

PART I

Understanding Income

OUTCOMES

After successfully completing this part, students should be able to:

- * **Explain** how the job market and career choices affect the money a person may earn over a lifetime.
- * **Describe** how the economy can affect income, career choices, and decisions.
- * **List** sources of income and the types of taxes and deductions that reduce money available for spending.
- * **Discuss** the value of workplace benefits as income incentives.
- * **Define** inflation and explain how it affects prices.
- * **Explain** how buying decisions are affected by internal and external sources.

CHAPTER 1

Choices That Affect Income

- 1-1 Personal Financial Decisions
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CHAPTER 2

Income Sources

- 2-1 Earned Income and Benefits
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CHAPTER 3

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- 3-1 Inflation and Prices
- 3-2 Price and Demand
- 3-3 Selling and Buying Strategies

PART 1, UNDERSTANDING INCOME, is the starting point for learning about financial literacy. Income is money you receive for work or from investments. Decisions you make now will affect the income you will earn for the rest of your life. In this part, you will learn how to make good personal financial decisions. You will discover how career choices affect future income. You will learn about types of income, deductions, and the value of benefits packages. You will also learn about inflation and how it will affect your shopping decisions.



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CHAPTER

1

CHOICES THAT AFFECT INCOME



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The choices you make now when you are in school may affect your income in later life. Your personal values and the goals you set for yourself will influence the education and training you pursue. Your career and education choices can help pave the way for financial security. You should consider the economy and how it will affect your choices. You should also think about how to pay for the preparation you need to enter the job market in the career of your choice.

ONLINE RESOURCES

Personal Financial Literacy
Web site:

Data Files

Vocabulary Flashcards

Sort It Out: The Job Market

**Chapter 1 Supplemental
Activity**

Search terms:

- job skills
- job goals
- demand and supply
- tuition
- financial aid

Personal Financial Decisions

OUTCOMES

- Discuss how the job market changes over time.
- Explain how career choices affect earning potential.
- Explain how goals, values, and education are related to career choices.
- Describe how a person's education may affect the amount of money that person earns.

THE CHANGING JOB MARKET

Change is a vital part of all aspects of life, and the job market is no exception. The **job market** refers to the wide variety of job and career choices that will be available to you when you are prepared to go to work. The local job market may be different from the statewide or national job market in the short run. Over time, however, they tend to be very similar.

The job market changes as needs for different types of workers evolve. Jobs and careers that once were popular and paid good wages have disappeared as technology and needs of employers have changed. For example, *telephone installer* and *typist* are jobs that were common 20 years ago but are not popular today. Different types of careers, with new and unique job skills, have emerged. For example, the job *Web site designer* requires knowledge of current Web design programs. The job *physician assistant* requires knowledge of current medical procedures. **Job skills** are specific things you can do, such as prepare a spreadsheet or operate a machine, that are needed to be successful on the job. Other less technical job skills, such as being able to work well with others, are also important. Job skills are dynamic. That means they are changing. As new goods and services are developed, job skills needed to create or provide them will change also.

As you think about the type of work you would like to do later in life, consider the jobs that may exist in the future. Will the type of work you want to do be in demand? Will this type of work pay well? Begin asking questions and reading about jobs that sound interesting to you. You can do online or library research about careers that you might like to pursue in the future.

The U.S. Department of Labor publishes and places online *The Occupational Outlook Handbook*. The *Handbook* has data about the major job areas in the United States. From this book, you can learn about jobs in a wide range of fields. The 2006–07 edition has projections to 2014. Figure 1-1.1 on page 4 shows several job areas that are expected to grow in number of jobs from 2004 to 2014.

FIGURE 1-1.1

PROJECTED JOB GROWTH

PROJECTED JOB GROWTH FOR SELECTED OCCUPATIONS (2004 and Projected 2014)			
Occupation	Employment		% Change 2004–2014
	2004	2014	
Network systems and data communications analysts	231,000	357,000	54.6
Medical assistants	387,000	589,000	52.1
Physician assistants	62,000	93,000	49.6
Computer software engineers	800,000	1,169,000	46.1
Dental hygienists	158,000	226,000	43.3
Database administrators	104,000	144,000	38.2
Physical therapists	155,000	211,000	36.7
Medical scientists	77,000	103,000	33.6
Postsecondary teachers	1,628,000	2,153,000	32.2
Employment, recruitment, and placement specialists	182,000	237,000	30.5
Preschool and kindergarten teachers	601,000	782,000	30.1
Paralegals and legal assistants	224,000	291,000	29.7
Social and human services assistants	352,000	456,000	29.7
Registered nurses	2,394,000	3,096,000	29.4
Medical records and health information technicians	159,000	205,000	28.9
Emergency medical technicians and paramedics	192,000	244,000	27.3
Mental health counselors	96,000	122,000	27.2
Fitness trainers and aerobics instructors	205,000	260,000	27.1
Computer and information systems managers	280,000	353,000	25.9
Personal financial advisors	158,000	199,000	25.9
Medical and public health social workers	110,000	139,000	25.9
Pharmacists	230,000	287,000	24.6
Highway maintenance workers	143,000	177,000	23.3
Public relations specialists	188,000	231,000	22.9
Customer service representatives	2,063,000	2,534,000	22.8
Receptionists and information clerks	1,133,000	1,379,000	21.7
Bill and account collectors	456,000	554,000	21.4
Sales managers	337,000	403,000	19.7
Heating, air conditioning, and refrigeration mechanics and installers	270,000	321,000	19.0
Automotive service technicians and mechanics	803,000	929,000	15.7

Source: U.S. Department of Labor, Bureau of Labor Statistics, Employment by Occupation, 2004 and Projected 2014, <http://stats.bls.gov/emp/emptabapp.htm> (accessed February 9, 2006).

CAREER CHOICES AND INCOME

Some jobs pay a lot more than others and are in greater demand than others. Generally, the more skill, training, or education that you are required to have for a job, the more you can expect to earn. For example, a doctor must complete several years of education and training to prepare for his or her job. Typically, doctors are well paid. A salesclerk in a store may need only a high school education and some on-the-job training to prepare for his or her job. A salesclerk typically earns a much lower salary



HOURLY EARNINGS FOR SELECTED OCCUPATIONS (2004 National Compensation Survey)

Occupation	Mean Hourly Earnings
Accountants and auditors	\$ 24.49
Architects	\$ 32.54
Automotive mechanics	\$ 18.58
Bakers	\$ 11.69
Bill and account collectors	\$ 14.23
Brickmasons and stonemasons	\$ 27.44
Carpenters	\$ 19.27
Cashiers	\$ 9.49
Computer programmers	\$ 29.05
Construction laborers	\$ 14.17
Dental hygienists	\$ 32.10
Dentists	\$ 38.48
Groundskeepers and gardeners	\$ 12.08
Heating, air conditioning, and refrigeration mechanics	\$ 17.37
Lawyers	\$ 48.63
Legal assistants	\$ 20.38
Librarians	\$ 28.47
Pharmacists	\$ 42.69
Photographers	\$ 16.60
Physician assistants	\$ 34.22
Physicians	\$ 57.38
Police and detectives, public service	\$ 24.15
Receptionists	\$ 11.52
Registered nurses	\$ 26.61
Sales counter clerks	\$ 10.46
Sales supervisors	\$ 19.67
Social workers	\$ 18.48
Teachers, secondary school	\$ 32.52
Teachers' aides	\$ 11.11
Textile sewing machine operators	\$ 9.03
Tool and die makers	\$ 23.21
Truck drivers	\$ 14.99
Waiters, waitresses, and bartenders	\$ 5.29
Welders and cutters	\$ 16.33

FIGURE 1-1.2

JOBS AND MEAN HOURLY EARNINGS

Source: U.S. Department of Labor, Bureau of Labor Statistics, "National Compensation Survey: Occupational Wages in the United States, July 2004" <http://www.bls.gov/ncs/ocs/sp/ncbl0727.pdf> (accessed February 13, 2006).

than a doctor. Some examples of jobs and mean (average) hourly earnings are shown in Figure 1-1.2. Note that these are average earnings. Earnings for some workers in these jobs may be lower or higher. Earnings for the same job may vary by the job location. For example, the starting salary for a teacher may vary by state by \$5,000 or more.

The number of jobs in a career area can also affect the income workers in that job are likely to make. When many workers compete for a few jobs, some of the workers will likely not find jobs in their chosen career area.

In some jobs, earnings may not be related to formal education. For example, some entertainers, supermodels, and professional athletes make a lot of money. However, these types of careers often last just a few years.





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Being an athlete takes talent, hard work, and dedication.

They may require natural talent, beauty, or athletic ability that few people have. They can also be very hard on the mind or body. For every person who succeeds in such a career, many others do not.

Job Titles and Descriptions

As you look for information about careers, you may see jobs listed by job titles. A **job title** is a name given to a particular job. It may be a word or phrase that describes the main duties or tasks of the job. For example, the job title *Long-haul Truck Driver* indicates clearly what the job involves. A person with this job drives a truck for long distances.

Sometimes a job title alone is not enough to tell you what a person in this job does for a

living. For example, reading the job title *Systems Analyst* might leave you wondering what a person would do for that job. A **job description** gives details about a job. It lists the job tasks and duties, the skills needed, and the education and experience required. It may contain other information such as the hours worked or details about the work site or location. A sample job description is shown in Figure 1-1.3 on page 7.



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The skills and education required for jobs vary greatly.

JOB DESCRIPTION

Job Title

Sales Associate

Job Summary

A sales associate sells merchandise and serves as a retail cashier. This worker assists in restocking, display, and price marking of merchandise. A positive, friendly attitude is a must for this position.

Salary

\$8.00 per hour starting salary

Principal Duties

- Provide friendly, courteous, and efficient service to customers
- Answer customers' questions about merchandise and advise customers on merchandise selection
- Record all sales in cash register, receive payment for sales, and issue correct change
- Assist in coding and price marking of merchandise
- Stock shelves, racks, and tables and arrange merchandise displays to attract customers
- Take special orders and handle returns
- Help monitor inventory levels and receive and unpack products
- Keep the store and the stockroom neat and well organized
- Open or close the store and work alone at times
- Attend weekly staff meetings and other meetings as needed
- Perform other related duties as required

Qualifications

- High school diploma required
- Must have worked for at least 6 months in a sales position
- Must have a courteous and cooperative attitude
- Must have good reading, math, and communications skills
- Must be able to operate a cash register
- Must be able to understand and carry out directions
- Must be honest, dependable, and punctual
- Must be willing to work any day of the week and both day and evening hours
- Must present a clean, neat, and well-groomed appearance
- Must dress in business or business casual attire
- Must be able to lift 40 pounds

Lifelong Learning

Learning new skills and information to help you become or stay qualified for a job is important for your financial security. When you are hired for a job, you will probably have the education and skills you need to do that job. As time goes by, however, the skills or education needed for the job may change. You may need to update your job skills. Workers and consumers need to continue learning throughout life. This lifelong learning will help prepare you to be a skilled worker and an informed consumer. As an informed consumer, you can make better choices regarding your personal finances.

CHOICES DEPEND ON VALUES AND GOALS

As you think about a career that you might pursue, consider the values and goals that are important to you. A **value** is a principle that reflects the worth you place on an idea or action. For example, if you think being honest is important, *honesty* would be one of your values.

Values are important. They influence the choices and decisions people make. Think about what you want to accomplish now and in later life. For example, if you think making a difference in other people's lives is important, then that value could be a reason for choosing one job over another. You might choose to be a teacher or a counselor rather than a construction worker.

Many people set goals that they want to accomplish. A **goal** is a plan that is based on values or desired outcomes. A person's goals affect his or her behavior. If you value good health, your goals may include eating



This teacher has chosen a career that allows her to help others.

properly and exercising regularly. If you want to buy a digital camera, your goal may be to save enough money for the purchase. What goals do you want to accomplish?

EDUCATION CHOICES

Some jobs require little education. Other jobs require training that takes several years to complete. Education helps prepare you to do a job well. Education can be formal or informal. Formal education involves attending classes. Students must show that they have learned certain skills and concepts. The class in which you use this textbook is probably part of your formal education. Informal education may involve on-the-job training or learning as you go. You may learn new skills from reading and practicing on your own. For example, learning to use a digital camera by reading the instructions provided is a type of informal education.

The amount and type of education you complete can affect the amount of money you earn. Generally, people with more education earn more than people with less education. If the pay for a job is high compared to the education required, there is often a reason. The job might require high personal risks, a short career span, or completing tasks that others are not willing to do. For example, the employee might have to handle dangerous materials or work in a country where a war is going on.

Think about the type of education you want to complete and how well it will prepare you for the career or job you want later in life. Making choices about education is a serious responsibility. Your choices will affect the jobs you may be able to do. Your jobs will affect the amount of money you are able to earn.



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Formal education takes time and commitment to learning.

Building Communications Skills

LISTENING

Listening is one of the four basic communications skills (listening, reading, speaking, and writing). While hearing is easy, most people have to work at being good listeners. Listening is not the same thing as hearing. Hearing is the ability to process sounds. Anyone who is not hearing-impaired is able to hear. Listening means that information is heard and understood or thought about. According to the International Listening Association, 85 percent of what we know we have learned by listening.¹

You have learned that your education and job choice affect the amount of money you are likely to earn. Listening is an important skill that will help you succeed at school and at work. Practice these tips to help you improve your listening skills:

- Face and look directly at the person who is talking to you.
- Focus on what the speaker is saying. Do not let your mind wander to other topics.
- Ignore distractions such as noises made by other people in the room or someone passing by a window.
- Turn off (or unplug) the phone, and eliminate other noises such as music if possible.
- When you are part of a group that the speaker is addressing, take notes about what the speaker is saying, but do not doodle. Write only key phrases or main ideas. Do not try to write every word the speaker says.
- In conversations with one or two people, give small feedback cues, such as "I see" or "Then what?" to let the speaker know you are listening. Nod frequently and wait quietly during pauses.
- Mentally summarize the main points of what you have heard. Ask the speaker questions to clarify points you do not understand.
- If you are listening to someone give you instructions for a task, repeat key phrases to review the important points.

¹ International Listening Association (Shorpe), "Listening Factoids," <http://www.listen.org/pages/factoids.html> (accessed February 8, 2006).



1-1 REVIEW

1-1 Activity 1 Can You Recall?

Answer these questions to help you recall what you have read. If you cannot answer a question, read the related section again.

1. Why does the job market change over time? Give two examples of jobs that were popular 15 or 20 years ago but are not popular today.
2. What are job skills? List three job skills you have or plan to learn.
3. Explain how career choices may affect the amount of money a person will earn.
4. How is a job title different from a job description?
5. How are goals different from values? List one goal you have that is related to a job or career. What values are related to this goal?
6. Give one example of how a person's goals and values may affect his or her career choices.
7. What is formal education? What is informal education?

1-1 Activity 2 Access the Web Site for This Textbook



www.thomsonedu.com/school/pfl

The publisher of this textbook posts a Web site with information related to the textbook. The *Personal Financial Literacy* Web site contains data files, games, links to other sites, and other information that you will use as you complete the activities in this textbook. You will probably visit the site often. In this activity, you will explore the site. You will also create a link to make visiting the site quick and easy.

1. Access the Internet. Start your Web browser such as *Internet Explorer*. In the Address box, enter www.thomsonedu.com/school/pfl.
2. A Web site that contains Web pages related to your textbook should appear. Click a hyperlink, such as **Student Resources**. Quickly scan the new page to see the information that it provides. Click the **Back** button to return to the welcome page.
3. Find and click the **Links** page on the Web site. This page contains links to other sites that you can use as you complete activities.
4. Return to the welcome page for the site. Add the Web site to your Favorites or Bookmarks list. Use this Favorites or Bookmarks link whenever you need to visit the site for later activities.



Career Planning

OUTCOMES

- Describe how economic conditions can affect prices and income.
- Discuss training and skills that workers need for job success.
- Explore tuition costs for colleges and other educational programs.
- Explore the options available to pay for education and training.

ECONOMIC CONDITIONS AFFECT INCOME

Regardless of where you live, you are affected by the economy. The word **economy** means all the activities related to making and distributing goods and services in an area. An **economist** is a person who studies the economy. Economists try to predict what will happen, using current and projected data.

As an individual, you are faced with many decisions. For example, you must decide what to purchase for a friend's birthday or how much to save for the future. As you consider what to do and how to prepare for your future, you must also consider the economy. The economy will affect your income, and your income will affect the choices you make.

The Economy Affects Prices

The United States has a market economy. In a market economy, the price for an item is set at a point that consumers are willing to pay and sellers are willing to accept. In other words, sellers charge what the market will bear. Producers wish to increase their profits. Consumers wish to get high value for each dollar spent. The willingness and ability of consumers to buy products and services is called **demand**. The quantity of goods and services that producers are willing and able to provide is called **supply**.

Products and services that are very popular among consumers are said to have high demand. When demand exceeds supply, businesses may charge higher prices for the products. These prices affect your decisions on which items to buy as you spend your income. The study of economics is often said to be the study of scarcity. Although consumers' incomes are often limited, their needs and wants may be unlimited and growing. Consumers must make good decisions to save and spend wisely and get the most value from the dollars spent.

The Economy Affects Income

For many people, their main source of income is wages (hourly pay) or monthly salary. If you choose to work in a career field that is growing and in a job that is in demand, you will likely be able to earn a good income. Income is not the only reason people work. However, the money earned allows workers to meet basic needs and other goals.

When the economy is growing, people are buying goods and services. Jobs are being created, and businesses are hiring workers. Finding and keeping a job that will provide financial security is easier in a growing economy.

On the other hand, when the economy is slowing, people often buy fewer goods and services. The lower demand for goods and services may mean that businesses are not growing. Workers may be laid off or dismissed from their jobs. Fewer new workers are hired. Finding and keeping a job that will provide financial security can be harder in a slowing economy.

When the demand for products or services that are produced by your employer is very low, your job may be in danger. When faced with this situation, some people decide to prepare for a new career field. This process is called retraining. Others will spend weeks or months pursuing job openings for which their skills and education may not be good matches. They may or may not find a new job without getting new training. Understanding how the economy affects prices of products, the job market, and your income can help you make better financial decisions.



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You will likely change jobs several times during your lifetime.

Technology Corner

Technology is changing the way people find and use information. The **Internet** is a worldwide network of computers that can share information. The Internet allows users to find and share information about many topics, including jobs. When you are ready to begin working full-time, you may want to use a **job scout** to help you find job openings. A job scout is a type of computer program that is called an *intelligent agent*. Such a program does tasks using rules or options you set. In the case of a job scout, the task is searching the Internet to find job listings and returning those listings to

JOB SCOUTS

you. The rules you set might state the type of job and the location of the job (city or state). You may choose to have the job listings sent to you daily or weekly. Job scouts are also called *job agents*.

Using a job scout can help you find a job that will allow you to build financial security. To see an example of a site that offers a job agent, visit the USAJobs Web site as shown in Figure 1-2.1. A link to this site is provided on the Web site for this textbook (<http://www.thomsonedu.com/school/pfl>).

FIGURE 1-2.1

Job scouts or agents can be helpful in locating job openings.



Source: United States Office of Personnel Management, USAJOBS, <https://my.usajobs.opm.gov/modifyagents.asp?action=save> (accessed February 14, 2006).

TRAINING AND SKILLS FOR JOB SUCCESS

Many jobs require very specific skills. To get those skills, you will need education and training. The skills needed may include both hard skills and soft skills. **Hard skills** are the ability to perform tasks or complete procedures. Examples of hard skills include the ability to safely run medical



equipment or to give first aid to an accident victim. The ability to install plumbing in a house is another example of a hard skill. Several months or years of training may be needed to learn hard skills. As you consider which career field to pursue, consider the hard skills required for jobs in that career area.

In addition to hard skills, employers want workers who have certain soft skills. **Soft skills** are nontechnical skills needed by most workers. Examples of soft skills are listed below.

- Leadership skills
- Teamwork skills
- Effective communication skills
- The ability to deal with difficult people and situations
- Problem-solving skills
- Time management skills
- The ability to prioritize tasks

Some soft skills come naturally to some people, but not to others. For example, some people have natural leadership skills, while others do not. Soft skills can be learned through education and practice. As you get education and training to learn hard skills, you also need to develop soft skills that will help you be successful on the job and in other areas of your life. Having both good hard skills and good soft skills will improve your earnings potential.

Success Skills

TEAMWORK

During your lifetime, you will be on many teams. Whether you are taking part in a family event, a competitive sport, a work group, or a fun activity, teamwork skills will come in handy. Combining the efforts of many people makes the work go faster, and the result is often more creative. When you work with others, you can often achieve better results than when you work alone.

At least one activity in each chapter of this textbook offers the option of working in a team. Follow these guidelines to improve your teamwork skills:

- Set clear goals for the team. Create an action plan for achieving the goals.
- Define the duties of each team member.
- Identify how success will be measured. How will the team know its goals have been achieved?
- Identify problems or issues the team may face in meeting its goals. Discuss ways to overcome the obstacles.
- Talk with all team members, and be open to ideas from everyone. Have regular meetings to track the team's progress.
- Build on the strengths of team members. Encourage all members to take part in making decisions and sharing ideas. Each team member has different skills and ideas that can be valuable to the team.
- Recognize accomplishments of team members and the team as a whole.
- As an individual team member, develop trust by completing your duties. Show a positive attitude when discussing team activities.



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Being successful requires a combination of hard and soft skills.

COSTS OF EDUCATION AND TRAINING

You will need to invest both time and money in your education. **Tuition** is the charge for instruction at a school. Students must pay for textbooks, pay fees, and meet other expenses that are not covered in tuition. Money is also needed for living expenses such as rent, food, clothing, and travel. Some schools have housing for students. At other schools, students must find housing on their own. Typically, students want to live close by the school. Rent and other costs may be higher in those areas.

When choosing a career, think about the cost and the rewards of each career you are considering. Will it pay well and offer job security? The cost of a college education may be high. However, you will likely be rewarded for the money you spend on education. According to U.S. Census Bureau estimates, people who have a bachelor's degree (or higher) can earn nearly twice as much as workers with only a high school diploma. This difference can amount to more than \$1 million over a lifetime.²

² U.S. Census Bureau, "The Big Payoff: Educational Attainment and Synthetic Estimates of Work-Life Earnings," <http://www.census.gov/prod/2002pubs/p23-210.pdf> (accessed February 15, 2006).



College Education: Public or Private?

The cost of attending a public college or university is often less than the cost of private schools. A bachelor's degree is earned in a four-year college or university program. At a public school, earning this degree could cost \$25,000 or more in tuition. At a private college or university, the tuition may be \$100,000 or more for a bachelor's degree.



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A formal education will give you many advantages over your lifetime.

Focus on . . .

Students in high school and college may join career-related organizations. One such organization for business students in junior high and high school is FBLA (Future Business Leaders of America). The college level of this organization is Phi Beta Lambda. Another group, the Future Educators Association, provides opportunities for high school students to explore careers in education. The National FFA Organization is for students interested in careers in agriculture. These are just a few of many student organizations that may be available to you.

Being a member of a student organization provides opportunities for students to:

- Explore careers of interest.
- Ask questions of people who are working in the career area.
- Take part in conferences to learn more about careers in those areas.

STUDENT ORGANIZATIONS

- Compete with other students to demonstrate skills learned.
- Apply for scholarships, grants, and other forms of financial aid.
- Learn about continuing education in the field.
- Take part in community service activities.
- Network and form friendships with others who have similar interests.

Student organizations usually have bylaws (rules). These bylaws outline the club's purpose and structure. The costs and requirements for belonging to the group are also given. Generally, the cost of joining is small. Many student organizations provide information about their goals and activities on a Web site. Search the Internet using the term *student organization* and a career area (such as *nursing*) to find groups that interest you.

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Career and Technical Schools

Career and technical schools teach specific skills. These schools may be public or private schools. The tuition for public schools is often less than for private schools. Public school programs often cost \$5,000 or less in tuition. Private programs usually cost two or three times as much as public programs do. The completion time for career and technical school programs is often less than for college programs. Typical career and technical school programs last a few months to a year or more. Books must be paid for, along with living expenses. Students are also responsible for fees and other charges.

Graduate and Advanced Programs

Some jobs require advanced training before the worker can start work. For example, a medical doctor needs advanced training beyond a four-year college degree. Others jobs require that you update skills as you continue working. If advanced degrees are needed in the job you choose, you should consider their cost.

A master's degree is a graduate degree (beyond a bachelor's degree). It usually requires one to three years of study. The time needed depends on your background and the type of degree. A doctorate degree requires three to seven years of study beyond a master's degree in the same field. The course of study often requires doing research. Some programs require internships or have residency requirements. Residency means that classes must be taken in person on campus. Tuition is higher at the graduate level. A graduate degree may cost \$15,000 or more at a public school and \$45,000 or more at a private school.

PAYING FOR EDUCATION AND TRAINING

When you choose to pursue formal education and training, you must consider ways to pay for them. Do you or your parents have the money needed? Will you be able to get grants or scholarships? Do you qualify for financial aid? Will you work part-time to earn money as you attend classes? These options and others may be available to you.

Loans and Grants

Financial aid is money you receive from some outside source to help pay for education. Loans and grants are available from a variety of sources, including the federal government, local banks, and other lenders. A loan is money that you borrow and must repay. A grant is money that you are given to pay for educational expenses and do not repay.

FEDERAL FINANCIAL AID

The federal government offers financial aid to students who qualify. For those under 23 years of age, parents (or a custodial parent) must fill out papers showing their income and assets. Assets are money or things of value that are owned, such as a house or car. The student's income must also be reported. If you are able to show that you need financial aid, then you may receive loans or grants.

Interest is money paid for the use of money. In the case of a student loan, interest is the money the student pays the lender in addition to the amount borrowed. Interest may be considered the cost of borrowing money. Interest charged on student loans is much lower than for other types of loans. A **subsidized student loan** is a loan on which interest is not charged until after you graduate. With an unsubsidized loan, interest is charged from the time the loan is made. With both types of loans, you do not have to begin repaying the loan until after you graduate from college. Federal financial aid can be applied for online at the FAFSA Web site. A screen from this site is shown in Figure 1-2.2 on page 20. A link to the site is provided on the Web site for this textbook.

PRIVATE STUDENT LOANS

Some private lenders, such as banks and credit unions, make loans to students. These loans typically have higher interest rates than loans from the government. The loans are usually unsubsidized. This means that interest is charged from the time that you take out the loan. These sources of loans require that you have income and a good credit history. If your income is too high to qualify for federal financial aid, a private student loan may be a good option for you. You will need to fill out an application for the loan. You may need to show tax returns and proof of income.

FIGURE 1-2.2

Students can apply for financial aid online at the FAFSA Web site.



Source: U.S. Department of Education, Free Application for Federal Student Aid, <http://www.fafsa.ed.gov/> (accessed February 14, 2006).

Scholarships

A **scholarship** is a gift of money or other aid (free tuition or books) made to a student to help pay for education. Scholarships may be available to students with high grades, strong athletic skills, or high test scores. Some scholarships are given based on need. Scholarships are available from local, state, and national organizations, including the federal government. Money from scholarships generally is not taxable.

Scholarships vary in amounts. A partial scholarship may be given to pay for some educational costs. A full, four-year scholarship may cover the entire tuition for a bachelor's degree. To learn about scholarships for which you can apply, talk to a teacher or counselor. The college you wish to attend can also provide information on scholarships that may be available. Search the Internet using the term *scholarships* to find other sources.

Work and Save

Some students decide to work and save money, starting college or a training program a few years after high school. As they complete their education, some students continue to work part-time. Others work full-time and complete their education part-time. This often means taking night classes or online classes. Such students may attend community or junior colleges where the tuition is low. Although these plans take a longer period of time, students can complete the educational program they choose. A benefit to this path may be the job experience students will gain as they work to pay for their education.





© Getty Images/PhotoDisc

Many students work part-time to earn money for college.

Ethics

Whether filling out a job application or a financial aid form, many people are less than truthful on applications. Do not exaggerate or give information that will create false impressions when completing forms. Doing so is not ethical. **Ethics** are a system of moral values that people consider acceptable. Being fair and honest in your dealings with others is considered ethical behavior.

FILLING OUT FORMS

Always be truthful when completing forms. Fill in all the blanks and boxes on the form. Use *N/A* if the information is *not available* or *not applicable*. Print data clearly. When possible, download the document to your computer, and key the information into the form. Check the data you have entered. Make sure the information is clear, complete, and correct.

1-2 REVIEW

1-2 Activity 1 Can You Recall?

Answer these questions to help you recall what you have read. If you cannot answer a question, read the related section again.

1. Define *economy*. What does an economist do?
2. What is the definition of *demand*? Of *supply*?
3. Explain why economics is often called the study of scarcity.
4. How may a growing economy affect your job and income?
5. What is a job scout?
6. What are hard skills? What are soft skills? Give an example of each type of skill.
7. List several ways that students can pay for their formal education after high school.
8. What does *residency* mean when referring to completing a college degree?

1-2 Activity 2 Explore a Federal Financial Aid Form



You may want to apply for financial aid to continue your education when you finish high school. To learn about the information you will need to apply, you will explore the federal financial aid form in this activity.

1. Open the file *CH01 Aid Form* from the data files. This data file is provided as a PDF (portable document format) file. You will need a program such as *Adobe® Reader®* to view or print the file. Your teacher may provide this program for your use at school. A link is provided on the Web site for this textbook that will take you to a site where you can download *Adobe Reader* if you want to have the program on your computer at home. The program is free. This file contains the FAFSA worksheet for 2006–2007. Your teacher may provide you with a form for the current year to use instead of this form.
2. Review the FAFSA worksheet. This is a form you can complete to prepare information you will need to apply for aid online. How many pages long is the worksheet?
3. What types of questions are asked on the worksheet?
4. Who should complete this worksheet?
5. What is the earliest date the FAFSA form may be completed online according to this worksheet?

EXPLORING CAREERS

*Artist, musician, engineer, police,
Doctor, lawyer, firehouse chief.*

This variation of a children's rhyme mentions just a few of the many career areas a young person like you may choose to pursue. Your teen years can be an exciting time as you think about careers and other plans for the future. This time can also be challenging. With so many career paths available, how do you know which career is the right one for you?

Career exploration can help you learn how your interests and talents could be used in various careers. The remaining chapters in this textbook each contain an Exploring Careers page. These pages present information about jobs in one of the broad career areas identified by the U.S. Department of Education. As you explore various careers, think about the questions below. The answers can help you decide whether the career is one you should seriously consider.

- What does work in this career involve?
- Will I enjoy working in this career area?
- Will my interests, skills, or talents help me be successful in this career?
- What education, skills, or experience are needed for this career?
- Am I willing and able to acquire this education and experience?
- Will there be a continuing need for jobs in this career area?
- Will this job pay enough money to allow me to become financially secure?

A typical worker in the United States is employed for 30 to 40 years or more. Because you may spend many years working, you will want to choose a career that you find interesting and meaningful. You may have several different jobs during your working years. The jobs may be in the same field or in very different career areas. You may decide to pursue education that will prepare you for several jobs. Continuing your education, both formally and informally, will also be important in preparing for career changes.



REVIEW

Summary

- The job market is continually changing. Job skills needed are evolving as well.
- The career you choose will affect your income over your lifetime.
- Decisions and choices you make, both personal and career, are based on values and goals.
- The more and higher formal education you gain, the more you will probably earn over your lifetime.
- The economy, or business activity as a whole, will affect your job and your career in terms of earnings and job security.
- The state of the economy (growing or slowing down) will affect the prices you pay for goods and services.
- Both hard skills and soft skills are necessary for career success.
- Formal education and training programs require time and cost money. Many options for paying for educational programs are available.
- Financial aid is money received from some outside source to help pay for education. A loan is money that is borrowed and must be repaid. A grant is money that is given to a student to pay for educational expenses and is not repaid.
- Some students work to earn money to pay for education while attending college or a training program.

Key Terms

demand
economist
economy
ethics
financial aid
goal
hard skills

interest
Internet
job description
job market
job scout or agent
job skills
job title

scholarship
soft skills
subsidized student
loan
supply
tuition
value



ACTIVITY 1

Review Key Terms

Use the key terms from Chapter 1 to complete the following sentences:

1. The _____ is the sum total of business activity in an area.
2. Consumer willingness and ability to buy a product or service is called _____.
3. The charge for instruction at a school is called _____.
4. A principle that reflects the worth you place on an idea or action is called a(n) _____.
5. A(n) _____ lists the name or primary characteristic of a job.
6. The quantity of goods and services that producers are willing and able to provide is called _____.
7. The _____ refers to the wide variety of jobs and careers that exist at one point in time.
8. A(n) _____ may be short-term or long-term and is based on values or desired outcomes.
9. Skills other than technical skills, called _____, are important for job and career success.
10. Money obtained from an outside source to help pay for education is called _____.
11. Activities and duties you will be required to do on a job are called _____.
12. A(n) _____ is a loan on which interest is not charged until after graduation.
13. A(n) _____ is a detailed explanation of job duties.
14. Skills needed to perform technical tasks on a job are called _____.
15. A(n) _____ studies the economy and tries to predict what will happen, using current and projected data.
16. Money paid for the use of money, as in the cost of a loan, is called _____.
17. A(n) _____ is a computer program that searches the Internet to find job listings that meet certain criteria and returns those listings to the user.
18. _____ are a system of moral values that people consider acceptable.
19. A(n) _____ is a gift of money or other aid made to a student to help pay for education.
20. The _____ is a worldwide network of computers that can share information.

ACTIVITY 2

Math Minute

Complete these problems to build your math skills. You may use spreadsheet software or complete the problems manually.

1. The average tuition for four-year private colleges increased by 5.9 percent from last year. The cost last year was \$20,051. What is the cost this year?
2. Use this year's tuition cost answer from step 1. If the tuition increases by 6 percent for each of the next three years, what will be the total tuition cost for the four years?

ACTIVITY 3

Values and Goals



Have you thought about what you want to do, to be, and to have as you become an adult? Complete the following steps to help you think about your values and goals.



1. List three goals that you would like to achieve by the time you graduate from high school.
2. After each goal, explain why that goal is important to you. Discuss the values on which you are basing that goal.
3. Consider how your goals have changed over time. A year ago, how were your goals different? How are they the same?
4. Which goals do you think are lifetime goals—based on values that you will firmly hold onto for a lifetime?
5. Do these values reflect your daily choices and decisions? List things you do (or don't do) that show you are consistent in applying your values to your choices.
6. Based on your values and goals, write a statement about your future life plans—career, family, travel, lifestyle—that you think will reflect your future choices and will shape your plans and goals.
7. Open the *Word* file *CH01 Goals* from the data files. Follow the directions in the file to complete a chart about your values and goals.

ACTIVITY 4

Research Colleges or Other Schools



www.thomsonedu.com/school/pfl

Work with a classmate to explore programs offered and tuition costs of college or other postsecondary schools.

1. Working with your teammate, select a career area that interests you both.
2. Identify two or more colleges or other schools (such as career or technical schools offering a chef program or a cosmetology program) that provide training in this career area.
3. Visit the Web sites for at least two of the schools you listed in step 2. To find the address for a school Web site, enter the school name in a search engine such as Yahoo!® or Google™.
4. Compare the programs offered in this career area in terms of length. How many terms or years are required to complete the program at each school?
5. Compare tuition costs for the schools. Which school has the highest tuition?



CHAPTER

2

Income Sources



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People receive income from working and from other sources, such as investments. Another source of income for some people is government transfer payments. These payments help people who do not have other sources of income pay for their needs. Many workers receive benefits such as paid vacation or sick leave. You need to understand how benefits are a part of the total payments for a job. Various taxes must be paid on earnings. Taxes help cover the cost of government services and transfer payments. In this chapter, you will learn about income sources and benefits and about how taxes affect disposable income.

ONLINE RESOURCES

Personal Financial Literacy
Web site:

Data Files

Vocabulary Flashcards

Beat the Clock:

Income Sources

**Chapter 2 Supplemental
Activity**

Search terms:

- minimum wage
- government transfer payments
- unearned income
- disposable income
- entrepreneur

Earned Income and Benefits

OUTCOMES

- List and discuss types of earned income, such as wages, salaries, tips, and commissions.
- Discuss the advantages and disadvantages of self-employment.
- Describe employee benefits.

TYPES OF EARNED INCOME

Many people work for hourly wages; others work for an annual salary. Some people have additional income through tips or commissions. Some people work for themselves, which is called self-employment. All these types of income are earned income and are subject to income taxes and other taxes. A **tax** is a required payment for the support of a government. The tax may be based on items such as earnings, property values, or the sale price of an item. More information about taxes is provided later in this chapter.

Wages

Employees who work for wages are paid for each hour worked. **Minimum wage** is the lowest pay rate allowed by law for each hour of work. The federal minimum wage is set by the U.S. Congress. In 2006, that rate was \$5.15 per hour. Many states have minimum wage laws that set a rate higher than the federal rate. The state minimum wage rates can be found on the U.S. Department of Labor Web site as shown in Figure 2-1.1 on page 30. In many jobs, new workers will begin at minimum wage. This is because they do not have the education or experience that would allow them to earn a higher wage rate.

Employees who are paid by the hour must sometimes work more than the set regular number of hours. When this happens, they are entitled to extra pay called **overtime pay**. By law, overtime pay of at least 1½ times regular pay must be paid for hours worked above 40 work hours in a week. For example, a worker who earns \$8 per hour for regular pay might earn \$12 per hour for overtime pay. People who work on holidays may be entitled to even higher pay rates for those hours. Both federal and state laws control when extra pay is required for more time worked.

Salaries

Some people work for a set salary, such as \$3,000 a month or \$36,000 a year. Salaried workers usually do not keep time cards or count hours worked. They may have more flexibility in the times they work than do

FIGURE 2-1.1

Information about minimum wage can be found on the U.S. Department of Labor Web site.



Source: U.S. Department of Labor, <http://www.dol.gov/dol/topic/wages/minimumwage.htm> (accessed March 8, 2006).



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hourly workers. They often work more than 40 hours a week but do not receive overtime pay.

People who work for a salary must often be self-directed. They must complete their work in a timely manner with little supervision. Managers and supervisors are typically paid a salary.

Tips and Commissions

Some workers receive tips in addition to wages. A **tip** is money, often a percentage of the total bill, or a gift given to a person for performing a service. The amount of the tip may be based on the quality of service provided. For example, a waiter may receive tips in the form of money from customers. A caddy at a golf course might receive free tickets to a show as a tip. Some workers make most of their earnings from tips rather than hourly pay.

Tips are subject to federal taxes. Tips may be subject to state taxes as well. The law requires some employers (such as restaurants and hair salons) to withhold taxes based on tips, even though tips may have been received in cash directly from customers.¹

Some workers are paid a commission. A **commission** is a set fee or a percentage of a sale paid to a salesperson instead of or in addition to salary or wages. Sales commissions are earned only when a sale is made. If no sale is made, no

Some workers make most of their earnings from tips rather than wages.

¹ Internal Revenue Service, "Tips Are Subject to Taxes," <http://www.irs.gov/newsroom/article/0,,id=106783,00.html> (accessed February 23, 2006).



Success Skills

NETWORKING

Networking is the process of making contacts and building relationships with other people. Everyone you know is in your "network." All your contacts are important to you. They will help keep you informed about issues that affect your financial success. For example, you may learn about scholarships or grants from teachers or counselors in your network. Later in life, you may learn about a job opening from a friend at another company.

Your network may include many contacts. Record the name, address, phone number, and e-mail address of each one so

you can reach that person when you want to share information. Make a note of how you are related to or were introduced to each person. For example, you should include your school teachers, counselors, and principals. You should also include the leaders or members of community groups or other groups to which you belong. If you have a summer or part-time job, include the others with whom you work and your manager. Keep in touch with your contacts regularly. Let them know when you are looking for particular information, such as scholarships for which you can apply.

commission is received. In some types of jobs, such as real estate sales, the worker's entire earnings may be based on commission. For example, a real estate agent who arranges the sale of a home for \$200,000 might receive a \$12,000 commission. In other types of jobs, workers may be paid a base salary plus commissions. For example, a person who sells cars might receive a salary of \$10,500 a year plus 25 percent of the profit on each car sold.

SELF-EMPLOYMENT

Working for yourself is called self-employment. A person who takes the risks of being self-employed and owning a business is called an **entrepreneur**. Owning a business can be challenging, but it can have rewards as well. If the business fails, the money invested in the business may be lost. The owner may have to work long hours and do many different tasks to keep the business running. These can be disadvantages of owning a business. An advantage of owning a business is that the owner can make decisions about how the business will be run. She or he also keeps all the earnings or profits from the business. **Profit** is the amount left after all costs are deducted from the income of a business. This is another advantage of being an entrepreneur.

Some entrepreneurs want to keep their businesses small. They want to be able to oversee all the daily operations of the business. Others want their businesses to grow into large companies with many workers. In a large company, the owner cannot oversee all the daily operations.

Some people start a business at an early age. Some people work for other businesses first to gain knowledge and experience. Some people

seek education about how to run a business before they start a company. Owning a business involves much risk for the entrepreneur. He or she may need to borrow money to start the business. Repaying the money and paying other debts of the business are responsibilities of the owner. The owner may need to reinvest part of the income from the business to help the business grow. The owner will typically have to work hard to make the company successful.

EMPLOYEE BENEFITS

Full-time workers usually have benefits provided by the employer. **Benefits** are forms of pay other than salary or wages. Paid vacation and holidays are examples of benefits. Some benefits are paid for by the company. For other benefits, such as health insurance, the worker may need to pay part or all of the cost.

A **cafeteria plan** is a benefit plan that allows workers to choose from a number of options. Workers may be able to save money by selecting only the options they need. Most plans include basic choices for health, life, and other insurance. Other options, such as a savings plan, may also be available.

Benefits increase the overall value a worker receives for a job. **Disposable income** refers to the money a person has available to spend or save after taxes have been paid. Money received from some benefits, such as a profit-sharing plan, can directly increase a worker's disposable income. Other benefits have the effect of increasing disposable income. For example, health insurance bought through a company plan may be cheaper than an individual policy. The money saved by buying the company plan is available to save or spend on other items.

Benefits are also important to workers for several other reasons:

- Workers are not taxed on most benefits. This means that workers receive something of value without paying tax as part of the cost.
- Some benefits allow workers to buy services at a cheaper price than they could otherwise. For example, group insurance costs a lot less than individual policies. Paying a lower cost for insurance increases the worker's disposable income.
- Some benefits that are offered to workers may not be available to individuals. Company retirement plans and stock options are examples of these benefits.
- Some benefits that are offered to workers may not be affordable at individual prices. For example, workers who have health problems might not be able to afford insurance at individual rates.
- Some benefits help workers reach financial goals. For example, some people find it hard to save money. With company-sponsored savings plans, saving becomes easier because the money is deducted from the worker's paycheck.

Pay Without Work

Pay without work refers to times when an employee who is not working will be paid. Vacation, holidays, and sick leave are examples of pay without work. Full-time and salaried employees usually get annual paid vacations.

Ethics

USING SICK LEAVE

Many employers provide sick leave for employees. Sick leave is a valuable benefit. Employers usually have rules about what situations qualify for use of sick leave. In some cases, the employee must be ill to use sick leave time. In other cases, the company may allow employees to use sick leave time to care for a sick child or other relative. An employee may be able to use

sick leave time to visit a doctor or hospital for tests or checkups.

Employers expect workers to be honest in their dealings with the company. Employees should know and follow the rules that apply to using sick leave. Pretending to be sick or to have another situation that qualifies for sick leave use is not ethical.

Typically, after the first year, an employee gets 1 or 2 weeks of vacation per year.

Most employers provide certain **paid holidays**. Examples of paid holidays are Thanksgiving, Christmas Day, Easter, Labor Day, Memorial Day, Veterans Day, and Presidents' Day. On those days, employees will be paid but will not have to work. Employees who do work on holidays may receive extra pay. Typically, working on holidays pays two times the regular rate of pay.

Many companies allow workers to take a certain number of sick leave days per year. **Sick leave** covers days the worker is paid even though she or he is not at work due to illness. Some companies allow the use of sick leave to care for a sick child or other family member. Typically, sick leave is 10 days a year. Some companies allow unused sick leave to accumulate. That means that workers can save sick leave and use it later. Workers might also get paid for unused sick leave at some time in the future.

Some companies also offer personal leave. **Personal leave** is time away from work for personal reasons. The worker usually does not have to give a reason. Typically, personal leave is 2 or 3 days a year. Unused personal leave usually is not carried forward to another year.

These and other pay-without-work benefits allow employees to rest and get away from work pressure and stress. They also allow workers to plan family vacations and special events and to enjoy a balanced and healthy life.

Educational Reimbursement

Some employers provide plans that reimburse (pay back) money spent on education. For example, some companies will pay for the cost of classes or training related to the worker's job. This training can benefit the company because the worker may be able to do a better job using the skills learned. The training benefits the worker on the present job. It may also improve the chances of getting a promotion or a better job with the same or a different company. Some employer plans will pay for classes



A perk that many people value is a preferred parking spot.

toward a degree. Getting a college degree paid for by an employer is a benefit of great value, not just for this job, but for all future jobs as well.

In a typical education plan, the worker might be paid 100 percent of the cost of tuition and books if an A grade is received in the class. If the worker earns a B grade, 90 percent of the costs will be paid. If the worker earns a C grade, 80 percent of the costs will be paid. If the worker's grade is below a C, no costs will be paid.

Perks

Providing high wages and good benefits like pay without work and education plans is one way that companies motivate workers. Other types of benefits, called perks, have a different value. They provide emotional satisfaction or social status rather than money. Examples of perks are a prime parking space, an office with a view, an expense account, and a company car. Some of these benefits are not taxable.

Insurance

Health insurance is an important benefit for many workers. The price paid for health insurance is called a premium. Premiums are typically paid by employers and employees. In the past, many employers paid the full price of insurance for employees. However, the costs of health care have risen steadily over the past several years. The costs are expected to continue increasing. Today, employees typically pay a portion or all of insurance premiums.

The premiums employees pay vary depending on the coverage provided. For example, an employee with a spouse and children would pay more for health insurance than a single employee. Group health insurance premiums are lower than those for individual policies.

Group life insurance is often available at work. The premium may be paid by the employer or the employee. In some companies, the employer pays for a certain amount of life insurance. For example, this amount may be twice the employee's annual salary. The employee may be able to purchase additional coverage at the group rate. The premium is often lower than for an individual policy. Life insurance paid for by the employee may be portable. A portable policy goes with the employee when he or she leaves the employer.

Disability insurance provides payments to replace income lost when illness or injury prevents the employee from working. This type of insurance is an option for many employees. Coverage for short-term disability (up to two years) is often paid for by the employer. The employee may be able to purchase long-term disability coverage. Long-term disability insurance typically covers periods longer than two years and up to retirement. The premiums are deducted from the employee's paycheck.

Workers' compensation is an insurance plan that employers are required to provide for employees. It pays medical and disability benefits to workers who are injured or contract diseases on the job. Benefits may be paid to the worker's family if the worker is killed on the job.

Other types of group insurance coverage may also be available. For example, the employer may offer dental, vision, or long-term care.

Retirement Plans

Some companies offer 401(k) retirement plans. This type of plan allows employees to put aside money for retirement that is not subject to federal income tax at the time it is earned. Some states also do not require that state income tax be paid on money placed in a 401(k). The employer may match the contribution to some extent, such as 25 percent or more. The money put into the plan will be taxed later when it is taken from the account. Deductions for the plan are made from the worker's pay.

Some companies offer retirement accounts that are paid for entirely by the employer. These accounts are also called pension plans. Pension plans provide payments to retired workers. Typically, employees must work for the company for a certain number of years to qualify. The payment amounts vary depending on the number of years worked, the worker's salary, and other factors. This type of fringe benefit is being offered by fewer companies now than in the past.

Profit-Sharing Plans

A profit-sharing plan means that when the company does well, employees are paid a share of the profits. This money can be paid in cash, or it can be added to a retirement account. When the money is paid in cash, it is taxable in the year received. When the money is added to a retirement account, it is taxed when withdrawn by the employee.

Stock Option Plans

Some companies allow employees to buy stock in the company at a reduced price. The purchase price of the stock may be deducted from the employee's pay. This is a convenient way to acquire stock, and it does not involve brokerage or trading fees. Other companies may give shares of stock in the company to employees as a benefit.

Health Flexible Spending Arrangements

A health flexible spending arrangement (FSA) allows employees to set aside money to pay for qualified medical expenses. The money set aside is not included in the amount on which employment or federal income taxes are paid. The plans are often set up by employers as an employee benefit. Deductions are made from the employee's pay to fund the account. The employer may also contribute. The employee files claims to be paid from the account for qualified expenses.



2-1 REVIEW

2-1 Activity 1 Can You Recall?

Answer these questions to help you recall what you have read. If you cannot answer a question, read the related section again.

1. What does the term *minimum wage* mean? Why do people often have to start a new job for minimum wage?
2. What is overtime pay? How much is overtime pay compared to regular pay?
3. How is being paid a salary different from being paid hourly wages?
4. Give an example of a worker whose pay may include tips.
5. What are some advantages of self-employment? What are some disadvantages?
6. What are employee benefits? Give two examples. Why are employee benefits important to employees?
7. Give three examples of pay without work.
8. Why is educational reimbursement a valuable benefit for employees?
9. Give two examples of perks that employees might want.
10. Why are employees at many companies expected to help pay for the cost of health insurance?
11. Describe two types of retirement plans offered by companies as a benefit.
12. How does a health flexible spending arrangement (FSA) benefit employees?

2-1 Activity 1 Compute Gross Pay

Gross pay is the amount of salary or wages a worker receives before deductions are made. Deductions may be taken for taxes and some benefits, such as health insurance premiums. Tips and commissions are included in gross pay.

To calculate gross pay, multiply the hourly rate times the number of hours worked. If tips or commissions are included, add them to the total salary or hourly wages earned.

1. Kim Chin works for an hourly rate of \$6.50. This week Kim worked 39 hours. What is Kim's gross pay for this week?

2. Juan Perez is paid a monthly salary of \$500. He is also paid a 10 percent commission on sales he makes. This month, Juan made \$7,575 in sales. What is Juan's gross salary for this month?
3. Alice Jones worked 32 hours this week. She is paid \$4.00 per hour. She also earned \$250 in tips. What is Alice's gross pay for this week?
4. John O'Malley worked 40 regular hours and 10 overtime hours this week. His regular rate of pay is \$8.50. For overtime pay, he earns 1.5 times his regular pay. What is John's gross pay for this week?
5. Gloria Adams is starting a new job. She will be paid \$10.50 per hour. She plans to work 40 hours per week for 50 weeks a year. What will her gross yearly pay be? The value of the benefits Gloria will receive amounts to 30 percent of her gross pay. What will the value of her benefits be? What is the total value of the pay and benefits Gloria will receive?



Unearned Income

OUTCOMES

- List private sources of unearned income.
- List several types of government transfer payments.
- Explain the difference between in-kind and in-cash transfer payments.
- Discuss the costs and benefits of paying taxes.

PRIVATE SOURCES

Unearned income is money received from sources other than working in a job, either for yourself or for someone else. There are several private sources of unearned income. For example, interest earnings on a savings account is money received that the owner does not work to get. People who buy stocks in a corporation may receive dividend payments.



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All sources of income offer financial security to retired people.

CLASSIFICATION OF TYPES OF INCOME		
Earned Income	Unearned Income	Variable Income
Salaries and wages	Dividends	Business profits
Commissions	Interest	Royalties
Bonuses	Capital gains	Rents
Professional fees	Gambling winnings	
Tips	Alimony	
	Social Security benefits	
	Pensions	
	Annuities	

FIGURE 2-2.1

TYPES OF INCOME

Source: Internal Revenue Service, <http://www.irs.gov/businesses/small/international/article/0,,id=96811,00.html> (accessed March 6, 2006).

A **dividend** is money shared with stockholders when a corporation makes profits. Retired people may receive pension payments. These are examples of unearned income.

The Internal Revenue Service (IRS) lists some types of income as variable income. The income may be earned or unearned, depending on the situation in which it is received. Royalties and rent are examples of variable income. Figure 2-2.1 shows different types of income as listed by the IRS.

Unearned income is taxable. However, the tax rates may be lower than income tax rates on earned income. For example, qualified dividend income is subject to a maximum 15 percent tax rate. Because this income is not earned, it also is not subject to employment taxes.

Building Communications Skills

CRITICAL LISTENING

Critical listening involves evaluating the information you hear. The goal is to consider only the important or relevant information. Unneeded, untrue, or conflicting information can be ignored. When you listen critically, you are able to make good decisions based on what is accurate and useful.

For example, pretend you are buying a used car. The seller is telling you about the

car and its features. He tells you that the car runs great and will run for years to come. It is the best car he ever had. These statements are not useful for making a decision about whether to buy the car. Next, the seller tells you that the car was serviced regularly (and he can prove it), has traveled 34,000 miles, and was kept in a garage every night. Using this information can help you make a good decision.

GOVERNMENT TRANSFER PAYMENTS

Money and benefits received from local, state, or federal governments are called **transfer payments**. Transfer payments are made from many different programs. Transfer payments increase the disposable income of those who receive them.

Some transfer payments provide income to retired people. When people get older, they stop working. However, their needs continue. In fact, some needs increase, such as the need for medical care. For some people, medical care and prescriptions are their largest expenses. Retired people also need health insurance. Social Security and Medicare programs provide benefits for these retired workers.

Other programs provide benefits to help low-income families with medical needs or living expenses. For example, Medicaid is a program of medical aid designed for those unable to afford medical service. It is financed by the state and federal governments in the United States.

Examples of transfer payments provided from state and federal governments are shown in Figure 2-2.2. Transfer payments may be in-cash or in-kind payments. Examples of each are discussed in the following sections.

In-Kind Transfer Payments

In-kind transfer payments include food stamps, rent subsidies, and vouchers that can be exchanged for goods and services. People do not receive money directly. Instead, they are provided with the means to get goods and services. In-kind payments are made available to those in need.

The federal government and state governments make in-kind transfer payments. For example, Medicaid is a program of medical aid designed for those unable to afford medical service. It is financed by the state and

FIGURE 2-2.2

Transfer payments are made possible by taxes collected from taxpayers.

TRANSFER PAYMENT EXAMPLES

Aid to Families with Dependent Children	Payments to needy families with children. Programs vary by state.
Medicaid	Benefits that provide health care and related services for low-income individuals
Veterans' benefits	Benefits for veterans (those who have completed active military service), their families, and their survivors
Supplemental Security Income (SSI)	Benefits for low-income elderly and disabled persons
State-provided medical care plans	Benefits for people who cannot afford health insurance
Social Security	Benefits for retired people, disabled workers, and their dependents
Medicare	Health insurance for retired people and those who receive Social Security benefits
Unemployment compensation	Benefits for workers who are laid off or dismissed from jobs. To qualify, individuals must have worked for a required time. Program rules vary by state.
Workers' compensation	Benefits for workers who become injured or ill on the job



© Getty Images/PhotoDisc

Transfer payments help people who are in need.

federal governments in the United States. Many people age 65 or older qualify for Medicare hospital insurance (Part A) based on their own or their spouse's work record. Some people under age 65 who are disabled may also qualify for Medicare hospital insurance. This is another type of in-kind transfer payment.

In-Cash Transfer Payments

In-cash transfer payments are money in the form of a check, debit card, or other direct payment. For example, after Hurricane Katrina, flood victims were given debit cards worth \$1,000. They used the cards to buy food,

Focus on . . .

Most workers in the United States pay into the Social Security fund. A Social Security number is assigned to each person's account. Payments are made into the account by employees. The payments are matched by employers. Based on the amount paid into the account and other factors, the worker will receive monthly benefit checks when retired.

SOCIAL SECURITY BENEFITS

Each year while paying into the fund, workers should receive a Social Security Statement. The statement allows workers to see that earnings are being posted properly to the account. If you are a worker and do not receive a statement, you should request one. A statement can be requested at a local Social Security office or on the Social Security Web site. A link to this site is provided on the Web site for this textbook.

clothing, and other items. Social Security payments, unemployment benefits, and workers' compensation payments are examples of in-cash payments. People receive checks or have direct deposits made to their checking accounts.

COSTS AND BENEFITS OF PAYING TAXES

Taxes are collected from many sources. Income taxes, use taxes, and excise taxes are examples. Income taxes are paid on earned and unearned income. You will learn more about income taxes later in this chapter.

Use taxes are paid by people who use certain goods or services provided by the government. For example, people who visit a state or national park may be charged a use tax. This money is used to help pay for operation of the park. Drivers may have to pay a toll to be able to cross a bridge. This use tax helps to pay for the bridge maintenance and operation.

Another form of tax is called the **excise tax**. Excise taxes are charged on the purchase of specific goods, such as motor fuel, cigarettes, and alcohol. They are also charged on services such as phone service, utilities, and garbage collection. Excise taxes are usually included in the price of the product or service. They help pay for the cost of government goods and services. When the excise tax is on a product that is not considered essential for a normal standard of living, such as an expensive car, it is often called a luxury tax.

Costs of Paying Taxes

Paying taxes reduces the disposable income of an individual. The person has less money available to save or spend than if taxes were not paid. This is the main cost of paying taxes for an individual. When people have



Gasoline excise taxes help pay for roads and highways.

less money to spend, the economy of the area may be affected. When people spend less on goods and services, businesses have lower sales. Lower sales may lead to lower profits. Workers may have to be laid off or dismissed from their jobs. Charitable groups may receive less money from donations. Having less money means the groups are able to help fewer people in need. In fact, cutting taxes is a method governments can use to stimulate the economy.

Benefits of Paying Taxes

Paying taxes can benefit the person making the payments and others who do not make payments. For example, Social Security tax provides a system of old-age, survivors, and disability insurance. Workers pay Social Security tax during their working years. When they retire, workers receive payments from the fund. This is an example of a direct benefit from paying taxes.

Money collected from various taxes is used by governments to provide goods and services for citizens. For example, roads and highways are paid for with government money—either federal or state. Everyone (whether or not they paid taxes) is able to use them. Government transfer payments, in-kind and in-cash, are funded with taxes.

Everyone benefits from government goods and services that are paid for with tax dollars. Examples include public education, national defense, police protection, and parks. Most individuals could not afford to pay for these items. Not everyone benefits directly from every type of tax. For example, some people may never visit a state or national park. However, everyone benefits from some government services.



© Getty Images/PhotoDisc

Taxes help provide parks for everyone to enjoy.

2-2 REVIEW

1-1 Activity 1 Can You Recall?

Answer these questions to help you recall what you have read. If you cannot answer a question, read the related section again.

1. How is unearned income different from earned income?
2. List three sources of private unearned income.
3. What are government transfer payments? How are in-kind payments different from in-cash payments?
4. From Figure 2-2.2, explain how Medicaid is different from Medicare.
5. What is an excise tax? Give one example of a product that has an excise tax.
6. What is the main direct cost of paying taxes for an individual?
7. How can having citizens pay high taxes affect the economy?
8. Give one example of how paying taxes can directly benefit a person.
9. How are government transfer payments funded?
10. Give one example of goods or services funded by taxes that benefit everyone.

1-1 Activity 1 Taxes, Taxes, Taxes



www.thomsonedu.com/school/pfl

Many different types of taxes are paid by people in your area. Work in a group with two or three classmates to learn about the kind of taxes being paid.

1. To learn about the taxes paid by people in your area, interview people. Ask adult relatives or friends who work to tell you what types of taxes are deducted from their pay. Call or visit officials in local government or search the Internet to learn about other taxes.
2. List all types of taxes paid by people who live and work in your city, county, or state. Include sales taxes, use taxes, excise taxes, income taxes, property taxes, and so on. You may find taxes listed on bills for phone, utilities, water, sewer, and garbage services. You will also find taxes on gasoline, cigarettes, and other luxuries.
3. To your list of local and state taxes, add federal income taxes, Social Security and Medicare taxes, workers' compensation taxes (if paid by employees in your state), and other taxes of any kind.

Taxes and Other Deductions

OUTCOMES

- Explain how taxes affect disposable income.
- List types of deductions required for taxes.
- Compute net pay.
- List examples of optional deductions from pay.
- Complete a Form I-9 and a Form W-4.
- Complete a federal income tax return.

TAXES AND DISPOSABLE INCOME

Wages, salaries, and profits from owning a business are taxable. Unearned income, such as interest from a savings account, is also taxable. As you learned earlier, *disposable income* refers to the money left to save or spend after taxes are paid. Lower taxes result in higher disposable income. Higher taxes result in lower disposable income.

REQUIRED DEDUCTIONS

Workers are required to have money withheld from their paychecks for income tax, Social Security tax, and Medicare tax. Other taxes and deductions may also be withheld. Many states have a state income tax. Some counties and cities have an income tax.

Taxes and payments for other items are subtracted from the worker's gross pay to calculate net pay. The paycheck stub in Figure 2-3.1 on page 46 shows a worker's gross earnings, deductions, and net pay.

Income Tax Withholding

Federal and state income taxes are withheld according to income amount and the number of exemptions claimed on Form W-4. A sample form is shown in Figure 2-3.2 on page 46. Exemptions are persons you claim on your tax return as dependents. The Internal Revenue Service provides details of how a person qualifies as a dependent. For example, your child who lives with you and for whom you provide more than 50 percent of living expenses would be a dependent. The more exemptions you claim, the less tax is withheld. Everyone is allowed to claim one exemption (unless that person is claimed as an exemption by someone else). People who are married or have children can claim more exemptions. Federal

FIGURE 2-3.1

This paycheck stub shows deductions taken from a worker's pay.

EMPLOYEE NAME	EMPLOYEE ID	PAY PERIOD	CHECK DATE	CHECK NO.	
Gloria M. Perez	482975	2/1/20-- thru 2/14/20--	2/21/20--	A001161	
EARNINGS		HOURS	RATE	THIS PERIOD	YEAR-TO-DATE
Regular	80	\$13.00	\$1,040.00	\$3,120.00	
Overtime					
TAXES					
			\$82.19	\$246.57	
			64.48	193.44	
			15.08	45.24	
			34.27	102.81	
			3.14	9.42	
			\$199.16	\$597.48	
DEDUCTIONS					
			\$150.00	\$450.00	
			12.00	36.00	
			52.00	156.00	
			10.00	30.00	
			\$224.00	\$672.00	
NET PAY			\$616.84	\$1,850.52	

income tax withholding rates can be viewed at the Internal Revenue Service Web site. A link to this site is provided on the Web site for this textbook.

Social Security Tax

Social Security tax is withheld by the federal government. The purpose of this tax is to provide a system of old-age, survivors, and disability insurance. The rate of the tax and the amount of income that is taxable change each year. In 2006, the rate was 6.2 percent on earnings up to \$94,200. Money withheld for this tax is paid into an account under your name and

FIGURE 2-3.2

Form W-4 shows the number of exemptions claimed.

Cut here and give Form W-4 to your employer. Keep the top part for your records.

Form **W-4** **Employee's Withholding Allowance Certificate** OMB No. 1545-0074
 Department of the Treasury Internal Revenue Service **2006**

► Whether you are entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.

1 Type or print your first name and middle initial. Gloria M.		Last name Perez		2 Your social security number 000 : 22 : 2105	
Home address (number and street or rural route) 123 Maple Street			3 <input checked="" type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate. Note. If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.		
City or town, state, and ZIP code Monticello, KY 42633-0123			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. ► <input type="checkbox"/>		
5 Total number of allowances you are claiming (from line H above or from the applicable worksheet on page 2)				5 1	
6 Additional amount, if any, you want withheld from each paycheck				6 \$	
7 I claim exemption from withholding for 2006, and I certify that I meet both of the following conditions for exemption. ● Last year I had a right to a refund of all federal income tax withheld because I had no tax liability and ● This year I expect a refund of all federal income tax withheld because I expect to have no tax liability. If you meet both conditions, write "Exempt" here ► 7					
Under penalties of perjury, I declare that I have examined this certificate and to the best of my knowledge and belief, it is true, correct, and complete.					
Employee's signature (Form is not valid unless you sign it.) ► Gloria M. Perez Date ► May 20, 20--					
8 Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.)			9 Office code (optional)		10 Employer identification number (EIN)

For Privacy Act and Paperwork Reduction Act Notice, see page 2. Cat. No. 10220Q Form **W-4** (2006)

FIGURE 2-3.3

Form I-9 shows a worker's Social Security number and other information.

Department of Homeland Security U.S. Citizenship and Immigration Services		OMB No. 1615-0047; Expires 03/31/07 Employment Eligibility Verification	
Please read instructions carefully before completing this form. The instructions must be available during completion of this form. ANTI-DISCRIMINATION NOTICE: It is illegal to discriminate against work eligible individuals. Employers CANNOT specify which document(s) they will accept from an employee. The refusal to hire an individual because of a future expiration date may also constitute illegal discrimination.			
Section 1. Employee Information and Verification. To be completed and signed by employee at the time employment begins.			
Print Name: Last <i>Perez</i>	First <i>Gloria</i>	Middle Initial <i>M.</i>	Maiden Name <i>Valdez</i>
Address (Street Name and Number) <i>123 Maple Street</i>		Apt. #	Date of Birth (month/day/year) <i>3/20/1979</i>
City <i>Monticello</i>	State <i>KY</i>	Zip Code <i>42633-0123</i>	Social Security # <i>000222105</i>
I am aware that federal law provides for imprisonment and/or fines for false statements or use of false documents in connection with the completion of this form.		I attest, under penalty of perjury, that I am (check one of the following): <input checked="" type="checkbox"/> A citizen or national of the United States <input type="checkbox"/> A Lawful Permanent Resident (Alien #) A _____ <input type="checkbox"/> An alien authorized to work until _____ (Alien # or Admission #) _____	
Employee's Signature <i>Gloria M. Perez</i>		Date (month/day/year) <i>May 20, 20--</i>	

Social Security number. The employer pays the same amount into your account. People who are self-employed must pay 12.4 percent on earnings up to \$94,200. Amounts may be different for the current year. Your account continues to grow as you are working and paying the tax. Social Security tax is also known as FICA because it was created by the Federal Insurance Contribution Act.²

Employers are required to verify that workers are eligible for employment. When a worker begins a job, the worker is required to complete Section 1 of Form I-9, Employment Eligibility Verification. Section 1 of the form is shown in Figure 2-3.3. The employee must enter a name, an address, and a Social Security number. The Social Security number recorded on this form is used to report Social Security taxes for the employee. The form also shows whether the employee is a citizen of the United States, a lawful permanent resident, or an alien who is authorized to work. The employer must verify the information by looking at certain documents. A U.S. passport, a driver's license, and a U.S. Social Security card are examples of these documents.

Medicare Tax

Medicare tax is withheld by the federal government. This tax pays for medical care for retired persons and those who receive Social Security benefits. In 2006, workers paid 1.45 percent on all earnings for this tax. The employer also pays the same amount into your account. In 2006, people who were self-employed paid 2.9 percent on all earnings.³ Amounts may be different for the current year.

² Social Security Online, "Electronic Fact Sheet," <http://www.ssa.gov/pubs/10003.html> (accessed February 23, 2006).

³ Ibid.



Focus on . . .

WORKPLACE SAFETY

All workers are entitled, by law, to a safe place to work. This includes safe working methods and safety training. Workers' compensation costs are based, in part, on the safety record of the company. Having a safe workplace and reducing the number of accidents or injuries benefits both workers and the company.

Safety begins with good work attitudes. Safety is part of everyone's job. All workers must understand safety needs and make safety a priority. Major work-related accidents, injuries, and illnesses are related to the following factors:

- Carelessness of workers
- Failure to use safety equipment
- Lack of awareness of dangers
- Not knowing how to avoid and reduce risks
- Lack of a practiced and workable emergency plan

An emergency plan is a vital part of safety. An effective emergency plan provides for the safety of workers, employees, visitors, and others. A good emergency plan has the following parts:

- Detailed steps to follow in an emergency
- A list of who is responsible for each activity
- A list of who has back-up roles
- A second plan in case one course of action fails
- A data back-up system
- A process to communicate status
- Practice drills so that everyone will know what to do in a real emergency

Emergency plans should be in writing and shared with everyone. If special training is required, it should be completed and practiced regularly.



Following an emergency plan helps prevent injuries in times of danger.

© Getty Images/PhotoDisc

Workers' Compensation Insurance

Workers' compensation is an insurance plan that pays medical and disability benefits to workers who are injured or contract diseases on the job. Benefits may be paid to the worker's family if the worker is killed on the job. The laws that cover workers' compensation vary by state. In some states, the entire cost of the insurance is paid by the employer. In other states, such as Oregon, the worker must also pay some fees related to workers' compensation. In those states, workers may have the fees deducted from their paychecks.



© Creatas Images

Workers' compensation provides benefits for people who are injured on the job.

OPTIONAL DEDUCTIONS

Employees may have optional deductions made from their pay. Full-time workers usually have benefits provided by the employer. Employees may share in the cost of some benefits, such as health insurance. Workers may also have money deducted from their pay for items such as the following:


- Health insurance
- Life insurance
- Disability insurance
- Dental insurance
- Vision insurance
- Long-term care insurance
- Savings plan
- Retirement plan
- Health flexible spending plan
- Stock purchase plan

FEDERAL TAX FILING

If you are a U.S. citizen or resident, whether you must file a federal income tax return depends upon your gross income, your filing status, your age, and whether you are a dependent. After taxes are filed the first time, the IRS may send paper forms to use in filing. Forms can be accessed online at the IRS Web site. A link to the site is found on the Web site for this textbook. Users can download, save, and print tax forms needed for filing federal tax returns.

FIGURE 2-3.4

A Form W-2 reports taxable income.

a Control number		OMB No. 1545-0008		Safe, accurate, FAST! Use  Visit the IRS website at www.irs.gov/efile .		
b Employer identification number (EIN) 00-000000		1 Wages, tips, other compensation \$25,688.00		2 Federal income tax withheld \$2,136.94		
c Employer's name, address, and ZIP code ABC Company 781 Weston Street Monticello, KY 42633-0781		3 Social security wages \$27,040.00		4 Social security tax withheld \$1,676.48		
		5 Medicare wages and tips \$27,040.00		6 Medicare tax withheld \$392.08		
		7 Social security tips		8 Allocated tips		
d Employee's social security number 000 22 2105		9 Advance EIC payment		10 Dependent care benefits		
e Employee's first name and initial Last name Suff. Gloria M. Perez 123 Maple Street Monticello, KY 42633-0123		11 Nonqualified plans		12a See instructions for box 12 D \$1,352.00		
		13 Statutory employee <input type="checkbox"/> Retirement plan <input checked="" type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b		
		14 Other		12c		
				12d		
f Employee's address and ZIP code						
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name
KY	00000	\$25,688.00	\$891.02	\$27,040.00	\$81.64	Mont.

Form W-2 Wage and Tax Statement **2006** Department of the Treasury—Internal Revenue Service
Copy B—To Be Filed With Employee's FEDERAL Tax Return.
 This information is being furnished to the Internal Revenue Service.

Form W-2

Form W-2 is used to report the taxable income a worker received during the calendar year. This form is required to prepare an income tax return. Employers are required to send workers a W-2 for the calendar year (January 1 through December 31) by the following January 31. A sample Form W-2 is shown in Figure 2-3.4. The information on the form is sent to the federal, state, and local governments as well as to the worker. Multiple copies are provided for the worker to attach to tax forms and to keep on file. If the worker's tax returns are filed in paper form, the appropriate copy should be attached to each return.

Note that the amount shown in box 1, *Wages, tips, other compensation*, and in box 16, *State wages, tips, etc.*, is \$25,688.00. This figure is the amount of gross pay less the money paid into a 401(k) plan. Money paid into a 401(k) plan is not subject to federal income taxes until it is withdrawn, usually during retirement. Some states also defer taxes on money paid into a 401(k) plan.

Form 1040EZ

Several different forms can be used to file a federal tax return. The form that should be used depends on the type of income and deductions claimed. Form 1040EZ, shown in Figure 2-3.5 on page 51, is designed for use by single and joint filers with no dependents. This is a simple, one-page form that can be completed using information found on the filer's Form W-2 and tax tables provided by the IRS. Refer to Figure 2-3.5 as you read the following points about Form 1040EZ. Note that this form



Department of the Treasury—Internal Revenue Service
Form 1040EZ **Income Tax Return for Single and Joint Filers With No Dependents** (99) **2005** OMB No. 1545-0074

Label (See page 11.) **Use the IRS label.** Otherwise, please print or type.

Presidential Election Campaign (page 12)

Label Here

Your first name and initial: **Gloria M.** Last name: **Perez**

If a joint return, spouse's first name and initial: _____ Last name: _____

Home address (number and street). If you have a P.O. box, see page 11. **123 Maple Street** Apt. no. _____

City, town or post office, state, and ZIP code. If you have a foreign address, see page 11. **Monticello, KY 42633-0123**

Your social security number: **000 22 2105**

Spouse's social security number: _____

▲ You must enter your SSN(s) above. ▲

Checking a box below will not change your tax or refund.

Check here if you, or your spouse if a joint return, want \$3 to go to this fund? You Spouse

Income Attach Form(s) W-2 here. Enclose, but do not attach, any payment.	1	Wages, salaries, and tips. This should be shown in box 1 of your Form(s) W-2. Attach your Form(s) W-2.	1	25,688	00
	2	Taxable interest. If the total is over \$1,500, you cannot use Form 1040EZ.	2		
	3	Unemployment compensation and Alaska Permanent Fund dividends (see page 13).	3		
	4	Add lines 1, 2, and 3. This is your adjusted gross income .	4	25,688	00
	5	If someone can claim you (or your spouse if a joint return) as a dependent, check the applicable box(es) below and enter the amount from the worksheet on back. <input type="checkbox"/> You <input type="checkbox"/> Spouse If someone cannot claim you (or your spouse if a joint return), enter \$8,200 if single ; \$16,400 if married filing jointly . See back for explanation.	5	8,200	00
	6	Subtract line 5 from line 4. If line 5 is larger than line 4, enter -0-. This is your taxable income .	6	17,488	00
Payments and tax	7	Federal income tax withheld from box 2 of your Form(s) W-2.	7	2,136	94
	8a	Earned income credit (EIC).	8a		
	b	Nontaxable combat pay election.	8b		
	9	Add lines 7 and 8a. These are your total payments .	9	2,136	94
	10	Tax . Use the amount on line 6 above to find your tax in the tax table on pages 24–32 of the booklet. Then, enter the tax from the table on this line.	10	2,256	00
Refund Have it directly deposited! See page 18 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: <input type="checkbox"/> Checking <input type="checkbox"/> 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 19.	12	119	06
Third party designee	Do you want to allow another person to discuss this return with the IRS (see page 19)? <input type="checkbox"/> Yes. Complete the following. <input checked="" type="checkbox"/> No				
	Designee's name	Phone no.	Personal identification number (PIN)		
Sign here Joint return? See page 11. Keep a copy for your records.	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 lists 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	
	<i>Gloria M. Perez</i>	2/5/20-	Product assembler	(606) 555-0134	
	Spouse's signature. If a joint return, both must sign.	Date	Spouse's occupation		
Paid preparer's use only	Preparer's signature	Date	Check if self-employed <input type="checkbox"/>	Preparer's SSN or PTIN	
	Firm's name (or yours if self-employed), address, and ZIP code	EIN	Phone no. ()		

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 23. Cat. No. 11329W Form **1040EZ** (2005)

is for 2005. The form for the current year may differ somewhat but will contain similar information.

- The filer's name, address, and Social Security number are entered in the boxes in the *Label* section near the top of the form. For a joint return, the spouse's name and Social Security number would also be included.
- In the *Income* section (lines 1 through 6), line 1 provides space to enter wages, salaries, and tips. Taxable interest of \$1,500 or less can be entered on line 2.
- Line 3 is for unemployment payments received and Alaska Permanent Fund dividends.
- Line 4 is for adjusted gross income. This amount is the total of lines 1, 2, and 3.
- Line 5 shows the amount that can be deducted from adjusted gross income. For a single filer, as shown in the figure, the amount is \$8,200. For a married couple filing jointly, the amount would be \$16,400. This amount is not counted as part of the income on which tax must be paid.
- Line 6 should have a 0 (zero) if line 5 (the deduction) is larger than line 4. This means you have no taxable income. Line 6 should show the amount of adjusted gross income (line 4) minus the standard deduction (line 5) if the line 4 amount is larger than line 5. This amount is the taxable income.
- Line 7 in the *Payments and tax* section should show the amount of federal income tax withheld. This number comes from a Form W-2.
- Line 8a is for an earned income credit (EIC). This is a credit for certain people who work. The credit may give the filer a refund, even if the filer does not owe tax. A separate worksheet can be completed by those who think they may qualify for an EIC. Line 8b is for nontaxable combat pay.
- Line 9 is for total payments (lines 7 and 8a).
- Line 10 is for the tax on the taxable income amount. The tax is found by looking at tax tables provided by the IRS. If filing using a paper form, you can find the tax tables in the paper booklet. Tax tables can also be found on the IRS Web site.
- Line 11a in the *Refund* section is where a refund amount, if any, appears. This amount is found by subtracting tax (line 10) from total payments (line 9).
- Line 12 in the *Amount you owe* section is where the amount of tax the filer has to pay, if any, appears. This amount is found by subtracting total payments (line 9) from the tax amount (line 10).
- The *Third party designee* section is where the filer can allow another person to discuss the tax return with the IRS.
- The *Sign here* section is where the filer signs and dates the form.
- If another party fills out the tax return, that person's information should be recorded in the *Paid preparer's use only* section.

Other Forms

Form 1040A is a two-page form that allows more options for income and deductions to be entered. Some sections require the filer to attach additional forms, often called schedules. Taxpayers might use Form 1040A instead of Form 1040EZ if they have more than \$1,500 in interest income. Form 1099-INT shows the interest income earned during the year. Form 1099-INT is shown in Figure 2-3.6 on page 53. This form is sent to individuals by the bank or other institution that pays the interest. If tax returns are filed in paper form, the appropriate copy of the form should be attached to the return.

FIGURE 2-3.6

Form 1099-INT shows interest income earned.

<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		2005 Interest Income	
PAYER'S name, street address, city, state, ZIP code, and telephone no. First Bank 201 Main Street Monticello, KY 42633-0201		Payer's RTN (optional)	OMB No. 1545-0112 Form 1099-INT
PAYER'S Federal identification number 00-0827701	RECIPIENT'S identification number 000-22-0011	1 Interest income not included in box 3 \$ 2,500.00	
RECIPIENT'S name Mr. William Patel Street address (including apt. no.) 206 Brookhaven Drive City, state, and ZIP code Somerset, KY 42502-0206		2 Early withdrawal penalty \$	3 Interest on U.S. Savings Bonds and Treas. obligations \$
		4 Federal income tax withheld \$	5 Investment expenses \$
Account number (see instructions) 4000326	2nd TIN not. <input type="checkbox"/>	6 Foreign tax paid \$	7 Foreign country or U.S. possession
Form 1099-INT		Department of the Treasury - Internal Revenue Service	

**Copy C
For Payer**

For Privacy Act and Paperwork Reduction Act Notice, see the **2005 General Instructions for Forms 1099, 1098, 5498, and W-2G.**

Technology Corner

E-FILING

E-filing is a fast, safe way to file a federal tax return electronically. In 2005, more than 68 million Americans filed their tax returns electronically. Several options are available for using e-file. The filer can hire an *Authorized IRS e-file Provider*. This is a tax preparer who is approved by the IRS and can e-file the tax return for you. Another option is to purchase or get free tax preparation software that supports e-filing. Users prepare the return and e-file using a computer with a modem.⁴

Some people can prepare and file a tax return online. This option is called Free File. It is available to filers who have \$50,000 or less of adjusted gross income. A link on the

IRS Web site takes users to a list of companies that provide free filing services. Each company may also have a list of requirements, so a company must be chosen carefully. Once a company is selected, the user answers questions and provides the information needed to complete the return. The filing company sends the return to the IRS electronically.

Using e-file provides fast results for those entitled to a refund. Refunds are often received much more quickly than when a paper return is filed. Having the refund deposited directly into a checking account makes receiving refunds fast and safe.

⁴ Internal Revenue Service, "Individual E-file Program Overview," <http://www.irs.gov/efile/article/0,,id=118451,00.html> (accessed March 9, 2006).



2-3 REVIEW

2-3 Activity 1 Can You Recall?

Answer these questions to help you recall what you have read. If you cannot answer a question, read the related section again.

1. How does the amount of tax a person pays affect the person's disposable income?
2. List three types of required deductions for taxes.
3. How is net pay calculated?
4. What is an exemption as it relates to a Form W-4?
5. Give an example of a person who may qualify as a dependent and can be claimed as an exemption on your Form W-4.
6. What form must a new employee complete to provide a Social Security number and claim status as a citizen of the United States, a lawful permanent resident, or an alien who is authorized to work?
7. Medicare taxes pay for what services?
8. To whom does workers' compensation pay benefits?
9. List four factors related to workplace accidents and injuries.
10. List the parts of a good emergency plan.
11. List three optional deductions that might be taken from a worker's pay.

2-3 Activity 1 Complete Employment Forms



When you begin a new job, you will be asked to complete a Form I-9 and a Form W-4. Practice completing these forms in this activity.

1. Open and print the PDF file *CH02 Form I-9* from the data files.
2. Complete the employee portion of the form at the top of page 2 using your information. If you do not have a Social Security number or want to keep your number private, use 000-22-1111 as the number. Refer to Figure 2-3.3 on page 47 for an example form.
3. Open and print the PDF file *CH02 Form W-4* from the data files.
4. Complete the Employee's Withholding Allowance Certificate portion of the form using your information. If you do not have a Social Security number or want to keep your number private, use 000-22-1111. For this activity, indicate that you are single, and claim one exemption. Refer to Figure 2-3.2 on page 46 for an example form.

EXPLORING CAREERS IN FINANCE



Do you like to work with numbers? Would you enjoy creating long-term plans to reach goals? If the answer is yes, a career in finance might be right for you. Jobs in finance involve managing money and other assets. Banking, investments, and insurance are part of this career area. Retirement planning and financial counseling are also part of the finance career cluster.

Jobs in finance are found in government and in private companies. This job area also presents good opportunities for entrepreneurs. For example, accountants and financial advisors may form their own small businesses. The need for jobs in the finance area is expected to grow in the next few years. The outlook will vary somewhat by job.

Skills Needed

Some of the skills and traits needed for a career in finance include the following:

- Math skills
- Analytical skills
- Communications skills
- Computer skills
- Decision-making skills
- Problem-solving skills
- Honesty
- Leadership

Job Titles

Many jobs are available in the finance area. Some job titles for this career area include the following:

- Accountant
- Auditor
- Bank teller
- Budget analyst
- Claims adjuster
- Financial manager
- Insurance underwriter
- Loan officer
- Personal financial advisor
- Stockbroker (securities sales agent)
- Tax examiner

Explore a Job

1. Choose a job in finance to explore further. Select a job from the list above, or choose another job in this career area.
2. Access the *Occupational Outlook Handbook* online. A link to the site is provided on the Web site for this textbook.
3. Search for more information about the job you selected to answer these questions:
 - What is the nature of the work this job involves?
 - What is the job outlook for this job?
 - What training or qualifications are needed for this job?
 - What are the median annual earnings for this job (given in the Earnings section of the Web page)?



REVIEW

Summary

- Sources of earned income include wages, salaries, tips, commissions, and self-employment. Earned income is subject to income taxes and other taxes.
- Minimum wage is the lowest hourly pay rate allowed by law. Many states have minimum wage laws that set a rate higher than the federal rate.
- By law, overtime pay of at least 1½ times the regular rate must be paid for hours worked above 40 work hours in a week.
- Networking is the process of making contacts and building relationships with other people.
- Disposable income refers to the money a person has available to spend or save after taxes have been paid.
- Benefits are forms of pay other than salary or wages. Benefits can directly increase disposable income or can have the effect of increasing disposable income.
- Benefits such as profit sharing and retirement accounts provide valuable resources for workers later in their lives.
- Unearned income is money or benefits received without working directly to earn them. Examples of unearned income are interest and dividends.
- Paying taxes reduces the disposable income of an individual. This is the main cost of paying taxes for an individual.
- Government transfer payments are funded by taxes collected by the government. This is a benefit of paying taxes.
- Government goods and services are available to all people who qualify, regardless of taxes paid. This is a benefit of paying taxes.
- Required deductions for taxes reduce disposable income.
- Workplace safety is required by law; it is everyone's responsibility.
- If you are a U.S. citizen or resident, whether you must file a federal income tax return depends upon your gross income, your filing status, your age, and whether you are a dependent.
- E-filing is a fast, safe way to file a federal tax return electronically.

Key Terms

benefits

cafeteria plan

commission

disposable income

dividend

entrepreneur

excise tax

minimum wage

overtime pay

paid holidays

personal leave

profit

sick leave

tax

tip

transfer payments

unearned income



ACTIVITY 1

Review Key Terms

Use the key terms from Chapter 2 to complete the following sentences:

1. A(n) _____, or business owner, takes the risks of owning and operating a business.
2. Money received from sources other than working in a job is called _____.
3. Money left over to spend or save after taxes are paid is called _____.
4. Most companies have _____, such as Christmas, Veterans Day, or Memorial Day.
5. _____ is time away from work for personal reasons.
6. The lowest pay rate allowed by law for each hour of work is called _____.
7. Money received from customers, called a(n) _____, is based on quality of service.
8. _____ are forms of pay other than salary or wages, such as paid vacations or holidays.
9. Days you are paid for even though you are not at work due to illness are called _____.
10. Earnings that are paid only when efforts result in a sale are called a(n) _____.
11. Earnings paid when an employee works more than 40 hours in a 1-week period are called _____.
12. Money or benefits received from government without working for them when they are received are called _____.
13. A(n) _____ is cash paid to stockholders of a corporation.
14. A benefits package, called a(n) _____, is where employees can pick and choose the benefit options they want to have.
15. _____ are taxes charged on the purchase of specific goods, such as motor fuel, cigarettes, and alcohol.
16. A(n) _____ is a required payment for the support of a government.
17. _____ is the amount left after all costs are deducted from the income of a business.



ACTIVITY 2

Math Minute

Complete these problems to build your math skills. You may use spreadsheet software or complete the problems manually.

Gross pay includes regular hours times regular pay, plus overtime hours times overtime pay. The overtime pay rate is $1\frac{1}{2}$ times the regular rate of pay.

1. Max worked 44 hours last week. His hourly rate is \$6.00. What was his gross pay (regular pay plus overtime pay)?
2. Elaine worked 48 hours last week. Her hourly rate is \$7.50. What was her gross pay?
3. Jackson worked 44 hours last week. His hourly rate is \$8.60. He has the following deductions taken from his gross earnings. What was his net pay?
 - Federal income tax withheld at the rate of 10%
 - Social Security tax withheld at the rate of 6.2%
 - Medicare tax withheld at the rate of 1.45%
 - Health insurance premiums of \$12.80
 - Union dues of \$8.50
4. Rachelle worked 46 hours last week; her hourly rate is \$7.90. She has the following deductions taken from her gross earnings. What was her net pay?
 - Federal income tax withheld at the rate of 10%
 - Social Security tax withheld at the rate of 6.2%
 - Medicare tax withheld at the rate of 1.45%
 - Health insurance premiums of \$11.20

ACTIVITY 3

Professional Careers



www.thomsonedu.com/school/pfl

Work with a classmate to complete this activity. Pick a career in which the worker earns a salary, such as teacher, manager, or accountant. Do some online and library research or interview a worker in this profession to answer the following questions:

1. How many hours a week does a beginning-level employee work?
2. What is the beginning pay level?
3. What kinds of benefits currently are being offered to people in this profession?
4. Would you like to do this kind of work? Why or why not?



ACTIVITY 4

Unemployment Compensation



www.thomsonedu.com/school/pfl

When workers are laid off from their jobs, they may be entitled to unemployment compensation benefits. These benefits are taxable income. Each state has unemployment compensation rules; the federal government also has a program.

Visit your state Web site to find out how unemployment compensation laws and insurance work in your state. Find answers to the following questions:

1. What are the requirements for drawing unemployment benefits?
2. How is the amount of the benefit determined?
3. For how long can a person draw benefits?

ACTIVITY 5

Evaluate and Select Benefits



1. Open and print the *Word* file *CH02 Benefits* found in the data files. A cafeteria plan of benefit choices, along with their dollar value, is shown in the document.
2. Assume that your salary is \$1,600 per month and that your total benefits package (including salary) can total up to \$2,000.
3. Review and evaluate the list of benefits offered. Decide which ones would be of the most value to you. You can go over \$2,000 in total pay and benefits costs only if you wish to have any payments over \$2,000 deducted from your paycheck.
4. Indicate your choices on the form.

ACTIVITY 6

Complete Tax Form 1040EZ



1. Open and print the PDF file *CH02 Form 1040EZ* found in the data files.
2. Enter your name, address, and Social Security number in the boxes in the *Label* section of the form. If you do not have a Social Security number or want to keep your number private, use 000-22-1111 as the number. You are filing a single return.
3. Your Form W-2 shows that you have \$29,521.00 of taxable income. Enter this amount on line 1.
4. Your 1099-INT shows that you have \$421.00 in taxable interest. Enter this amount on line 2.



5. Find the total of lines 1, 2, and 3. Enter the total on line 4 for adjusted gross income.
6. On line 5, enter **\$8,200.00**, the amount for a single filer. This amount is not counted as part of the income on which tax must be paid.
7. Subtract the amount on line 5 from the amount on line 4 to find your taxable income. Enter this amount on line 6.
8. Your Form W-2 shows federal income tax withheld as \$2,850.00. Enter this amount on line 7.
9. Enter the amount shown on line 7 on line 9 for total payments.
10. Open the PDF file *2005 Partial Tax Tables* from the data files. Find the amount of tax that applies to the amount shown on line 6. Enter this amount on line 10.
11. Subtract the amount on line 9 from the amount on line 10. This is the amount of tax you owe. Enter the amount on line 12.
12. Sign and date the form in the *Sign here* section. Enter **Sales Associate** for your occupation. Enter your phone number.

ACTIVITY 7 Complete Tax Form 1040A



1. Open and print the PDF file *CH02 Form 1040A* found in the data files.
2. Enter your name, address, and Social Security number in the boxes in the *Label* section of the form. If you do not have a Social Security number or want to keep your number private, use 000-22-1111 as the number. You are filing a single return.
3. In the *Filing status* section, place an **x** in box 1 for Single.
4. In the *Exemptions* section, place an **x** in box 6a for Yourself. Enter **1** in the blank at the right (*Boxes checked on 6a and 6b*). Enter **1** in the box at the right on line 6d.
5. Your Form W-2 shows that you have \$28,429.00 of taxable income. Enter this amount on line 7.
6. Your 1099-INT shows that you have \$1,825.00 in taxable interest. Enter this amount on line 8a.
7. Find the total of lines 7 and 8a. Enter the total on line 15 for total income. Enter the same amount on lines 21 and 22 for adjusted gross income.
8. On line 24, enter **\$5,000.00** for the standard deduction for a single filer.
9. Subtract the amount on line 24 from the amount on line 22. Enter this amount on line 25.
10. On line 26, enter **\$3,200.00**, the amount for one exemption.
11. Subtract the amount on line 26 from the amount on line 25 to find your taxable income. Enter this amount on line 27.

12. Open the PDF file *2005 Partial Tax Tables* from the data files. Find the amount of tax that applies to the amount shown on line 27. Enter this amount on line 28. Enter the same amount on lines 36 and 38.
13. Your Form W-2 shows federal income tax withheld as \$2,726.00. Enter this amount on line 39. Enter the same amount on line 43 for total payments.
14. Subtract the amount on line 43 from the amount on line 38. This is the amount of tax you owe. Enter this amount on line 47.
15. Sign and date the form in the *Sign here* section. Enter **Sales Associate** for your occupation. Enter your phone number.

ACTIVITY 8

Emergency Plans



Work in a group with three or four other students to complete this activity.

1. You have learned that safety procedures and emergency plans are important in the workplace. Such plans are also important in schools. Consult your school handbook, the school Web site, or other materials available to learn about the emergency plans for your school. You may need to talk with a principal, counselor, or school safety or security officer.
2. Choose one of the following situations and find the plan that should be followed in that situation. Be prepared to share the main points of the plan with the class.
 - Fire in the building
 - Severe weather (tornado, hurricane, blizzard)
 - Bomb threat
 - Hostage situation
 - Chemical spill or other dangerous substance release
 - Bus accident
 - Other emergency

CHAPTER

3

INCOME AND PURCHASING POWER



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Chapter 3 is about prices and how inflation affects what consumers can buy. Inflation is an increase in general price levels. Inflation erodes the value of money and takes away purchasing power.

There are different types of inflation. Each type works in a different way to cause prices to rise. Inflation also affects the value of money, whether it is money you will receive in the future or money you have now. Selling strategies are used to convince consumers to buy goods and services. Buying strategies of consumers help them prepare for and make wise buying choices.

ONLINE RESOURCES

Personal Financial Literacy
Web site:

Vocabulary Flashcards
Sort It Out: Income and
Purchasing Power
Chapter 3 Supplemental
Activity

Search terms:

inflation
deflation
time value of money
economizing

Inflation and Prices

OUTCOMES

- Define inflation and explain how it is measured.
- Describe types of inflation.
- Describe the causes of inflation.
- Explain how inflation and employment levels are related.
- Explain how inflation affects spending, saving, and investing decisions.

WHAT IS INFLATION?

Price is the amount a buyer pays for a product or service. **Inflation** is an increase in the general level of prices for goods and services. Inflation reflects how much prices are rising. When prices are rising faster than income, buyers lose purchasing power. In other words, the money workers earn will buy less as prices rise.

Changing prices affect the spending power of both producers and consumers. The economy changes over time based on events and on habits and attitudes of producers and consumers. For example, an event such as a flood or hurricane that wipes out crops may affect prices. Habits explain how people react to changes in the supply of goods, world events, and their individual situations. For example, when consumers think they may soon lose their jobs, they tend to buy less and to buy different goods. Attitudes reflect how people think about their future and about the product being sold. Will the product help me stay healthy? Is it worth the price? These are questions a consumer might ask that reflect attitudes. All these factors affect prices and inflation.

Measuring Inflation

Inflation is measured by the U.S. government. The measurement tool used is called the Consumer Price Index (CPI). The CPI uses a list of goods and services that are commonly bought by consumers. The index measures changes in price from a base or starting point in time to the current time. For example, if the price of an item was \$1.00 in the base year and it is now \$1.12, that is a 12 percent increase in the price. If the increase happened in just one year and it happened to all the goods on the list, the inflation rate for that year would also be 12 percent. You can learn more about the CPI at the Bureau of Labor Statistics Web site as shown in Figure 3-1.1 on page 64.

FIGURE 3-1.1

CPI for urban consumers (CPI-U) and other types of inflation data are gathered by the government.



Source: U.S. Department of Labor, Bureau of Labor Statistics, <http://www.bls.gov/cpi/home.htm> (accessed March 14, 2006).

The government also gathers information about consumer spending. Its surveys measure spending habits of consumers and track data such as income.

Types of Inflation

Businesses base price decisions in part on what consumers are buying and not buying. Several price change patterns may happen over time. These patterns result in varying types of inflation.



Consumer buying habits change over time.



DISINFLATION

Disinflation occurs when prices are rising, but at a slow rate. In other words, prices are rising, but at a decreasing rate. Some products and services do not increase in price as fast as others. Often, this happens when demand for a product is not the same throughout the year. For example, in spring and summer, the price of swimsuits may be high and rising. In fall and winter, however, if the price is rising, it is doing so at a much slower rate.

REFLATION

Reflation occurs when prices are high but then drop due to lower demand; then they are restored to the previous high level. Perhaps you have heard a news reporter use this term to describe crude oil prices. Reflation can happen when the available supply of a product, such as oil, goes up and down. Reflation can also happen when consumers temporarily stop buying a product or service. Then, for some reason, they start buying it again. For example, when gas prices surge, people may not buy as many big cars and trucks that use a lot of gas. They wait to see what will happen with gas prices. When gas prices fall, they begin buying large vehicles again.

HYPERINFLATION

When prices are rising so rapidly they are out of control, this is called **hyperinflation**. In the United States, there have been periods of double-digit inflation (10 percent or higher in a year). However, hyperinflation rates are much higher. Although there is no set rule, many economists consider inflation rates of 50 percent or higher to be hyperinflation. Some countries have had rates of several hundred percent per month. For example, in Germany after World War I in 1923, the monthly inflation rate reached over 300 percent.¹



© Getty Images/PhotoDisc

When gas prices surge, car buyers pay more attention to gas mileage.

¹ Michael K. Salemi, "Hyperinflation," *The Concise Encyclopedia of Economics*, <http://www.econlib.org/library/enc/Hyperinflation.html> (accessed March 14, 2006).



The effects of very high inflation rates can be devastating. With hyperinflation, prices are rising so rapidly that consumers spend their money as fast as they can. They do this because they fear that prices will be even higher if they wait. This spending leads to even more inflation. Then people are unable to buy the goods they need to live comfortably.

DEFLATION

Deflation is the lowering of overall price levels. It is the opposite of inflation. In other words, prices are going down. This happens in periods when events cause consumers to buy less and when producers are able and willing to provide goods at lower prices.

Some products go down in price over time even when the country is not in a time of deflation. For example, a computer that uses a new, faster processor may sell at a high price when it first comes on the market. A year later, the same computer may sell for hundreds of dollars less. The price is lower because it is no longer the newest, fastest computer available. Other, newer models have been released.

CAUSES OF INFLATION

Inflation can be caused by different factors in the economy. Consumers may want to buy more goods or services than are available, driving up prices. Producers may have to pay more to produce products and may need to raise prices. Both situations can lead to inflation.

Demand-Pull Inflation

The most common type of inflation is called demand pull. **Demand-pull inflation** occurs when consumers want to buy more goods and services than producers supply. Consumers may spend their income as soon as it is received, and they are willing to spend future income (credit) as well. This spending causes businesses to scramble to meet the demand for goods. Because products are selling so quickly, businesses are able to raise prices to balance supply with demand and to make bigger profits. This type of inflation is often described as “too many dollars chasing too few goods.”

Cost-Push Inflation

Cost-push inflation occurs when producers raise prices because their costs to create products are rising. For example, when wages go up, the cost of producing a product goes up. Producers may then raise prices. If producers did not raise prices, profits would shrink. Cost-push inflation occurs when cost increases are not offset with greater output that lowers the cost of each unit made.

Productivity is a measure of the efficiency with which goods and services are made. When productivity rises, the cost of a wage or other increase is offset by producing more and better products. In this case, inflation (price increases) does not occur. Instead, more and better products and services are made at the same price level.

Ethics

A FULL DAY'S WORK FOR A FULL DAY'S PAY

There are good reasons workers should provide a full day's work for a full day's pay. One important reason is that doing so may help a worker keep his or her job. It may also show that a worker has the right attitude and behavior to be considered for a raise or promotion. The most important reason may be simply that it is the ethical way to behave. Workers are paid for a full day's work. To waste time at work and intentionally do a poor job does not show ethical behavior. The employee is not giving a full day's work in exchange for the pay received.

Some workers show up late to work, leave work early, take long breaks, and fail

to provide quality service in their jobs. They grumble, complain, and find ways to get out of doing what they were hired to do. They are rude or careless with customers. These poor work habits often lead to poor performance ratings. They can also lead to disciplinary action or to being fired. On the other hand, good work habits help workers to get good performance ratings. Acting in an ethical manner and giving a full day's work may lead to job opportunities and career moves that will provide more pay and benefits. Behaving ethically on the job can help ensure your financial security.

Real-Cost Inflation

As resources diminish or become harder to get, prices rise in the form of **real-cost inflation**. For example, when there is less natural gas, or companies have to dig deeper to get it, this causes the cost of providing natural gas to rise. Over time, resources that are in high demand may shrink in supply. With a growing population's ever-increasing demands, this may happen with many products. To avoid this type of inflation, people must find other resources to use instead of the one that is scarce.



Finding alternate sources of energy, such as wind power, will help control energy prices.

INFLATION AND EMPLOYMENT

Economists think there is a relationship between inflation and employment. In times when prices are high, producers often make more money. They are able to hire more people. Thus, higher inflation also means higher employment. When inflation is reduced, people may be laid off. This is because prices are not increasing, and therefore profits are not increasing. With lower profits, producers may start laying off workers.

In times of zero inflation, price levels are flat (not increasing or decreasing). Businesses may not be able to afford to hire workers. Thus, mild inflation of 2 or 3 percent can be good for the economy.

INFLATION AFFECTS SPENDING, SAVING, AND INVESTING

Inflation has a negative effect on the value of money. As general price levels rise, the value of money falls. Thus, employees who work for a set rate of pay are able to buy less in times of inflation when prices rise. This is because some jobs provide pay raises only annually or less often. While prices are rising on the goods and services employees buy, their pay is not rising at the same rate. Thus, consumers have two choices: they can buy less, or they can borrow money to continue the same level of spending. Either way, it takes more money to keep getting the same amount of goods and services.

Inflation also affects the amount of money consumers may be able to save. In times of rising prices, consumers may have to use more of their disposable income to buy needed goods and services. Less money may be available for saving.

The **time value of money** is a concept that says a dollar you will receive in the future is worth less than a dollar you receive today. This assumes that prices are rising. For example, suppose you loan a friend \$20 today. Your friend promises to pay back the \$20 one year from today. The money you receive one year from today will not have the same value as the money you loaned your friend today. This is because prices will be higher one year from today, and the money will not buy as many goods one year from now as it will today.

Consumers consider the expected rate of inflation when choosing investments. They want to invest their money in a way that will provide a return that is greater than the rate of inflation. For example, suppose the inflation rate over 5 years is 5 percent. Investments such as savings accounts, stocks, or bonds must have a growth rate of at least 5 percent for the money invested to keep its purchasing power.

Focus on . . .

When inflation is rising too fast, it hurts consumers. Two tools are used in the United States to manage the effects of rising prices. These tools are called monetary policy and fiscal policy.

Monetary policy refers to actions by the Federal Reserve System. The Federal Reserve System is commonly called the Fed. The Fed is the central bank in the United States. The Fed was created by Congress in 1913. It has many roles, including controlling the money supply. One thing the Fed does is watch the economy. When the Fed sees that prices are rising too fast, it tries to slow them down. One way to slow rising prices is by raising interest rates. When interest rates increase, both individuals and businesses find it more expensive to borrow money to buy goods and services. This slows down spending. As you learned earlier, demand-pull inflation is caused by spending in the economy.

There are several types of interest rates that are controlled by the Fed. The discount rate is the rate that banks have to pay to borrow money from the Fed. Banks borrow money when they have the opportunity to make loans but do not have enough cash on hand. Banks are required to have a certain amount of cash on hand,

called reserves. If these reserves go below the required amount, banks must borrow money.

The federal funds rate is the rate at which banks can borrow from the excess reserves of other banks. For example, if one bank has more money than it needs, it can loan that extra money to other banks.

The prime rate is the rate that banks charge to their most creditworthy business customers. When the discount rate increases, the prime rate also goes up. The prime rate is usually 3 percent (or more) higher than the discount rate or the federal funds rate.

Fiscal policy refers to actions taken by the federal government to manage the economy. To help curb inflation, one thing the government can do is raise taxes. When taxes go up, people have less money to spend. This slows down inflation (demand-pull). On the other hand, the economy may be sluggish because people are not buying. The government can increase spending by lowering tax rates. This gives consumers more money to spend. These actions, taken together, either speed up or slow down spending. Spending can affect inflation because it can cause prices to rise.

THE FED

3-1 REVIEW

3-1 Activity 1 Can You Recall?

Answer these questions to help you recall what you have read. If you cannot answer a question, read the related section again.

1. What is inflation? How is it measured?
2. Explain how disinflation, reflation, and hyperinflation differ.
3. What is deflation?
4. How does demand-pull inflation differ from cost-push inflation?
5. Explain how inflation and employment levels are related.
6. How does inflation affect spending, saving, and investing decisions?
7. Explain what is meant by the time value of money.

3-1 Activity 2 Inflation and Prices

When prices go up, your purchasing power goes down. Identify two items you or your family buys regularly, such as gasoline for a car. Then, for each item, answer the questions that follow:

1. Has the price gone up or down in the last year?
2. How much is the price change (in dollars and cents)? What percentage increase or decrease is this amount?
3. What effect has the price change had on your spending habits? Have you purchased less of that product? Have you purchased less of something else in order to keep buying that product?
4. In the long run, what will you do if the price keeps rising? For example, will you find substitutes, stop using the product, or give up something else in order to be able to buy this product?

Price and Demand



- Describe three methods of setting prices in a market economy.
- Explain how consumers' buying strategies affect demand and prices in a market economy.

SETTING PRICES IN A MARKET ECONOMY

In a market economy, prices are affected by a number of factors. Some factors are controlled by producers. Consumers' actions also affect prices in the marketplace. In Chapter 1, you learned that demand is the willingness and ability of consumers to buy products and services. If consumers' demand for a product is low, prices may fall or the product may no longer be produced.

Sellers offer products to consumers at certain prices. Sellers must be careful, however, in setting a price. If the price is too high, consumers may not buy the product. They may not be able to afford the price, or they may simply think the price is too high for the value received. If the price is too low, the demand for the product may be low. Consumers may think the product has a low value and, again, may not buy the



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Demand for products affects prices.

FIGURE 3-2.1

In this example, the price of a chair is figured using the cost-plus method.

Item	Cost
Wood, 6 board feet at \$3.96 per foot	\$23.76
Labor, 2 hours at \$10.00 per hour	20.00
Paint, varnish, nails, and glue	1.24
Indirect costs (benefits of workers, rent, insurance, and general overhead)	12.00
Total cost	\$57.00
Markup (40%)	22.80
Price	\$79.80

product. Also, if the price is too low, the company may not make any profit on the sale of the product. Setting the right price for a product can be tricky. Having products available at the right price is critical to business success.

Companies use different methods to set prices. Sometimes more than one method is considered when setting a price. Sellers want to set a price that will support the greatest demand and will be profitable. Some methods of setting prices are discussed in the following sections.

Cost-Plus Pricing

One way that sellers set prices is called cost-plus pricing. **Cost-plus pricing** computes the total cost of making and delivering a product. Then a percentage of that amount, called markup, is added to the cost. The markup is also called the profit margin or gross profit. Using this method ensures that the company will make a certain profit if the product is successful. An example of cost-plus pricing is shown in Figure 3-2.1.



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A mall provides many places to buy goods and services.

Value-Based Pricing

Using **value-based pricing**, the seller tries to determine how much consumers will be willing to pay for the product. In other words, it will be sold for the highest price that the market (consumers) will bear. If consumers value the product or service, they will pay whatever price is set, within reasonable limits. This is especially true of new, high-tech, and fad items. Consumers are willing to pay high prices because there are no less expensive choices.

Companies may do market research to determine what the demand for a product will be. They also want to learn how much consumers will be willing to pay for the product. Perhaps you have been asked to complete a market survey while shopping at a mall. Telephone and Internet surveys are other popular ways that companies learn about consumers' wants and needs.

Market-Based Pricing

With **market-based pricing**, the price is set to be competitive with prices of similar products currently being sold. If one business charges a lot more than others do for a similar

Technology Corner

BUYING ONLINE

Many successful businesses have a Web site. Retail Web sites provide an alternate location for consumers to buy goods and services. The total amount paid for goods may be slightly higher because of shipping costs. Some companies may not keep all types or models of their products in their stores. They may offer additional products or more sizes or colors online. Some companies sell only online. They do not have a store that consumers can visit. With online buying, consumers have the convenience of buying products without leaving home.

Retail Web sites typically provide full descriptions of products, including pictures. Shoppers need a computer with enough speed and memory to open Web pages for viewing products. Shoppers can save items to a virtual shopping cart. The items can usually be purchased at the time of selection or saved for later access. This allows buyers to shop online at their convenience.

When shoppers visit retail Web sites, they can often set up an account. The account usually has a user name and a password. When the site is visited again, the shopper enters the user name and password. This prevents having to enter

a name and shipping address each time an item is bought from the site. Cookies may also be placed on the shopper's computer. Cookies are small text files that contain information about the user. Cookies often track the Web pages or sites that a user visits. Retailers can use this information to suggest products or to target advertising. For example, suppose the shopper looked at several mystery novels on the Web site for a bookseller. The next time the shopper logs in at that site, a suggested list of mystery novels may appear.

Shoppers who buy products online need a debit card, a credit card, or a bank account. The purchase is billed to the card or deducted from the bank account. Merchandise is shipped to the buyer's address. The goods take a few days to arrive and are delivered by the U.S. Postal Service or a private delivery company.

Many people use the Internet for comparison shopping. They learn about product prices and features without feeling pressured to buy. A major advantage of the Internet is that it is open 24 hours a day. Consumers can shop at their convenience.

product, consumers are likely to buy from the other companies that offer a lower price. The manufacturer or retailer simply decides whether or not it can provide the product or service at that existing price and still make a profit. This is the easiest form of setting a price. It helps producers or sellers decide what products to include in their marketing mix. The marketing mix is the group of products or services offered for sale by a business at any point in time.

A seller may introduce a new product at a higher price than similar products on the market. In this case, the seller tries to show how the new product is different from or better than other products. For example, many models of digital phones are available. A seller offering a new phone might cite the phone's small size or new features. The phone might take digital pictures or send text messages. These features are advertised to

make the new phone seem more desirable. The seller may use these new or added features to justify a somewhat higher price. This strategy is not always successful. Consumers may not think the new features are useful or worth the higher price.

BUYING STRATEGIES AFFECT DEMAND

Consumers play a vital role in setting prices in a market economy. Consumers use two basic strategies when buying goods and services. They try to spend as little as possible, or they try to get as much value as they can for the money they spend. These two approaches are not mutually exclusive; that is, buyers do not use just one plan or the other for all purchases. Consumers can use the plan that best fits their needs for different goods and services.

Economizing

Consumers are **economizing** when they are saving as much as possible and spending money only when necessary. Using this approach, consumers wait until it is necessary to buy a product. Then they buy as little as possible and at the lowest price. They do not buy large quantities or more than is needed at the present time. They simply try to spend as little money as they can for the needed product.

Most people go through periods of time when they economize. Others follow this spending pattern all the time. Economizing has its advantages. For example, holding back on spending often results in not buying some items at all. Economizing can lead to savings and better buying habits.

For some people, economizing is the only plan that allows them to meet their basic needs. For other people, economizing is a strategy used during certain times as a way to save money for later spending or investment. When economizing, people may spend little or no money on luxuries. This can lower the demand for luxury items. People may also spend less on items for basic needs, such as food or clothing. Lower demand for products may lead to lower prices.

Optimizing

Another spending strategy is called optimizing. **Optimizing** means getting the highest value for the money spent. High value may come in the form of a large number of products or services or in the form of high-quality products or services. For example, if a product is on sale, is used a lot, and stores well, a large quantity can be purchased. The cost per item will be lower when the item is



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Economizing means spending as little as possible.

bought in quantity. When customers are optimizing, demand is higher when prices are lower. Consumers will buy more products to take advantage of lower prices.

Consumers should be careful not to let optimizing lead to overspending. Spending too freely can lead to poor buying habits. Shoppers may buy items they do not need simply because the items are a bargain. Items that have been stockpiled may be used more freely than usual because the consumer has a large quantity of the item. Overspending can also lead to credit problems. Using both economizing and optimizing strategies at the proper times may be the best solution for many people.



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Optimizing means getting the highest value for the money spent.

Success Skills

Consumers often buy things when they are in a hurry. Those purchase decisions are sometimes not the best decisions. Through time management, a person can make better decisions because she or he has planned the purchase and has had sufficient time to make a good choice. Using time management strategies can help a person be more productive in school, work, and personal activities.

Time management involves several key points:

- Be aware of how you are using your time. This is the first step toward managing your activities to use time wisely.
- Identify *peak* performance times, when you are most productive, and *weak* performance times. Schedule important activities at peak times.

TIME MANAGEMENT

- Use a daily or weekly planner to keep track of important dates and times.
- Keep a to-do list; mark off items as they are completed.
- Prioritize your activities so you get the important ones done first.
- Break large projects or tasks into smaller parts, and plan time for completing each part.
- Save some time for doing things you enjoy.
- Schedule times for shopping and making purchases.
- Do not rush or be pressured for time while shopping.

3-2 REVIEW

3-1 Activity 1 Can You Recall?

Answer these questions to help you recall what you have read. If you cannot answer a question, read the related section again.

1. How are prices set when using the cost-plus pricing strategy?
2. How is a market-based pricing strategy different from a value-based pricing strategy?
3. Why might shoppers want to set up an account on a retail Web site they use often?
4. What is economizing? How does using this buying strategy affect demand and prices in a market economy?
5. What is optimizing? How does using this buying strategy affect demand and prices in a market economy?
6. How can using effective time management strategies lead to better buying decisions?

3-1 Activity 1 Prices and Spending

List three items your family has purchased in the last year—something with a high price (\$100 or more), something that cost between \$5 and \$50, and something with a low price (under \$5). Answer the questions that follow for each item.

1. How do you think the price was set for this product—using cost-plus, value-based, or market-based pricing? Why?
2. Was this item purchased as a result of economizing or optimizing?
3. If you had to make this purchase decision again, would you choose the same item? Why or why not?

Selling and Buying Strategies



- Describe strategies used by businesses to sell goods and services.
- Explain how businesses are able to create demand for a product.
- Discuss strategies buyers can use before, during, and after a purchase.

SELLING GOODS AND SERVICES

Business owners take the risk of bringing products and services to the market. To stay in business, they must sell those products or services to customers and make a profit. Sellers use other strategies, in addition to price, to promote the sale of goods and services to customers.

Convenience

One strategy companies use to promote sales is to make shopping convenient and pleasant for customers. A store location that is easy for customers to visit makes shopping more convenient. A clean, comfortable, and safe place to buy goods and services makes the shopping experience more pleasant for customers. Friendly and helpful salesclerks also help promote sales.

An important part of convenience is the payment method. Most businesses allow for cash and credit purchases. This includes the use of debit and national credit cards, as well as writing checks or having store credit.

Customer Service

Businesses depend on good customer service to promote sales. Good customer service includes a lot of things. A warm, friendly greeting and prompt and courteous help when it is needed are examples of good customer service.

Good customer service increases the chances that shoppers will return to the store to buy again. Satisfied customers also tell others about their experience. This word-of-mouth promotion is good for sales.

Poor customer service may keep shoppers from returning to buy again. Even if prices are low or the store is convenient for the shoppers, they may not return if they had a bad experience. Dissatisfied customers also tell people about their bad experience. This message can be very harmful to future sales.



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Advertising stimulates interest in buying products that meet needs or wants.

Meeting Needs and Wants

Businesses try to make available to customers the types of products they need or want. Making the right products available increases the chances of business success.

Some products meet basic food, clothing, and shelter needs. Everyone needs to be able to eat and stay warm and safe. Examples of products that fill basic needs include groceries, clothing, shoes, and housing.

Products that save time are valuable to consumers. Often, these same products also save energy. Examples of products that save time and energy include washing machines, power tools, and food processors.

Products that make users feel or look younger or more attractive are appealing to consumers. These products have emotional appeal. Although the products may fill wants rather than needs, they represent great profits to sellers. Examples of these products include makeup and hair dye. Products that support good health and help users feel better also appeal to consumers. These products tend to be more expensive and specialized. Examples are vitamins and organic foods.

Creating Demand

To sell goods, businesses may need to create or stimulate demand.

Advertising is a method of informing consumers and promoting and selling products. Advertising, also called ads, comes in many different forms. They all have the same purpose—to get people to buy.

NEWSPAPERS AND MAGAZINES

Placing ads in newspapers and magazines is a popular way to reach large numbers of people. The ad may promote a product or a company. It may be a short one-item ad or a full-page color ad showing many products. Typically, ads include special prices, coupons, or other incentives to bring customers into the store.

TELEVISION AND RADIO

Television ads are very expensive. However, they reach large numbers of people. Television ads are written to appeal to a target audience.

A **target audience** is a specific group of people who are likely to be watching and are likely to buy the product. For example, different people watch various TV programs or tend to watch TV at certain times. Some people watch news shows. Others watch on Saturday mornings or on Super Bowl Sunday. Companies design ads that will appeal to these target audiences. They run the ads on certain shows and at specific times.

Radio advertising attracts audiences with special interests. Radio programs range widely in content. News programs, talk shows, religious messages, and many types of music can be found on radio. Radio ads often involve appeals to emotions. They may use slogans or have catchy tunes. As with TV ads, radio ads target people who are thought likely to listen to a particular program.

THE INTERNET

The Internet is a popular place to shop. Many types of advertising can be found on the Internet. The ads help sell products by informing shoppers and encouraging them to buy. Banner ads span the top, bottom, or sides of a Web page or site users visit. They have bold statements or pictures that grab the user's attention. Pop-up ads appear while the user is visiting Web sites or browsing. They pop onto the screen. The user must click *No* or a similar command to close them. Some people buy special software to block pop-up ads.

Many online retailers customize ads to shoppers who have visited their site. The user logs in and does some shopping. The site tracks the products clicked and Web pages visited. The retailer may send the shopper an e-mail offering a product or service that he or she showed interest in previously. Such e-mails often offer specials, such as free shipping or a price reduction for online purchases.

Building Communications Skills

CREATIVE LISTENING

Creative listening is a skill used to solve problems. With creative listening, a person searches through information and forms questions to ask. The listener evaluates what has been heard and makes a decision or choice. Creative listening is a highly active process that involves logic as well as listening.

For example, suppose you are listening to a debate about a new law that has been proposed. One side is listing its positive features and all the reasons why you should

vote in favor of it. The other side is explaining all the bad things that will happen if the law is enacted. In order for you to decide, you must listen carefully, make sure you have accurate information, and come to a decision that will be your vote. Creative listening requires that you understand who is proposing the law and what they have to gain. You also need to know who is opposing the law and what they have to lose. By practicing creative listening, you can reach an informed decision.



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Good buying strategies help consumers spend money more wisely.

Other Web sellers place cookies on the shopper's computer. Cookies enable the seller to recognize the shopper in the future. They may also contain information about products the user viewed or bought in the past. Some online sellers share this data with other retailers. Shoppers may get e-mails, pop-ups, or other forms of targeted ads from online sellers they have never visited.

Some sellers use electronic newsletters sent monthly or at other set times to encourage customers to buy. These ads feature pictures and prices of products. Users sign up to receive them and are usually able to cancel them if desired.

DIRECT ADVERTISING OR SALES

Direct advertising takes the product directly to consumers. It involves actions such as sending free samples in the mail and giving out samples in a store. This form of advertising allows the customer to try the product.

One form of direct advertising is direct sales. A salesperson goes door-to-door to give customers a catalog or to show them a product. Another method is holding a party to sell products to a

group of friends. This approach takes the product directly to the consumer, using a person-to-person approach.

OTHER TYPES OF ADVERTISING

There are many other forms of advertising. Some are subtle and indirect, such as placing coupons in entertainment books. Others are up-front and bold, such as billboards. A brochure listing used cars or houses for sale is another method. Whatever the medium, ads catch the consumer's attention and stimulate interest in buying a product or service.

BUYING STRATEGIES

Sellers have strategies to encourage you to buy. You should have a plan to maximize your buying power. Some ideas to help you in your role as consumer are given in the following sections.

Before You Shop

Before going to the store, prepare a shopping list of the things you need. Base your list on well-thought-out ideas, such as a menu plan, so you can resist impulse buying. Decide ahead of time what you will buy and about how much you will spend. Also plan how you will pay for the items. Planning ahead will help you avoid overspending or buying items you do not need.

For major purchases, you may deal with a salesclerk who is paid on commission. The clerk may encourage you to spend more than you

intended. Plan your strategy ahead of time. Before you leave home, decide what you want or need and how much you are willing to pay. Prepare questions to ask. Do not allow a salesclerk to convince you to spend more than you planned.

While You Shop

While at the store, stick to your list. Compute unit prices, and make sure you are getting the best deal for the products you are buying. Do not go grocery shopping when you are hungry—being hungry will affect your choices. If you have made decisions about how much you will spend for an item, stick with them. Do not make on-the-spot decisions that you may regret later or allow yourself to be pressured into buying. If necessary, take someone with you to give you support. Do not select last-minute purchases at the checkout line. These items are often high-priced, low-value purchases.

After You Buy

Keep the receipts and warranties for all items purchased. Remove a product carefully from its packaging. If there is a box or bag, keep it until you are sure that you have all the pieces for the product and that it works properly. If you need to return an item, be sure all the pieces are back in the package.

Evaluate your purchase. Are you satisfied with the product? Is it what you had intended to buy? Are you satisfied with the service you were given? Answering these questions will help you make better decisions in the future.



3-3 REVIEW

3-3 Activity 1 Can You Recall?

Answer these questions to help you recall what you have read. If you cannot answer a question, read the related section again.

1. List strategies, other than having the right price, for selling goods to consumers.
2. List three types of media that sellers can use to help create demand for a product.
3. List three things you can do before you shop to improve your buying power.
4. List three things you can do while shopping to make better purchase decisions.
5. List three things you can do after your purchase to make better decisions in the future.

3-3 Activity 2 Ad Appeal

Shopping is something everyone has to do. Goods and services provide us with basic needs as well as luxury items. How many times have you thought that you were misled by an advertisement? Have you been convinced to buy something that you later thought was not worth the money? Choose one of the media in the following list. Then describe the target audience and the appeal for the ads it shows.

1. Watch television for one-half hour. During that period, write down every ad (commercial) you watch. For each ad, describe the people you think are in its target audience. Then tell whether the appeal is logical (to meet real needs) or emotional (to convince people they need a product). Tell whether or not you think the ad is effective, and explain why.
2. Listen to a local radio station for one-half hour. Write down every commercial you hear. For each ad, describe the people you think are in its target audience. Then tell whether the appeal is logical (to meet real needs) or emotional (to convince people they need a product). Tell whether or not you think the ad is effective, and explain why.
3. Look through a daily newspaper or magazine. Make a list of the types of advertisements you find. For each type of ad, describe the target audience. Then tell whether the appeal is logical (to meet real needs) or emotional (to convince people they need a product). Tell whether or not you think the ad is effective, and explain why.

EXPLORING CAREERS IN EDUCATION AND TRAINING



Do you like to work with people? Are you good at explaining concepts and tasks? If the answer is yes, a career in education and training might be right for you. Jobs in education involve teaching children and adults. Some workers in this field, such as a school principal, handle administrative tasks. Others, such as counselors, provide support services related to education. Child care workers provide care for children who have not yet entered school and also work with older children before and after school hours.

Jobs in education are found in public and private schools. Training jobs are also found in government and businesses. Some trainers are entrepreneurs and have their own small businesses. The need for jobs in the education and training area is expected to grow over the next few years. The outlook varies somewhat by job.

Skills Needed

Some of the skills and traits needed for a career in education and training include the following:

- Ability to work well with others
- Content area knowledge
- Communications skills
- Computer/technology skills
- Decision-making skills
- Problem-solving skills
- Leadership skills

Job Titles

Many jobs are available in the education and training field. Some job titles for this career area include the following:

- Child care worker
- Coach
- College professor
- Counselor
- Language pathologist
- Librarian
- Principal
- Social worker
- Teacher

Explore a Job

1. Choose a job in education to explore further. Select a job from the list above, or choose another job in this career area.
2. Access the *Occupational Outlook Handbook* online. A link to the site is provided on the Web site for this textbook.
3. Search for more information about the job you selected to answer these questions:
 - What is the nature of the work this job involves?
 - What is the job outlook for this job?
 - What training or qualifications are needed for this job?
 - What are the median annual earnings for this job?



REVIEW

Summary

- Inflation is an increase in general price levels for goods and services. Inflation is measured by the U.S. government using the Consumer Price Index (CPI).
- Deflation is a decrease in general price levels. It is the opposite of inflation.
- Demand-pull inflation occurs when consumers want to buy more goods and services than producers supply. Cost-push inflation occurs when producers raise prices because their costs to create products are rising. Real-cost inflation is rising prices due to scarce resources that are diminishing or are harder to acquire.
- There is a connection between inflation and employment. Higher inflation usually means that more people are employed.
- Inflation reduces the value of money. As prices rise, money buys less.
- Inflation affects the amount of money consumers may be able to spend, save, or invest.
- In a market economy, prices are affected by producers, consumers, and other factors.
- Cost-plus pricing adds the total cost of making a product to a profit margin. Value-based pricing sets a price that is as high as consumers will pay. Market-based pricing sets a price based on prices of similar products in the marketplace.
- Consumers can economize (spend as little as possible) or optimize (spread dollars as far as they will go).
- To sell products, businesses make shopping convenient, provide customer service, meet needs and wants, and create demand.
- Advertising is an effective method for sellers to create and stimulate demand for products.
- Consumers can use good buying strategies to spend money wisely.

Key Terms

advertising
cost-plus pricing
cost-push inflation
deflation
demand-pull
inflation
disinflation

economizing
hyperinflation
inflation
market-based
pricing
optimizing
productivity

real-cost inflation
reflation
target audience
time value of money
value-based pricing



ACTIVITY 1

Review Key Terms

Use the key terms from Chapter 3 to complete the following sentences:

1. The spending habit called _____ is spending money only when you have to and then spending as little as possible.
2. _____ occurs when businesses raise prices due to rising costs for producing products.
3. _____ occurs when prices are high, drop, and then rise to their previous high level.
4. _____ is a method of informing consumers and promoting and selling products.
5. The _____ concept says that money received today is worth more than money received in the future.
6. Setting a price based on how much the consumer is willing to pay is called _____.
7. The lowering of overall price levels is called _____.
8. _____ is caused by scarce resources or an increase in the cost of getting those resources.
9. A consumer spending pattern called _____ occurs when people spread money to cover as many needs as possible or to get as much value as possible.
10. _____ is an overall increase in general price levels.
11. A specific group of people called a(n) _____ is the focus of a specific advertising strategy.
12. A type of inflation called _____ occurs when prices are rising, but at a slow rate.
13. A pricing strategy called _____ sets the price for a product based on existing prices in the marketplace.
14. Rapidly rising, out-of-control prices are called _____.
15. _____ is setting a price based on the cost to produce and deliver a product plus a profit margin.
16. A type of inflation that occurs when consumers want to buy more goods and services than producers supply is called _____.
17. _____ is a measure of the efficiency with which goods and services are made.



ACTIVITY 2

Math Minute

Complete these problems to build your math skills. You may use spreadsheet software or complete the problems manually.

Comparing unit prices can help a consumer determine which size or package of a product is the best value. To find the unit price of a product, divide the total price by the number of units. Example: A product contains four items and is priced at \$1.00. The unit price is 25 cents.

1. Find the unit prices for the following items. Round to three decimal places.

Product A	\$3.96 for 24 ounces
Product B	\$2.99 for a 16-ounce box
Product C	\$3.69 for 12 cookies
Product D	\$4.99 for 6 muffins
Product E	\$12.99 for a pack of 6
Product F	\$25.00 for a case of 36
2. Determine which of these items has the lowest per-unit cost and, thus, is the best buy.

Product A	\$1.99 for a 6-ounce bag	or	\$2.49 for an 8-ounce bag
Product B	\$24.00 for a box of 10	or	\$36.00 for a box of 15
Product C	\$10.00 for a pack of 3	or	\$15.00 for a pack of 5
3. The price of gasoline rose from \$2.50 on March 1 to \$2.89 on March 31. By what percent did the price increase?
4. The price of an air conditioner fell from \$250.00 on August 1 to \$200.00 on October 1. By what percent did the price decrease?
5. You plan to loan \$1,000 to a neighbor for 6 months. You realize that the value of a dollar may be less 6 months from now than it is today. You want to charge enough interest so that the money you receive back from your neighbor will have the same purchasing power as the money you loan. The inflation rate for the next 6 months is predicted to be 5 percent. How much interest (in dollars) should you charge on the loan to maintain the purchasing power of your money?

ACTIVITY 3

Ethics in Sales



When a salesclerk works for commissions, the clerk may earn nothing unless a sale is made. Sometimes this results in pressuring a customer to make a purchase. Some consumers are not able to resist this sales strategy and buy things they do not need or really want. The salesclerk's goal is to make a sale, regardless of whether the item is right for the customer.

1. Have you ever bought something that you later felt you had been pressured into buying? How satisfied were you with that purchase?

2. What will you do differently the next time you are faced with this situation?
3. Ethically speaking, what is wrong with pressuring someone into buying when she or he is not ready or does not really need or want the item?

ACTIVITY 4

Compare a Pay Increase to the Inflation Rate

According to government statistics, the inflation rate for the past year was 4 percent. You are worried that your pay is not keeping pace with your cost of living. Your average net pay this year is \$1,625.00 per month. It was \$1,576.00 last year.

1. By what dollar amount did your average net pay per month increase?
2. By what percent did your average net pay per month increase? Round your answer to one decimal place.

You have learned that the government calculates the rate of inflation based on the change in the Consumer Price Index (CPI). The CPI includes many types of goods and services. The CPI is designed to represent the economy as a whole. Most people buy only a portion of the goods and services used in the CPI in any one year. Because of this, the increase in the cost of living for each person may be more or less than the overall inflation rate.

Assume the following numbers are the average of what you pay each month for the goods and services you use.

Type of Expense	This Year	Last Year
Rent	\$400.00	\$400.00
Car payment	\$299.00	\$299.00
Telephone	\$26.00	\$26.00
Cell phone	\$40.00	\$40.00
Electricity	\$65.00	\$65.00
Water	\$17.00	\$15.00
Groceries	\$157.00	\$150.00
Internet access	\$20.00	\$20.00
Gasoline	\$46.00	\$38.00
Clothing	\$30.00	\$25.00
Lunches at work	\$125.00	\$120.00
Satellite TV	\$35.00	\$35.00
Movies in theaters	\$32.00	\$28.00
Other entertainment	\$67.00	\$60.00
Car maintenance	\$25.00	\$25.00
Health insurance	\$20.00	\$15.00
Auto and renter's insurance	\$125.00	\$125.00
Total	\$1,529.00	\$1,486.00

(For this exercise, the costs of medical care and prescriptions not covered by health insurance are not included. These costs can vary widely from year to year.)

3. What is the dollar amount of the change for each item and for the total?
4. By what percent did the price of each item and the total change? Round answers to one decimal place.
5. For which goods or services did the price change by more than 4 percent, the national inflation rate? For which goods or services did the price change by less than the national inflation rate?
6. How does the overall (total) rate of change compare to the national inflation rate? Is your pay increasing enough to cover the increase in your cost-of-living expenses?

ACTIVITY 5

Online Buying



www.thomsonedu.com/school/pfl

Many companies that have traditional stores also have a retail Web site. The Web site typically has complete product descriptions, pictures, details, and prices. Ordering merchandise from the site is usually convenient and easy. As a result, consumer purchases on the Internet are rapidly growing.

Work with another student to complete this activity. Identify a large and well-known department store. Visit the store's Web site. To find the Web site, enter the store's name in an Internet search engine. Answer the following questions about the Web site:

1. Is the Web site easy to use? Can you move from screen to screen easily?
2. Are you able to find information about a particular product easily?
3. Is complete information about the product provided?
4. Are you able to proceed to checkout (if you wish) with ease?
5. Is the Web site colorful and well designed?
6. Overall, how would you rate your shopping experience at this site?

ACTIVITY 6

Shopping Strategies

1. Think of an item you would like to buy. Choose an item that costs more than \$10 and that will require some planning, saving, and shopping. Perhaps it is a gift for someone's birthday or a special item that you have wanted for some time.
2. List the things you will consider before buying, such as places you will shop, features you are seeking, and price you are willing to pay.
3. Describe where you will go and what you will do as you are making the purchase. This includes the stores you will visit, questions to ask, and techniques to get the best deal.
4. Explain what you will do after the purchase, such as keep the receipt, mail a warranty card, or follow up on delivery.



JOB INTERVIEW EVENT



Future Business Leaders of America (FBLA) and Business Professionals of America (BPA) are organizations that conduct competitive events for students. The FBLA Job Interview Event and BPA Interview Skills Event allow students to demonstrate their ability to apply for jobs. Both events require preparing a resume and a letter of application. Students must also fill out a job application form and take part in a mock job interview. Applicants should bring several ink pens and their resume to use when filling out the job application form.

Evaluation

Students who take part in these events are judged on their ability to:

- Create an effective resume.
- Fill out a job application accurately, neatly, and completely.
- Write a letter of application appropriate for a particular job.
- Answer interview questions.
- Discuss their skills, education, and experience for a job.
- Dress professionally for an interview.
- Demonstrate a professional attitude.

Sample Scenario

You are applying for a desk clerk position at a hotel in Austin, Texas. The desk clerk must check guests in and out of the hotel. The clerk must also answer guests' questions about things to do in Austin. This position requires someone who has a friendly attitude and enjoys working with people.

Think Critically

1. How should you dress for an interview at a hotel? Why?
2. Why is the letter of application an important part of the job application process?
3. Why should you take names, addresses, and telephone numbers of personal references when you go to an interview?
4. Give two tips for successful interviews.

www.fbla.org

www.bpa.org

