

Before You Begin



Learning Outcomes

Once you've completed this chapter's videos, you will be asked to return to this list and place a checkmark next to the items you've mastered.

Section 1: What Is Personal Finance?

- Describe what personal finance is.
- Outline the components of effective financial planning.
- Identify focuses of study throughout this course.

Section 2: Money, the American Way

- Understand the evolution of America's dependence on credit.
- Observe and analyze the "normal" American family as it relates to personal finance.

Section 3: You and Money

- Develop communication strategies for managing money and discussing financial issues.
- Evaluate your own money personality; identify your money strengths and weaknesses.



Key Terms

Get to know the language of money.

- » **Consumer:** A person or organization that uses a product or service
- » **Credit:** The granting of a loan and the creation of debt; any form of deferred payment
- » **Debt:** An obligation of repayment owed by one party (the debtor/borrower) to a second party (the creditor/lender); in most cases this includes repayment of the original loan amount plus interest
- » **Economy:** A system by which goods and services are produced and distributed
- » **Financial literacy:** The knowledge and skillset necessary to be an informed consumer and manage finances effectively
- » **Interest:** A fee paid by a borrower to the lender for the use of borrowed money; typically interest is calculated as a percentage of the principal (original loan amount)
- » **Loan:** A debt evidenced by a "note," which specifies the principal amount, interest rate and date of repayment
- » **Personal finance:** All of the decisions and activities of an individual or family regarding their money, including spending, saving, budgeting, etc.

Measure Your Progress

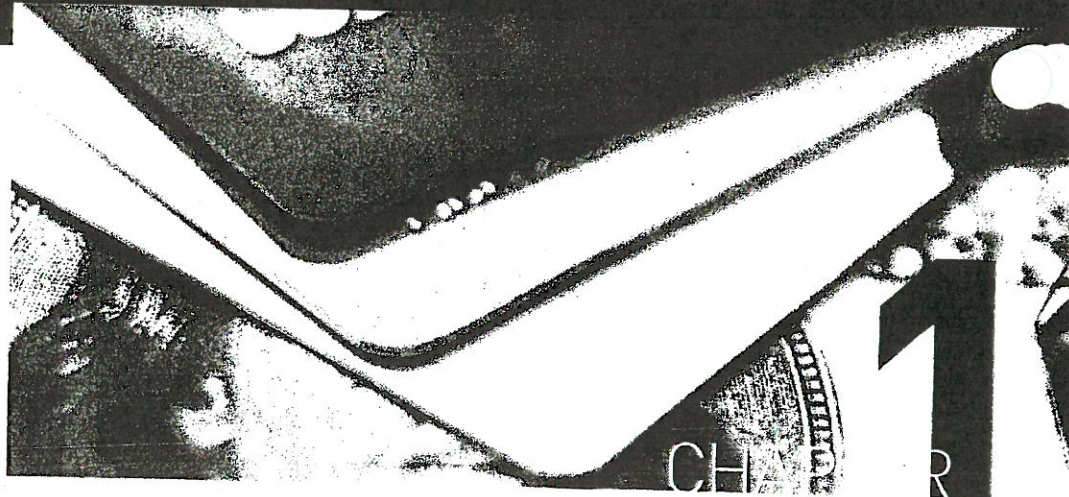
Before watching the video, read each statement below and mark whether you agree or disagree in the "Before" column. Then, after watching the video, do it again using the "After" column to see if you changed your mind on any statement.

BEFORE			AFTER	
Agree	Disagree		Agree	Disagree
<input type="checkbox"/>	<input type="checkbox"/>	1. I already have a strong working knowledge of personal finance.	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	2. I think I have a lot to learn when it comes to managing money.	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	3. Because I am a teenager, what I do now with my money will have little effect on my financial future.	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	4. My parents have taught me a lot about how to manage money.	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	5. Most Americans are very wealthy and will have financial security when they retire.	<input type="checkbox"/>	<input type="checkbox"/>



Can you think of a financial goal you have at this moment? Is this a long-term or a short-term goal? Describe how you plan to achieve this financial goal.

This is one of the most important classes you will ever take. We're excited you are joining us. Now let's begin!



"Wealth is more often the result of a lifestyle of hard work, perseverance, planning and, most of all, self-discipline."

The Millionaire Next Door

55% of teens surveyed say that they want to learn more about how to manage their money—particularly learning about: investing (88%), saving (87%), budgeting (82%), checking accounts (80%), and financing for big purchases like a car or a home (79%).

National Foundation for Credit Counseling, Inc.

Section 1: What Is Personal Finance?

MOST HIGH SCHOOL students don't spend their time worrying about mortgages and investments, but they are at an age when smaller financial responsibilities start creeping into their lives. Many of you are earning allowances or have already begun working a part-time job. So what do you do with your money? If you're just putting it in your pocket and spending without a plan, living payday to payday could become your normal. You need to make decisions about what to do with your money.

Have a money plan. Set money goals. Learning to manage money at this stage can eliminate financial mistakes and promote huge financial benefits for the future.

What is personal finance? Personal finance refers to all the financial decisions an individual or family must make in order to earn, budget, save and spend money over time. These decisions are generally based on a variety of financial risks and planning for the future.

Key Components of Financial Planning

Directions: As you see words pop up on the left side of the video screen, write them into the workbook blanks.

Assess your financial situation (your income, assets and liabilities).


Set money goals! Make sure you have a mix of both short-term and long-term goals.

You must write out a detailed plan for accomplishing your goals. This begins with your budget.

Execute your plan! This involves discipline and perseverance.

Know your money personality regularly monitor and reassess your financial plan.

Replace money myths with money truths.



In what ways could you do better when it comes to managing your money?

Two in five U.S. adults gave themselves a C, D or F on their knowledge of personal finance.

National Foundation for Credit Counseling, Inc.

"Wealth building isn't rocket science, which is a good thing for me (and probably you). Winning at money is 80% behavior and 20% head knowledge. What to do isn't the problem; doing it is. Most of us know what to do, but we just don't do it. If I can control the guy in the mirror, I can be rich. Find a mirror!"

DAVE RAMSEY

If you put into practice what we teach, you truly can win with money!

Section 2: Money, the American Way

A History of Credit and Consumerism

It is impossible to discuss the history of personal finance in America without highlighting the evolution of the credit industry. Think, for a moment, about the most recent commercial you've seen advertising a big ticket item like a new car or new furniture. Do those ads target people who have "budgeted,

PRIOR TO

1917

1929

1939

1 Credit Prior to 1917

- » Before 1917, buying things on credit was not common. Why? Because it had never been legal for lenders to charge interest rates high enough to turn a profit.
- » Lending money to others was not a money-making business. Only wealthy people could get personal loans. Without the possibility of profit, lending money to the middle and lower class was not worth the risk.
- » Small-time loan sharks (people who offered loans at extremely high interest rates, which was an illegal activity at the time) existed for people in desperate financial positions, but they were shady operations on the fringes of society.
- » The highly evolved, highly accepted consumer credit as we know it today did not exist.

2 Credit Takes Root

- » After 1920, consumer demand for big-ticket manufactured products was on the rise.
- » Credit laws were relaxed in an attempt to create a mainstream, profitable alternative to loan sharks for the working class.
- » Installment credit (type of credit that has a fixed number of payments, also known as revolving credit) and legalized personal loans became big business.
- » This era made consumer credit legal and more socially accepted.

"In 1917, one popular historian described debt as 'semi-slavery' ... (which) existed before the dawn of history, and it exists today."

Debtor Nation: The History of America in Red Ink

3 Leveraging Credit to Escape the Great Depression

- » In an attempt to help Americans regain their financial footing, New Deal policy-makers came up with mortgage (home loans) and consumer lending policies that convinced commercial banks that consumer credit could be profitable despite bankers' long-held reluctance to lend to the working class.

The New Deal was the legislative and administrative program of President F. D. Roosevelt designed to promote economic recovery and social reform during the 1930s.

saved, and are ready to go make that large purchase”? Or are they more likely to suggest that you “Buy NOW, pay LATER”? Which phrase is more familiar? Sadly, borrowing money is so ingrained in our culture that we can’t imagine life without it. So how did we get here? Let’s take a look.

1945

1970 TO THE PRESENT

4 WWII Fuels an Economic Recovery

After the Great Depression, WWII proved to be the most important economic event of the 20th century. The war ended the Great Depression by reviving American industry through government spending and consumption. In short, the economy improved because the war created a ton of new jobs. These jobs provided considerable increase in personal income and led Americans to predict permanent improvements to their standard of living.

“Americans left government-mortgaged homes in installment-financed cars to shop on revolving credit at shopping centers.”

Debtor Nation

5 Post World War II Consumerism

- » Ah, the birth of the suburbs! The post-war middle class bought the American Dream with consumer credit. Americans “learned” to borrow in the midst of prosperity.
- » They borrowed because they believed their incomes would continue to grow into the future . . . and they were right. Incomes rose steadily from 1945 to 1970.
- » Financial institutions lent more money, and borrowers paid it back. Borrowing became a post-war normalcy.

“If you will happen to your money, then you will have some. If you just let all your money happen to you, you’ll never win.”

DAVE RAMSEY

6 The Decline Into Debt: 1970–Present

- » After 1970, consumer debt skyrocketed not because people were borrowing more, but because they continued to borrow as their parents had done since WWII. The difference was they didn’t have the postwar period’s well-paying jobs.
- » Banks were willing to lend even more because they were now making huge profits off consumer debt. The credit industry had become smarter than borrowers.
- » As consumers borrowed to deal with unexpected job losses and medical expenses, as well as to live “the good life,” banks were willing to continue lending.
- » Due to the clever structuring of financial institutions, the credit world now resembles the pre-1920s loan sharks more than the 1950s banks.
- » In short, an old credit system premised on rising wages and stable employment (low-risk borrower) was reformed to accommodate uncertain employment and income instability (high-risk borrower).

Today's American Reality

"When we participate in what the crowd identifies as normal, even if it is stupid, we gain acceptance into the club. Sometimes we don't even realize what we are doing is stupid because we have been taught that it's just 'the way you do it,' and so we never ask why."

DAVE RAMSEY

Unfortunately, many American families only have the appearance of being financially secure. If you drive through a middle-class neighborhood, you might look at the manicured lawns, nice houses and new vehicles in the driveways and think, *Wow, they're doing all right. I want to live like that when I'm an adult.*

The sad reality is that most of the people in those houses are struggling with debt in the form of mortgages, car loans, student loans and credit cards. Based on statistics, Americans are horrible at saving money and planning for retirement. They are so conditioned to think debt is normal, they can't envision paying cash for a car or

even a dining room table! Americans often spend more money than they make. Most Americans don't have an emergency fund. Saving, budgeting, retirement planning and staying out of debt are all basic money principles, not complex economics.

So why aren't Americans better at managing money? They were never taught the right way. As you go through this course, we will focus on teaching you what to do with money and then show you how to do it. Money math is easy. It's controlling your money behavior that's the challenge. As you evaluate the "normal" American family, consider your own financial future.

The fact is, this doesn't have to be your future reality.

» You don't have to spend more money than you make just to look good in front of your friends. You can learn basic money principles and put them into practice.

» When you manage money well, you'll experience deeper satisfaction.

» It's really simple! Personal finance is 80% behavior and 20% head knowledge.

» Money myths is easy—it's controlling your behavior that's the real challenge.

» As you think about the "normal" American family, remember that normal is broke. You don't have to be normal!

A Snapshot of the "Normal" American Family

Don't be fooled by outside images of new cars and expensive homes. Most Americans are struggling financially and drowning in debt.

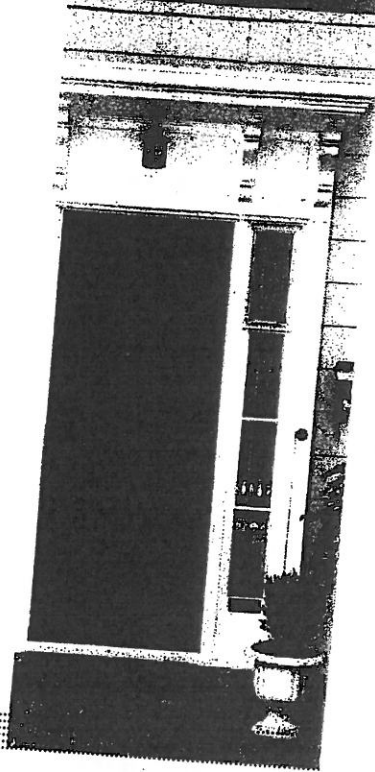
DEBT PROFILE OF THE AVERAGE AMERICAN FAMILY

Average Credit Card Debt (of households with credit card debt)	\$15,799
Average Mortgage Debt	\$149,667
Average Student Loan Debt	\$32,559
Average Car Loan Debt	\$13,125

This does not have to be your future reality. If you manage money well from the start and make the decision not to use debt as a financial tool, you can avoid the stress of living paycheck to paycheck.

* **NOTE:** Average credit card debt of all American households is \$7,000, source: Nerd Wallet

*Federal Reserve, U.S. Census Bureau, Internal Revenue Service, manilla.com



ve's Story

With more than 20 years of experience counseling people on how to manage their money, Dave knows what it takes to get control of your cash.



More than 20 years ago, my wife, Sharon, and I went broke. We lost everything due to my stupidity in handling money, or

not handling it, as the case may be. Hitting bottom and hitting it hard was the worst thing that ever happened to me and the best thing that ever happened to me.

We started with nothing, but by the time I was 26 years old, we held real

estate worth more than \$4 million. I was good at real estate, but I was better at borrowing money. Even though I had become a millionaire, I had built a house of cards. The short version of the story is that debt caused us, over the course of two and a half years of fighting it, to lose everything. We were sued, foreclosed on, and, finally, with a brand-new baby and a toddler, we were bankrupt. Scared doesn't begin to cover it. Crushed comes close, but we held on to each other and decided we needed a change.

Introduction to Personal Finance

USED TO: PHILOMATH HIGH SCHOOL

"Today there are three kinds of people: the haves, the have-nots, and the have-not-paid-for-what-they-haves."

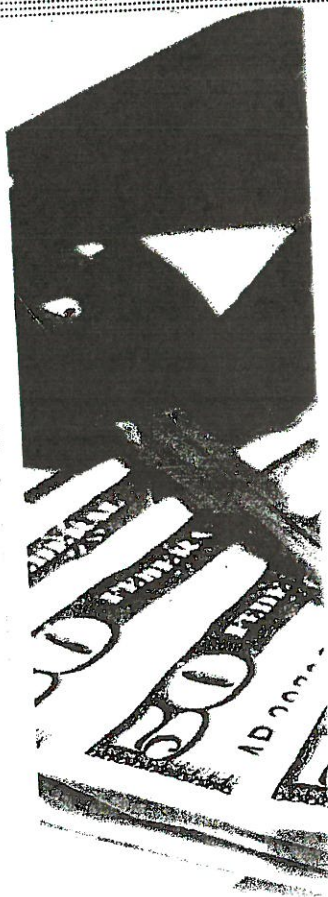
EARL WILSON
American columnist

Dave's Story (Continued)

After losing everything, I went on a quest to find out how money really works, how I could get control of it, and how I could have confidence in handling it. I read everything I could get my hands on. I interviewed older rich people, people who made money and kept it. That quest led me to a really, really uncomfortable place: my mirror. I came to realize that my money problems, worries and shortages largely began and ended with the person in my mirror. I also realized that if I could learn

to manage the character I shaved with every morning, I would win with money.

The stuff we teach in this class represents everything I've learned about money since then, from savings and debt, to insurance and investing. And I'm excited that my daughter Rachel has joined me to get this information to you before you graduate high school. Trust me, knowing this stuff then would have saved me a whole lot of trouble!



What's Your Money Personality?

StageofLife.com conducted a writing contest to evaluate students' attitudes toward money and the role of money in their lives. The following was the contest writing prompt:

"What is your relationship with money? How do you spend (or save) and why?"

More than 3,335 students from all 50 U.S. states contributed a 500-word essay response. From the essay submissions, several themes emerged:

1. FRUSTRATION: Many teens expressed negative emotions about money: anger, frustration, stress, distrust and even hatred.

2. ROLE MODELS: Teens are watching how their parents treat money. In several of the essays, the teens made a point to criticize how their parents handle money and vowed not to "be like them."

3. PRAGMATIC: There was a minority voice that did approach the topic with a more pragmatic point of view and in some rarer cases, even positivity. Students shared their personal saving tips, budgeting experience and more.

4. MONEY ISN'T EVERYTHING: A good percentage of the essays address a more universal truth: that money isn't everything. Yes, it's needed to survive, but it's not a requirement in making people happy.

Americans Are Being Outsmarted

Ultimately, what made our current indebtedness possible was that it became profitable. Yes, a debt system that keeps Americans from achieving wealth and makes us "slaves" to the lender exists because it became a profitable industry. Today, with Americans charging more than a

trillion dollars each year on their credit cards, one can understand why the credit card companies are so profitable. There is nothing wrong with a business turning a profit; what's wrong is that these companies are outsmarting Americans. That should bother you!

Why do we allow ourselves to be outsmarted when it comes to our own money?

- » We like stuff—lots of stuff!
- » We are told that debt is normal. It has become acceptable in our culture to use credit to buy things.
- » We are taught that we can buy happiness. This is simply not true!

Our debt system keeps us from building wealth because we are constantly giving our money away to pay for things we bought years ago.

- » In America, we are bombarded with marketing ads that push us to buy things. "You can buy it today with no money down and no interest for 90 days!" Sound familiar?
- » We want you to be aware of the financial condition of our country—and we want you to question it!

We will talk more about consumerism and debt in later chapters. Right now, our focus is to be aware of the financial "condition" of America and begin to question it.

Teen money attitudes shifted with the recent recession.

- Nine in 10 teens say they were affected by the recession.
- Nearly two-thirds of teens (64%) are more grateful for what they have.
- The majority (58%) of teens say they are less likely to ask for things they want.
- The majority (56%) of teens have a greater appreciation for their parents' hard work.
- More than a third (39%) of teens appreciate their families more.
- Nearly three-quarters (73%) of teens say it is important to have an emergency fund.
- More than half (51%) of teens say it is important to understand debt.

CBS Money Watch

*"You will either
manage your money,
or the lack of it will
always manage you."*

DAVE RAMSEY



What was Dave's biggest lesson when it came to managing money and building wealth?

Section 3: You and Money

Learn the Language of Money

No one is born financially smart! Learning the language of personal finance is the first step in becoming money smart. The language of money is spoken in the vocabulary of accounting: understanding what credits, debits, assets and liabilities

are. You've got to learn enough to understand your personal financial statements and communicate effectively about your finances. How smart you are with your money will determine your financial well-being in life.

- » Knowing the language of money allows you to tell your money what to do.
- » That means deciding where your money is going to go before you get your paycheck.
- » You'll be able to communicate effectively with bankers, financial planners and insurance agents.
- » Focus on understanding the vocabulary as you move through this course.
- » You'll become the expert on your money. Winning with money is not complicated, but it does involve some basic knowledge.

Learning the language is the key to the game.

Learning the language of money is a little bit like learning the language of sports. You can't really follow—much less enjoy—a football game if you don't know what the ref is talking about when he uses words like "blitz," "option" or "stunt." But once those terms are explained to you and you grasp their meaning in the context of the game, you can easily get into it and shout for your team.

It's the same way with money. Being financially literate allows you to participate in the game. And if you really put what you learn into practice, you can even become a coach—and tell your money what to do! Of course, that doesn't mean talking to your

Benjamins. It's about effectively communicating with bankers, financial planners and insurance agents—people who provide the money services you need in order to grow wealth. It's also about knowing how to budget and what to budget for.

Understanding the language of money will allow you to manage your own finances effectively. You don't want to be dependent on outside influences to control, shape or coerce your financial behavior. Instead, you will determine which level of financial well-being you will achieve. It's simple. If you're going to tell your money what to do, you need to first speak the language!

"Ignorance is not lack of intelligence; it is lack of know-how."

DAVE RAMSEY

Become Money Smart

You don't have to be a financial or accounting genius to win with money. Financial success isn't reserved just for the select few who actually enjoy running spreadsheets or earn

accounting degrees. But you *do* need to be what we call "money smart." That just means you need to understand some basic principles.

- » **First**, you need to be comfortable with basic math.
- » **Second**, you must start learning the language of money.
- » **Third**, and this is the hardest part, you need to learn how to manage your behavior with money.

What Does Winning With Money Look Like?

We can divide financial well-being into three levels.

*** NOTE:** These levels are not determined by income, but rather by how you manage your income.

Some people make more than \$100,000 per year but are living at survival level because they spend everything they make (and then some). There are others who make \$40,000 per year but live at a secure level. How is this possible? They live on less than they make!

- 1. Survival:** At this level there are simply income, bills and hope that there is enough money to get you to the end of the month. Sounds like fun, right? You work for every dollar you earn and spend everything you earn. This is the living “paycheck to paycheck” level of financial well-being.
- 2. Comfort:** At this level, you have a basic understanding of money management. There are still income and bills, however, you pay yourself first! You have a small monthly surplus that you use to save and invest. You are slowly building wealth and moving toward being financially secure.
- 3. Secure:** Instead of saving and investing a small surplus, you arrange your finances in such a way that your wealth now generates your income. That’s right! At this level, your money actually works for you.

On which level would you like your financial future to rest?

How You View Money Matters

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The way we view money is unique and largely dependent on our current financial state. Even though you are still dependent on your parents, you are already developing a “money personality.” Some people are really good at saving while others are talented at finding bargains. The fact is we all have strengths and weaknesses; we all have a money personality. How much

money a person has, unfortunately, does not always dictate his or her spending behavior. Some millionaires hate spending while some people who are broke can’t seem to stop buying things. Money—or the lack of money—can affect the way we feel about ourselves and the way we interact with others. Your relationship with money is complex and dynamic.

» Winning with money isn't just about understanding how it works—it's about putting your heart into it. That's the 80% behavior we've talked about.

» Money is a fool. It's up to you to manage it.

» The best way to manage money is to learn how to manage you.

» You need to know your natural instincts when it comes to money. For instance, are you more likely to spend or save?

» Once you know your money personality, you develop a financial plan that works for you.

» It's in recognizing who you really are that allows you the opportunity to grow and learn.

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During this course, as you develop your knowledge and skills in areas like budgeting and saving, consider your money personality. Think about how your parents and other adults in your

life spend and save. Reflect on your own spending habits. Understanding the way you think about money will help you manage your money and make good decisions for your financial future.



How do you want your financial future to look?

Budget Builder

One of the most important steps in creating a financial plan is to know how to write a budget. Go to [www.budgetbuilder.com](#) for your first budget lesson!



What do other high school students know about saving?

We asked high school students to describe something they really wanted and thought they *had* to buy, only to realize later that they wasted their money.

.....
"I worked and saved \$250 for a guitar that I never learned how to play."

Junior, Michigan

"I bought some fish that I thought I really wanted. I never fed them, totally lost interest in them, and they all died. What a waste of money!"

Junior, Alabama

"I really wanted this expensive skateboard that cost \$229. I had to have it. Turned out it skated no better than the other ones that were a lot less expensive."

Sophomore, Alabama

"I got a pink Coach purse that I paid more than \$200 for and have maybe used twice."

Junior, Florida

"I bought an \$80 sweater that turned out to be really cheap quality."

Freshman, Tennessee