Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Economic Skills Date: \_\_\_\_\_\_\_\_\_\_\_\_

Unit 2 - Independent Living

Banking Basics

**saving**

the process of setting money aside for a future date instead of spending it today

**investing**

the process of setting money aside to increase wealth over time and accumulate funds for long-term financial goals such as retirement

**deposit**

money you put into your savings account

**withdrawal**

money taken out of your savings account

**interest**

money paid to you by the bank for being able to use your money

**interest rate**

percentage you are paid for your money

**account balance**

total amount of money that is in the account at a given point in time

**compounding of interest** when money is earned on the total amount in the account including the initial deposit and interest that has already been credited to the account

**Examples and Practice**

As you construct the spreadsheet below, think about the following:

Interest Payment: Interest Rate x Beginning Account Balance

Ending Account Balance: Beginning Account Balance + Interest Payment

Beginning Account Balance: Ending Account Balance from the previous month

Remember that because the interest rate is a yearly one, it must be divided into equal monthly payments. To do this, assume that the account is earning .25% each month (.25% x 12 months = 3% per year).

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Month** | **Interest Rate** | **Beginning Balance** | **Interest Payment** | **Ending Balance** |
| **1** | **25%** | **$1,000** | **$2.50** | **$1,002.50** |
| **2** |  |  |  |  |
| **3** |  |  |  |  |
| **4** |  |  |  |  |
| **5** |  |  |  |  |
| **6** |  |  |  |  |
| **7** |  |  |  |  |
| **8** |  |  |  |  |
| **9** |  |  |  |  |
| **10** |  |  |  |  |
| **11** |  |  |  |  |
| **12** |  |  |  |  |

**Rule of 72**

a formula designed to help people estimate how long it will take to double their money at a certain expected interest rate; divide 72 by the interest rate (in this case, 3%) to determine the total number of years it will take to double your money

**Examples and Practice**

Practice estimating how long it will take to double your $1,000 savings using various interest rates. If the account paid each rate listed below, how long would it take to double the beginning balance? Assume interest is paid annually and use the Rule of 72.

|  |  |  |  |
| --- | --- | --- | --- |
| **Beginning Balance** | **Interest Rate** | **Rule of 72** | **Time Needed to Double Beginning Balance** |
| $1,000 | 1.5% |  |  |
| $1,000 | 2.75% |  |  |
| $1,000 | 4.5% |  |  |

**check**

handwritten or computer-generated order specifying the amount of money to be paid and the name of the person or company who should receive the funds



**credit**

money you put into your account

**debit**

withdrawal from your account

**balance/reconcile**

compare the amount of money in an account, equal to the net of credits and debits at that point in time for that account

**statement balance**

how much money you have in your checking account as of the statement date

**Examples and Practice**

Imagine you have a part-time job and you earn a paycheck every two weeks. You must use that money to pay some of your own expenses including school lunches and your monthly cell phone bill. In addition, you use the money in this account for day-to-day expenses such as leisure activities and purchasing items you want such as clothing, music, video games, etc. Suppose that your end of the month account balance in August was $143.68. This will be your start of the month balance for September. During September you make two deposits into the account when you receive your paychecks. The first is for $105.24 and the second for $108.78. You write nine checks totaling $289.44. What will your account balance be at the end of September?

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Check #** | **Date** | **Transaction****Description** | **Check/Debit****Amount** | **Deposit/Credit****Amount** | **Balance** |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
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|  |  |  |  |  |  |

**debit card**

a card that allows the user to withdraw money from a bank account to obtain cash or make a purchase

**personal identification number/PIN**

four-digit code connected to the debit card; verifies your identity

**electronic funds transfer/EFT**

the movement of funds using computer systems, telephones or electronic terminals, or smartphones

**online and smartphone banking**

allows account holders to access their account information, view transaction history and perform banking transactions via the Internet or their mobile phone

**Automated Teller Machines (ATMs)**

a machine that allows you to perform basic banking functions without the help of a teller

**overdrawn**

having a negative balance in your account

**overdraft penalty**

a fee to cover the cost of processing your bad check

**overdraft protection**

arrangement with the bank to cover checks so they will not bounce; this can take on several forms:

automatic transferring of money from another account at the same bank to cover the amount you are deficient in your checking account to prevent you from overdrawing

allowing you to overdraft your account up to a specified limit before assessing any penalties and/or bouncing your checks

lending you the amount of money by which you have overdrawn your account and charging you a high rate of interest on this loan

**Examples and Practice**

Let’s return to our previous example. You had a beginning balance of $143.68. You made two deposits in the amounts of $105.24 and $108.78. You wrote nine checks totaling $289.44. You completely forgot to record a debit from a weekend trip to the mall, and you didn’t realize this until you decided to check your account balance online one evening. According to the bank records, you went to the movies and spent $22.94 on admission and snacks. In the meantime, you’ve already sent a check for $62.97 to the cell phone company to pay your monthly bill.

What is the current balance in your bank account?

What do you think will happen when the cell phone company tries to cash your check?

What will happen as a result of your failure to record the debit (there are several possibilities)?

**identity theft**

stealing someone’s personal, identifying information and using it to make purchases or to get other benefits

