Unit 5: Microecononmics & Personal Finance
Lesson 1: Microeconomics 101: Scarcity & Decision-Making

ESSENTIAL QUESTIONS (WRITE DOWN!):
- **What is economics?**
- **How does scarcity influence economic decision-making?**
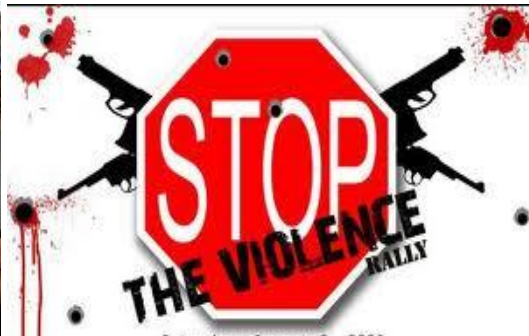
Lesson Vocabulary
- Microeconomics
- Scarcity
- Wants
- Needs
- Trade off
- Cost-benefit analysis
- Opportunity cost

- # WARM UP

  – Complete this sentence: Economics is the study of _____.
  – What are three economic choices you have made recently?

Lesson Skills:
- **demonstrate the effect of scarcity on economic choice**
- **Identify & explain opportunity cost**

Economics

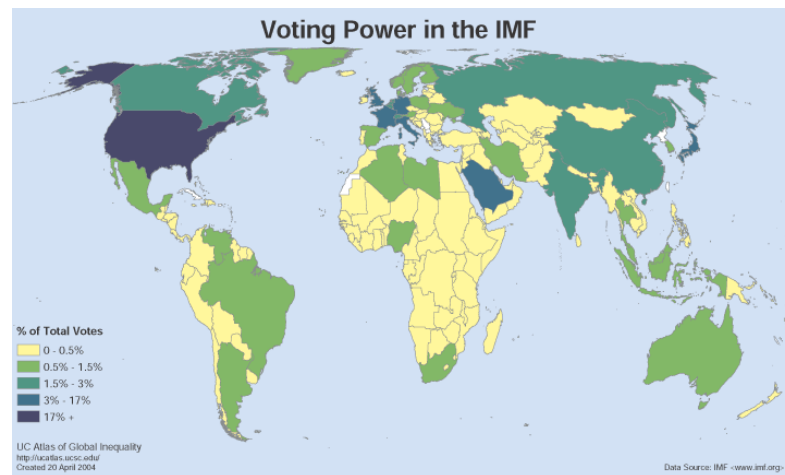- Study of how people make <u>decisions</u> <u>about limited resources when there are unlimited wants</u>

2 Kinds of Economics

- Microeconomics→ Study of smaller parts of the economy (individuals, businesses)

- Macroeconomics→ Study of big picture (economies of countries, whole industries)

Voting Power in the IMF

% of Total Votes
- 0 - 0.5%
- 0.5% - 1.5%
- 1.5% - 3%
- 3% - 17%
- 17% +

UC Atlas of Global Inequality
http://ucatlas.ucsc.edu/
Created 20 April 2004

Data Source: IMF <www.imf.org>

Resources

- Things that are used in making goods and providing services
  - Tools
  - Natural resources (wood, soil, water)
  - Human resources

Scarcity

- All of economics is based on the problem of <u>scarcity</u>

  - There are not enough resources for everyone

  - Wants are <u>unlimited</u>, resources are not

Economic WANTS & NEEDS:

- **Wants -- Things we would like to have**
  - iPod
  - Chewing gum
  - Nice clothes
  - Super Bowl tickets
  - A good education

- **Needs – things we must have to survive**
  - Food
  - Shelter
  - Clothing

http://www.youtube.com/watch?v=nFY0HBkUm8o

Trade-off

- Giving up one thing for something else

Examples

- An hour of sleep or an hour on the phone?
- A slice of pizza or chicken tenders?
- Sleeping in class or staying awake?

Cost-Benefit Analysis

- Decision-making process:
  - Will the good outweigh the bad?
  - Practice: Make a T chart:
    - Pros on one side
    - Cons on the other
  - DECISION TO MAKE:
    1. Your final exam is Monday and your friends birthday party is Sunday night. Do you go to the part y or stay home and study and get a good night's sleep?
    2. You are a professional athlete and you are a free agent. One team is offering you $6 million a year but hasn't won their division in 7 years and has a new coach. Do you sign that contract or take a $4 million per year offer from a team that has a better chance of winning a championship?

Pros	Cons

Opportunity Cost

- We can't have everything we want. Picking one thing COSTS US the OPPORUTNITY to pick something else.

- Opportunity cost -- The idea that every choice we make COSTS US because we miss out on the things / experiences we did not choose.

  - Each decision COSTS you the next best use of your time or money

  - "what you loose when you choose"

    - Chosing X costs the chance to do Y
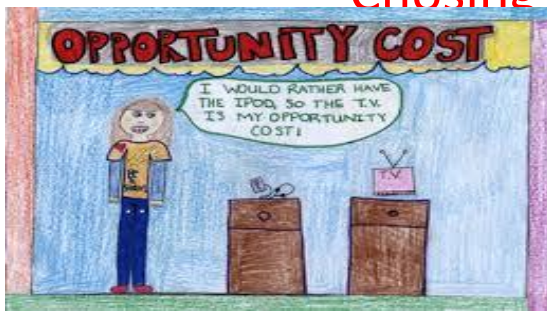
Opportunity Cost

Paycheck Stub

- A document given to employees each pay period
  - that shows & explains paycheck deductions

On-The-Go			
Employee Beakens, Joe	**Employee Identification** 201-92-4856	**Check #** 164	**Check Amount** $1,102.98
Employee Address 293 Michael Grove Billings, MT 59102			
	Pay Type- Gross Pay	Deductions	Current	Year-to-date
	$1,353.33	Federal Withholding State Withholding Fed OASDI/EE or Social Security Fed MED/EE or Medicare Medical 401K	$106.00 $40.82 $83.91 $19.62 $0.00 $0.00	$503.46 $117.72 $636.00 $244.92 $0.00 $0.00
		Totals	$250.35	$1,502.10
Pay Period 6/11/2004-7/11/2004			

Personal Information

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Pay Period 6/11/2004-7/11/2004			

Personal Information

– States the employee's full name, address, and Social Security or Employee ID #

– Always check to ensure this information is correct

Pay Period

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Pay Period 6/11/2004-7/11/2004 ⬅				

Pay Period

– The length of time for which an employee's wages are calculated; most are weekly, bi-weekly, twice a month, or monthly

– The last day of the pay period is not always payday to allow a business to accurately compute wages

Net Pay

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		Totals	$250.35	$1,502.10
Pay Period 6/11/2004-7/11/2004			

Net Pay

– The amount of money left after all deductions have been withheld from the gross pay earned in the pay period

Gross Pay

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Gross Pay

– The total amount of money earned during a pay period before deductions
- This is calculated by multiplying the number of hours worked by the hourly rate
- If a person is on **salary**, it is the total salary amount divided by the specified number of pay periods

Where Does My Money Go?

- Almost 31% of an individual's paycheck is **deducted**

- **PAYROLL DEDUCTIONS**
  - Taxes are the largest expense most individuals will have
    - <u>**Taxes on income are paid immediately & sent to the IRS by the employer**</u>
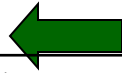
Taxes

- **Taxes** – money collected from citizens & other workers by local, state, and federal governments.
  - Used to provide public goods and services.
  - Largest amount of taxes a person pays is on his/her income.
- **Internal Revenue Service (IRS) – Collects federal taxes, issues regulations, and enforces tax laws written by the United States Congress.**

Deductions / Withholdings

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Deductions

– The amount of money subtracted from the gross pay for required taxes, health insurance costs, and/or retirement benefits

Withholdings: INCOME TAX

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– Federal Income Tax: largest deduction withheld from employee's gross income

– State Income Tax – goes into the state budget

FICA Withholding:
Social Security

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Social Security

- Nation's retirement program, helps provide retirement income for elderly and pays disability benefits
- Based upon a percentage (6.2%) of gross income, employer matches the contribution made by the employee

FICA Withholding: Medicare

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Medicare

- Nation's health care program for the elderly and disabled, provides hospital and medical insurance to those who qualify
- Based upon a percentage (1.45%) of gross income

QUICK WRITE

- WHAT IS MEDICARE AND HOW IS IT FUNDED?

- WHAT IS SOCIAL SECURITY & HOW IS IT FUNDED?

Medical

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Medical

- The amount taken from the employee's paycheck for medical benefits
- Only in cases where an employee has to pay part or all of the cost of their insurance for themselves or their dependents

Health Insurance

- Average cost of health insurance plans (2014):
  - $6,025 for individual coverage
  - $16,000 for a family of four

- EMPLOYERS usually pay at least 50% or more of this cost
  - Even if workers only pay 30%, that means an average worker would pay $400 per month

Retirement Plan

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Retirement Plan

- The amount an employee contributes each pay period to a retirement plan
- A specified percentage of the contribution is often matched by the employer
- May be a 401K, or other state, or local Pension / retirement plan

Savings Plans

- 401(K) – special retirement account that gives tax breaks if you save money for retirement

- Roth IRA – retirement account that lets you put in up to $5000/year
  - When you take money out after retirement, it is tax free

Year-to-Date

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Year-to-Date

- Total of all of the deductions which have been withheld from an individual's paycheck from January 1 to the last day of the pay period indicated on the paycheck stub

Break down these Paychecks

- Calculate this months withholdings for EACH PAYSTUB THAT YOU HAVE IN FRONT OF YOU
  - **USE THE INFORMATION AT THE BOTTOM AS YOUR GUIDE**

Disposable / NET Income

- TOTAL amount of money available to a family **AFTER** taxes have been deducted
  - After-tax income of all wage earners added up

  - $41,170 -- Durham Median Family Income
    - Half of Durham families make more; half make less
    - **That's about $32,850 after taxes**

Discretionary Income

- Income spent on leisure or luxury items
  - Movies, eating out, jewelry, etc.

- "discretionary" income goes to wants, rather than needs

Typical Household Expenses

Fixed

- Mortgage/Rent
- Property Taxes
- Income Tax
- Health Insurance (if no benefits)
- Car Payments (if car is financed)
- Car insurance
- Child Care (pre-school/early morning/extended day)

Variable

- Utilities
- Food (groceries
- Food (eating out)
- Gasoline/transportation

Largest Expenses

- Housing is largest single expense – should not exceed 30-35%
- Health Insurance (if not provided)
- Student Loan debt
- Credit card payment
- Food
- Transportation

Spending Plan Pie Chart

Savings 10%

Housing 35%

Other Living Expenses 25%

Debt 15%

Transportation 15%

Housing 35%
- Mortage/Rent
- Repairs
- Taxes
- Utilities
- Insurance

Debt 15%
- Student Loans
- Credit Cards
- Personal Loans

Transportation 15%
- Car Payments
- Gas
- Insurance
- Repairs
- Parking/Tolls
- Train/Bus Fees

Other Living Expenses 25%
- Eating Out
- Vacations
- Entertainment
- Clothing

Savings 10%
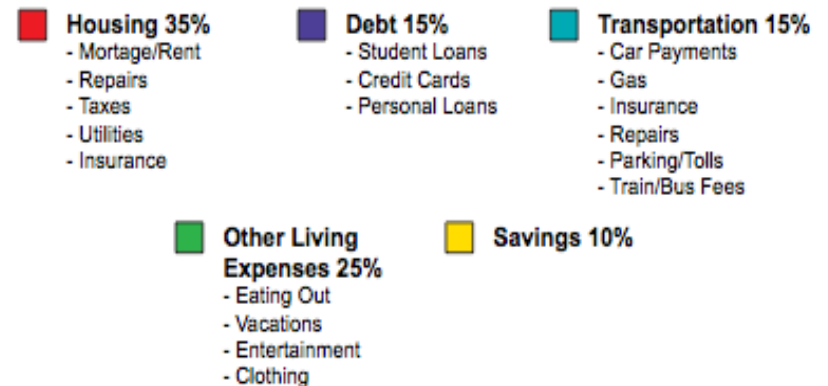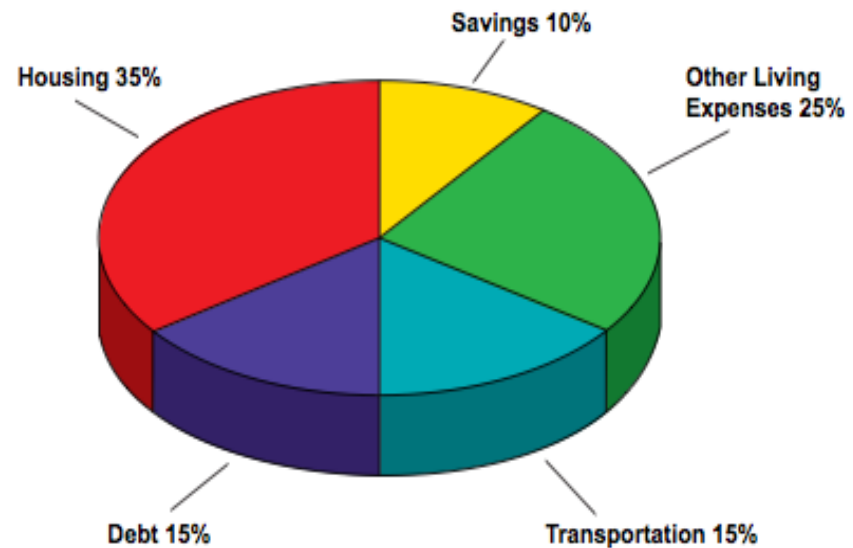
Paying Your Taxes!!

- **Income Tax (State and Federal)**
  - Due every April 15th for the previous tax year
  - Progressive tax: wealthier people pay more

- **Sales Tax (NC rate: 4.75%; Durham rate: 2.25%)**
  - Added to the cost of everything you buy in stores
  - Regressive: low-income people end up paying more b/c food, clothing & shelter form a larger percentage of their budget

- **Property Tax (Local Government: $0.079/thousand $$$)**
  - Land, houses, cars, boats, etc

Rent vs. Mortgage

- **Mortgage – a loan taken from a bank to help you purchase a home**
  - The bank pays for the house up front
  - You are the home owner
  - **you make "mortgage" payments every month to the bank**
- Miss payments? You could lose the house to the bank

- **Rent – monthly amount paid to the owner of a property in exchange for the right to live there**
  - Owner could:
    - Raise the rent
    - Sell the property
    - Decide to kick you out and move in themselves or rent to someone else

Can you survive in the workplace?

- Do the budget simulaiton at http://playspent.org/html/

- When done, go to this link and answer the questions you find there.

  - http://goo.gl/forms/sOqw0pYYu5

Where Does the Money Go?

The Department of Labor's latest survey provides a detailed look into how the average U.S. consumer unit spends their annual paycheck.

U.S. CONSUMER UNIT EXPENDITURES
Average annual expenditures and percent of total:

CASH CONTRIBUTIONS $1,821 — 3.7%

ENTERTAINMENT $2,698 — 5.4%

FOOD $6,133 — 12.4%
- Food at home $3,465 **7%**
- Food away from home $2,668 **5.4%**

READING $118 — 0.2%

TRANSPORTATION $8,758 — 17.6%
- Vehicle purchases (net outlay) $3,244 **6.5%**
- Gasoline, motor oil $2,384 **4.8%**
- Expenses, other transportation $3,130 **6.3%**

ALCOHOLIC BEVERAGES $457 — 0.9%

INSURANCE, PENSIONS $5,336 — 10.8%
- Pensions, Social Security $5,027 **10.1%**
- Life, other personal insurance $309 **0.6%**

EDUCATION $945 — 1.9%

APPAREL and SERVICES $1,881 — 3.8%

PERSONAL CARE* $588 — 1.2%
*products and services

HEALTHCARE $2,853 — 5.7%

MISCELLANEOUS $808 — 1.6%

TOBACCO* $323 — 0.7%
*incl. supplies

HOUSING $16,920 — 34.1%
- Shelter $10,023 **20.2%**
- Utilities, fuels, public services $3,477 **7%**
- Household operations $984 **2%**
- Housekeeping supplies $639 **1.3%**
- Household furnishings, equipment $1,797 **3.6%**

U.S. CONSUMER UNIT (average)
- Age: **48.8**
- Number of vehicles owned: **1.9**
- Percent homeowner: **67%**
- Number of persons in consumer unit: **2.5**
- Number of earners: **1.3**
- Income before taxes — **$63,091**

AVERAGE ANNUAL EXPENDITURES $49,638

SOURCE: Consumer Expenditures (U.S. Dept. of Labor, U.S. Bureau of Labor Statistics, April 2009)

NOTE: Some breakdowns may not equal their totals due to rounding.

April 15th – TAX DAY

- ## Income Tax due April 15
  - ### File form 1040 EZ

Unit 5: Microecononmics & Personal Finance
Lesson 3: Banking & Credit

ESSENTIAL QUESTIONS (WRITE DOWN!):
- *What purposes do checking & savings accounts serve for banks and for consumers?*
- *How do credit scores work and why do they matter?*

Lesson Vocabulary:

- Consumer confidence
- Checking account
- Savings account
- Deposit
- Withdrawal
- Direct deposit
- Transfer
- ATMs & ATM fees

- Debit Card
- Mortgage Loan
- Credit Score
- Credit Report
- Interest Rate
- Credit Card
- Annual Percentage Rate (APR)

• WARM UP

– Do you know how to write a check? Use the template provided to give it a try.

– How do you think banks make money?

– What do you know about how credit scores work?

Lesson Skills:

- **Analyze the relationship between credit scores and interest rates**

Money, Banking, & You

What are the Functions / purposes of money?

1. A *medium of exchange* for goods and services

   – We can use it to buy stuff

2. Money serves as a <u>holder of value</u>

   – We can hold onto it to build wealth

3. Money serves as a <u>measure of value</u>

   – It lets us compare what different things are worth

Textbook p. 524

Why Does Money Have Value?

Consumer Confidence -- we believe or accept the value of it

Textbook p. 525

Bank Deposits

- **<u>Checking Accounts</u>** ~ used to pay bills or to transfer money from one person to another quickly
  - DEBIT CARDS – connected to checking accounts
    - Can be used to make purchases without having to write a check
    - Used like a credit card, but you are paying right away instead of paying back the card company later
- **<u>Savings Accounts</u>** ~ banks pay interest to customers based on how much money they have deposited

Textbook p. 535

Managing your Bank Account

- **Deposit – put money in**
  - Fill out deposit slip & turn it into the bank along with the cash or checks you are depositing

- **Withdrawal – take money out**
  - At your bank: no fees
  - **ATM Machines –** use a debit card to take money out of your checking account
    - ATM Machines run by banks OTHER THAN YOUR OWN will charge you a fee; usually between $2 and $4

Managing Your Bank Accounts

- Transfer -- You can tell your bank to move money from one of your accounts to another
  - Move between checking, savings accounts, or into retirement accounts
- Electronic Funds Transfer – used to wire money directly from your account to someone else
  - Benefits
    - Pay bills without writing checks; never forget to make a payment
  - Risks
    - If your account balance is low you could be charged overdraft fees
    - Have to call the bank to stop payment if you wish to discontinue it

Managing Your Bank Accounts

- Bouncing a Check
  - When you write a check but don't have the money in your account to pay for it
  - Your bank charges you a penalty fee
- Overdraft fees – if you buy something with your Debit/ATM card but don't have enough money in your account
  - Bank pays for the product, then charges you fees and penalties

How do Banks Make Money?

- banks lend money to businesses and individuals and charge <u>interest</u> on repayment
  - Mortgage loans – help people buy homes
  - Small Business Loans – help people start businesses
  - https://www.youtube.com/watch?v=cxfMxpB9-Ds

Mortgages (home loans)

FIXED RATE

- Locks interest rate in for defined period of time
- Usually 30 years long
- Payments never change
  - (unless you miss payments)

VARIABLE RATE

- Interest rate changes with the market
- Often given to people with bad credit
- Usually has a 2 or 3 year fixed period, but after that the interest rate can change ever month

Credit

- When a store lets you buy something on the promise that you will pay later
  - Concept has existed for centuries
  - Helps people & businesses make big purchases

  - https://www.youtube.com/watch?v=qWWZ77-1YuA

Interest: The cost of Credit

- Before a company makes a loan or gives you a credit card, they check your **credit score**
  - Based on how reliable you have been about paying your bills on time
  - If you never miss payments and pay everything off, you are a LOW CREDIT RISK
  - People who miss payments are viewed as HIGH RISK

Interest Rates

- Annual Percentage Rate (APR) – the percentage of interest that a company charges individuals if they are late in repaying their credit card balance

- Bad credit = high risk = high interest rate
  - Giving credit to someone who has a history of not paying their debt is risky
  - To cover their risk, companies usually give these people a HIGH INTEREST RATE
    - Company makes money by charging interest on late payments
    - Consumer gets stuck paying off the interest & it's hard to pay off the original amount

How to Avoid Paying Interest

- **Pay off the bill on time every month**
  - If you always pay on time, you will never owe interest
  - DO NOT MAKE PURCHASES YOU CANNOT AFFORD!!!!

- DO NOT GET FOOLED AND MAKE JUST THE "MINIMUM PAYMENT"!!!!

Credit = "Easy Money" = Big Problems

- "Buy Now Pay Later"—don't actually have to have money to buy something

- Debt increased→ spending decreased

Credit & Debt:

- 312.7 million Americans
- 609.8 million credit cards
- Average credit card holder has 3.5 cards
- 14.89% - average interest rate on new credit card offers
- **$15,799** – average credit card debt for households with credit cards
- **$2.43 trillion** – total American consumer debt

Minimum Payments

- Card companies allow & ENCOURAGE people to pay less than what they owe
  - This allows the company to collect more interest and earn a larger profit
  - https://www.youtube.com/watch?v=Vz05A6cP6Iw
- Use the "Making the Minimum" handout to better understand the effects of making minimum payments

Unit 5: Microecononmics & Personal Finance
Lesson 4: Education, Career Planning, & Retirement

ESSENTIAL QUESTIONS (WRITE DOWN!):

- *How does education influence my career options?*
- *What steps can I take to improve my retirement security?*

Lesson Vocabulary

- Correlation between education & income
- Wage
- Salary
- Income
- Entrepreneurship
- Profit, Revenue, Cost
- Independent Contractor
- Investment
- Investment Portfolio
- Stock
- Mutual Fund
- 401(K)
- Roth IRA
- Pension
- Social Security
- Health Insurance
- Life Insurance
- Entitlements

- **WARM UP**

  – Do you plan to go to college? What kind of school or technical education do you want after high school?

  – What sort of job / career do you envision for yourself?

Lesson Skills:

- **Analyze graphs and statistical data**

Career Planning 101: Jobs vs. Careers

Job

- work you do for money
- No special reason why the job is important to you

- Usually offers an hourly wage
 - Workers are paid for the time they work

Career

- A chosen profession
- Opportunities for growth & advancement

- Usually offers a salary and benefits
  - Salary – employee is paid a set amount each year
  - Benefits – ways that companies compensate their employees OTHER THAN salary:
    - Health care
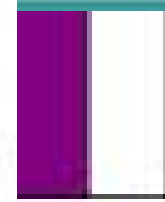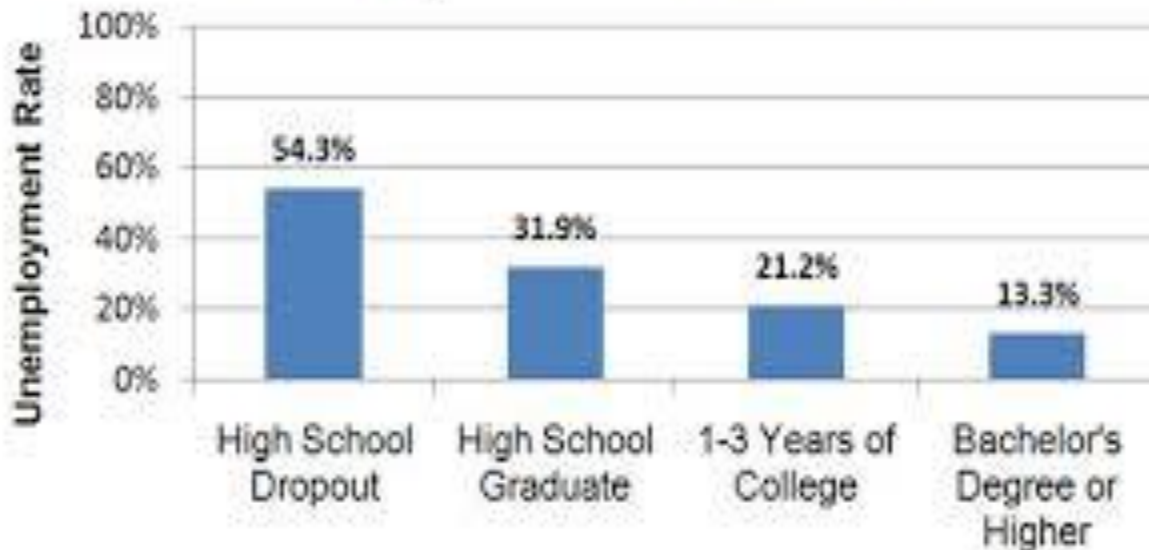   - Retirement plans
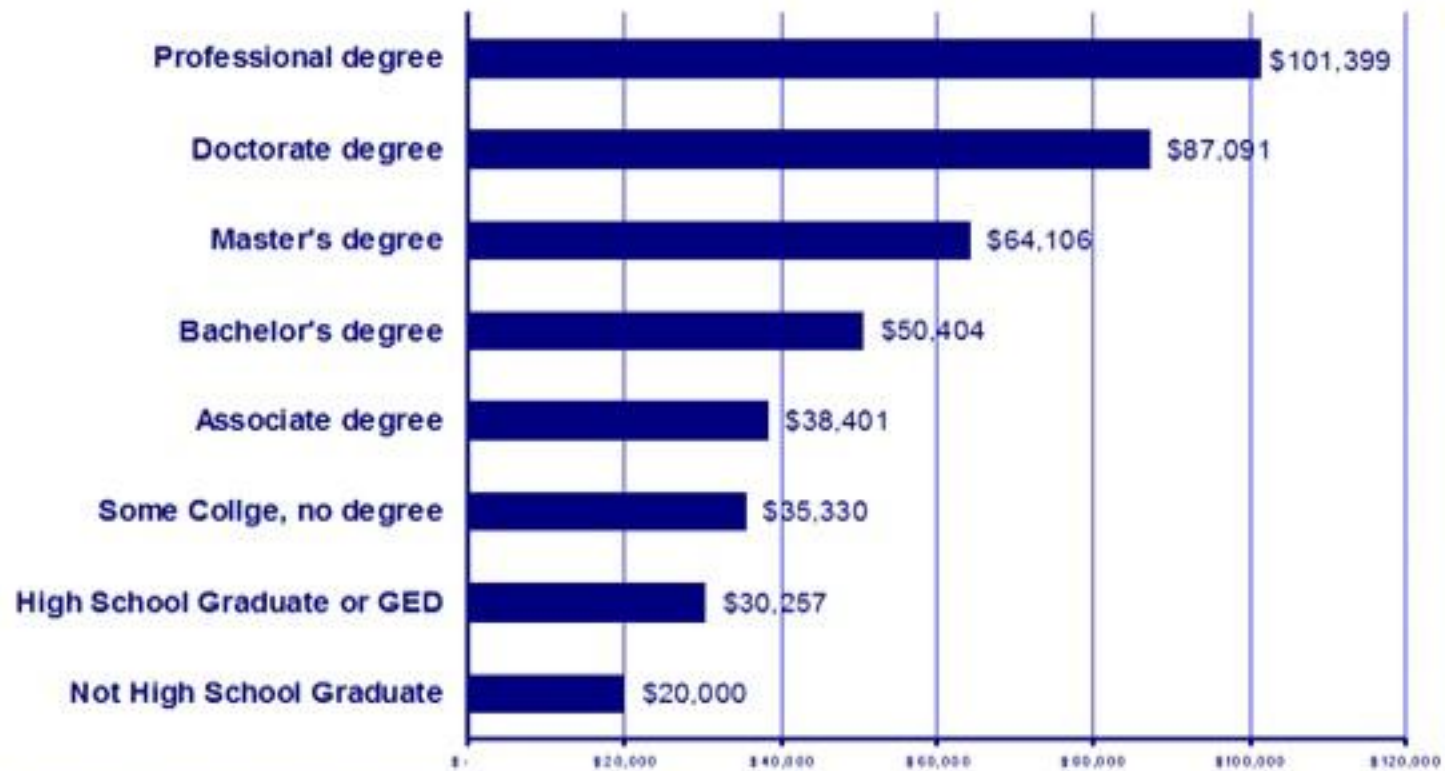   - Paid time off

Too cool for school?

You think you're too cool for school.

Median usual weekly earning
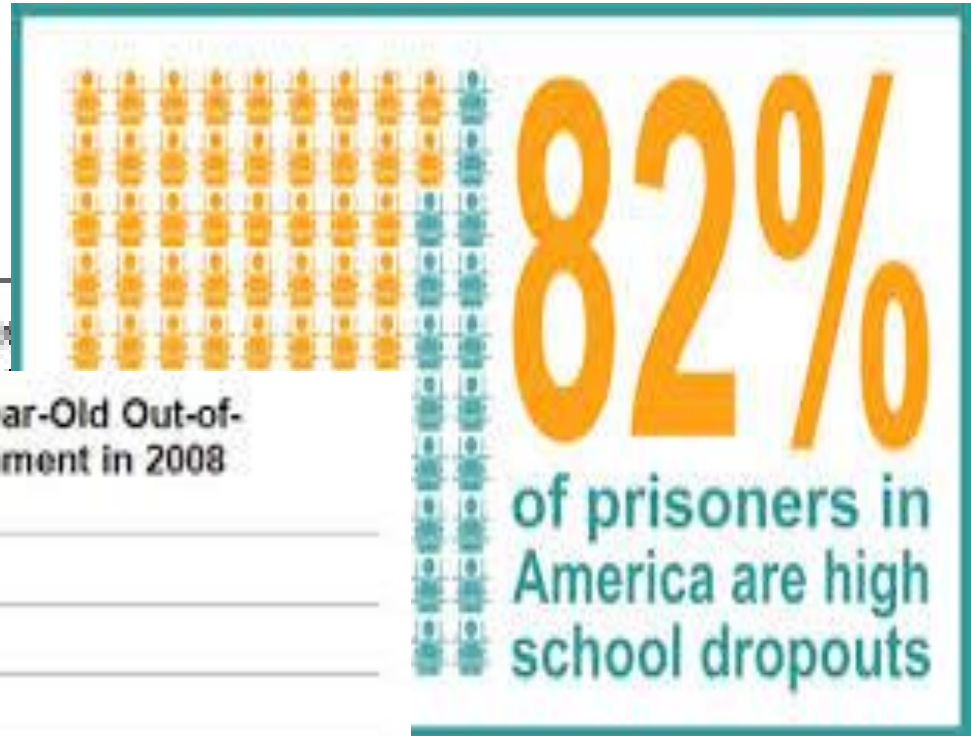
Unemployment Rates of 16- to 24-Year-Old Out-of-School Youth by Educational Attainment in 2008

Unemployment Rate

- 54.3% — High School Dropout
- 31.9% — High School Graduate
- 21.2% — 1-3 Years of College
- 13.3% — Bachelor's Degree or Higher

82% of prisoners in America are high school dropouts

Education & Income

Average Annual Earnings by Education Level 2009

Education Level	Average Annual Earnings
Professional degree	$101,399
Doctorate degree	$87,091
Master's degree	$64,106
Bachelor's degree	$50,404
Associate degree	$38,401
Some Collge, no degree	$35,330
High School Graduate or GED	$30,257
Not High School Graduate	$20,000

Source: US Census Bureau, Current Population Report, 2010

Basic Life Planning Choices

- Be employed – work for another person / company
- Work for yourself!
  - **Entrepreneur – someone that opens their own business**
    - **Benefits of entrepreneurship:**
      - **Do what you love, Set your own hours, you keep your profits**
    - **Risks of entrepreneurship:**
      - **Most small businesses fail**
      - **Takes money to get started**
- **Independent contractor – provide services to companies in exchange for payment**
  - **Examples: construction, cleaning services, etc.**

Entrepreneur

- Individual who starts a new business, introduces a new product, and improves a management technique

Businesses compete to sell either Goods or Services

Goods

- Physical products we can buy and use
  - Toothbrush
 - Soda
  - Glue
  - Pants
  - iPod

Services

- Things we pay for that provide a convenience
  - Cleaning services
  - Restaurants
  - Hotels
  - Tutoring
  - Hair stylist / manicure

Running a Business: Revenue

- Money you make when you sell a product
  - If you sell 5 shirts for $10 each, the revenue is $50

  - Does not account for the cost of the shirts

Running a Business: Variable Costs

- Costs that depend on other factors
  - The more you make, the more these costs go up
  - More paper = more trees
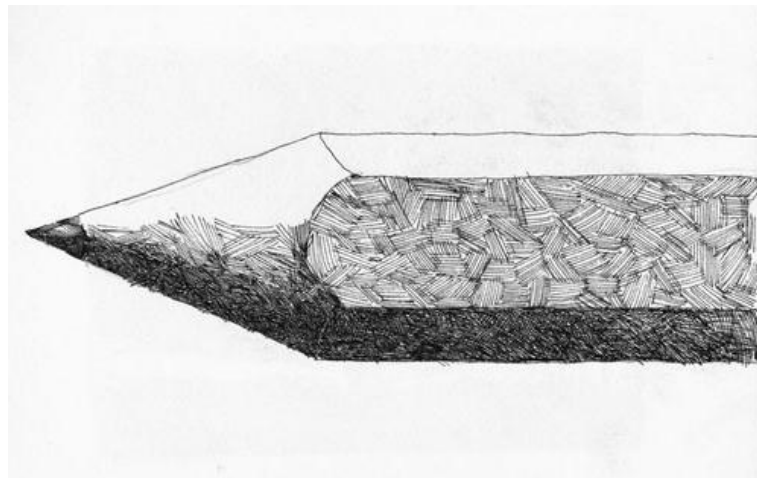 - Hot weather, more cost to run the AC
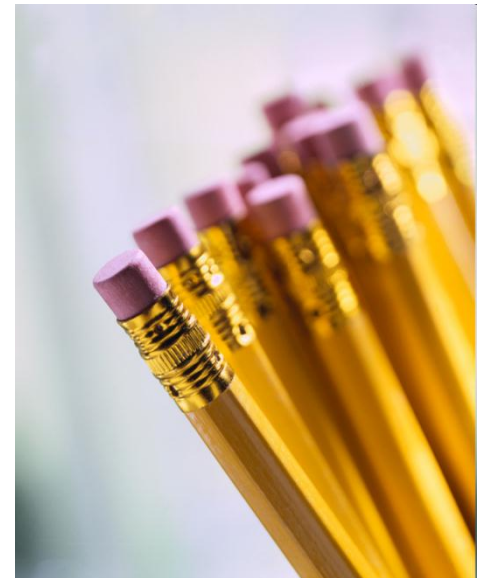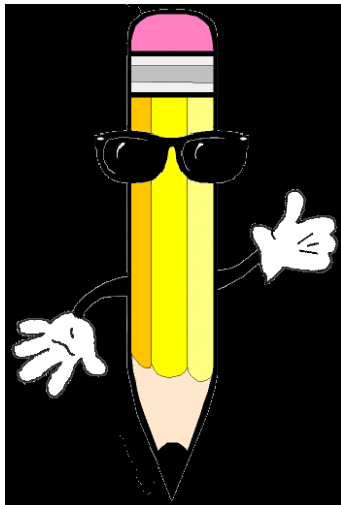
Running a Business: Total Costs

- Fixed + Variable

Running a Business: Marginal Costs

- The additional cost of producing one more unit of output
  - 3000 pencils= $150
  - 3001 pencils = $150.05
  - Marginal cost = $.05

Running a BusinessProfit

- PROFIT=REVENUE-COST (P=R-C)
  - The amount of money left over after all costs are taken out

Running a Business: Break Even Point

- Point at which a company starts to make money

  Cost=Revenue

  If a company cannot reach the break even point, it will shut down because it cannot turn a profit

Different kinds of businesses

- Sole proprietorship

- Partnership

- Corporation

Sole proprietorship

- Business owned and operated by one person

Partnership

- Business that two or more people run

Corporation

- Business with its own legal status separate from an individual
- Usually sells stocks

Investing for the Future:
Savings & Retirement Security

- Investment -- To invest is to use money now on things that you believe will create wealth in the future.
  - Examples:
    - Buy a business now that you think is going to grow
    - Buy property now that you think will gain value over time
    - Buy stocks (shares of companies) that you think will gain value
    - Buy government bonds
      - (basically you are lending the government money at interest)

Retirement Savings Plans

- Pension Plan – employer funded retirement plans;
  - many companies will set this up for workers that spend at least 3-5 years at the company
  - Individuals may contribute additional money to their pension plan if they wish

- 401(K) – special retirement account that gives tax breaks if you save money for retirement

- IRA / Roth IRA – individual retirement accounts that lets you put in up to $5500/year
  - When you take money out after retirement, it is tax free

- Social Security – government run retirement plan
  - Everyone pays into the system while they are working, and will receive payment after they retire
 - The more you work and pay taxes, the more you get when you retire

Entitlements

- What does it mean to be "entitled" to something?

    - Entitlements are taxpayer funded / government programs designed to meet the basic needs of citizens

Entitlement Programs

- Medicare – health insurance entitlement for those over the age of 65

- Medicaid – health insurance entitlement for children and for low-income families

- Social Security – retirement plan

Analyze: How do Entitlements affect the Federal Budget?
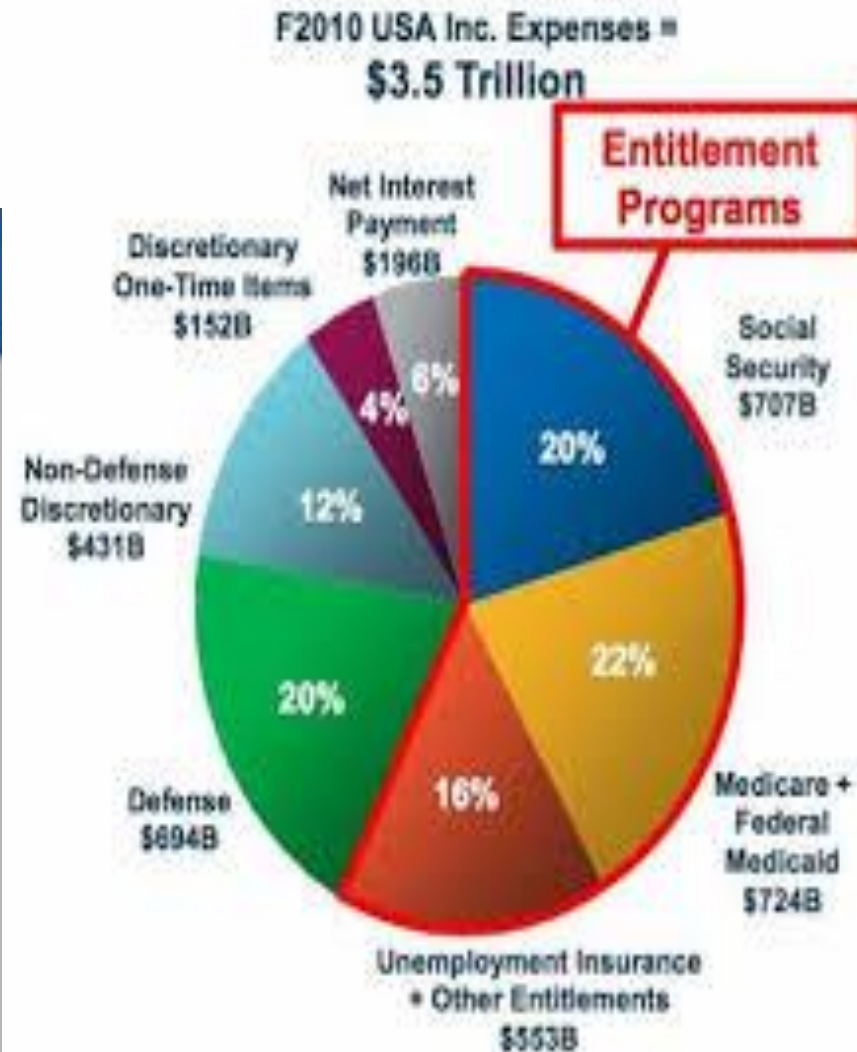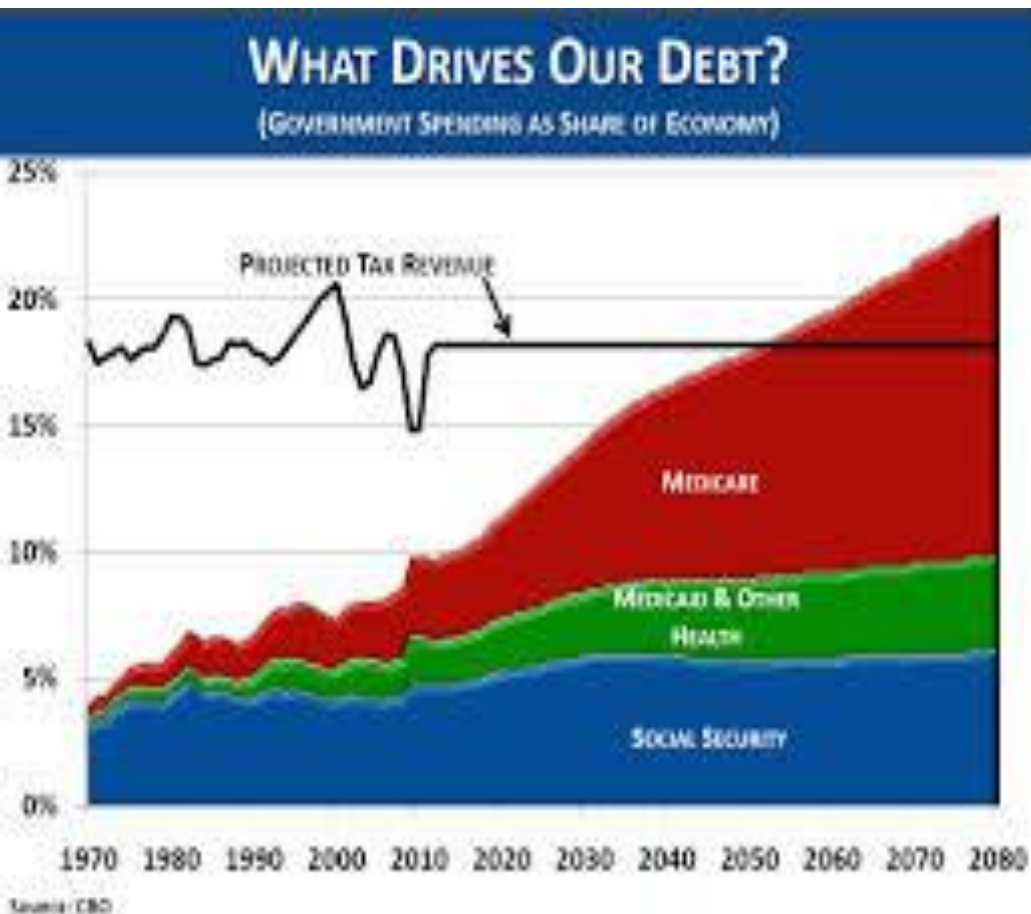
Cost of Entitlements Today

- $2.2 trillion in 2010
  - 1960: about 1/3 of all federal spending
  - 2010: 2/3 of all federal spending

- 1.3 trillion for Social Security
- $900 billion for Medicaid & Medicare
- 45% of American children receive some type of government aid

Quick Write:

- What is this political cartoon saying about how to manage the cost of entitlements?

Insurance

- System of risk management
  - Insurance companies make money by collecting "premiums" from customers each month
    - If something goes wrong, the insurance company helps pay
    - If nothing goes wrong, the insurance company keeps the money

  - As more people become insured and make payments, the total costs go down, because the cost/risk is spread out among more people

Types of Insurance

- **Health Insurance (private / public)**
  - Medical costs: doctor visits, medication, hospitals, etc.
- **Auto insurance – car accidents**
  - Liability – pays for damage and personal injury of other driver
  - Collision – pays for damage to your own car
- **Homeowners Insurance (private)**
  - Property damage, theft, fire, etc.
- **Life Insurance (Private)**
  - Early / unexpected death; pays benefits to surviving spouse or children
- **Unemployment Insurance (government run)**
  - Compensates if someone is laid off from their job
  - Funded by companies paying a percentage of their payroll

What is "stock"?

- Companies raise money by selling "stock" to investors.
  - Each share of stock is like a tiny piece of the company;
  - If the company does well, the value of the stock goes up and investors make money
  - If the company struggles, investors lose money
- Many individuals buy stock as a way to save for retirement.

Why do people buy stocks?

- Capital Gains – the profit earned when a person sells their stock for more than they originally paid for it
  - **Capital gains tax rate is 15% -- LOWER THAN INCOME TAX**
- Dividends – payments that some companies make to their shareholders as a way to distribute profits

- Basic rules of investing:
  - High demand = high stock price
  - Low demand = low stock price
  - "Buy low, sell high"

Psychology of the Stock Market

- It's all about consumer confidence
  - If people are happy with they economy, they will buy stocks and invest
  - If people are nervous, they are likely to sell

- More buyers than sellers? = stocks go up
- More sellers than buyer? = stocks go down
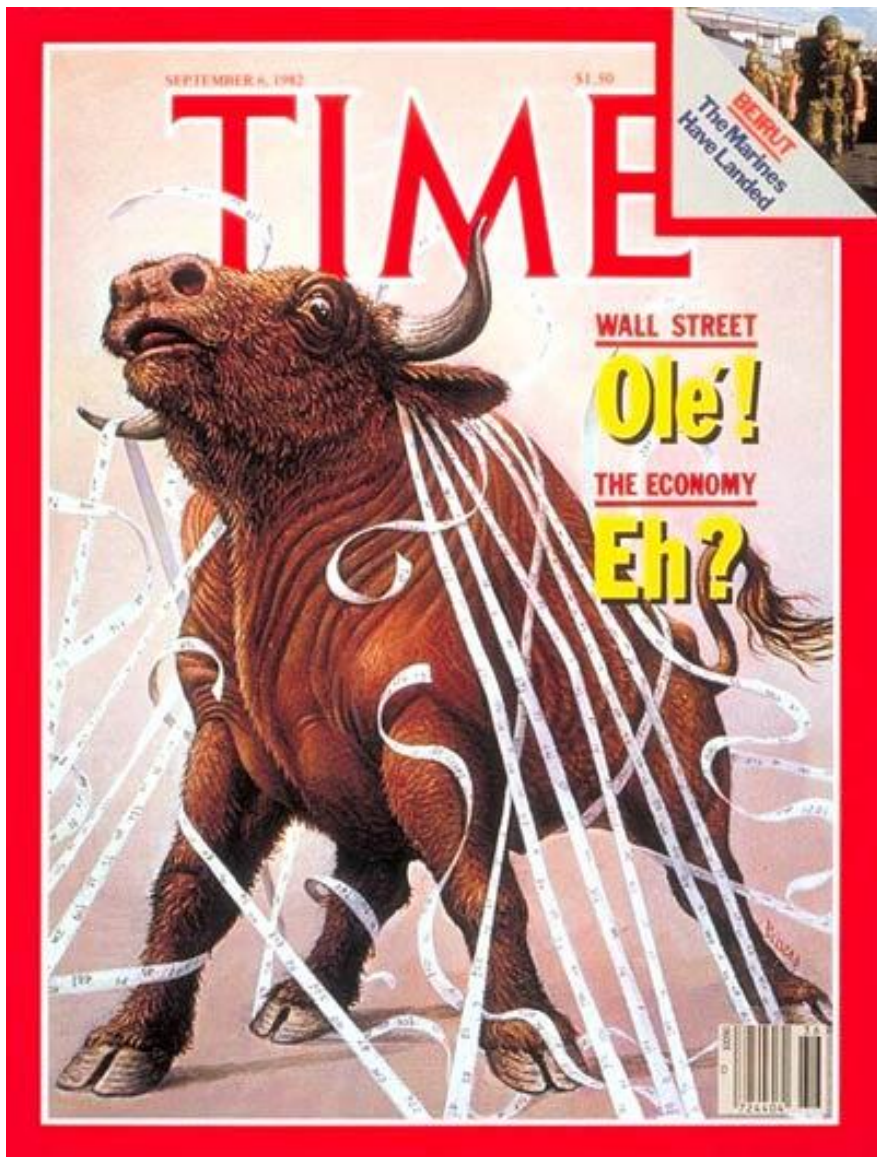
Bull Market ~ rising stock prices

Bear Market ~ falling stock prices

Unit 5: Microecononmics & Personal Finance

Lesson 5: Don't get Scammed! Consumer Protection

ESSENTIAL QUESTIONS (WRITE DOWN!):

- *How can I avoid scams and bad financial decisions?*

Lesson Vocabulary:

- Consumer Protection Laws
- Ponzi Schemes
- Better Business Bureau
- Consumer Financial Protection Agency
- Securities & Exchange

- Commission
- Identity Theft
- Attorney General
- Class Action Lawsuit
- Product Recall
- Monopoly
- Anti-trust laws

- **WARM UP**

  – What is identity theft?

  – What kinds of financial scams have you heard about that you have to watch out for?

  – How do you win in the game Monopoly?

Lesson Skills:

- **Making smart financial choices**

Importance of Competition

- Lower prices

- More efficient production

- Improved quality

WHAT HAPPENS WITHOUT COMPETITION?

WITHOUT COMPETITION WE GET:

- **Monopoly** ~ when one company controls all production or distribution of a specific good or service

- Oligopoly – when a very small number of companies control production & distribution of a good/service

  - PRICE GOUGING – without competition, companies can raise the prices as high as they want
    - This hurts consumers

Textbook p. 505

Government works to Maintain Competition

- **Antitrust Laws** ~ laws passed to control monopoly power and preserve competition
  - If a company is too powerful it might be broken up into several smaller companies
  - Antitrust Laws have been used to stop the power of many famous monopolies: Standard Oil, American Tobacco, AT&T, and Microsoft

Textbook p. 505

Fraud

- Intentionally lying to or deceiving people in order to secure illegal financial gain
  - Fraud is a crime punishable by prison
  - Fraud is a tort for which an individual may be sued

Examples of Fraud

- Check Fraud
  - Writing bad checks that you cannot pay
- Phony Lender
  - You receive a notice that the company collecting your loan repayments has changed, but it hasn't
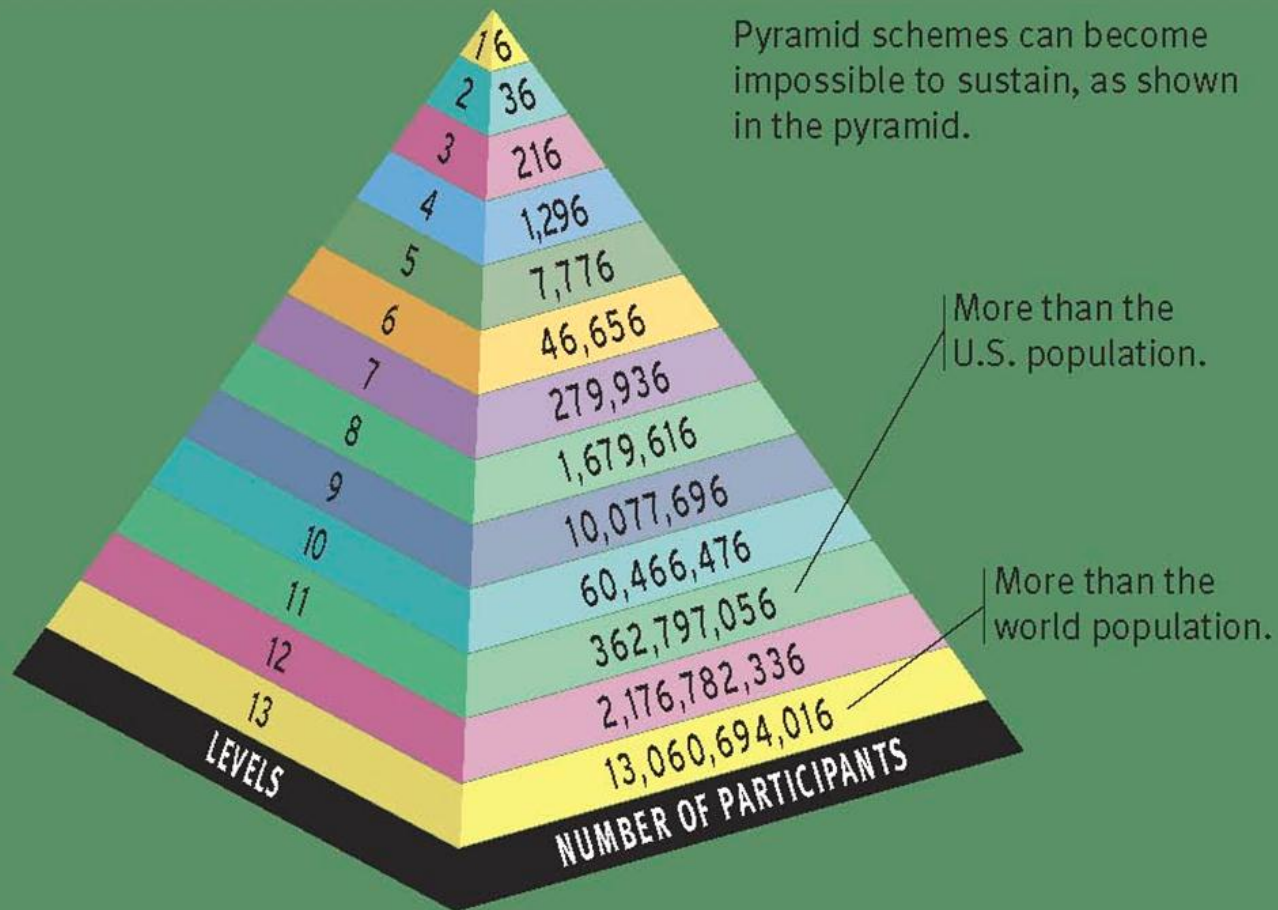 - You are told to send payment to a different name/address

Example of Fraud: Ponzi Schemes

1. Recruit investors to give you money
2. Have those investors recruit new investors
3. Have those investors recruit new investors
4. Pay the original investors with money raised from new investors (and keep a bunch for yourself)
5. Keep recruiting new investors without ever actually doing anything to earn a profit

You send us $5

Have 5 of your friends send us $5

Have each of your 5 friends get 5 *more* friends to send us $5

We get rich!

Why Ponzi schemes are illegal

Ponzi Scheme Pyramid

Other Examples of Fraud

- Insider Trading – using private information not known by the general public to make decisions about the purchase or sale of stock
  - Illegal because it gives people an unfair advantage over other investors
  - Example:
    - John runs a car company and owns 10,000 shares of stock.
    - John learns in a meeting that the brakes installed on all 2015 models of the company's cars are faulty and must be replaced
    - John sells all his stock before the information goes public to avoid taking a loss
  - Example:
    - Jack is the CEO of a company with stock that trades at $15/share.
    - Jack knows that Google is about to buy the company, which will cause the stock value to soar
    - Jack buys up all the stock he can afford before the deal with google is announced so he can reap the profit
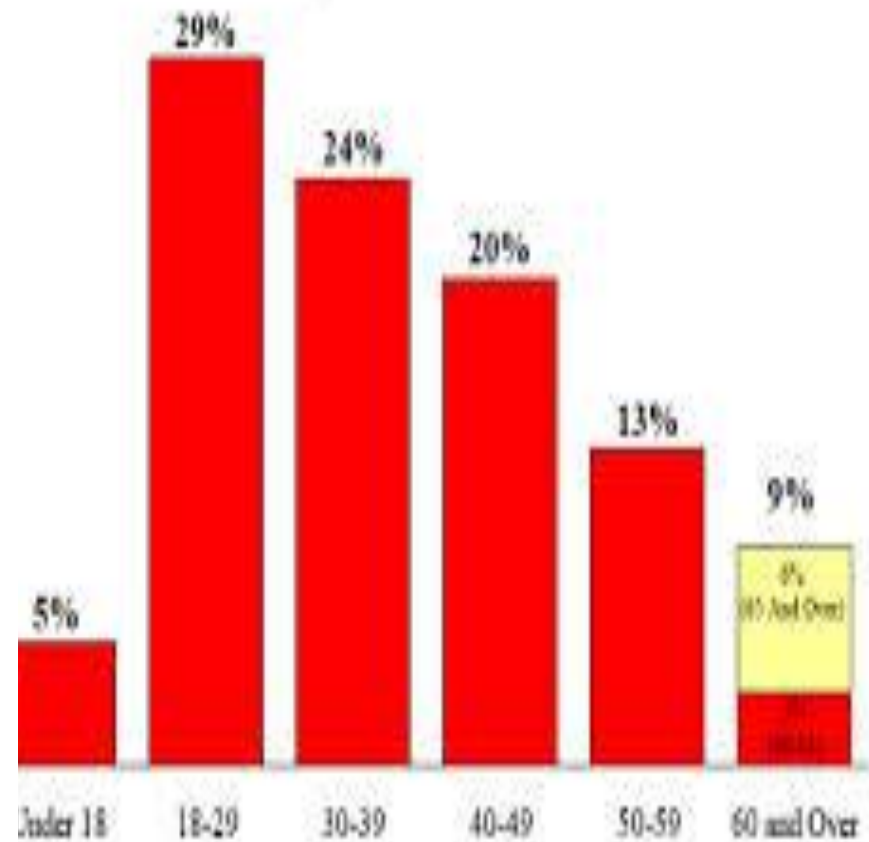
Identity Theft

- Fraudulently using another person's identity for financial gain
  - People can use bank information, tax returns, credit card numbers, social security numbers, etc. to steal your money and use YOUR CREDIT HISTORY to apply for credit cards or loans
  - Fastest growing crime in the United States

Credit Card Numbers

Cancelled Checks

Financial Records

Legal Records

Insurance and Medical Records

Tax Returns

Social Security Numbers

Proprietary Business Information

Examples of Identity Theft

Figure 6
Identity Theft Complaints by Victim Age[1]
January 1 – December 31, 2005

Legend:
- Credit Card Fraud
- Utilities Fraud
- Bank Fraud
- Employment Fraud
- Load Fraud
- Government Fraud
- Other

Pie chart values: 26%, 18%, 17%, 12%, 5%, 9%, 13%

Bar chart values: Under 18 — 5%, 18-29 — 29%, 30-39 — 24%, 40-49 — 20%, 50-59 — 13%, 60 and Over — 9%

How to Prevent Identity Theft

- Never give anyone your social security number
  - Never put your SSN in an email
- Use a shredder to destroy sensitive financial information (DO NOT JUST TRASH/RECYCLE IT)
  - Bank statements
  - Checks & check paystubs, etc.
- Never give bank or other account information over the phone or in email
  - Avoid clicking on suspicious links on websites
- Do not access bank information on shared computer networks
  - ALWAYS log out of websites that use your account information
- Get a copy of your credit report & review it each year

Your options in reporting fraud

1. Report it immediately to the relevant agency:
   - The police
   - The Better Business Bureau
     - The BBB accepts consumer complaints about companies and then takes the complaint to the business. Companies that get lots of complaints get bad ratings.
   - State Attorney General office
2. File a lawsuit
   - Class Action Lawsuit – lawsuits filed by lots of people that have the same complaint about a company
     - EXAMPLE: cigarette smokers suing tobacco companies for lying about the effects of nicotine

How does the Government Protect Consumers?

- Consumer & Environmental Protection Laws!!!
  - Food labeling & ingredient requirements
  - Car safety standards
  - Clean Water Act
  - Clean Air Act

How does the Government Protect Consumers?

- **Government REGULATES market activity.**
  - **Regulatory agencies** work to make sure companies are following the law
    - **Securities & Exchange Commission** – watches banks and investment companies to catch insider trading and lending fraud
    - **Consumer Financial Protection Bureau** – monitors debt collectors, banks, credit unions, payday lenders, etc.

Regulating Market Activity

- Food & Drug Administration
  - Food & Product recalls:
  - Government can order unsafe foods or consumer products be removed from stores
- Federal Communications Commission
  - Regulates TV and radio stations

Federal Aviation Administration

USDA PRIME BEEF