



Money in the Real World

This lesson focuses on the true value of money and how it is used in everyday life. It will talk about:

» Key Topics

- Where money comes from
- How money works in the real world
- What a budget is
- How to budget money
- The difference between needs and wants
- How a loan works
- How interest works
- What inflation is
- What taxes are

Through real life examples you will learn how to manage your money the right way.

» Table of Contents

Where Does Money Come From?	2
How Money Works in the Real World	5
What is a Budget?	7
How to Budget	10
Other Factors That Change a Budget	12
How to Stay on Budget	15
Glossary	16

Money is everywhere. It is used all over the world to pay for services, purchases, food, loans, and more. You may know what money is by now, but do you know where it comes from? The answer may surprise you.

The Treasury and the Federal Reserve

Money in the United States comes from the U.S. Treasury and the Federal Reserve. The Treasury is in charge of printing new money when the country needs it. The Reserve is in charge of getting loans for money when the government does not want to print anymore. We will talk more about **loans** a little bit later, but for now, know that the government borrows money from other people and other countries to pay for the things it needs.



Why does the government have to borrow money when it could just print more?

If the Treasury just printed money every time the government needed it, all of the money we use would be worth less than it is now. Think about when your teacher gives you a gold star for doing something good. If she gave everyone else a gold star "just because," your star would not feel as special, right? When more money goes out to the public, it makes the money worth a little less in value. That's why the Federal Reserve may borrow money instead.



How You Get Money

You don't drive down to U.S. Treasury every time you need money for something. Instead, you either get it from a bank, check, loan, credit card, or from someone else, like your parents. All of these options will allow you to take out money, also known as **cash**.



When you get an allowance from your parents or start working as an adult, you can also hold your money in a bank account and use a check or debit card to take money out. You can place checks from other people, called a **deposit**, into your bank account to store for later use. When you have a job, you will receive money in the form of a paycheck, which can also be placed in your bank account for later use.

Money, or currency, can come in many forms, such as dollars checks, coins, and money orders. If you have ever visited another country, you may have noticed their money looks different. Here are a few examples:

Canadian Currency -



Australian Currency -



East African Currency -



Exercise 1

Choose the best answer.

1. Who is responsible for printing money?

- A: The U.S. Treasury
- B: The Federal Reserve
- C: The bank
- D: Office Depot

2. Who is responsible for getting loans for money in the government?

- A: The President
- B: The U.S. Treasury
- C: The Vice President
- D: The Federal Reserve

3. Why does the government need loans?

- A: They do not have enough paper to print money on
- B: They do not know how to print money
- C: Printing more money decreases the value of existing money.
- D: They need loans to keep the value of money high.

4. Which of these options is **not** a way to get money?

- A: Go to a bank
- B: Use a credit card
- C: Plant a money tree
- D: Deposit a check

Money in the Real World

When you get out on your own, you will need to use money to pay for important bills, such as your house, car, electricity, and water. Money is used as a way for people to get the things they want and need in life. Here is a look at how money works on a day-to-day basis.

Earning Money

In order to have money, you have to earn it. For most people, that means getting a job and working for a **paycheck**. When you are younger, you may do chores around the house to earn money as an allowance. As you get older though, you may take on a paper route or work at a restaurant to earn money. The harder you work, the more money you will earn. Now you will have more to spend or **save**.

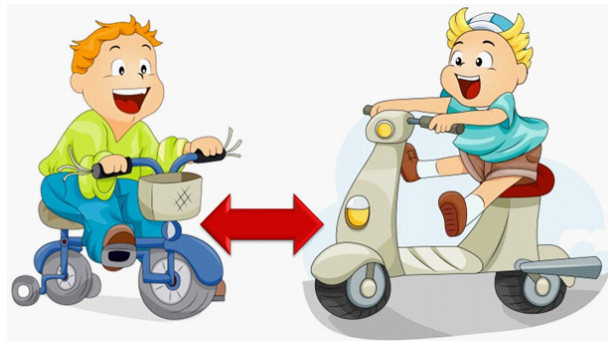


Spending Money

Once you've decided enough money is saved, you may choose to spend it. This means that you will give it up in exchange for something you want or need. Money can be spent in many ways, such as at stores, over the internet, sent through "snail" mail, tapping your smart phone at a register, and even sent by email. Any time you use your money to get something in return, you are spending it. That's why it's important to save money early so you always have enough.

Alternatives to Money

If you do not have the money to pay for an item, you can sometimes **trade** for it. This means that you give a person something you already have in exchange for something he has. If you want John's bike and John wants your scooter, you could trade each other so you're both happy. A trade is also called a **barter**.



Exercise 2

Choose the best answer.

1. How do people earn money?

- A: Ask for it
- B: Get a job
- C: Find it on the street
- D: Print it at home

2. If you do not have money to pay for an item, can you still get it?

- A: No, you have no options
- B: Yes, but you have to steal it
- C: Yes, but only if the person is willing to trade you for it

3. When you start a job, how are you paid?

- A: In gum
- B: Paycheck
- C: Mom or Dad

You probably hear your parents talk about the budget all the time. This is a plan that explains where a person's money should go. Having a **budget** lets you know what money you need to save and spend to manage your day-to-day life.

Example

Let's say you get \$10 a week for your allowance. An ice cream cone at school costs \$1. If you want to buy one ice cream a day for five days, you will need to budget \$5 for your snacks. Then you can use the other \$5 on whatever you want!

Adults have to budget for bigger things, like electricity bills, food costs, new clothes, and more. They follow the same steps to do this. They think about how much they have to spend and how much they need to buy to see what sort of money they will have leftover.



The Math of Budgeting

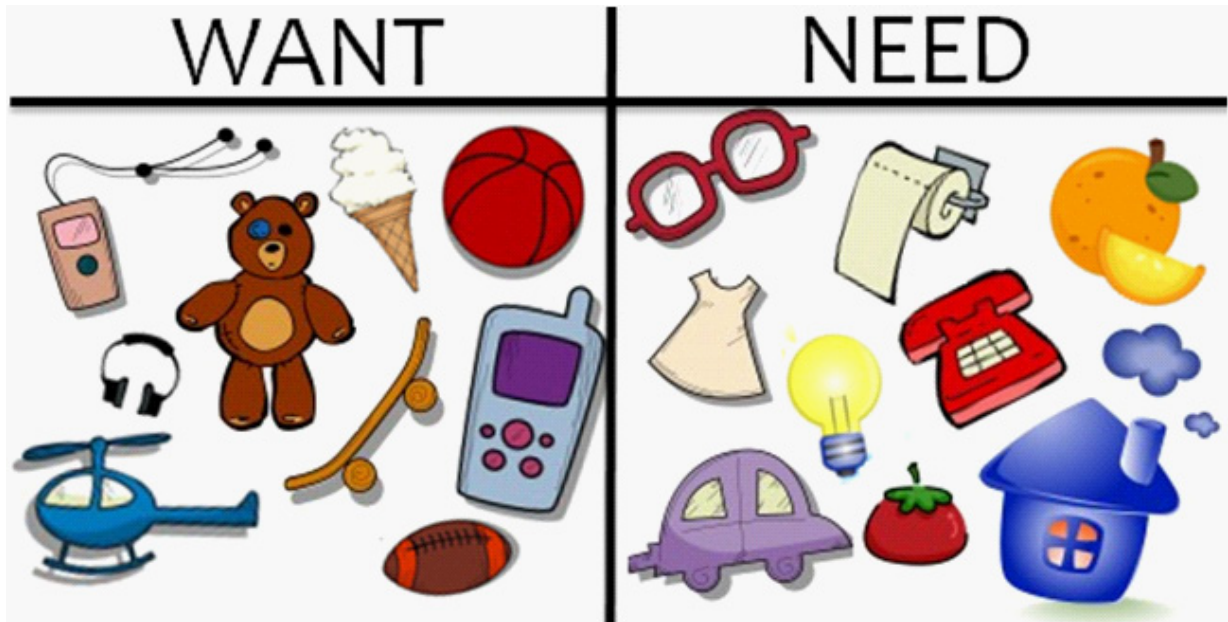
Math is a big part of making a budget. Luckily, you know all of that math already! All you need is basic addition, subtraction, and multiplication to create a budget you can stick to. Here is an equation to follow:

$$\text{(Money you have)} - \text{(Money you have to spend)} = \text{(What you have left)}$$

That is how a simple budget is made. Figure out what you owe and what you have to find out what you'll have left.

Needs vs. Wants

Just because you **want** something doesn't mean you **need** to buy it. If your budget does not allow you to buy the things you want, you may have to go without. It is more important to focus on the things you have to have to survive, rather than the things you'd really like to have.



As much as you may want to buy a new bike, new phone or a new toy, you have to make sure you can pay your bills first. Having clothes, food, and toilet paper is a lot more important. You may not have bills now as a child, but you will have a lot when you get older. You have to budget for your needs first before you think about your wants.

Exercise 3

Choose the best answer.

1. If your allowance is \$10 a week and you have to pay \$1 a day for lunch, how much money will you have left after 5 days?
 - A: \$10
 - B: \$0
 - C: \$20
 - D: \$5
2. If you want to buy a bike that costs \$50, how many weeks will you have to save your allowance to get it? Assume your allowance is still \$10 a week.
 - A: 4 weeks
 - B: 5 weeks
 - C: 6 weeks
 - D: 7 weeks
3. Which one of these is **not** something you need?
 - A: Food
 - B: Water
 - C: Sunglasses
 - D: Electricity
4. What is the difference between wants and needs?
 - A: A want is something you have to have, and a need is something you would like to have.
 - B: A need is something you have to have, and a want is something you would like to have.
 - C: There is no difference between wants and needs.

Many adults still don't know how to budget, and that is why they get into trouble. If you can learn this skill now, you are going to be set when you get older! Here is a guide showing how to budget:

Step 1 – Calculate Your Income

Your **income** is the amount of money you make. For an adult, this is money that comes from a job. For you, this may be money you get from your allowance or doing chores around the house. Add up the money you make for a whole month so you know what you're working with.

Step 2 – Add Up Your Bills

You may not have any **bills** right now, but you will someday. These are payments that you have to make for things that you use all the time. In your case, this may be something like lunch or snacks at school. Figure out how much money you need to spend on these things so you know how much money to **save**. This is the most important part of making a budget.

Step 3 – Make a Plan

Once you know how much money you have and how much money you need, make a plan for that money. Let's go back to the ice cream example. If you know that you need \$1 per day for your ice cream, you will need to save \$5 for that week. This is a plan that you have for your ice cream money and nothing else. In the future, that might be a new car, a house, or even a pet. You just have to make sure you budget for it.



Exercise 4

Choose the best answer.

1. What is your income?

- A: The amount of money you have in the bank
- B: The amount of money you can spend on what you want
- C: The amount of money you make
- D: The amount of money you find in the couch

2. What is the most important part of making a budget?

- A: Calculating your income
- B: Figuring out what bills you have to pay
- C: Dreaming about shopping
- D: Finding the right pen to write with

3. If you can save \$5 a week, how many weeks will it take to save \$25?

- A: 10 weeks
- B: 5 weeks
- C: 2 weeks
- D: 1 week

You always have to leave a little room in your budget for **unexpected expenses**. These are things that you have to pay for but perhaps you weren't ready for when you made your budget. You can plan for some of these expenses by knowing what they are ahead of time. Here are some examples:

Taxes



Any time you pay for an item at a store, you have to pay **tax** on it. This money goes to the government to pay for roads, buildings, and even new classrooms in your school. The amount of tax you have to pay will depend on where you live and what the tax rate is at the moment. You can ask your parents or teacher about that for now.

Example

You go to the store and find a really cool pinwheel you want to buy. It costs \$1 and taxes are 8% where you are. That means for every \$1 you spend, you have to pay \$.08 in tax.

$$\mathbf{\$1 + \$.08 = \$1.08}$$

That is how much money you will really owe when you go to pay for the item.

Interest

If you ever put money into a savings account, your money will earn **interest**. This is extra money that the bank adds to what you put in. If you ever take out a **loan** (borrow money from a bank), you will have to pay interest back to the bank. That means if you borrow \$500, you may pay \$550 in total because of interest.

Example

Let's pretend you put \$20 in your savings account. Your savings account has a 1% interest rate for the year. That means every \$1 you put into the account will be \$1.01 at the end of the year.

$$\mathbf{\$20 \times \$1.01 = \$20.20}$$

You will have an extra \$.20 in your account because of the interest you earn.

Inflation

The overall prices of goods and services goes up every year. This is called **inflation**, and it will make a difference in your budget over time.



Think about what happens when you blow up or inflate a balloon. It gets bigger, right? That's what happens to prices on the things you need to buy.

Milk at school once cost \$.05 to buy. Now it probably costs you \$.50 or more. That is all because of inflation.

The good thing about inflation is that usually your income will rise with the prices. In five years, you may go from an allowance of \$10 a week to an allowance of \$15 a week. This gives you more money to use on the high-priced items in the stores.

Exercise 5

Choose the best answer.

1. If you want a \$10 item and tax is 8%, what will you have to pay for the whole item?
 - A: \$10.00
 - B: \$0.80
 - C: \$10.80
 - D: \$8.00

2. If you put \$50 into your savings account and the interest on it is 1%, how much money will you have in one year?
 - A: \$50
 - B: \$49
 - C: \$51
 - D: \$50.50

Just having a budget isn't enough. You have to stick to it. For example, if you plan to clean your room, but forget or choose not to, it's still dirty. You're still going to get in trouble, right? You have to know how you will use your money and then follow through with your plan. Here are some tips to help you do that.

Have Your Parents Hold Your Money

If you do not think you can handle having money in your pocket, give it to your parents to hold onto. They will keep it safe until you need it. When you get older, you might put your money in a bank account for safe keeping. In that case, the bank will make sure you have access to the money when you need it most.

You may want to tell your parents about your budget so they know what you will need the money for later on. Then they can plan to release that amount of money as needed.



Keep Your Money in a Piggy Bank

Piggy banks are hard to open, so they can hold your money for you. This is a really good way to keep your money safe if you have a big purchase to make. Say, for instance, you want to budget for a bike in the next few months. You might put all of your money into a piggy bank until you have enough to buy the bike. To ensure that you stay on budget, have your parents put the piggy bank somewhere you can't easily access. Then just ask them for it when you need it.

Remember What You Are Budgeting For

Sometimes all it takes to stay on budget is the thought of what the budget was for all along. Remind yourself of why you're saving and consider waiting to eat your favorite ice cream after you get the bike. Hopefully you can stay motivated to stay on budget.

Once you get in the habit of saving money for the things you want and need, you will be able to apply the same principles to your life as an adult. Make a budget now and see where it takes you!

Barter/Trade: Exchanging one item for another without using money

Budget: An overall plan for your money

Deposit: Something, like money, which is entrusted for safe keeping, such as in a bank.

Inflation: The yearly increase of prices on all goods and services

Interest: Money added to the cost of a loan or to the balance of a savings account

Loan: Money you get by promising to pay it back

Needs: Things that you have to have to survive

Paycheck: A check issued to an employee as payment for work.

Saving: Putting money back to use later on

Savings Goal: The amount of money you are trying to save for, representing an item you want or need

Taxes: Money you have to pay the government when you buy an item

Unexpected Expenses: Things you have to pay for that you did not originally know about

Wants: Things that you would like to have but do not need to survive