better way. Budget your money.

Calculate Income Versus Spending

Budgeting begins simply with writing how much money you receive and how much you spend. Try these steps:

Four Steps to Successful Budgeting

- 1 Make a list of your earnings like the one below right. Then calculate your total monthly income.
- 2 For one month, keep a record of everything you spend money on, from car payments to candy bars. You can jot down each purchase on a scrap of paper, and toss all the scraps in a shoebox. Or carry a small notebook to list items and amounts.
- 3 At the end of the month, organize the records of your purchases into categories such as food, clothing, entertainment, car payments, and so on. Find the total for each category.
- 4 On a sheet of paper or on a computer spreadsheet, make a list similar to the one on the next page. Fill in the expenditures and the amounts. Then calculate your total monthly spending.

This record of your income and spending can be very revealing. Do you have a little money left over at the end of the month? Or do you spend more than you earn? Experts recommend that you put about 10 percent of your income into savings. If you have very little left over—or worse, if you spend more than you earn—it's time to create a budget.

Living Within Your Budget

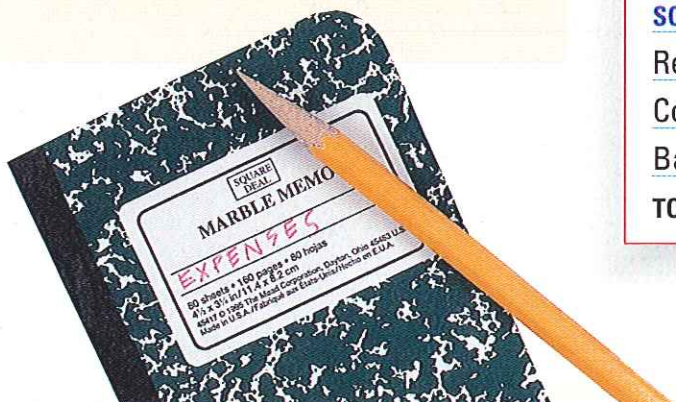
Look at your expenditures and find areas in which you can cut spending. For instance, buy a frozen pizza from the grocery store instead of ordering take-out. Get together at friends' houses instead of at the mall. Shop end-of-season clothing sales. And be careful with automatic teller machines! ATMs make it too easy to drain your bank account.

Fill in the first two columns of a chart like the one on the next page. Then in the third column, enter the reduced amounts you think you can spend. Keep cutting until you can reserve 10 percent of your earnings as savings. This is your new **budget**, a plan for saving and spending.

If you have a difficult time staying within your budget, enlist a friend or family member to review your expenditures each week to help keep you on track. Distinguish between “needs” and “wants.” Try not to rationalize impulse buying. After all, you'll only be kidding yourself.

My Earnings

SOURCE	MONTHLY INCOME
Restaurant job	\$392
Computer tutoring	\$68
Baby-sitting	\$20
TOTAL	\$480



My Spending and Saving Plan

MONTHLY EXPENDITURE	CURRENT EXPENSES	BUDGET
Car		
Payment	\$120	\$120
Insurance	\$42	\$42
Gasoline	\$27	\$14
Maintenance (estimated)	\$30	\$30
Food		
Lunches at school	\$58	\$35
Snacks	\$34	\$20
Movies		
Theater	\$28	\$7
Rentals	\$4	\$8
Clothes		
Shoes	\$16	\$7
Other clothes	\$39	\$25
Savings for school trip	\$50	\$50
Magazine subscription	\$5	\$0
CDs	\$24	\$12
Gifts	\$0	\$35
Savings	\$0	\$48
Emergencies	\$0	\$27
TOTALS	\$477	\$480

Costs such as car payments are fixed.

Bike or carpool instead of driving. Savings: one tank of gas a month.

Cut out chips at lunch. Savings: \$23 a month! (It's healthier, too.) Even better: Pack a lunch.

Items such as new clothes are optional expenses. Wear last year's shirt for one more season.

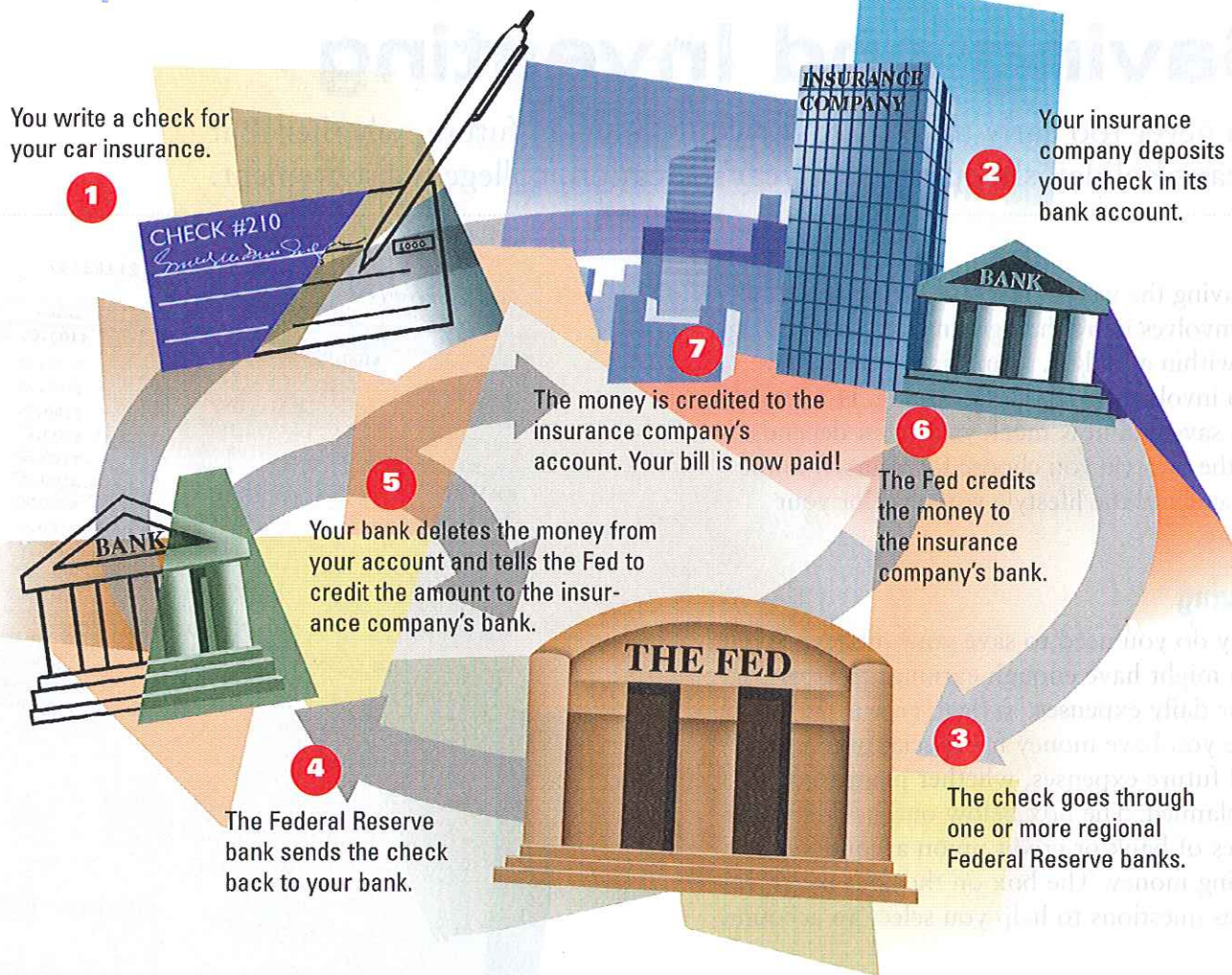
Borrow magazines from friends or the library. Savings: \$5 a month

By cutting expenses, you can set aside money for savings, holiday gifts, and emergency needs.

Check Your Understanding

- Key Terms** Why is it important to create a budget?
- Review** Reread the suggested ways for saving money, and brainstorm others to add to the list.

Journey of a Personal Check



your financial records for the past three years. Also, your bank could make a mistake. Bank records are rarely wrong, but it does happen. The ATM receipt you shoved in your wallet is your proof that you withdrew \$50, not \$500!

Balancing Your Checkbook

Each month you'll receive a statement, a record of your checking account activity during the last month. It lists deposits, withdrawals, ATM transactions, interest paid, and fees charged. Any checks you wrote that were cashed during the month may be returned to you in the statement, although some banks keep the originals in storage. The diagram above shows where your check goes before it is returned to you.

It's extremely important to balance your checkbook every month. That means comparing the transactions in the bank statement to your own records to make sure they agree. Most statements have a worksheet on the back to help you balance your account in a few easy steps. If you have any trouble balancing your checkbook, someone at your bank's local branch office can assist you.

Check Your Understanding

- 1. Key Terms** (a) How is your account balance different from your **minimum balance**? (b) Why is it a good idea to use a **check register**?
- 2. Evaluate** If you were going to open a checking account today, which criteria listed above would be most important and least important to you? Why?

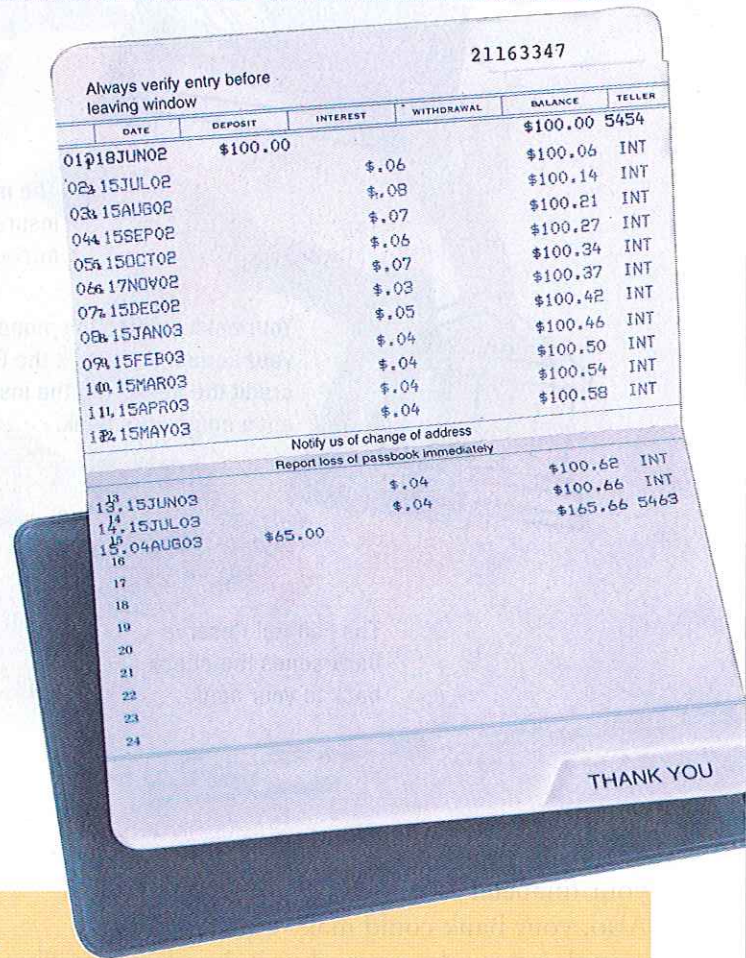
Saving and Investing

It's never too early to prepare for your financial future, whether that means holiday shopping, next year's vacation, college, or retirement.

Paving the way to a sound financial future involves more than getting a job and living within a budget. Managing your money also involves saving and investing. How much you save and how much you invest depends on the lifestyle you choose for yourself in the present and the lifestyle you plan for your future.

Saving

Why do you need to save your money? While you might have enough earnings to meet your daily expenses, saving is a way to make sure you have money for special purchases and future expenses, whether planned or unplanned. The box below outlines the main types of bank or credit union accounts for saving money. The box on the next page provides questions to help you select an account.



Types of Accounts

Banks offer several ways for you to save your money. Each account has different features and restrictions.

Savings Accounts It's a good idea to use a **savings account** for savings that you may need to use within a short period of time. When you deposit money in a savings account, your bank or credit union will record deposits, withdrawals, fees, and any **interest** earned by your account. The interest rate is the rate of interest an account will earn on funds deposited for a full year.

Money Market Accounts A money market deposit account (MMDA) will let you save and write a limited number of checks. It usually earns higher interest than a savings account, but also usually requires a higher minimum balance and has more fees. MMDAs have a variable interest rate, which can be a benefit or a drawback depending on whether rates move up or down.

Time Deposits A time deposit, such as a certificate of deposit (CD), offers a guaranteed interest rate for a fixed period of time. In general, the longer the term, the higher the interest rate. Most banks will charge you a high penalty fee if you withdraw from the CD account before the term expires, or "matures." Open a CD account only if you think you won't need access to that money during the term of the CD.

How to Choose**a Savings Account****Deposits and withdrawals**

- What is the minimum balance?
- When can I make my first withdrawal?
- How many deposits and withdrawals am I allowed to make each month?
- Am I limited in the dollar amount of my withdrawals?
- What are the penalties for early withdrawal?
- Can I use an automated teller machine (ATM) to make deposits and withdrawals?

Interest

- What is the interest rate?
- Is it compounded? How frequently?
- What is the minimum balance required to earn interest?
- When is the interest paid?

Fees

- What fees apply?
- What is the minimum balance needed to avoid fees?
- Do certain transactions carry penalty fees?
- What ATM fees apply?

Truth in Savings The **Truth in Savings Act** is a federal law that requires banks to provide you with certain information about the accounts they offer, including

- annual percentage yield—the amount of interest you will earn on a deposit
- interest rates
- fees and other charges that apply
- features, such as the minimum balance needed to avoid fees

Use this information to help you choose the bank and the type of account that is best for you.

Investing

Saving is a great way to plan for your future. Many experts advise saving 10 percent of your earnings annually. While keeping your money in a

savings account is safe, investing your money can give your dollars the opportunity to grow. Bonds, stocks, and mutual funds are among the many investment options available to you.

Bonds A **bond** is an IOU issued by a corporation or by the government as a way for them to borrow money. When you buy a bond, you buy the right to receive a fixed amount of money at some future date as well as an annual interest payment. The face value of the bond is the fixed amount agreed upon. Corporate bonds can be risky, depending on the financial health of the firm. If the firm goes bankrupt, it won't be able to pay what it owes you. Government bonds are more secure because the government is unlikely to declare bankruptcy.

Government bonds can be purchased through your bank and are available in small denominations. Interest earned is subject to federal tax, but not state or local taxes. They are a secure investment, although the return is low compared to other types of investment.

A word about interest rates Interest rates are expressed as percentages and indicate the rate of interest an account will earn on funds deposited for a full year. Interest is compounded when it is added to your principal. In effect, compound interest is interest on interest.

Stocks A popular form of investment, **stock** represents ownership in an organization. If a firm issues and sells 10,000 shares of stock, and you purchase 1,000 of them, you own 10 percent of the firm. By purchasing a corporation's stock, you are buying the right to receive a fraction of its profit.

The two potential benefits from owning stock are dividends and capital gains. **Dividends** are portions of a corporation's profit paid to stockholders. **Capital gain** is the profit you make if you can sell your stock for more than you paid for it. Not all stocks pay dividends. Some companies reinvest their profits, rather than pay out dividends. Such "growth" stocks are attractive to investors because they expect the stock price to increase as the company grows.

Stock is available in two forms: **common stock** and **preferred stock**. Preferred stock earns dividends fixed at an annual rate, whereas any dividends earned by common stock are dependent on market fluctuations. Preferred shareholders are paid dividends before common shareholders.

Corporate stocks are bought and sold on stock markets. Most investors rely on the services of a

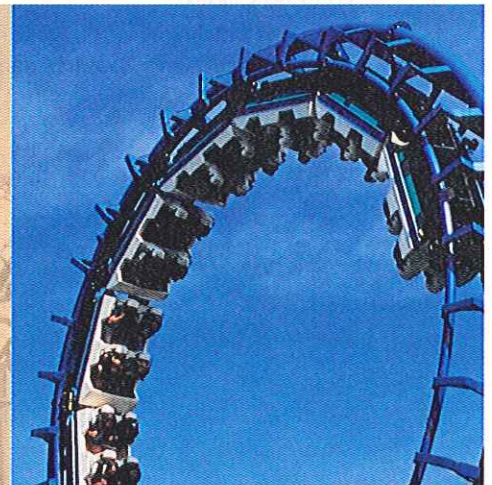
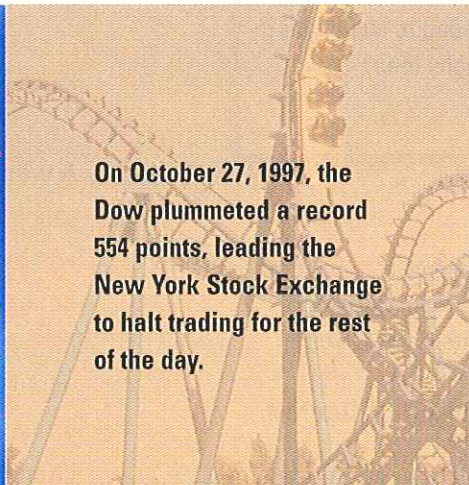
stockbroker to purchase stock. You'll want to compare reputations, transaction fees, insurance, and services of various brokerage firms before you choose one. Many people rely on the advice of a professional financial advisor or investment advisor when choosing stock. Make sure you check an advisor's credentials.

Stocks are riskier than bonds, because stock price is based on the expectation of profit. If the firm turns out to be less profitable than expected, dividends will be smaller than expected and the market price of shares may decrease. You may find yourself selling your shares for less money than you paid for them.

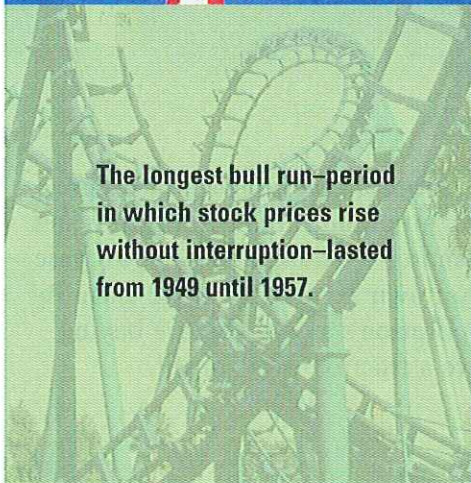
Experts warn that if you get into the stock market, you should be prepared to ride the ups and downs. Sometimes you will win, and sometimes you will lose. And don't go into the stock market



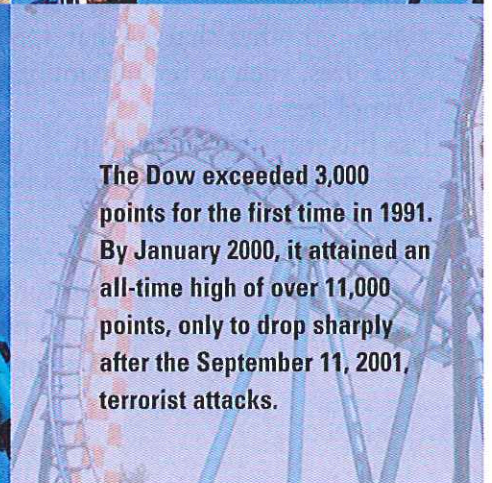
On October 27, 1997, the Dow plummeted a record 554 points, leading the New York Stock Exchange to halt trading for the rest of the day.



The longest bull run—period in which stock prices rise without interruption—lasted from 1949 until 1957.



The Dow exceeded 3,000 points for the first time in 1991. By January 2000, it attained an all-time high of over 11,000 points, only to drop sharply after the September 11, 2001, terrorist attacks.



Comparing Investment Options

Type of investment	Income generated	Growth potential	Risk level
Bonds	very steady	little or none	low risk
Common stock	variable	good	high risk
Preferred stock	less variable than common stock	good	moderate risks

to make a quick profit for something crucial, like school tuition. If you do, the stock could take a tumble right at the time you need to sell it, and you could lose all of your investment.

Mutual Funds You might choose to invest your money in a **mutual fund**, which is an investment in an investment company. Investment companies sell stock in their mutual funds. Instead of producing a product or service, however, they take the money they receive for their stock and invest it in the stocks and bonds of other corporations. The mutual fund will combine the money you invest with that of other investors in order to make substantial investments in other companies.

A major benefit of investing in a mutual fund is that it provides instant diversification to your portfolio. This means that the money you invest in a mutual fund is spread out among all the different companies in which the mutual fund invests its money.

Mutual funds include stocks of varying risk levels. There are three categories of mutual funds:

- *Money market funds* are short-term, low risk investments. The money you invest will be used to make short-term loans to businesses or the government. (Do not confuse money market funds with money market deposit accounts, which are described on page 506.)
- *Bond funds* are, as the name implies, investments in bonds. They usually have higher potential yields than money market funds, but they are also riskier.
- *Stock funds*, though riskiest, offer the highest potential returns. As long-term investments, they perform better than money market funds and bond funds.

As with any investment, you must do your homework before you commit to a mutual fund. Even though a professional money manager will control your investment, mutual funds are not without risk.

Risk Versus Payout You have many options when it comes to investing your money. What you choose depends on what rate of return you'd like on your money and how much risk you are willing to accept. You also need to consider the length of your investment, the ease of making the transaction, and any tax burdens the investment may carry. In general, the safer the investment, the lower the return. High-risk investments have the potential for high returns because investors demand higher rates of return to compensate for the risk they face.

Despite stock tips, hype about hot stocks or "sure things," you should not approach investing as if you were a gambler in a casino. Informed decisions and careful planning are your best strategies for successful investment.

Check Your Understanding

1. **Key Terms** (a) What is the difference between a **bond** and a **stock**? (b) How does a **dividend** differ from a **capital gain**? (c) Explain the difference between **common stock** and **preferred stock**. (d) What makes a **mutual fund** an attractive investing option?
2. **Identifying Alternatives** Think about your future financial needs. Are you planning to buy a car? Do you need money for an apartment deposit or college tuition? Use the information on these pages to design a savings and investment plan that will help you reach your goals.

Financial Institutions and Services

If you have money, you're going to need the services of a bank or credit union—to save money, to manage it, and transfer it to others. If you need more money, a bank can lend it to you.

The city or town you live in probably has many banks, both large and small. Behind all that brick and chrome and glass, what are their differences? How do you choose? Begin by familiarizing yourself with the different types of banks and the various services they offer, then determine which one best suits your needs.

Types of Financial Institutions

A bank is an institution for receiving, keeping, and lending money. There are four basic types of banks:

- *commercial banks*
- *savings and loan associations*
- *savings banks*
- *credit unions*

Each offers a different range of services, although recent deregulation of the American banking industry has made them more similar than different. Whatever type of bank you choose, make sure that it is federally insured. That way, if the bank fails, you won't lose your money. Federal deposit insurance protects your deposit up to a limit of \$100,000.

Banking Services

Automated teller machines (ATMs) and bank cards

A bank card and an ATM allow you 24-hour access to your accounts, although services and withdrawal amounts are limited.

Debit cards

Debit cards are used much like checks. When you make a purchase with a debit card, money is electronically deducted from your account and credited to the seller's account. Many stores let you use your ATM card as a debit card.

Credit cards

You can obtain a credit card that is directly linked to your bank account. Payments are automatically withdrawn

from your bank account, making payment of your credit card bill more convenient.

Overdraft privileges

Your bank may give your checking account a small line of credit to protect you from bouncing checks.

Electronic banking

Using a computer and a modem, you can do much of your banking without entering a bank.

Direct deposit

You can move money directly from one account to another by authorizing a wire transfer.

Automatic withdrawal

You can arrange to have your regular bills, such as your car payment, deducted directly from your account.

Commercial Banks The bank that provides the most services and plays the biggest role in our economy is the **commercial bank**. Commercial banks provide checking accounts, savings accounts, and money market accounts, and they accept time deposits (CDs). Individuals as well as businesses maintain accounts at commercial banks. Commercial banks also make loans to both individuals and businesses. Many have begun to offer stock brokerage services as well.

Savings and Loans **Savings and loans associations**, as the name implies, traditionally accepted deposits from customers and specialized in offering long-term financing for homes. They were originally intended to promote savings and home ownership. Recent deregulation, however, has expanded scope of their services.

Savings Banks **Savings banks** accept deposits and specialize in low-risk investments, such as government bonds. Some of the larger ones offer some of

How to Choose A Bank

It can be challenging to find the right bank or credit union to suit your needs. When choosing a financial institution, be sure to get answers to the following questions:

- Is it conveniently located?
- Does it have convenient hours?
- Are ATMs available?
- What services does it offer?
- How high are the fees?
- Is it federally insured?

the same services as commercial banks, such as checking accounts.

Credit Unions **Credit unions** are nonprofit banks owned by their members, usually employees of a single organization such as a company or trade union. Their ties to industry and their tax-exempt nonprofit status enable credit unions to pay slightly higher interest rates than commercial banks. They also finance consumer loans at competitive rates.

Other Financial Institutions You may also turn to mutual fund companies, brokerage firms, and insurance subsidiaries for some financial services. Mutual fund companies and brokerage firms are useful for investing. Insurance companies can provide you with tax-deferred savings and may let you take out loans against your insurance policy. These institutions, however, do not offer a full range of banking services.

Wire transfers

Your employer can credit your pay directly to your account, giving you speedy access to your earnings.

Business and consumer loans

Banks can help you finance your education, automobile purchase, or other large purchase.

Investment services

You can purchase stocks through the brokerage services now offered by many of the larger commercial banks.

Safe deposit boxes

You can secure important documents and valuables by renting a safe deposit box, which is kept in the bank's vault.

Check Your Understanding

1. **Key Terms** How does a **commercial bank** differ from a **savings and loan association**? How does a commercial bank differ from a credit union?
2. **Organizing Information** Review the chart on banking services. Rank them in order of importance to you.

Credit and Debt

Credit gives extra punch to your purchasing power; but reckless handling of credit can bury you in debt.

Seems like everyone wants to lend you money. Each year, credit-card companies bombard American consumers with alluring offers of easy money. “Congratulations—you are qualified to receive \$10,000!” “You will not be turned down!” “Why postpone your dreams? Apply today.”

Why do they want to lend you money? Because that’s how they make money. Banks and other financial institutions lend money to both businesses and consumers. Borrowers, in return, pay fees, and those fees can be hefty. If you must borrow—for a car, for college, or for other expenses that you lack the cash to cover—learn how to borrow wisely.

Are You Credit Worthy?

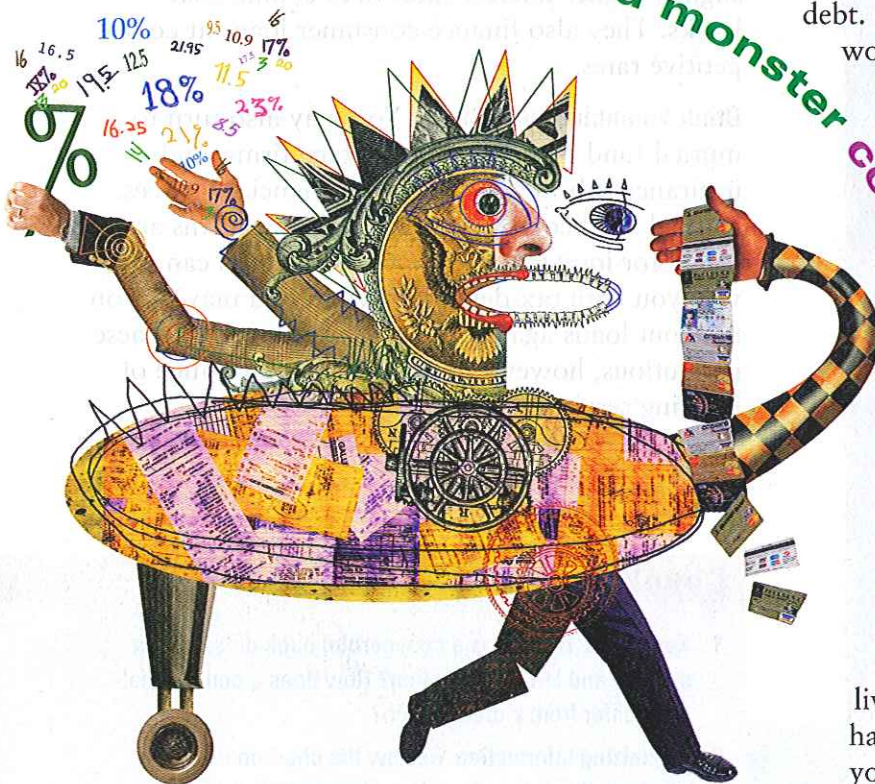
Loans, credit cards, and other methods of deferred payment are known as **credit**. For a bank or other institution to extend you credit, it must be confident that you will repay all the money you borrow, plus any additional interest and fees. You, on the other hand, must understand what you’re getting into before you sign on the dotted line.

Creditors, the folks who lend you money, aren’t going to give you money just on your word. They are going to ask many questions about your financial past and demand evidence of your financial health to determine if you are able and willing to pay them back.

The Four Cs Creditors look for *capacity*, *capital*, *character*, and *collateral* when judging your credit worthiness. *Capacity* is your ability to repay the debt. Creditors will want to know where you work, how long you’ve worked there, and how much money you make. They will also want to know how much you spend. *Capital* is your regular income plus the money in your savings and checking accounts.

Character is your willingness to repay your debts. Creditors will obtain a record of your past borrowing, your bill-paying habits, and your ability to live within your means. Much of this information they will obtain from an organization called a **credit bureau**. If you fail to maintain a good **credit rating**, you will find it very difficult to obtain credit. Creditors will also look for signs of stability in your life. How long have you lived at your current address? How often have you moved in the past few years? Do you own or rent your home?

Don't let the credit card monster consume you!



Some loans require **collateral**, which is property used to secure a loan. If you default on the loan or fail to repay it, the creditor takes ownership of the collateral. Often the item that the loan is used to purchase serves as collateral. This is usually the case with car loans and home mortgages. If you fail to keep up with your car payments, you may find yourself walking to work.



assistance income when establishing your credit worthiness. Nor can creditors discriminate against you for exercising certain rights, such as filing a billing error notice with a creditor.

Maintaining Good Credit As you begin to make purchases with loans and credit cards, credit might seem to you like free money, but it's not. When you borrow money from a financial institution, you are, in effect, renting money. Eventually you have to pay it all back, along with interest and fees, called **finance charges**. Finance charges can be quite expensive and add up rapidly. If you're not paying attention, you can quickly lose control of your debt.

Making late payments, missing payments, or borrowing more than you can pay back will damage your credit history. A poor credit history can haunt you for seven years or more. If you are irresponsible with your credit card, you're going to have a hard time financing that new car you plan to buy.

To maintain good credit, you need to develop good credit behavior. Don't overborrow or overspend, make sure you pay your bills promptly, and protect your credit cards from loss or theft. It is also crucial for you to understand the different forms of credit available to you and how their finance charges are calculated. That way, you can make sound decisions that will keep you out of financial hot water.

Four Steps to Establishing Credit

- 1 Maintain savings and checking accounts.** While these are not credit, they can be used to show that you know how to manage your money. You can use your canceled checks to prove that you pay bills promptly.
- 2 Get a department-store charge card.** Store cards, which can be used only to make purchases from that particular retailer, are usually easier to obtain than bank credit cards or other forms of credit. Responsible use of a store charge card can help you establish good credit.
- 3 Use your bank deposits as collateral for a credit card.** Your limit, or the maximum amount you're allowed to borrow, would not exceed the amount of your deposits.
- 4 Have someone with good credit cosign your credit application.** A cosigner agrees to pay your debt if you fail to do so. With a cosigner, you can use someone else's good credit to establish your own.

Information Creditors Can't Use The federal government has passed laws protecting consumers from being discriminated against when applying for credit. The Equal Credit Opportunity Act forbids creditors from using age, gender, marital status, race, color, religion, national origin, or public

Types of Credit

Different forms of credit are suited to different purposes. You know that you shouldn't use your credit card to pay for a new car. And you wouldn't take out a loan to pay for dinner and a movie on Friday night. There is much more you need to know, however, about credit.

Loans Loans come in two forms: single-payment loans and installment loans. Single-payment loans are short-term loans paid off in one lump sum. Installment loans, on the other hand, are repaid at regularly scheduled intervals, or installments, usually monthly. Each installment payment is for the same amount. Each payment is applied to both the principal (the amount borrowed) and the interest (the fee for borrowing the

money). Although you pay the same number of dollars each month, at first, more of the payment goes toward interest than principal. An automobile loan is an example of an installment loan. (See "Buying a Car" on pages 520-521.)



Loans that require collateral are called secured loans. Loans that don't require collateral are called unsecured loans. Credit for these loans, also known as signature loans, is based on the borrower's references and credit rating. A Guaranteed Student Loan is an example of an unsecured loan.

Credit Cards One of the most popular forms of credit in the United States today is the credit card. It is a form of open-ended, or revolving, credit. A credit card lets you borrow money on an ongoing basis, up to a prearranged limit, to buy goods and services. Any amount you pay back you are able to reborrow.

Many people find credit cards more convenient than cash. You can order movie tickets, buy clothes, pay for a meal, or just about anything else

using a credit card. Bank cards such as Visa and MasterCard are the most widely accepted.

As a cardholder you receive a monthly bill and are required to pay at least some portion of the balance (the amount you owe) each month. Annual fees, interest rates, and other charges vary greatly among credit card issuers, so you should carefully compare the terms of several card offers before making any commitments. Some nonprofit organizations on the Internet offer listings of good credit card deals and guidance in applying for them.

Another form of credit is a travel and entertainment (T&E) card. It is similar to a credit card, but the borrower is required to pay the total amount owed each month. Because you pay your debt in full each month, you aren't charged interest. Usually you are required to pay an annual membership fee. American Express and Diners Club are popular travel and entertainment cards.

Finance Charges and Terms

As a borrower, you pay for the privilege of borrowing money. Interest is the primary fee for borrowing money. Just as a bank will pay you interest to use your money, you must pay your creditors to use theirs. A creditor, however, may charge you additional fees. The total dollar amount you pay to use credit is called the finance charge. It includes interest and other fees that may apply.

Annual Percentage Rate An important number for you to understand when applying for credit is the **annual percentage rate (APR)**. The APR tells you what your credit will cost. It is the finance charge expressed as an annual rate. Comparing the annual percentage rates, rather than the interest rates, offered by lenders is a good way to compare loans. Be sure you understand how your lender calculates the APR for the credit cards you are considering.

Pay your bill in full by the due date and pay no finance charge.

The APR for this card is fairly high. See if you can find a lower one.

Pay your bill on time to avoid late fees.

Previous Balance	New Purchases, Fees, Advances & Debits	Finance Charge (Due to Rate)	Payments & Credits	New Balance	Balance Subject to Finance Charge** (Finance Charge Balance)	Minimum Payment Due	Annual Percentage Rate
70.61	70.07	.00	70.61	70.07	.00	10.00	18.15%
Periodic Rate	Corresponding Annual Percentage Rate	Balances to which Applicable					
*1.650%	19.800%	ADVANCES					
*1.512%	18.150%	PURCHASES, FINANCE CHARGES & FEES					
SEND PAYMENT TO: FIRST CARD							
1234 567 890 123				WILMINGTON, DE 19886-5191			
Account Number				P.O. BOX 0000, UNIONDALE, NY 11553-0999			
05/24/04				In the event of a billing error please write to the address above			
06/13/04				1-800-000-0000			
Date Payment Due				For Customer Service in U.S. call			
7,000				All Others			
Billing Date				If card is lost or stolen, please call:			
				Continental U.S., Puerto Rico, Virgin Islands: 1-800-000-0000.			
				All other locations call collect: 555-000-0000.			
* Periodic rates may vary. ** See reverse side for explanation and important information. Please allow sufficient time for mail to reach First Card.							
Transaction Date	Posting Date	Reference	Merchant Name or Transaction Description	Card Type	New Purchases, Fees, Advances & Debits	Payments & Credits	
04/21	04/25	0824101541029	HOLE IN THE MALL PROVIDENCE	RI V	12.02		
04/26	04/26	0800201915029	THE NEW SHANG HAI RESTRNT BOSTON	MA V	28.05		25.31
	04/29	0040100000029	CREDIT ADJUSTMENT - BALANCE DECREASED				45.30
	05/03	1003401271E03	PAYMENT - THANK YOU FOR YOUR PAYMENT PROVIDENCE	RI V	30.00		
05/18	05/18	0811301723E21	M. GARBOLINO				

Comparing APR

EXAMPLE a \$150,000, 30-year home mortgage

	Plan A	Plan B
Interest rate	6.0%	6.0%
Points	0	2.0
Other closing costs	\$1,500	\$1,000
APR	6.094	6.278

Terms Another important factor to consider is the term, or length, of your loan. For example, if you arrange to pay for your new car in three years rather than five, your monthly payments will be higher, but in the end, you will pay less interest.

How to Choose a Credit Card

When selecting a credit card, be sure you understand all the terms of the credit-card offer before you make a commitment.

What is the APR? You may want to choose the card with lowest APR, especially if you carry a balance on your account.

Is the APR fixed or variable? A fixed APR will stay the same. A variable APR will rise and fall as the prime rate or other economic indicator changes.

What is the periodic rate? The periodic rate is the interest rate that is applied to your account balance each billing period.

How are finance charges computed? Most creditors use your average daily balance to determine the finance charge. The average daily balance is calculated by adding up all daily balances and dividing them by the number of days in a billing period.

Is there a grace period? Many creditors will charge you no interest if you pay your bill in full before the due date.

What fees does the creditor charge? Many credit cards charge an annual membership fee, as well as fees for late payments, cash advances, or exceeding the credit limit.

Comparing Terms on an Installment Loan

EXAMPLE a \$13,500 loan with 12.5% interest

	3-year loan	5-year loan
Number of monthly payments	36	60
Amount of each payment	\$451.62	\$303.72
Total interest paid	\$2,758.32	\$4,723.20

Know Your Rights Credit card issuers and other lenders are required by **Truth in Lending laws** to disclose certain information. Institutions extending loans must tell you the exact finance charge on your loan. Credit card issuers must disclose monthly interest rates, the APR, and the method of finance charge calculation.

The Fair Credit Reporting Act protects you from errors on credit reports issued by credit bureaus. You are entitled to know the reason for any negative activity on your report and to have any errors corrected. Similarly, the Fair Credit Billing Act lets you dispute and correct billing information.

If you find yourself in debt and subject to debt collection, be aware that debt collectors must ensure the accuracy of the bill in question and allow you to dispute the bill if you believe it to be in error. Debt collectors may not threaten, harass, or otherwise abuse you in pursuit of the debt.

Check Your Understanding

- Key Terms** (a) Name two types of **credit** and explain how they are different. (b) How does **collateral** discourage borrowers from defaulting on a loan? (c) How do the Equal Credit Opportunity Act and **Truth in Lending laws** protect consumers?
- Analyzing Information** Analyze the credit card offers your household receives in the mail or that you see advertised. Make a chart comparing their features and finance charges. Identify and explain which credit card is the best deal.

Paying for Education

Learning how to finance your tuition is an education in itself.

By the time you finish paying for college, you may have shelled out enough money to buy a luxury car, a small yacht, or perhaps even a house. And that doesn't count the cost of graduate or professional school.

The car won't last, however, while education affects your earning power for the rest of your life. So the short-term sacrifice is generally worth the potential long-term gain. But how on Earth are you going to pay for it?

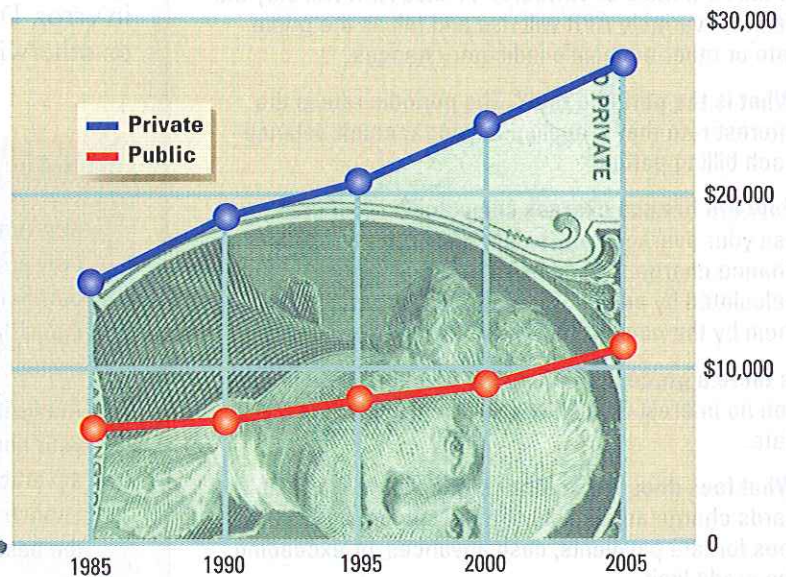
Decisions, Decisions

The hard facts about paying for college are these: even after adjusting for inflation, the average cost of tuition at public and private universities nearly doubled between 1990 and 2005, while average salaries rose only slightly. **Tuition** is the cost of enrolling in courses. In recent years, schools have added on many other costly fees. Second, financial aid rose to meet the increased need, but mostly in terms of loans, not scholarships. How can you

achieve your educational goals without jeopardizing your financial future? Start by thinking about the type of school you want to attend. For example:

- *What school do you want to attend, and why?* Examine your goals. Can you find the educational resources you need at a less-expensive public school? The answer, often, is yes. However, if only private schools have what you're looking for, don't rule them out because of cost. Although private schools are generally more costly than public schools, private schools often can be more generous in providing financial aid.
- *How much does location matter to you?* According to the College Board, tuition costs vary considerably from region to region. Schools in the Southwest are generally less expensive than those in the East.
- *How much debt do you want to incur?* If you expect to be a freelance artist after you graduate, you might want to take on less debt than if you're planning a career as a doctor.

The costs of attending college have been rising faster than the rate of inflation. This chart, adjusted for inflation to 2004 dollars, shows how the average annual costs of attending four-year private and public colleges and universities have risen since 1985.



Source: The College Board

The ABCs of Financial Aid

Each year, millions of dollars are made available to help students pay for college. The three major types of financial aid are (a) grants and scholarships; (b) work-study programs; and (c) loans. These categories are described in the box below.

One simple equation cuts through the confusing information about financing:

$$\text{Total Cost} - \text{Total Aid} = \text{What you owe}$$

So the idea is to reduce the amount you're going to owe by applying for as many sources of aid as possible. Most students qualify for some kind of financial aid. How much you receive depends on the following criteria:

- income—yours and your parents'
- the number of college students in your family
- family assets and expenses
- the available pool of aid at the school you plan to attend
- the number of students applying for aid in a given year and their financial need compared with yours.

COLLEGE COSTS

Total Cost
Tuition, room,
board, books, fees

– **Total Aid**
Scholarships & grants
Work-study, loans

= What you owe

Types of Lenders

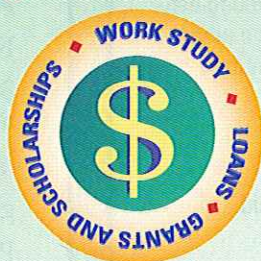
Regardless of your income, you can qualify for some type of government loan. You might need to supplement it with a loan from your school or with a commercial loan.

Three Types of Financial Aid

Grants and Scholarships

Scholarships are often based on academic or athletic performance. But don't count yourself out if you're not valedictorian or captain of the basketball team.

All kinds of people can qualify for "free money." Federal Pell Grants and Federal Supplemental Educational Opportunity Grants are given to students with "exceptional financial need." Other grants are available to students of a certain gender or ethnic group or members of a certain club or civic organization. Companies often offer scholarships to children of their employees. If you already know what you want to major in, there are scholarships for just about every field. You can find scholarship direc-



tories in the reference section of your library, on the Web, through your guidance counselor, and through college financial aid offices.

The Reserve Officer's Training Corps (ROTC) program, offered by all branches of the armed forces, gives merit-based scholarships. These pay for tuition, fees, and books and give you a monthly living allowance in return for service in the military after you graduate.

Work-study

Many American college students work their way through school. Many colleges offer work-study programs that provide on-campus jobs for students receiving financial aid. Most work-study programs are federally funded.

Loans

Both students and parents can apply for college loans. Most college loans have a low interest rate and a generous repayment schedule.

Loans can be subsidized or unsubsidized. On a federally subsidized loan, the government pays the interest during the years you're in school, and you don't begin paying back the loan until you leave school.

The Federal Government The Department of Education offers Direct Loans and Stafford Loans for parents or students, as well as the Parent Loan for Undergraduate Students (PLUS). Each loan has different eligibility requirements, but all have a cap on the interest rate. These loans are administered by agencies that vary from state to state.

The Federal Perkins Loan provides low-interest funds to students with “exceptional financial need.” The loan is administered through schools themselves.

Students who go on to take teaching jobs in certain low-income or teacher-shortage areas or who volunteer in the Americorps, Peace Corps, or VISTA programs may be eligible to have their federal loans partially repaid or even canceled.

Private Sources If money from government loans does not cover your college expenses, many other sources are available. Banks and other financial institutions offer regular commercial loans for education. These loans generally carry higher interest rates than federal loans. Trade organizations and educational institutions also provide loans, as do a variety of for-profit companies on the Web.

Pay Up! A word to the wise: Repay your student loans. Computerization and more vigorous collection efforts are resulting in more cheaters getting caught and penalized. If you run into trouble repaying your loan, call your lender, who can help you work out a manageable repayment plan.

Some loans allow you to pay just the interest for a certain period of time. Or you might get a graduated payment schedule, in which the monthly amount starts out low—when your income is relatively low—and rises later on, when presumably you can better afford to pay.

Pay off unsubsidized loans, which accrue interest while you’re in school, before government subsidized loans, which do not.

Applying for Financial Aid

Filling out financial aid applications has gotten easier, but it still requires some time and organization.

Required Forms To qualify for any type of government financial aid, you must complete the Free Application for Federal Student Aid (FAFSA). You can obtain the form from your high school, the local library, or the U.S. Department of Education’s Web site. The information you provide on the FAFSA form is used to calculate your Expected Family Contribution (EFC). The EFC is determined according to a formula established by Congress.

To receive nonfederal aid, many schools require you to fill out the PROFILE form. The College Board’s financial aid

INFORMATION SOURCES

The Internet is the best thing that ever happened to students seeking financial aid. If you have or can get Internet access, you’ll save yourself many hours of searching for financial aid information. In addition, you can file on-line for most scholarships and loans. Several sites have calculators that allow you to estimate your Expected Family Contribution, the amount of your aid awards, and the amount of your loan payments.

Some good starting places include:

- The Access Group
- Scholarship Search and CSS/Financial Aid PROFILE, programs of the College Board
- Federal Student Aid Information Center
- SallieMae (the commonly used nickname for the acronym SLMA, or Student Loan Marketing Association; site includes a listing of major private lenders)

Buying a Car

Don't think of a car as a status symbol or a personal statement. The best car is the one that suits your needs—and that you can afford.

A car is one of the biggest purchases you will make. With a small investment in time and effort, you can learn what you need to make a sensible decision—and get a good deal.

Getting the Best Deal on a New Car

Most car-buying guides recommend that you identify the invoice price of the base model of the new car you want. Then request bids—in writing—from five dealers in your area, asking them how much above or below that price they will sell the car for. Save time and avoid hassling with dealers by communicating by fax if you can. Once you have received all the bids, approach the second-lowest bidder to see if he or she will beat the lowest bid.

When purchasing your car, know in advance which options you want. Don't let a dealer talk you into spending more for options than you can afford. Be especially wary of important-sounding but unnecessary add-ons such as fabric protection, paint sealant, rustproofing, and an extended warranty. An extended warranty is a service contract purchased from the dealer by the buyer. Do not confuse it with the manufacturer's warranty that comes with the car. Extended warranties are expensive and often cover repairs already covered by the manufacturer's warranty.

Financing

Before you buy your car, research the costs of auto loans at banks and other lending institutions. Compare the annual percentage rates they offer with that of the financing offered by your car dealer. Consider how much of a down payment you can afford to make. The more money you can put down, the less you have to borrow. (For more information on loans, see Credit and Debt on pages 512–515.)

Used Cars

Automobiles quickly **depreciate**, or lose their value. The new car you drive off the lot today will be worth half what you paid for it in three years. After three years, the rate of depreciation slows down. By the sixth year, it is down to 3 percent per year. You might consider buying a car that has already depreciated substantially. That way, not only will you pay a lot less for it, but it will retain its value a lot longer than a new car.

You can buy used cars from many sources: dealers, rental and leasing companies, or individuals.

To make sure the car you're buying is reliable, try to obtain all service records on the car. This way

LUXURY



you can determine how well the car has been cared for. Calculate the average annual mileage. Anything over 15,000 miles per year indicates a car that has experienced an excessive amount of wear and tear.

You should also arrange to have an independent mechanic inspect the car for you before you buy it. Look in the Yellow Pages under “Automotive Diagnostic Service” for a certified mechanic.

Dealers are required by federal law to post a Buyer’s Guide on the used cars they offer for sale. The Buyer’s Guide must specify whether the vehicle is being sold “as is” or with a warranty, and what percentage of the repair costs the dealer will pay.

Avoiding High-Pressure Tactics

Let’s face it, a professional car dealer has much more experience in selling cars than you do in buying them. How can you avoid being pressured into spending more money than you want to?

- Be prepared. Know what you want, what you don’t want, and obtain bids based on the invoice price.

PRACTICALITY



- Don’t be talked into options you don’t want. If the dealer doesn’t have the exact car you want, have him or her try to get it from another dealer, or go to another dealer yourself.
- Don’t discuss trade-ins until after you’ve settled on a sale price. Do not let the dealer consider the trade-in of your old car as a reduction in dealer sticker price. To “trade in” your old car is simply to sell it to the dealer. It has nothing to do with the price of the new car.
- Don’t be pushed into a decision. If you’re at a dealership just to look, don’t let a dealer talk you into buying that day, no matter what one-day

How to Choose a Car

There are so many makes and models of cars, both new and used. How can you pick the one that’s right for you? Identify your needs to help you narrow your search. Here are some questions to ask yourself:

- How many people does my car need to seat?
- How much cargo space do I need?
- What weather and road conditions will my car be subject to?
- How often will I use my car? Daily? Weekly?
- How many miles do I expect to put on my car each year?
- What do I consider acceptable gas mileage (number of miles per gallon of gasoline)?

And the most important question:

- How much can I afford to pay?

Your local library has many car-buying guides to help you choose a make and model. Check the Internet and nonprofit consumer publications for prices and evaluations of the performance, comfort, and safety of new and used cars.

specials he or she dangles before you. If you’re negotiating a price and the dealer says, “Take it or leave it,” don’t be afraid to leave it. If you can’t find a better deal elsewhere, you can always come back.

- Get it in writing. If a dealer is not willing to put all agreements in writing, walk away.

If you are feeling bullied, confused, or pressured by a dealer, just walk away. Your ability to get up and leave is the best leverage you have.

Check Your Understanding

1. **Key Terms** Why is it a wise idea to buy a car that has already **depreciated** a great deal?
2. **Analyze** (a) What four features would matter most to you in buying a car? List them in order, for example, a certain price range, two-door vs. four-door, or a sun roof. (b) What do you have to sacrifice in order to get your most-wanted feature? In other words, what is the opportunity cost of that choice?

Renting an Apartment

Home is more than a place to hang your hat. Choosing the right place to live can go a long way toward making you happy.

Renting your first apartment is an exciting prospect, but don't rush into a decision you might regret. Research your options carefully, and know your rights and responsibilities before making a commitment.

Choosing the Right Place

To locate apartments to rent, look through the real estate section of a newspaper, search the Internet, read community bulletin boards, or use the services of a realtor. Keep in mind that realtors will charge you a fee for finding you an apartment, often half a month's rent or more. Find several listings that seem attractive to you. Make appointments with the landlords or their representatives to view the apartments.

Rent and Other Costs

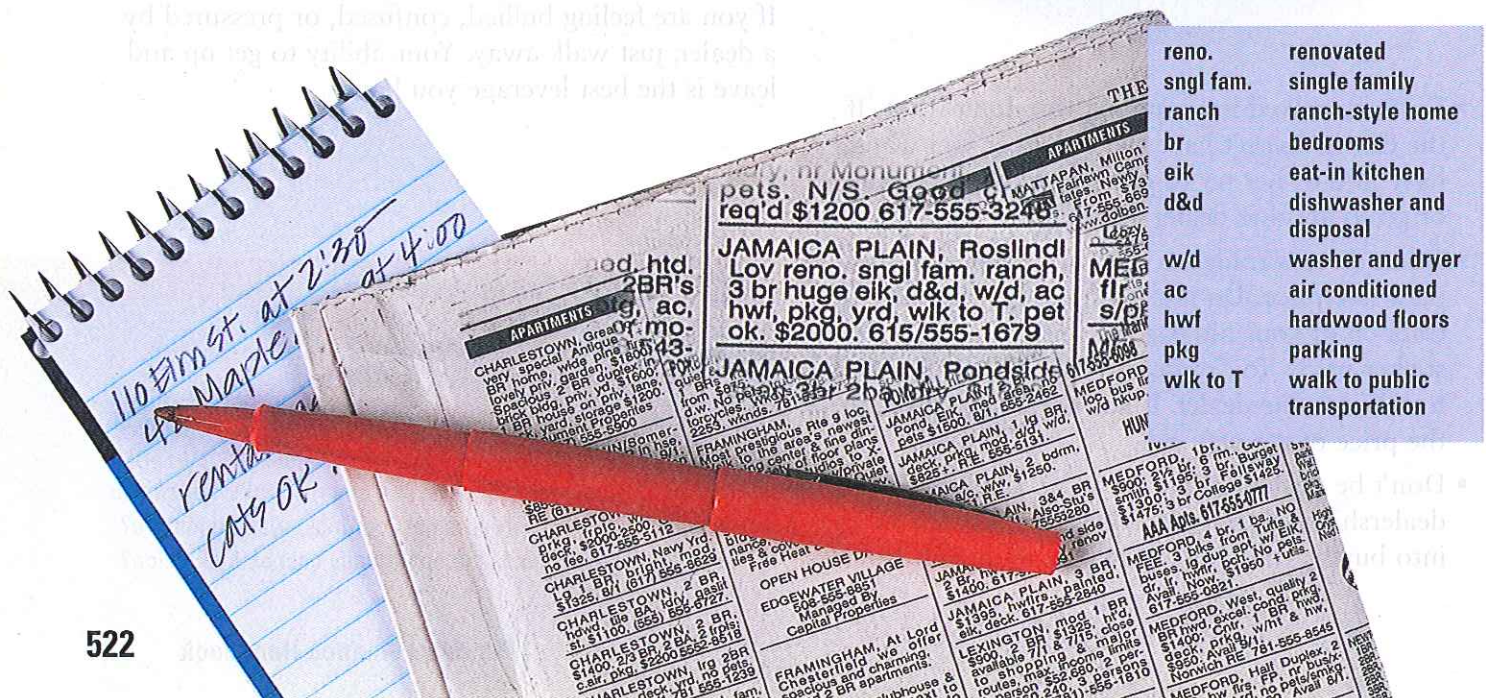
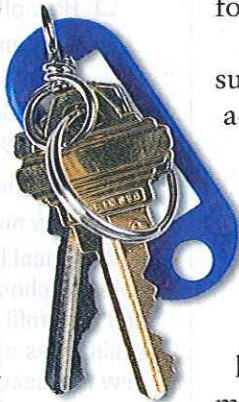
A good rule of thumb is to have one month's rent and utility payments equal no more than one

week's take-home pay. Estimate your utility bills by asking the landlord or a previous tenant what the average monthly heating and electricity costs were for the apartment during the previous year.

Keep in mind that you will probably need a large supply of cash up front. Many landlords require in advance the first and last month's rent. Some also ask for a **security deposit**, a sum of money that you pay the landlord to ensure that you will leave the apartment in the same condition you found it in. The security deposit is usually equal to a full month's rent. After you give up the apartment, the landlord will inspect it. If you have damaged the property, the landlord will use money from your security deposit to make repairs and will return any unused portion to you. If the apartment is undamaged, you will get back your entire deposit, sometimes with interest.

Signing the Lease

Finding an apartment you like is half the battle. The other half is convincing the landlord that you'll



reno.	renovated
sngl fam.	single family
ranch	ranch-style home
br	bedrooms
eik	eat-in kitchen
d&d	dishwasher and disposal
w/d	washer and dryer
ac	air conditioned
hwf	hardwood floors
pkg	parking
wlk to T	walk to public transportation

How to Choose an Apartment

Finding the right apartment can be difficult. Be sure to get answers to the following questions during your search.

- How many rooms does it have?
- What condition is it in?
- Are the door and window locks sturdy?
- Are there working smoke detectors?
- Are the walls soundproof?
- Does it have adequate closet space?
- Are there laundry facilities?
- What is the condition of the bathroom fixtures?
- Is parking available?
- Are pets allowed?
- Does the neighborhood appear safe?
- Is it convenient to where you work or attend school?
- Will you have access to public transportation?
- How close is the nearest grocery store?
- What are the terms of the lease?

be a responsible tenant. Remember, you may be competing with other prospective tenants for the apartment.

You will be asked to fill out a rental application. Most applications ask you for details such as:

- The names and phone numbers of your present and previous landlords
- Your social security number
- Your employer, job position, and income
- Your bank name, address, and account numbers
- Personal references

The landlord may also perform a credit check on you—another good reason to maintain a good credit history.

If this is your first apartment rental, you'll have to rely on your personal references, rather than previous landlords, to vouch for your character. Ask responsible adults who know you well, such as a teacher, coach, employer, or clergy member, to provide you with written references.

Once you've been approved to take the apartment, you will be required to sign a **lease**, a rental agreement between landlord and tenant. Most

leases require a one-year commitment and monthly rent payments. The lease also spells out rules such as whether pets are allowed, or whether a fee will be charged if your rent is late. Some landlords will let you rent month to month without a set end date other than the amount of notice previously agreed upon.

Read any lease or rental agreement carefully, and make sure you understand it before you sign. Discuss the terms with your landlord, along with any changes you'd like to make. Bear in mind that what you are signing is a **contract**, a binding legal agreement. Both you and your landlord are required to live up to its obligations.

Rights and Responsibilities Know your tenant rights. While a landlord has the right to ask for references and perform a credit check, it is against the law to discriminate against a potential tenant on the basis of race, color, national origin, religion, sex, familial status, or handicap. Contact your state's office of Housing and Urban Development for more information.

Landlords are required to provide a dwelling that is structurally safe and sanitary and that has heat, water, and electricity. Your landlord has the right to enter your apartment only to make repairs or to show it to a prospective tenant, and sometimes he must give you notice before doing so.

Rental laws vary in different locations. For example, in rent-controlled neighborhoods, landlords are limited in the amount of rent they can charge. Check with your local housing or consumer affairs office for information.

At the same time, tenants have responsibilities. As a tenant, you must pay your rent on time, keep your apartment clean and undamaged, follow the terms of your lease or rental agreement, and be considerate of your neighbors.

Check Your Understanding

1. **Key Terms** (a) What is the purpose of a **security deposit**?
(b) How does a **lease** benefit both landlord and tenant?
2. **Analyze** What three factors would be most important to you when searching for an apartment? Explain your reasoning.

Buying Insurance

We hate to pay for it, but we're sometimes glad we did.

When we're young, we tend to think that nothing bad will ever happen to us. But sooner or later we usually find ourselves wanting the benefits that insurance offers.

How Insurance Works

Insurance is essentially a bet between you and your insurance company. You are betting that some type of accident will happen to you: illness or damage to your car or home. The company, on the other hand, is betting that you will not have such a problem. It bases its judgment on complicated formulas of probable risk.

Insurance Costs

In the event of an accident, you could suffer devastating financial losses. So you pay the insurance company a sum of money called a **premium**. The company then promises to pay compensation in the event of an accident. The amount the insurance company pays out could be many times what you paid in premiums.

If you remain accident-free, the company makes money. It uses part of that money to pay policyholders who do sustain some type of loss.

Most insurance policies include a **deductible**, an amount of expenses that you must pay before the insurer will cover any expenses. For example, if your car insurance policy has a \$1,000 deductible, and you have an accident, you'll have to pay the first \$1,000 in damages yourself, then the insurance company will pay the rest, up to a certain limit.

Coverage

Before you buy auto or home insurance, find out if the policy covers replacement cost, the amount of money needed to buy a new item to replace the lost or damaged one. Some companies only cover actual cash value (ACV), the amount that the lost or damaged item would have been worth on the market before the accident. If, for instance, your two-year-old computer is stolen, its ACV is not nearly as much as it would cost you to buy a new computer to replace the stolen one, because computers lose their value quickly.

Shop for a policy that requires the lowest possible premium while giving



you the amount of coverage you need, no more and no less. But beware: Insurance policies contain complicated language and lots of fine print. Make sure you read carefully. Get estimates from several companies before you sign. Or go to a fee-only insurance advisor, an impartial expert who can help you evaluate policies and recommend the one that's right for you.

Auto Insurance

If you drive, most states require you to have your own auto insurance or to be listed as a driver on someone else's policy. If you drive a car with the owner's permission, you're usually covered.

Most insurance companies offer several types of auto insurance. Collision insurance covers damage to your vehicle regardless of who is at fault in an accident. Comprehensive insurance pays for other types of damage to your car, such as theft, broken glass, vandalism, and natural disasters. If you are at fault in an accident, liability insurance covers property damage and bodily injuries to people who are not on your policy, as well as your court costs. Other provisions pay medical costs for you and others riding in your car.



Health Insurance

Even if you're healthy, having health insurance is a good idea. Insurance plans cover a variety of health-care needs, such as hospitalization, surgeries, routine medical care, preventive care, visits to specialists, medicines, mental health care, and dental care.

The problem, however, is finding affordable care. Health insurance premiums are costly. The best rates are available through group insurance plans offered by employers and other large organizations. Purchasing an individual plan can cost hundreds of dollars a month. Health insurance companies offer a variety of plans, so you can buy the level of coverage you need to feel protected.

Dental insurance policies cover procedures and products such as fillings, crowns, extractions, bridgework, and dentures. These plans usually require deductibles and copayments.

Health insurance plans vary according to several factors:

- 1 The degree to which you can choose your doctors
- 2 The types of procedures covered
- 3 The amount of deductible required
- 4 The amount of **copayment**, which is the percentage of each visit or procedure that the patient must pay
- 5 Annual limits on the total amount of care covered

Property Insurance

Think for a moment about the value of your belongings: stereo, computer, television, VCR, bicycle, books, clothes, coin collection, etc. What if your apartment caught fire? What if your building were destroyed by a tornado or other natural disaster? Would you need a lot of money to replace what you own? If so, then you should insure it.

Renter's insurance is generally a type of homeowner's policy. It protects your belongings against destruction from fire, wind, lightning, explosions, and theft. It can cover your liability if someone is injured in your home. Most policies do not protect you against flood damage; you need to purchase a separate flood insurance policy for that kind of coverage. You might need to keep receipts and other records of major household items to have them covered.

Check Your Understanding

1. **Key Terms** (a) Explain the difference between a **premium**, a **deductible**, and a **copayment**. (b) Why is a policy that covers replacement cost better than one that covers actual cash value? (c) Why do you think some states require drivers to carry liability insurance but not collision insurance or comprehensive insurance?
2. **Using Graphic Organizers** Create a chart that shows the opportunity costs of buying auto insurance, health insurance, and property insurance.

Getting a Job

Finding work can seem like a full-time job in itself.

But the harder you search, the better the job you'll get. Nobody likes looking for a job. It's tedious and time consuming. You have to steel yourself for rejections and forge ahead. But remember: All you need is for one employer to say, "You're hired."

The Résumé

One of the most important tools in your job hunt is your **résumé**, a document that summarizes your employment experience, education, and other information a potential employer wants to know. Many job postings will instruct you to send in your résumé.

Reviewing résumés is the employer's first step in eliminating candidates for a job, so you'll want to make sure yours is as well-prepared as it can be.

The Cover Letter

When you send out a résumé, accompany it with a cover letter addressed to a particular individual—ideally, the hiring manager. You should mention your interest in the company and where you learned about the job opening. Your cover letter is an opportunity to highlight or add detail to points in your résumé. Keep your letter brief, however.

Heading Include your name, address, phone number, and any other contact information, such as fax number or e-mail address.

Objective Identify the type of position you seek.

Education Outline your educational achievements (degrees, diplomas, or certificates earned).

Experience Describe your work experience and the job skills you have demonstrated.

Activities and Other Skills Provide any other information pertinent to the job you seek.

JENNIFER GARDNER
2362 Lamar Boulevard
Fort Worth, Texas 76129
(817) 555-9673

OBJECTIVE A challenging entry-level sales position

EDUCATION Diploma, Graham High School, May 2006

EXPERIENCE

September 2005–
May 2006

Sales Clerk, Paris Bakery
Advised customers seeking specialty items for parties or weddings. Proposed and promoted new "pastry of the month" sales campaign. Responsible for accurate sales transactions.

Summer 2005

Camp Counselor, Camp Carrboro
Taught arts and crafts to elementary-school students. Organized activities and secured supplies.

September 2004–
May 2005

Tutor, Graham High School
Tutored students in English and world history. Created an advertising campaign to publicize tutoring services.

ACTIVITIES

Member of Young Entrepreneur Club
Member of varsity girls' soccer team

OTHER SKILLS

Speak Spanish fluently
Experienced in finding information on the Internet

REFERENCES References available upon request

It's not enough to send your résumé out into the world and then sit back and wait for phone calls. Your résumé may wind up sitting in a stack of hundreds on somebody's desk. In your cover letter, mention when and how you will follow up the letter—and make sure you do.

Identifying Job Openings

The more information you have, the better your job hunt. You need to learn not only about the field you're interested in, but about the companies you're seeking a position with. Use as many information sources as you can to get the complete picture.

Networking There's a grain of truth to the adage "It's not what you know, it's who you know." Friends and family can put you in contact with people in the fields you're interested in. Talking with friends, family, and acquaintances about job leads is called networking.

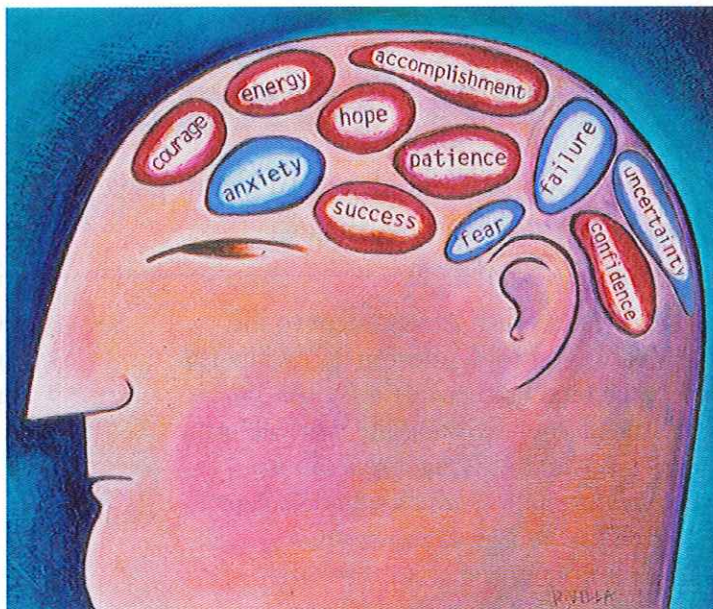
Help Wanted Ads Newspapers' help wanted sections carry many advertisements for jobs. But the ads are often brief, offering few details about the job or the company. Competition for these jobs is keen, since many people turn to the help wanted ads when they are looking for a job. Respond promptly to help wanted ads, and keep a record of employers you contact.

The Internet Some Web sites let you post your résumé on-line. For example, the U.S. Department of Labor, in conjunction with state-run employment services, maintains a Web site called America's Job Bank. It offers career resources, occupational projections, job listings, and a place to post your résumé.

Employment Services Public employment services can match your qualifications with available jobs. State-run job services are free. Check the state government listing in your phone directory for the office nearest you.

Many community job centers provide job placement services, too. They may offer résumé writing tips, interview practice, testing, and job counseling. And don't forget your school guidance counselor's office for job placement and counseling.

Private employment services are also available. These businesses will charge you or your employer a



high fee for placing you in a job. Find out who will be paying the fee and what guarantees the agency offers before you sign up with them.

Interviewing

At the interview, the interviewer will talk with you to determine whether you are able and willing to do the job and whether you share the company's goals. Prepare for the interview by finding out as much about the company as you can. You'll also want to go into the interview with information about the standard salary ranges for similar positions. The employer may want to discuss salary during the interview.

Be ready to answer questions about your qualifications and goals. Also be prepared to ask questions about the position and the company. An interview can determine not only whether you're right for the job, but also whether the job is right for you.

Check Your Understanding

- Key Terms** To an employer, what qualities might distinguish a good résumé from a poor one?
- Formulating Questions** Plan a mock interview. Write down five questions an employer might ask you and five questions you might ask an employer.

Paying Taxes

Uncle Sam wants his share of your paycheck; but don't give him too much.

When the Sixteenth Amendment to the Constitution took effect in 1913, the federal income tax became a fact of life. Every year of your working life you will go through the ritual of filing a federal tax return, the form(s) on which you calculate how much tax you owe. So why not decide to get organized from the start? By following a few simple guidelines, you can save time, effort, and maybe some money.

The American Tax System

Perhaps the three most dreaded letters in American English are "IRS." They stand for the "**Internal Revenue Service.**"

The IRS The IRS, an agency within the Treasury Department, interprets and applies federal income tax laws passed by Congress. The agency generates tax forms and collects taxes.

The IRS will also come after you if you don't pay what you owe. In the past, the agency's aggressive pursuit of delinquent taxpayers and the surly attitude of some of its agents earned it a bad reputation. But public pressure for reform finally brought about changes in the late 1990s intended to make the IRS more helpful to citizens—most of whom are honest taxpayers.

Understanding the Tax System The current federal tax system includes a progressive tax, one

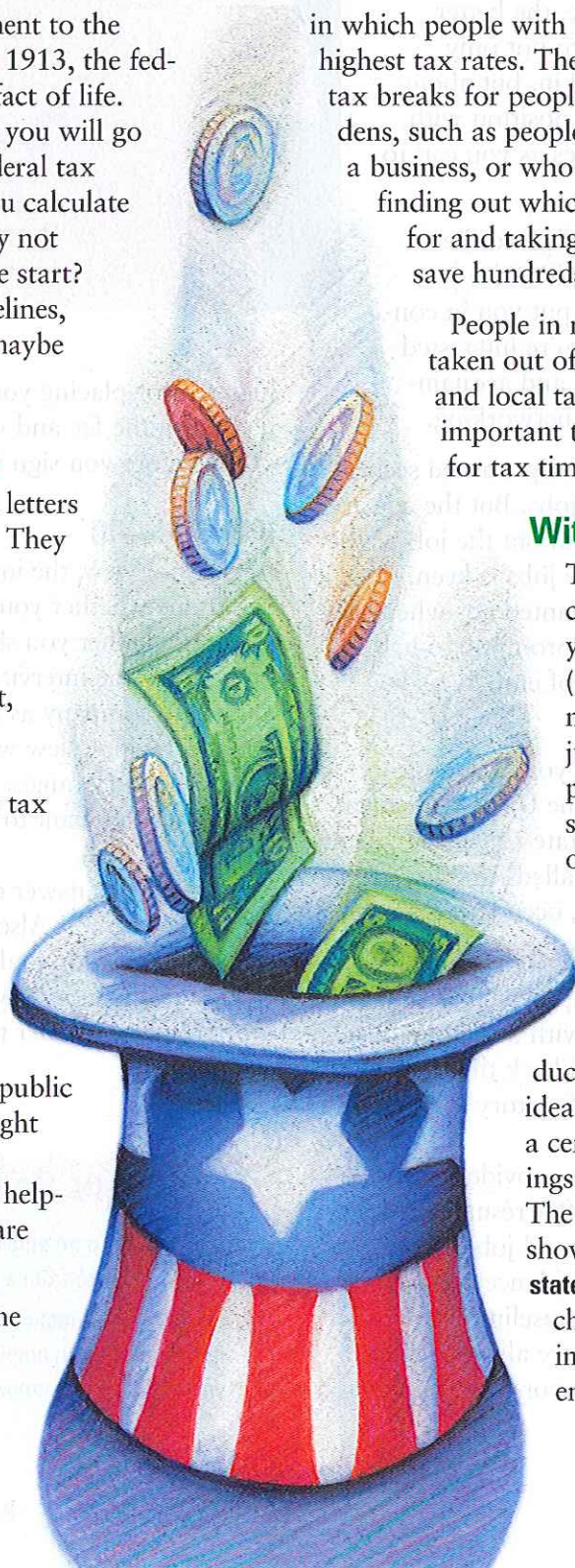
in which people with the highest incomes have the highest tax rates. The system includes hundreds of tax breaks for people with special financial burdens, such as people paying for college or starting a business, or who have high medical bills. By finding out which tax deductions you qualify for and taking advantage of them, you can save hundreds of dollars a year in taxes.

People in many places have three bites taken out of their income: federal, state, and local taxes. Therefore, it is especially important to understand how to prepare for tax time.

Withholding

The federal government used to collect taxes at the end of every year. The problems were that (a) the government needed money throughout the year, not just at the end, and (b) many people weren't very good about setting aside some tax money out of every paycheck, so by tax time, they had no money to give to the tax collector.

In 1943, in need of money to finance World War II, the government introduced on a permanent basis the idea of withholding, that is, taking a certain percentage of your earnings before you get your paycheck. The amount that is withheld is shown on the **payroll withholding statement** attached to your paycheck. The money withheld goes into the federal Treasury. At the end of the year, you figure out



Employee's Withholding Allowance Certificate

OMB No. 1545-0

2005

► For Privacy Act and Paperwork Reduction Act Notice, see page 2.

First name and middle initial A	Last name PINKHAM	Your social security number 012345678
Number and street or rural route) HESTNUT ST.	3 <input checked="" type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but widowed at higher Single Note: If married, but legally separated, or spouse is a nonresident alien, check the "Single"	
City and ZIP code VA 00000	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.	
allowances you are claiming (from line H above or from the applicable worksheet on page 2)	5 5 2	
I certify that I am entitled to the number of withholding allowances claimed on this certificate, or I am entitled to claim exempt status		
Signature (Employee's name) Sam A. Pinkham		Date 3/20/05
9 Office code (optional)		10 Employer identification number

Be sure to enter your Social Security number correctly.

The worksheet on page 2 of this form will help you figure out how many deductions you can take.

Don't forget to sign and date the form!

the amount of tax you owe. If you had too much money withheld from your paychecks, the surplus is returned to you as a tax refund. If you did not have enough money withheld during the year, you have to pay the balance.

Too Much, Too Little Tax laws require most people to have a certain minimum percentage withheld from their paychecks. Beyond that, you choose how much to have set aside. Do you want to make sure that you won't have to pay more taxes at the end of the year? Do you want to get a big tax refund? If so, have a generous amount withheld.

The disadvantage of having a large amount withheld is that the government is holding on to your money all year and giving it back to you at the end. That's like giving the government a no-interest loan. Instead, you could put that money into savings and earn interest on it all year, then use it to pay whatever you owe at tax time. Make sure, however, that you at least have the legal minimum amount withheld, or you will be subjected to stiff penalties.

The W-4 Form To figure out how much money to have withheld from your paychecks, you must complete a Form W-4, which is shown above. When you start a new job, the employer will give you the form to complete and return. It includes worksheets to help you do the calculations required.

The W-4 form gives you the option of taking certain personal allowances that will lower the amount

of tax withheld from your income. For example, you may take an exemption for yourself, your spouse, and any dependents you have. An exemption lowers the amount of your income that is taxed. The more exemptions you have, the lower your taxable income.

Estimated Taxes Under certain circumstances—if you are self-employed, for instance—you can choose not to have taxes withheld. However, you still must pay an estimated tax. Those who estimate can pay a lump sum at the beginning of the year or make quarterly estimated payments. The IRS will provide you with the forms for estimating and filing your payments.

Tax Preparation

The tax "season" runs from January to April 15. During that time, you need to fill out and file the appropriate tax forms.

The W-2 Form Some time in January or early February you should receive a Form W-2. You will get a W-2 from any employer you worked for who withheld taxes from your pay. If you don't receive this form by mid-February, contact your employer and ask about it. Employers must send out W-2s by January 31.

Save these important tax documents! The W-2s must be attached to your tax return when you file.

What you'll need to fill out your tax return



* Alarm clock to wake you up in time to make it to the only post office within forty miles that's open until midnight



* Warm milk to soothe your frazzled nerves

Form 1040EZ Department of the Treasury—Internal Revenue Service
Income Tax Return for Single and Joint Filers With No Dependents (L) 2005 OMB No. 1545-0075

Label (See page 14). Use the IRS label. Otherwise, please print or type.
 Your first name and initial: [] Last name: [] Your social security number: **012-34-5678**
 If a joint return, spouse's first name and initial: [] Last name: [] Spouse's social security number: []
 Home address (number and street). If you have a P.O. box, see page 14. Apt. no.: []
 City, town or post office, state, and ZIP code. If you have a foreign address, see page 14.

Presidential Election Campaign (page 14) Note. Checking "Yes" will not change your tax or reduce your refund. Do you, or your spouse if a joint return, want \$3 to go to this fund? Yes No Yes No

Income Attach Form(s) W-2 here. Enclose, but do not attach, any payment.
 1 Total wages, salaries, and tips. This should be shown in box 1 of your W-2 form(s). Attach your W-2 form(s). 1 **6,385 04**
 2 Taxable interest. If the total is over \$1,500, you cannot use Form 1040EZ. 2 **13 50**
 3 Unemployment compensation and Alaska Permanent Fund dividends (see page 16). 3
 4 Add lines 1, 2, and 3. This is your **adjusted gross income**. 4 **6,398 54**
 5 Can your parents (or someone else) claim you on their return?
 Yes. Enter amount from worksheet on back. No. If single, enter \$7,700. If married, enter \$13,850. See back for explanation. 5
 6 Subtract line 5 from line 4. If line 5 is larger than line 4, enter -0-. This is your **taxable income**. 6

Payments and tax
 7 Federal income tax withheld from box 2 of your W-2 form(s). 7
 8 Earned income credit (EIC). 8
 9 Add lines 7 and 8. These are your **total payments**. 9
 10 Tax. Use the amount on line 6 above to find your tax in the tax table on pages 25-29 of the booklet. Then, enter the tax from the table on this line. 10

Refund Have it directly deposited? See page 21 and fill in 11b, 11c, and 11d.
 11a If line 9 is larger than line 10, subtract line 10 from line 9. This is your **refund**. 11a
 b Routing number: [] c Type: Checking Savings
 d Account number: []

Amount you owe
 12 If line 10 is larger than line 9, subtract line 9 from line 10. This is the amount you owe. For details on how to pay, see page 22. 12

Third party signee
 Designee's name: [] Phone no.: [] Personal identification number (PIN): []
 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 sets 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: [] Daytime phone number: []
 Spouse's signature. If a joint return, both must sign. Date: [] Spouse's occupation: []

Sign here Joint return? See page 13. Keep a copy for your records.
 Preparer's signature: [] Date: [] Check if self-employed: Preparer's SSN or PTIN: []
 Firm's name (for you if self-employed, address, and ZIP code): [] EIN: [] Phone no.: []

Paid preparer's use only
 For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 24. Cat No. 12817R Form 1040EZ (2005)

1040 EZ form

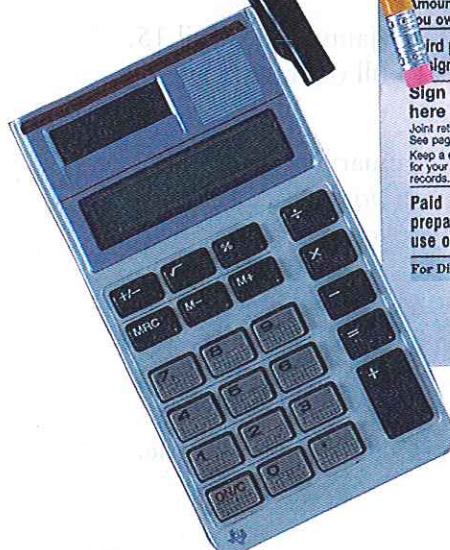
W-2 form

1 Wages, tips, other comp. \$7.00
 2 Federal income tax withheld \$1.66
 3 Social security wages 27.00
 4 Social security tax withheld 1.66
 5 Medicare wages/tips 27.00
 6 Medicare tax withheld .40
 Control Number: 58-470
 Employer's name, address, and ZIP code: REFERENCE PRESS, INC, P O BOX 104, WY 280 EAST TX 78723
 Employer use only: 137

10 number of Employer's SSA number: 855-55-5555
 11 Dependent care benefits
 12 Benefits included in box 1
 14 Other
 15 Local filing name
 16 Local income tax
 17 Local Filing Copy
 18 State and Tax
 19 Statement
 20 Local Income
 21 Local Filing Copy
 22 State and Tax
 23 Statement
 24 Local Income
 25 Local Filing Copy

*only needed if you wait until April 15th to file.

* Extra pencils for chewing



Preparing Your Return

The Internal Revenue Service publishes dozens of tax forms that require you to provide information about your income and certain financial activities from the previous year. Then, following the directions on the forms, you calculate how much tax you owe, or how much should be refunded to you.

Federal tax forms and instruction booklets are usually available free from January through April at many post offices, public libraries, and banks. You can also quickly download dozens of forms at the IRS Web site, or receive certain forms via fax through the IRS's TaxFax Service.

Many unmarried people with no children qualify to use Form 1040EZ, which is the simplest tax form. As you can see from the sample on page 530, the 1040EZ asks you questions that you should be able to answer by looking at your W-2 and interest statements.

If you have more complicated financial circumstances, you may need to file a Form 1040A or standard Form 1040, which are more complex. Use one of these forms if you're able to claim deductions. A deduction is a provision that allows you to deduct, or subtract, money from your taxable income. The lower your taxable income, the less tax you owe. If you paid for any of the following items, they may be tax-deductible:

- college tuition
- child or parental care
- high medical expenses
- a home mortgage
- business expenses you paid yourself
- business losses (if you're self-employed)

Never put any false information on a tax form. If the IRS suspects that you've cheated on your taxes, you'll be called in for an audit, a detailed examination of your financial transactions. (Occasionally, perfectly innocent people get audited, too.) Penalties for tax fraud are severe.

What if you make an honest mistake on your tax return? If it's a simple math error, the IRS will generally catch it, inform you of it, and recalculate your tax. If you make a significant error, you may need to file an amended form as soon as possible. These mistakes generally are not considered fraudulent.

Help!

If preparing your tax return seems too daunting, don't merely guess—get help. Each form has step-by-step instructions, but they might not answer all your questions. Here are some other places to turn to:

- The Internal Revenue Service Web site is a friendly, helpful site with lots of information. Try out TaxInteractive, an on-line information service sponsored by the IRS and the American Bar Association.
- Call the IRS anytime at 1-800-829-1040. You can get help over the telephone, schedule an appointment, or take advantage of a walk-in service at certain locations and times.
- Tax-preparation services and tax accountants will fill out your tax return for you for a fee. They provide the forms, make suggestions, and answer questions. Some will file your return for you.

Ways to File Your federal tax return usually must be postmarked by midnight on April 15. If you file late, you could be hit with substantial penalties and interest charges.

If you prepare your return on paper, you must send it to the IRS Service Center listed in the instruction booklets and at the IRS Web site. There are several ways to prepare and file your return electronically. Filing electronically will get you a faster tax refund but you usually have to pay a fee. If you owe money, you can pay by check or credit card. Call the IRS or visit its Web site for details.

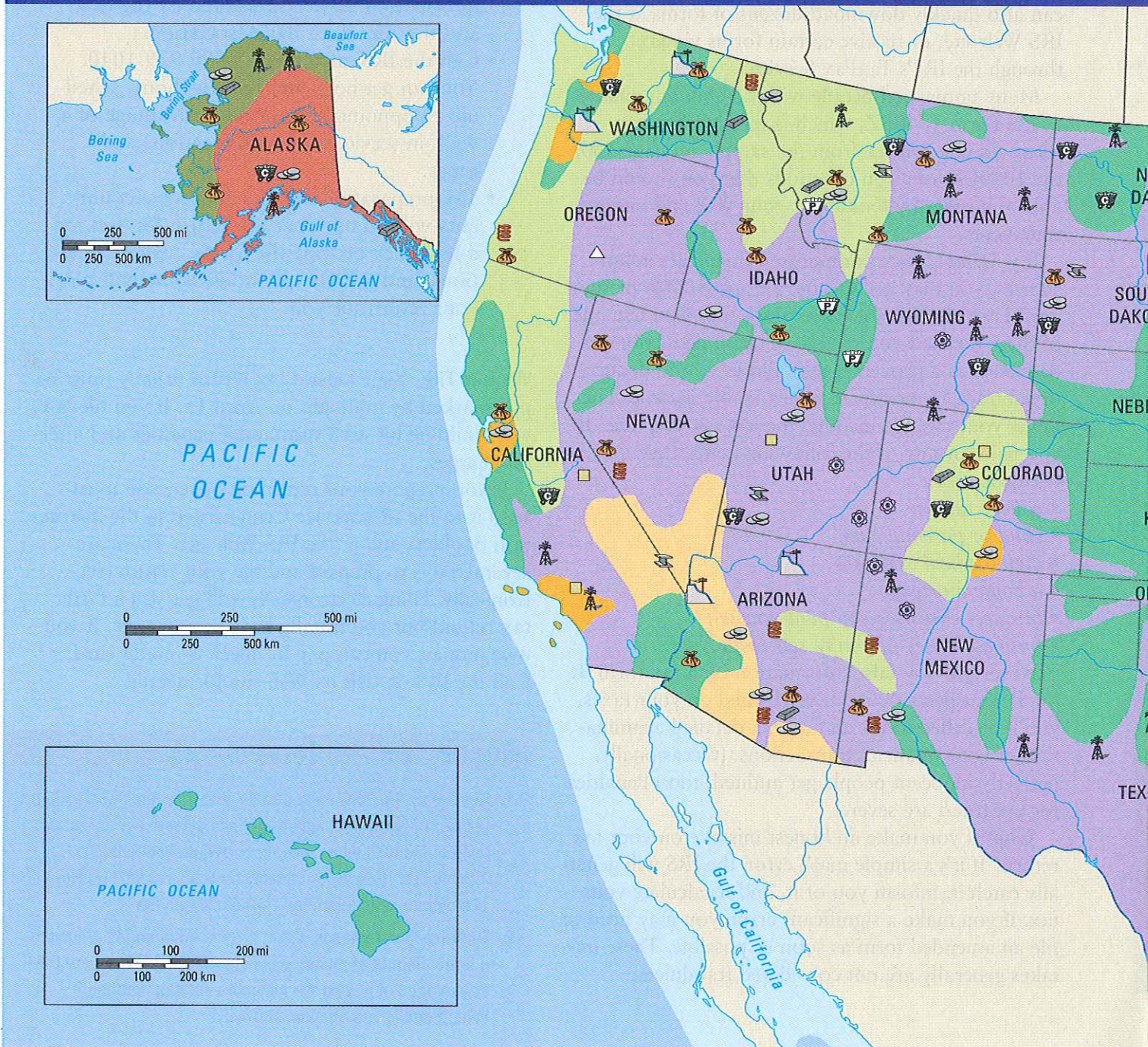
Check Your Understanding

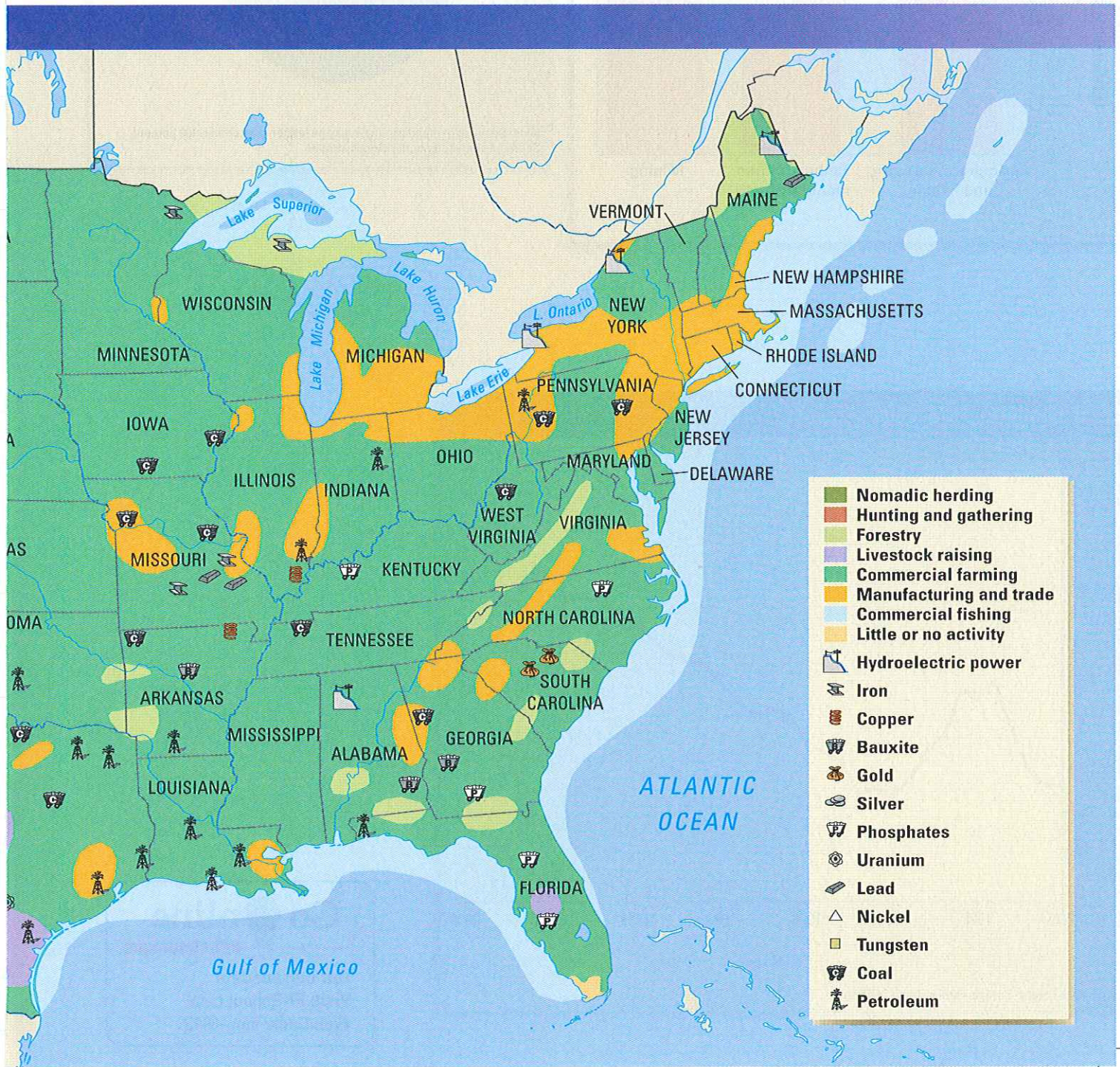
1. **Key Terms** (a) Why must people who earn an income file a tax return? (b) Who might benefit most from a progressive tax, people with a low income or people with a high income? (c) How do you qualify for a tax refund? (d) How do exemptions and deductions benefit taxpayers?
2. **Drawing Comparisons** What are the advantages of having a large amount of money withheld for taxes? What are the advantages of having the minimum amount withheld? Which would you choose, and why?

Natural Resources

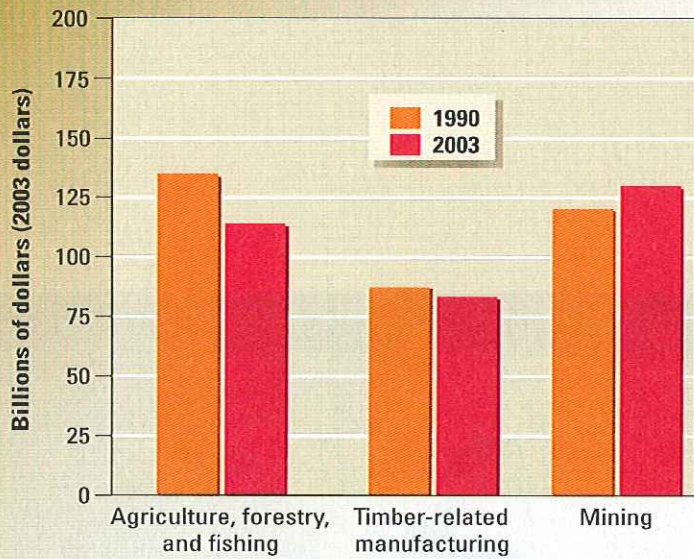
Economists use the term *land* to refer to all the natural resources used to produce goods and services. The United States enjoys an abundance of natural resources.

United States Economic Activity and Resources

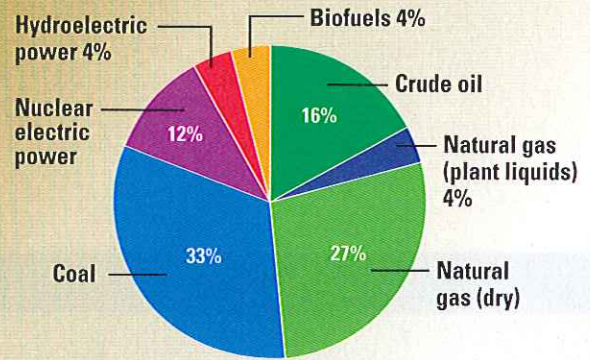




GDP of Agriculture, Forestry, Fishing, Timber-Related Manufacturing, and Mining

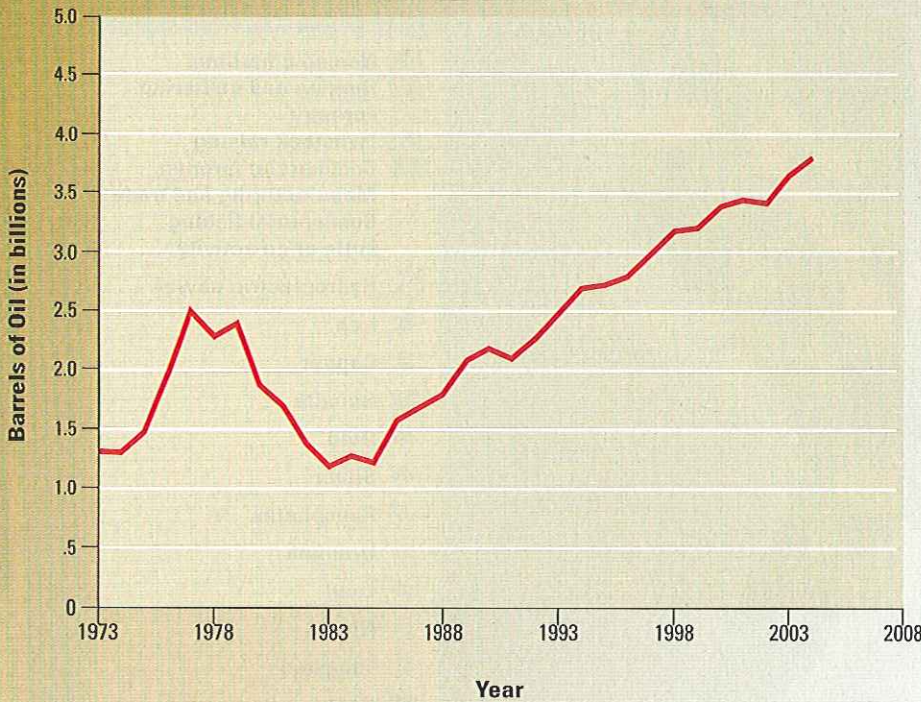


United States Energy Production, by Source, 2004



Note: Because of rounding, totals may be less or greater than 100 percent.
Source: Energy Information Administration

U.S. Oil Imports, 1973–2004

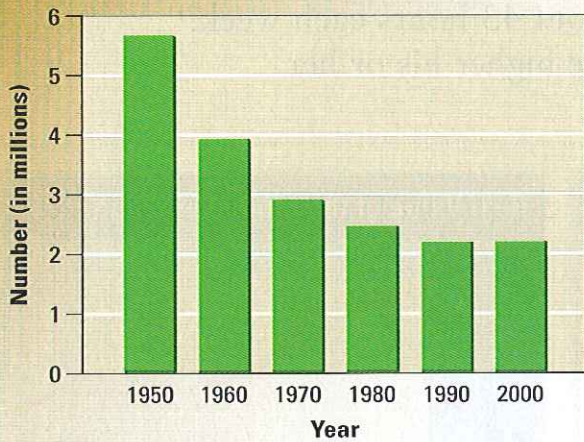


Source: U.S. Census Bureau, Foreign Trade Division

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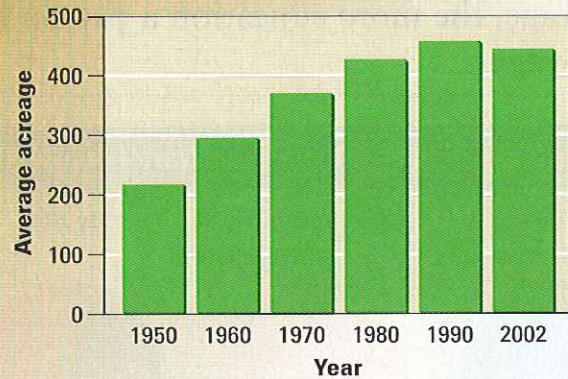
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Number of Farms



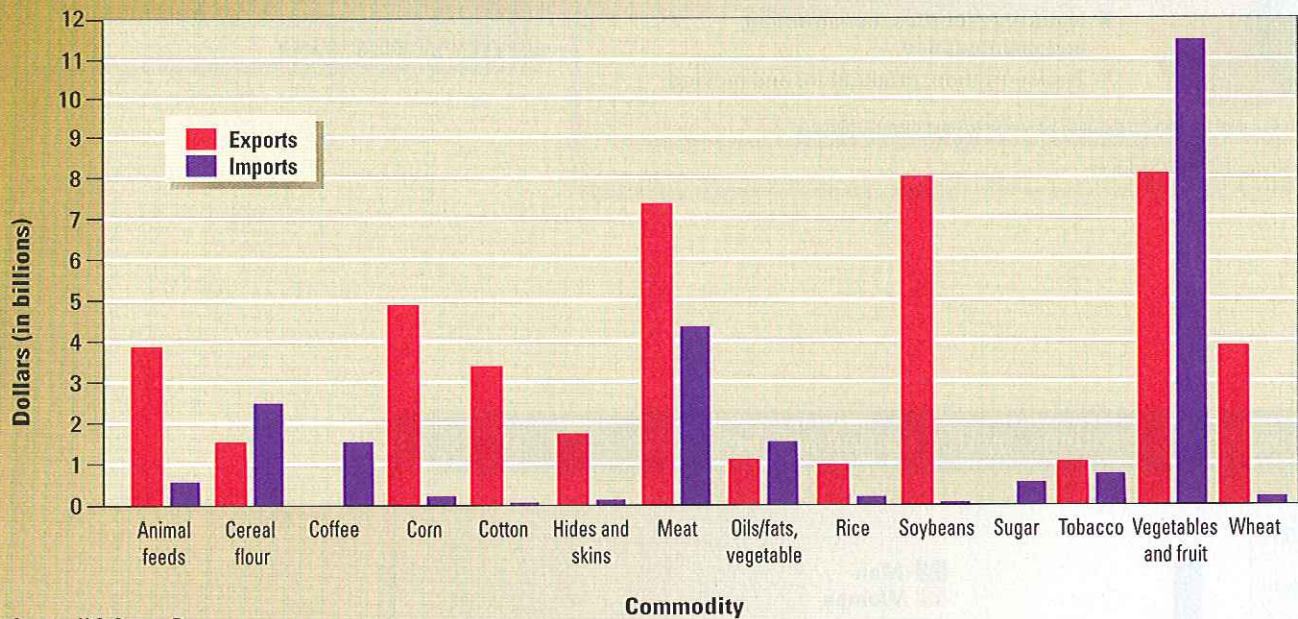
Source: U.S. Department of Agriculture

Size of Farms



Source: U.S. Department of Agriculture

Major Agricultural Exports and Imports, 2003



Source: U.S. Census Bureau

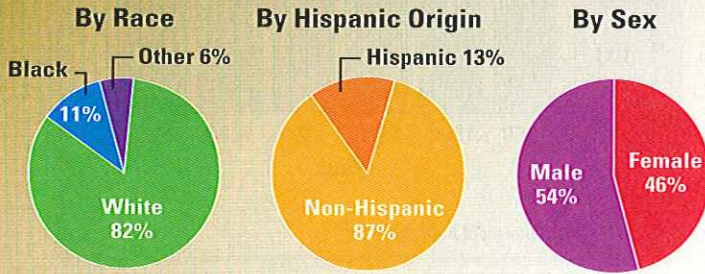
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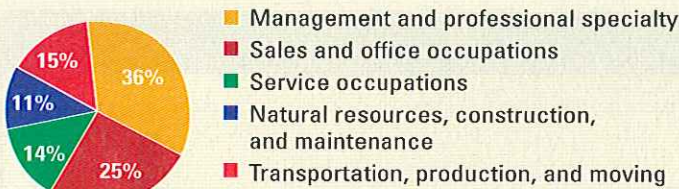
Americans at Work

Most full-time employees work an average of about 43 hours each week. On average, the more education a person has, the higher his or her hourly wage.

Characteristics of the United States Work Force, 2005



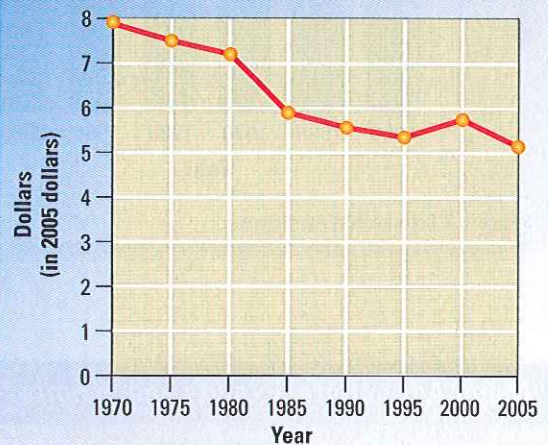
By Occupation



Note: Because of rounding, totals may be less or greater than 100 percent.

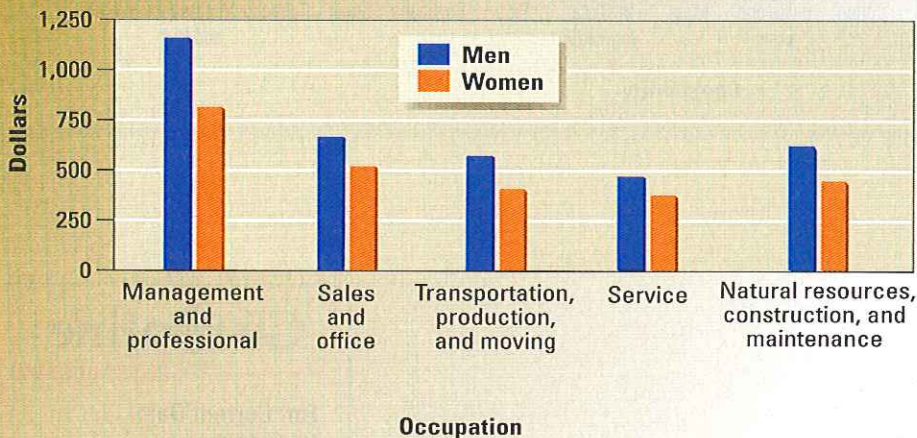
Source: Bureau of Labor Statistics

Real Value of the Minimum Wage



Source: U.S. Department of Labor

Median Weekly Earnings, by Occupation and Sex, 2004

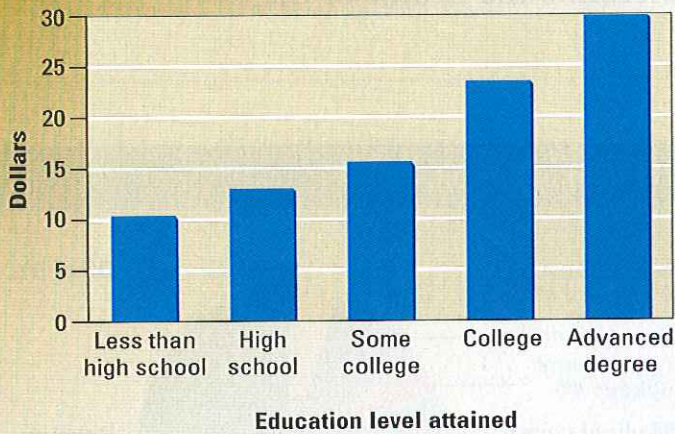


Source: Bureau of Labor Statistics

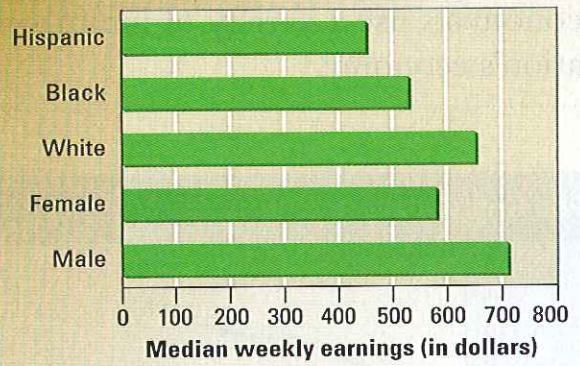
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Average Real Hourly Wages, by Education Level, 2003

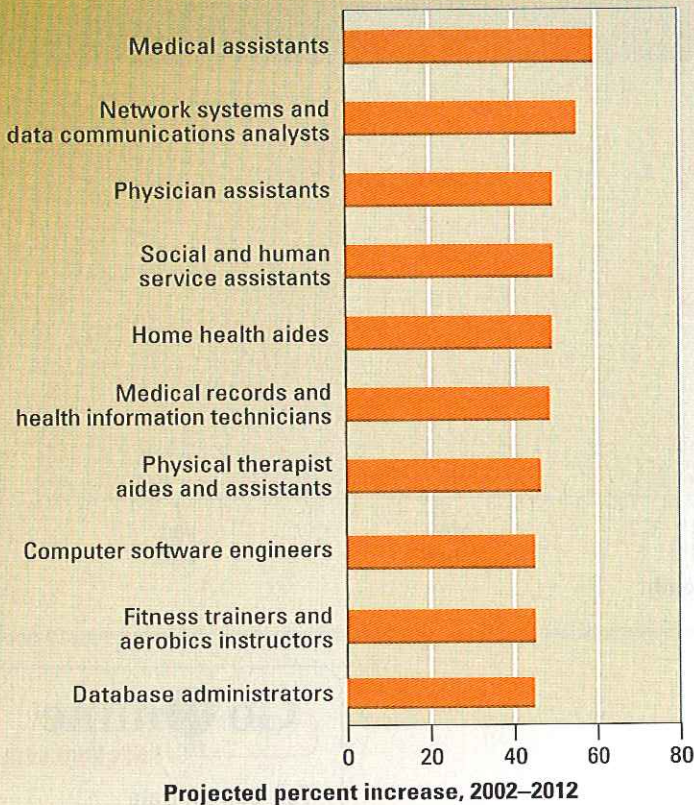


Earnings Gap, 2004



Source: Bureau of Labor Statistics

Fastest-Growing Occupations



Source: Bureau of Labor Statistics

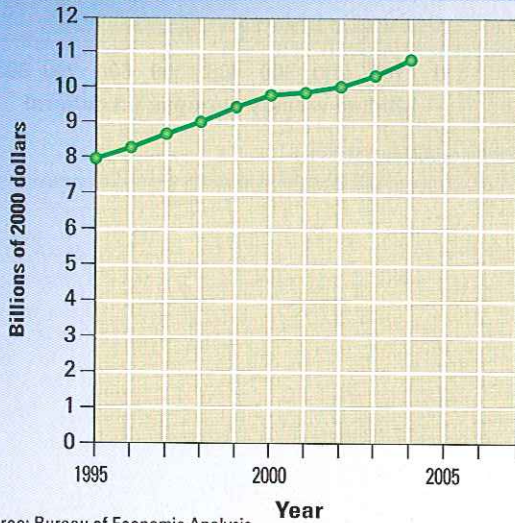
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Economic Indicators

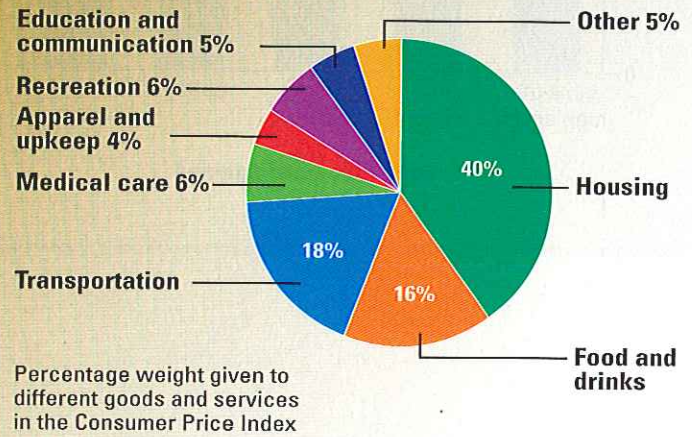
Economists use a variety of indicators to determine the health of the nation's economy.

Real Gross Domestic Product



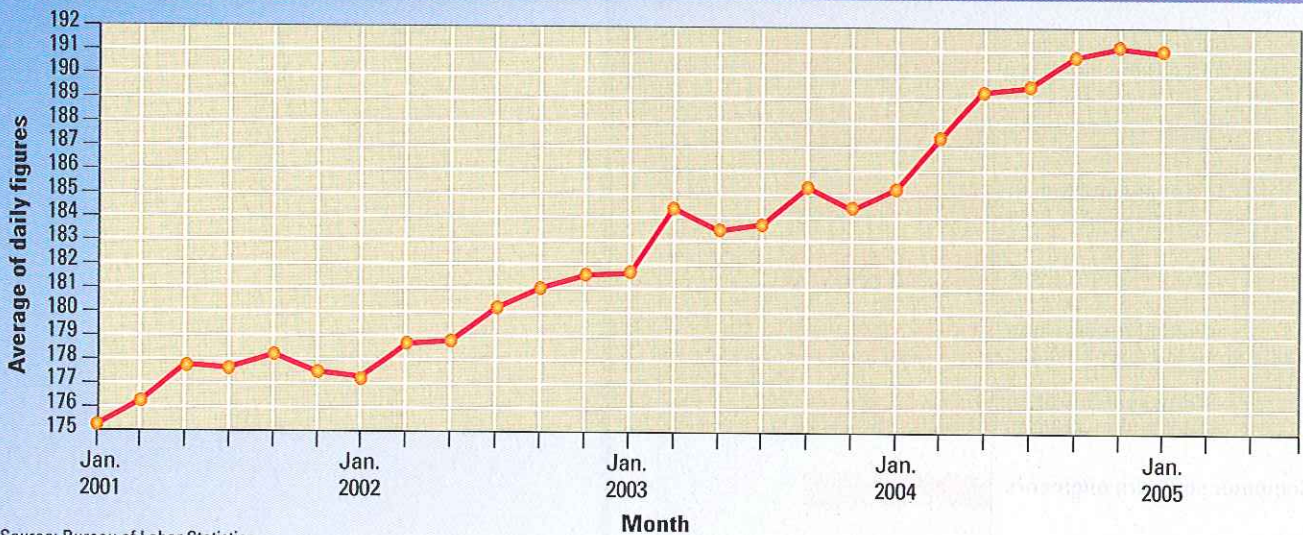
Source: Bureau of Economic Analysis

CPI Market Basket, 2005



Source: Bureau of Labor Statistics

Consumer Price Index



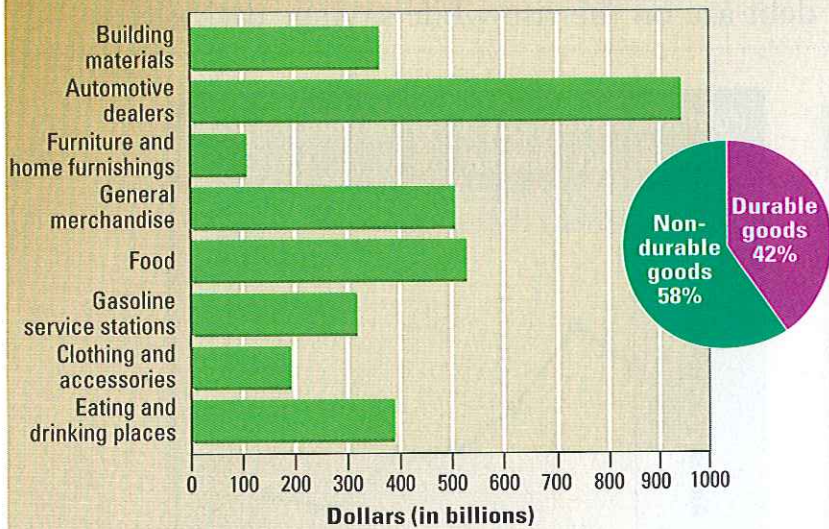
Source: Bureau of Labor Statistics

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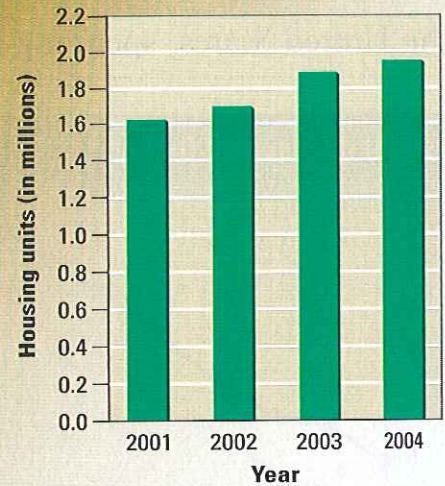
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Retail Sales, by Type of Business, 2004

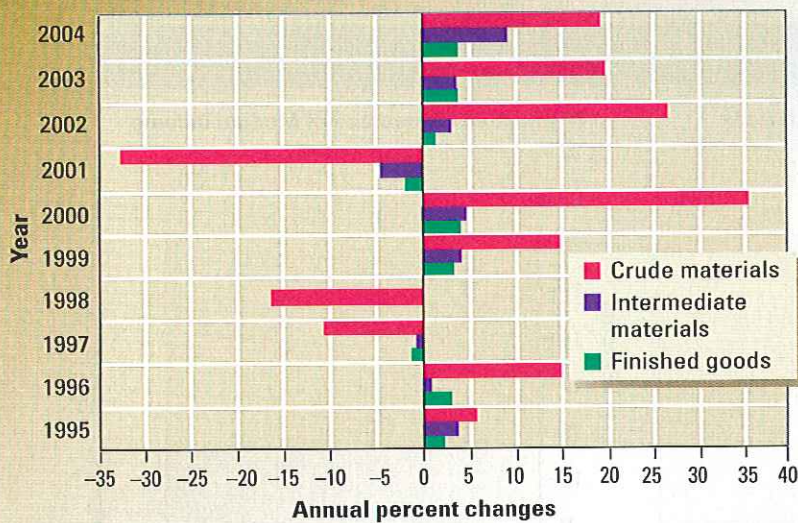


Note: Figures are for one year.
Source: U.S. Census Bureau

Housing Starts

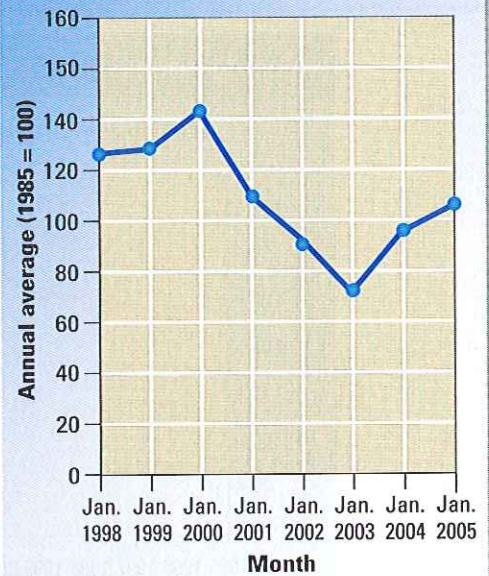


Producer Price Index



Source: Bureau of Labor Statistics

Consumer Confidence Index



Source: PollingReport.com

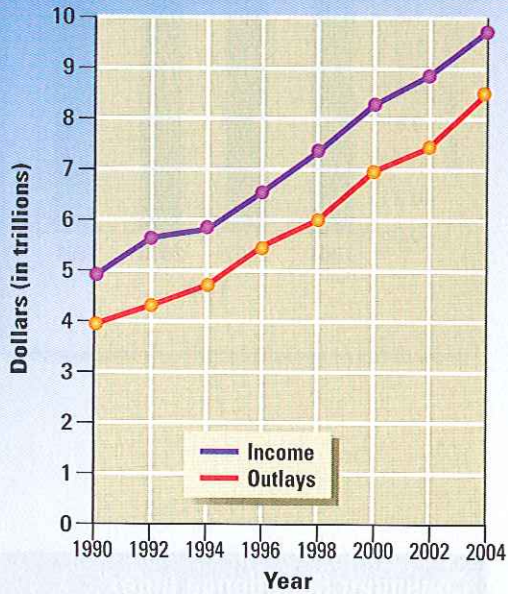
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The American Consumer

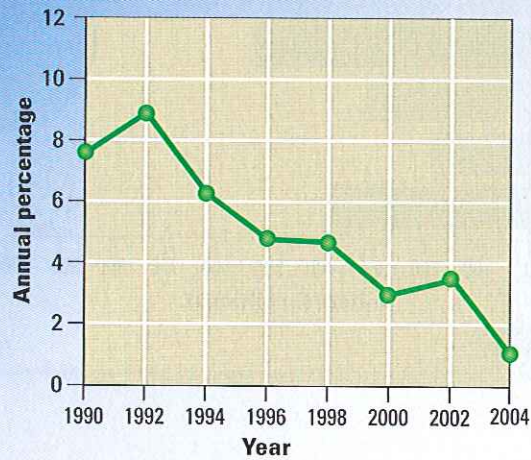
In the United States, spending and debt are on the rise while savings dwindle.

Personal Income and Outlays



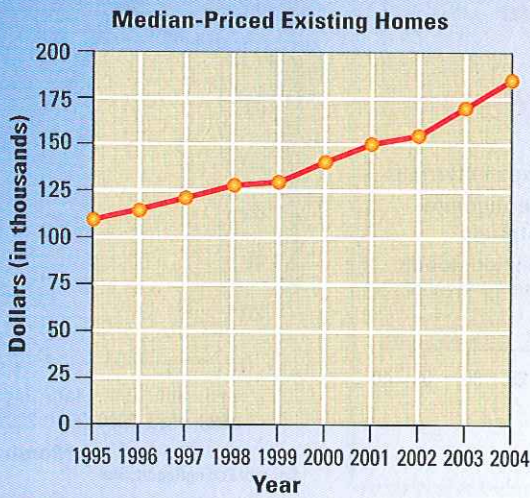
Source: Bureau of Economic Analysis

Personal Savings as a Percentage of Disposable Income



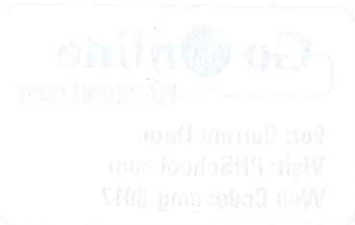
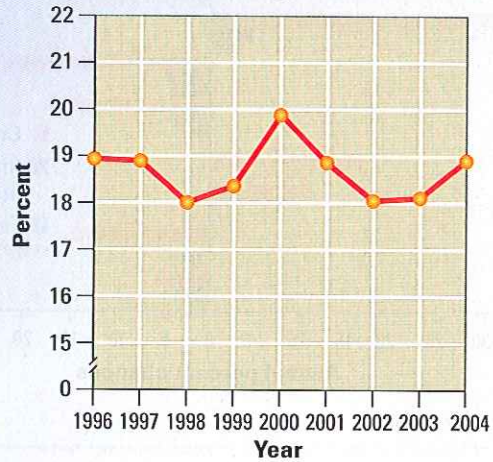
Source: Bureau of Economic Analysis

Housing Prices



Source: National Association of Realtors

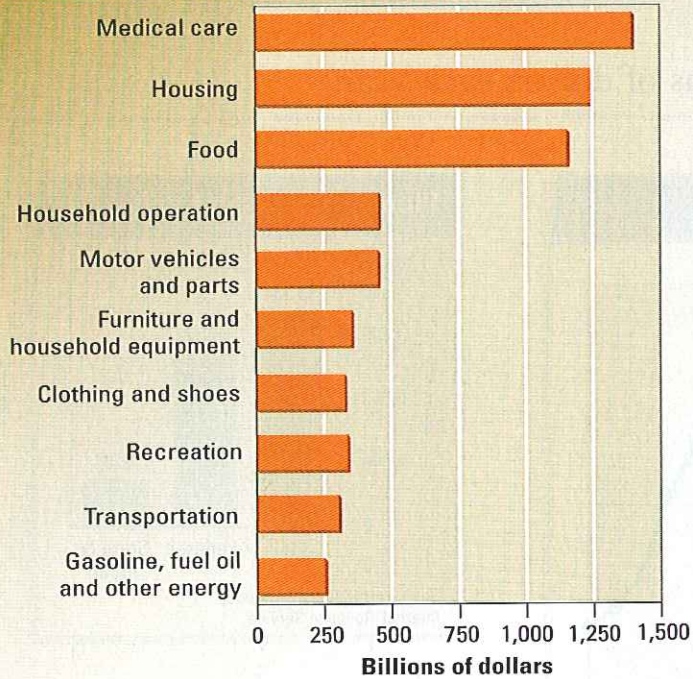
Payment as Percentage of Median Income



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Selected Personal Consumption Expenditures, 2004



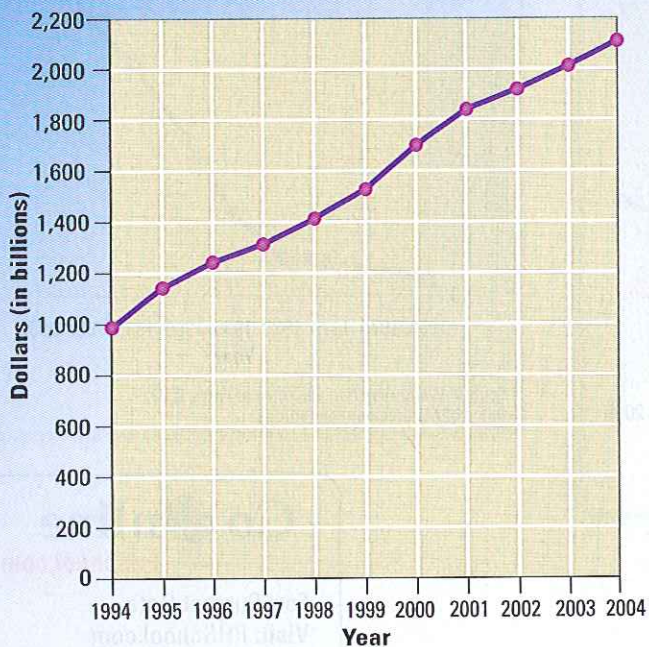
Source: Bureau of Economic Analysis

Per Capita Energy Consumption

Rank	State	Btu (in millions)
1	Alaska	999.5
2	Louisiana	887.1
3	Wyoming	844.3
4	Montana	658.2
5	North Dakota	570.1
6	Texas	553.2
7	Kentucky	461.6
8	Indiana	456.1
9	Alabama	444.2
10	Maine	439.5
11	West Virginia	411.7
12	Oklahoma	405.6
13	Arkansas	404.7
14	Mississippi	401.5
15	Idaho	393.4
16	Pennsylvania	389.2
17	Delaware	384.9
18	Kansas	384.8
19	Iowa	375.5
20	Washington	367.9
21	South Carolina	367.1
22	Tennessee	355.3
23	Illinois	355.3
24	Ohio	352.3
25	Minnesota	342.3
26	New Mexico	340.8
27	Nebraska	340.7
28	Georgia	336.6
29	Wisconsin	335.0
30	South Dakota	325.6
31	Virginia	324.3
32	New Jersey	321.1
33	Utah	320.4
34	Oregon	314.8
35	Michigan	313.7
36	Nevada	313.5
37	North Carolina	309.7
38	Missouri	296.1
39	Maryland	286.2
40	Colorado	277.5
41	Massachusetts	271.0
42	Vermont	270.0
43	New Hampshire	265.4
44	Connecticut	253.1
45	California	250.5
46	Florida	245.7
47	New York	243.3
48	Rhode Island	238.4
49	Arizona	235.4
50	Hawaii	218.4

Source: Corporation for Enterprise Development

Consumer Credit Debt



Source: Federal Reserve

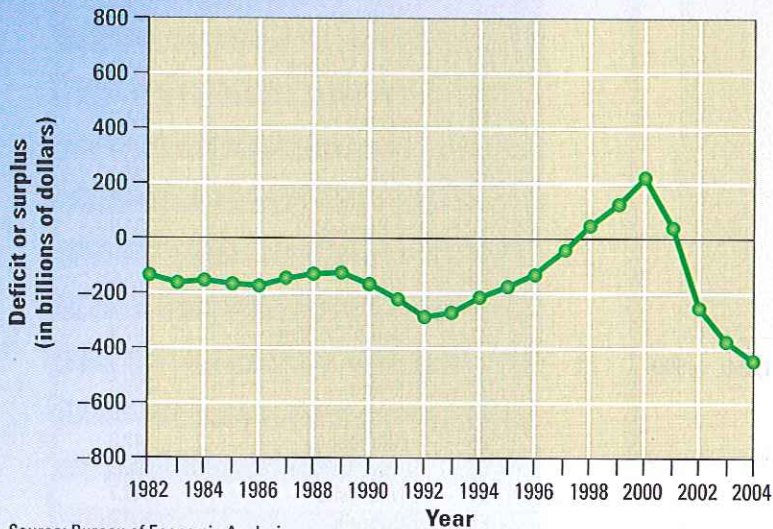
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The United States Government

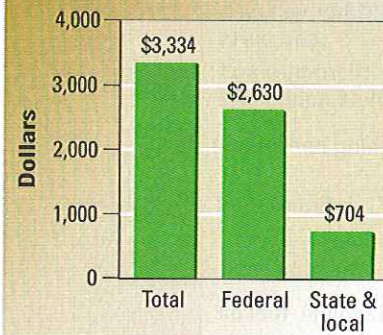
The government raises and spends trillions of dollars each year.

Federal Deficit/Surplus



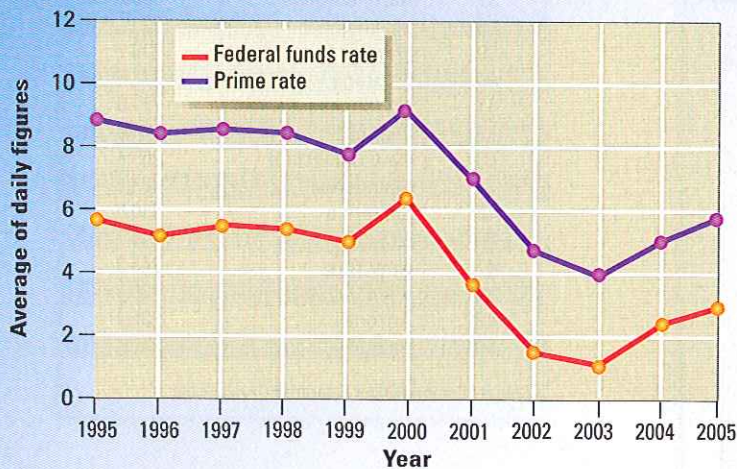
Source: Bureau of Economic Analysis; Office of Management and Budget

Income Taxes per Capita, 2002



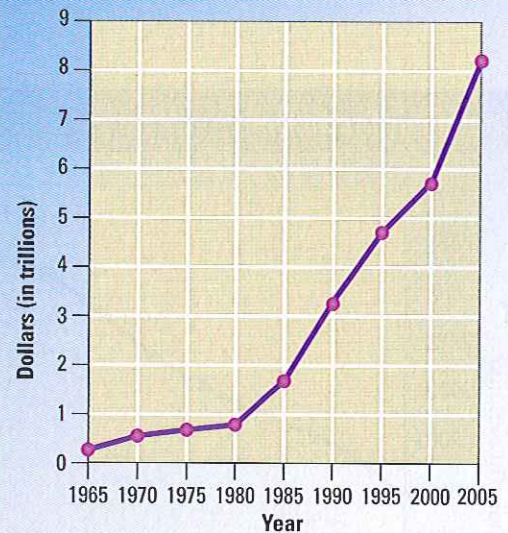
Source: U.S. Census Bureau; Internal Revenue Service

Key Interest Rates



Source: Federal Reserve Board of Governors

Federal Debt

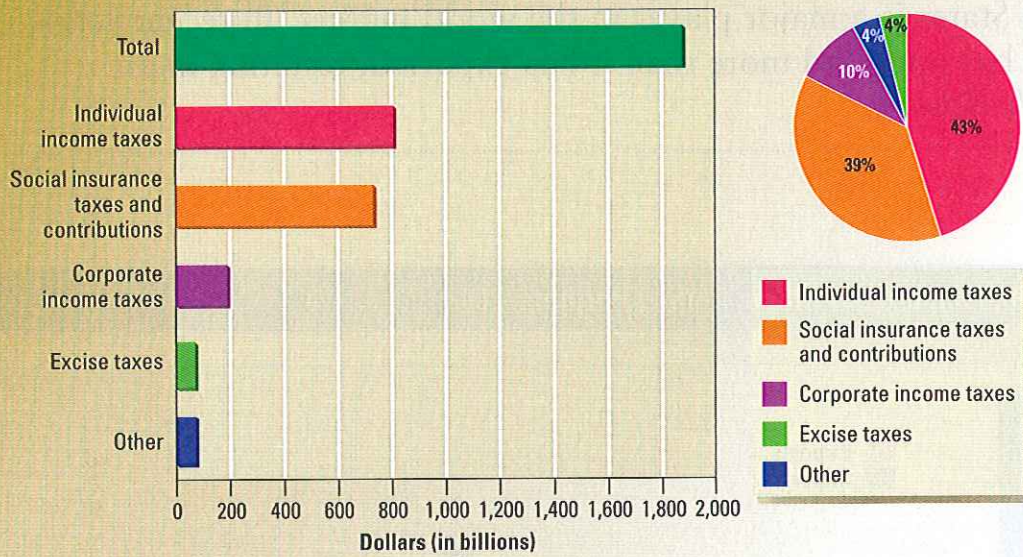


Source: World Almanac and Book of Facts, 2002; Office of Management and Budget

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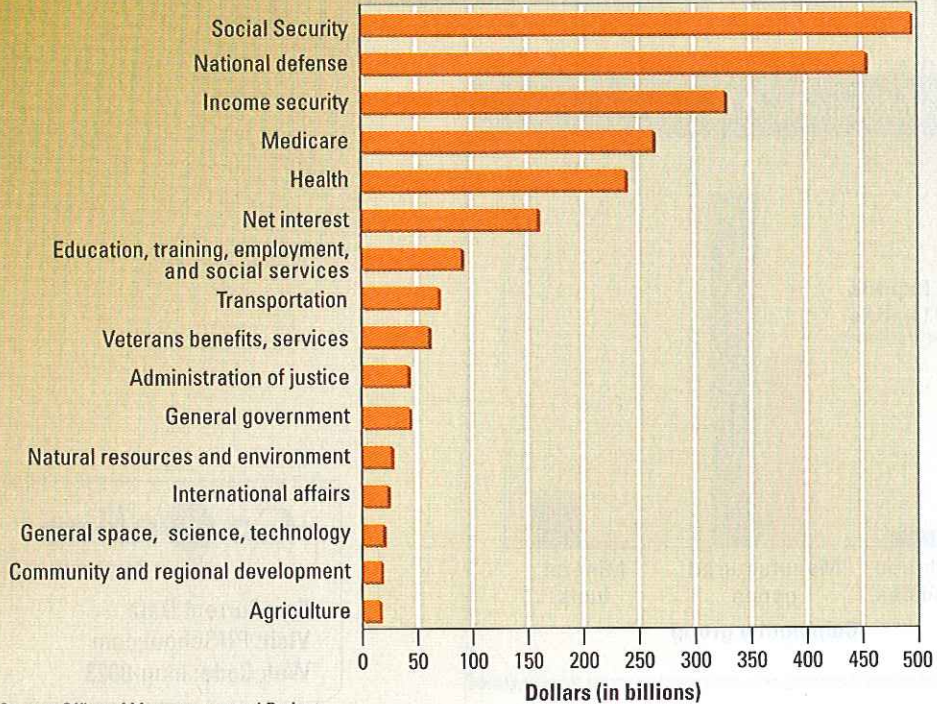
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Government Receipts, by Source, 2004



Source: Bureau of Economic Analysis

Government Spending, by Category, 2004



Source: Office of Management and Budget

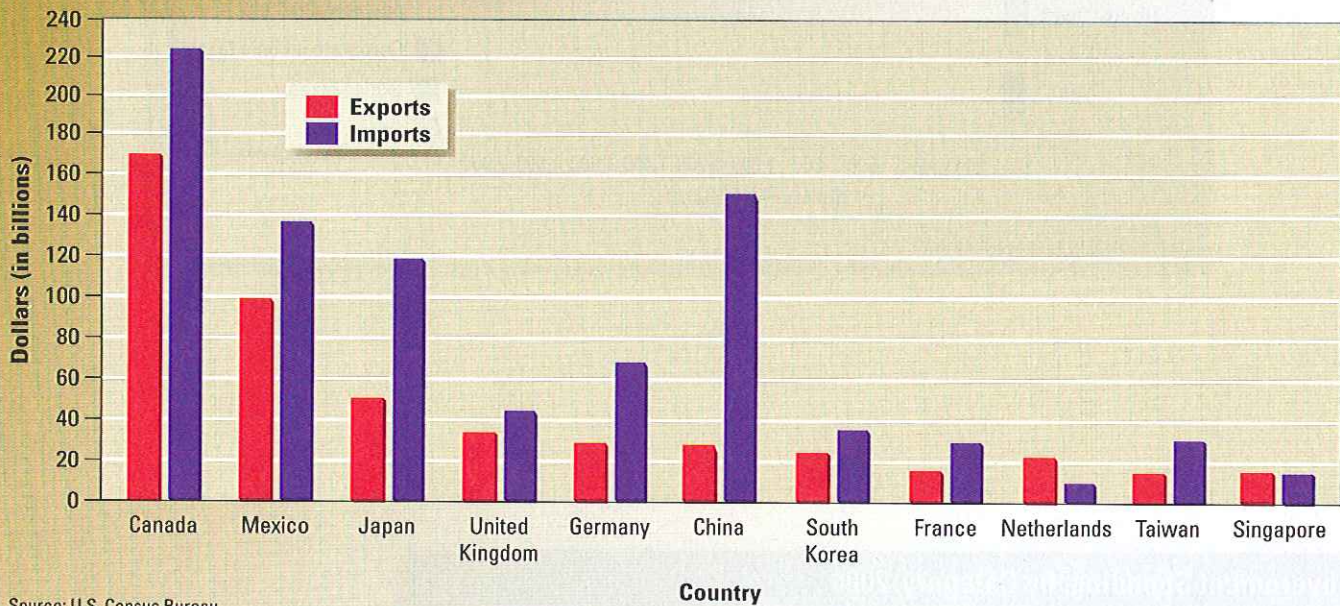
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Trade

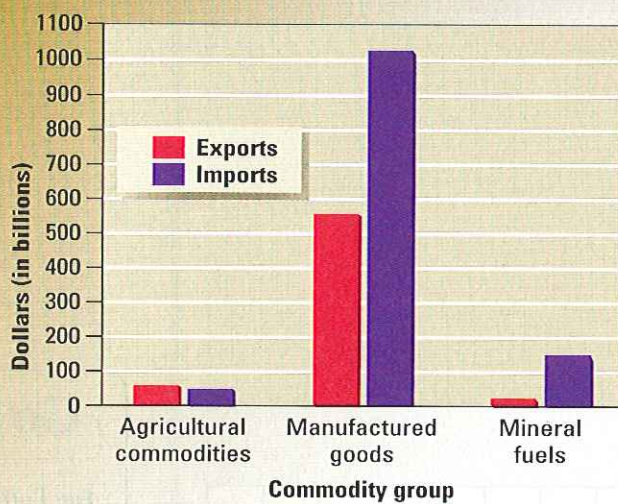
The United States is a major player in the world market. In recent years, however, it has imported more than it has exported, resulting in an annual trade deficit.

U.S. Exports and Imports, by Major Trading Partners, 2003



Source: U.S. Census Bureau

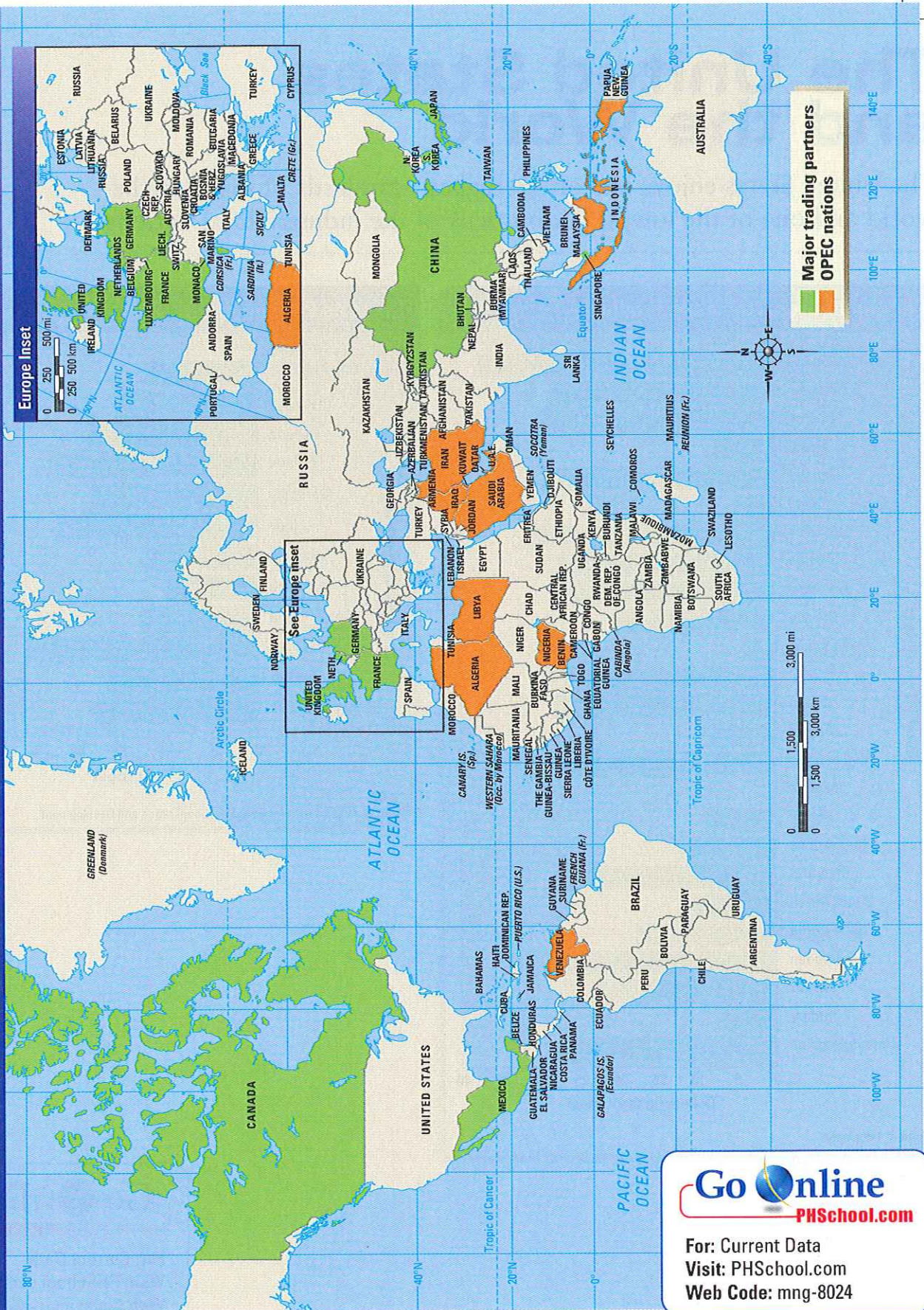
Major Exports and Imports, 2003



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United States Trading Partners

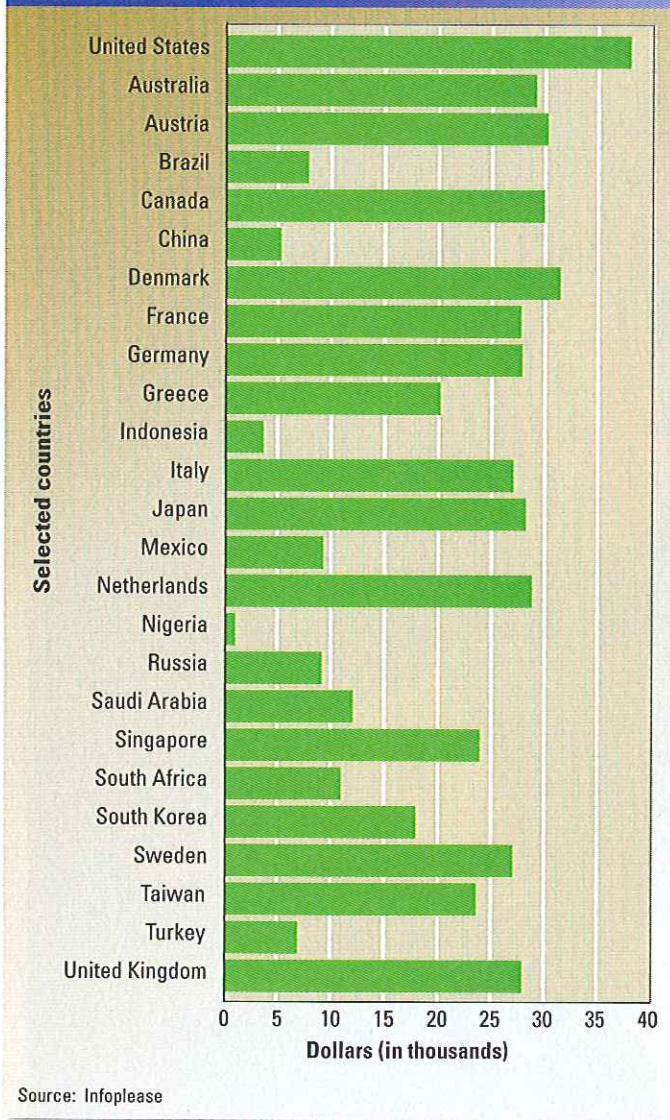


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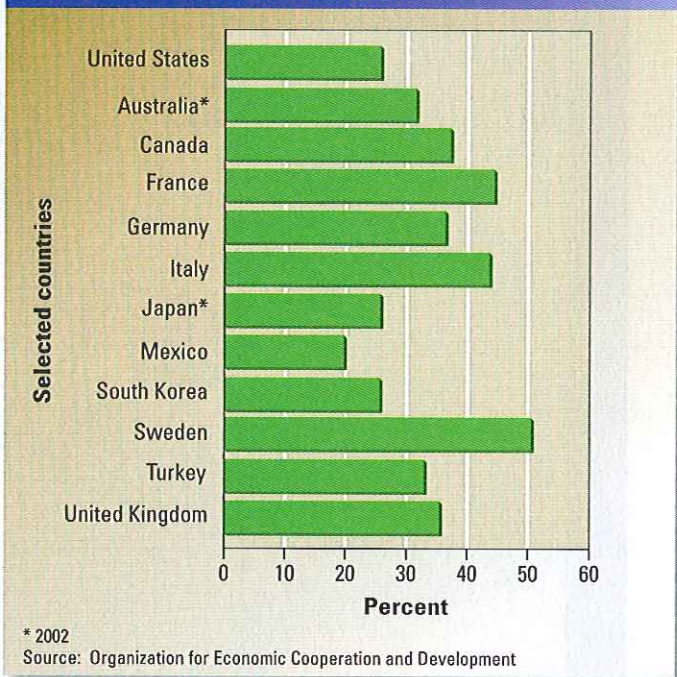
The United States and the World

The United States enjoys one of the highest standards of living in the world and one of the lowest tax burdens of the industrialized nations.

Per Capita Gross Domestic Product

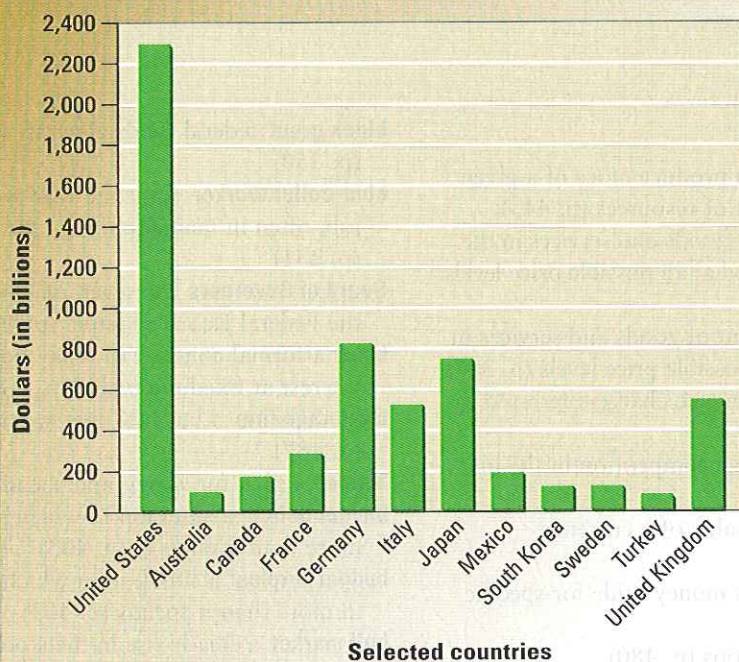


Taxes as Percent of GDP, 2003



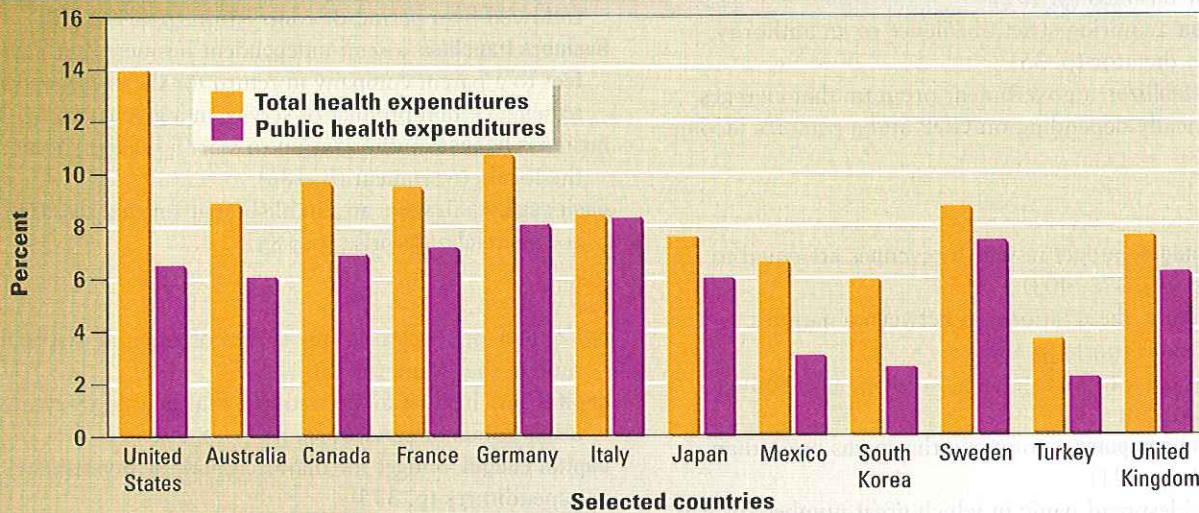
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National Budgets



Note: Figures are for one year.
Source: *The World Almanac and Book of Facts, 2005*

Health Expenditures as Percent of GDP



Source: *Statistical Abstract of the United States, 2005*

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