

THINK CRITICALLY

1. Name three economic factors that affect financial activities.

 2. Name five factors that affect the value of securities.

 3. Finance refers to _____.
 - a. government actions to collect taxes
 - b. business operations in countries around the world
 - c. activities involved with saving, investing, and using money
 - d. the value of money when inflation is occurring

 4. A financial market where short-term debt securities are bought and sold is a _____ market.
 - a. foreign exchange
 - b. money
 - c. capital
 - d. liquidity

 5. The ease with which an item can be converted to cash is called _____.
 - a. exporting
 - b. liquidity
 - c. risk
 - d. rate of return

 6. Taxes are collected by the _____ component of a financial system.
 - a. agency
 - b. business
 - c. consumer
 - d. government

 7. True or False? _____ When consumer prices fall, it is commonly called inflation.
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TEAMWORK

Discuss in pairs or small groups and then write your conclusions below.

8. Some people prefer investing in bonds, others prefer stocks. In your team, prepare a list of factors a person might consider when deciding whether to invest in bonds or stocks.

THINK CRITICALLY

1. Describe the five steps of the personal financial process.

 2. Explain five main areas of personal financial decisions.

 3. The first step of the personal financial planning process is to: _____
 - a. create an action plan
 - b. review your progress
 - c. determine your current situation
 - d. set financial goals

 4. Buying insurance is a method of _____
 - a. obtaining financial resources
 - b. managing financial risk
 - c. borrowing
 - d. planning investment decisions

 5. Opportunity cost is sometimes called _____
 - a. a trade-off
 - b. a personal financial goal
 - c. risk management
 - d. all of the above

 6. Increased savings will likely cause _____ to rise.
 - a. interest rates
 - b. borrowing
 - c. inflation
 - d. exports

 7. True or False? A financial plan serves the same purpose as a budget. _____

 8. True or False? Diversification refers to owning a variety of investments. _____
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TEAMWORK

Discuss in pairs or small groups and then write your conclusions below.

9. Create a list of personal financial goals that a person or family might want to achieve. Discuss in your team which ones could be achieved in a year or two, and which ones would take longer.

Inflation Makes Big Incomes Smaller

\$100,000 income: No big deal anymore

One hundred thousand dollars. Since the 1980s, the magical "six-figure" salary has been a benchmark for financial success. Not too long ago, that income often meant two nice cars in the garage of a large house, fun family vacations and plenty of money left over to save for retirement and college tuition.

But times have changed. Not only has standard inflation steadily eroded the real value of a \$100,000 income, but the cost, of housing, health insurance and college tuition have risen dramatically in recent years. Consider the rising costs of food, energy and the necessities of a middle class life, and that six-figure luxury quickly turns to six-figure mediocrity.

Less than 20 percent of American households even break the six figures. But many who earn incomes near the mark find that their prized incomes don't take them as far as the hype. Many say that while breaking the \$100,000 annual income mark may still be an impressive milestone, it doesn't exactly roll out the red carpet.

Costs Eat Away At Benchmark

According to the U.S. Census Bureau, only 6.03 percent of individual over 18 and only 19.9 percent of households had incomes of \$100,000 or more in 2020. In fact, the median annual household income for 2020 was \$50,046, just more than half of the six-figure benchmark. The overwhelming majority of Americans still look up to a \$100,000 income, but the expectations of what comes with that income are rapidly slumping. "Without a doubt, the housing situation is the biggest thing that eats into our income

According to Labor Department statistics, the average inflation rate for 2019 was the worst since 2008, with consumer prices rising 3.1 percent, compared to an average of 1.6 percent in 2020. Much of this was fueled by energy costs (up 15.2 percent for the year) and food costs (up 3.7 percent for the year). Just to keep up with standard inflation, a \$100,000 salary in 1990 would have to be \$172,103.29 in 2020.

"What would have cost you \$100,000 in 1976 would cost you \$381,000 today. That's just the inflation, and there are so many other things that have grown very expensive," says Mari Adam, Certified Financial Planner and president of Adam Financial Associates in Boca Raton, Fla.

Adam points to health care as a major expense that has grown almost twice the rate of inflation. The

Kaiser Family Foundation, which tracks the costs of health insurance, found in 2020 that insurance costs had increased by a whopping 134 percent since 2000. The total cost of health insurance now

averages \$5,429 per year for individuals and \$15,079 for families. Adam says college costs have also grown tremendously in recent years. According to the College Board's annual "Trends in College

Pricing" report from last year, published tuitions at four-year public universities are up 42 percent in five years, the largest increase of any five-year period for a couple decades.

"These are things that everyone spent money on 30 years ago, but the percentage of what was going out of their paycheck is a lot higher now. More of the income is being taken away to pay for a lot of these things," says Adam. The cost of housing has also played a major role in diminishing the power of a six-figure income. In many parts of the country housing prices have outpaced wage growth for almost a decade. "Without a doubt, the housing situation is the biggest thing that eats into our income," says Brian Neale, an investment manager from Westminster, Md.

Money Doesn't Go Far

Neale, 33, says he surpassed the \$100,000 mark last year but says that between mortgage payments, the high price of heating fuel, gas, food and everyday items in life, his salary doesn't go as far as he thought it would. Neale is married with three children and says that his extracurricular real estate and investment activities help them buy the extras in life. "Now that I've made a \$100,000 salary, it's not all it's cracked up to be. We make sacrifices. It's not like I tell my kids we're going to have to eat peanut butter and jelly every night. We live well, but I wouldn't consider it anything extravagant," says Neale.

Many now consider \$250,000 the new \$100,000 income. Adam says that level of income is typically required to provide what many have before expected of a six-figure salary. Adam also points to other expenses that are not necessities but are considered part of a middle class lifestyle -- things like cellphones, high-speed internet access, vacations, karate lessons, iPods, and laptops.

"What you might think people deserve for a person that has a reasonable income is excessively high. Add in all the other expenses, and there just isn't anything left and that's part of the reason why a \$100,000 income isn't going that far," says Adam.

SUMMARIZE THE MAIN
POINTS OF THE ARTICLE IN
10 BULLET POINTS. EMAIL
OR SHARE YOUR
SUMMARY.

How the Stock Market Works

We're going to watch a short cartoon from the 1950s about a company, Oil Drum Manufacturing Company, and the role that the stock market plays in its growth. It's a little corny, but it's a great overview!



1. Why does the owner want to raise \$3 million?
 - A. He goes to the state capital to get a(n) _____.
 - B. Then he goes to a(n) _____ and shows him the records of the company's past performance and future plans for growth.
 - C. Then he needs to file documents with the _____ in Washington D.C.
 - D. Next, the _____ pays the owner \$3 million in exchange for the shares, which are then sold to the public.
3. What role does the Board of Directors play in the corporation?
4. When the corporation needs to raise an additional \$20 million, what does he decide to do? Why do they want to list on the NYSE?
5. What are the criteria for being listed on the NYSE?
 - A. The corporation must have substantial _____, including plants, tools, equipment, and cash.
 - B. There must be a broad _____ among large number of stock holders.
 - C. The corporation must show successful _____
... and annual net earnings of at least _____.
 - D. The corporation must agree to report _____.
6. What is the corporation's ticker symbol? _____
7. What is the difference between an odd lot and a round lot?
8. What role does a stock exchange, like the NYSE, play in our economy?