



SECOND EDITION

Our Business and Economic World

Brown and Clow

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Ball State University

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The Berkeley School

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Preface

In the United States, we have a fast-paced economy that spurs the development of a seemingly never-ending stream of new products. As consumers, we sometimes face a bewildering array of products to buy. As workers, we see many opportunities for new kinds of work, but we also see the need for training for that work. As citizens, we must be able to make wise choices about our government and the legal and economic systems effected by our leaders.

Helping young people to become knowledgeable consumers, workers, and citizens is what this textbook is all about. In our private enterprise economy, we must each make many decisions. We must choose from among the various goods and services available in the marketplace. We must choose from among a variety of career options. And through the election process, we must choose leaders who will form our government policies. For all of us, the quality of life depends on the degree to which we are able to exercise economic knowledge to make informed and intelligent decisions.

Objectives

Our Business and Economic World, second edition, is designed primarily to help prepare individuals to make decisions in their interrelated roles as consumers, wage earners, and citizens. Basic economic theory and principles are examined, and readers are encouraged to develop economic competency in applying their knowledge to practical ends.

After studying the chapter narrative and completing the activities in the textbook and the related workbooks, students should be able to do the following:

1. Make informed and intelligent personal business and consumer decisions.
2. Explain and appreciate the operations of the private enterprise system.
3. Understand the broad range of occupational opportunities available to them.
4. Exercise the economic rights and responsibilities of citizens in a democratic society.

Organization

Our Business and Economic World, second edition, comprises ten units divided into forty-one chapters. The first five units cover the basic elements that are essential to an understanding of economic life. The second five units focus on applications of economic understanding to consumer activities. Unit 1, "Managing Your Resources," leads off with a discussion of the unlimited wants that must be met with limited resources. Meeting our wants and needs with scarce resources requires wise decision making, and students are taken step by step through the problem-solving approach to decision making.

Unit 2, "Economic Systems," investigates how economic systems work and describes and evaluates the private enterprise system. The role of the market in our private enterprise economy is developed through discussions of the laws of supply and demand.

Unit 3, "Doing Business in a Private Enterprise Economy," examines how businesses function, as well as how they are organized. The impact of the computer on our personal and business lives is explored along with the role of technology in providing fuel for the development of new products or new ways of doing business. The unit continues with a discussion of the legal environment in which businesses operate in the United States. Finally, the impact of world trade on our economy and the forces that affect such trade are explored.

Unit 4, "Making Consumer Decisions," provides a look at how consumers make decisions and then goes on to describe sources of consumer information and protection. The relationship between government and business in a private enterprise economy leads off Unit 5, "Government and Labor in a Private Enterprise System." The unit continues with a discussion of how various government units obtain and spend money. A description of the roles of labor and the collective bargaining process concludes the unit.

In Unit 6, "Choosing a Career," the world of work is introduced, and students are lead through several methods for identifying career interests and following up those interests in applying for a job. Unit 7, "Money and Banking," covers our banking system and discusses a variety of financial institutions and the services they offer. Information on how to use a checking account is provided, along with a discussion of electronic banking.

Unit 8, "Using Credit Wisely," explains various forms, uses, and sources of credit. Some of the decisions that must be made in using credit and laws covering credit use are also explained. Ways of saving money and forms of investment — such as savings accounts, stocks and bonds, real estate, and collectibles — are the focus of Unit 9, "Saving and Investing." Unit 10, "Insuring Against Loss," concludes with a look at the need for insurance and the various types that are available.

Special Features

This second edition of *Our Business and Economic World* continues the many features that contributed to the success of the first edition. The design of the textbook invites the reader through the use of bright, colorful headings and illustrations. Color is used throughout the textbook to motivate the reader and to highlight important terms appearing for the first time.

Each chapter begins with a series of sentences or questions to stimulate student thinking. These “organizers” are actually informal chapter objectives. Each chapter continues with a list of new terms to be defined in the chapter. This list, in conjunction with the definitions within the text narrative, can be used to help students develop and expand their business vocabularies.

Special attention is given to reading level and to writing style. Sentences are purposely kept short and are written in a personal style designed to appeal to students. New terms are highlighted and defined at the point of first use and are tested for understanding in end-of-chapter activities. New topics are introduced in relatively small learning segments, followed by questions within the text to help students relate new learnings to their own experiences.

Chapter-end materials are arranged according to difficulty and are designed to correspond with specific learning objectives. Questions are included to gauge student understanding of key concepts, as well as to allow students to apply what they have learned to their personal economic lives. The chapter-end materials conclude with a special activity that varies from chapter to chapter but always emphasizes the development of a basic skill, such as math, human relations, communication, or analysis and interpretation of business information.

A short vignette appears at the end of each chapter and focuses specifically on a career, an issue, a person, or a trend in business. These vignettes provide information on a number of different career choices to help students begin exploring their own personal career interests. They also provide information on several thought-provoking issues and trends within our economy.

In recognition of the increasing use of microcomputers, the textbook includes two short computer literacy simulations called Compusense. The first Compusense, which follows Chapter 4, provides a computer program for personal budgeting. The second Compusense follows Chapter 29 and provides a computer program for reconciling a bank statement. Two mini-simulations are also included to provide students with realistic experiences in making business decisions and using credit. These simulations are described in the textbook (see pages 190 and 514), with all instructions and materials provided in the student workbooks and in the teacher’s manual.

Supporting Materials

Our Business and Economic World, second edition, is the central component of an instructional package that includes student and teacher's editions of two workbooks, two sets of tests, and a teacher's manual. The workbooks, *Student Activities — Chapters 1-21* and *Student Activities — Chapters 22-41*, contain a wealth of problems, projects, and other activities that will enrich and reinforce student understanding of the concepts presented in the textbook. A new, two-page math and language arts review is included at regular intervals throughout the workbooks to provide specific reinforcement of those skills. Each workbook also includes instructions and documents for completing the simulations from the textbook (the two Compusense and the mini-simulations on entrepreneurship and credit).

A series of 4-page achievement tests is available. *Test Package 1 — Chapters 1-21* contains tests for the first 21 chapters and an end-of-semester test. *Test Package 2 — Chapters 22-41* contains tests for Chapters 22-41 and an end-of-semester test.

The teacher's manual contains a section on the methodology of teaching that includes teaching/learning strategies, evaluation considerations, suggested course outlines, and selected additional readings. The manual also presents specific learning objectives, suggestions for launching and enriching the discussion of text material, the solutions to all textbook activities, and selected transparency masters. Solutions to all the tests are also included.

Acknowledgments

The continuous collection of information for updating and revising a textbook involves the efforts of many people. Thanks go to the many teachers using the first edition of the textbook who responded to various questionnaires. Thanks are also due to the various individuals and groups, too numerous to be singled out for separate acknowledgments, who assisted the authors by providing research, resource materials, or assistance in manuscript preparation. Family members and friends supported us with constant encouragement during the writing and rewriting of the manuscript. To all, we are grateful.

Betty J. Brown
John E. Clow

UNIT

1

MANAGING YOUR RESOURCES





CHAPTER 1

Unlimited Wants, Limited Resources

- When you think about it, you will realize that you have almost unlimited wants. You may want new clothes, cassettes, a trip somewhere — and on and on. Can you get everything you want? How do you choose?
- There are some things in life that are in short supply. There are only so many hours in a day. So that means time is scarce. How about money? Do you have all you want? How do you decide how you'll use your money?

Do you know what these terms mean?

wants	labor
goods	capital goods
services	entrepreneurship
factors of production	scarcity
natural resources	

You'll learn all about these terms in this chapter.

While walking home from school one day, Mike and Mario talk about the things they would like to have for their birthdays. Their birthdays are only two days apart. Mike wants a ten-speed bike, and Mario wants a pair of ice skates. To go with his bike, Mike also wants a lock and a bike bag. Mario wants to take skating lessons after he gets his skates. He also wants a bag to carry his skates back and forth to his lessons.

Wants are the desire for things that we wish we could have. All of us want things. In fact, our wants are almost unlimited in number. Sometimes all that limits our wants is our own imagination. But most of us cannot have everything that we want. We have to decide what is most important to us. We have to make decisions about which wants to satisfy.

SATISFYING WANTS

Most of our wants — no matter how unlimited they may be — can be satisfied by some type of good or service. Goods are products, or items, that we may buy or someone else may buy for us. Goods can be physically measured or weighed. Bikes and skates are goods. So are heating oil, groceries, telephone wire, and lumber. Goods satisfy our wants for material things — things that we can see and touch.

We also have wants for things to be done for us. We want someone (or something) to take our lunch orders, cut our hair, or teach us how to type. These wants are for services, which are tasks that people or machines perform. Mario's want for skating lessons is a want for a service. He does not want a material thing. He wants someone to teach him how to figure skate. Teaching someone to do something, or doing some other activity for someone, is a service. Services, then, satisfy our wants for nonmaterial things, that is, things that we cannot actually see or touch.

At this moment, what are your four most important wants? How many are for goods? How many are for services?

In identifying your wants as goods or services, you may have thought of some wants that are neither of these. All of us want to be loved and to have our achievements recognized. These and other similar wants cannot be valued in terms of money. For that reason, we will not discuss these wants in this book. We will be discussing only those wants that can have a price set on them.

So far, all of the wants we have described have been those of individuals. But families, businesses, and other groups of people also have wants. A family could want a new washing machine, a business firm could want new office equipment, and a club could want new tennis courts. These may be wants that are shared by individuals. Still, they are just the *private wants* of the individual family, business, or group.

On the other hand, some wants are shared to such an extent by so many people that they are really no longer private wants. They become *public wants*. Highways, national defense, and education are examples of public wants. For the most part, public wants are satisfied by goods and services provided by local, state, and federal governments.

Another way of looking at wants is to classify them as necessary or optional wants. *Necessary wants* (often called needs) are those things that we all need in order to survive. Food, shelter, and clothing are the most basic of these wants. *Optional wants* are things that are not necessary for survival. Many items that are important in our daily lives are actually optional wants.

PRODUCING GOODS AND SERVICES

Before we can buy goods or services to satisfy our wants, someone must make the goods or offer to provide the services. Goods and services do not just appear by magic. Rather, they must be produced using factors of production. **Factors of production** are the natural resources, labor, capital goods, and entrepreneurship that go into producing goods and services. Let's look at each of these four factors of production, or productive resources, as they are often called.



Water is one thing we can't do without.

Natural Resources

The first factor of production we listed is natural resources. **Natural resources** include all the things that come from the air, water, or earth. We grow plants and trees for many different uses. These are natural resources. Coal, iron ore, and oil are also natural resources, as are the fish we get from the water and oxygen and hydrogen we get from the air. Without all of these things that nature produces or helps us produce, there wouldn't be any goods or services for us to enjoy.

Labor

Another factor of production, **labor**, is the work done by people to produce goods and services. Individuals can use their skills to turn natural resources into goods. And individuals can use their skills to provide services. Crude oil, a natural resource, is refined by petroleum workers to make gasoline for cars. Labor is needed to get the oil from the ground, refine it, and pump it into your gasoline tank. Similarly, all the steps from planting the cotton to weaving the cloth to stitching the seams to produce a shirt require labor. Managers and supervisors who direct the work are also providing labor. Labor is a very important factor of production for making goods and services.



Many goods are made from wood, an important natural resource.

Capital Goods

Third on the list of factors of production is capital goods. **Capital goods** are the machines, buildings, and equipment used to produce goods and services. For instance, the oil rigs out in the Gulf of Mexico are examples of capital goods. The cotton gins, sewing machines, and the shelves on which the finished shirts are displayed are all capital goods. Even though it provides a service, dry-cleaning equipment is still a capital good. The dry-cleaning store is also a capital good. These machines, buildings, and equipment — capital goods — are essential factors of production.

Entrepreneurship

The last factor of production relates to the ability to put together a business to make goods or to provide services. This ability is called **entrepreneurship** (*ahn truh pruh NUR ship*). An entre-

preneur is someone who takes the risk of starting and managing a business. The entrepreneur uses the other factors of production (natural resources, labor, capital goods) to provide goods and services for sale. The risk taken by the entrepreneur is that the good or service produced will not be purchased by consumers.

Entrepreneurs are the people behind new products or services. Without people who are willing to start new businesses, we would not have the variety of goods and services that are now available to us.

DECIDING HOW TO USE FACTORS OF PRODUCTION

A resource such as labor can be used to satisfy many different wants. For instance, a carpenter's labor can be used to build a new home. It can also be used to build a store, school, or church. Iron ore, a natural resource, can be used to make steel for building automobiles or for building skyscrapers.

It would be nice to have all the labor we need so we could build all the schools, homes, and stores that are needed. And if iron ore were not a limited natural resource, we could build all the skyscrapers we wanted and still have plenty left over for toys and automobiles. Somebody has to make choices about how resources will be used. And that means that some wants will be satisfied, while others will not.

Who makes these choices? Individuals, businesses, and governments of everything from countries to small towns make decisions about the use of productive resources.

UNLIMITED WANTS AND LIMITED RESOURCES

Like individuals, every country in the world has the problem of limited productive resources and the unlimited wants of its people. This problem of limited resources results in a scarcity of available resources to meet all the wants of a group of people. **Scarcity** is a lack of something that can be used to satisfy all the wants of a group of people.

Can you recall from television or newspapers recent cases where decisions had to be made about the use of scarce resources? Name some.

COPING WITH SCARCITY

The best way to deal with scarcity is first to accept it as part of life. It affects everyone, from individuals to the country as a whole. We just can't have everything we want! Since all of our wants cannot be met, choices must be made.

The scarcity of natural resources, labor, capital goods, and entrepreneurs explains why everyone cannot have everything that they want. There are also other scarcities that limit the number of wants that we can satisfy. One of these scarce items is income. Most people do not have enough income to buy all the things that they would like to have. For example, you may want new clothes and a couple of the latest records, but you may not have enough income to buy both of them at the same time.

Another scarce resource is time. You may have heard people say, "I just don't have enough time to do all the things that I want to do." You may have said that yourself at one time or another. Most people are faced with not having enough time to do everything they want to do. Time spent doing one thing means less time, or no time, to do something else.

Making decisions about how to use scarce resources requires a lot of thought. We must decide which wants will be met and why. We must then decide which goods and services will best meet these



"I'm running out of time and don't know whether I'm coming or going."

wants. To satisfy the most wants possible, we must decide how to conserve our natural resources and how to use our productive resources most efficiently. We must also determine how best to use our income and our time to satisfy our wants.

SUMMARY

All people, and countries, have unlimited wants with limited resources to meet those wants. Wants are usually satisfied by some good or service. Goods and services are produced using the four productive resources — natural resources, labor, capital goods, and entrepreneurship.

The scarcity of resources to produce the goods and services to satisfy our wants is one of the most difficult problems that we all face. We also have a scarcity of income with which to meet our wants. Time, too, is a scarce resource that must be used wisely if we are to meet our wants. Since scarcity is a fact of life, we must make careful decisions about which wants are most important to us.

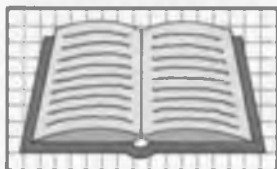
BUILDING WORD POWER



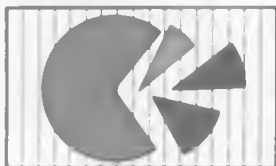
Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 9. Then write the term that best matches each numbered definition.

capital goods	natural resources
entrepreneurship	scarcity
factors of production	services
goods	wants
labor	

1. Those things that come from the air, water, or earth.
2. The things we wish we could have.
3. Machines, buildings, and equipment used to produce goods and services.
4. Objects that can be physically measured or weighed.
5. The lack of something that will satisfy all our wants.
6. The natural resources, labor, capital goods, and entrepreneurship used to produce goods and services.
7. The work done by people to produce goods and services.
8. Tasks that people or machines perform to satisfy wants for nonmaterial things.
9. The ability to start and manage a business.

**BUILDING
READING
COMPREHENSION**

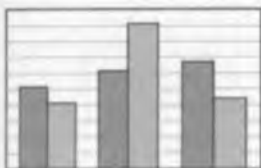
1. Explain the major difference between goods and services, and give two examples of each.
2. Explain how a family, a business, or a club could have private wants.
3. Give three examples of public wants.
4. What are the differences between necessary wants and optional wants? Give two examples of each.
5. Give an example of each: natural resources, labor, capital goods, entrepreneurship.
6. Can a product be made without one of the factors of production? Why or why not?
7. Besides the scarcity of factors of production, what are two other forms of scarcity that affect the average United States citizen?
8. Why can't everybody have everything that they want?
9. What is the best way to deal with scarcity?
10. What should be considered when deciding about scarcity?

**BUILDING
BUSINESS
CONCEPTS**

1. Name the natural resources from which each of the following goods was made: wool sweater, football, pencil, windowpane, flour, bicycle tire, jeans.
2. Scarcity affects everyone, from individuals to the country as a whole. How does scarcity affect: individuals, businesses, the country as a whole?
3. List at least three businesses in your community that sell goods, three that sell services, and three that sell both goods and services.
4. Can the scarcity of income also affect community organizations and governmental units? Explain.
5. Why is entrepreneurship important to the production of goods and services? What is the difference between entrepreneurship and labor, as factors of production?
6. Mississippi River mud does not seem to be a scarce item. Why is this true?
7. The millionaire and the person on public assistance can both suffer from a scarcity of income. Why might this be true?
8. Why should society be careful in using its natural resources?
9. How can a country have a scarcity of labor and still have people who are unemployed?
10. Which of the scarcity problems — time, income, or productive resources — affects you most often? Which of these is most important to you?

**BUILDING
BUSINESS
EXPERIENCE**

1. Think about one of your favorite foods. What are the specific factors of production necessary to make this product?
2. Give an example of how obtaining one want can sometimes create the desire for other wants.
3. We purchase many of our goods and services from businesses, while others are supplied by local, state, and federal governments. List at least two goods or services supplied by each level of government.
4. Make a list of some of the goods and services that can be bought today but did not exist when people had to produce most things themselves.
5. You are stranded on a small, uninhabited tropical island. How would satisfying your wants there be different from satisfying them in your own community?

**BUILDING
MATH
SKILLS**

1. The Business Club wants to enter a float in the Homecoming Parade. The committee in charge of planning the float estimates that it will take about eighty hours of work to decorate the float. The committee hopes that all twenty members of the club will help with the decorating.
 - a. If all twenty members help, how many hours will each member work if all give an equal amount of time?
 - b. If only five members of the club work on the float, what percentage of the membership does help and what percentage does not help?
 - c. How many hours does each of the five members give if each works an equal amount of time?
 - d. If each of these five members can work only $1\frac{1}{2}$ hours per day, how many days will it take them to finish the float if each member works an equal amount of time every day?
 - e. What is the scarcity problem here?
2. When looking at the problem of scarcity, it is important to study population growth in the world. Population growth indicates how many more people will be living on earth in the future. This in turn shows how many more needs and wants must be fulfilled. Also, population growth gives an idea of the possible growth in the labor supply, which can help to produce more of the wanted goods and services. Listed on the next page are the 1983 population and the estimated population for the year 2000 for various parts of the world. Using these figures, answer the questions that follow the table.

Geographic Area	1983 Population	2000 Estimated Population
North America	270 million	286 million
Latin America	389 million	549 million
Europe	490 million	511 million
USSR	275 million	302 million
Asia	1,760 million	2,328 million
China	1,025 million	1,200 million
Africa	531 million	847 million
Australia (and surrounding area)	23 million	30 million

- How much will the population of each geographic area grow by the year 2000?
- Determine the percentage of growth for each geographic area by the year 2000.
- Where will the growth rate be lowest? highest?
- What is the estimated difference between the largest and smallest geographic areas by the year 2000?

Trends in Business

Space Technology

Scientists joke that there are so many satellites in orbit they'll have to set up traffic lights in space. Many countries that can't afford a space program *can* afford a satellite. Even big corporations share costs for financing a space venture. The newest frontier for some businesses is space — literally, the sky's the limit.

One of the busiest industries is communications. Thanks to satellites 150 miles in space, you can phone your friend in Hong Kong, watch a gymnastics contest in Moscow on TV, or listen to a British rock group on radio. And you can do them all at the same time, if you wish. In addition to communications satellites already turning a profit for the industry, there are also weather, navigation, scientific, and military satellites.

Citrus growers in Florida benefit from a weather satellite's warning about the timing and severity of an approaching cold front. Ship and airline pilots can lock in on navigation satellites and literally steer their way with the help of these "eyes in the skies." Satellites take pictures of the Earth's surface, which are then artificially highlighted by computers. These ultrasharp photographs may reveal to energy and mining

companies where oil, gas, and uranium can be found.

A phenomenon in space that produces unusual side benefits is weightlessness, which is caused by an almost complete lack of gravity. On Earth, scientists "grow" crystals of proteins in artificial laboratory conditions. It took thirty years to develop the crystal structure of hemoglobin, the protein in red blood cells. One of the reasons it took so long is that gravity affects the growth of crystals and causes



defects. In space, crystals can be grown without imperfections quickly. Crystals used to produce semiconductors for computers can be grown with purity in space. Superchips!

Some of the space enterprises being considered make science fiction look tame. How about space factories making electronic components and sending them back to Earth on the weekly shuttle? If that sounds wild, what do you think it would have sounded like in 1919 to predict that a person would walk on the moon in fifty years? Impossible!



CHAPTER 2

How to Make Decisions

- Since our wants are almost limitless — and our income and time are scarce — we have to make choices. A choice between two things, a choice between this and that, is what we wind up with. What is the real cost of giving up one thing for another?
- Choices are also influenced by what we think is important to each of us. How do you tell what is important to you? Do you have any long-term plans?
- Taking a scientific approach to decision making might help you make decisions. For instance, which alternatives should you consider before making a decision? What steps would you take in making plans for the weekend?

Do you know what these terms mean?

decision making	values
priorities	goals
opportunity cost	

You'll learn all about these terms in this chapter.

Although life isn't always a matter of making decisions, it often seems that way. For instance, what do you want to do on Saturday night? Whom should you invite over to the house for a party? What should you get your mother for her birthday? What should you do during study period? Which movie do you want to see? You have many opportunities to make choices.

Practically everything costs money or takes time. You don't have an unlimited supply of these two things, so you have to make decisions about how they are to be used. Making decisions is an important part of your life.

Decision making is the process of determining which wants and needs will be met at a particular time. Wise decision makers want to gain the most satisfaction from their limited income and time. To do so, they must set **priorities** (*pry AWR uh teez*), which is the order of importance of doing things at a particular time. How do you determine your priorities? How do you weigh one choice over another?

THE COST OF CHOOSING

What makes one choice more desirable than another? Which one will give you the most satisfaction? Let's say, for instance, that a radio and a tennis racket each cost about \$35. You want both, and you know how much pleasure each will give you. But you have only \$35. You choose the radio and give up the tennis racket. You also give up \$35, the cost of the radio.

But there's another cost involved, too. It's the **opportunity cost**, what you give up when you make one choice over another. In this case, the tennis racket is the opportunity cost of the radio. You give up the opportunity of getting the tennis racket, at least for the time being.

Sometimes the opportunity cost is not money or an item. For instance, instead of having some friends over, you go to the library to study for a test. The opportunity cost of passing that test is having

some friends over. In making choices between alternatives, there's obviously more than just knowing what you give up. Let's see what else goes into the decision-making process.



How should they decide which one to buy?

VALUES AND GOALS

You like Sue a lot because she's got a good sense of humor. Perhaps you admire your teacher because he doesn't lose his temper when the class gets out of hand. Skiing is *your* sport because of the thrill of plunging down mountains. All of these are **values**, qualities that you prize and think are important.

Values guide you in making decisions. When you decide between alternatives, one value or another almost always wins out. Remember this. Values are like fingerprints. No two people have the same set of them. But unlike fingerprints, your values do change.

Why do you suppose that no two people have exactly the same set of values?

You've heard it said that any United States citizen can become the President of our country. Is that one of your goals, one of your aims or objectives? Perhaps not, but you have other goals, such as going to college or owning your own business. Some goals — like those for your career — may be long-term. Other goals — such as getting through the next class period — may be short-term.

People's values affect their goals. For instance, you may plan a vacation in the mountains, where there are plenty of snow-covered slopes. Your vacation plan (*goal*) is influenced by your sense of adventure found in skiing (*value*). Or you may want to be on the school track team (*goal*) because the team has a chance of winning the county meet (*values of accomplishment and prestige*).

Strangely enough, two people may share the same value and wind up with different goals. You value adventure and that leads you to the goal of a skiing trip. Your friend Pete values adventure, too, but he plans to go to the library to get the latest best-selling "who-done-it." Some students try to get top grades in school (*goal*), and others work to take an engine apart and put it back together again (*goal*). Both share the same value (*a sense of accomplishment*). Different interests and abilities may also affect the goals that each of us chooses. Talent in music may lead you to the goal of playing the piano, while your friend who has no musical ability likely will choose another hobby.

Looked at another way, the goals you set for yourself may tell something about your values. For instance, if you set a goal of saving your money for college, that may show that you value education. Perhaps you value a college education even more because it will help you obtain the career you want. Let's say you set a goal of buying a car as soon as you can. That may show that you value being independent, and that having a car is more important to you than using your money for other things.

What do you think your goals tell about you? Are you satisfied with what they indicate?

Sometimes you may have goals that do not agree with each other. You want a college education, right? But you also want the income from a full-time job. You can't manage both college and a full-time job, no matter how much you want them. People also have conflicts about money. They may want a new car and also want to keep up the payments on their house. In case of conflicts, choices must be made.

On the other hand, a single goal often may satisfy several values. For instance, Sue has a goal of playing tennis as often as possible on the school courts. She finds that it satisfies her values of being with friends, being outdoors, and being active. All three values are fulfilled.

Sometimes you acquire values almost without realizing it, like unconsciously modeling yourself after someone you admire. But,

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Creating a clay bowl gives this person a sense of accomplishment.

unfortunately, just having values and goals isn't enough. You have to recognize them, and you need to know which are most important to you. If you don't know your values and goals, it's difficult to determine the opportunity costs of various choices and to set priorities. You've really got to know yourself first before you can make wise decisions.

Values and goals affect the way you look at the opportunity cost of a choice. You must select the alternative that best meets your own specific values and goals. Different people faced with the same alternatives will make different choices. What's right for the other person may not be right for you. Take a long, hard look, and then ask yourself this question: "Which choice is the best for *me* with *my* values and goals?"

THE DECISION-MAKING PROCESS

Some day you may buy a car or even a house. If you do, you'll want to make those important decisions carefully. You'll want to make your decision using a method that perhaps even a scientist or a researcher might use.

The decision-making process is a step-by-step procedure of carefully considered alternatives for making choices. It helps define the nature of alternatives available. It describes how each alternative will affect you. The opportunity cost is considered. All of these steps are put together in an organized, logical way. But this process isn't new to you. You probably use a short form of the decision-making process every time you make a decision.

Step 1: Identify the Problem

Dolores has a free Saturday afternoon. She wants to figure out the best use of that time. Problem: "How should I spend a free Saturday afternoon?" In the decision-making process, the first step obviously is to identify the problem. Some problems Dolores has every day. What should she wear to school? What should she buy for lunch? Some problems may come up only once or a few times in a lifetime. What car should she buy? What career should she choose?

Step 2: List the Alternatives

Good choices cannot be made without knowing the various alternatives or ways to solve the problem. Sometimes people regret their decisions because they did not consider *all* the alternatives. For instance, have you ever bought a pair of shoes and regretted it later? *Too much* later? There were probably other shoes or other stores that you had not considered carefully.

However, you can't possibly list all the alternatives for some problems. Just do the best you can. It may take a bit of thought to determine the various alternatives.

Dolores, with her free Saturday afternoon, has many alternatives. She boils them down to three: attending the school football game, doing homework, and raking leaves in the yard.

Step 3: Determine the Pros and Cons

Now it's necessary for Dolores to weigh the advantages and disadvantages of each alternative. Sometimes choices affect other people: friends, neighbors, parents. Dolores's values and goals will also become a part of the decision-making process. They will probably be different from someone else's values and goals. Since she has three choices that she considers almost equally worthwhile, it's a hard decision at first. Dolores decides to list the alternatives along with the advantages and disadvantages of each, as shown at the top of the next page.



How might values affect what you do with your time?

The items listed under advantages and disadvantages give us some idea of what Dolores enjoys and considers important. She values being outside, seeing friends, doing well in school, pleasing her parents, and having money to spend.

Alternatives	Advantages	Disadvantages
a. attend football game	1. see friends 2. enjoy game 3. enjoy being outside	1. will spend \$5, which could be used for snacks next week 2. may not do as well on test next week
b. do homework	1. will be better prepared for test next week 2. will not cost money 3. parents will be happy	1. not exciting 2. miss being outside 3. will not see friends
c. rake leaves	1. parents will be happy 2. may get money to spend later 3. enjoy being outside	1. not exciting 2. may not do as well on test next week 3. will not see friends

Another way to see at a glance how the advantages and disadvantages compare would be for Dolores to set up a grid or chart like the one below. On the left she would list the alternatives. At the top would be each consideration affecting her choice. If Dolores could answer "yes" to a consideration, she would use a plus sign; if she could *not* answer "yes," she would use a minus sign.

	Socialize with friends	Better prepared for tests	Be outside	Very exciting	Will not require spending money	Especially please parents	May earn some money
Attend game	+	—	+	+	—	—	—
Do homework	—	+	—	—	+	+	—
Rake leaves	—	—	+	—	+	+	+

Step 4: Make the Best Decision

This step is the whole point of the decision-making process. If you've listed all of your alternatives and have been completely honest about the advantages and disadvantages of each — well, you're as ready as you can be.

With the second kind of chart, using the plus and minus symbols, you can actually rank the alternatives. In short, how do they score? Is your second choice *really* worth giving up? How much worth? Now you're looking at the opportunity cost.

When ranking the alternatives, however, you are assuming that each consideration has equal weight. No consideration is more or less important than the others. In a case where some considerations *are* more important than others, you may select an alternative even though it has fewer pluses.

Dolores goes through this decision-making process, too. She feels she is fairly well prepared for her science test on Monday. Besides, she can review Sunday night or during study period Monday morning. That leaves the football game and raking leaves as the remaining alternatives.

You can see from the chart that raking leaves has four pluses and attending the football game has only three. In fact, Dolores's parents have been especially busy with other things this week and have no time for yard work. She is low on money, and her dad may pay her, especially if she rakes leaves without being told!

If you were faced with the same alternatives, would you have made the same choice as Dolores? If not, why not?

Step 5: Carry Out the Decision

After making your decision, put it into effect. This step is the *action* step of following through on your decision. You should be able to act with confidence and security because you have followed the decision-making process.

Step 6: Evaluate Your Decision

Now is the time to decide whether you received the expected satisfaction. Would another choice have been better? In other words, would you make the same decision again? The process of deciding if you made a good or a bad choice is called evaluating your decision. Let's see how Dolores evaluated her decision.

On Sunday Dolores found out that her school, South, had been beaten very badly in football by its cross-town rival, North High School. She did well on her science test, having spent time preparing Sunday night and Monday morning. For the yard work, her dad paid her almost as much as she would have spent at the game. And to top it off, he was pleased.

Even after using this method, you may regret some decisions. You will sometimes wish that you had made a different choice. Profit from your mistakes; make better decisions next time.



This woman is using the decision-making process in choosing foods for her family.

HABITS AND THE DECISION-MAKING PROCESS

People do not always use the decision-making process. Joan, for example, always buys the same brand of yogurt. She doesn't go through the entire decision-making process of looking at the alternatives and evaluating them every time she wants to buy yogurt. She probably used this process before she developed a liking for a particular brand, but now her decision is based on habit or custom. In making this choice automatically, Joan saves a lot of time.

For some decisions, a choice based on habit or custom is fine. But be careful. Some decisions made on the basis of habit or custom will not be the best ones. Carol, for example, found that going to the same college as her sisters was not the right choice for her. She should have taken more time to look at the various alternatives and to evaluate them according to her values and goals. She regrets making the decision based on family custom.

Think of something that you buy based on habit or custom. What kinds of things might cause you instead to use the decision-making process for this product?

SUMMARY

Decision making is the process of determining which wants will be satisfied at a particular time. Like all skills or abilities, it will improve with use. Exercise it! Remember that any choice involves an opportunity cost since there is always an alternative that is not selected. Look at the opportunity cost *before* making a choice. And if you're not sure about them, take some "quiet time" to find out what values and goals you have. They *do* affect your decision making.

Finally, the decision-making process can be very helpful in making better choices. You probably use it now unconsciously for making small decisions. But when you have some bigger choices to make, stop and follow the steps listed. This process assists you in identifying the problem and determining the various alternatives. It also aids you in weighing alternatives according to your values and goals, setting your priorities, and finally making a choice. To help you, we'll be using the process at other times in this book.

BUILDING WORD POWER



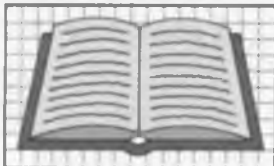
Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 5. Then write the term that best matches each numbered definition.

decision making
goal
opportunity cost

priorities
values

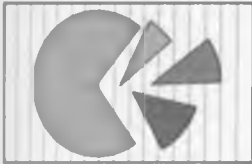
1. An aim or objective.
2. The process of determining which wants will be met at a particular time.
3. What you give up in making one choice over another.
4. Qualities that you prize and think are important.
5. The order of importance of doing things.

BUILDING READING COMPREHENSION



1. Why do we have to choose how we spend our time and money?
2. Identify three values that are commonly held by people.
3. Describe the relationship between values and goals.
4. Give an example of how one goal may satisfy several values.
5. Why is knowing your values and goals essential for wise decision making?
6. List the steps in the decision-making process.
7. What mistake is sometimes made when looking at the alternatives to solve a problem?

8. What are two ways of evaluating the alternatives mentioned in this chapter? Tell how to use each one.
9. Why is it a good idea to evaluate your choice after you have followed through with it?
10. How does custom or habit sometimes keep us from using the decision-making process?

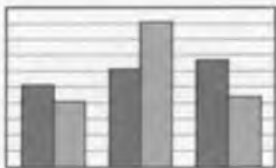
**BUILDING
BUSINESS
CONCEPTS**

1. Explain why opportunity cost is not necessarily expressed in terms of money.
2. How may two people with similar values have different goals?
3. Why is it sometimes difficult for individuals to know their values and goals?
4. Why will different people faced with the same alternatives make different choices?
5. How do values and goals affect the way in which you look at the opportunity cost of a decision?
6. Why do some people have difficulty identifying the problem?
7. Explain how you should evaluate a decision that you have made.
8. Does use of the decision-making process ensure that you will always be satisfied with the decisions you make? Why or why not?
9. Why do some people make many of their decisions according to custom or habit?
10. Do you believe the decision-making process should be used for every decision that you need to make?

**BUILDING
BUSINESS
EXPERIENCE**

1. How do a person's goals affect buying decisions? Give some examples.
2. Give three examples of ways in which goals affect the way a person lives.
3. Make a list of your buying goals. Identify them as short-term (one year or less), intermediate (up to five years), and long-term (five years or more).
4. Think about something important you bought recently. What steps did you take in making your decision? Would you make the same decision today?
5. Give an example of a decision you made recently that was based on habit or custom and not based on looking at the various alternatives. Do you think it was a wise decision? Why or why not?

BUILDING ANALYTICAL SKILLS



On a grid similar to the one shown below, list the activities you could do this next Saturday afternoon. List the activities under the alternatives column. Determine the considerations that you would use to evaluate the alternatives, such as most fun, make parents happy, be with friends, etc. Evaluate each alternative with a + or a – as to whether the activity contributes or does not contribute to satisfying the consideration.

[illegible]

Careers in Business

Air Traffic Controller

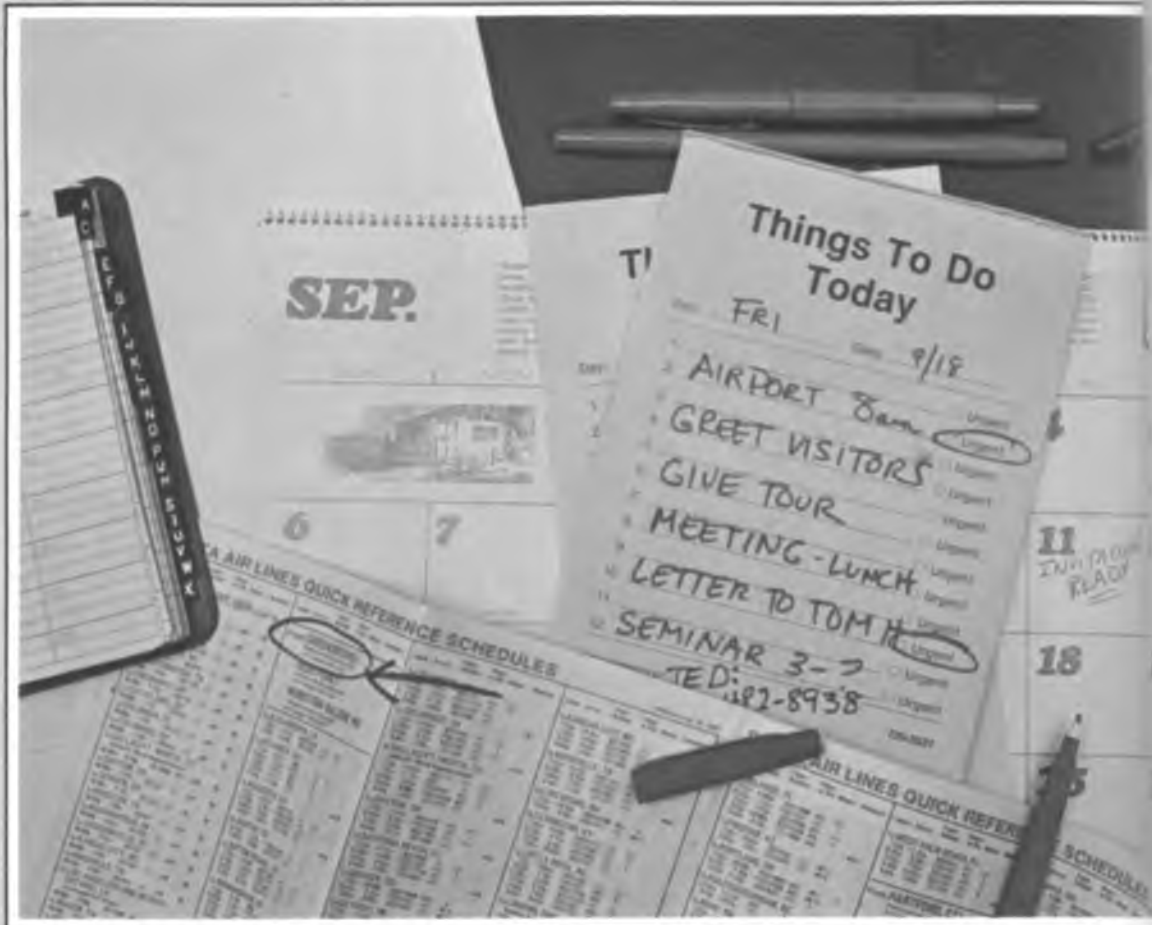
To be accepted as an air traffic controller trainee, you need good math skills, good reasoning skills, and good vision. You also need a college degree or a few years of work experience. You must also pass a physical and a psychological examination. If you pass these qualifications and are given the job, you must take similar tests each year, and sometimes twice a year, to ensure that you never fall below the requirements.

New controllers begin with weeks of intensive training. They then spend several years performing jobs of varying responsibilities and studying, both in the classroom and on their own. The road to becoming an air traffic controller is a long one.

The upward climb begins with a position as a *ground controller*, the person who directs the planes before take-off or after they have landed. The *local controller* monitors the planes as they take off or land. And the *arrival and departure controllers* guide the planes into or out of the airport's airspace. Controllers must work quickly and efficiently. They must be able to keep track of information on several planes at the same time and make sure that all the pilots are given correct instructions.

Air traffic controllers play a vital role in ensuring the safety of the airways. The job of an air traffic controller is challenging, and it offers relatively high pay, liberal vacation time, and excellent retirement benefits. To be an air traffic controller, though, you must be flexible about work hours. Air traffic controllers must work weekends, days, nights, and holidays since planes are in the air every day.





CHAPTER 3

Using Time Wisely

- Time is a limited resource. How do you think it should be spent? How do your values and goals affect how you use your time? How does the amount of income that you have affect how you spend your time?
- Most people could use their time more efficiently. What are some ways you could use your time more efficiently?
- What you do with your available time is a matter of decision making. You must take some things into account, however. You have to weigh the pros and cons. What are some things you can do to plan for the most effective use of your time?

Do you know what these terms mean?

time management
short-term goals

long-term goals
leisure time

You'll learn all about these terms in this chapter.

Have you ever said, "I would have studied more for the test if I had had more time"? Or, "I didn't have enough time to buy just the right gift"? Almost all of us have been guilty of using the "not enough time" excuse.

Like money, time is a limited resource. There are only so many hours in a day or a week. And we usually have many more things that we want to do than we have time to do them. When we choose to do one thing during a certain time, we cannot use that time for another activity. For example, if Shirley decides to go to the football game with her friends, she cannot go to the latest movie at the same time.

As with any resource, time can be used poorly or wisely. In other words, you can learn to use your time for the things that are really important to you instead of the things that you don't care about. The process of deciding how to use time so that you gain the most from it is called **time management**.

How do you use your time? Do you set aside specific time for study or for exercise? Or do you just do things without planning ahead? Do you ever become frustrated because you've "done nothing all day"?

To gain the most benefit from your time, your choices should be based on your own personal values and goals. Your values are the things that you consider important in your life, such as physical fitness, achievement in school, adventure, and so on. Goals are the objectives that you set for yourself to achieve. In the case of time, goals are ways to plan the use of your time to help you meet other goals or to satisfy some value.

Part of the problem of "too little time" may be that we aren't using our time efficiently. Another problem may be that we have too many goals that we want to meet within a certain period of time. Generally, we have more goals that we want to meet than we have time to meet them. One way of making sure that at least our most important goals are met is to set priorities among our goals and to use our time according to those priorities.

HOW TO SET PRIORITIES

Setting priorities helps us all to decide what is important to us. For example, if you had a choice of spending two hours studying for a test, going to a movie, or going to a friend's house, which would be the most important (have the highest priority) for you? If it is important for you to study to be well-prepared for the test, then your top priority would be to spend the two hours studying. If you have already spent several hours studying, then your top priority might be going to a movie.

Setting priorities helps you to meet your goals. Actually, you already set priorities in how you use your time. For example, when you choose to do your homework instead of watching television, your top priority is getting your homework done. The important thing about setting priorities is to be sure that the priorities that you set are actually for the things that you want to do. People who say that they don't have time to do some things simply have not put a high priority on doing those things. For example, if you never get around to calling an old friend, perhaps it's because you'd rather spend your time with other friends.

Setting priorities will help you get through a busy day.



HOW GOALS AFFECT YOUR TIME PRIORITIES

There are different types of priorities for time management that we should think about because of different types of goals. There are short-term goals and long-term goals. **Short-term goals** are those that we expect to meet in the near future. They include many day-to-day goals, such as getting household chores completed, seeing your favorite television shows, and spending some time with friends and family. **Long-term goals** are things you want to accomplish in the distant future, such as preparing for an occupation, visiting many different places in the world, or getting into a particular school.

Long-term goals generally require that individuals set some short-term priorities. Susan wants to be a medical doctor. She knows that she must do well in high school and college in order to get into medical school. She thus spends a lot of time studying to receive good grades and prepare for medical school. On a number of occasions, she has not been able to go out with friends because she has had to study. Susan has set a high priority on studying because of her long-term goal of becoming a doctor.

Do you have both short-term and long-term goals? What are some of your short-term goals? What are some of your long-term goals?

Whenever you make a decision about how to use your time, you make a trade-off. In other words, you trade doing one thing for doing something else. For example, if you decide to stay up late studying for a test, you probably are trading off some mental alertness in exchange for knowing the subject matter better. When you take that part-time job, you are trading off some free time for more income. The key to wise time management is to recognize the trade-offs and to use your time to gain the most satisfaction of your short- and long-term goals.

HOW TO USE TIME MORE EFFICIENTLY

One of the biggest problems that people have with their time is that they have too many things they want to do. Another problem, though, is that they don't use their time very efficiently. On the following pages you will find some tips on how to use your time more efficiently.

Analyze How You Use Your Time

One way to analyze your time is to keep a daily log, in thirty-minute intervals, of everything you do. You may find that you are spending too much time on certain activities and not enough on others. You may also see from your log that you are spending time on things that are not important to you. After analyzing your daily log, develop a plan that will help you use your time more efficiently. Later, follow up to see whether you are sticking with your plan.

Plan Before Doing

Experts in the area of time management indicate that every hour spent in effective planning saves three to four in getting the tasks accomplished. Wasted time is frequently caused by action without thought. Here are some suggestions to help you plan.

1. Determine the best way to do a task before tackling it. For example, spend a few minutes collecting all the supplies and reference materials that you will need to write a book report. Or, if you have a part-time job, you may want to take a few minutes each day to decide how you will go about the various tasks assigned to you before actually doing them.

2. Set priorities on tasks and activities. Those tasks that are most urgent should be done first. For example, Carol's homework included studying for a science test and reading a short story for her English class. She wanted to read the short story first because it was more interesting to her than studying for the science test. But the short story was not going to be discussed in class until two days later, whereas the science test was scheduled for tomorrow. Thus, she started studying for her test right away.

3. Set deadlines and stick to them. This idea holds true for all kinds of activities and tasks in which you are involved. When you decide to watch television for a while, for example, set a time limit on it and stick to your decision. If you have a test tomorrow, decide when you will begin studying and stick to it.

Complete Each Task

Complete as much of a task as possible before leaving it. In many instances, people become bored with a task or activity before they complete it. Unfinished tasks are difficult to return to, especially if there are a lot of them. Leaving tasks unfinished results in wasted time.



Set realistic deadlines and stick to them.

Make Decisions

Don't put off making decisions. Many people waste time by not making decisions — putting them off until later. Sometimes putting off a decision is a wise move in order for you to gather more information to make the decision. In other cases, though, people put off doing something because they just don't want to make the decision. Postponing decisions can become a habit that causes lost time and lost opportunities, and puts pressure on you. For example, Alfredo knew he had three tests on Friday. He knew he should start studying for some of them early in the week, but he put off making the decision to study until Thursday evening. He did poorly on two of the tests because he postponed the decision to study.

THE RELATIONSHIP OF TIME AND INCOME

It is interesting to realize that the way in which you spend part of your time affects the amount of income that you will have. Also, the amount of income that you have affects how you spend some of your time.

Most of you will have to work to support yourselves. Some of your time will have to be spent at work to earn money to buy the goods and services that you want. Some jobs pay more than others, which means that some individuals are paid more for their working

time than others. For example, a surgeon generally earns more than a police officer. Even for those in the same types of jobs, there are some people who make more than others because they work overtime, or they do a better job and thus get higher raises.

The amount of income you earn will affect how you spend your time. With a part-time job, you may find that you have more money to spend on movies, dates, and other recreational activities than you did before having the job. You may also spend more time shopping for clothes and managing your money because you have more money to spend.

People spend their time and money according to their individual values and goals. Some people are willing to work long hours, perhaps even working at two jobs, to earn money to buy more goods and services. Such people trade off some of their free time for more income.



Some people are willing to trade their time for extra money.

Other people value their time off from work very highly, and they are not interested in working long hours. The added income and what it will buy is not worth as much to them as the free time to pursue their interests. Of course, the amount of time off from work depends upon an employer's requirements. Most workers cannot just take extra time off from their work.

USING LEISURE TIME

The time you are free from work or other duties is leisure time. You may not believe you have much of it. After all, when you are through with school, homework, a job, and household chores, what have you got left? Well, whatever it is, that's your free or leisure time. And what you choose to do with it are called your leisure-time activities. For most of us, leisure time is an important part of our daily lives.

The Benefits of Leisure Time

Most people need a variety of activities, a change of pace, to make life interesting. Changing your routine and habits can have a good effect on your work and other responsibilities. Leisure-time activities can provide that change. Leisure-time activities should be fun, but they can also provide other things, like physical well-being or new knowledge. They can even make school and work more enjoyable. How you choose to use your leisure time will depend upon your interests. Some people use leisure time for sports and other physical activities. Others enjoy reading or learning a new skill, such as using a computer.

Planning Your Leisure-Time Activities

There are many choices for leisure-time activities. Your choices are mainly limited by your own imagination. The guidelines that follow will help you to plan your leisure-time activities.

1. Choose leisure-time activities that provide a real change of pace from your work or other duties. For instance, if your work mostly involves sitting at a desk, choose some type of physical activity. Choose jogging, swimming, or playing a game of basketball. If your duties require working with people, you may want to choose some leisure-time activities that you do alone. If you spend your working hours inside, plan activities outside.

2. Select activities that will strengthen your abilities and broaden your interests. If you have an interest in acting, but do not have the time or the opportunity to take a drama course in school, take it in a summer program. Take lessons so you can learn how to play tennis or golf — or how to play them better. Choose new types of activities for your fun and free time. Learn how to play chess. Go backpacking. Do something different.

3. Get into leisure-time activities that involve helping someone else. Most of us feel good when we help someone. Scouting, Junior Chamber of Commerce, and volunteer groups may provide you with some opportunities in public service. Helping others can be good for both the people helped and your community as a whole.

4. Develop at least one leisure-time activity that can be continued as you grow older. In other words, find a hobby that makes good, interesting use of your spare time. Retired people have learned this guideline the hard way, in many cases. After spending a lifetime hard at work, they suddenly find themselves with nothing to do. When you reach retirement, you will have much additional time. That may seem like a long time off, but develop a hobby *now* to carry over to then. Collecting coins or stamps, woodworking, sewing or knitting, growing indoor plants and working with gardens, playing a musical instrument, and studying the history of a city or area are examples of worthwhile leisure-time activities that can be continued in later years.

Leisure-time activities should provide a change of pace.



5. Have a variety of leisure-time activities. Doing the same thing over and over — even so-called “fun” things — can get boring. According to a recent study, the average person in this country spends forty-five hours a week watching television. That’s nearly one quarter of all the hours in a week! If you’re a statistic like that, plan other leisure-time activities to give yourself more variety.

6. Choose leisure-time activities that fit your budget. Some activities can cost a lot of money. For example, outfitting yourself for skiing, staying at a lodge, and getting ski-lift tickets can all be pretty expensive. Your money is limited. Activities such as playing high school sports, collecting stamps, reading books from the library, or swimming at the “Y” may not cost a great deal. Make your activities fit your wallet.

Other than those just mentioned, what inexpensive leisure-time activities are available in your school community?

7. Use a decision-making process in choosing leisure-time activities. As you know, the decision-making process helps you to consider the alternatives. You can also take a look at the opportunity cost, which is the trade-off you make when you choose one thing over another.

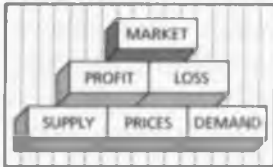
SUMMARY

Like money, time is a limited resource. There are generally more things that you want to do with your time than you have time to do them. To gain the most from your time, set priorities on how you want to use your time. In setting priorities, you must consider what is most important to you in terms of your personal values and goals. You must also plan how to use your time most efficiently.

How you spend your time will affect your income. In turn, the amount of money that you have will affect how you spend your time. Like most people, you will have to make trade-offs between time spent at work and time spent in leisure-time activities.

Leisure time has become an important part of all our lives. You have many choices for spending your leisure time. Those choices are limited only by your own imagination and by the amount of time and money that you have to spend. You should plan all your time carefully — whether you are in school, at work, or have leisure time — to gain the most from all your activities.

BUILDING WORD POWER



Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 4. Then write the term that best matches each numbered definition.

leisure time
long-term goals

short-term goals
time management

1. Making choices of how to use time so that you get the most satisfaction from it.
2. Things that you want to accomplish or do in the near future.
3. Time away from work and other responsibilities.
4. Things that you want to accomplish or do in the distant future.

BUILDING READING COMPREHENSION



1. Why is time considered a limited personal resource?
2. Why is an ability to manage how you use your time important?
3. What is the relationship between values and goals and time management?
4. Why is setting priorities important in the process of time management?
5. Why are short-term goals sometimes necessary in meeting long-term goals? Can you give an example of a short-term goal that someone might establish in order to meet a long-term goal?
6. What is meant by the statement that there are trade-offs when making decisions regarding the use of time?
7. Why is it important to plan before doing a series of tasks?
8. Give an example of how the way in which people use their time can affect their income.
9. Give an example of how one's income affects how time is used.
10. Why is it important to plan how to use your leisure time?

BUILDING BUSINESS CONCEPTS



1. Describe a situation in which you have set priorities on your time.
2. Describe the trade-offs of a decision that you made recently in the use of time.
3. Why is putting deadlines on your work important?
4. When is it wise to put off a decision?
5. How can leisure-time activities make life more enjoyable?
6. Why is it important for employers to have employees who use time efficiently?

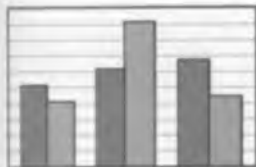
7. Why should you set both short- and long-term goals for what you want to accomplish at work?
8. Why should leisure-time activities be different from the types of things you do at work?
9. How do your goals affect the ways in which you use your time?
10. If your supervisor at work gives you three jobs to complete, how do you decide which to do first?

BUILDING BUSINESS EXPERIENCE



1. What are two reasons why people do not gain the most satisfaction or benefits from their time?
2. List two benefits of doing an analysis in thirty-minute intervals of how you currently use your time.
3. Why should you try to complete a task or activity before leaving it?
4. List some guidelines that will help you plan leisure-time activities.
5. Why should you try to find a leisure-time activity that can be continued as you grow older?

BUILDING ANALYTICAL SKILLS



Sandy has the following activities that she can do on Thursday evening. If you were Sandy and had four hours of leisure time, what activity or activities would you do? To help in making your decision, use a decision-making grid like the one shown here to rate each activity with a plus or a minus.

Leisure-time activities	Most fun	Self-improvement	Costs money	Helps others
Visit Jan, a sick friend				
Go swimming				
Take a dance lesson				
Plant some flowers				
Watch television				
Go to the movies with friends				
Study for English test				
Do volunteer work at the hospital				

People in Business

An Wang

Did you know that An Wang, the Shanghai-born and Harvard-educated founder of Wang Labs, engineered the first digital scoreboard for the opening of Shea Stadium in New York in 1964? This scoreboard is one result of the years Wang spent designing products for specific customers' needs. This ability to anticipate the market's needs has been the key to his success.

An Wang journeyed to Harvard from China in 1945. Three years later, at age 28, he invented the magnetic core, which remained the key to computer memory technology until the late 1960's.

Because of his perception, his company was one of the first to introduce the desk-top electronic calculator. When the introduction of hand-held calculators changed the market, Wang made some necessary changes also. In the early 1970's he entered the information processing field. In 1976 two of his top managers disagreed over whether the company should pursue data (numerical) processing or word processing. Wang



agreed to follow both ideas. The result was the first integrated office-of-the-future system.

The growth from his successes enabled the company to build an office and research tower in Lowell, Massachusetts, as its headquarters. Lowell had once been a leading textile center of the world, but, says Wang, did not continue to prosper because the industry "was not built on a foundation of a thorough education." Dr. Wang's emphasis on education is expressed by his comment that "education endures, buildings do not."

An Wang has made many contributions to business and to his community. The Wang Institute of Graduate Studies, founded in 1979 to train professionals to be specialists in the software field, symbolizes Wang's belief in the benefit of education.



CHAPTER 4

Managing Your Money

- You have just so much money to manage. Your personal income is probably divided up in many, many ways. Who gets what? When? Do you have a plan?
- A family operates in much the same way with its income. Certain steps can be followed, and certain forms can be used to help with this important job. Why is it necessary to plan how a family's money will be used?
- You, too, can balance your budget and even come out ahead, with something left for savings. How do you think you would go about doing that task?

Do you know what these terms mean?

money management	variable expenses
budget	statement of net worth
gross pay	assets
take-home pay	liabilities
fixed expenses	net worth

You'll learn all about these terms in this chapter.

"Only \$30 left — and this is only the middle of the month!" gasped Conrad. "Where does my money go?" he asked his friend Jerry, who always seemed to have enough money to get through the month. What's the difference between Conrad and Jerry?

Both Conrad and Jerry earn about the same amount of money. One difference could be in their spending plans; Jerry always seems to be able to stretch his income far enough.

Money, like time, is limited. For most of us, there are more things that we want than we have money to pay for. With good planning, however, you can make sure that you are using the money you do have to buy what you really want or need. The process of planning how to get the most from your money is called **money management**. Good money management will help prevent you from having too much month left at the end of your money.

THE IMPORTANCE OF BUDGETING

A **budget** is a plan for using your money in a way that best meets your wants and needs. It includes a record of your probable income, your planned expenses, and your planned savings over a certain period of time. A budget is actually a road map or guide that you set up and then try to follow.

Budgets can be helpful in a number of ways. All of us have the problem of not having enough money to buy all of the things that we want. A good budget makes you set goals and priorities for spending your money. In other words, you plan to spend money only on those things that you want or need and that are most important to you. Because you determine in advance how you will use your money, you avoid wasting money on things that are not that important to you.

A budget also provides a reference to check how well you are managing your money. For example, if you decide to spend \$25 a

month on movies and records and you spend that amount during the first week of the month, the budget acts as a means of control. In this case, you might decide to increase the amount in your budget for these items and decrease the amount budgeted for something else. Or you might want to stop spending money on these items for the rest of the month because you used all of the \$25 during the first week. Or you might want to figure out a way to increase your income — by working extra hours or doing odd jobs — so that you will have more to spend on these items in future months.



"I guess if I don't eat after the 22nd, I can make it."

This example points out an important principle of budgeting — *flexibility*. You should never consider a budget to be permanently fixed or unchangeable. As different circumstances arise, budgets can and should be changed. Of course, you should have a good reason for changes; otherwise, you will not be meeting your most important wants and needs.

Keep in mind that budgeting is a way to be good to yourself because it allows you to buy or save for the things that are most important to you. The budget that you develop should reflect your personal goals and priorities. Your budget will be different from the one developed by your best friend because you do not have the same goals and priorities.

How would a budget help you to meet some of your wants and needs?

STEPS IN PLANNING A BUDGET

Planning a budget is easier if you divide the process into several steps. Follow the five steps listed here as you plan your budget: (1) set your goals; (2) estimate your income; (3) estimate your expenses; (4) plan for savings; and (5) balance and adjust your budget.

Set Goals

Ask yourself a number of questions as you prepare to set your goals. What do you want to accomplish in the next month? the next year? the next five years? What is important to you? Are your goals practical? It is useless to set a goal of having a new car paid for in one year if your total income for the year is less than the price of the car! A budget should help tell you which goals you can meet with the amount of money you have.

Estimate Income

Knowing how much money you have available is an important step in the budgeting process. Your income is the actual amount of money you earn or receive during a given time period. If you get a weekly allowance at home, that's income. The pay you earn as a checkout clerk at a supermarket is also income, as is the interest you get on a savings account.

If you have a job, you may remember your surprise at the amount of your first paycheck. Your **gross pay**, the total amount of money you earned for a specific time, may have seemed like a lot of money. For example, if you worked 20 hours a week at \$4 an hour, your gross pay would be \$80 for the week. But your gross pay is reduced by various deductions, such as taxes, insurance payments, retirement payments, union dues, and others. Your **take-home pay**, then, is your gross pay minus deductions.

If your take-home pay is the only income you have to consider, then figuring total income is easy. On the other hand, if there are other family members adding to income, include their take-home pay as well in figuring total income. Don't count on gifts or unusual income in making a budget, however. If part of your income consists of tips, don't overestimate how much you expect to receive in tips when you plan your budget. Use a figure that is lower than what you think you will receive. Keep your budget as accurate as possible by making your estimates "honest."

Estimate Expenses

Expenses are of two types. **Fixed expenses** are those expenses that must be paid regularly. Although the amount of a fixed expense may change from time to time, ordinarily it is the same over long periods. For instance, rent or mortgage payments, insurance premiums, and taxes not only must be paid regularly, but they usually are set at a fixed amount. You can't reduce or avoid such fixed expenses without creating problems. **Variable expenses** are those over which you have more control. They include such expenses as telephone bills, food, entertainment, and gifts. The amount of these expenses usually varies from month to month.

Fixed expenses make up a large share of a typical family's spending. In some cases, families find that their estimated fixed expenses are almost as great as their incomes. In these cases, they must find ways to increase their incomes or they will have few choices in how they spend their money.

If a budget doesn't include *all* estimated expenses, it can be a real problem. Planning for insurance payments, regular visits to the doctor or dentist, or other expenses that occur less often is a must. Increasing costs of some expenses must be considered. Such increasing or unplanned-for expenses could wreck a budget.

When was the last time that an unexpected expense wrecked your spending plan? How?

Plan for Savings

A budget really isn't complete without a regular plan for savings. Not only are such savings valuable for a rainy day, but they also protect against unexpected expenses and those expenses that are higher than you had estimated.

Balance and Adjust the Budget

The most difficult step in the budgeting process is balancing and adjusting the budget. The total estimated income for the budget period — usually a month or a year — should equal the total estimated expenses for that same period, plus the savings. If total estimated expenses and savings are greater than total income, you will have to adjust the budget to make some changes. Either you must cut some expenses or savings, or you must increase income through extra work or an advance in position or career.

For example, let's say you budget \$10 each week for transportation expense. At the end of the month, you find that you spent more than this amount each week. If you can't reduce this expense, you will have to change some other item of your budget to make up the difference. Or, you'll have to increase your income.

A BUDGET FOR A YOUNG COUPLE

Let's follow the steps used by a young couple, John and Susan Goralski, who have been married for four years. John and Susan decided to set up both an annual and a monthly budget. First, they drew up a list of their short- and long-term goals. In other words, the Goralskis decided which of their wants were most important to them. Some things they wanted immediately — within the next month or two. Other goals could wait a year or even longer.

<i>Short-Range Goals</i> <i>reduce credit-card purchases</i> <i>reduce food expenses</i> <i>new living room furniture</i>	<i>Long-Range Goals</i> <i>save to buy a house</i> <i>save for a vacation trip</i> <i>save for a second car</i>
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The Goralski family's goals.

Next, they estimated their income for the year. John, who is a salesperson, earns gross pay of \$16,000. Susan is a management trainee and earns \$17,600 a year. John and Susan include only their take-home pay as income. Although they earn a total of \$33,600 a year, their take-home pay is about \$25,200. They use that amount in their planning since it is what they actually have to spend.

The Goralskis receive money gifts once in a while from their parents, but they do not include those gifts in their budget because they are not a steady source of income. If the Goralskis had a large, steady income from a savings plan or other investments, they would include this income in their budget. Having recently rented a new apartment and purchased a new car, they do not have a large savings account. Their savings account does not provide much interest,

so they did not include that interest in their budget. As they build on their savings, they may be able to add interest income to their estimated total income.

The Goralskis next estimated their expenses. John and Susan kept a record of their actual expenses for the past several months to help them set up a budget. They first made a list of planned expenses and savings for the year. This list included their fixed expenses, such as rent payments; variable expenses, such as clothing and food; and savings.

When John and Susan prepared their budget, they took their goals into consideration. For example, almost 12 percent of their planned expenses are for household furnishings. They also plan to begin saving for a vacation by cutting their entertainment expenses. John and Susan estimated that they spent \$1,200 on entertainment in the previous year. They want to hold entertainment costs to \$900 this year by dining out less often this year than last year.

In developing their budget, John and Susan had to make sure that the total income figure was the same as the total for planned expenses and savings. They succeeded in balancing the two figures. If their planned expenses and savings had been more than their income, they would have had to cut some expenses or find some other source of steady income. The Goralskis' budget is shown on page 48.

Checking Out the Budget

The Goralskis were very careful. After their budget was prepared, they kept records of their actual expenses. Expense record sheets are sold in stationery shops and bookstores. With them, a family or individual can keep records, using categories that fit their spending patterns. Notice the way the Goralskis organized their spending records. Their expenses are broken down into various kinds, including car expenses, contributions, rent payments, and so on.

After they had estimated annual expenses and income, the Goralskis developed a monthly budget. They divided the yearly figures by twelve to get an estimate of how they planned to manage their money from one month to the next. At the end of each month, John and Susan totaled their actual expenses for each budgeted item. They then compared these totals to their budgeted amounts to see whether they were keeping within their budget. The key to comparing actual spending to planned expenses is to find the reasons for

The Goralski Family Budget

	Annual	Monthly
Income	<u>\$25,200</u>	<u>\$2,100</u>
Fixed Expenses		
Rent Payments	\$ 6,900	\$ 575
Insurance Payments	600	50
Loan Payments	1,980	165
Variable Expenses		
Food	4,200	350
Utilities (heat, phone, electricity)	1,320	110
Car Repair and Transportation Expenses	1,260	105
Contributions/Gifts	720	60
Health and Personal	540	45
Entertainment and Travel	900	75
Clothing	1,380	115
Household (Furniture/Supplies)	3,000	250
Savings	<u>2,400</u>	<u>200</u>
TOTAL	\$25,200	\$2,100

The Goralski family's budget.

overspending or underspending for each item and then make decisions accordingly.

Look at the comparison of monthly budgeted amounts with actual expenses for the Goralskis on page 50. The Goralskis spent less than they had budgeted for food, utilities, car repair and transportation, contributions and gifts, and entertainment and travel. They spent more than their budgeted amounts for health and personal items, clothing, and household expenses. Notice that while the Goralskis had money left at the end of the month, their total actual

RECORD OF EXPENSES FOR <i>The Goralski Family</i>													
Date	Notes	Total		Rent	Insurance	Loans	Food	Utilities	Car Repair/ Transportation	Clothing & Gifts	Health & Personal	Entertainment & Travel	Savings
		Receipts	Payments										
Apr 2	Gasoline		83 20				68 20		15 00				
5	Telephone bill		36 55					36 55					
9	Haircut		10 00								10 00		
10	Gasoline		55 50				37 50		18 00				
11	Sweater		42 95							42 95			
14			50 00		50 00								
15		1050 00	727 16	575 00			62 16						100 00
22	Electric bill		38 75				38 75						
22	Gasoline		24 00						24 00				
23	Suit		132 05							132 05			
24	Birthday gift		25 00										
25	Dinner & movies		34 00									34 00	
28	Flowers		69 15				44 15						
29	Dentist		68 00								68 00		
30	Furniture	1050 00	613 00			165 00	22 50						325 50
30	Concert tickets		36 00									36 00	
	TOTALS	2100 00	2045 31	575 00	50 00	165 00	350 00	110 00	105 00	60 00	45 00	75 00	200 00
Amounts budgeted for expenses				575 00	50 00	165 00	350 00	110 00	105 00	60 00	45 00	75 00	200 00

COMPARISON OF BUDGETED AMOUNTS
WITH ACTUAL EXPENSES

			Amount Over/Under	
	Budgeted	Actual	-	+
Fixed Expenses				
Rent Payments	\$ 575	\$ 575.00	--	
Insurance Payments	50	50.00	--	
Loan Payments	165	165.00	--	
Variable Expenses				
Food	350	224.51	+125.49	
Utilities	110	75.30	+34.70	
Car Repair/Transportation	105	57.00	+48.00	
Contributions/Gifts	60	50.00	+10.00	
Health and Personal	45	78.00	-33.00	
Entertainment/Travel	75	70.00	+5.00	
Clothing	115	175.00	-60.00	
Household	250	325.50	-75.50	
Savings	<u>200</u>	<u>200.00</u>	<u>--</u>	
	\$2,100	\$2,045.31	+\$54.69	

Comparison of the Goralskis' actual expenses with the budgeted amounts.

expenses were close to their total income for the month. They are living within their budget.

After looking at their actual expenses, the Goralskis decide to make some changes in their budget. They decide to decrease the amount budgeted for food since that amount probably will not vary a great deal from one month to another. They decide not to decrease

the other budgeted amounts since they may have higher utility bills or car repair expenses in the future. Using the amount taken out of the food budget, the Goralskis increase the budgeted amounts for clothing and household expenses, which are the two main areas in which their expenses were higher than the amounts first budgeted.

Notice what the Goralskis have done. They have adjusted their budget according to their needs. A budget works only if it meets your needs. An up-to-date budget shows how you plan to spend and to save. A budget provides a warning signal for rising costs, and it identifies trouble spots. Have costs anywhere risen and has the budget been changed accordingly? Many people find that they have dipped into their savings to meet expenses. Others find that they are using credit to buy things that they really cannot afford.

How Does It All Add Up?

Many families do not know the actual state of their financial, or money, affairs. They need to develop a kind of record known as a **statement of net worth**, which shows the financial state of a person.

The Goralski family's statement of net worth.

John and Susan Goralski Statement of Net Worth December 31, 19--			
Assets		Liabilities	
Cash in Checking Account	\$ 600	Midtown Savings Bank	
Savings	2,000	Automobile Loan	\$ 4,500
Life Insurance (cash value)	3,500	Furniture Store	<u>2,000</u>
Car	4,200	Total Owed	\$ 6,500
Household Furnishings	3,000		
Recreational Equipment	500	Net Worth	<u>8,800</u>
Clothing	<u>1,500</u>	Total Liabilities	
Total Assets	\$15,300	and Net Worth	\$15,300

The statement of net worth contains three kinds of information. First, it has a list of money and items or property owned. How much cash does the family have on hand? How much savings? clothing? furniture? All of these things *owned* are called **assets**. Next, the statement of net worth lists amounts of money owed. What does the person or family owe? a mortgage? a loan? a charge account? All of these things *owed* are called **liabilities** (*ly uh BIHL uh teez*). Subtracting liabilities from assets gives you the third piece of information, which is called **net worth**.

Which gives you the best picture of a person's financial status: assets, liabilities, or net worth? Why?

To balance the statement of net worth, you add total liabilities and net worth. You will see that the bottom line of both columns contains the same sum. Take a look at the statement of net worth for the Goralski family. It contains information that a budget does not have. A budget and a statement of net worth together provide a very effective set of tools for managing financial affairs.

USING A COMPUTER FOR BUDGETING

Many people have microcomputers in their homes today. A variety of software programs are available for using such computers to set up and maintain a household budget. Using a computerized budgeting program, you can store your budgeted amounts and enter your expenses either as they occur or at the end of the month. The computer can give you a quick analysis of total expenses, including amounts that are over or under the budget. For example, the comparison of the Goralskis' budget and actual expenses on page 50 was prepared on a microcomputer.

In addition, the computer can help you with "what if" situations. For example, what if Susan Goralski's income increased by 10 percent? With a computer, the Goralskis could easily find out how much more they could then save each month. What if their rent also went up — by \$50 each month? What if they also wanted to save for a VCR? How much would they have to cut their entertainment and travel expenses in order to buy this item in one year? By using a computer, the Goralskis could quickly see how such changes would affect their budget.



The personal computer can speed up the budgeting process.

SUMMARY

Preparing a budget will not instantly and completely solve all of your financial problems. However, it can help individuals and families understand where their money goes. If you find that you often wind up short of money before the next payday comes, a budget can help you. Follow these five steps in planning a budget: (1) set your goals, (2) estimate your income, (3) estimate your expenses, (4) plan for savings, and (5) balance and adjust your budget. Keeping a budget does not have to be a dreary chore. Keep simple records, and try to come out with money ahead — with money in the bank.

BUILDING WORD POWER



Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 10. Then write the term that best matches each numbered definition.

assets

budget

fixed expenses

gross pay

liabilities

money management

net worth

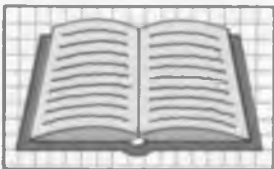
statement of net worth

take-home pay

variable expenses

1. A record that shows the financial state of a person.
2. Items owned by a person.
3. Those expenses over which a person has control; they may vary from month to month.
4. A plan for using money in a way that best meets wants and needs.
5. Assets minus liabilities.
6. Those expenses that must be paid regularly and are usually the same amount each time they are paid.
7. All of the things owed by a person.
8. The process of planning how to get the most benefit from your money.
9. Gross pay minus deductions such as taxes, insurance, union dues, retirement, and savings.
10. The total amount of money a person earns during a specific period of time.

BUILDING READING COMPREHENSION



1. What is the purpose of a budget?
2. What are three categories of items that should be included in a budget?
3. What are three advantages of using a budget?
4. Should a budget ever be changed? Why?
5. List the steps that you should always follow in planning a budget.
6. Why is it important to save part of your income on a regular basis?
7. When you balance your budget, what two things should be equal?
8. If your budget does not balance, what two possibilities for change do you have to make it balance?
9. How can a person or family check to see if they are keeping within the budget?
10. What three kinds of information are contained in the statement of net worth?

BUILDING BUSINESS CONCEPTS



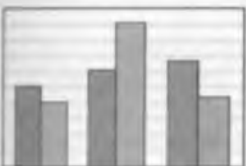
1. How should a budget relate to your values and goals?
2. How can a budget help you to meet your goals?
3. Why is budgeting only a part of money management?
4. Why is it important to look at previous income and expenses in developing a budget?
5. List five fixed expenses.
6. List five variable expenses.
7. When should one include income from savings and investments in a budget? When should such income not be included?
8. List three assets and three liabilities that a person might have.
9. Why is follow-up important in the budgeting process?
10. If a family has total assets of \$33,600 and liabilities of \$27,350, what is their net worth?

BUILDING BUSINESS EXPERIENCE



1. How can higher or unplanned-for expenses wreck a budget?
2. In planning a budget, why is it important that the take-home pay — not the gross pay — be used as income?
3. When setting up a budget, how can a person or family know how to estimate the expenses that will occur?
4. Prepare a budget for next month. Be sure to estimate your income and expenses as accurately as possible.
5. Compare the statement of net worth with the budget for the Goralski family. How do the two differ?
6. How can a statement of net worth help in budgeting?

BUILDING MATH SKILLS



The Osbornes, a family of four, live in a midwestern city. Mr. Osborne teaches accounting, for which he earns a take-home pay of \$1,100.00 a month. Mrs. Osborne is a reporter for the local newspaper. Her take-home pay is \$1,000.00 a month. Michael and Randy are teenagers with part-time jobs, but their income is small and does not go toward the family's living expenses.

The family's expenses are as follows: *Fixed Expenses* — mortgage payment, \$605.55 a month; car payment, \$149.89 a month; car insurance, \$650 a year; homeowner's insurance, \$325 a year; life insurance, \$425 a year; property taxes, \$1234.68 a year; and savings, \$150 a month. *Estimated Variable Expenses* — household, \$250 a month; food, \$325 a month; clothing, \$100 a month; health and personal care, \$100 a month; gifts and contributions, \$50 a month; and transportation, \$150 a month.

Prepare a monthly budget for the Osbornes using the information given here.

Careers in Business

Computer Programmer

Although computers can give answers to questions, organize data, and solve mathematical problems, they cannot think for themselves. Computers can do what is asked only if they have been given step-by-step instructions to follow. Computer programmers write detailed instructions called programs that list all the steps a computer must follow to complete a specific job. Using a computer language such as BASIC, COBOL, or FORTRAN, the programmer breaks each instruction down into a series of coded instructions.

Simple programs can be written in just a few hours. However, more complicated programs that involve mathematical formulas or many data files can take one or more years to write. In such cases, computer programmers work in teams. They may need to work long hours and weekends to complete the program.

When the program has been written, the programmers test every part to make certain that there will be no errors. They use sample data to test the program. If the computer provides an incorrect answer, the program must be changed

and rechecked until the computer provides the correct result. This testing is called "debugging" the program.

Logical thinking is needed to write computer programs. Patience, persistence, and the ability to work under pressure are needed for this career. Since programmers must find ways to solve problems, imagination and ingenuity can be particularly important.



High schools, trade schools, junior colleges, and universities offer courses in computer programming. Computer programmers who work in science or engineering generally need a college degree in those fields. Some employers hire people who have had special courses in computer programming to supplement their experience in a specific field, such as accounting or inventory control. Job openings for programmers are expected to be plentiful as businesses expand their use of computers.

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COMPUSENSE

A Personal Budget

If you have a computer that uses the BASIC language, run this program to try some budget problems.

With this program, you first enter a monthly income. Then you enter amounts to be budgeted for rent or mortgage payments, food, insurance, gasoline bills, utilities, and up to five other items for the month. The program then computes the total amount of expenses, compares that total to the monthly income, and reports the difference between the two totals. The program gives you three tries to arrive at a balanced budget — one in which income is greater than or equal to expenses.

Program

```

0100 DIM D(5),D$(5)
0200 PRINT "BUDGET SIMULATION PROGRAM"
0300 PRINT "ENTER YOUR NAME"
0400 INPUT A$
0500 PRINT "ENTER MONTHLY INCOME FOR ":A$
0600 INPUT I1
0700 PRINT "ENTER AMOUNTS FOR TRIAL BUDGET"
0800 PRINT "ENTER RENT OR MORTGAGE PAYMENT"
1000 INPUT R
1100 PRINT "ENTER AMOUNT BUDGETED FOR FOOD FOR MONTH"
1200 INPUT F
1300 PRINT "ENTER TOTAL OF INSURANCE FOR MONTH"
1400 PRINT "INCLUDING HOME, AUTO, AND LIFE INSURANCE"
1500 INPUT I
1600 PRINT "ENTER AMOUNT OF GASOLINE BILLS FOR MONTH"
1700 INPUT G
1800 PRINT "ENTER TOTAL BUDGETED FOR UTILITIES FOR MONTH"
1900 INPUT U
2000 PRINT "ENTER THE NUMBER OF OTHER ITEMS YOU WISH TO INCLUDE IN YOUR"
2100 PRINT "BUDGET FOR THE MONTH--UP TO 5 ITEMS"
2200 INPUT N
2300 PRINT "ENTER OTHER ITEMS--UP TO 5 IN NUMBER"
2400 FOR K = 1 TO N
2500 PRINT "ENTER ITEM: ";K;"NAME OF ITEM, A COMMA, AND THEN THE AMOUNT BUDGETED:"
2600 PRINT "FOR THAT ITEM"
2700 INPUT D$(K),D(K)
2800 NEXT K
2900 Z=R+F+I+G+U+D(1)+D(2)+D(3)+D(4)+D(5)
3000 E = I1 - Z
3100 IF E < 0 GOTO 3300
3200 GOTO 3400
3300 PRINT "YOU OVERSPENT FOR THIS TRIAL"
3400 PRINT "YOU HAVE A DIFFERENCE BETWEEN YOUR TOTAL INCOME AND TOTAL EXPENSES"
3500 PRINT "OF $ ";E
3600 PRINT "OTHER ITEMS YOU LISTED FOR THIS TRIAL WERE"
3700 FOR Y = 1 TO 5
3800 PRINT D$(Y)
3900 NEXT Y
4000 END

```

Sample Output

```

O BUDGET SIMULATION PROGRAM
O ENTER YOUR NAME
  ?JAMES RADFORD
O ENTER MONTHLY INCOME FOR JAMES RADFORD
  ?1000.00
O ENTER AMOUNTS FOR TRIAL BUDGET
  ENTER RENT OR MORTGAGE PAYMENT
O   ?200.00
  ENTER AMOUNT BUDGETED FOR FOOD FOR MONTH
O   ?175.00
  ENTER TOTAL OF INSURANCE FOR MONTH
O   ?35.00
  ENTER AMOUNT OF GASOLINE BILLS FOR MONTH
O   ?75.00
  ENTER TOTAL BUDGETED FOR UTILITIES FOR MONTH
O   $85.75
  ENTER THE NUMBER OF OTHER ITEMS YOU WISH TO INCLUDE IN YOUR
  BUDGET FOR THE MONTH--UP TO 5 ITEMS
O   ?4
  ENTER OTHER ITEMS--UP TO 5 IN NUMBER
  ENTER ITEM: 1 NAME OF ITEM, A COMMA, AND THEN THE AMOUNT BUDGETED
  FOR THAT ITEM
O   ?SAVINGS, 50.00
  ENTER ITEM: 2 NAME OF ITEM, A COMMA, AND THEN THE AMOUNT BUDGETED
  FOR THAT ITEM
O   ?MEDICAL BILLS, 40.00
  ENTER ITEM: 3 NAME OF ITEM, A COMMA, AND THEN THE AMOUNT BUDGETED
  FOR THAT ITEM
O   ?CONTRIBUTIONS, 60.00
  ENTER ITEM: 4 NAME OF ITEM, A COMMA, AND THEN THE AMOUNT BUDGETED
  FOR THAT ITEM
O   ?RECREATION, 20.00
  YOU HAVE A DIFFERENCE BETWEEN YOUR TOTAL INCOME AND TOTAL EXPENSES
  OF $ 258.75
O OTHER ITEMS YOU LISTED FOR THIS TRIAL WERE
  SAVINGS
  MEDICAL BILLS
O CONTRIBUTIONS
  RECREATION

```

Problems

1. Assume you have these expenses and income for a month and try the program. Monthly income = \$1,215.00

Expenses	Trial A	Trial B	Trial C
Rent or mortgage payment	\$220.00	\$175.00	\$221.00
Food	175.00	200.00	125.00
Insurance	61.92	25.00	73.20
Gasoline bills	75.00	0.00	45.00
Utilities	68.00	123.00	33.00
Savings	75.00	40.00	125.00
Medical bills	25.00	20.00	80.00
Contributions	60.00	25.00	40.00

2. Determine the income of a "typical" consumer and the expenses that a typical consumer might have. Enter those amounts into the program and see if you can arrive at a balanced budget.

UNIT

2

ECONOMIC SYSTEMS





CHAPTER 5

How Economic Systems Work

- Countries, like people, have to fill wants and needs. But they have different ways of doing it. Why do you suppose that is so?
- A country must decide a number of things about the goods and services it produces. By now you are aware of the unlimited wants of people and the scarcity of resources. What do you think a country does to solve those problems?
- Every country has an economic system to meet its wants with its scarce resources. There is a great deal of variety among these systems. However, there are similarities, too, in the way goods and services are produced.

Do you know what these terms mean?

economic system	price
traditional system	standard of living
command system	mixed systems
market system	

You'll learn all about these terms in this chapter.

We all take some things for granted. We presume we can find most of the things we want to buy at the prices we can pay for them. We know that we can satisfy most of our wants if only we have enough money and time. We may think our country has the best economic system in the world, that is, that it has the most well-organized way of producing goods and services and of providing a means for people to get them. Is there any better system for producing goods and services? Can there be more than one way of satisfying the needs and wants of people?

WHAT COUNTRIES HAVE IN COMMON

You will remember that we discussed the factors of production — natural resources, labor, capital goods, and entrepreneurship. All countries must make decisions about how these factors of production will be used to provide goods and services for its people. Let's take another look at these factors of production.

Natural resources are all the things like trees, water, minerals, and fish that come from the land or the sea. *Labor* is the work done by people to produce goods and services. Through their work, people change the raw materials taken from the land and the sea. Another factor of production is *capital goods*, the machines, buildings, and equipment used to produce goods and services and to move them to the consumer. Capital goods are also made by labor. *Entrepreneurship* is provided by individuals who are willing to take the risk of starting and managing businesses.

SETTING UP AN ECONOMIC SYSTEM

As you learned in an earlier chapter, the wants people have for goods and services are unlimited. However, each country has a limited amount of resources from which to provide goods and services.

Because of this scarcity problem, each country must have an economic system that answers the questions about which goods and services will be provided. Since they are so important to all of us, let's take a look at these questions:

1. What goods and services will be produced?
2. How will those goods and services be produced?
3. How much will be produced?
4. Who will use the goods and services produced?

What Will Be Produced?

We all have different wants, and certainly some are more necessary than others. It won't surprise you to know that countries have wants and, like people, different wants. Some countries would like to be very powerful or feel very safe. Such countries might use many of their factors of production to make guns, planes, and ships for defense. Another country might decide to produce mostly basic goods such as food and clothing. Some countries might want both. Still another country might decide to produce the things that people buy to make their lives more pleasant. In whatever way it is done, the question "What goods and services will be produced?" must be answered by any economic system. Since resources are limited, a country must make choices about what kinds of goods and services will be produced.



All economic systems must make decisions about what to produce.

How Will Goods and Services Be Produced?

Countries are not equal in the amount or types of resources they have. Some have large numbers of people; some have much technology or capital goods. Others have rich resources of oil, timber, fish, coal, or grain. An economic system provides the means for making decisions about how the factors will be put together to produce goods and services. Some will decide that machinery should do as much of the work as possible. Others with many people may decide to do much of the work by hand. *How* the goods and services will be produced is a problem that must be solved by all economic systems.

How Much Will Be Produced?

The answer to the third basic economic question — “How much will be produced?” — will vary. The answer depends on the system. To some extent, the answer depends on the priorities the system has established. In some countries, the government sets the priorities by indicating how much of various items will be produced during a given year. In other countries, the amount of goods and services demanded by individuals and groups within the society determines how much is produced.

In recent years, some countries have looked at another consideration. What will happen when we run out of some of our natural resources? What plans are being made for the future? Should resources be used to produce the wanted goods and services, or should some of them be saved for the future? Countries may have to choose between consuming now and consuming later. This may sound simple. However, if a society chooses to produce very little machinery, plants, and buildings, it may not be equipped to produce what is needed in the future. On the other hand, if a society chooses to use all of a scarce resource now, what will happen when that resource is gone? Some products that depend on that resource will not be available in the future. As a society answers questions about how to use its resources, it must consider the future.

For Whom Are the Goods Produced?

In this country, you can buy just about anything you want — if you have the money. But did you ever stop to think why this is so? You live in a country that has an economic system in which a large

variety of goods is produced for consumers to buy, and those goods have a high priority. Other economic systems may place a higher priority on using the factors of production to satisfy industrial or military needs rather than on satisfying consumer wants and needs. An economic system, then, provides the mechanism for the country to decide for whom it will produce goods and services.

A key factor in knowing for whom goods and services are produced is to look at how income is distributed to the citizens. Through income, individuals buy various goods and services. In a country like ours, individuals have a lot of freedom to buy items in the marketplace because much of the income they earn is theirs to spend. In some countries, though, individuals have less income to spend because a greater amount of their income goes to the government or because most of their income must be spent on basic needs for food, clothing, and shelter.

How the Four Questions Are Answered

The four basic economic questions must be answered in any economic system. But the way in which the questions are answered can be quite different. Let's look at how different economic systems answer the basic economic questions.

A TRADITIONAL SYSTEM

Suppose you live in a country in which everyone does what his or her mother or father does. If your father is a farmer, you become a farmer. If your mother weaves baskets, you weave baskets. An economic system in which people do things the way they have always done them is called a **traditional system**. The same tools and methods used by parents and grandparents are used by people today. In answering the basic economic questions, you would get the following replies: "We produce what we have always produced, and in the way we have always produced them. We will produce as many as we have always produced and for the same use. We will distribute the goods among our people the way we have in the past. Many times we have had to share with each other because goods were scarce."

Those kinds of answers suggest some problems, don't they? Most traditional economic systems have found it hard to grow. They



In a traditional economic system, ways of doing things change slowly.

fall behind other countries. They use their resources as they always have because they value their traditional ways of living. They are unwilling to try new things. What would happen in a traditional economic system if a new food were discovered? If that food would feed all the people with half the work and at half the cost, would the traditional system use it? Probably not. "We have never used that food, so we won't use it now." New methods and products are not accepted, so the system does not grow.

Which of the nations of the world might be correctly described as having a traditional economic system?

A COMMAND SYSTEM

Sometimes the government of a country — and the government alone — gives the answers to what kind of economic system the country will have. The government owns the resources and

employs the workers. It decides what workers will do, what goods and services they will produce, how much will be produced, and what income they will receive. This type of economic system is called a **command system**. In countries such as the USSR and Poland, the government controls most resources.

In a command system, the government decides what will be produced. If it is to be guns instead of cars, the workers and factories will be given their orders. In a command economy, a central planning committee sets the goals. The committee may also decide who will use the goods and services. In many command economies, consumer goods and services rank low on the priority list.

Does a command economy work? Yes, it does. Sometimes the people of a nation want this kind of centralized decision making. In other cases, the government may have to be backed up by the police or military. A command economy may be very successful and produce large amounts of goods and services. The price paid for that success is loss of individual freedom, sometimes of all the people. A command system takes away individual freedom and has the government make many of the decisions for the people.

Apart from the countries mentioned above, what other nations have command economic systems?

A MARKET SYSTEM

A third way to answer the four basic economic questions is through a market system. A **market system** is an economic system in which the interaction between buyers and sellers determines what is bought and sold. In a market system the questions are answered through the *market*, which is made up of all individuals' buying and selling decisions put together. The market is not a place; it is a concept.

What goods and services are produced in a market system? The market system produces the goods and services that people are willing to buy and that will bring a profit to the sellers. In market economies, price plays an important role in determining what will be produced. **Price** is the amount of money given or asked for when goods or services are bought or sold. If the price that consumers are willing to pay for an item is viewed as low by producers, very little of the item will be produced because profits will be too low. If the price is high enough to provide a profit for the producers, then the item will be produced.

In a market system, the consumer is all-important. Every time a consumer buys a product, he or she is telling the market to supply more of that product. The same thing goes for services. If a consumer refuses to buy a product or a service, the market receives the message to supply less of it.

The determination of which goods and services will be produced depends on a number of things. Consumers and producers play the two most important roles in a market economy. Unlike a command system, regulation by government is at a minimum. If consumers want a certain food, kind of clothing, or automobile, someone will produce it. Producers who can make a profit at a price consumers are willing to pay are successful in a market system. The interaction of consumers and producers is what makes a market system work.

How will the goods and services be produced in a market system? A market system will use its resources — natural resources, labor, capital goods, and entrepreneurship — to produce goods and services that people will buy. The ways in which items are produced depends on consumer wants and on the combination of resources that can produce items most efficiently so as to generate a profit. The demand for “natural foods” grown without insecticides and other chemicals illustrates this point. Businesses in this market had to change their way of producing various foods. They also had to find the most efficient way to produce these foods so as to make a profit.



Producers are successful when their products are on target with the wants and needs of most consumers.

How much will be produced is another question to be answered by the market system. What the producers think will sell is what will be produced. Consumer demand plays an important part in deciding how much of each good and service will be produced.

Who will use the goods and services produced? That's the fourth question, and it is answered by income. Most income is earned through work. Some people earn higher incomes than others. Those who have more income can buy more goods and services. However, everyone has certain needs such as food, clothing, and shelter that must be satisfied. The economic system that does the best job of satisfying those needs obviously is the most successful.

HOW TO JUDGE ECONOMIC SYSTEMS

The standard of living is one way people judge an economic system. The **standard of living** is a measure of how *well* the people in an economic system live. The standard of living depends on the amount and kinds of goods and services that the people of a country can enjoy. An economic system that can produce the goods and services its people want at a price they can afford probably will have a high standard of living.

Another way of judging economic systems is to look at who makes the decisions. To some people, one advantage of the traditional system is that it does not change. There are few new decisions to make because tradition determines what is done. On the other hand, too much tradition may also be a disadvantage, making it too hard to make any progress.

In a command economy, many of the decisions are made by a central committee, usually part of the government. Some people think that a well-informed committee can make better decisions than a large group of people. Others believe that a committee cannot know all the wishes of various individuals, and that the command economy takes away too much of an individual's freedom of choice.

In a market economy, the freedom of individual choice is emphasized. In such an economy, individuals have the opportunity to make both *good* and *bad* choices. Some people are very concerned that the market does not protect individuals from making *bad* choices for themselves and the country. The market system also provides for differences in income for individuals. Goods and serv-



Switzerland has a high standard of living.

ices are not equally shared. To some people this is an advantage, while to others it is a disadvantage.

The point is that each type of system has advantages and disadvantages. What you think of as advantages or disadvantages in a system depends to a great extent on what you consider fair and best for people. No economic system is perfect.

Most economic systems in the world today are mixed systems. **Mixed systems** combine some parts of other systems. They may be a mixture of traditional, command, and market economic systems. Our own economy is mostly a market system. The USSR is closest to the command system. Some African countries have a more nearly traditional economic system.

SUMMARY

All countries must make decisions. Usually, they will make the decisions according to their resources, what they have done in the past, and what their people expect. Limited resources are a fact of life everywhere. Because of scarcity, no system finds it easy to make decisions about goods and services. Scarce resources change the

way decisions are made. The traditional, command, and market economic systems *all* have answers for their people. They make decisions, or answer the four basic economic questions, in different ways. The standard of living that the economic system provides is one way in which we judge the success of that system.

BUILDING WORD POWER



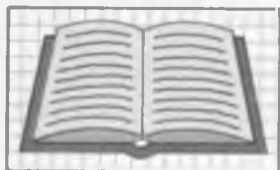
Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 7. Then write the term that best matches each numbered definition.

command system
economic system
market system
mixed system

price
standard of living
traditional system

1. An economic system in which people do things the way they have always done them.
2. An economic system in which the opportunity to buy and sell according to demands made by consumers is the rule.
3. The measure of how well the people of an economic system live.
4. An organized way of producing goods and services and of providing a means for people to get them.
5. An economic system that combines some parts of other systems.
6. The amount of money given or asked for when goods or services are bought or sold.
7. An economic system in which the government owns the resources; employs the workers; and decides what the workers will do, what goods and services they will produce, and what income they will receive.

BUILDING READING COMPREHENSION



1. What are the four major types of resources used by economic systems?
2. What is the major problem with which all economic systems must deal?
3. What are the four questions that must be answered by an economic system?
4. What are the two ways in which economic systems answer the question "How much will be produced?"
5. Why do some societies consider the future as they decide how to use their resources for producing goods and services?

6. What problem do most traditional economic systems face?
7. What types of goods may have low priority in a country with a command economic system?
8. Who decides what will be produced in a command economic system? in a market economic system?
9. How do you describe *market* in a market economic system?
10. What type of economic system do most countries have?

BUILDING BUSINESS CONCEPTS



1. In a traditional economic system, how does the system answer the first basic economic question, "What goods and services will be produced?"
2. How would your life be different if you lived in a country with a command economy?
3. Explain how a market economic system is supposed to work.
4. List one problem for each of the three economic systems.
5. Sometimes technology is included as an important resource for an economic system. Describe the effect of technology such as computers on the production of goods and services.
6. Do you agree that most economic systems are mixed systems? In what ways do systems like ours have some command system characteristics?
7. Some countries have many natural resources like oil, timber, or coal. Yet they are described as "poor" countries. Why do you think such countries are not better off?
8. Sometimes we describe our economic system as one in which "the consumer rules." How does such a system answer the question "What will be produced?"
9. In a market system, do individuals share equally in the goods produced for that system? Why or why not?
10. How can you judge whether an economic system is working well for its people?

BUILDING BUSINESS EXPERIENCE



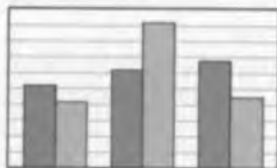
1. What advantages do you have in the United States that people in some other countries do not have?
2. What changes would occur if our government decided to start operating all of our factories, stores, farms, and all other kinds of businesses?
3. In our economic system, prices are used as a way of determining who will receive goods and services. Go to two or three stores and count the number of different brands and types of one product, such as applesauce. How many different brands

and types of applesauce are available? How much does each one cost? Do you think that an item such as a fur coat is available at as many different prices as a jar or can of applesauce? Why or why not?

4. What reasons can you think of for the success of our economic system?
5. Choose a country for study. Go to the library and find out all you can about that country. Include answers to the following questions in your findings:
 - a. What is the role of the government in the economy of the country?
 - b. What type of economic system does it have?
 - c. What are the main industries of the country?
 - d. What are the size and population of the country, types of resources, and main sources of income for its people?

Compare what you have found out about that country with what you know about the United States. How is that country like the United States? How is it different? How does its standard of living compare with that of the United States?

BUILDING MATH SKILLS



1. The table below shows the income per person for several countries. Study the table and then answer the questions that follow.

INCOME PER PERSON

Country	Income
Japan	\$ 8,460
People's Republic of China	566
Sweden	9,274
Switzerland	15,455
United States	10,491
West Germany	9,278

- a. Which country has the highest income per person?
 - b. Which has the lowest income per person?
 - c. If the United States has 235 million people (235,000,000), what is the total income for all the people in the country?
2. The table at the top of the next page shows how long a worker in the United States and a worker in the USSR must work to earn enough money to buy certain goods or services. Study the table and then answer the questions that follow.

Item	United States	USSR
Milk, 1 quart	6 minutes	22 minutes
Oranges, 1 dozen	8 minutes	128 minutes
Eggs, 1 dozen	10 minutes	66 minutes
One week's supply of food for four people	18.6 hours	53.5 hours
Refrigerator	44 hours	155 hours
Color TV	1.6 weeks	17.5 weeks

- a. If a work week is 40 hours, how many weeks does a Soviet worker have to work to earn enough money to buy a refrigerator?
- b. How long must a worker in the United States work to earn enough to buy one week's supply of food for four people? How long must a worker in the USSR work? What is the difference between these two figures?

Issues in Business

How Immigration Affects Jobs

The United States government has an immigration policy under which people from other countries are allowed to move to this country. The Immigration and Naturalization Service (INS) is in charge of screening applicants who want to immigrate to the United States.

Many people want to live and work in this country because they see it as a land of opportunity, a place where they can find work to help them support their families. Immigrants generally enter the United States in one of three ways. Most people enter legally with permission from the INS. Trained doctors, engineers, and professional people are usually allowed to immigrate if they have jobs waiting for them. Others may have to wait before they may enter.

Other immigrants enter under special circumstances, for example, as political refugees. Many people from Cuba, Vietnam, and Haiti have entered the United States as political refugees. Last of all, some people enter the country illegally, slipping across our borders undetected by the border guards. Others may enter the country legally as migratory farm workers, and then decide to stay here illegally.

Considering that the United States was settled by immigrants, you could say that we are a nation of immigrants. Some of us have just been here longer than others. But some people believe that our government should not allow other people into the country, legally or illegally, when many of our own citizens are not able to find jobs. On the other side of the issue are the people who believe that immigrants do not significantly affect the number of jobs available to United States citizens. For example, migratory farm workers are often needed to harvest crops quickly. Many workers are needed — many more than those citizens who are available. Too, migratory farm workers often work for wages lower than those accepted by United States farm workers. Many immigrants also come here and open businesses, thus creating jobs.

The issue of immigration raises many questions that are not easily answered.





CHAPTER 6

Our Private Enterprise System

- We have a great deal of freedom in our country. But the government still has some say about business and the economy. Does that mean we are a traditional system? a command system? a market system?
- When you buy a pair of jeans, you expect to pay a certain price for them. If you can't find them at store A, you go to store B. What does that tell you about being a consumer in our economy?
- If you sold something you had made, such as a mobile, you'd want to accomplish certain things. You'd want to get back the cost of the materials. You'd probably want pay for your labor, and something extra besides. Isn't that the way businesses work in our economy?

Do you know what these terms mean?

private enterprise	productivity
capital	profit
consumer goods	competition

You'll learn all about these terms in this chapter.

One night during dinner, Brian and his family got into a discussion about our economy. Brian insisted that if he were just given a million dollars, he could buy everything he wanted. His father disagreed. "You really can't have everything, Brian. For one thing, your wants grow as you satisfy each one. So, it's difficult to have enough money when your list of wants gets bigger and bigger."

"But, Dad, I didn't mean that," protested Brian. "Let's be reasonable!" They laughed about that and then agreed that Brian's wants were probably greater than his ability to satisfy them.

In our business and economic world there is scarcity, too. Factors of production are limited. Who answers the important questions of what will be produced and for whom in our country? Just what kind of economic system do we have?

A PRIVATE ENTERPRISE ECONOMY

Our economic system is called a *private enterprise system*. Let's take a close look at these words we use to describe our economic system. In the first place, we say it is *private* rather than public. Individuals — not the government — are primarily responsible for running it. And it's an *enterprise* or undertaking. So a *private enterprise* economic system is a kind of "people-run" undertaking, a "people-run" economy.

In our economic system most goods and services are produced by business firms. People own those business firms, as well as land, houses, and all kinds of property. We regard it as a right to have private ownership and to run our own businesses. The government owns or controls some businesses and industries. Most businesses and property, however, are owned by ordinary people.

Free enterprise is another term used to describe our economic system. You are free to buy whatever you want as long as you have the money to pay for it, it is legal, and it is available! You are free to work where you want, or to start your own business. If you do start a business, you are free to produce any legal goods and services.

In our economy, there is a need for a great deal of capital, the money or other material wealth needed to run businesses. Because our capital comes mainly from private individuals, our economic system is often called *capitalism*.

FEATURES OF OUR PRIVATE ENTERPRISE SYSTEM

Private enterprise, free enterprise, and capitalism all describe our economic system. The important thing about our system is that it is all of these. It encourages the ownership of private property and business, it is free in many ways, and it uses capital. Some other features of our private enterprise system include an emphasis on consumer goods, freedom of choice, high productivity, the profit motive, and competition.

Consumer Goods

Our country is rich in natural resources, most of them owned by private individuals. As you have learned, one of the features of our economic system is private ownership. In addition, we place an emphasis on the production of **consumer goods**, the products that all of us want or need.

When we are short on some natural resources, we import them from other countries. But our country is so rich in minerals, trees, grains, and other natural resources that we satisfy many of our needs with consumer goods made from our own natural resources. There is one sobering thought, however. Natural resources will not last forever. Many of them cannot be renewed, cannot be re-created. We have to plan, we have to conserve, and we have to use natural resources carefully.

Think of the variety of natural resources our country has. What are some that are easily renewed? What are some that cannot be easily renewed?

Some of our natural resources have to be used in the production of *capital goods*, the machinery, buildings, and equipment used to produce other goods and services. Using capital goods makes it possible for businesses to make the products we want much faster and more efficiently. Without capital goods we could not produce the number of consumer products we want and need.



Capital goods are very important in the production of automobiles.

Freedom of Choice

In our system we have the freedom of choice to produce almost anything we like. Anyone can start a business. There is no guarantee that the business will be a success, but the opportunity to start one is provided. All of us can choose the type of work we do. One of the most important decisions you will make in the next few years is about what you will do when you finish school. You are free to choose your career.

But why do you work, anyhow? One reason is to get the money to buy the goods and services you want. In our economic system you are free to buy what you want. If you can pay the price, you can buy the goods.

There are a few exceptions to that freedom, of course. None of us can freely buy anything that is not legal. Basically, though, we have the freedom of choice to produce, buy, and sell what we like.

Productivity

People are the most important resource in our private enterprise system. Natural resources and machinery are important, but they cannot meet our needs if we do not have people, too. Our economic system has one of the most skilled and best educated labor forces in the world. Our *technology*, the putting together of equipment and machinery to make products, is also one of the most advanced in the world. Our technology is considered to be advanced because workers can use it to increase the number of goods and services they produce.



Improved technology often helps workers produce more in less time.

Because of their skill and technology, our workers produce more in less time. The rate at which goods and services are produced is called **productivity**. We have been able to keep ahead of many other economic systems because of our higher productivity.

Our workers produce more goods and services in a shorter time than the workers in many other countries. Combine a skilled labor force, advanced technology, and high productivity, and you have a very successful economic system.

During the last few years, productivity has not increased as much in this country as in other industrial nations. This slowing of increases in productivity has become an area of concern for the 1980's and 1990's.

Some business firms have begun to import foreign methods of increasing productivity among workers. Can you describe some of these methods?

The Profit Motive

Why would a person or a business be willing to supply goods and services for you to buy? The main reason is to earn money. If you work for someone, you expect to be paid for your work. If a business produces goods and services, it expects to be paid for them. Profit is the amount of money left over after a business has paid for the cost of producing its goods or services. The profit motive is the intention to still have something left after paying the costs of making a product. Profit is the reason a person takes the risk of starting a business. It is the reward for taking that risk. And it also can provide money for a business firm to keep its capital goods up to date. By keeping its capital goods up to date and in good working condition, a business can produce goods and services more efficiently.

Some people feel that businesses take advantage of us and earn huge profits. A few believe that a business charges exactly what it wants for its goods and services. Actually, most businesses do not earn huge profits over a long period of time. When businesses do earn profits, others enter the field. This competition generally tends to lower profits.

Even though a person may like having a business, there are risks. The chief risk is failure. If customers do not like the product, the business may fail. Customers may turn away if prices are too high. However, the profit motive is often enough to keep people taking risks.

The concept of profit is an energizing force in our economy. It encourages people to develop new products and services in the hope of making a profit. Without profit, we would have few new products introduced into our economy.

Competition

The contest to win customers, **competition**, is another feature of our economic system. You are free to start a business and make a profit selling goods and services. But so are other people. You may build a better mousetrap, but somebody else might, too. Somebody else might even sell it — and for less than your price! Still, competition is one of the important features of the free enterprise system. Because of competition, businesses are forced to be efficient and to keep their prices low. Ways must be found to increase productivity and to keep costs down. Only then can a business compete successfully in the marketplace.

In a way competition also provides opportunities for others to enter business. Our private enterprise system encourages competition, and therefore any person who wishes to compete with another is more than welcome. Competition protects the freedoms that we have in our economic system.



Competition may be in price, quality of product, or extra services.

Competition certainly helps the consumer. If consumers have choices about where to buy, they often choose the firm with the lowest prices for the highest quality of goods and services. Because of competition, businesses keep down not only their costs, but also their profits. The most efficient business often wins out. Competition keeps businesses trying harder and harder. And the consumer is

the winner. Competition is just one more feature of our private enterprise system.

How have you benefited from the competition among businesses in your community?

DECISION MAKING IN OUR SYSTEM

You may remember the questions that every economic system answers:

- What will be produced?
- How will those goods and services be produced?
- How much will be produced?
- Who will receive the goods and services?

In our system, the answers or decisions are those of a market economy. Individual buying and selling decisions, when added together, play an important part in deciding how our economy works.

In our private enterprise system, goods and services that people are willing to buy are produced. Buyers include consumers, businesses, and different levels of government. Of these, the major group is consumers, who purchase over two thirds of the goods and services that are produced in this country each year. Also, many of the purchases by government and businesses are made in order to make or provide items for the consumer. This is the reason that many people say that the consumer is really the one who answers the questions for our economic system. Let's look more closely at how consumers affect the answers to the four economic questions.

What will be produced is based on the individual decisions of consumers as they buy in the marketplace. If consumers decide not to buy certain items, those items will not be produced. If enough consumers want a certain good or service, it is produced, provided it can be produced and sold at a profit.

After looking at what the consumers want, the producers decide *how* the goods and services will be made, along with *how many* will be produced. Many cars made in the United States, for example, are not put together with the quality of materials and care of the Rolls-Royce. Why? Many consumers do not demand that type of car. They cannot afford one of that quality, or they do not want to spend that much on a car. Thus, automobile producers answer the question of how goods and services will be made after looking at what consum-

ers want and how much they can afford to spend. How many goods and services will be produced is determined by how many items the consumers will probably demand in a particular time period.

Who will receive the goods and services is also influenced by the consumer. Businesses have to employ people to supply the goods and services that the consumer wants. Those individuals who work for businesses that make items the consumer wants will be employed — receiving money for their labor. That money, in turn, can be used to buy goods and services. Those who work for businesses that make items the consumer does *not* want will eventually be out of a job — without income to buy goods and services.

DEALING WITH PROBLEMS

Because the consumer is so important in a market economy, a problem in the system is a problem for all of us. If prices go up, all of us are affected. All of us must pay more for the same goods we could buy in earlier years at lower prices. When the general state of business in our system is good, it affects all of us favorably.

Scarcity is an always-present problem. No economic system can produce everything that consumers could possibly want. Even in our economic system, we cannot buy everything we want. Products or the money with which to buy them may be scarce. We have limited resources, but unlimited wants. When we make choices, we experience another characteristic of any economic system — opportunity cost. Although the private enterprise system is very successful, it does not solve all problems for the consumer.

SUMMARY

The United States has a private enterprise economy. We also call it a free enterprise system, or simply capitalism. Together those names describe the framework of our economic system. It emphasizes private property and the individual. It is a system in which there is much freedom for the consumer to choose goods and services and much freedom for the worker to start and run businesses.

Business, government, workers, and consumers are all important in the decision making for our system. Each is a vital part of the framework of our system. Decisions made by each affect the others. Consumers, though, are all-important in our economic system

because of its focus on providing goods and services for consumers. Competition is also an important part of our economic system. Individuals are encouraged to start new businesses. And all businesses are encouraged to produce new goods and services to increase their profits. The productivity of our free enterprise system and the know-how of its workers make it one of the most remarkable economic systems in the world. Now that we have seen the framework, we will examine the inner workings of our system.

BUILDING WORD POWER

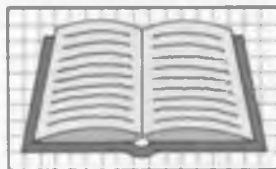


Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 6. Then write the term that best matches each numbered definition.

capital	private enterprise
competition	productivity
consumer goods	profit

1. The money or other material wealth used to run businesses.
2. The amount of money left over after a business has paid for the cost of producing its goods or services.
3. The rate at which goods and services are produced.
4. The contest among businesses to win customers.
5. An economic system in which individuals play a major role.
6. The products that all of us want or need.

BUILDING READING COMPREHENSION



1. Why is our private enterprise economy called a "people-run" economy?
2. What are the three names for our economic system?
3. Why is our economic system sometimes called a *private enterprise system*?
4. Who owns most of the natural resources of our economic system?
5. What are the special characteristics of our private enterprise system?
6. What type of goods does our system emphasize when it answers the question of "what to produce"?
7. Give three examples of capital goods.
8. What makes a person or a business willing to supply goods and services for you to buy?
9. Why is profit an energizing force in our economy?
10. What are the risks for an entrepreneur? How does competition among entrepreneurs and business firms help the consumer?



BUILDING BUSINESS CONCEPTS



1. Why is profit so important in our economy?
2. Productivity is a very important part of a worker's job. Why is it important that each individual worker be productive?
3. Would more competition be good for most business firms in our economy? What effect would more competition have?
4. Which name do you think is the best description of our economic system — private enterprise, capitalism, or free enterprise? Why?
5. These are features of our economic system: emphasis on consumer goods, freedom of choice, high productivity, individual ownership of resources, the profit motive, and competition. Rank these items in order of importance, in your opinion, from most important to least important. How did you decide on your "most important" item?
6. What problems do you think would arise if our system suddenly ran out of some resources? What could the system do to solve those problems?
7. Why do most people work?
8. Why are some people concerned about current productivity in the United States?
9. Many business firms use computers in producing goods and services. What impact do you think computers have in those firms?
10. Many people believe that profits of business firms in our country are several times as high as the actual profits. What problems could arise from such misunderstandings?

BUILDING BUSINESS EXPERIENCE



1. Read this article on supply, demand, and price, and then answer the questions that follow.

Supply and demand affect the wages we are paid; these wages are really the prices we charge for performing work. Supply and demand also affect the prices of goods and services, the prices of raw materials, and the "price," or interest, paid when we borrow money.

Two factors work together to determine the supply of a product, service, or resource: the cost of producing it and the selling price.

Suppose that buyers are willing to pay more for a product than what it costs to produce that product. Businesses will usually increase their production to increase their profits. This "profit margin" encourages new businesses to enter this field. Now there is more competition among sellers, and that competition tends to reduce prices or improve the products or both. And that means a larger supply.

There is an opposite side to this point. Consumers may decide that a product is not worth the cost of producing it and may not buy that product. When this happens, and if the situation continues very long, the product will be forced off the market. Prices play a role in this process. Prices go up or down, depending on the supply and the demand for goods and services.

- a. Which type of economic system — traditional, command, or market — does this article describe?
 - b. What part does the consumer play in a system described in this article? Are the consumers important to this type of system?
 - c. What usually happens to price when the demand for goods decreases and the supply remains the same?
 - d. Does competition always reduce prices and improve products?
2. This headline appeared in a newspaper: "Cold Weather Destroys Ohio Peach Crop." Because of record low temperatures, only about 50,000 pounds of peaches were produced. The previous year's production was 8 million pounds. What effect might such a loss have on our economic system?
 3. In our economic system, we say that the consumer answers the questions. What disadvantages do you see when our economic system produces the goods and services that consumers want? Would it be better if the government did not allow our scarcest resources to be used for products that some people consider to be foolish uses of resources? Why or why not?
 4. Listed below are six items that consumers might want. For each, write whether you think it is "necessary," "not necessary," or you are "unsure." For those items you consider necessary, how serious would a shortage of each be? Could you do without those items? Could you substitute other goods or services for each?

Gasoline	Frozen vegetables from a grocery store
Bread	Your favorite brand of toothpaste
Newspapers	Several movie theaters in your town

5. A business firm manufacturing electric motors and automatic packaging and weighing systems for industrial firms and supermarkets reported these figures for 1983 and 1984:

	<u>1985</u>	<u>1986</u>
Net income	\$5.5 million	\$1.03 million
Spending for capital equipment	\$4.2 million	\$5.0 million

The company also reported that sales of electric motors were up 32 percent; international sales were up 26 percent; and sales of packaging and weighing equipment were up 17 percent. How would you describe this company's year in 1986?

BUILDING COMMUNICATION SKILLS



1. Survey ten people in your school or community. Ask each one of them what percentage of profit they believe an average business firm earns. Bring your figures to class and compare them. Write up your results in a short article.
2. Alexandria, a visitor from the USSR, has been told that in our economic system the consumer tells the businesses what goods and services to produce. Alexandria has asked you to help her to understand how this communication can take place. To help organize your thoughts, outline the things you should include in your discussion with Alexandria. Then write out your explanation of how our economic system works. Remember to be specific in talking to Alexandria.

Careers in Business

Retail Buyer

As you walk down the aisles of a department store, trying to decide what to buy, have you ever wondered how all that merchandise got there? Somebody else already tried to figure out what you would be looking for and made sure it was there. This individual is known as a retail buyer. Just about any kind of retail store, whether it sells groceries or clothes, has a buyer keeping shelves filled with the items that customers want.

A buyer for a clothing store may fly off to Paris to see the latest fashions. A furniture store buyer may meet with factory representatives and buyers from other stores around the country at a convention in Chicago to see what new furniture the factories are offering. A good buyer tries to anticipate trends and new fashions that customers will be looking for. A professional buyer is always trying to get the newest fashions before the other stores, or to get the best prices from a manufacturer.

Buyers often work their way up from jobs as salesclerks or stock room clerks. They learn the business from the ground up, finding out which items sell and which ones do not. The life of a buyer is often hectic and fast-paced. The environment is highly competitive.



The use of computers has improved buyers' efficiency. Cash registers connected to computers, known as point-of-sale terminals, allow retail stores to maintain up-to-the-minute sales and inventory records. These records enable buyers to concentrate on market analysis to determine which products consumers are most likely to buy.

Job openings are expected to grow in response to an expanding population, especially in retail food stores. More and more colleges are offering marketing and retailing programs that are helpful to buyers. The best preparation for those interested in a career as a buyer includes marketing courses and work experience in retail stores.



CHAPTER 7

How the Market Works in Our Economy

- All of us buy goods and services. If you work, you also produce goods or services. How and where do consumers and producers come together to buy and sell?
- Fashions change, and so do prices. Mostly prices seem to go up. However, the cost of tomatoes or of a tape recording occasionally goes down. Why?
- There is a consumer demand for products to satisfy certain needs, such as food, clothing, and shelter. Consumers know the prices they will pay for these necessities. On the other hand, producers will supply only so much cereal, for example, at a certain price. Is there any way of measuring or predicting where the demand and the supply will come together?

Do you know what these terms mean?

demand	law of supply
law of demand	surplus
supply	equilibrium price

You'll learn all about these terms in this chapter.

Have you ever noticed that prices for goods and services seem to go up and down? For example, when Florida or California has an unexpected freeze in the winter, the prices of oranges and other citrus fruits go up. Some of you may have noted that the prices of personal computers and calculators have come down from what they once were. As you know, the United States has a private enterprise economic system. In a private enterprise economy, the basic economic questions — what to produce, how to produce, how much to produce, and who will get the goods and services — are all answered to a great extent through markets. In this chapter we will look more closely at how a market works.

WHAT IS A MARKET?

As you learned in Chapter 5, a *market* is any place where individuals buy and sell goods and services. For example, goods and services can be bought at home, in a store, by telephone, or by mail. A market may be as small and as close to home as the corner grocery store or as far away as a ranch in Australia. The market is made up of all the different places where buyers and sellers exchange money and goods or services.

There are all kinds of markets in our economic world. There are markets for automobiles, compact discs, apples, and laundry services. All markets, though, have some common economic principles.

WHAT DOES PRICE HAVE TO DO WITH THE MARKET?

The *price* is what you have to pay for something in order to get it. Earlier you learned that a basic problem we all face is scarcity. We can't have everything we want because there just aren't enough resources to go around. Price is one indication of the scarcity of an item. If something is really in short supply — meaning that a lot of people want it — the price will be high.

Can you think of something that you really wanted to buy but couldn't because the price was too high? Why do you think the price was so high?

Price can be looked at as an unfortunate thing, especially if you don't have enough money to buy something you want! Price can be a discouragement. You may be surprised to know that sometimes price is *meant* to be a discouragement. However, there are other times when it is meant to be an encouragement. Let's see how price can be both a discouragement and an encouragement to buyers (consumers) and sellers (producers) in the market.

Prices Affect the Consumer

Consumers are the ones who provide the demand for an item. **Demand** is the amount or quantity of goods and services consumers are willing and able to buy at various prices. Some examples will show how price affects consumer demand.

Price is often a discouragement.



start new egg-producing businesses. All of this may happen because producing eggs at \$2 a dozen looks very profitable.

Then — the price drops to 50 cents a dozen! What do you suppose will happen to the amount of eggs supplied to the market? At a price of 50 cents, many producers will find that they can't make a profit. Some will use their money elsewhere. Others will reduce their production of eggs. The amount of eggs supplied will thus be decreased.

This example demonstrates another principle of our market economy. Producers will generally produce less of an item at a lower price than they will at a higher price. The law of supply states that the higher the price, the more producers will supply; the lower the price, the less they will supply.

In our economy, businesses are free to produce or not produce an item. Can you think of some items that are no longer made by any producer?

HOW IS PRICE DETERMINED?

It should be clear by now that in the marketplace, both consumers and producers follow their own self-interests. Consumers want to get as much as possible at the lowest possible price. And



Suppose you walked into the stereo department of a store with \$8 to buy a cassette. Instead, you find that the department is having a "two-for-the-price-of-one" sale, and that you can get two cassettes for \$8. The chances are pretty good that you would buy two cassettes, since you were already prepared to buy one at the price of \$8. Many other consumers would do the same thing. The result would be an increase in the total number of cassettes sold.

Here's another example of how price affects the consumer. You have saved \$50 to buy a pair of running shoes that you have admired for some time. Suppose that when you finally get around to buying the shoes, the price has increased to \$70. What are you going to do? Do you want the shoes badly enough? Equally important, do you have the extra \$20? You decide to get along a while longer and perhaps look for a cheaper brand. Maybe you won't buy running shoes at this time. Other consumers are making the same decision: The shoes are too expensive, and this is not the time to buy them.

Your decision and that of other consumers points out an important principle of our market economy: *Generally, the higher the price, the less consumers will buy of an item.* The opposite of this principle also applies: *The lower the price, the more consumers will buy.* At the higher price some consumers will simply decide not to buy. Others will buy less of the item. Still others may try substitutes. Instead of running shoes, they will buy less expensive sneakers. Rather than expensive melons, they will buy less expensive apples. The law of demand states that consumers will generally buy less of an item at a higher price than at a lower price.

Prices Affect the Producer

Producers are influenced to supply goods or services by the prices in the market. The **supply** is the amount or quantity of goods and services that producers will provide at various prices. Producers must receive a price for their goods and services that will cover their costs and provide a profit in order to stay in business. They look at price as a barometer that tells them how much of a good or service to produce.

Suppose that the price of eggs is \$2 a dozen. That may seem like a lot of money for a dozen eggs. What do you think will happen to the number of eggs produced at that price? Probably the amount will increase because those in the egg-producing business will see profits to be made at that price. Those already in the business will increase their production. Others may have money to invest and

producers want to make as much profit as possible. The result is something of a battle, an economic tug-of-war. However, it is in the marketplace that the prices for all goods and services sold are determined through the actions of buyers and sellers. Let's look at an example.

The Fair Price Supermarket has a supply of five hundred roasting chickens that are priced to sell at 95 cents a pound. By the end of the week, only one hundred chickens have been sold. And five hundred more roasting chickens are coming in from the producer next week. There is a **surplus**, or oversupply, of four hundred chickens. Evidently the consumer demand is less than the amount supplied at 95 cents a pound. Something has to be done in order to prevent the chickens from spoiling.

The Fair Price Supermarket lowers the price to 65 cents a pound. Remember, according to the law of demand, the lower the price, the greater the amount demanded. At 65 cents a pound, all 400 roasting chickens are sold. This price — at a point where the amount supplied equals the amount demanded — is called the **equilibrium price**. Equilibrium, then, is the point at which supply and demand meet, or come together.

Let's look at another example. In this case, the Fair Price Supermarket started out by charging 45 cents a pound for the roasting chickens. In one day the five hundred chickens for the whole week were sold. Many shoppers who came later in the week were disappointed. They were looking for roasting chickens at 45 cents a pound. There was, in fact, a real shortage at that price — less supply than the amount demanded. The seller can see that even more chickens can be sold. What will happen to the price as a result? It will increase to the point where the amount supplied equals the amount demanded, the equilibrium price.

Naturally the price established at any one store does not go into effect for the entire market. But if similar surpluses or shortages of roasting chickens occurred in many places, the overall price would be affected.

To get a better idea of how the equilibrium price is determined, let's expand the example of the roasting chickens. Suppose that on a particular day, the producers of roasting chickens supplied the quantities of chickens at the various prices shown in the table at the top of the next page. The demand by consumers for roasting chickens at the various prices is also shown in this same table. What do you notice about the supply and the demand?

DETERMINING THE EQUILIBRIUM PRICE

Supply of Roasting Chickens		Demand for Roasting Chickens	
<i>Quantity</i>	<i>Price</i>	<i>Quantity</i>	<i>Price</i>
20 million	95¢ a lb	1 million	95¢ a lb
18 million	85¢ a lb	2 million	85¢ a lb
14 million	75¢ a lb	4 million	75¢ a lb
10 million	65¢ a lb	10 million	65¢ a lb
8 million	55¢ a lb	15 million	55¢ a lb
5 million	45¢ a lb	25 million	45¢ a lb

As you recall, the equilibrium price is the price at which supply and demand meet. Look at the table above. The price at which both supply and demand are the same is 65 cents. Therefore, the equilibrium price is 65 cents.

WHAT CAUSES PRICES TO CHANGE?

You have seen how surpluses and shortages result in price changes. These particular changes were created in the market as a result of pricing practice. Changes in consumer demand or in amounts produced may also cause prices to change.

Changes in Demand

Fruit-of-the-Sun is a fruit punch sold by Fair Price Supermarket. It is a combination of three natural fruit juices, and sells for \$2 a quart. "Independent" laboratory testing recently has shown that these three juices together are rich in all vitamins required by the average adult. Suddenly consumers develop a taste or preference for Fruit-of-the-Sun over all other competing brands. Consumers demand more than is available. A shortage of the fruit punch develops at the \$2 price. The price goes up.

Consumer taste or preference can change in the other direction, again affecting prices. Suppose another business produces a new fruit drink to compete with Fruit-of-the-Sun. Consumers prefer this new fruit drink and start buying it instead of Fruit-of-the-Sun. Since consumers are not buying Fruit-of-the-Sun, there is a surplus of it at the \$2 price.

Changes in consumer taste and preference that affect prices occur often. This change in preference explains why fad items, such

as designer jeans or certain hair styles, increase in price when they are popular and decrease in price when they are out of style.

Income can also affect prices. Suppose that the average take-home pay of consumers in your area increases by 6 percent. You now have more money to spend. Would you want to buy more of your favorite foods at the current market price? Most people in your area would. If you all liked the same foods, the food stores might have a shortage in supply. You know what would happen then! Prices would increase. On the other hand, if everybody got a cut in pay, the likelihood is that prices for food in your area would decrease.

Substitutes also play a role in affecting demand and, therefore, prices. Let's say that the price of beef is high relative to that of chicken. Consumers might decide to substitute chicken for beef as a major source of meat for their tables. Demand for beef at the current prices decreases. A surplus results, causing prices to drop. On the other hand, the increased demand for chicken creates a shortage and leads to higher prices for chickens. Because of the highly competitive nature of our market economy, substitutes exist for most goods.

Changes in Supply

There are some obvious circumstances that cause a change in supply, particularly with food products. For instance, droughts, floods, hurricanes, and even extremely cold weather can affect crops. A heavy frost in Florida can have a severe impact on the citrus crop. Fewer oranges, grapefruit, and lemons are available and the price moves upward. Good growing and harvesting weather can have the opposite effect. A bumper crop in grains can result in lower prices for meat and a whole range of food products. With a plentiful supply in the market, prices move lower.

When the costs of producing a product or service change, for a variety of reasons, both supply and price are affected. Suppose that eggs are currently selling for \$1 a dozen. Egg producers have found that their costs (labor, feed, etc.) have risen 10 percent over the last year. To keep their profit at the same level, they will have to increase their price to \$1.10 per dozen. However, if the market price stays at \$1, some producers will have to make a decision. Is it worthwhile to stay in the business for less profit? If many producers leave, the supply will decrease. This decrease will, in turn, cause a shortage of eggs at the \$1 price level, encouraging the price to rise.



When crops are damaged, prices for these goods increase.

In some instances, producers find more efficient ways to produce goods and services so that their costs decrease. A good example has been the rapid developments in the computer area. Some of the first computers were nearly 60 feet long and weighed over 30 tons. Their energy source was vacuum tubes, and only the government or large companies could afford such computers. Then came the development of the transistor, a complete electrical circuit on a piece of silicon. In a matter of a few years, a microchip of silicon the size of a small postage stamp was designed. Despite its size, it could do more work — and in a shorter time — than 18,000 vacuum tubes. The computer shrank — and so did the price!

Such changes resulted in a greater supply of computers at the then current prices. As more producers entered the field, a surplus occurred. Prices dropped. The whole result of the greater supply and surpluses was that the consumer benefited from lower prices.

Can you think of goods or services that have changed in price recently either because of a change in supply or a change in demand?

THE EVER-CHANGING MARKET

Although a market economy is one of the most open and free systems, some controls and regulations are needed. Not all prices are set by the market. In some instances the consumer in our economy wants the government to set the price. Utility rates (water, electricity) are generally set by governmental bodies. There are rent controls for apartments in some large cities. But such controls are the exception rather than the rule in our market economy. Prices for most goods and services are set through the interaction of buyers and sellers in the marketplace.



As the price for a product goes up, other producers jump on the bandwagon.

In fact, an important point to remember about the market is that prices may change for more than one reason. A situation may occur in which an increase in consumer income increases demand for products. At the same time, however, producers may be faced with rising prices for producing food. Although there is a change in the equilibrium price, it can be traced to more than one reason.

As you can see, the market has a lot of cause-and-effect features to it. There is no governing board that determines the price of an item, the amount to be produced, or the amount that will be demanded by consumers. Rather, the price goes up or down because of the activities of thousands upon thousands of consumers and producers. It is a two-way street: Consumers' and producers'

activities not only *affect* price, but those activities are also affected *by* the price.

Let's take one more look at some of these cause-and-effect relationships in the market. Remember Fruit-of-the-Sun fruit punch? It had an equilibrium price of \$2, meaning that the amount supplied equaled the amount demanded at that price. When it was discovered that it was rich in nutritional value, demand increased. At the available supply, there was a shortage, thus boosting the price. What signal does this development give to producers? At the higher price, more profit can be made. Those already producing Fruit-of-the-Sun punch will produce even more. Other firms will get into the business. The supply will eventually increase. There will come a time when the available supply is too much for the demand at the market price. The price will eventually decrease, causing some of the inefficient producers to get out of the business.

Adam Smith, the noted eighteenth-century economist, described the cause-and-effect relationship of the market as the "invisible hand" at work. What he meant was that these changes in the market come about automatically as a result of producers and consumers following their own self-interests.

SUMMARY

In our market economy, producers and consumers get together to buy and sell. Prices are determined by the laws of supply and demand. Consumers will generally buy less of an item at a higher price than at a lower price. The higher the price, the more producers will supply; the lower the price, the less they will supply.

When there is a surplus of goods or services, prices usually come down. A shortage causes prices to rise. When the amount supplied equals the amount demanded, an equilibrium price results. Changes in price can be caused by good or bad weather, technological developments, lower or higher costs, and consumer preferences. Although certain governmental controls on prices exist, as a whole the market is an ever-changing one. It responds automatically to producers and consumers following their own self-interests.

BUILDING WORD POWER



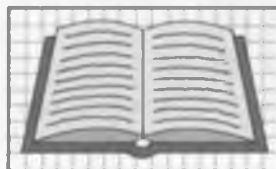
Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 6. Then write the term that best matches each numbered definition.

demand
equilibrium price
law of demand

law of supply
supply
surplus

1. The amount or quantity of goods and services that consumers are willing and able to buy at various prices.
2. Consumers will generally buy less of an item at a higher price than at a lower price.
3. The amount or quantity of goods and services that producers will provide at various prices.
4. Producers will generally supply more of an item at a higher price than at a lower price.
5. A condition when the supply of an item is greater than the market demand at a particular price.
6. A point at which the amount of an item supplied is equal to the amount demanded.

BUILDING READING COMPREHENSION



1. In a private enterprise economy, how are the basic economic questions of what to produce, how to produce, how much to produce, and for whom are the goods and services produced answered?
2. If the price of an item jumps up, what actions may consumers take?
3. According to the law of demand, will consumers buy *less* or *more* of an item at a higher price? Will they buy more or less at a lower price?
4. If the price of an item drops drastically, what actions will be taken by many of the producers of that item? What economic law is at work in this example?
5. If the price of a good or service increases, what will probably happen to the amount supplied?
6. How do the self-interests of consumers and producers differ?
7. Sometimes consumers get excited about a new fad. What probably will happen to the price of a new item that becomes a fad?
8. How may income affect the prices of goods and services?
9. How may substitutes affect prices and demand? Give an example of a good or service substituted for another good or service.
10. What did Adam Smith mean by the "invisible hand" in the marketplace?

**BUILDING
BUSINESS
CONCEPTS**

1. Explain what is meant by the following statement: Price is a way to ration goods and services in a market economy.
2. Over a long period of time, what usually happens to the price of an item that is very popular and sells quickly?
3. In what ways is price a discouragement to a buyer?
4. Clearance sales show the law of demand at work. Explain.
5. A newspaper headline reads: "Freeze Destroys Much of Citrus Crop." What probably will happen to the price of citrus fruit? What effects will the freeze have on the market for citrus fruit? on substitutes for citrus fruit?
6. A very expensive item often attracts new producers of that product. What effect will the entry of new producers probably have on the price of that product?
7. Not all prices are set by supply and demand. Give an example in which price is set by other means.
8. If you buy an item regularly, what happens to your consumer decision making if the price for that item rises each week?
9. If the price of wheat rose drastically, what effect would the price rise have on consumers of wheat products? on producers of wheat products?
10. Give an example in which changes in consumer tastes have caused changes in the market for a product or service.

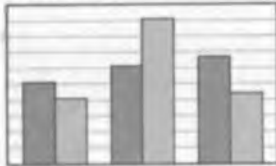
**BUILDING
BUSINESS
EXPERIENCE**

1. Suppose a company produces a new toy that is liked by both adults and children. There is a great demand for it. The supplier raises the price because there is no other firm producing the new toy. In spite of the price increases, the supplier cannot keep up with demand. Some people believe the supplier is gouging the public by increasing its price. Are such price increases allowed in a market system? Should the government step in to control the price? What are other toy producers likely to do about this new toy?
2. For each of the following items, name substitutes that consumers might choose if the prices were too high: butter, milk, meat, fresh vegetables, American-made cars, air travel.
3. What is the equilibrium price for hamburgers?

Supply of Hamburgers		Demand for Hamburgers	
Quantity	Price	Quantity	Price
150 million	\$1.50	30 million	\$1.50
110 million	\$1.35	60 million	\$1.35
90 million	\$1.25	90 million	\$1.25
60 million	\$1.00	120 million	\$1.20

4. How may a lower price affect the quantity of a product demanded? the quantity supplied?
5. What happens to quantity demanded if the price rises? to quantity supplied?

BUILDING ANALYTICAL SKILLS



Read the paragraphs below and answer the questions that follow.

During the last 20 years, the consumption of chicken in the United States has risen dramatically. In 1984, the average person consumed 54 pounds of chicken in various forms, which is twice as much as the amount consumed in 1964. In 1976, the average was almost 43 pounds.

Contrast this amount with the consumption of beef. In 1976, people in the United States ate an average of 94 pounds of beef. This average declined to almost 71 pounds in 1984.

What seems to be behind the change in consumer purchases of meat products? There are a number of reasons. Let's first look at the production of chickens. Improvements in growing chickens have enabled them to be ready for the table in much less time than the old barnyard variety. In the 1950's, it took 98 to 112 days to prepare a chicken for the market. Now it takes 47 days. Greater mechanization allows less labor to be used in raising the chickens and in processing them for sale to consumers. Combined with large-scale operations for raising and processing chickens, these factors have helped to keep the cost of chicken fairly low.

What has happened to the beef industry during the same time? Beef has had steep price increases in the last few years. In the mid-1980's, the price of beef was an average of three times the price of chicken. In the mid-seventies, beef was only twice the price of chicken. Beef producers have not been able to contain costs as well as chicken producers, which is one major reason for the steep price increases. Another problem has been that many people believe consuming too much red meat is unhealthy, which has had an effect on sales.

1. How much more chicken was eaten in 1984 than in 1976?
2. How much less beef was eaten in 1984 than in 1976?
3. What are two reasons why consumers may have substituted chicken for beef purchases?
4. Why would producing a chicken for market in less time cut down on costs?
5. At the present time, why do beef producers not decrease prices to the level of chicken prices so that they can sell more beef?
6. How does this example show the competition between products that can be substituted for one another?

Trends in Business

The Shift to an Older Population

In 1900 the average American could expect to live until the age of 47. Today the average life expectancy is 74 years. Soon one out of every five Americans will be over the age of 65.

Two developments have helped to shift the average age of our population toward the older end of the spectrum. First, for the most part there has been a relative leveling off of the birthrate. Second, Americans have been getting healthier. Diets have been improving, exercise has been increasing, and medical developments such as heart bypasses and organ transplants have been extending life. What do these changes mean for our life style and our economy?

More and more Americans are reaching retirement age, and living longer after they reach it. They not only have money to spend, but they spend it in somewhat different ways than young people. American business is just beginning to realize what a large and different market older people represent.

For instance, the whole leisure industry is experiencing the economic clout of that segment of our society. There is a growing market for RV's (recreational vehicles), camping and sporting equipment, and clothing for

leisure activities. Increasingly, older Americans have the time to travel and to enjoy sports, as spectators and as participants. Entertainment, "eating out," buying a second home — these are all things on which older Americans are spending their money.

Health and fitness are major concerns to older people. They spend money on jogging clothes and shoes, exercise equipment, and health food. Many retired Americans seek a climate conducive to their health and travel there each winter, spending money in Florida, Arizona, and California "retirement communities." And, of course, as they grow older, health care products, medicines, and dietary foods become more important.

Finally, older people tend to move into smaller homes than those in which they raised their families. They are in the market too for services of every kind. As far as they are concerned, life really begins when you are old enough to enjoy it.





CHAPTER 8

Evaluating Our Economic System

- We have looked at the productivity of the private enterprise system. You know some of the things that make the system go. How would you rate an economic system? What measurement would you use?
- When you work or study or play, you have your ups and downs. Our economy has ups and downs, too. Why do you think that's so?
- We said our system was a mixed one. Businesses aren't completely free. Government controls and supervises some things. Is that good? Why or why not?

Do you know what these terms mean?

gross national product	depression
real dollar	recovery
business cycle	inflation
prosperity	Consumer Price Index
recession	Producer Price Index

You'll learn all about these terms in this chapter.

If you were to describe our private enterprise system, you might start with what it produces. You will remember that a major purpose of an economic system is to produce the goods and services wanted by its people. You might describe the private enterprise system of the United States as a mixed market system. You might say that it places a priority on consumer satisfaction and that it's privately owned. You might also say that almost anyone can start a business. Those are some ways of describing it. You can probably think of other features. But we also need to know other things. How well does the system operate? What problems, if any, does it have? How do you measure how well an economic system performs?

THE GROSS NATIONAL PRODUCT

The dollar value of all the goods and services produced by an economic system in one year is called the **gross national product**. That is certainly one way of measuring how well an economic system is doing. When the economy suffers, the gross national product (or GNP for short) also suffers and goes down. On the other hand, if the economy is healthy, the GNP rises.

The dollar value of all the goods and services produced by the system in one year gives you an idea of the system's size, if nothing else. In recent years, the GNP of the United States has been over three trillion dollars. That figure represents the value of all goods and services produced in just one year in our economic system. We not only produced more than any other country in the world, we also produced more than a hundred countries put together.

Because the GNP is an index of the health of the economy, it is used as a measure of growth. We can compare last year's gross national product with this year's. To make such comparisons not only easy but realistic, we adjust for changes in the value of a dollar. We take one year and call that our *base year*. We say that the dollar

of our base year is a **real dollar**, which means that it is a measure against which we will determine the value or purchasing power of the dollars of other years. The United States government currently uses 1972 as our base year, so the 1972 dollar is our real dollar. If, at a particular time, a dollar buys fewer goods and services than it did in 1972, we say that the dollar is worth less than it was in 1972. On the other hand, it is possible for a dollar to buy more than it did in 1972. Then we describe the dollar as being worth more than it was in 1972. The gross national product means more when we look at it in real dollars. In 1972 the GNP was about \$993 billion. In 1982 the GNP was more than \$3 trillion, but only about \$1.5 trillion in real dollars (1972 dollars). If we measure the GNP in terms of real dollars every year, our basis of comparison will remain the same. Using real dollars makes it easier to see just exactly how well our economy is doing.

Why is it important that the basis for comparing the GNP of two different years be the same?

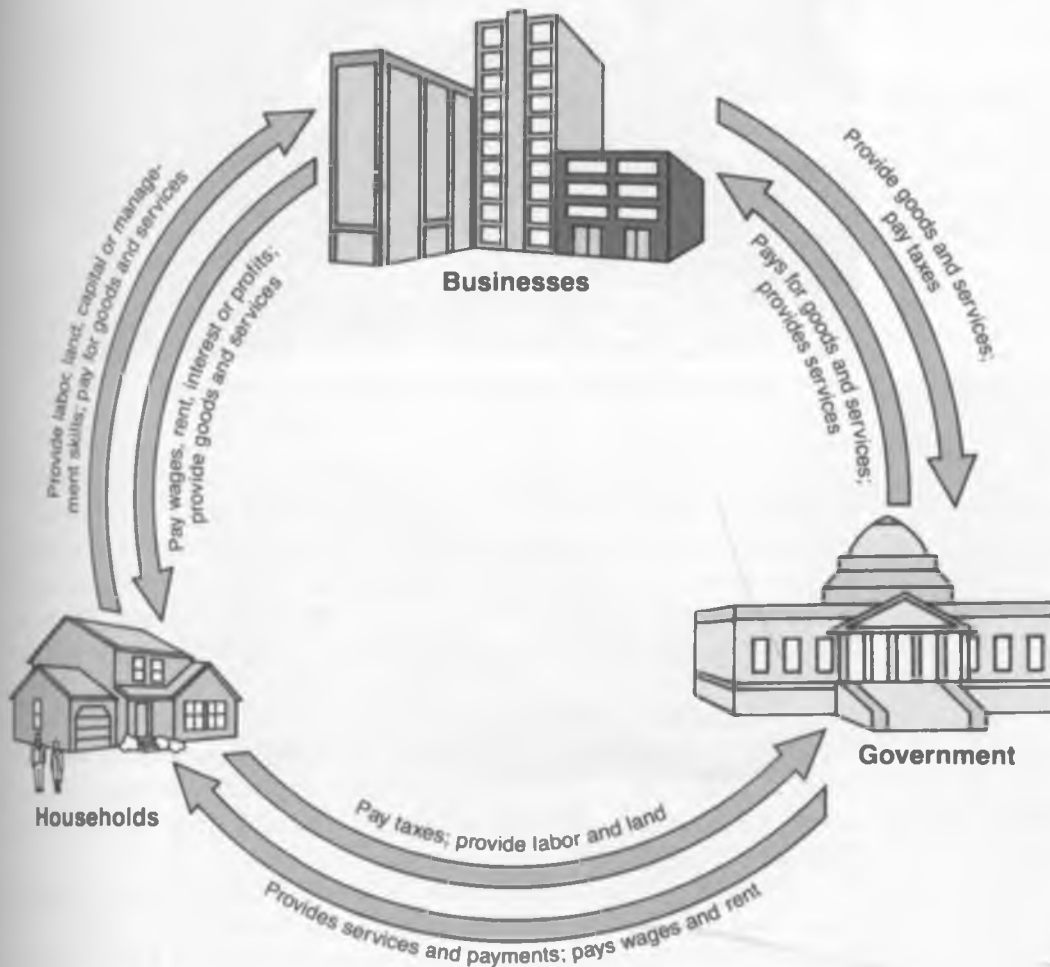
CIRCLES AND CYCLES

We all know what a circle is. Our economic system works in a circle. What is spent by one person becomes income for another person. Money you spend in a grocery store becomes income for the grocer. Later the grocer pays someone else for the canned goods, meat, vegetables, or other products, or for labor. That money, in turn, becomes income for those who are paid. Each person in our system is important to every other person in a kind of circular way. If consumers are not willing to spend their money, business firms will have less income. The owners of those businesses will have less money and will spend less. Similarly, government is dependent on businesses and individuals for such things as tax revenue and various goods and services. Businesses and individuals are also dependent on government for jobs, for public goods, and for a healthy economy. In our private enterprise economic system, each person or part of the system is dependent on all other persons or parts. We are *interdependent*. Interdependence is another important fact in our economic system.

A *cycle* is a repeating period or time. The term we use to describe how the economy moves from good times to bad times and back again is **business cycle**. The four stages of the business cycle are

prosperity, recession, depression, and recovery. Sometimes this series of stages is like a roller coaster. For a while, everything seems to be going very well. Jobs are plentiful, and anyone who wants to work can find a job. People feel good about the economy and are willing to spend their money. Because people are buying, business is good. And when business is good, we say we are enjoying prosperity. Prosperity is the high point of a business cycle. Sometimes it's called a *boom*. Employment is way up, the demand for goods and services is high, and businesses are turning out goods and services as fast as they can.

Government, business, and individual consumers are all interdependent.





During periods of prosperity, people are willing to spend their money.

Sometimes the economy has problems, but not serious enough to cause real alarm. If the demand for goods and services falls and unemployment rises, the economy may be in a **recession**. Spending falls, so fewer goods and services are demanded. We can measure a recession by the amount of drop in the gross national product. Sometimes a recession is caused simply by either business or consumers in general becoming worried about the economy. People may become concerned about spending so much of their income. If they cut back on their spending, demand for goods and services falls. Businesses may find that they have expanded as much as they safely can. If many of them cut back on production, we may experience a recession.

The lowest point a business cycle can reach is called a **depression**. In a depression our gross national product also falls to its lowest point. Business is bad, and unemployment is high. Because

they cannot find work and earn money, people cannot buy the goods and services they need. Because they cannot sell enough products to pay their costs, businesses may be forced to close. And because businesses close, additional people lose their jobs.

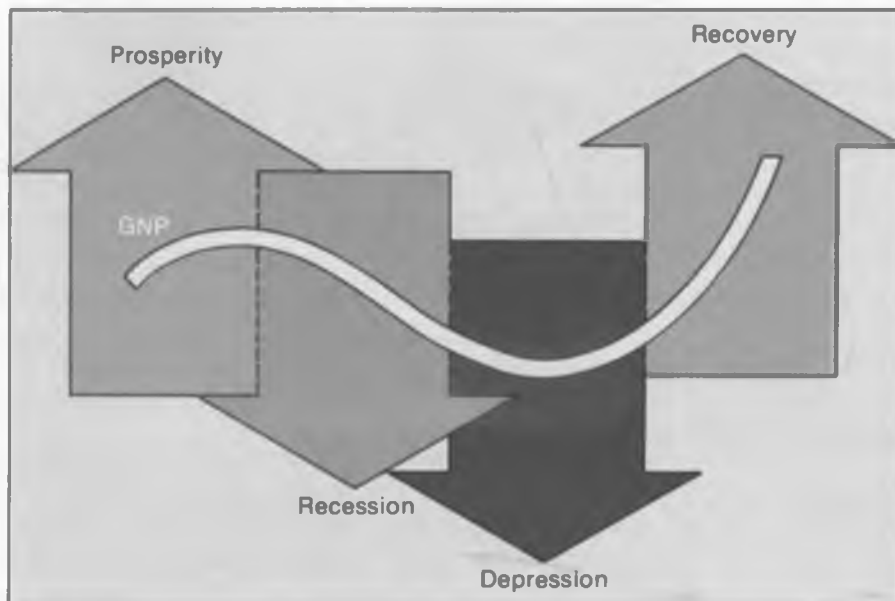
Sometimes only part of an economic system suffers a depression, but the effect on a community can still be very bad. Has this ever happened to all or part of your community? What happened?

The final stage in a business cycle is called a **recovery**. During such a time, people who have been out of work begin to find jobs. Consumers begin to buy more products and services again. The gross national product, which is a measure of the recovery, begins to rise again. The resources of the system, including people, money, and capital goods, are used more fully. The business cycle is on an upswing.

In many instances, a business cycle does not include the depression stage. It may just go through the prosperity, recession, and recovery stages. A recession does not have to lead to a depression.

The so-called "Great Depression" of the 1930's is the last one our economy has had. During that time about one fourth of the

The four stages of the business cycle.



workers in our country were unable to find employment. Large numbers of business firms failed. Our economic system almost came to a halt. Many people were not sure they ever would be able to recover from the losses they suffered during the Depression. But the cycle changed, and eventually the economy did recover.

INFLATION

A period of increased spending that causes rapid rises in prices is referred to as **inflation**. This is not necessarily a part of the business cycle. Rather, it is a kind of weakness in an economic system. When your money buys fewer goods so that you get less for the same amount of money as before, inflation is the problem. There is a general rise in the price of goods and services. Your money buys less. Sometimes people describe inflation as a time when "a dollar is not worth a dollar anymore."



Inflation takes a bite out of your dollar.

Inflation has been a problem for our economic system, as it has been for almost all of the world's economic systems, over a number of years. During the 20 years from 1955 to 1975 the value of the dollar decreased by 50 percent. Measured in terms of a 1955 real dollar, the price of a product in 1975 had doubled.

One major cause of inflation is a rising demand for goods and services. As people spend more money, their rate of spending may increase faster than the goods and services available. More and more people are willing and able to pay more for the fewer things that are available. As a consequence, the prices keep going up. Sometimes we describe this kind of inflation as too many dollars chasing too few goods.

A second cause of inflation is a rise in the cost of the factors of production. Prices are pushed up by costs. For instance, if the labor cost of producing a good or service goes up, so will the price of the good or service. A higher production cost for a product like oil or coal will be passed along in an increased cost of the product. The final prices of goods and services will be pushed up by an increase in the costs of one or all of the factors of production. Because the producer must pay more, the consumer will have to pay more.

What are some recent examples of products whose prices were increased as a result of increases in the costs of one or more factors of production? Which factors of production increased in each case?

A third cause of inflation is a lack of competition. If sellers have little or no competition, they are free to set prices as they want. If there is little competition, buyers must buy from businesses that are selling, and they must pay the price asked. For example, in the late 1970's and early 1980's, OPEC, the oil cartel, controlled the price of oil. We, and the rest of the world, had to pay the prices asked because the cartel controlled much of the oil supply. The increase in oil prices caused our rate of inflation to increase during that time. Competition, then, is healthy because it helps keep prices down.

Inflation is a problem for all consumers. People who live on a fixed income are hurt the most. Retired people, for instance, cannot count on an increase in income as prices rise. Elderly people who no longer can work face serious problems in stretching their incomes to meet their needs in times of inflation. Retirement income or any fixed income usually does not rise as fast as prices. Many retired people must cut their spending to keep up with rapidly rising prices. In many cases that means they must stop buying some items that are necessary, such as food or clothing.

Even for working people whose incomes are going up, inflation can be a problem. The cost of living goes up, too. People who work must have even more money just to keep up their standard of living. Just buying the things they need costs more in real dollars. When



The elderly are especially hurt by inflation.

incomes do not keep pace with rising prices, the standard of living goes down. People may be earning the same amount of money, but they are not living as well because they are not able to buy as many goods and services.

THE PRICE INDEXES

The Consumer Price Index (CPI) is used to compare current prices of typical consumer goods with prices of those same goods in previous years. The base year currently used for the CPI is 1967, and prices for all goods and services in 1967 are shown as 100 percent. By 1984 the Consumer Price Index had risen to over 303 percent. This means that goods and services that cost \$1 in 1967 would have cost \$3.03 in 1984. Much of the increase in the Consumer Price Index in the period from 1967 to 1984 was due to inflation.

Consumers can use the CPI to compare prices on hundreds of goods and services. It's still another method, like the gross national

product, of evaluating how our economic system is performing. The GNP measures output; the CPI compares prices. There are other government-published guides and information about the economy for consumers and also for producers. The **Producer Price Index (PPI)** compares the cost of producing goods now with producing them in earlier years. The base year currently used is 1967. For the producer of food in 1984, the cost was \$3.11 compared with \$1 in 1967. You can see that both producers and consumers are in the same boat when it comes to inflation.

THE ROLE OF GOVERNMENT

The federal government does more than supply information about the economy to consumers and business people. It also has the responsibility of helping to solve problems in our economy. Changes in our business and economic world are expected — and are normal. But too many ups and downs in the business cycle, especially recessions, are not good. The government tries to help regulate the business cycle, to keep it at the top of the cycle as long as possible. When the economy is in a recession, the government actively tries to prevent a depression and bring about a recovery. In a period of prosperity, the government attempts to maintain it. The government also tries to keep the rate of inflation down.

Sometimes the government tries to influence an economic situation by establishing specific policies. One type of economic policy is that which controls spending, since the government is a consumer. Or it can provide more money for people to spend, by providing employment for them. During the Great Depression of the 1930's the government sponsored public projects that created work for the unemployed. Large numbers of people were hired to build roads, work in national forests and parks, and even to write histories about the states. The result was an increase in total spending, which helped the economy.

Cutting taxes is another way of indirectly increasing spending. If the government cuts taxes, it gives workers more take-home pay. Their increased spending for goods and services may help the economy out of a recession. Of course that plan works only if the consumers spend rather than save the money they didn't pay in taxes.

Sometimes the government needs to slow down the economy. If inflation is a problem, the government may cut its own spending.

Since the government is a big consumer of goods and services, less spending by it will mean fewer dollars chasing after goods and services. The economy thus slows down. The government can also increase taxes, which will take money out of the economy. But the government has to use the money to balance its budget rather than act like a consumer if it wants to curb inflation.

Not everyone is in favor of such policies. Indeed, many believe that the government should not interfere with the economy. They believe that in time the system always corrects itself.



The government tries to fix the economy when something is wrong.

SUMMARY

Keeping a large economic system like ours running smoothly is a big job. We have measurements, such as the gross national product and the Consumer Price Index, to determine how healthy the economy is. Because our system is so huge, it is hard to solve the problems of inflation, recession, and unemployment. Using our scarce resources efficiently is important. And advanced technology and worker know-how have helped our economic system as well.

But we will continue to have problems, even with one of the most successful economic systems in the world. Although we have the highest gross national product in the world, our economic system is not perfect. It has worked for over 200 years, but we can all help to make it better.

**BUILDING
WORD
POWER**

Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 10. Then write the term that best matches each numbered definition.

business cycle
Consumer Price Index
depression
gross national product
inflation

Producer Price Index
prosperity
real dollar
recession
recovery

1. The high point of a business cycle, when business is good.
2. A comparison of current prices with those of a past year in terms of real dollars.
3. The dollar value of all of the goods and services produced by an economic system in one year.
4. A period of increased spending that causes rapid rises in prices.
5. An upswing in a business cycle, when people begin to get jobs and to buy more products and services.
6. The economy's move from good times to bad times and back again.
7. A measure against which the value in purchasing power of the dollars of other years is measured.
8. The lowest point a business cycle can reach.
9. A comparison of the cost of producing goods now with a past year in terms of real dollars.
10. A stage in a business cycle when fewer goods and services are demanded and unemployment rises, but the problems are not serious enough to cause real alarm.

**BUILDING
READING
COMPREHENSION**

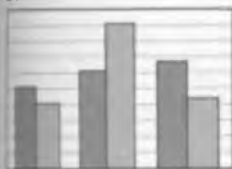
1. What is the gross national product?
2. What is a "real dollar"?
3. Why are economic figures often reported in real dollars as well as in today's dollars?
4. Describe how our economic system works in a circle.
5. Name the four parts of a business cycle and describe each.
6. During which period of the business cycle is the gross national product probably at its highest? When would the GNP be at its lowest?
7. What major problems did our economic system have during the Great Depression?
8. What are the three major causes of inflation?
9. What problems does inflation cause for consumers?
10. Name two ways in which the government can increase consumer spending.

**BUILDING
BUSINESS
CONCEPTS**

1. "Every person's spending becomes someone else's income." What does that statement mean in our economic system?
2. When prices of consumer goods go up, is the price rise always bad for our system? Why or why not?
3. What does the Consumer Price Index tell us?
4. How does the PPI differ from the CPI?
5. If our economic system has problems with the business cycle, how can the government help? Name two major actions that the government can take.
6. How would you describe a healthy economy?
7. Some people say that government should have less economic influence on our system. Do you agree? Why or why not?
8. Why is the gross national product useful as a way of judging how the economy is doing?
9. If the Producer Price Index were to go up, what do you think would happen to the Consumer Price Index?
10. Why does the government provide such figures as the PPI, the CPI, and unemployment figures?

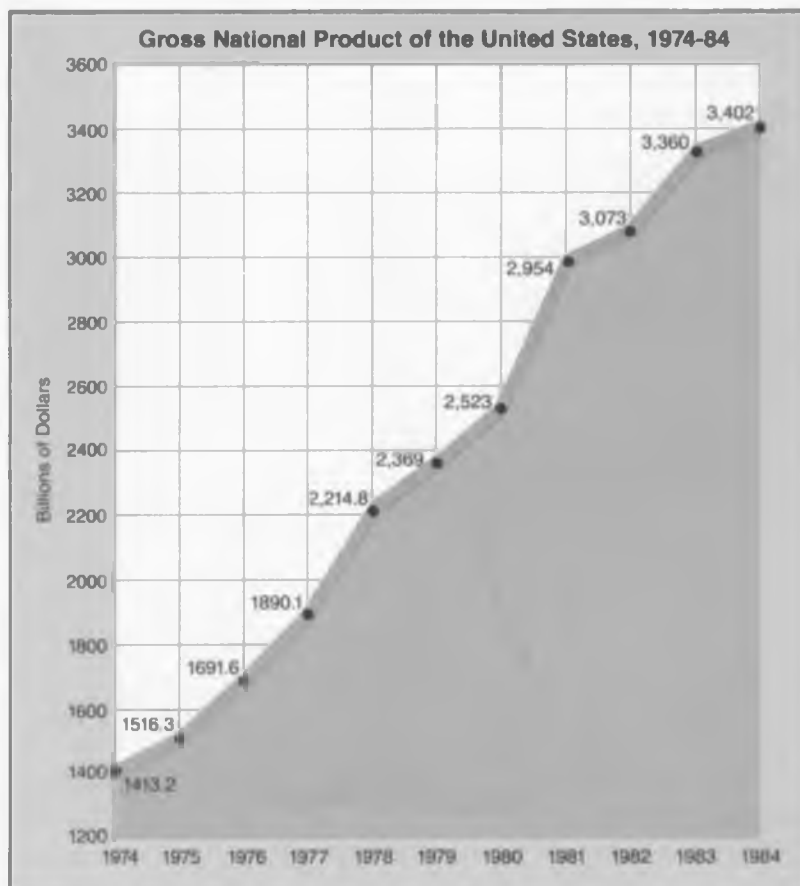
**BUILDING
BUSINESS
EXPERIENCE**

1. During a time of inflation, what do you think happens? Give a reason for each of your answers.
 - a. Do prices go up or down?
 - b. Do salaries and wages go up or down?
 - c. Are there too many goods or not enough goods to buy?
 - d. Does the value of a dollar rise or fall?
2. Some products that appear on the market do not last very long. Hula hoops, for example, disappear and reappear from time to time. Mini-skirts become popular and then fade away. Why do these items not stay on the market?
3. A business cycle has four major stages: depression, recovery, prosperity, and recession. Describe what you think will generally happen during each stage to each of these factors:
 - a. Jobs — increase in number, decrease, or stay the same?
 - b. Prices for consumer goods — decrease, increase, or stay the same?
 - c. Consumers' buying habits — buy less, buy more, or no change?
 - d. Number of business firms in the market — decrease, increase, or stay the same?
4. Check in the library for a history of the Great Depression. If you know someone who remembers the Depression, ask him or her to describe the problems of individual consumers during that time, the problems in the economic system, and what life was like during the Great Depression.

**BUILDING
ANALYTICAL
SKILLS**

The graph below shows the gross national product of the United States from 1974-1984. Study the graph, and then answer the following questions.

1. What was the amount of the gross national product in 1976?
2. By how much did the gross national product increase in 1977?
3. By how much did the gross national product increase from 1974 to 1984?
4. What causes the gross national product to increase?
5. The graph shows that our gross national product has increased each year from 1974 to 1984. Could our GNP ever decrease? What would cause a decrease in the GNP?



Issues in Business

Who Pays for Lobbyists?

What is a lobbyist? The word comes from the hallway or anteroom outside a legislator's office where lobbying takes place. One of the most important lobbies in the world is the hallway outside the Ways and Means Committee hearing room for the United States House of Representatives. It is often crowded with lobbyists. They have come to win friends and influence legislators about pending laws. After meeting with lobbyists and discussing the pros and cons, legislators often decide how they will vote.

Some lobbyists work for organized groups or societies. Others represent big and small businesses. Sometimes a lobbyist will represent a foreign government or even an organization in another country. Lobbyists may work for the banking industry, unions, teacher organizations, the country of Liberia, or nonsmokers — to take just a few, widely scattered examples. A single individual may hire a lobbyist, as may a special interest group representing thousands of people.

Suppose you own a large business making and selling clothing. You hear of legislation being considered to put higher import duties on textiles imported

from certain foreign countries. To make your views known about the legislation, you might write to a member of Congress. You might also join an organization of other clothing manufacturers. Or you might hire a lobbyist to communicate your views to the legislators who will vote on the bill.



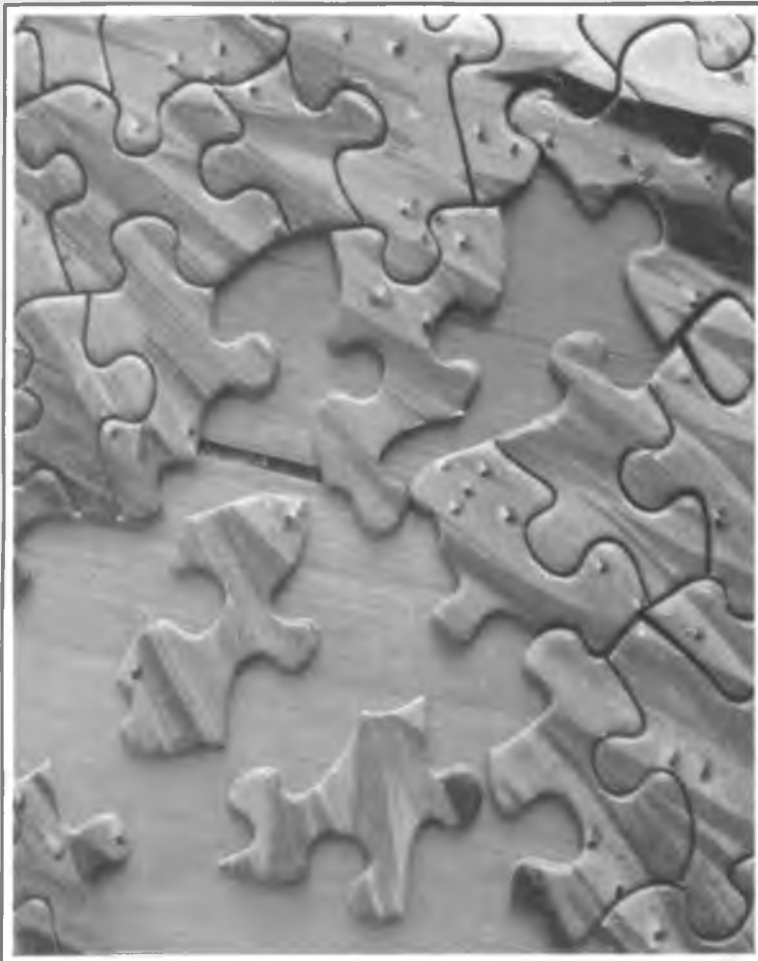
How much are lobbyists paid? The going rate for highly paid lobbyists may be \$400 per hour. Flat fees can range up to \$500,000 per year. A few lobbyists, who may have been legislators or government employees themselves at one time, earn as much as a million dollars a year!

Who really pays for lobbyists? Obviously someone working for South Korea or Japan is paid by those countries. Other lobbyists are paid by trade organizations, businesses, associations, and so forth. Each organization passes along the cost to its members and each business to the consumer. Ultimately we all pay for the lobbyist.

UNIT

3

DOING BUSINESS IN A PRIVATE ENTERPRISE ECONOMY





CHAPTER 9

How Businesses Function

- Can you think of a better way to build a mousetrap? Perhaps some business is trying to do that right now. Some other firms are trying to make better cars and better laundry soaps. Why?
- Pretend that you are starting a business. What do you think consumers need most? What problems would you expect to find in running your own business? What advantages would you expect to find?

Do you know what these terms mean?

innovations	wholesaler
raw goods	retailers
processed goods	container ships
distributor	monopoly

You'll learn all about these terms in this chapter.

In our economic system, businesses are responsible for producing goods and services. If we had no businesses, each individual would have to provide whatever was necessary to satisfy his or her wants. There would be no *interdependence*, no relying on someone else to supply a particular item or service. Indeed, no one would have any reason to work with anyone else.

THE RISE OF BUSINESS

How did the early settlers get food, clothing, and shelter? They produced those items themselves. They had farms and gardens, spun cloth and sewed clothing, and built houses and barns themselves. But through the years people found that working together helped them improve their standard of living. Now business firms specialize in producing the goods and services we need. They have increased the productivity of our economic system.

In the early years of the United States, most people were farmers. As much as 70 percent of the population worked on farms in 1790. As the country grew, more and more businesses were started. People left the farms to work in business. New technology was developed, and more goods and services were produced. At the same time, technology also benefited farming. New machinery and equipment were developed, and farmers could grow more crops. As a consequence, they could also feed more people. That, in turn, meant that fewer farm workers were needed, even though more crops were being grown. Over a period of time our whole economy was affected. Today only about 3 percent of the labor force works on farms. On the other hand, we have several million business firms. Fewer farmers produce more food for everyone, and many business firms keep improving our technology.

But technology alone was not enough to cause such a rise in the number of business firms. Certain other factors had to be present. For example, people had to have the right to own property. Also,



Increased technology today means that fewer farms can produce even more food.

people had to have the freedom to start businesses. They had to have the freedom to make agreements. They had to have the right to enter into agreements for producing goods or services and for providing labor. They had to have the opportunity to compete with others in an open market. And all individuals had to have the freedom to buy whatever they wanted. These factors are found in a private enterprise type of economy.

Can you name countries in which these conditions are not present? What are some?

HOW BUSINESSES OPERATE

In business, certain techniques or ways of doing things have made it possible to produce more goods faster — and better. Henry Ford is an example of a business person who developed new production techniques. In fact, some of his innovations, or new ways of

doing things, made it possible to produce automobiles so inexpensively that almost everyone could own one. Ford had each worker in his automobile plant do one kind of task, instead of several, on each automobile. This specialization of labor led to mass production of cars. When Ford perfected the assembly line, with each worker along the line performing one task on the automobile as it moved by, production increased enormously. From fewer than 11,000 Model T Fords in 1908, his factory produced more than 730,000 by 1917. Ford himself became one of the most successful and copied business persons in the world.

With specialization, mass production, and technology, our economic system has become a model for others to copy. Our gross national product has increased so that today it is in the trillions of dollars. Businesses, too, have specialized, producing one product or service only. By specializing, businesses can provide a better product or service.

Specialization of business has another advantage for the consumer. It means that goods and services usually can be produced at a lower cost. Suppose you are good at making furniture. You have decided to sell bookcases that you build. If you work alone nights and weekends and do all of the work yourself, it may take you a month to make and finish a bookcase. How much will you charge for that homemade bookcase? It will probably be more than most people will be willing to pay when you consider all your labor and the cost of materials.



Specialization means that goods and services usually can be produced at a lower cost.

Maybe you discover that there's a furniture factory nearby. If you were to begin operating that factory, you probably could build several bookcases in a single day. To do this, you would use more equipment, hire workers, and have each worker do certain tasks. Your *total* costs would be more, but your cost per bookcase would be less. Even so, you probably could become efficient enough to sell your bookcases for only a part of the cost of your handmade one. You could charge less for each bookcase and still make a profit.

Business firms are started by persons who are willing to use innovations and techniques to get the goods and services out. If mass production, better equipment, and specialization work, they use them. In fact, they use whatever will produce goods and services for less cost. In that way products can be sold for less and a larger share of the market can be gained. That hope for a larger share of the market is the driving force for many businesses in our economic system.

TYPES OF BUSINESSES

There are thousands of different businesses in this country, but they all fall into a few types, or groups. Businesses can be grouped by the activities they perform. The activities performed by businesses are (1) producing raw goods, (2) processing raw goods, (3) manufacturing goods from raw or processed goods, (4) distributing goods, and (5) providing services.

Producers of Raw Goods

A farmer in Kansas grows wheat. A petroleum worker in California drills for oil. A miner in Minnesota digs for iron ore. All of these individuals are involved in activities related to producing raw goods — materials gathered in their original state from such natural resources as land and water. Business firms that perform activities of this sort are producers of raw goods. Many agricultural, mining, and forestry businesses fall into this category.

Processors of Raw Goods

Usually we do not use raw goods exactly in the same form that we find them in nature. For example, most often we prefer to change wheat into flour. We want to have oil turned into gasoline or other

petroleum products. And we want to change iron ore into steel. Businesses that change these natural materials from their original forms into more finished forms are involved in activities related to the processing of raw goods. Among the business firms organized to carry out these activities are flour mills, oil refineries, and steel mills. The output of these businesses is called **processed goods**.

This peach-canning plant is an example of a processing business.



Manufacturers

Manufacturers turn raw or processed goods into finished goods. They are businesses set up to carry out the activities involved in making finished goods out of processed goods. The bakery that makes bread out of flour and other raw or processed goods is a manufacturer. The automobile factory that makes cars out of steel is also a manufacturer.

What other types of manufacturing activities can you name? What raw goods were used in the manufacture of these products? What processed goods were used?

Distributors

A **distributor** is someone who moves goods from one business to another. Such a business is often referred to as a *middleman* because it takes the goods from a manufacturer and either stores them or moves them to where they are wanted. Eventually, of course, the goods go to the consumer. The activities involved in moving goods from producers to consumers are those related to distribution.

One type of business firm that is involved in the distribution of goods is a **wholesaler** — a business that distributes or sells products, most often to other businesses. Wholesalers gather the goods produced by manufacturers into central locations. The goods are then generally sold to another type of distributor, a **retailer**. **Retailers** are businesses that sell directly to the consumer, the final buyer of the goods.

Can you think of any businesses in your community that act as wholesalers? What types of goods do they sell?

For the most part, large quantities of goods are moved by railroad, trucking, shipping, and airline businesses.

Railroads. Railroads are one of the most important parts of our system for distributing goods. In recent years, railroads have moved about 40 percent of all freight shipped in the United States. A few large railroads carry most of the freight moved by rail. Trains can move goods over long distances at low cost. A railroad freight car or tank car can haul huge amounts of materials. Some businesses deliberately locate near railroad tracks so they can ship their goods conveniently.

Railroads and barge lines often work together to move grain by water and by land. The railroads move the grain by land to the

barges. From there the barges haul it by water to the coast for shipment by boat. The use of barges cuts the total cost of transporting the grain because it is generally less expensive than some other means of transportation.

Railroads cooperate with other shippers to offer some special services. Trucking companies and railroads combine in a unique hauling operation. Goods are brought by trailer trucks to a railroad. There the trailers are detached from the cabs and put on railroad flatcars. Moving "piggyback" fashion, the trailers are carried to a distant point, usually on the far side of a major city. Then the trailers are unloaded, hooked up to other cabs, and go the rest of the way to their destination.

Trucking Companies. In many ways truck transportation is the easiest way of moving goods. Because trucks can go wherever there is a road, business firms that are not close to railroads, airlines, or rivers can use trucks. Trucks can be built to haul any goods that need special handling. For example, refrigerated trucks make it possible to haul food long distances. Other trucks are built to carry bulldozers or cranes. Still others haul cows, chickens, and horses.

Shipping Companies. Transporting goods by water is the least expensive way of moving them. However, it is also the slowest way. The biggest problem for businesses is location. Most firms are not close to waterways that can use ships for moving goods. Ships

In some states, truckers are allowed to haul two trailers.



are best used for heavy goods like chemicals, coal, iron ore, and grain. Oil is frequently transported by ship, even from one port to another within the United States. And as far as moving goods to foreign ports is concerned, ships are used more often than any other kind of transportation.

Shipping companies have had problems getting enough money to finance their very large costs. One development that has helped shipping companies has been the making of special crates or containers to hold goods. **Container ships** are specially equipped to handle the boxes. When the containers are delivered to a port, trucks, trains, or even airplanes can carry them elsewhere. The use of containers makes it possible to move goods easily from one point to another. Containers protect goods from damage and increase the efficiency of moving them since many goods can be packed into one large container. Even with such techniques, shipping companies have had difficult times in recent years. Many large shippers in the United States have required loans from the government just to meet their high costs of operations.

Airlines. The fastest way of moving goods is by air. Huge airliners can carry large amounts of products from place to place in the shortest time possible. Together with trucks or railroads, airlines can speed up the hauling of goods to almost any part of the world. Some large airlines even specialize in transporting goods. Airlines are often used to carry goods like flowers that will spoil or be ruined if they are not moved quickly.

Other Ways of Moving Goods. Some businesses specialize in offering a combination of ground and air transportation for small packages. The United States Postal Service offers parcel post and express package service for small shipments. Most major bus lines offer package express service to any place along their routes. Charges are based on the weight of the package and the distance it is being shipped. Railroads and airlines offer a similar service, delivering packages to cities where they have stations or terminals.

A very special way to move goods is by pipelines. A great deal of the oil moved from one place to another in our country goes by pipeline. Natural gas also is moved through pipelines.

Service Firms

A fifth type of business, one that is increasing in number very rapidly, is the so-called service firm. Service firms provide services instead of goods to consumers. For instance, appliance repair shops,

car washes, and hair salons are all examples of service businesses. A hair salon may sell shampoo, but mainly it provides a service of styling hair.

Other service businesses, such as those involved in word processing and photocopying, have sprung up as a result of the tremendous growth of information processing. As consumers have more goods, they need service people to repair and maintain them. Service firms account for about one half of the total gross national product and about 60 percent of all businesses in the United States.

FROM LITTLE TO BIG BUSINESS

Although large business firms are important in our economic system, the majority of businesses are small. Our private enterprise system encourages entrepreneurs. As you learned in Chapter 1, an entrepreneur is someone who takes the risk of starting and managing a business. Entrepreneurs can compete in the market just as large firms do. In fact, some products and services are more suited to production by an entrepreneur in a small firm. Some people have skills for making products by hand. You might pay more for the handmade product than if it were mass-produced because you might consider its quality and uniqueness worth the added cost.

Both small and large business firms compete for the consumer's dollars. If firms are not able to meet the wants of consumers, they go out of business. If they compete successfully, they stay in business and may grow larger. Competition is a way of assuring consumers of the best product or service at the best price.

A good example of how competition works comes from the pocket or hand-held calculator businesses. When calculators first came on the market, they sold quickly even though their price was about \$200. They were smaller and more efficient than large, desktop calculators. More manufacturers entered the market. They began to produce more calculators even more efficiently. New ways of producing calculators, with electronic parts so tiny they could be seen only with a microscope, brought the price down. Calculators sold for less and less as time went by. The newer ones performed better than the \$200 calculators. Some of the new ones now sell for less than \$5!

If only one business firm had been making calculators, probably the price would have stayed high. As more and more firms



Businesses that have little or no competition usually do not feature low prices.

entered the market, however, competition forced them to make their products more attractive to the consumer. Business usually has several choices when competing on the basis of price: (1) make the same product at a lower price, (2) make a better product at the same price, (3) make a better product at a lower price. Any business that produces goods or services has to make one of those three choices.

A business can sell a product that's exactly like all the others. Then it must price the product no higher than the going rate. On the other hand, if the business can add a new feature or quality that sets it apart from its competitors, the product is now different. The firm may be able to raise its price, attract more customers, and be more successful in competing. Such competition is an example of non-price competition.

*What do you consider a "fair" profit for a business firm?
What factors do you suppose may place limits on the
amount of profits a business may earn?*

Businesses can gain some control over their prices simply by becoming larger. They have a larger share of the market. They can buy supplies for less because they buy in large amounts. They can advertise more. They take the lead in setting prices, and smaller firms have to follow. A smaller firm usually cannot afford a "price war."

In some cases our economy has so few firms selling one kind of product that they have little or no competition. If one firm sells all or practically all of a product, that firm has a **monopoly**. Because the company has no competition, it can determine the one price to be set. Since a monopoly usually means higher prices for the consumer, the government may step in. In most cases, it is not legal to control the market through a monopoly. The government may, through the courts, break up the company into smaller companies or make it sell some of its own divisions. While growing bigger is not bad in our economy, controlling prices is. Our private enterprise system favors competition and risk taking by both big and little businesses.

SUMMARY

In our economic system, businesses use natural resources, labor, capital goods, and entrepreneurship — the factors of production — to produce the goods and services we need. Any individual entrepreneur is free to enter the market, produce a product or service, and make a profit. The entrepreneur is also free to *fail* to make a profit — and go out of business. Business firms are classified as those that produce raw goods, process raw goods, manufacture goods, distribute goods, and provide services. Together they provide the goods and services needed to maintain the high standard of living that we enjoy in our country.

A business firm is successful only when it can do three things. It must offer the products and services that people want. It must be able to compete with other business firms offering similar products and services. And third, it must make a profit. A final question: *Why* do we have business firms? The answer is that they supply us with the goods and services we want. They play an important part in our economic system. Without them we would not be able to produce the vast number of goods and services that we use throughout our lives.

BUILDING WORD POWER



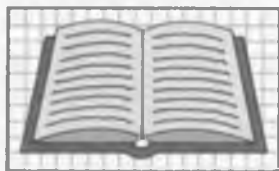
Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 8. Then write the term that best matches each numbered definition.

container ships
distributor
innovation
monopoly

processed goods
raw goods
retailer
wholesaler

1. A business that distributes or sells products, usually to other businesses.
2. A business that distributes goods directly to the consumer or final buyer of the goods.
3. A firm that sells all or practically all of a product and has no competition in the market.
4. Materials gathered in their original state from natural resources such as land and water.
5. Ships that have been specially equipped to handle crates or containers for shipping goods.
6. A new way of doing things.
7. Natural materials that have been changed from their original state into a more finished state.
8. A business that moves goods from one business to another.

BUILDING READING COMPREHENSION



1. What does "interdependence" mean in our economic system?
2. What caused the shift in our economy from a majority of farms to a majority of business firms?
3. What advantages do consumers have as a result of specialization by business firms?
4. Give an example of a business in each of the five types of business activities.
5. Name two types of distributors. How do their activities differ from each other?
6. What is the major advantage of railroads as movers of goods?
7. What advantage do trucks have over railroads and ships for moving goods?
8. How does the consumer benefit from competition among business firms?
9. Why does the government rule out monopolies in our economic system?
10. What three things must a business be able to do to be successful?

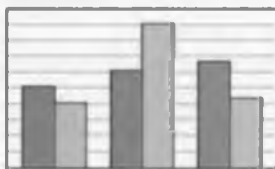
**BUILDING
BUSINESS
CONCEPTS**

1. List five basic concepts on which a private enterprise system is based.
2. How did Henry Ford's production methods affect our economy? Why do you think his firm was so successful?
3. Why do people start businesses and try new ways of producing goods and services?
4. How do piggyback service and container ships save money for companies that ship goods?
5. How has our economy changed as a result of the shift from an agricultural economy to a predominantly service economy?
6. Give three examples each of raw goods and processed goods.
7. Name two different types of products or services that may be provided best by individual entrepreneurs instead of business firms. Give reasons for your choices.
8. Shipping goods by water is slow but inexpensive. What types of goods are suitable for that form of transportation? Why?
9. Over the past 250 years our economy has shifted from an agricultural economy to a manufacturing economy and then to a service-oriented economy. Why did these shifts occur? Do you think there could be another shift? Why?
10. Our business system has millions of firms. Why are they so important to our system?

**BUILDING
BUSINESS
EXPERIENCE**

1. What would our lives be like if everyone went his or her own way with no one sharing with anyone else?
2. What factors should an entrepreneur consider in trying to select a product for a new business firm?
3. Divide your class into five groups: railroad, truck, air, water, and pipeline transportation. Discuss the advantages and disadvantages of the type of transportation assigned to your group. Report the results of your discussion to the rest of your class.
4. Although the average business firm in this country earns about 5 percent profit on sales, the typical citizen believes that the profit is about 40 percent on sales. Why do you think people believe profits are so much larger than they really are?
5. Using your local telephone directory, list at least three business firms in your community that fit each of these five groups: (a) produce raw goods, (b) process raw goods, (c) manufacture goods from raw or processed goods, (d) distribute goods, and (e) provide services. Which group seems to have the largest number of firms in your community?

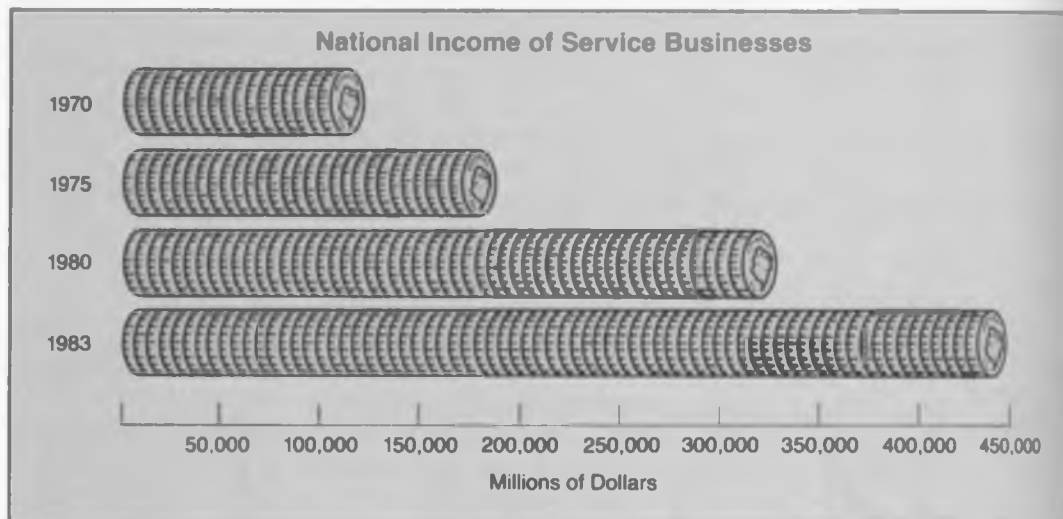
BUILDING MATH SKILLS



1. Annette started a business of her own recently. Here are some of her major expenses for opening her store.

Rent on store building for three months	\$2,200
Furniture and equipment for building	4,000
Inventory of goods for sale	5,500
Remodeling expenses	1,850
Licenses	36

- a. How much in total did she spend for these five expenses?
 - b. What percentage of her total expenses was for inventory? What percentage was for rent?
2. This graph shows the income of service businesses in the United States from 1970 through 1983. Study the graph and answer the questions that follow.



- a. Over which period of time did the national income of service businesses make the greatest gain?
 - b. About how many millions of dollars were service businesses earning in 1980? in 1983?
3. The 1983 incomes for businesses involved in transporting goods and people in the United States are listed below:

Railroads	\$15,873,000
Local bus lines and subways	4,641,000
Motor freight (trucks)	36,714,000
Passenger and cargo ships	5,818,000
Airlines	16,395,000
Pipelines	1,772,000

- a. How much did these six industries earn in total in 1983?
 - b. Which industry had the largest income? What percentage of total income for these six industries was that figure?
4. In 1984 workers were employed in eight categories of work. Study this table and answer the questions below.

WORKERS EMPLOYED IN THE UNITED STATES IN 1984

Industry	Number of Workers
Mining	1,002,000
Construction	4,380,000
Manufacturing	19,744,000
Transportation and Public Utilities	5,179,000
Wholesale and Retail Trade	21,775,000
Finance, Insurance, and Real Estate	5,677,000
Services	20,692,000
Government	15,931,000

- a. What was the total number of people employed in 1984?
- b. Which three types of employment had the largest numbers of employees?
- c. In 1983, 90,392,000 people were employed in these eight industries. How much did employment increase in 1984?

Trends in Business

New Ways to Telephone

The business person driving to work and talking on the telephone is still the exception — right now. So, too, is the person sitting in an airplane and calling the office 37,000 feet below and 2,000 miles ahead. But recent developments in communications technology have made such exceptions a bit more common.

Already a number of large cities have installed cellular telephone service. A cell (from which cellular comes) is an area nearly twenty miles across in which an antenna is located. An entire metropolitan area of a large city may be covered by these cells. As a car with a mobile phone moves through these cells, or zones, telephone calls are automatically and instantly transferred by computer from one cell to another.

Cellular telephone service is still fairly expensive. However, convenience, comfort, and privacy are powerful incentives for people to subscribe to such a service. Already, some car manufacturers are offering to install mobile phones as optional features on their cars. As more people subscribe to cellular telephone service, the cost will

decrease, thus making it possible for even more people to buy the service.

Satellites orbiting the Earth are also changing telephone technology. Telecommunications satellites already have the capacity for carrying 33,000 simultaneous phone calls. Satellites can relay phone messages all over the world without phone lines.

Even the conventional method of transmitting telephone signals by copper wire is changing. New installations are using optical fibers rather than copper wire. *Optical fibers* are pure strands of glass as fine as human hairs, and they carry twice as many phone calls as copper wire. And they can do it in a pipe the size of a dime as compared to the diameter of an ax-handle for the same number of copper wires.

All of these electronic developments, combined with new computer technology, are bringing about a revolution in the field of telephone communications. Consider the possibility that soon you'll be able to see the face of the person telephoning you *before* you pick up the telephone. And are you ready for this: your own private, personal telephone number that you carry with you all your life?





CHAPTER 10

How Businesses Are Organized

- Businesses are set up in a certain way to produce goods and services. If you want to start a business, how do you begin? Do you think government is involved? How?
- In your business you want to make a profit. You may not want to share all the responsibilities — or all the debts! You must make some decisions. How are you going to accomplish those objectives?
- Going it alone may be fine if you're running a TV repair shop. But what if you wanted to manufacture bicycles or sell hamburgers? Maybe a different kind of organization would be better able to handle those products. Why?

Do you know what these terms mean?

sole proprietorship	stock
discount	stockholders
unlimited liability	board of directors
partnership	charter
partnership agreement	bylaws
corporation	cooperative
limited liability	franchise
multinational corporations	

You'll learn all about these terms in this chapter.

We have said that businesses are important to our private enterprise system. They provide the organization for producing goods and services efficiently and in large quantities. They have given our country the largest gross national product in the world. They have given our consumers one of the highest standards of living. Without businesses, we could not meet our wants and needs.

We have seen five types of businesses: raw goods producers, raw goods processors, manufacturers, distributors, and service businesses. Each of these has a different kind of function in providing goods and services to satisfy our wants. Now we are going to look at how businesses organize to *do* business. In what different ways are they organized? Why is each different form of organization considered best for reaching certain goals?

THE SOLE PROPRIETORSHIP

Our economic system has over 17 million business firms. Almost three fourths of these businesses are organized as sole proprietorships. When we speak of a *proprietor* (*pruh PRY ih tur*), we are referring to the owner of a business or firm. A *sole proprietorship*, then, is a business or firm owned by one person. Sole proprietorships are often found in businesses offering services to consumers. Examples of sole proprietorships are clothing shops, travel agencies, florists, TV repair shops, and so on.

Advantages of a Sole Proprietorship

The sole proprietorship has several advantages. First, it is simple to start. Depending on local laws, the only requirement for

starting a sole proprietorship may be a license. Second, because the business is owned by one person, that person is free to do as he or she pleases. When you are the sole proprietor, you are the boss. No one tells you how to run your business. If you decide to change the hours you are open, add or drop some products, you are free to do so. A third advantage is that you receive all of the profits. You have good reason to work hard for all of those benefits. In fact, a characteristic of a sole proprietorship is long hours of work. Most sole proprietors put in longer work days than if they worked for someone else as an employee. After all, they want their own businesses to do well. A fourth advantage comes when the sole proprietor is paying taxes. A sole proprietor pays taxes only once on the income from the firm.

Disadvantages of a Sole Proprietorship

A sole proprietorship has some disadvantages, too. Although a sole proprietorship may be easy to start, its owner may have trouble getting money. As the only owner, where do you get the money for buying supplies and materials, renting a building, paying for advertising, getting some help in marketing your product, and so on? Maybe you have to dip into savings or borrow money from a bank. Friends may come through with a loan — although you may have to pay interest on it. A shortage of money is a common problem for sole proprietorships because they depend on the resources and abilities of just one person.

Another disadvantage of the sole proprietorship is that the business ends when the owner leaves. Someone may buy the business from the owner, but in that case a new business is started. A sole proprietorship has a limited life. It is limited to the time the owner is willing and able to run the business.

Most sole proprietorships remain small businesses. When it comes to buying materials, small size can be a handicap. Large businesses can buy cheaply in large quantities and can also save money on shipping costs. A reduction in price, or discount, is often given for buying in large amounts, saving time and money in collecting and shipping goods. Such a discount may not be available to a small firm.

Still another problem with a small but growing sole proprietorship is that the owner may not be able to do all of the work. The owner may be able to hire some family members or be forced to employ other workers. Good workers who will continue to make the

business a success may be difficult to find, train, and keep. Equally important, a sole proprietor may not have all the various skills to run a successful business. The owner may be good in one aspect of the job, such as making repairs on a television. But he or she may not be able to deal well with the public. And, an individual who deals well with the public may not be able to handle taxes and other recordkeeping tasks.



When you operate a sole proprietorship, you take all the risks.

It is nice to be your own boss and to make 100 percent of the profits. But what if the business doesn't make a profit? You're 100 percent responsible for the losses! There is no one to share them with. In addition, as the owner you must make all of the decisions. Even if you do not have the special skills to make all kinds of decisions in the right way, it's still your show.

If the debts of the proprietorship are greater than the things it owns, or its assets, the owner is still held responsible for the difference. Responsibility for debts — even if they are more than the assets of the business — is called **unlimited liability**. In some cases the owner may lose savings or property to pay the business's debts.

Which of the businesses in your community are sole proprietorships? Do you suppose there are more sole proprietorships in your area than any other form of business?

THE PARTNERSHIP

A person who starts a sole proprietorship may find that it grows and grows. More money must be found to expand the business, and that isn't easy. Banks want certain guarantees before they make loans, even to old, successful businesses. One way, then, to expand a business is to add skills and spread out the responsibility by forming a partnership. A **partnership** is a business organization with two or more owners who share responsibility.

Advantages of a Partnership

Starting the partnership has few requirements. Depending on the nature of the business, a partnership may need a license. The partners should draw up a **partnership agreement**, a kind of contract in which they declare certain understandings between them. For instance, they put into writing how they will share the work and profits, how they will end the partnership, and other matters. A written agreement from the start may prevent problems later on.

At least two people, but as many more as are wanted, are needed to form a partnership. Some firms have dozens of partners. Each partner can contribute skills, as well as money, to running the business. One advantage of a partnership is that each partner can bring special skills to the business. Another advantage is that, unlike sole proprietorships, partnerships find it easier to acquire money because there are more owners who can contribute to the business. All partners who share in the business have good reasons to work hard for its success. Each shares in the profits according to the partnership agreement. Like the income of the sole proprietorship, the income of the partnership is taxed only once.

Let's say that you and a partner open a restaurant. Your special skills include keeping business and financial records. Your partner is a chef and likes to work with people in the day-to-day operation of the restaurant. If you were to open a restaurant as a sole proprietorship, you might find that the cooking and operation of the business were your weakest areas. Because of your partner's special skills, the two of you might have a more successful business.

Disadvantages of a Partnership

Certainly the partnership has disadvantages. Like sole proprietors, partners have unlimited liability for debts. Wrong decisions

may cause the business to lose money. And any partner can act for the partnership. If one partner makes wrong decisions that are expensive for the partnership, the other partners are bound by that person's decisions. If your partner in the restaurant makes some bad decisions, you *both* are responsible for them. For that reason alone, making a partnership agreement is wise. It spells out the duties of each partner so that each knows exactly what responsibilities are his or hers.



A partnership can be a very successful form of business operation, as long as the partners agree.

However, even with a partnership agreement, partners may disagree. Those disagreements may become such a problem that the partners no longer can work together. The partnership agreement should provide for adding new partners and for ending the partnership, to avoid problems. The partnership is also legally ended if one partner decides to leave the partnership or dies. The remaining partners may reorganize, but they really are starting a new business. Many partnership agreements provide a way for the remaining partner or partners to buy the share of ownership of a partner who leaves the business or dies. By having a partnership agreement that allows the partners to do this, they can keep the business and continue it as a new one.

THE CORPORATION

A **corporation** is a business that is legally regarded as a separate entity. An *entity* is defined as "something that exists independently." That means that, as far as the law is concerned, the corporation exists separate from the people who own it. It has a life of its own. As a consequence, owners in a corporation have limited liability. With **limited liability**, the owners are responsible for the debts of the business only to the extent of the amount they have invested. Even if the business fails, the owners cannot lose more than they have invested. Their personal savings and possessions cannot be taken to pay the corporation's debts.

Although only about 16 percent of all businesses are corporations, they earn about 79 percent of the income. Some corporations have offices and plants in more than one country. These are called **multinational corporations**. Indeed, they may operate in several countries. A number of corporations in the United States are among the largest businesses in the world. And a few of our corporations have annual sales that are larger than the budgets of some small countries.

Do any multinational corporations have headquarters or branches in or near your community? Which corporations are they?

The original owners of a corporation may decide to issue **stock**, or shares in the ownership. The new owners, called **stockholders**, pay a certain amount for their shares, many buying the stock through a stock exchange. Each stockholder has one vote in the management of the corporation for each share of stock he or she owns. Some of the largest corporations in the United States have over a million stockholders, or owners.

The stockholders of a corporation elect a **board of directors**, a group of individuals chosen to make the major decisions for the company. The board of directors then appoints officers to make the day-to-day decisions of the firm. The officers, such as the president, vice presidents, treasurer and so on, make most of the decisions for the corporation.

Both the officers and the board of directors are responsible to the owners. By law the board of directors must oversee the work of the officers. The board also must provide a way for the owners to vote on important decisions and to be informed about the operations of the corporation. Most companies hold an annual meeting

for stockholders. In addition, they issue an annual report giving full information about the year's activities.

In a small corporation, the original owners may run the business, much as a sole proprietor or partners do. In that case, the owners act as the officers of the corporation and make up much or all of the board of directors. There is no reason that a small corporation has to sell shares of ownership to the public.

Advantages of a Corporation

Since the owners have limited liability, corporations often find it easier to get additional money by selling stock. The corporation also has unlimited life. Because it is a legal entity quite apart from the owners, the corporation does not end if one or more owners decide to sell their shares. Ownership can easily be transferred to new stockholders, and the corporation goes on.

Disadvantages of a Corporation

One major disadvantage of a corporation is that it is subject to special taxes. Owners are taxed on their income from the corporation. Then the corporation itself, which is legally regarded as a person, is also taxed. In one sense, this is double taxation.

A corporation is more difficult to start than a sole proprietorship or partnership. A **charter**, a legal form giving the corporation the permission to operate, must be obtained. The owners apply to the state in which they wish to operate for the charter. It outlines some of the regulations of the corporation, such as the number of shares of stock that may be sold. Corporations are more closely regulated by government than other business organizations. For instance, before a state issues a charter, an application must be filled out by the owners and certain fees must be paid. Only after the application is approved and a charter is issued can the owners draw up the **bylaws**, or rules of operation, for the corporation. Those bylaws also outline the duties of the officers of the business.

THE COOPERATIVE

A **cooperative** is a business firm owned and, in many cases, operated by its members. To start a cooperative, a group of people apply for a charter from the state government. After the charter has



Physicians and dentists often form corporations to gain the advantage of limited liability.

been given, a board of directors is elected. Managers and staff members are hired or appointed to operate the business.

A cooperative, unlike a corporation, is not set up to make a profit. Rather, its purpose is to help its members get the best prices. A cooperative helps its members buy or sell at lower prices through working together. If the cooperative sells products for its members, it attempts to get a good price by selling in large quantities. If it buys goods for its members, it attempts to get a low cost by buying

in large amounts. Food cooperatives have become a part of our business and economic system. A group of people band together to buy food in large quantities, thus saving money. That savings is passed on to the members in the form of lower prices. If the cooperative buys for its members, it is a consumers' cooperative. If it sells goods or services, it is a producers' cooperative.

Insurance companies, electric power companies, savings and lending agencies, agricultural buying and selling organizations, bookstores, apartment buildings, and even restaurants may be cooperatives. The largest number of cooperatives in this country are credit unions, in which members can save and borrow money. Credit union membership is usually available through the company, agency, or organization in which a member works.

THE FRANCHISE

A franchise is a grant or right to sell some other company's product or service within a given area or territory. A franchise is not so much a business as a method of doing business. It permits people to organize as a sole proprietorship, a partnership, or a corporation. The individual or individuals enter into an agreement to sell another company's product or service in one area. The franchise agreement spells out the duties of both parties. The person or persons agree to certain ways of running the business in return for help from the parent company selling the franchise. Many restaurants, motels, and small shops are operated as franchises.

Are there any franchises in your community? Which ones?



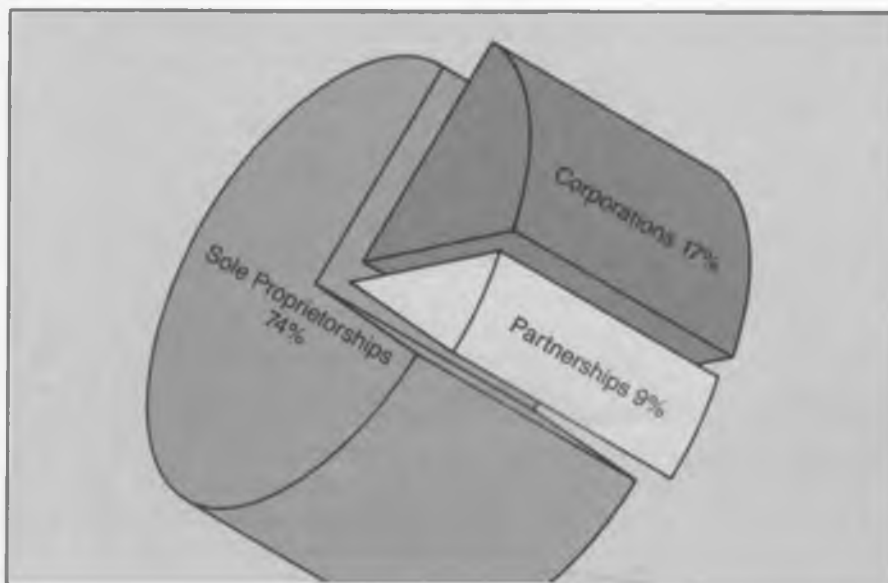
Before purchasing a franchise, you must consider the local competition.

The franchise has advantages and disadvantages. A person can start a business with the help of the parent company. Such help cuts down the risk of failure because the parent company shares its experience and business techniques. However, in return for that help, the franchise owner pays a share of the sales or a yearly set fee to the parent company. Too, the purchase of a franchise often requires an investment of a fairly large amount of money.

SUMMARY

A person starting a new business must decide which type of organization is best. To some extent, the answer depends on the person, the type of business, the money needed, and the kind of product or service to be provided. If you are going into the restaurant business, you may decide on a sole proprietorship or a partnership. Perhaps you want to become a part owner of a corporation by buying shares in it. You may want to invest in a cooperative, such as a credit union. Or you may want to look into franchises.

There are more sole proprietorships than any other type of business in our economic system, but it is the giant corporation that has become to many a symbol of our private enterprise system. Nevertheless, *any* kind of business will work in our economy.



The United States has more sole proprietorships than any other form of business.

BUILDING WORD POWER



Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 15. Then write the term that best matches each numbered definition.

board of directors
bylaws
charter
cooperative
corporation
discount
franchise
limited liability

multinational corporation
partnership
partnership agreement
sole proprietorship
stock
stockholders
unlimited liability

1. A business organization with two or more owners who share responsibility.
2. The owners of a corporation.
3. A legal form giving a corporation permission to operate.
4. The responsibility for debts, even if they are more than the assets of the business firm.
5. A business firm owned and operated by its members.
6. A kind of contract in which partners declare certain understandings between them.
7. Shares of ownership in a corporation.
8. A business owned by one person.
9. A business that is legally regarded as a separate "person."
10. A corporation that has offices and plants in more than one country.
11. A grant or a right to sell some other company's product or service within a given area or territory.
12. A reduction in price.
13. A group of individuals elected by the stockholders of a corporation to make major decisions for the company.
14. Rules of operation for a corporation.
15. An owner's responsibility for the debts of a business up to the amount invested.

BUILDING READING COMPREHENSION



1. Why is a sole proprietorship called by that name?
2. What are the four advantages of a sole proprietorship?
3. What is the best way for partners to avoid problems?
4. How many people must be involved in a partnership? Is there a limit on the number of partners a firm may have?
5. Sole proprietorships and partnerships both have unlimited liability. What does that mean to the owners?
6. What choices do partners have if one of them dies or leaves the firm?

7. What is a multinational corporation?
8. How is starting a corporation different from starting a partnership? a sole proprietorship?
9. What are the special features of a cooperative that make it different from other business organizations?
10. Describe how a franchise differs from other businesses.

**BUILDING
BUSINESS
CONCEPTS**

1. What do you consider to be the biggest advantage of a sole proprietorship?
2. There are more sole proprietorships than partnerships and corporations combined in the United States. Why do you think so many businesses are organized this way?
3. Why would two or more people decide to form a partnership instead of forming a sole proprietorship with one of them as owner?
4. Why should a person choose with care those people with whom he or she forms a partnership?
5. List the advantages and disadvantages of a partnership.
6. What is the major way that a corporation is different from a sole proprietorship and a partnership?
7. Stockholders of corporations have one vote for each share of ownership. What effect do you think that rule has on the operation of the business?
8. What are some of the duties of the board of directors of a corporation?
9. What is the difference between a consumers' cooperative and a producers' cooperative?
10. Why would an individual prefer to operate a franchise rather than a new business based on his or her own ideas?

**BUILDING
BUSINESS
EXPERIENCE**

1. What companies make your TV, your refrigerator, your laundry detergent? Go to the library and find out as much as you can about one of those companies. How is it organized? When was it started? How many different products does the company offer? Who are its main competitors?
2. Franchise businesses are a growing part of our economy. List some of the franchise businesses in your community.
3. Interview the manager of a franchise business in your community. Discuss the unique features of the franchise business with him or her. Find out what kinds of services the parent company furnishes, what agreements the business has made with the parent company, and some of the advantages of the franchise business for that person.

4. Some of the fastest-growing types of business in our economy are computer hardware and computer software companies. List some of the businesses in your community that sell computer wares. How are they organized?
5. Ryan Industries manufactures switches for electrical appliances. The cost of one switch is as follows:

Raw materials	\$1.71
Labor	1.95
Overhead (machines, repairs, etc.)	.36

What is the total cost of producing one switch? The company sells the switch for \$4.26. How much profit does the company make on one switch? What percentage of the selling price is that profit?

BUILDING HUMAN RELATIONS SKILLS



Glenn has formed a partnership with his friends, Juan and Beverly. They will make and sell works of art. Each friend has an interest in a specific area of art: Glenn is a sculptor, Juan is a potter, and Beverly is a painter. Each artist contributed money to the business. The business has been in operation for three months, but the friends are having some difficulties that are threatening their friendship as well as their business. Some of the major problems they are having include the following:

- Recordkeeping for the business is haphazard, making it irritating to try to figure out the company's taxes and profits.
- Each partner is receiving an equal share of the income, which Glenn thinks is unfair since he invested the most money.
- Beverly spends very little time at the business and has contributed only three paintings, while Glenn and Juan have stocked the business with their goods.
- Bills are beginning to mount up for the business. Juan decided he wanted a new potter's wheel and a new kiln, so he went out and bought them. Glenn, not realizing that Juan had made these purchases, invested in display counters and carpet for the showrooms.

1. What is the major cause of their problems?
2. Did Glenn choose his partners with care? Why or why not?
3. What will happen if Glenn decides to leave the business?
4. Can the partners save the business? What do you suggest they do in order to save the business? Be specific in your recommendations.

Careers in Business

Travel Agent

If you want to travel to a small island in the western Pacific to pursue your hobby in underwater photography, what will you need to know? First, you will have to find out which airlines and ships travel to that island, when they go, and how much they cost. You will need to find a hotel to stay in and a place to change your dollars into local money. Without spending hours doing all the research yourself, you can ask a travel agent to arrange all the details.

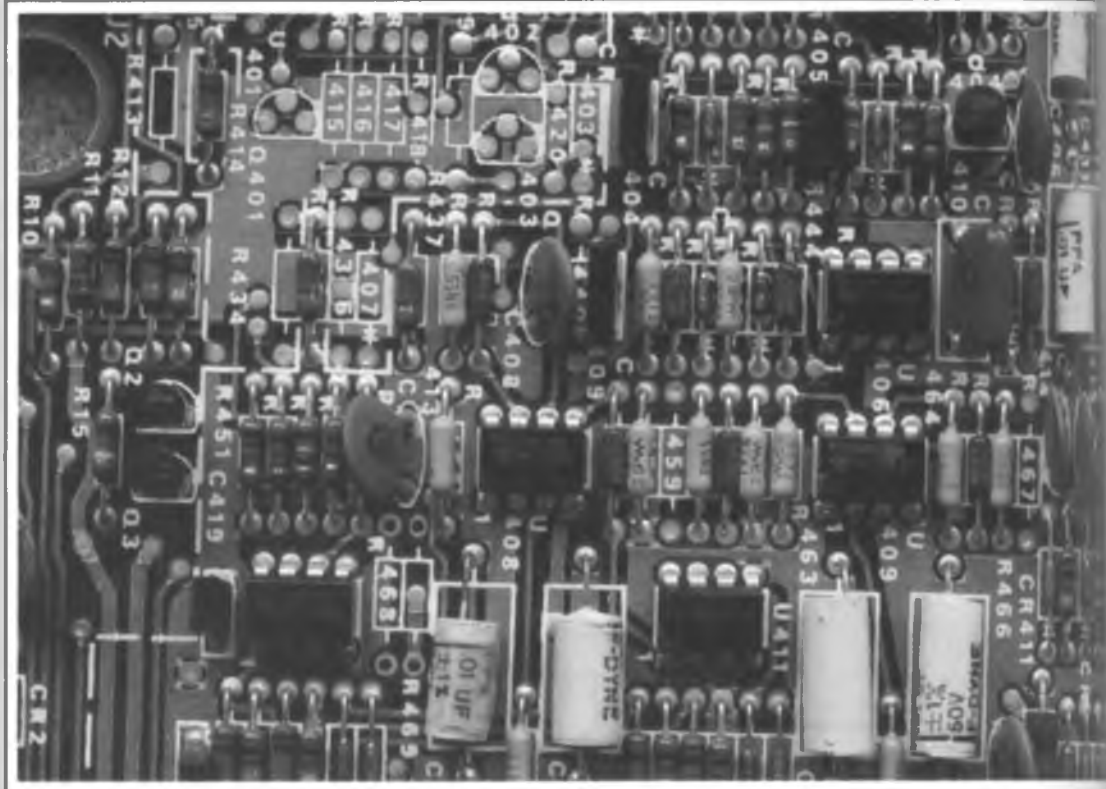
Travel agents are able to make reservations for ships, planes, trains, and hotels all over the world. They have the most up-to-date information on fares, travel restrictions, customs regulations, currency rates, and even the weather.

Most travel agents make their money from commissions that airlines and hotel owners give them for making reservations. Occasionally, they will charge customers a fee for arranging complicated travel plans. Agents also arrange group tours, offering low prices to clubs and other large groups.

The work itself involves meeting people, learning what interests them, and trying to help them plan a trip they will enjoy. The travel industry often requires long hours, but it attracts many people. The work is highly competitive and exciting. It also offers the advantage of free or inexpensive travel for the agents themselves.



People can prepare for careers as travel agents by working for an established agency to learn the business. Successful travel agents must have a curiosity about different places and cultures and an ability to get along with people.



CHAPTER 11

How Computers Affect Our Lives

- When you think of a computer, two words probably pop into your mind: *speed* and *numbers*. What is called "The Computer Revolution" had a lot to do with those two words. Why are they so important to the development of the computer?
- Like the consumer or the producer in our market economy, business has certain needs. It needs capital, labor, and natural resources. It also needs information to grow and it needs to *process* information. What kind of information?
- Computers are used to do most of the billing for major companies, processing of checks at banks, and travel arrangements for airlines. What other ways are computers used by business?

Do you know what these terms mean?

hardware	silicon chip
software	microprocessor
memory	output
byte	information processing
input	word processing
central processing unit	database

You'll learn all about these terms in this chapter.

Many people think of computers either as "number crunchers" or as video game machines. But computers can do so much more. There are very few limits to how computers may be used today, from turning on our lights to guiding astronauts into space.

THE FIRST HUNDRED YEARS

In 1890 the United States Census was completed in $2\frac{1}{2}$ years' time (versus nearly eight years for earlier censuses!) with the aid of a machine, the tabulator. Its inventor, Herman Hollerith, used stiff punched cards to feed census information into the tabulator. The card idea was borrowed from a Frenchman, Joseph Jacquard, who used cards with holes in pre-determined places to control the rods of a loom shuttle in 1801. The cards made "automatic" the weaving of different patterns of cloth.

The holes in Hollerith's punched cards represented different kinds of data about the census (number of people in a household, ages, and so on). When tiny rods in the tabulator were driven through pre-arranged holes, they touched mercury in a container. This action created an electrical impulse, which communicated itself to a kind of clock, recording one unit. Hollerith's tabulator actually "read" or scanned the cards electrically as quickly as they were placed on the machine and a lever pulled down.

Hollerith founded a company with his tabulator called the Tabulating Machine Company, which later grew into the giant International Business Machines (IBM). Hollerith's customers included railroads and even the Russian government, which used the tabulator to complete its own census.

Today's computers process data much faster than anyone would have thought possible, even ten years ago. Let's look at how computers actually work.

HOW DO COMPUTERS WORK?

A computer is a machine that runs on electricity. It is also a machine that processes data faster than you can blink an eye. Another name for a computer is hardware. **Hardware** refers not only to the computer, but also to any physical equipment attached to the computer. Hardware includes equipment such as a printer or a display terminal.

You have probably also heard the term software. **Software** is the computer program, or set of instructions, that tells the computer what to do. There are two basic types of software: system software and application software. Some system software is stored permanently in the computer. Such software tells the computer what to do when you first turn it on. Other system software, such as a disk operating system (or DOS for short), may be stored on a diskette. A disk operating system tells the computer how to use the information that is entered into the computer.

In contrast to system software, which tells the computer how to run, application software tells the computer how to do a certain job, or application. There are many different kinds of application software. Some of the more common applications are computer games, such as sports or adventure games. Other application software will allow you to write and edit papers or to set up and maintain a budget. Businesses use many application programs, from calculating payroll amounts for their employees to operating robots on an assembly line.

The types of applications that can be done on a computer depend, in part, on the amount of memory a computer has. **Memory** is the capacity of the computer to store information in an electronic form. If you've ever looked at an ad for a computer in a magazine or newspaper, you may have noticed a description such as 256K. The term 256K refers to an amount of memory. The memory capacity of a computer is measured in bytes. A **byte** equals one character. A character can be a letter, a number, or a space. Although computer memory is measured in bytes, it is usually expressed in kilobytes. One kilobyte is equal to 1,024 bytes. Kilobyte is what the K stands for in 256K.

As an example, 256K of memory is a lot of memory, but it is roughly equal to 128 double-spaced, typewritten pages. Many computers today have memories that are so large that they are measured in megabytes, which are millions of bytes!



The computer stores the information you give it in its memory.

Using a Computer

There are three basic steps in using a computer: input, processing, and output. **Input** is the data you enter into the computer, including any instructions you give to the computer. One of the most common methods of inputting data is through a keyboard, but there are many other ways to input data into the computer.

One input device you're familiar with if you've played computer games is the joystick. A *joystick* lets you move a picture, line, word, or cursor from one point to another on a display screen. Another input device is a mouse. A *mouse* is not a small, gray, furry creature, but a small box with one or more buttons. You operate a mouse by moving it around, thus moving the cursor to a specific item on the display screen. When the cursor is at the item you want, you press a button on the mouse and the computer performs the activity you have chosen.

With touch-sensitive keyboards and display screens, even your hands can be input devices. Other input devices are the graphics tablet and the light pen. A *graphics tablet* lets you use a pen or your finger to draw a design on a flat surface much like the etching toys that you may have played with as a child. Your drawing appears on the computer display screen as you complete it. A *light pen* has a light-sensitive detector in its tip. You can use the light pen to draw

and write by touching the tip of the pen to the display screen. The computer reads the light and creates your drawing on the screen.

Still another input device is the *optical character reader* (OCR). An OCR scans a typed or printed page and changes the characters into electronic signals. These signals can then be recorded on magnetic tape or on a disk that can be read by the computer.

One of the newest input methods is *voice recognition*. A voice-recognition device allows you to talk to a computer and have it follow your spoken instructions. Most voice-recognition devices recognize only a few words, but they are being improved all the time.

Processing

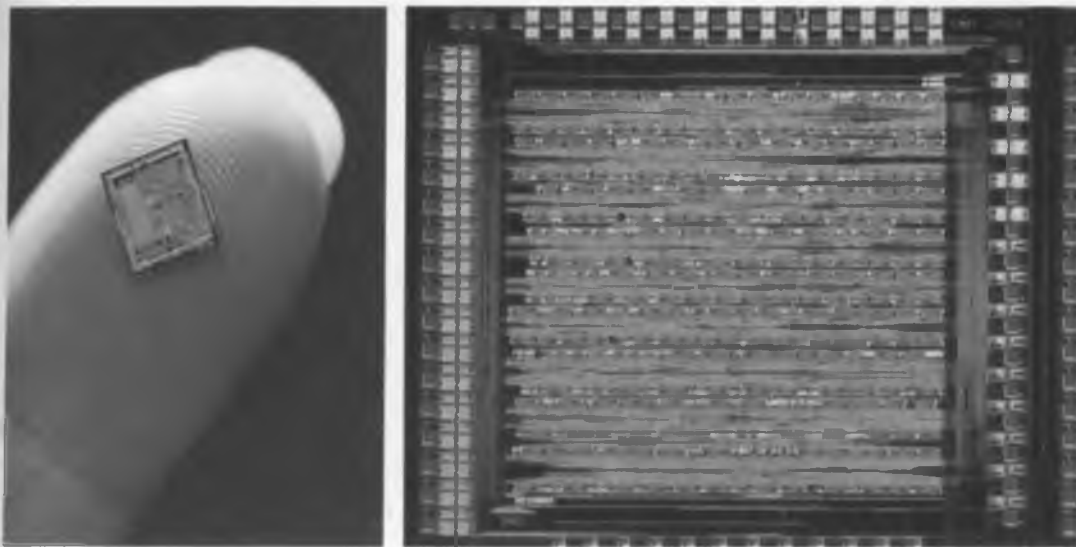
You've probably heard that the processor is the "brain" of the computer. The processor is the **central processing unit**, or CPU. The CPU uses instructions and data input to calculate an answer to perform a specific activity. The CPU then sends the results of the activity to the user or to the computer's memory, or to both.

The CPU has two parts: an arithmetic/logic unit and a control unit. The arithmetic/logic unit performs mathematic calculations and makes decisions such as whether one number is greater than another. The control unit directs the work of the arithmetic/logic unit. For example, the control unit tells the arithmetic/logic unit whether to add, subtract, or compare the numbers it has been given.

In early computers, the CPU required a lot of space. The size of the CPU today varies with the size of the computer, but in a microcomputer it can be as small as a single silicon chip. A silicon chip is a thin wafer, about $\frac{1}{4}$ -inch square, that plugs into a computer.

The CPU in a microcomputer is called a **microprocessor**. Microprocessors are really miniature computers that have been made possible through a process of miniaturization. The whole process of miniaturization is a wonder of modern technology. The miniaturization process starts with the design of an integrated circuit. An integrated circuit is made up of thousands of tiny, interconnected electrical circuits. An electrical circuit is simply a path through which electricity flows. Once the integrated circuit is designed, it is printed in very large scale on a piece of paper. This paper print is then reduced photographically to the size of a silicon chip.

Imagine this miniature photo in its negative form. If you hold a negative up to light, you can see images through the light. Other parts of the negative are dark. Likewise, when you put the negative over a silicon chip and expose it to light, the light will go through



A silicon chip is smaller than your fingertip, but covered with thousands of electrical circuits (*right*).

the clear spots in the negative but not through the dark spots. The parts of the chip exposed to the light (through the negative) become hard. The other parts (not exposed to the light) are scraped off. This process is called “etching the chip.” The chip is etched to create a pattern for wiring the chip. Thousands of very fine metal wires, which conduct electricity, are placed on the chip to create an integrated circuit. Can you imagine how difficult it is to place thousands of tiny wires on a surface smaller than the tip of your finger! Businesses use computerized robots to do this very delicate work.

Output

Just as there are many ways to get data into a computer, so are there many ways to get data out of a computer. Such data is called **output** — the result of the computer’s calculations. The most common output devices are the display screen and the printer.

A display screen is commonly called a CRT, or cathode-ray tube. The CRT produces the same type of picture as an ordinary television set. Indeed, many home computers use the TV as a display screen. Another type of display screen is called a monitor. Monitors are made to be used only as output devices for computers. Monitors are available in one color, called monochrome, or in full color.

Depending upon the type of program run on the computer, display screens can provide output for both text and graphics. Text output is made up of letters and/or numbers. Graphics output provides pictures or images such as charts or the design for a new car. Many engineers and architects work at computers to create new designs or building plans.

A printer is another output device. A printer is used to create a copy of the data shown on the display screen. Such copy is often referred to as a printout. A special type of printer that is used to create a copy of graphic images is a plotter. A plotter controls the movement of a pen, or several pens, to produce highly intricate drawings such as those needed by engineers, architects, or doctors.

Voice synthesis is also another form of output. It is used in cars to remind drivers to fasten their seat belts.

Can you think of different types of businesses that might use each type of output?

COMPUTERS ALL AROUND US

Can you think of any invention that has affected our lives more than the computer? Almost every aspect of our economy is affected by the computer in one way or another. Consumers, producers, buyers, sellers, government, business — all use or are aided by the computer.

The automobile is an example of a product that has been changed in many different ways by the computer. Today, automobiles are designed using computer-aided design programs. Computers also are involved in the manufacturing process where they control assembly lines or keep track of parts. Microprocessors in cars control fuel injection and exhaust fumes, engine temperatures, radios, instrument panels, and even knocks caused by low octane fuel (sparkplug timing is slowed down by microprocessor until the knock disappears).

With voice-activated computers already functioning, it will soon be possible to "talk into" a video device on the dash panel and get weather and road conditions. Some automobile makers are working on video screens that can be used for trip planning or to display information about the car's performance.

Computers aid in air traffic control by monitoring airplanes at all major airports, giving instructions on speed, direction, and



Computers can "read" books and convert the words into computerized braille for those who are blind.

descent and ascent procedures. Water and electrical power usage are controlled and monitored by computers. Computerized controls also help to operate nuclear power plants. The enormously complicated flight plans of satellites into and beyond the solar system are plotted and directed by computers.

Almost everything we do brings us into contact with a computer, although the computer may not be obvious. Which of your daily activities are affected by a computer?

THE COMPUTER IN BUSINESS

Business deals with all kinds of information. There is information about sales, manufacturing, shipping, advertising, pricing, costs, payrolls, and inventories to be processed. Business data includes numerical data, graphs, text, and, in some cases, special symbols of all kinds. When the computer handles all those kinds of information, it is called **information processing**.

When business deals with reports, letters to customers, and other alphabetic information, it may use a special program for that purpose, a **word processing** computer program. For example, with

such a program, a report or letter can be corrected, added to, or changed right on the computer keyboard. More important, the document can be stored for use over and over again. A typical word processing activity is the preparation of a sales letter to describe features of a particular product. With the letter stored in the computer system, changes in price or features can be made quickly.

Also stored in the computer system will be a mailing list of thousands of customers. Such a list is a **database**, which is any collection of related information. When the business wants to send information to its customers, "individual" sales letters will be sent to each customer in the database.

Information processing is the most obvious way in which the computer is used in business. One of the newer areas in which the computer is playing a large role is that of robot control and direction. Today many jobs in factories and on assembly lines are performed by robots. A whole science of *robotics* is developing, especially in the United States and Japan.

The computer has also become a partner in manufacturing and design. The modern "drafting board" is a computer graphics terminal that is used to design cars, buildings, and satellites.

Can you think of other examples of innovative ways in which the computer is being used in today's business world?

YOU AND THE COMPUTER

Like business, you also use the computer a great deal. When you write a check, it is one of billions each year that are sped along their way to computers. Computers allow banks to provide you with around-the-clock banking services at automated teller machines. When you go to a doctor, a computer may "call up" your medical history. It may also help in diagnosing and prescribing medicine for an illness.

When you buy an airline ticket to visit friends or relatives, the computer handles the transaction. It checks and locates the flights that are available at the time you want to fly. If you buy tickets to a rock concert, they will most likely be issued through a computer.

Even if you do not see the computer at work, chances are that you'll find it behind the scenes. You can't see the communications



An increasing number of robots are being developed to perform dangerous, repetitive, or delicate jobs.

satellites orbiting some 22,000 miles above the Earth, but they're helping to send you television and radio signals and telephone messages from around the world. The clothes you wear, the food you eat, the events and entertainment you see and hear — all involve a computer somehow!

WITH PROGRESS COME NEW CONCERNS

With easy access to computers, a new kind of crime has come along. It involves using computers illegally and breaking electronic safeguards to steal money or business secrets. The need to safeguard computer files has become a major concern of both business and government today. Some people are concerned that the information about all of us kept in credit bureau computer files or in Uncle Sam's even larger data centers will be too freely available to the general public. Still others worry about computers literally running amuck as scientists create more and more sophisticated machines.

Any development as sensational as the computer will have problems. But people have always been able to solve problems, and our planet is not likely to become one that is run by robots!

SUMMARY

Though the first true electronic computer is less than fifty years old, its development has been spectacular. From the first giant computer to the tiny microprocessor, the uses for the computer have grown as its size has shrunk. Today computers make out payrolls, police the skies, and plan routes through the solar system. Some people worry about how safe we are with the computer at the controls, but our economy would almost cease to function without it. The computer has become a partner in our electronic economy.

BUILDING WORD POWER



Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 12. Then write the term that best matches each numbered definition.

byte	memory
central processing unit	microprocessor
database	output
hardware	silicon chip
information processing	software
input	word processing

1. The actual computer and equipment attached to it.
2. Data that is entered into the computer.
3. The capacity of the computer to store electronic information.
4. The measurement used to describe the memory capacity of a computer.

5. Sets of instructions that tell the computer what to do.
6. The computer's "brain," which uses instructions and data input to calculate answers.
7. A collection of related information.
8. Another term for the central processing unit in a microcomputer.
9. An application program that lets the user edit and store typed reports or letters.
10. Work performed by a computer using numerical data, graphs, text, and special symbols.
11. The visible results of a computer's calculations.
12. A thin wafer, about $\frac{1}{4}$ -inch square, that plugs into a computer and contains an integrated circuit.

**BUILDING
READING
COMPREHENSION**

1. What does a computer run on?
2. Name the two basic types of software. How do they differ?
3. What does a disk operating system do? Where is it stored?
4. List the three basic steps in using a computer.
5. Name seven input devices or methods.
6. Describe an integrated circuit.
7. What are two common types of display screens?
8. Name three output devices.
9. What is a plotter, and how does it work?
10. What are the three most common concerns people have about the increasing use of computers?

**BUILDING
BUSINESS
CONCEPTS**

1. As you know, businesses need capital, labor, and natural resources to operate and earn a profit. What fourth factor is necessary to businesses? How has the computer contributed to this additional need of businesses?
2. How did the tabulator change the way the census was counted? Do today's computers bear any similarities to this invention? Explain your answer.
3. What does the "K" stand for in 512K? What does 512K mean in terms of memory?
4. Why is the CPU often called the "brain" of the computer?
5. What are the two parts of a microprocessor, or CPU?
6. Explain the process of miniaturization. Why is it important in the creation of microprocessors?
7. Airlines and railroad companies use computerized reservations and ticketing systems for their passengers. Give three other examples of how computers help businesses work more efficiently.

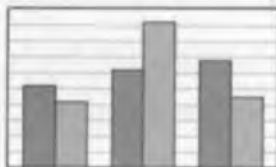
8. Ground and air transportation have become increasingly safer and more efficient because of the use of computers. Explain why this is so.
9. What is "The Computer Revolution"? What two factors contributed to this revolution and the computer's growth?
10. Someone has estimated that if we replaced all of the computers in the United States with people, we would need 400 billion people. What does that estimate tell you about the role of computers in our economy?

BUILDING BUSINESS EXPERIENCE



1. Bring newspaper clippings and magazine articles about computers to class. What are the trends? What features are being developed for new computers?
2. With widespread use of computers, some people predict that one day we may have a "cashless" society. No one will need to carry money because people will carry cards that allow them to transfer money by computer from their own accounts to others' accounts. Discuss the pros and cons of such a system.
3. If you have computers in your school, arrange a visit to observe them at work.
4. The computer revolution has generated dozens and dozens of new companies making dozens and dozens of new products unheard of ten or twenty years ago. List five or ten new products on the market that have been invented because of increased computer use.
5. Check newspapers and computer magazines for stories on computer crime. How much is this type of crime costing business each year? What types of businesses are affected? What steps are businesses taking to curb crime?

BUILDING MATH SKILLS



1. Judy is buying a small computer from a major company. The company has offered her a service agreement that would give her regular maintenance on the computer at the rate of \$165 a year. If she keeps the computer for $3\frac{1}{2}$ years, how much will her service agreement have cost her at the end of that time?
2. The owner of J & K Sporting Goods is thinking of buying a small computer for keeping records for his store. A small computer that could handle all of his inventory costs about \$8,500. He could lease a larger computer that could handle his records as his business grows for \$350 per month. Another company would lease a similar computer for \$375 a month. He believes he could pay for the first computer within 12 months. How much would he have paid for computer use at the end of the first year in each case?

People in Business

Stephen P. Jobs

An interest in electronics and an unquenchable desire for excitement made Stephen Jobs one of the three original owners of the fastest-growing company in American history — the Apple Computer Company.

At age 16, Jobs met Stephen Wozniak. Both were avid electronics hobbyists who enjoyed challenges. While still in high school, Jobs worked with Wozniak and the two designed various electronic gadgets. Jobs' interest in electronics and computers was furthered while working for Atari, still a very young company, in the early 1970's.

In 1975, Jobs worked with Wozniak as he built his own microprocessor-based computer, the Apple I. Although Wozniak was unsuccessful at finding a buyer, Jobs was not. He sold one hundred Apple I's at \$500 apiece. He and Wozniak then established their partnership, the Apple Computer Company.

With money from the sale of Jobs' Volkswagen bus and one of Wozniak's inventions — and a loan of \$5,000 — they were on their way to success. At first, their world headquarters, sales office, and distribution center were contained in the garage of the Jobs

family home. They worked there as a team. Wozniak designed a more sophisticated computer, which became the Apple II. Jobs managed the business side of the company.

In 1977, the Apple II was officially introduced to the public. When the company went public in 1980, Job's shares of the stock were worth \$165 million.



In 1985, Stephen Jobs, sparked by his creative interests, left Apple to start Next, Inc. This company designs computers for use in laboratory instruction and other subjects. Jobs himself helps to develop the software.



CHAPTER 12

The Legal Environment for Business

- In a private enterprise economy, anyone who has the money can start a business. Can you explain why that is so?
- What do you think would happen if businesses in different states operated under different laws? For example, if you live in Ohio and order merchandise from a company in California, how do you know that the business follows the same laws as the businesses in Ohio?
- Although businesses have a lot of freedom in this country, they must follow some rules and regulations. What role does the government play in regulating what businesses can and cannot do?

Do you know what these terms mean?

common law	zoning code
Uniform Commercial Code	price fixing
antitrust laws	privately owned corporation
interstate commerce	publicly owned corporation

You'll learn all about these terms in this chapter.

In Chapter 6 you learned that the economic system of the United States is called a private enterprise economy. Our private enterprise economy is very favorable both to entrepreneurs and to established businesses. In such an economy, businesses are generally free to choose which products to produce, when and how to produce them, how to sell them, and at what prices. The freedom to operate a business exists in part because our legal system was designed to promote and protect private enterprise.

THE LEGAL SYSTEM OF THE UNITED STATES

Our legal system is one of the branches in our three-part system of government. You probably already know that those three parts are the President, Congress, and the judiciary. The *judicial system* is responsible for interpreting and enforcing our laws. Only Congress and the President can actually make new laws or change the old ones.

Much of the law of the United States is based on the old English common law. Common law refers to the legal decisions made by English courts over a period of many years, as well as the customs of the people. One part of the English common law related to the commercial rights of merchants and traders. In the United States, that part of the common law was the basis for our Uniform Commercial Code. The Uniform Commercial Code (UCC) is a set of laws that are the same, or uniform, throughout the country and are used to control and regulate business transactions. All states except Louisiana have adopted the UCC, and Louisiana has adopted parts of it.

WHY IS LAW IMPORTANT?

Everyone in our economic system buys goods and services to satisfy wants and needs. Farms, factories, stores, and offices in this country produce a gross national product of trillions of dollars a

year. For the most part, transactions between the producers of goods and services and the consumers of those items go smoothly. If things go wrong, though, our legal system is there to help solve the problems. The court system, agencies at all levels, and even trade associations are available to help resolve legal issues.

The legal system also helps to *prevent* problems by setting up guidelines and responsibilities for both business and consumers. Without uniform laws, our economy would be in chaos!

Can you think of some ways in which your dealings with business are affected by law?

WHAT IS THE “LEGAL ENVIRONMENT”?

When we speak of the “legal environment” for business, we are talking about the federal, state, and local laws that affect the operations of business. From the street vendor to the giant international corporation, all businesses are subject to laws.

Laws That Prevent Monopolies

A monopoly exists when a business has no competition. Both the state and federal governments have passed laws to prevent monopolies. These laws are called **antitrust laws**. Most of the activity to prevent monopolies is at the federal level. Two federal antitrust laws are the Sherman Act and the Clayton Act. The Sherman Act prohibits any actions by business that might lead to monopoly. The Clayton Act forbids companies that engage in interstate commerce to merge if that action would create a monopoly. **Interstate commerce** refers to business activities that affect people or businesses in two or more states.

The federal government does allow some monopolies. For example, public utilities such as electric and gas companies are monopolies. Since these businesses have no competition, they are closely regulated by the government. Regulation applies to charges for services, profits, and even advertising.

Laws That Govern Competition

One purpose of our government is to regulate business activities to make sure that businesses are competing fairly. The Sherman



"Can this price really be legal?!!"

Act prohibits any agreement between businesses to restrain trade. For example, it is illegal for two competing businesses to agree to sell their products at exactly the same prices or to change prices at the same time to avoid competitive pricing. Such an agreement is called **price fixing**, and it violates the Sherman Act.

The Clayton Act also governs fair competition by forbidding practices that lessen competition. For example, a business cannot sell its products at cost to try to attract customers and thus drive its competitors out of business.

Another federal law that governs business activities is the Federal Trade Commission Act of 1914. Under this law, it is illegal for one business to try to drive another business out of operation by spreading malicious rumors or doing any other act that is intended to eliminate a competitor.

The government also maintains fair competition by requiring businesses to post their prices so that consumers can make comparisons. For example, you may have noticed the labels on grocery store shelf-fronts that indicate costs of various products. These labels help consumers to make comparisons not only among brands but also from one store to another.

Laws That Protect Society

One goal of government is to protect the rights of all people. To safeguard the rights of the public, the government has passed laws

that protect the environment, promote fair labor practices, and promote the general welfare.

Laws That Protect the Environment. The federal government has passed environmental protection laws that have a big impact on business. Some of these laws, such as the Clean Air Act and the Clean Water Act, require businesses to avoid polluting the air or water. In some cases, manufacturing plants have been required to spend thousands or even millions of dollars for pollution control devices. Such laws affect business decisions because the management of a business must decide whether to stop making products whose manufacture causes pollution or to spend the money to install pollution control equipment.

Laws That Promote Fair Labor Practices. The Civil Rights Act forbids businesses to discriminate against women and minorities in their hiring practices. Businesses also cannot discriminate against employees who are eligible for a promotion or for a pay increase. You may have heard of the Equal Employment Opportunity Commission (EEOC). That agency was created by the federal government to take action against businesses that have been accused of discrimination.

When businesses must damage the land as a part of operating, as in strip mining coal, our laws require them to make repairs to put the land back into use.



The Fair Labor Standards Act affects business operations by requiring certain employers to pay their employees a minimum hourly wage, plus at least one and one half times that amount for all hours worked in excess of forty hours per week. The Fair Labor Standards Act also regulates the employment of minors by determining the hours that minors are allowed to work, the minimum age for employment, and the occupations for which minors may not be hired.

Why do you think it is important for government to set labor laws that must be followed by all businesses?

Laws That Promote the General Welfare. The welfare of its citizens is of major interest to government. Many laws that serve to protect the public also have an effect on how business operates. For example, some businesses must obtain licenses before they may serve the general public. Most states require automobile repair businesses to obtain a license before they may begin operating. Doctors, attorneys, and accountants also must obtain licenses before they may serve the public.

The government can also control which products a business may sell and when. For example, pharmacies may not sell certain drug products without a prescription from a doctor. Other items may not be sold on Sundays if a state has Sunday, or "blue," laws.

Other Laws That Affect Business Decisions

An important area of government regulation is the taxation of business. Taxation affects many business decisions. The amount of money that businesses have to spend on creating and promoting their products is directly affected by tax laws.

To stimulate business growth, which helps to decrease unemployment and to provide a healthy economy, Congress and the President may pass laws that give businesses tax breaks. A tax break allows a business to reduce its income taxes by investing in certain types of projects. One example of a tax break that might be given is a reduction in taxes for exploring new sources of energy.

Many business decisions are made only after the tax consequences have been considered. For example, businesses may choose to incorporate in one state rather than another because one offers tax advantages, such as a lower tax rate or even no taxes for a specified period of time. States may also offer other incentives for business. Sometimes they will set aside land on which companies

may build their factories. Occasionally they may offer low-cost loans to businesses that move into the state.

The local community may also regulate business operations. Each community has a **zoning code**, which is a plan describing the types of buildings that can be built in each area of the community. For example, a zoning code specifically describes where factories can be built and operated. Local building codes govern such things as the wiring, plumbing, and building materials that can be used in the construction of buildings. Local governments also require businesses to pay real estate taxes, as well as fees for trash removal or for licenses for any cars or trucks the business may own.



Zoning codes usually prevent factories from becoming your new next-door neighbor

Laws That Protect Business

Many laws are passed to protect the rights of people in dealing with business. Some laws, though, are passed to protect business. For example, many products made by businesses in other countries are sold in the United States at lower prices than similar products that are made here. To protect our own industries, the federal government may set tariffs on imported products to help businesses in the United States compete with foreign companies. Businesses in this country that cannot match the prices of imported products often ask the government to help by increasing the tariffs on those products. You'll learn more about tariffs in the next chapter.



Some of our industries want the government to charge higher tariffs on imports.

Laws That Affect Corporations

In this country people are free to start any business they want to, provided the purpose of the business is legal. The most common type of business organization is the sole proprietorship. The majority of people in the United States, though, work for corporations. Since corporations may sell stock to the public, the sale of that stock is regulated by a special federal agency.

The federal Securities and Exchange Commission regulates how stock may be sold by publicly owned corporations. **Publicly owned corporations** are those whose stock is traded on a stock exchange. They are owned by the people who buy the stock. Many corporations have thousands or even hundreds of thousands of owners. **Privately owned corporations**, on the other hand, are those whose stock is not traded on a public stock exchange. Generally such businesses are owned by families or by a very few people who also manage the business.

Anyone may buy stock in a publicly owned corporation. Sometimes individuals or companies try to take over the management of a corporation by buying a large share of its stock. Such people or companies are often called *corporate raiders*. Since ours is a free enterprise economy, one company may take over another by buying a majority of its stock unless that action would eliminate competition. In that case, the federal government would forbid the purchase of the stock.

THE ROLE OF PROFIT

It may seem as though there are a lot of restrictions on business, but our laws work to promote a positive business environment. Within that environment, the object of business is to earn a profit. Without adequate profits, businesses cannot pay their employees, buy supplies to operate, or produce new products to sell. Businesses are entitled to a fair profit, and the marketplace — rather than laws — usually determines what that profit will be. In a market economy profits are not guaranteed. Only those businesses that operate efficiently and make good decisions about how to produce and sell goods and services are able to compete in a private enterprise economy and earn a worthwhile profit.

SUMMARY

In a private enterprise economy, businesses have a lot of freedom in deciding which products to make, where to sell them, and how much to charge for them. All businesses, though, are subject to rules and regulations. Laws that regulate business activities are important because they protect both businesses and individuals.

Anyone who wants to may start a business, provided the activities of the business are legal. This freedom to start and operate a business exists because our legal system was designed to promote and protect private enterprise. A private enterprise economy allows business to earn a profit, but it does not guarantee that profit. The marketplace, and the decisions made by business, determine the success of a business.

BUILDING WORD POWER



Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 8. Then write the term that best matches each numbered definition.

antitrust laws
common law
interstate commerce
price fixing

privately owned corporation
publicly owned corporation
Uniform Commercial Code
zoning code

1. Business activities between people or businesses in two or more states.
2. Laws that have been passed to prevent businesses from having no competition.

3. A corporation whose stock is not traded on a public stock exchange.
4. A community plan that governs the types of buildings that can be built in each part of the community.
5. An agreement between two businesses to sell their products at the same prices.
6. A corporation whose stock is traded on a public stock exchange.
7. A set of laws that govern business activities throughout the country.
8. Law that is based on legal decisions and people's customs.

**BUILDING
READING
COMPREHENSION**

1. What are the three parts of the system of government of the United States?
2. What is the basis for the United States' legal system?
3. How does our legal system help to prevent legal problems?
4. Name two federal laws that help to prevent monopolies, and describe business practices that these laws forbid.
5. What are some businesses that the federal government allows to operate as monopolies?
6. How do pollution control laws affect businesses that pollute the environment in the manufacture of their products?
7. What is the purpose of the Equal Employment Opportunity Commission?
8. Give two examples of how our laws promote the welfare of all citizens.
9. Why might a business locate in one state rather than another?
10. Why might Congress and the President pass laws to give tax breaks to business?

**BUILDING
BUSINESS
CONCEPTS**

1. Why does our legal system help businesses in our private enterprise economy?
2. How might laws that restrict the products that businesses may make and sell affect the number of different products that you may choose to buy?
3. Our government allows public utilities to operate as monopolies. Can you think of any changes that would occur in electricity or water services if several companies competed to provide you with electricity and water? Describe them.
4. If the only two businesses that sell television sets in a small town agree to sell their products at the same price, how does that action restrain trade?

5. How might competition be affected if the owner of a bakery tells several people in the community that the bakery down the street uses sawdust to replace some of the flour in its bread? Why is spreading false rumors about a competitor illegal?
6. Why does the opportunity for you to compare prices from one business to another promote competition?
7. When a business is required to install pollution control equipment, who ultimately pays for the cost of that equipment?
8. Why does the requirement that some businesses obtain a license before they may begin operating protect the general public?
9. Why do businesses consider the tax laws before choosing a state in which to build a new plant?
10. Why is profit important to a business?

BUILDING BUSINESS EXPERIENCE



1. Visit two or three local stores and compare their prices on four different products. Be sure to check the same brand and size of product in all the stores. Compare your findings with those of your classmates.
2. Some automobile repair businesses advertise that they hire only "licensed auto mechanics." Visit a local auto repair shop and find out what skills a mechanic must have to become licensed.
3. Go to the library and look up the current minimum wage. Then research which businesses are required to pay the minimum and which are not.
4. Get a copy of the zoning code for your community. Write a brief report describing the types of businesses that are allowed to operate in your area.
5. Write to your local state representative and ask for information about the taxes that businesses must pay in your state.

BUILDING HUMAN RELATIONS SKILLS



Marj has a part-time job at a local department store. One of her classmates, Lisa, also works at the same store after school and on weekends. One day Lisa finds Marj between classes and tells her that she will be half an hour late for work that evening. Lisa asks Marj to take her timecard and punch in for her so that she will not lose pay for being late. Marj believes that it is dishonest to punch in for Lisa, but she wants to remain friendly with her. What should Marj say to Lisa?

People in Business

Bob Woolf

The field of sports management is relatively new, and its formation owes much to Robert Gary Woolf. As a sports and entertainment attorney, Woolf has over 450 clients for whom he negotiates contracts.

As a 16-year-old entrepreneur, Bob Woolf began "Woolf Supply Company," serving as a middleman for household goods. Although business-minded, Woolf wanted to play basketball in high school. So he convinced his coach to let him miss practices but play in the games; this way he could run his company and still play sports. His determination won him a basketball scholarship at Boston College.

After college and law school, Woolf established a law practice in Boston, but he did not enjoy being a trial attorney. Thus, when Earl Wilson, a Boston Red Sox baseball player, requested his services in negotiating his sports contract, Woolf was eager to accept the job and enter a new field of law — sports management.

As he negotiated contracts for athletes in hockey, basketball, and football, Woolf's list of clients grew to include such stars as Gerry Cheevers, John Havlicek, and Jim Plunkett. Since then, Larry Bird, Carl Yastrzemski, and Julius Erving have also become clients.

Woolf displayed such success in contract negotiations with sports figures that entertainers flocked to him also. He represents Gene Shalit, Jane Russell, and many home-town Boston radio and television personalities.

Woolf personally negotiates the contracts and often arranges financial management plans for his clients under which he pays their bills, manages their money, and gives them an "allowance." Of the seemingly exorbitant salaries he helps to negotiate for these stars, Woolf says, "It's all based on fair market value and what someone is willing to spend."





CHAPTER 13

World Trade and Competition

- You may have noticed a number of products made in Japan or Ireland or China in our stores. If you visited those countries, you might see our products and influence in their stores. Nations depend on one another. What do we call that kind of relationship?
- We don't have enough oil in our country to meet all of our wants. Do you think we could get along without oil? Do you like this idea?

Do you know what these terms mean?

world trade	quota
exports	tariff
imports	embargo
trading partners	balance of trade
foreign exchange rate	balance of payments

You'll learn all about these terms in this chapter.

Most countries do not produce everything their citizens want. Sometimes the country lacks enough of one of the factors of production to do so. Sometimes it doesn't know how to do so. And sometimes it chooses not to do so. Instead of producing everything, most countries depend on some form of world trade, or trade among countries, to satisfy many of their wants for goods and services.

For example, we depend on other countries for several minerals, oil, and some manufactured goods. Other countries depend on us for things such as grain, computers, and technology. What we get from other countries and what they get from us changes from time to time. As resources become more scarce and products become more complicated, the interdependence of countries increases.

Even though countries depend on each other for a share of the world market, they also compete with one another. Competition is a part of world trade, too. Countries compete with each other in many ways. If one country can make a product better or at a lower cost than another, it may be able to sell that product on the world market. A better product or lower price gives the country an advantage in trading with other countries.

INTERNATIONAL PRODUCERS AND CONSUMERS

Buying and selling among countries is the most important part of world trade. Goods produced in one country and sold in another are **exports**. Foreign-made goods brought into a country are called **imports**. Today our country depends on imports as a major source of minerals, metals, and other materials and food products. We use some of these imports in their original forms. Others, like latex for paint, are first processed into other goods. In turn, many countries depend on our exports to meet their needs. Some of our major exports include food products, grains, chemicals, computers, and office machines. We trade with almost every other country in the



The United States exports many goods and services to other countries.

world. We call the countries who are our main producers and consumers our **trading partners**. Our main trading partners are Canada, West Germany, Japan, and Great Britain.

As you know, our own economic system is built on specialization. None of our workers produces all of the goods and services that he or she needs. Instead, each specializes in doing a certain type of work, such as being a carpenter, a doctor, or a secretary. The money that is earned is then used to buy goods and services that others have specialized in producing. With specialization, we are all dependent on one another for goods and services.

Countries specialize, too. Practically everyone knows that Japan and West Germany make cars. Usually the kinds of resources available to a country influence what it specializes in producing. Bananas are grown in several South American countries because the climate and soil conditions are right for them. Somewhere else a country specializes in another crop for similar reasons. Some countries have lots of people but little money. They can't buy the

technology to produce goods and services on a large-scale basis. On the other hand, they can specialize in producing items that require much manual labor but little in the way of capital equipment. An example of such a product is the beautiful basketry of China.

Products made in the United States are sold to almost every other country in the world. Some of our corporations sell more to other countries than they sell in the United States. Foreign firms sell to the United States, too. Consumers here are familiar with Indian rugs, French perfumes, Japanese cars, and Swiss watches. Some foreign firms also have plants in the United States. For some of them, the United States is a major market.

An example of this international market at work is the manufacturing of shoes. The United States certainly has the resources necessary for making shoes. Years ago United States firms were major producers for the world market. Then producers from Italy, Spain, and other countries began to make shoes and sell them in the United States. The styles were similar to shoes made in this country, but the prices were lower. Furthermore, consumers here preferred the Italian and Spanish shoes. Consumers in other countries had the same response — and showed it in their purchases. A number of United States companies went out of business because of a lack of demand for their shoes. The demand for Italian and Spanish shoes, on the other hand, led to increased output by the foreign firms. As a result, Italy and Spain now use more of their resources to make shoes, while the United States uses less.

TRADE AND THE U.S. DOLLAR

When buyers and sellers are in different countries, making payments is sometimes a problem. Many banks have offices in other countries just to handle foreign payments. These banks are part of a system for changing foreign money into dollars and changing dollars into foreign money. This system is sometimes called *international banking*. To trade with other countries, a buyer in the United States must pay in the *currency*, or money, of other countries.

An important part of international transactions is the *foreign exchange rate*, the value of one currency in relationship to another. Exchange rates for currencies can change from day to day, so there is some risk in dealing with different currencies. A United States company that sells to a German firm may receive payment in German marks. Those marks must be converted into dollars. If the

value of the mark falls, the company in the United States will receive fewer dollars for those marks. For that reason, companies watch closely the value of various currencies and consider the foreign exchange rate when they sell to other countries.

TRADE AND GOVERNMENT

World trade involves regulations and taxes on goods moving from one country to another. Governments are involved in overseeing trade among countries. Our federal government and, to some extent, our state governments are important parts of world trade. The federal government closely watches the amount of goods going in and out of our country.

Trade with other countries has often been controlled as a matter of economic or foreign policy. Sometimes a **quota**, or fixed limit on the export or import of a product, may be placed by the government. Countries that export oil, for example, may impose quotas on the amount of oil produced so that oil prices will remain high. Quotas on imported items also can be used by a country to show that it does not approve of another country's policies. Quotas can be used to protect a country's own business firms from too much competition from other countries. In some instances, quotas have been used to help protect new businesses that have just been established.

Can you think of recent instances where the United States government imposed quotas on another government to show disapproval of that government's policies?

The federal government can protect United States businesses also by setting a tariff on foreign products. A **tariff** is a special tax on goods made in another country and sold here. It is a small part of the federal government's revenue. If a country wants to import more of a product, it may not put a tariff on the product, or it may impose a very low one. The item can thus be given a lower price, which in turn will encourage more people to buy it. If a country wants to reduce imports, it can increase the tariff and thereby the price. Tariff rates can be changed, removed, or added as the government sees a need for increasing or decreasing imports.

Sometimes a government may wish to stop the import or export of goods, that is, it places an **embargo** on them. An embargo may be used to prevent foreign firms from competing with a country's own businesses. It also may be used to show how a country



The government may place quotas on imports or exports for various reasons.

feels about another's policies. When they feel they need to, governments use world trade to help achieve their own economic and foreign policy goals.

Balance of Trade

Sometimes a country uses quotas and tariffs just to improve its balance of trade. A **balance of trade** is the difference between the total value of what a country imports and the total value of what it exports. When a country exports more than it imports, we say that it has a *favorable balance of trade*. When it imports more than it exports, we say that it has an *unfavorable balance of trade*. A country may have a favorable balance of trade with some trading partners and an unfavorable one with others. But if its overall balance of trade is unfavorable — if it buys more than it sells — more money will flow out of the country than is coming into the country.

Balance of Payments

Imports and exports are not the only ways in which money moves from one country to another. Foreign *investment*, or stock ownership, is another way United States firms and individuals put money in foreign countries. Foreign firms and individuals also invest in United States companies.



When the United States takes in more than it sends out, it has an unfavorable balance of trade.

Money also flows from country to country through tourism, military aid, foreign aid, and overseas bank deposits. The difference in the total of money flowing in and flowing out is called the **balance of payments**. A country could have an unfavorable balance of trade and still have a favorable balance of payments. In other words, although its imports may be greater than its exports, it may more than make up the difference through tourism or overseas investment. Just as you cannot continue to spend more money than you earn, a country cannot continue to pay out more than it takes in. If a country has an unfavorable balance of payments over a long period of time, the value of its money in relation to foreign currencies will probably decrease. When this happens, a country's trade policies must be examined to try to improve the situation.

SOME PROBLEMS OF WORLD TRADE

Sometimes the very way world trade works causes problems. For instance, one country specializes in producing goods that it can trade to another for its own specialized products. After a while, countries can become very dependent on one another. Then, if one or more countries cut back on production of something, the importing countries may be faced with severe economic problems.

Trade can be used as a weapon to force countries to act in certain ways, especially if they are dependent on an import to keep their economy going. If a nation threatens to stop shipping a basic product such as wheat or oil to certain countries, it may get its way in disputes with the importing countries.

Although competition is healthy both in our own economic system and in world trade, it can be a problem, too. Competition can encourage a better product at a lower price, but you have seen what it did to the United States shoe industry. In certain cases, world competition creates problems because it drives United States firms out of business. Unless they can learn new trades or get employment in other industries, a large number of people may be put out of work.

Sometimes we have to make choices between imports or jobs. For example, is it better to cut back on imports to save the jobs of our citizens or to let imports continue so that consumers can have products that are lower in price and, perhaps, higher in quality? This is a dilemma that we must sometimes face.

BENEFITS OF WORLD TRADE

World trade creates jobs. Companies that can sell their products outside the United States may have more jobs available. In other cases, businesses rely on world trade to keep their people employed. Ports, shipping companies, and even railroads and airlines are in better shape when world trade is good.

World trade can help to create a better understanding among countries. When we find that other people in the world have the same wants we have, it may bring everyone closer together.

World trade helps us to have a higher standard of living. Each nation specializes in producing items that it can best produce. Then nations trade with each other. We take advantage of that specialization. If we did not trade with the Mideast and Mexico, we would have too little oil. Diamonds, oil, gold, spices — all of these would be in short supply without world trade. We import radios, stereos, and tape recorders. Often these items can be produced in other countries and sold here at prices lower than we can make them. With world trade, many people in the United States can afford a better standard of living.

World trade often provides more competition. In the automobile industry, for instance, cars made in the United States compete

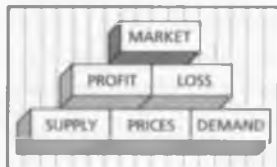
with those made in Sweden, Italy, France, Germany, and Japan. The increased competition often means that we can get a better product at a lower price.

Think of a friend of yours who has a job. How might his or her job be affected by world trade?

SUMMARY

World trade affects us as consumers, wage earners, and citizens. As consumers, we depend on world trade for many of the various goods and services we can buy and the prices at which we can buy them. As workers, we depend on world trade for many of the jobs available to us. As citizens, we are affected by our government's actions regarding imports and exports.

BUILDING WORD POWER



Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 10. Then write the term that best matches each numbered definition.

balance of payments	imports
balance of trade	quota
embargo	tariff
exports	trading partners
foreign exchange rate	world trade

1. The value of one currency in relation to another.
2. Goods made in one country and sold in another.
3. The difference between the total amount of money flowing in and the total amount of money flowing out of a country.
4. A government order that stops the import or export of goods.
5. Foreign-made goods brought into a country.
6. A fixed limit, set by the government, on the export or import of a product.
7. The difference between the total value of what a country imports and the total value of what it exports.
8. Countries with which we import and export goods.
9. Trade between countries.
10. A special tax on goods made in another country and sold in the United States.

**BUILDING
READING
COMPREHENSION**

1. What are exports? What are imports? Name some of the major imports and exports of the United States.
2. Which countries are the main trading partners of the United States?
3. What is meant by *specialization* in relation to world trade?
4. Why has the production of shoes declined so drastically in the United States?
5. If the value of foreign currency changes, what effect does that change have on foreign trade?
6. Why might a country impose a quota on certain goods?
7. How is buying from or selling to a foreign company different from buying from or selling to a company based in the United States?
8. What effect does the foreign exchange rate have on world trade?
9. How are quotas, tariffs, and embargoes different from each other in their effects on imports and exports?
10. List four benefits of world trade.

**BUILDING
BUSINESS
CONCEPTS**

1. How are we as consumers, producers, and citizens dependent on other countries?
2. Should the United States trade with any country that produces the goods and services that we need to import, regardless of that country's political beliefs? Why or why not?
3. Suppose a country can produce everything its people need at a cost lower than firms in other countries. Should that country trade with other countries? Give reasons for your answer.
4. How can foreign competition create economic problems?
5. For several years, the United States has had an unfavorable balance of trade. What does that mean to our economy?
6. Give arguments for having tariffs on imports. Which do you think are the best arguments for tariffs? What reasons can you give for doing away with tariffs?
7. Besides shoes, what United States products have had increased foreign competition in the past few years?
8. Suppose our country did not take part in world trade. List as many items as you can that we would not have or that would be scarce if we had no imports.
9. Some people feel that we should cut back on imports to increase buying of United States products to save jobs for our people. Other people insist that foreign competition is healthy and will promote more efficient production by our businesses. Which one of these positions do you agree with? Why?

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10. Survey your class to find how many are wearing an item of clothing or have some item with them that was imported from another country. What percentage of the class has some item made outside the United States?

BUILDING BUSINESS EXPERIENCE



1. Go to your school library and find out the name of and the exchange rate for the currencies of these countries: Great Britain, Germany, Japan, Switzerland, and France.
2. A manufacturer in the United States sold a product to a German firm. The German firm paid in marks. At the time of the sale, the mark was worth 40 cents. At the time the German firm made payment, the mark was worth 38 cents. At the time of the sale, how many dollars did 1,000 marks equal? At the time of payment, how many dollars did 1,000 marks equal? How much difference is there between the two amounts? Is a manufacturer in the United States better off or worse off if the value of foreign currency drops? Why?
3. Check recent issues of business and news magazines for articles about world trade. Report to your class on recent problems in world trade.
4. In 1985 imports of Japanese products into the United States were about \$50 billion more than our exports to Japan. One reason for Japan's increased exports was the end of a quota system on their products. What arguments can you give for and against such quotas? What advantages do the quotas give consumers in the United States? what disadvantages?
5. Survey several people in your neighborhood about their opinions on world trade. Ask them these questions:
 - a. What countries do you think the United States trades with most?
 - b. What make of car do you have, if you have a car? Where was it produced?
 - c. What products do you use that are made outside the United States?
 - d. Are you for or against setting quotas for foreign goods coming into the United States?

BUILDING COMMUNICATION SKILLS



Prepare a report about how importing a certain product has affected the manufacture of that product in our own country's businesses. Choose such products as steel, shoes, or cars.

Organize your thoughts, make note cards, and give your report to your class. Be prepared to answer questions from the other students.

Issues in Business

Are Imports Good or Bad?

For a long time, businesses have been able to import steel that is cheaper than the steel made in this country. This situation is also true for shoes, clothing, toys, textiles, TV's, and a host of other products from safety pins to automobiles. Our copper mining industry is suffering because it is cheaper to buy copper from Chile than to mine it in this country.

Many imports are cheaper than U.S.-made products because many other countries have lower manufacturing and labor costs. Imports are attractive to consumers in this country because they are often less expensive than our own products. For example, many foreign automobiles are less expensive than cars made in this country. The consumer benefits from the lower cost of buying foreign cars. On the other hand, the United States automobile industry suffers if consumers do not buy their cars.

Imports allow us to have a large variety of goods from which to choose. There are many items that we would not have at all if we could not import them. For example, we import silk from Asian countries and cobalt from Canada, Norway, and Zaire.

Today the United States has a trade deficit, meaning that we import more from other countries than we export. With a trade deficit, we are buying more

from other countries than they are buying from us. United States businesses would like to see that situation reversed. Some of them have asked the federal government to increase taxes on imports so that they will sell for the same price as similar, U.S.-made goods. A government policy of restricting or taxing imports to protect United States industries is called protectionism. But other countries are free to do the same, making our products cost more so that fewer people from other countries will buy them.

The problems that face our government in weighing free trade against protectionism are tough to solve. On the one hand, imports are related to jobs in this country. On the other hand, lower-priced goods benefit consumers. The solution is to reduce our trade deficit, keep our jobs, and sell more products. Easier said than done!



Entrepreneurship: A Simulation



In a private enterprise economy, people start new businesses every day. The owners of those businesses are entrepreneurs. Entrepreneurs must make many decisions about how to operate their businesses. If you owned and operated a business, you would have to make decisions about what to buy and when, whether to buy on credit or to pay cash, and how to gain new customers. Your success would depend on economic conditions, your competition, your efficiency in running your business, and several other factors.

To give you practice in making business decisions, we have supplied a simulation on entrepreneurship. This simulation is intended to provide you with the opportunity to see how different factors affect the success or failure, and the profit or loss, of a business. In this simulation, you will be the owner and operator of your own business, Dependable Lawn Service. Your goal in the simulation is to earn enough money to pay for your lawnmower and supplies and still earn a profit for your ten weeks of work.

To begin the simulation, go to your workbook *Student Activities, Chapters 1–21*. The instructions and materials for the entrepreneurship simulation follow Chapter 13 in the workbook. If you do not have a *Student Activities* book, check with your teacher for materials and instructions.

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UNIT

4

MAKING CONSUMER DECISIONS





CHAPTER 14

The Consumer in Our Economy

- We are all consumers. We ought to have some rights. Do you agree? What kinds of rights do you think we should have?
- With rights, there is a trade-off: responsibilities. How can you possibly have responsibilities as a consumer? What makes a good consumer?
- "Waste not, want not." Is it necessary to use *all* resources wisely — even the small things we use often? Is wise decision making all that important?

Do you know what these terms mean?

comparison shopping
Underwriters' Laboratories
pollution
recycling

Air Pollution Control Act
Water Quality Act
littering

You'll learn all about these terms in this chapter.

As a consumer, you have both rights and responsibilities. Over the years, particularly since the early 1960's, much attention has been given to consumer rights. Since then, five basic rights of consumers have been identified. These are the right to choose, the right to be informed, the right to be heard, the right to safety, and the right to a healthy environment.

With your rights, you have responsibilities. You have the responsibility of using your rights effectively. You must do your share in protecting these rights. Sometimes you may even have to take action. You have a responsibility to keep informed and to tell others of your concerns. Consumer rights are like any other rights. You have them, but you must take the responsibility to use and protect them.

THE RIGHT TO CHOOSE

You have the right to choose from a number of products. One of the best protections of that right is the competition that our economic system encourages. As companies compete with one another, they do a number of things that help you as a consumer. They compete to give you the best price. Companies also make new and different products to attract you. They also try to make products better than their competitors. And, finally, they compete with one another to give you the best service.

Protecting the Right to Choose

No business firm can prevent others from competing for buyers. If a firm or a few firms attempt to do so, we say they are trying to control the market. If a company is the only one that produces cars, for example, it controls the market for cars. You would be able to buy a car only from that company. When one business controls the market, as you know, we call that situation a *monopoly*. If a few

firms, such as two or three, control the market, that situation is known as an *oligopoly* (*ahl ih GAHP uh lee*). In most cases, when competition is reduced, the consumer is the one who is hurt.

You may remember that in our country the government has stepped in to keep the market open. When a monopoly is desirable, as in supplying electric power or natural gas, the government will permit one company to have all the business. When it is not desirable, the government has *antitrust laws* to break up monopolies and oligopolies into smaller, competitive businesses. When a single company or just a few companies control the market, higher prices and poorer service and quality of products usually occur.

The Responsibility of Choosing Wisely

Because you have a right to choose which product or service you will use, you need certain guidelines to make a responsible decision. Here are some basic rules to follow:

- Compare when you shop.
- Be realistic about your choices.
- Plan wisely before spending.

Your right to choose makes you responsible for choosing wisely among the choices available to you. Check one product or service against others to be sure you have the best one for your needs. Before you buy, find out as much as you can about the choices you have. Check the prices and quality in more than one store; in other words, do some **comparison shopping**.

Be realistic when you choose. Buy the quality of product that fits your needs and your wallet. For example, don't expect to get the best quality watch when you want to spend only \$4.99 for it. If you do buy a very inexpensive watch and it does not hold up, it may not necessarily be the fault of the manufacturer or seller. Remember, in most cases you get what you pay for. And you're the one who makes the final buying decision.

Plan before you spend so that you can make a good choice. You are really casting an economic vote when you buy. In effect, you are telling the seller that one more of that product should be supplied. All of the economic choices that consumers make amount to a large vote of confidence for the products they buy. Your choices are important to the producer as well as to other consumers and should be taken seriously. Each year companies introduce a vast number of new products. Consumers decide, through their buying decisions,

which products will stay on the market. In some cases, the manufacturer may improve a product, making it better or more efficient, in order to persuade consumers to buy it. The economic votes of consumers are an important factor in the marketplace. After all, you help to decide which products stay on the market — and which products fail.

Can you think of an instance when people casting their economic votes either caused a product to fail or caused its manufacturer to change it?



Use all of your consumer rights in choosing the best product for your needs.

THE RIGHT TO BE INFORMED

To make wise decisions, you should know as much as possible about products and services before buying. Business firms are required by law to give you certain information about their products. The grocery store or supermarket that sells you meat must tell you what grade or quality you are buying. Drug companies must tell you what minerals and vitamins you're getting. You're also supposed to know exactly how much you're getting. How else can you compare? A number of laws have been passed to protect your right to be informed. These include laws that require clothing manufacturers to specify on labels which natural and synthetic fibers are used in materials, laws that tell you the butterfat content in milk,

and laws that require the listing of ingredients according to their volume in a foodstuff.

Where to Find the Information

When you come right down to it, there's a lot of consumer information available to you. In addition to consumer guides, magazine articles, and reports on consumer product tests, there is the source closest at hand — the product itself. Indeed, the product can be the most complete source of information. Packages of foodstuffs or cosmetics may contain important information on the side panels or boxtops. Booklets containing instructions for the safest or best use of items are often packed with the item. And there are labels. Some labels tell you just the price of an item. Others tell you far more. They may describe the contents or list the materials used in making the item. Some may contain washing and cleaning instructions. Others may tell you not only what to do with a product but also

Products are sometimes the best source of consumer information.



what not to do with it. Read labels. That's what they're there for — to help you pick and choose among products.

The Responsibility of Being Informed

Certainly, one of your responsibilities in regard to this right is to use the information in making decisions. Another is for you to encourage more product information that you believe is essential for making good decisions. You and other consumers can make suggestions to the producers or encourage government officials to pass laws requiring such information. In making these suggestions, keep in mind that providing more information to the consumer may cost more money. An important question to ask is, Is the increased cost worth the money?

THE RIGHT TO BE HEARD

What happens if you have a complaint about a product or service? You may have heard the business motto "The customer is always right." But how will businesses know you have a problem — and correct it — if they don't hear from you? In most cases, you have a right to complain to the business from which you bought the product. Almost always the business wants you to bring along the sales receipt, especially if you want to return the product. If you have a reasonable complaint, the business firm usually will be glad to help you. Many large businesses, especially department stores, have Customer Service departments just for the purpose of taking care of your complaints. But if you are not satisfied with their help — or if there is no help — where can you then go to complain? Your telephone book may list city or state agencies in your area that can help you. The local Consumer Affairs Office, if there is one, often is a good agency. Some people have found their local Better Business Bureau to be a good source of assistance in such instances.

Be fair and honest in your complaints. If a product is not satisfactory, you have a responsibility to tell the person or business from which you bought it. Give the person or business a chance to correct the problem. Otherwise the problem may not be corrected. If the problem is not corrected, seek help from other sources. Your responsibility is to be reasonable in asking for the right to be heard.

You have a right to speak up when something is wrong. Businesses won't know something is wrong unless you tell them. And don't forget; they like praise too! If you are happy with their product or service, tell them. In that way you encourage more good products and services.

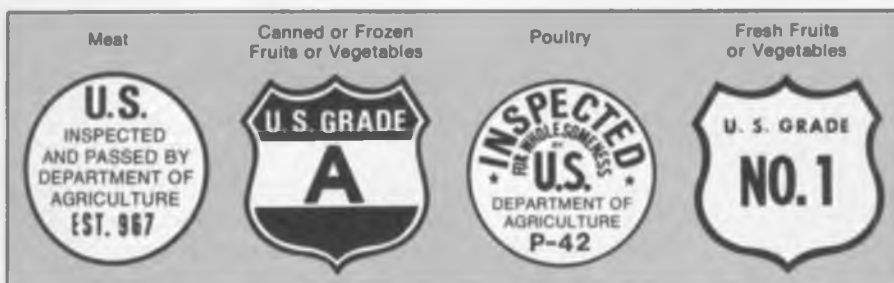
Can you think of a situation in which a consumer complaint might not be exactly fair and honest? How do such complaints affect prices?



"Of course he has the right to complain, but he could be a bit more reasonable."

THE RIGHT TO SAFETY

You have the right to expect that the products you buy are safe to use. This is true whether the product *looks* safe or not. For instance, there are many automobile seats for babies. Most of them look alike. Not all of them, however, meet the same standards for safety. It is wise to look for the stamp or seal of an approving agency on many such products. Laws on safety in clothing, food, drugs, cosmetics, tires, toys, and other products have been passed to protect you. Certain types of tools and appliances are required to have safety devices for your protection. A few fabrics have been outlawed for clothing because they burn easily. Even some kinds of food have to be inspected before they can be sold. Some drugs and medicines are required to have labels to indicate that they must be taken with a doctor's advice.



The USDA inspects meats, poultry, fruits, and vegetables.

Safety Is Your Business

You have a responsibility to use products safely and for the purpose for which they were intended. Read instructions carefully and follow them. If a manufacturer says a toy is not to be used by children under ten years of age, that instruction should be followed. And if you buy an unsafe product, you have the responsibility to report it to the person or firm that sold it to you. You should give the seller the opportunity to replace the unsafe product. You also have the responsibility as a consumer to report unsafe products to the Consumer Product Safety Commission. The Commission can require businesses to remove unsafe products from the market.

What to Look For

You should look for safety features in the products you buy. Some have safety ratings on them. **Underwriters' Laboratories (UL)** is an organization that attaches a seal of approval to products. The seal is an indication that the product has been tested and has met the UL safety standards. Those tests are thorough. Sometimes, however, only the electric cord on an appliance has been tested. You have to read the seal carefully to know what was tested. UL seals can be found on electric appliances, motors, and machinery. Look for safety when you buy.

THE RIGHT TO A HEALTHY ENVIRONMENT

A healthy environment is one that has pure water to drink, clean air to breathe, a noise level that is bearable, and a suitable place to get rid of waste material. The dust, dirt, gas, chemicals, and

waste products that make our water, air, and land unhealthy cause pollution. Today we face four major pollution problems. They are air, water, noise, and solid-waste pollution.

Controlling pollution has become too big a job for even the government to handle. Keeping the environment healthy is a job extending right down to the local community. You may be involved in recycling, or reusing materials for another product or purpose, to control the trash in your community. Paper can be recycled. So, too, can bottles and aluminum. Some states now have laws requiring deposits on bottles and cans to encourage recycling. Some companies have pitched in and are buying back products to recycle. Others are helping to make our rivers, streams, and air cleaner by installing pollution control systems.

Controlling Pollution

The Air Pollution Control Act, passed in 1962, was the first of its kind to come to grips with control of a pollution problem. A great deal of air pollution is the result of transportation. Cars, trucks, buses, trains, and even planes send large amounts of exhaust fumes into the air. One of the by-products of a gasoline engine is carbon monoxide, a deadly gas. The Air Pollution Control Act, also called the *Clean Air Act*, ordered automobile companies to control the gases coming out of car engines. And it ordered industries to scrub the air coming out of smokestacks to clean out the pollution. Some of these controls are working already, and in many large cities there are indexes or gauges to measure how fit and clean the air is.

As with air, so it is with water pollution. The Water Quality Act sets standards for the cleaning up of our scarce water supply. Industries, whole communities, and individuals, too, are all guilty of contributing to the pollution of our lakes and streams. Communities dump sewage into rivers and lakes. Mills use water from rivers in their operations and then turn it back fouled with chemicals and wastes. Individuals, too, throw everything from food wrappers to used tires into the water. But here, too, we're coming back to a healthier environment.

When lakes, rivers, and streams are heavily polluted, they are said to be dying. Do you know of any such bodies of water in your state or community that have "died"? Have any come back to life again so that they are safe to fish and swim in now?



Many materials can be recycled for use in other products.

The noise from traffic, machines, and airplanes is another kind of pollution. People who live near airports or highways know what it is to have noise pollution. Noise reaches levels at which it is even harmful to humans. Before that level is reached, however, it can still affect work output and human nerves. Factories try to keep the noise level down on machines and even supply ear plugs to their workers. Federal agencies work with airports to try to limit the number of airplane flights over heavily populated areas. Highways are sunken or elevated or lined with concrete walls to control the noise. Noise pollution is a difficult problem to solve, though. It is almost impossible to build completely quiet machines, trucks, and airplanes.

Littering, or throwing away garbage and trash in the wrong places, is usually against the law. It is also called *solid-waste pollution*, and one of our big problems is to get rid of it properly. Some communities burn it up, but then the fire and smoke have to be controlled. Other communities fill in swampy or low areas with it, and that's fine until you run out of such land. Factories may be required to get rid of their wastes in certain containers or places.

Waste chemicals may be stored for years in cans or drums until the chemicals leak out and pollute the ground. No one has come up with a foolproof solution to the solid-waste problem.

Creating a Healthy Environment

The slogan “Give a hoot; don’t pollute” has a message for everyone. It is easy to blame pollution problems on others, especially big companies, big trucks, and cities. But each of us shares in the blame. Did you know that each of us creates six or seven pounds of solid waste each day? That’s over a ton of garbage each year!

Everyone has a responsibility to prevent pollution and to protect the environment. One way we can do that is to do our share and encourage others to do their shares, too. We can help solve pollution problems by limiting waste and by recycling whenever we can. This may mean cutting out littering and burning leaves; saving empty bottles and cans and old newspapers for recycling; or being less wasteful in our use of scrap paper, paper towels, and other “disposable” items. We have a responsibility to keep down all types of pollution — and to ask others to do the same.

No one has the right to litter. Litter hurts everyone.



SUMMARY

All of the rights a consumer has should be used. At the same time, there is a responsibility to exercise those rights wisely. For instance, in our economy you have the right to choose from among a number of products. You should make such a choice carefully on the basis of comparison and what you can afford. You have the right to be informed and to know not only what a product is but how much it will cost. One responsibility is to use the information in making choices. You have the right to be heard, and the responsibility to make it known if you have been treated unfairly. You have the right to safety, to be protected from harm, and the responsibility to make reasonably sure that protection is guaranteed. Finally, you have the right to a healthy environment — and the duty and some of the means to keep it that way. Being a good consumer is an important responsibility.

BUILDING WORD POWER



Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 7. Then write the term that best matches each numbered definition.

Air Pollution Control Act
comparison shopping
littering
pollution

recycling
Underwriters' Laboratories
Water Quality Act

1. Legislation by our government that sets standards for businesses and communities for the cleaning up of our scarce water supply.
2. A private organization that attaches a seal of approval to indicate that a product has been tested and has met safety standards.
3. The dust, dirt, gas, chemicals, and waste products that make water, air, and land unhealthy.
4. Reusing materials for another product or purpose, which helps to control trash and reduce waste.
5. The act of throwing away garbage and trash in the wrong places.
6. Legislation that was passed by our government to control air pollution.
7. Checking the price and quality of a product or service in more than one store.

BUILDING READING COMPREHENSION



1. List the five basic rights you have as a consumer and the responsibilities associated with each right.
2. What should you check when you do comparison shopping?
3. How do you as a consumer cast an economic vote?
4. Give three examples of information that businesses must provide about their products.
5. What is often the best source of product information?
6. What steps should a consumer take if a product is not satisfactory?
7. Which law was the first major law for protecting our environment? What is its major purpose?
8. Name the four major types of pollution that threaten our environment, and give an example of each.
9. How do communities and businesses deal with solid-waste pollution? What are the problems with these methods?
10. Explain how consumers can reduce solid-waste pollution.

BUILDING BUSINESS CONCEPTS



1. What are the differences between consumer rights and consumer responsibilities?
2. Under what circumstances do you think a consumer should *not* comparison shop?
3. Do you think consumers really can make a difference through their economic votes? Why or why not?
4. What would happen if we had no antitrust laws?
5. List four guidelines to follow in making a responsible buying decision.
6. What effect does price have on the consumer's right to choose? If prices differ on various brands of an item, what does that mean about consumer choice?
7. Some states have laws that require very young children to be fastened in a child's car seat while riding in a car. Do you believe such laws are needed? Why or why not?
8. Until recently manufacturing companies were allowed to dump their waste materials into rivers and streams. Some people have proposed that we enact powerful antipollution laws to make all of our rivers and streams "clean enough for swimming." Is that a reasonable goal? What advantages and disadvantages do you see in working toward that goal?
9. What are the safest ways for consumers like you to dispose of waste and trash? What ways do you think should be illegal?
10. Describe a situation in the environment around your community that is not good. List your responsibilities to help to solve the problem. What actions can be taken to solve the problem?

**BUILDING
BUSINESS
EXPERIENCE**

1. What agencies in your community provide help to consumers with problems? How are these agencies supported?
2. Inspect the electrical appliances in your home. Does each have a UL seal of approval? Does each seal cover the entire appliance or only part of the appliance?
3. Check your local laws on pollution. What kinds of laws are there? What steps has your community taken to reduce noise, air, water, and solid-waste pollution? Where do local businesses dispose of waste products?
4. In 1983 business firms in the United States spent about \$7,240,000,000 to control pollution of the air, land, and water. In 1984 they spent about \$7,640,000,000. How much did they spend in total those two years for pollution control? How much more did they spend in 1984?
5. About $2\frac{1}{2}$ percent of the money businesses spend on capital goods goes toward pollution control. Should this amount be higher? lower? What should a business consider when deciding how much money to spend on pollution control?

**BUILDING
HUMAN RELATIONS
SKILLS**

The town of Middlesboro held a meeting. Last week Jefferson Corporation, the largest employer in town, announced that about one hundred employees would be laid off within the next six months. One of the reasons for the layoff is the cost of an expensive new air pollution control system. Jefferson must cut other costs somehow.

Aaron Fleming attended the meeting. He was startled to hear some residents of Middlesboro protest the pollution control system. "Jobs are more important than that system," they said. Others who lived near Jefferson's plant argued that they certainly did not want the air they breathed to be polluted with gaseous fumes! Tempers flared, and finally the meeting ended with a shouting match between the two groups. Jefferson Corporation representatives who attended the meeting were confused. Didn't Middlesboro residents appreciate their efforts to prevent air pollution? Were jobs more important than the safety of Middlesboro's people? Aaron was confused too. What is the "best" solution?

1. What is the main issue here?
2. What could have been done to prevent the meeting from turning into a shouting match?
3. What do you think is the best solution in this case?
4. Should Jefferson Corporation install the equipment if it is needed, even if it means that the company must lay off workers?
5. Are the people who live near the plant right to protest?
6. What could be done to help people understand the problems?

Issues in Business

What Should We Do with Waste?

The more we use, the more we throw away. The more we throw away, the greater the problem of where to put it — finally and safely. There are different kinds of waste, and not all of it is hazardous to health. The kind that is hazardous is toxic waste, which is deadly and harmful if not disposed of properly. Toxic waste disposal is one of the biggest problems we face in keeping our environment clean.

A few short years ago, millions of drums of acids, barrels of corrosive liquids, and other toxic waste left over from manufacturing were simply dumped into landfills, stored in warehouses, or dropped into vacant lots. The drums, many of them stored for years, corroded, spilling their liquid poison into rivers, streams, and underground waters. People in the immediate area of some of these dumping grounds had an unusually large number of cases of cancer and other health problems. Could it be the waste?

The Environmental Protection Agency (EPA) took notice of the complaints, and Congress decided to act. It set up a "superfund" to help clean up the toxic waste sites across the nation.

After decades of ignoring the toxic waste problem, we are finally beginning to do something about it.

Some toxic waste products can be "scrubbed" out of liquids before they are released into the environment. Chemicals can be buried in huge pits lined with clay or in underground shafts far below water level. Some kinds of concrete, lead-lined containers will hold radioactive wastes safely for many years, although they are still very expensive.



Other kinds of solutions to the waste problem are more promising. Bacteria have been produced in laboratories that will literally feed on toxic wastes. Such bacteria have been used already to help clean up oil spills. Corrosive by-products of videotape manufacture can be converted into fertilizer. Some dangerous solid waste can be turned into ashes in high-powered furnaces. We have not solved the problem of what to do with waste, but we are making progress toward that goal.



take
the tick

CHAPTER 15

The Wise Shopper

- Before you buy, you ask yourself a number of basic questions. Where shall I buy? Why this store instead of that one? Is it quicker, cheaper, easier?
- You probably find that there is always a battle between quality and price. You want the best at the lowest possible price. How often do you succeed? Do you suppose that succeeding often is the mark of a good consumer?
- You have to match your wants with particular products and services. Then you've got to determine where those products and services can be obtained. Besides quality and price, what should you consider?

Do you know what these terms mean?

generic	warehouse showroom
impulse buying	variety store
unit pricing	rational advertising
full-service store	emotional advertising
discount store	promotional sale
specialty store	clearance sale
factory outlet	

You'll learn all about these terms in this chapter.

Making choices in your shopping is not easy when so many products and services are available. Consider, too, how many different places there are where you might find the best buy. A supermarket may have thousands of different products for sale. You may find that even a small neighborhood store has several hundred different products from which you can choose. Being a consumer is hard when you have so many choices.

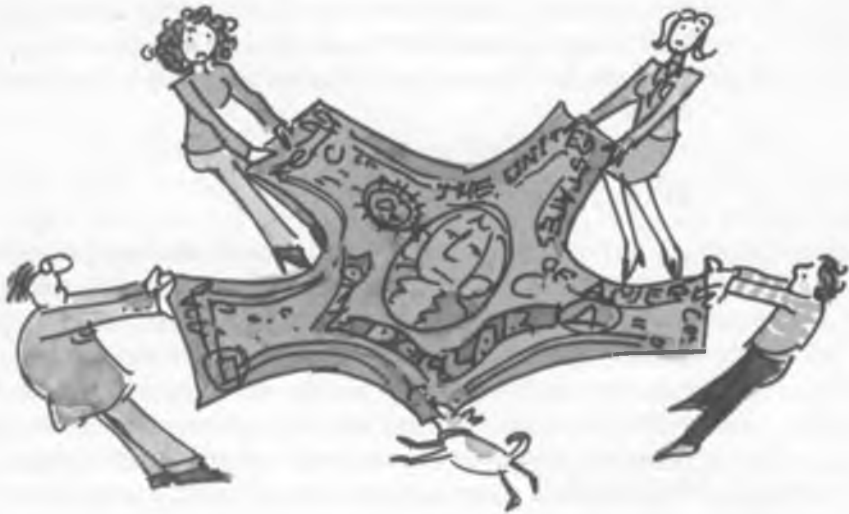
All of us have a problem in making our money stretch, too. That problem isn't helped when prices differ from one store to the next. You'll probably find that one brand of shampoo sells for one price at a drugstore, another price at a supermarket, and a third price at yet another store. But the store that has the lowest price for the shampoo may also have the highest price for toothpaste. Problems. Problems. Skillful buying is not the easiest thing in the world.

CONSUMER CHOICES

Can you imagine what it would be like to have enough money to buy everything you wanted? You could buy whatever you wanted, whenever and wherever you wanted. Most of us, however, have to stretch our income to meet our wants. And, most people want to get their money's worth. The first problem, then, is deciding what to buy. Like most other things, being a consumer involves decision making.

What to Buy?

Before you buy, you have to decide *what* to buy. After deciding on the goods or services wanted, you must then make a selection from various choices. Making choices among brand names may be



Stretching income to meet the wants of everyone in a family isn't always easy.

hard. One store may carry twenty or thirty different, well-known brands of a product. Which do you choose? The store also may carry *no-name* products with no brand name, a plain label, and a lower price. Sometimes these are called **generic** products, which are representative of a whole group of common items. For instance, you may be able to get generic peanut butter, paper towels, canned fruit, vegetables, and juices. They may be different in size, color, and appearance from brand-name products, but still of good quality. Sometimes, as in vitamins, they are exactly the same quality as the brand-name items. Most importantly, generic products may represent savings of from 30 to even 50 percent.

What generic products can you think of? Which ones, if any, would you be most likely to buy?

Other questions have to do with price. Should you buy the most expensive product, the least expensive, or one in between? The number of goods available in the stores often gives you a wide range of prices. Some people think that the most expensive is always the best. That may or may not be true. In fact, the least expensive item or the one in the middle price range may be the best buy. How can you tell? It generally depends on what you plan to do with a product or service you are buying. As an example, perfectly formed canned peach halves may not be the best buy if they are to be cut up for a fruit salad. Imperfectly formed canned peach pieces, which generally are lower priced, may be the better buy, considering the use of

the product. Even if you can afford to buy the most expensive item, that doesn't make the choice easier. The most expensive item may not best fit your wants. *What* to buy may be the hardest question to answer.

When and How to Buy?

All consumers face problems in deciding how to spend money to get the most from it. Should you buy now or later? Since we usually buy more than one thing at a time, we must decide which goods and services are important to have now, and which can be postponed. Postponing purchases takes will power. It is sometimes hard to avoid **impulse buying**, getting things on the spur of the moment. Impulse buying is also hard on the budget since you may be spending more for an item or buying something that you really do not need.

The Decisions in Buying. Should you pay cash or buy on credit? Sometimes there's no choice! If you don't have enough cash, credit may be the only way out. And credit is available for most things you buy. There is a cost for credit, though. And you should consider how the cost of credit adds to the total cost of the item.

If a product is on sale, should you stock up on it? Sometimes special sales make it possible for you to save money on products you use often. If you do stock up, will you use it all or will some of it be wasted? Do you still have money left over for other things you need?

Comparing Products. Comparison shopping, checking the price and quality in more than one store, can really save you money. Comparison shopping is of most value in making a major purchase. How well you actually buy is often a matter of checking prices at several places. Of course, you need to consider the cost of your time and energy, as well as what you might save. If you spend seventy-five cents on gas to save fifty cents on an item, that's no bargain.

Products come in many sizes and shapes. There are king size and queen size, deluxe and super, family and giant. How are they different? Which size is the best buy? It can be pretty confusing to the consumer in the supermarket trying to compare an *economy* size package with a *regular* size package. If all products of the same kind were priced in terms of ounces, pounds, or pints, consumers might have an easier time in comparing sizes and prices. Using a standard measurement as a basis for pricing the same product is called **unit pricing**. Let's see how it works. Laundry detergent, for example, often comes in large-size, king-size, jumbo-size, and family-size con-

tainers. And many different suppliers offer this range of sizes. If you're comparing one brand of detergent with another, it helps to know that Brand A is \$1.53 per pound or unit, whereas Brand B is \$1.75.

Generally, the larger the size, the lower the price per unit. This is not always true, though. That's why it's always important to look at the unit price of an item. Some stores provide unit pricing information for various products. In other cases, you may have to figure it out yourself.

The *Fair Labeling and Packaging Act* requires a producer to give specific information on the label or package of a product. On the label the name of the product and the manufacturer must be given, as well as the contents listed in order of amount. The information on labels often helps you to compare products in terms of price, quantity, and contents. Labels may not give you all the information you need to make a choice, but they are a help a consumer should use.



Deciding which is the best buy can be difficult if unit prices aren't provided.

Where to Buy?

At which stores will you shop? The wise shopper will make such decisions before buying. Do you want to go downtown? to a shopping center? to a large department store? to a store where you know the salesclerks? Where? In some cases it may be wise to pay a higher price at a nearby store. Your transportation costs may cancel out savings from shopping at a distant store with lower prices.

In a private enterprise system such as ours, there is a wide choice of places where you can buy. There are three reasons for the large range of places to buy: the kinds of goods and services sold, the prices, and the convenience provided.

Full-Service Stores. A store that offers as much help as possible to a customer is called a **full-service store**. It will probably cost you more for full service, but it may be worth it. Such stores sell many different kinds of products as well as a number of different brands. Clerks help the customer make decisions by offering information about the products they sell. Full-service stores usually offer credit. There may be other services, too, such as delivery of large packages to your home, shopping by mail or telephone, charge accounts, and bank credit card use.

Discount Stores. A lower price is the major attraction of a **discount store**. At such stores you can usually find brand-name products as well as lesser-known products. Discount stores buy in large quantities so they can usually sell at prices lower than their competitors. Many cut costs in selling by letting customers serve themselves. In fact they offer fewer services than the full-service stores. In that way they can keep their costs down and prices lower. Sometimes, though, stores that call themselves discount stores may not carry lower prices on some items when compared with other stores.

Supermarkets. Supermarkets are the first choice of most consumers for buying food and household products. They usually are large, have a great number of different products, and carry most brand-name products as well as generic products. A large supermarket may carry thousands of different items on its shelves. Many supermarkets use electronic equipment to provide quick and accurate checkout. By reading the Universal Product Code (UPC) on products, electronic scanners can pick up the prices and figure the total cost of purchases. The computer then records the sale of those products and keeps an up-to-date record of inventory.

Convenience Stores. If a store is close by and stocks few but very popular items, it's probably a **convenience store**. Convenience stores carry mostly groceries. Compared with supermarkets, convenience stores carry far fewer items and brands. Their sole purpose is to be convenient. Often they are located close to or in residential neighborhoods. They may be open nights and on holidays. For that convenience, however, you generally pay a higher price.

Specialty Stores. A **specialty store** carries only a certain line of products. Specialty stores include pet shops, dress shops, book-

stores, and shoe stores, among others. Most specialty stores are small, and their prices vary. One store may carry expensive brands, while another may try to attract customers who want lower prices.

Catalogs. In recent years, mail-order catalogs have become more popular as a way to buy a variety of merchandise. Catalogs are convenient because they allow you to shop right in your home. Some mail-order companies even provide a toll-free telephone number to make it easy to order from them.

Catalogs offer merchandise as simple as a sleeping bag or as exotic as a computerized robot that does chores around the house! Many catalogs offer merchandise that is sold only by mail order. Others offer merchandise that can be purchased either in a store or from the store's catalog.

Factory Outlets. A store located on factory grounds or run by a factory is referred to as a factory outlet. Since it sells products directly from the factory, there are few additional costs between producer and buyer. Often the products are *factory rejects*, which

Shopping by catalog is convenient and can save you time and money.



have slight flaws. If the factory makes clothes, it may sell those that are not perfect in its factory outlet store. Occasionally first-quality products are also sold. Generally a factory outlet's prices are lower than those in full-service stores.

Warehouse Showrooms. Like factory outlets, warehouse showrooms do not need some of the middlemen, so they pass along the savings in lower prices. A **warehouse showroom** is a place where goods, often furniture, are put on a showroom floor. The customer can order an item like the one shown directly from the warehouse connected to the showroom. Because few clerks are needed and the customer goes to a central location to pay for and pick up the order, costs can be held down. The warehouse showroom usually features lower prices.

Variety Stores. If a store sells a large number of inexpensive products, it may be a **variety store**. In fact, variety stores are sometimes called *5-and-10-cent stores*. They are self-service, prices are low, and everything from paint to greeting cards may be sold.

For what items would you most likely go to a convenience store? a specialty store? a variety store?

PLAYING IT SMART

As a shopper you have to decide what are really bargains for you. To be a good shopper you cannot buy products that are a waste of your money. If you buy something you cannot use, it is no bargain at any price. A wise shopper checks to be sure that prices really *are* special and that those special buys are useful.

How can you play it smart in shopping? One way is to be prepared in advance. You can check to see what are good buys. Newspapers and magazines include advertising that can help. Often big stores do their own advertising.

Studying Advertisements

Advertisements are an important source of information for planning your shopping. Business must think it is worthwhile, because it spends about seventy billion dollars a year on advertising. And advertising in newspapers heads the list. To be a wise shopper, you should learn how to read advertisements. Here are some hints that will help you understand advertisements.

Advertisements come in two kinds. There is **rational advertising** an ad that attempts to convince you with facts and other information. It tries to persuade you that you should choose a specific product because it is the best one for your purpose. "You can make your decision on the basis of this information," the ad implies. On the other hand, **emotional advertising** is an ad that appeals to your feelings. It suggests that you buy something because you'll be the most popular person in town as a consequence. "Use this product," the ad implies, "and your friends will like you better." Emotional advertising is often directed at your pride or comfort.

Smart shoppers check advertisements as well as product information.



Look at advertising and decide whether it gives you useful information. An advertisement that simply announces "The best buy in town!" will not necessarily help you become a wiser shopper. Why is it the best buy in town? Is it the cheapest price you can get? Is the quality so good that the item is worth more than you pay for it? On the other hand, an advertisement that says "9 oz. Super-White Toothpaste, \$1.79" may be very helpful indeed. If you know that Super-White Toothpaste is good, and that it usually sells for \$1.99 for 9 ounces, you've got yourself a good buy.

Also look at the advertisements to determine whether they include any cents-off coupons. More and more businesses are using coupons to encourage the consumer to buy, especially when they introduce new products.

Shopping at Sales

Some shopping experts say the average consumer can save up to 15 percent by watching for and using sales. Stores may use two different kinds of sales. A **promotional sale** is one that gives you a special buy on a new product or a product that is in season. First check to make sure that the price is lower than usual. In January, for example, many department stores have *white sales*. These stores sell towels, sheets, tablecloths, and other household supplies at lower prices during the white sale. Promotional sales are usually held at a time when consumer buying is down. After the Christmas buying spree, a January white sale is intended to bring people in to the stores again.

A second kind of sale stores use is a **clearance sale** to clear or get rid of goods that are going out of style or that are no longer profitable. Clearance sales may occur at the end of a season or when products have been on the market too long. A clearance sale is a way to move those products to make way for new merchandise. Prices may be cut as much as one third or one half.

During sales look around for things that are advertised as *going at a loss* or *below cost*. These advertised specials are called *loss leaders*. Why? Even though stores lose money on these products, they bring customers into the store. One word of caution: even loss leaders shouldn't be bought unless you need them.

Are there certain times of the year when special sales are traditionally held in your community? What kinds of sales are they?



Consumers can save money by taking advantage of sales.

Doing Your Consumer Homework

Planning your shopping wisely involves much more than the how, what, when, and where of buying. Playing it smart means preparing ahead for what you will buy. What do the advertisements say? Where are the sales being held? What's smart to buy now and what should you postpone? How else can you be a wise shopper?

Shop around for products that are labeled *Seconds* or *Irregulars* or *Imperfects*. Discount stores and factory outlets are good places to look. Such products are less than first quality. Check them carefully. Sometimes a good cleaning is all that a product needs — and the price is worth it. A product may be marked down because of something that is hardly noticeable. Or the flaw may be something that makes the product of no use to you. If a product isn't usable, it's no bargain at any price.

Using Shopping Lists

It's fairly easy to fall into the trap of impulse buying when you don't have a firm idea of what you want before you enter a store. To cut down on aimless buying, wise shoppers prepare shopping lists. Like these shoppers, you will find that a shopping list will help you save time and money. Often, it may keep you from making unnecessary shopping trips. And because each time you go to the store you are presented with another opportunity to buy on impulse, a shopping list may help you save money.

SUMMARY

Shopping is not easy. Most of us have too many wants and too little money. The choices we finally make may not be easy. When you shop, ask two questions as a guide to your choices. The first question is "Do I need it?" If you decide you need the item, your second question should be "Can I afford it?" If you answer *Yes* to both questions, then you are ready to shop.

How can you get the best buys and be a better shopper? A few rules can be useful.

Shop around. Don't assume that your first impulse is the best buy. Learn prices. Pay attention to prices week after week so you can choose the best buy more easily. Know which store you want to go to, and for what reasons. Shop during the off season. Find the items you can buy at low prices at the end of the season, or after a holiday. Plan before you go shopping. Check the advertisements for as much information as you can find. Watch for sales and sales features. All shoppers have the same four things: some information, time, energy, and money. It's *how* they use them that makes for a wise shopper.

**BUILDING
WORD
POWER**

Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 13. Then write the term that best matches each numbered definition.

clearance sale
discount store
emotional advertising
factory outlet
full-service store
generic
impulse buying

promotional sale
rational advertising
specialty store
unit pricing
variety store
warehouse showroom

1. Using a standard measurement as a basis for pricing different brands of the same product.
2. A sale to clear or get rid of goods that are going out of style or that are no longer profitable.
3. A store in which the customer orders an item on display directly from the warehouse.
4. The purchase of things on the spur of the moment.
5. A store that sells a large number of inexpensive products, is self-service, and has lower prices.
6. A store that specializes in a certain line of products, such as a pet shop, a dress shop, or a bookstore.
7. An ad that attempts to convince you with facts and other information.
8. A sale that gives a special buy on a new product or a product that is in season.
9. Having no brand name, a plain label, and a lower price.
10. A store located on factory grounds or run by a factory, in which products with slight flaws may be sold.
11. A store that offers as much help as possible to a customer.
12. An ad that appeals to your feelings.
13. A store that buys brand names as well as lesser-known products in large quantities and sells at a lower price than the competition.

**BUILDING
READING
COMPREHENSION**

1. How do generic products differ from brand-name products?
2. Give an example of a time when it might be wisest to buy a product that costs less than any competing product.
3. Why is unit pricing important in getting the best buy?
4. Name five services that may be offered by full-service stores.
5. What is the main selling point of discount stores? In what ways do discount stores cut their costs?
6. What is the difference between convenience stores and super-markets?

7. How is a factory outlet different from most other stores?
8. How can advertising help you before you go shopping?
9. What are two types of advertising? Which type is more helpful?
10. Compare a promotional sale with a clearance sale.

BUILDING BUSINESS CONCEPTS

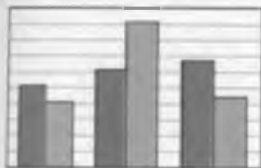


1. At the supermarket, Maria found milk on sale for \$1.59 a gallon. Other stores were selling milk from \$1.99 to \$2.29 a gallon. Why might the supermarket have such a low price on milk?
2. Listed below are eight items. For each one, list all of the sources or stores discussed in this chapter that would probably carry the item. List the type of store you probably would choose if you were buying the item, and give a reason for your choice.

a. A week's groceries	e. A blank cassette
b. A birthday card	f. A toaster
c. A hair dryer	g. A sweater
d. A quart of milk	h. A watch
3. Of the places described in this chapter where consumers can buy goods and services, which do you think have a bright future? Do you think any of them will decrease in importance in the next 10 to 20 years?
4. Some discount stores sell for cash only, ask you to bring your own shopping bags or boxes, have no carryout service, and display their products in the boxes in which they were shipped. Why do you think such stores operate this way? What advantages does a consumer have in shopping in these stores? what disadvantages?
5. In what ways can catalogs be helpful to you as a consumer besides being used for actual purchases?
6. List at least five things you would like to buy in the next three months. Check the prices in catalogs, advertisements, and stores. Where do you find the best prices?
7. In many supermarkets, racks in front of the checkout lanes have a wide range of "convenience" goods on display. Why do you think those products such as candy, magazines, razor blades, and chewing gum are displayed in that way?
8. Describe the last item of clothing you bought. Why did you buy it? Do you still like and wear it? Would you buy that same item again? What influenced your choice?
9. How might your decision-making differ for the following purchases: groceries, a sweater, a stereo, a car?
10. When is it wise to buy products in large quantities and save?

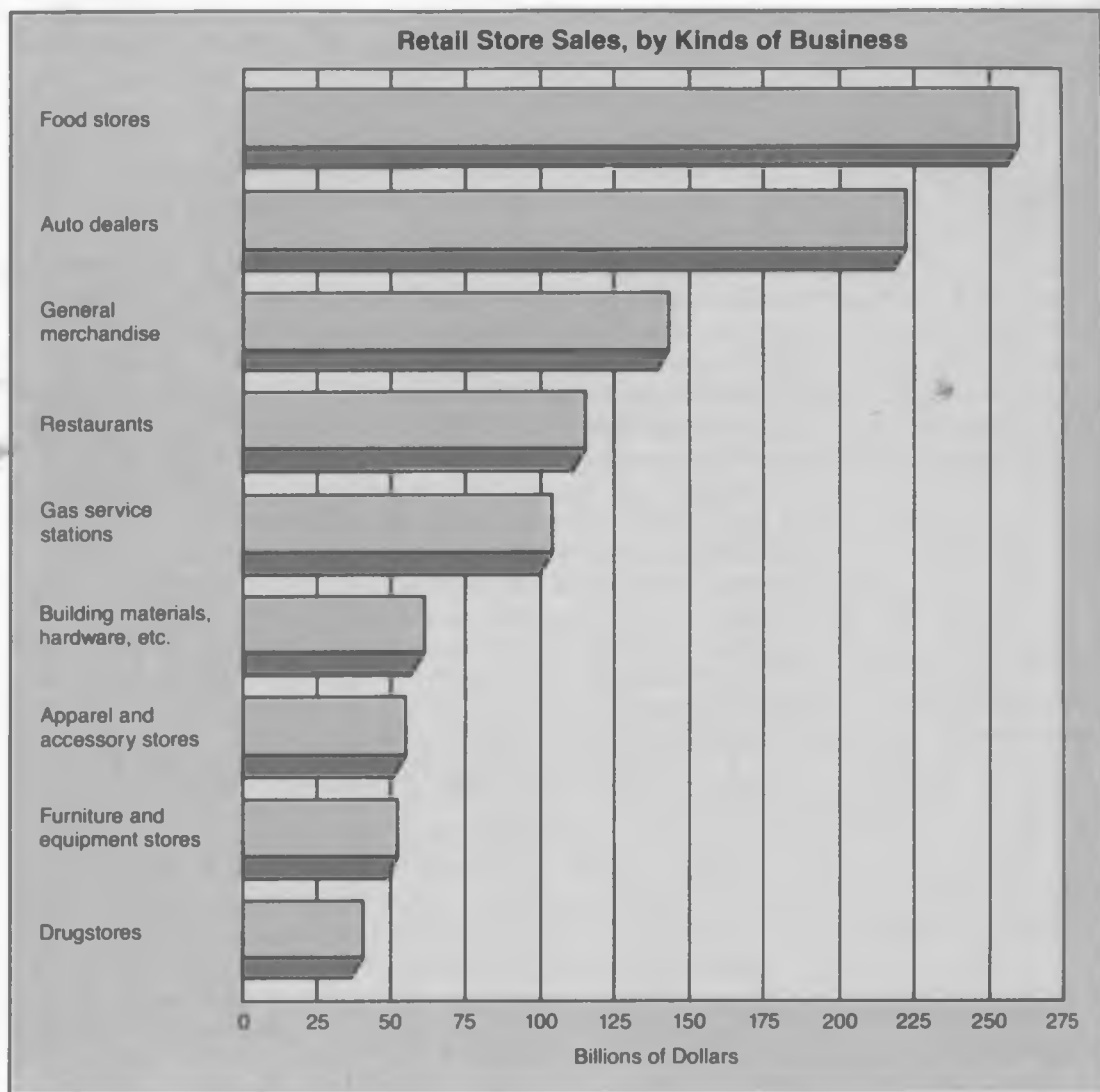
**BUILDING
BUSINESS
EXPERIENCE**

1. Check your telephone directory to see how many of the different kinds of stores you have studied in this chapter are listed for your area. Visit some and compare them in these ways:
 - a. Price of products
 - b. Number of salespeople available
 - c. Variety of brand names offered for each product
 - d. Extra services available — charge accounts, credit cards, delivery service, etc.
2. In some countries stores specialize in only one type of goods. There are no supermarkets as we know them. If our stores were organized just as specialty stores, what problems do you think consumers would have?
3. Develop a shopping list for groceries, furniture for a home, or clothing. What factors will be most important to you in shopping for each of those items?
4. Suppose you want to buy a pair of shoes, a tennis racket, a camera you will use very often, and a pair of gloves. For which of these items would you want to buy only the best quality? For which would you probably be satisfied with a less expensive brand that might be of lesser quality?
5. Five ounces of toothpaste cost \$1.09. Eight ounces cost \$1.69, and 9 ounces cost \$1.88. Which is the best buy?
6. Bring some labels, tags, seals, or packages from various products to class. List the information you find on those items. Which types of information are helpful to you? Which are not helpful?
7. Choose a product. Now prepare a list of buying tips for that product. Share your tips for shoppers with the class.
8. Check in your home to see what brand your family uses of each of these products: shampoo, toothpaste, facial tissues, frozen vegetables, bread, and laundry detergent. Check with the person or persons who regularly buy each of those items. Why do their choices? What other factors are important to them in each case?

**BUILDING
MATH
SKILLS**

The graph on the next page shows the sales of nine types of retail stores. Study the graph and answer the questions below.

1. Which type of store had the highest sales for the year?
2. Classify each type of business according to the types you studied about in this chapter: full-service, discount, supermarket, convenience, specialty, or variety store.
3. About how many billions of dollars does each type of store sell in a year?



People in Business

Lillian Katz

If you have ever seen any of the thousands of mail-order catalogs sent to households every year, chances are you have seen a Lillian Vernon catalog. Now a million-dollar business, Lillian Vernon Corp. was once just an idea in the mind of a woman named Lillian Katz.

In 1951, Lillian Katz, then only 23 years old and working out of her kitchen and her father's warehouse, decided to take a chance at selling leather belts and purses through the mail. Starting with only \$2,000, she bought an advertisement in *Seventeen* magazine and within weeks realized a \$4,000 profit. Encouraged by her success, she decided to continue with the mail-order business.

Brightly colored catalogs have replaced Lillian Katz's first black-and-white advertisement. Now such items as a computerized "piggy" bank and a solid brass postage stamp holder make up the more than 800 products displayed in each of the 75 million or more catalogs mailed each year. Such growth has enabled Lillian Vernon Corp. to have divisions in Hong Kong and Italy. In addition, the company has a wholesale division, Provender, which specializes in bath, gift, and gourmet food items.

The mail-order business, also called direct marketing, accounts for 14 percent of all retail sales in this country, and the Lillian Vernon Corp. has a large share of this market. But the growing popularity of shopping by mail cannot be the only reason for the company's success, for there are hundreds of direct marketers in the business.



Rather, Katz's success stems from the company's convenient and quick phone ordering service, excellent return policy, and constant product updating, all of which are done to meet the changing wants and needs of her customers. Because of her ingenuity, perception, and perseverance, Lillian Katz is a multimillionaire.



CHAPTER 16

The Informed Consumer

- Being a wise shopper is not a matter of luck. Neither is being an intelligent consumer. What should you know as a consumer? What is helpful?
- Let's say you want to buy a fairly expensive item like a tape recorder. How do you get your "intelligence" about it? What are your sources?
- *Be prepared!* is a motto of the Scouts. It's also a good motto for the consumer. How can you get background information before you buy a particular product?

Do you know what these terms mean?

objectivity

trade associations

mass media

Consumer Product Safety

Commission

Consumer Information Center

You'll learn all about these terms in this chapter.

"I really try to make my money stretch these days," Sue told her friend Angela. "You've got to look for good buys. Before we buy anything, especially something expensive like a coat or a VCR, my mother and I read *everything*. I mean everything! And then we read the fine print on the labels. And check this. And check that . . ."

Sue is merely trying to be an informed consumer. Good buys are no accident. There are a number of steps you can take to ensure that you get your share of bargains. Determine what kind of information you want about goods and services. Learn about one or two reliable sources of information. When you decide to buy a big item, be ready with all the background information you can collect.

COLLECTING INFORMATION

There are books and more books on the art of being a good consumer. You can get them in supermarkets, drugstores, bookstores, and department stores. They tell you how to save money. They tell you how to spend it. There are books about how to make a million dollars by buying stock or real estate. Books also tell you how to save money and how to make a budget. What books don't tell you is how reliable they are in helping you to become an informed consumer! Choose carefully if you plan to use them in collecting your information.

What should you look for to help you become a more informed consumer? In the first place, information should have **objectivity**; that is, it should be based on facts. The source of those facts should be clear. Is the information based on tests or research? Is it checked by experts? Or is it just the opinion of the writer? If it is the writer's opinion, what kind of reputation does he or she have?

Secondly, information should be accurate. It should be true and reliable. Not only should the information be based on facts, but also those facts should be true enough to stand examination. If you can, check accuracy by comparing several sources of information. Later in this chapter we'll look into such sources. Most business firms are

careful to give accurate information because they know that anything else may hurt their sales.

Finally, information should be clear. Clear information is important, both for helping you to make your decision and later for helping you to make use of the product. A business that cares about its reputation will be sure to give you full information and also answer all of your questions. For example, in the past consumers had a hard time understanding insurance policies and contracts. Then the insurance business led the way in revising its contracts so that customers could better understand them. Similarly, lending institutions such as banks and loan agencies have made their contracts easier for customers to understand. These businesses also employ people who will answer your questions about policies or loans in person.

SOURCES OF INFORMATION

Just about everywhere you look you can find one or more kinds of consumer information. You can find it on labels, in advertising, and in special-interest magazines. Producers of goods and services, naturally, have a special interest in telling about their products. But nonprofit organizations and government at all levels also devote a great deal of time and energy to informing consumers of the advantages and disadvantages of various items. And you can always seek help from friends and relatives, many of whom are only too willing to share their likes and dislikes.

Producers of Goods and Services

The largest amount of information about consumer products and services is provided by business firms that manufacture and process them. One way that they inform is through advertising. Business firms advertise in magazines and newspapers and on television and radio. And all that advertising is aimed at you, the consumer. In it there is a wealth of product information, ranging from full pages in newspapers to 30-second "spots" on TV. You may have more time to read information than to hear it or see it. Analyzing an advertisement on television is much different from reading about the same product in a magazine. You have to sort out all of the impressions. You've got to separate fact from fiction. And, in the case of radio and television, you must make judgments rather

quickly. In fact, when you have a really serious decision to make about an expensive product, you should use a number of sources of information.

As mentioned in Chapters 14 and 15, labels and packages are another means through which manufacturers offer consumer information. Sometimes, the labels simply list the ingredients. Sometimes, as with certain soup mixes, the labels may tell you several ways of using the product. At other times, as with woolen sweaters, the labels may provide rather detailed instructions for the care and maintenance of the product. Similar information may often be found in separate instructional booklets that are packed with the product or distributed as owners' manuals.



Don't rely on emotional advertising. Use other sources of information.

Producers of goods and services also supply consumer information through brochures and pamphlets published by trade associations. Trade associations are organizations set up to serve the needs of businesses that have special common interests. Among the better known of these are the Wool Bureau and the American Gas Association. The booklets that the wool trade association issues might describe the differences among various fibers. They might go into great detail about how certain garments are made. In the case of the American Gas Association, they might simply discuss, for example, the advantages of gas stoves over electric stoves.

Mass Media

Consumer information is also made available through the mass media. Mass media are forms of public communication, such as



Trade shows provide an enjoyable way of obtaining product information.

newspapers, radio, magazines, and television, that are directed at a large audience. For example, there are magazines that are supported only by consumer subscriptions. They accept no advertising, and they test products in their own laboratories. The results of such testing are reported monthly in different product lines. For instance, one month there may be reports on stereo sets, sports cars, soap products, and fifteen or twenty other goods and products. The products are graded according to how well they tested in the laboratory. Companies are not permitted to use these reports in their ads. These magazines know that their reputations depend on the objective, accurate, and clear report of their findings. The two best-known of these magazines are *Consumer Reports* and *Consumers' Research Magazine*.

Another magazine that tests products in its own laboratories is *Good Housekeeping*. Unlike *Consumer Reports* and *Consumers' Research Magazine*, however, *Good Housekeeping* does not publish the results of its tests. Testing is done only to make certain that advertising claims made by prospective advertisers are accurate. The

Good Housekeeping Seal of Approval is given only to those products that have been tested and passed by *Good Housekeeping*. Products sold with the *Good Housekeeping* Seal of Approval are then covered by *Good Housekeeping*'s own warranty. The magazine promises to replace or refund the product if it is found to be defective within one year.

Other magazines and newspapers, too, carry special information for consumers. Magazines such as *Money* and *Changing Times* are examples. Sometimes there are feature stories or articles of particular concern to the buyer. They may have a consumer question-and-answer column. The business section or department of a daily newspaper is another good place to go for information of special use to consumers. Some magazines and newspapers regularly publish a list of booklets or pamphlets that consumers can order at little or no cost. In addition, radio and television stations often feature people who specialize in consumer affairs.

Does your local newspaper, television station, or radio station have a regular feature on consumer information? What types of consumer problems are discussed in it?

Other Private Organizations

A number of private organizations also give help to consumers. One of the better known of these is the Better Business Bureau. This organization really has a two-part task. Set up and financed by business people themselves, the Bureau supplies information in printed form. It produces dozens of pamphlets describing products and services. The Bureau does not test the products or provide price information, but its pamphlets can help consumers learn more about products before they make a buying decision. As a second task, it also furnishes advice and assistance to consumers with specific problems. In some geographical areas the Bureau has arbitration panels to help settle consumer problems.

Another private organization of help to consumers is the National Safety Council. It publishes a magazine, *Family Safety*, whose major aim is to promote safety, especially around the home. Consumers will find information helpful to them in making decisions. For instance, an issue of the magazine might include an article on motorcycles. Although the major purpose of the article is to describe safe motorcycle use, the information can be used in making a better choice about motorcycles. *Family Safety* goes to firms



The Better Business Bureau provides consumers with both printed information and personal advice and assistance.

who give it as a service to their workers. Membership in the National Safety Council includes business firms, schools, public agencies, and individuals interested in safety.

Underwriters' Laboratories, which provides the UL safety label for products tested and approved by it, also publishes materials. These pamphlets describe products that have been tested against fire and electrical problems. Safety tests are paid for by the manufacturers of products tested. The pamphlets are published free of charge by Underwriters' Laboratories.

Government

For years, a valuable source of consumer information has been the United States Department of Agriculture (USDA). Through its Institute of Home Economics and Cooperative Extension Service, the USDA offers training programs, lectures, and pamphlets covering a wide range of consumer-related matters. From these sources,

you can learn, for example, how to can or freeze vegetables safely, how to choose various cuts of meat, or how to buy different kinds of household appliances.

Two government agencies of particular importance to consumers are the Federal Trade Commission (FTC) and the Food and Drug Administration (FDA). The FTC produces information on the cost of credit in various places, labeling products, pricing practices, and competition in business. The FDA has pamphlets about various foods and drugs available for consumers.

The federal government has several agencies set up to help consumers with buying decisions. One that is concerned with safety standards is the **Consumer Product Safety Commission (CPSC)**. In addition to setting standards, it investigates accidents due to unsafe products. The Commission has consumer information and education programs. It also supplies films and speakers at low or no cost, and its *Fact Sheets* are free. Each year the Consumer Product Safety Commission works on a few special safety problems. The Commission also runs a Consumer Product Safety Hotline, which gives consumers instant telephone service to report safety problems with products.

An important federal government consumer organization is the **Consumer Information Center** in Pueblo, Colorado. It has two major functions. First, it attempts to encourage government agencies to release information of help to consumers. And second, it encourages consumers to come and get it! The Center publishes a free *Consumer Information Catalog* that lists over 200 federal publications of interest to the consumer. These cover such topics as money management, ways to make better shopping decisions, and wise use of products and services.

At the state and local levels, the kinds and amount of consumer information available vary from community to community. Some states have agencies very similar to those at the federal level. Others have not moved quite so far as yet. But most states do have one or more government sources of consumer information. Local governments also differ greatly in how much consumer information they provide. Often this difference depends on the size of the community, with the larger ones offering a choice of sources. In any event, your local telephone book is a good place to start when seeking consumer information.

What state or local government sources of consumer information are available in your community?

Friends and Relatives

Sometimes people do not look before they leap. Sometimes, too, the information is right next door. A friend who has a pair of shoes like those you plan to buy can provide you with excellent information. Word-of-mouth advertising can be very helpful, not only to the business firm but to the potential consumer. If you plan to buy an expensive product or service, ask your friends or family first. You may not have to go any further.

Remember, however, that your interests are not exactly the same as those of others. One person may have a preference for a certain product. Another person may have had either very good or very bad dealings with a particular store. These preferences and dealings may affect their recommendations. So you have to be aware of the individual differences and take them into consideration before you decide.

USING THE INFORMATION

If consumers do not use the information available to them, the information does them no good. Sometimes consumers do not make wise decisions. They may buy because "a new shirt will cheer me up." They give in to their impulses, moods, or feelings — and buy. They may not really need the items. They just want "something new." If you have ever bought for any of these reasons, you have given in to your impulses and feelings.

Sometimes consumers just do not bother to find out about products they want to buy. They may ignore information that is easily available to them. For small purchases, buying the wrong item may not be too serious. You can't make *all* of your buying decisions only after hours of finding out about the available buys. For big purchases, though, some extra effort to become well informed is worth it. You may save time, trouble, and money through your research.

Consumers complain that they don't have enough information to make wise decisions. Business people complain that consumers don't know what they want because they haven't made use of the information available to them. The fault may be somewhere in between. For a long time consumers didn't know they had a right to be informed. And for a long time business took it for granted that consumers knew all they wanted to know.

Some products are easy to select. Those we buy frequently and can compare easily with other brands are no problem to pick wisely. Competition helps with easy selection. Producers of highly competitive products are quick to provide easy-to-understand information on them. If you have fifteen different brands of toothpaste to pick from, sometimes it's only a difference in price.

On the other hand, products that change often or are bought seldom may *not* be so easy to select. For example, buying a car is a big decision. Whether new or used, a car costs a lot of money. Most people keep a car for several years, so you don't want to live with a bad decision or a lemon. You need all the information you can get — as well as a little bit of luck. Appearance of the car, roominess, comfort, economy, gas mileage, *and* price are all factors to consider. A car is a big decision, perhaps one of the biggest consumer decisions you'll make.

What was the last major consumer decision that you or your family had to make? To what source of consumer information did you go for help?

How can you make better decisions? As you know by now, there *is* help available if you're looking and listening. Advertising, government agencies, private agencies, research reports, test results, comparison shopping, information on labels and in catalogs, and just plain word-of-mouth can help. Information that is meaningful must be sorted out from *puffs*, or exaggerated claims about a product. An advertisement that says "Can't be beat!" and "Guaranteed for one year" contains both a puff and a meaningful piece of information. "Guaranteed for one year" is helpful — "Can't be beat!" is not.

SUMMARY

The informed consumer *is* the wise shopper. All of us satisfy our wants and needs in the marketplace. We need to be informed about the goods and services out there. Essentially that involves reading, observing, and listening. We get our information from the mass media, from government, from special organizations, from individuals, and from business itself. Whether it's an advertisement or a catalog listing, we have to know what to screen out and what to observe carefully.

For important consumer decisions, we can make use of organizations and information that are intended to help us. Aid is there.

Often the consumer is his or her own worst enemy. Information can be as close as your closest friend — and as available as the daily newspaper. Use it!

BUILDING WORD POWER



Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 5. Then write the term that best matches each numbered definition.

Consumer Information Center	objectivity
Consumer Product Safety Commission	trade association
mass media	

1. Public communication, such as newspapers, radio, magazines, and television, that is directed at a large audience.
2. A federal government consumer organization that attempts to encourage government agencies to release information of help to consumers and publishes a catalog of federal publications of interest to consumers.
3. The state of being based on facts.
4. An organization set up to serve the needs of businesses with common interests.
5. A federal government agency formed to set safety standards, investigate accidents due to unsafe products, and inform and educate consumers.

BUILDING READING COMPREHENSION



1. If information is to help you make your buying decisions, what three characteristics should it have?
2. In what ways can you check the accuracy of information about products?
3. Name two of the better-known trade associations.
4. How do *Consumers' Research Magazine* and *Consumer Reports* help consumers?
5. What does the *Good Housekeeping Seal of Approval* mean to a consumer?
6. What types of information do each of these private organizations provide to consumers: (a) Better Business Bureau, (b) National Safety Council, and (c) Underwriters' Laboratories?
7. Name some services offered by the United States Department of Agriculture through its Institute of Home Economics and Cooperative Extension Service.
8. How does the Consumer Product Safety Commission help consumers?

**BUILDING
BUSINESS
CONCEPTS**


9. What is word-of-mouth advertising? What are the drawbacks to this kind of advertising?
10. Give an example of a *puff*. Why is a puff not helpful to a consumer in making a buying decision?

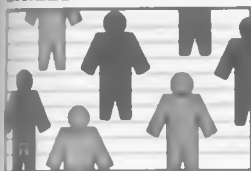
1. If you were going to buy a new radio, what do you think would be your best sources of information before you bought?
2. What types of information do you find on tags and labels on clothing? Are there other types of information that you think should be included?
3. List two ways in which trade associations serve the needs of businesses as well as those of consumers.
4. How do you define a wise consumer? List several characteristics of a wise consumer.
5. Think of the last time you bought a "big item." What types of "research" did you do before you bought that item? What sources of information could you have used that you did not use before making your choice? Did you make a wise choice? If not, why was it not a wise choice?
6. Discuss the kinds of consumer purchases that are typical of a person at each of these stages of life:
 - Junior high
 - Senior high
 - A single working person
 - An elderly person
7. Bev is selling her car. She has advertised it as an "original-owner car, 52,000 miles, new tires, \$5,950." What suggestions would you make to someone who is interested in Bev's car? What should the person do before buying?
8. Which of these advertising claims are helpful? Which are puffs?
 - a. New mouth-watering desserts
 - b. Costs 10% less than Marathon Company's running shoes
 - c. Machine wash and dry on delicate setting
 - d. Best deal in town
 - e. Protects you for five full hours
 - f. Relieves itches and rashes immediately
 - g. Save 20% for these three days only
 - h. No additives
 - i. You'll be the envy of your crowd
9. What types of information do you think salesclerks should be able to provide to a customer? For example, what questions should a salesclerk in a children's clothing store be able to answer?

10. Check a recent issue of *Good Housekeeping*, *Consumer Reports*, *Consumers' Research*, *Money*, or *Changing Times*. What types of information do you find that would be helpful to consumers before buying goods or services? Does the magazine have a consumer question-and-answer column? Why can you generally trust the information? Report to your class on an article or consumer service listed in the magazine.

BUILDING BUSINESS EXPERIENCE



1. Prepare a list of sources of consumer information in your city or local area. Use the phone book as a resource for finding those sources.
2. Check a recent issue of your local newspaper or the newspaper of a large city in your state. Find an example of these types of consumer news:
 - a. Reports of investigations of consumer problems on the local, state, or national level.
 - b. Reports on product tests or evaluations.
 - c. "Action Lines" or similar columns offering aid in solving consumer problems.
3. Bring five labels from various types of products to class. What types of information are provided on the labels? What other information is needed or would be helpful?
4. Study the ads for different products in magazines, newspapers, and catalogs. What types of information do they provide? Do they include *puffs*? Is the information accurate, objective, and clear?
5. Interview someone about consumer experiences he or she has had. Ask these questions:
 - a. Do you check newspaper ads before shopping?
 - b. Do you collect coupons to use in your shopping?
 - c. Do you read any consumer magazines for help in selecting before you buy? Which ones?
 - d. If you had a problem with a product, where would you turn for help or information?
 Report your findings to your class.
6. A mail-order nursery offers live strawberry plants for home gardeners at these prices: 25 plants for \$2.25 or 100 plants for \$5.95. The postage and handling charge for each order is an additional 75 cents. A local garden center sells similar plants at these prices: 12 plants for 99 cents or 100 plants for \$8.00. Considering the postage and handling charge for mail orders, which is the best buy for 25 plants? for 100 plants? How much can a consumer save by choosing one seller over the other?

**BUILDING
COMMUNICATION
SKILLS**

Characters: Carolyn, a student at Riverdale High; and Willis, her friend, who has found a real bargain — he thinks!

Carolyn: Willis! Where did you get that headset? That's great!

Willis: From that guy who has the display in the back of his van near the bank. Did you see him? He really has some good deals.

Carolyn: How much did it cost you? Was it a good buy?

Willis: He said it was a really good buy. He sells at a discount. He said I'd have to pay about five dollars more at Radio Haven. And he said he didn't sell at that price to just anybody.

Carolyn: Willis, are you sure you got a good buy? Is Radio Haven five dollars higher?

Willis: Oh yes, I got it at a discount.

A few days later

Carolyn: Willis, where's your headset?

Willis: It won't work. All of a sudden it just went dead. I put new batteries in it, but it still won't work.

Carolyn: That's too bad. Will the salesperson who sold it to you give you your money back or fix it?

Willis: No, he said that when he sold it at a discount, that was it. No refunds, and there is no guarantee with it.

Carolyn: What are you going to do?

Willis: I guess I can't do anything about it this time. Next time I'll just try to check things out better.

Carolyn: Maybe you should have checked with some of the electronics stores around town before you bought this time, or you could have checked with some other places.

Willis: How could I have found out whether that salesperson was on the level?

Can you help Willis?

1. What advice would you give him about buying from a salesperson who has a display in his van?
2. Where would you suggest Willis go to get better information before buying?
3. What can Willis do now? Where can he go for help?
4. What kinds of protection do people like Willis have?

Careers in Business

Editor

When you hear a story on the radio, see a program on television, or read an article in a magazine, do you think of ways in which you could improve it? If so, you might make a great editor.

Editors must think about the way their information will look or sound in its final form. They are responsible for planning and supervising a project and assigning jobs to assistants and writers. Other duties might include coming up with new ideas for articles or a plot for a television program.

The working environments and work weeks for editors can vary greatly, too. Some editors may work in quiet, private offices. Others might be surrounded by noisy typewriters and word processing equipment.

In the field of broadcasting, the responsibilities of the editor are usually fulfilled by a program director. Program directors are likely to work weekends and nights to meet a deadline or to prepare an unexpected story. Editors of written materials that are published frequently — newspapers, magazines, and newsletters — also work long hours to meet constant deadlines. However, the

work week of those who edit textbooks or best sellers may not be as hectic.

Although a college degree is usually required for a career as an editor, there is no required area of study. Some editors have backgrounds specific to their fields, such as science or history, whereas others have studied English or journalism. Editors must have excellent writing skills, as well as a knowledge of correct grammar, punctuation, and spelling.



The future for present editors and those hoping to become editors looks promising. The field is especially good for those interested in computers and technology. As the information processing field grows, so too does the number of people using this equipment. These users will depend on editors more and more to present the information they need in a language they can understand.



CHAPTER 17

Protecting Your Consumer Rights

- As a consumer, you may well ask, "Why do I need protection?" Doesn't the government protect us? Won't a firm go out of business if it doesn't play fair?
- Some of the same agencies that supply information also enforce consumer regulations. What do you think needs regulating? Do you feel consumers have enough muscle in the marketplace?
- "You mean there's a cost for consumer protection!" Everything costs money. Why would safety cost? or protection? Who pays it?

Do you know what these terms mean?

grade labels

warranty

utilities

express warranty

small claims court

implied warranty

You'll learn all about these terms in this chapter.

There are many governmental and private organizations aimed at informing and protecting the consumer. Some of these agencies you have already heard about: the National Safety Council, Underwriters' Laboratories, and the Consumer Product Safety Commission. Why do we have so many?

Think about the number of consumer products and services that are available. How could one agency keep up with all of them, handle consumer inquiries and complaints, and give help? No one agency could do that, so government agencies have been set up in specialized areas. Some departments of the government have bureaus or offices to handle consumer affairs. Private business firms, too, have set up departments to work on behalf of consumers. Large retailers, auto manufacturers, and other large corporations often have departments of consumer affairs or panels of representatives to help consumers who have questions about their products or the servicing of those products.

Newspapers and television stations often have consumer affairs specialists. You may have heard consumer affairs reporters on your local TV station report on products, businesses, or services. These reporters find consumer news, investigate consumer problems, and advise consumers on how to protect themselves. They try to make consumers better informed. Consumer magazines are a help, too. From the national level on down, the welfare of the consumer has received a great deal of attention.

PROTECTION BY THE FEDERAL GOVERNMENT

In practically every major branch of the federal government there is an office or agency set up for consumer affairs. For example, the Food and Drug Administration has an Office of Consumer Affairs. Other governmental agencies have similar offices that are specifically set up to provide information to consumers or to help them.

Agencies Offering Consumer Protection

Not all of the agencies that serve and protect the consumer have the word *consumer* in their names. At the national level, for instance, several cabinet departments have considerable responsibility for consumer protection. Several of the major federal agencies that offer consumer protection are described in the paragraphs on the following pages.

Department of Agriculture. Most of the activities of the United States Department of Agriculture (USDA) relate in one way or another to matters affecting the consumer. One of the more important duties of the department is protecting and maintaining standards of quality in the daily food supply of the nation. It does this through inspection of meat and poultry products in particular. In addition, the USDA grades meat and meat products, eggs and butter, and both fresh and canned fruits and vegetables. **Grade labels**, labels that indicate levels of quality, help consumers to judge the products. The standards for grades are set by the USDA. For

The USDA checks the quality of much of our food supply.



example, *U.S. Prime* is the best quality of beef, followed by *Choice*, *Good*, and *Standard*. The USDA also furnishes numerous pamphlets, booklets, and other printed materials on agricultural programs and on products and services for consumers.

Occupational Safety and Health Administration. At least one agency in the federal government has responsibility for safety and health standards that affect both worker and consumer. This agency, the Occupational Safety and Health Administration (OSHA), is located in the Department of Labor. OSHA conducts investigations to see that safety and health regulations on the job are maintained.

National Bureau of Standards. The National Bureau of Standards sets standards, particularly for weights and measurements, and conducts tests on consumer product safety. Once these standards have been established, manufacturers must meet the standards in their products. For example, a food package must contain the amount specified on it. Package sizes are standardized to some extent and checked by the Bureau. It also looks into possible fire dangers in clothing and other consumer goods.

United States Postal Service. You may not think of the post office as a place to go with a consumer complaint. But anything having to do with a mail-order problem is a matter for the United States Postal Service. The mails cannot be used to cheat people. If you order by mail and do not receive your order, ask the Postal Service for help. If you have been cheated by a company, the Postal Service may take legal action to get your money back. On this and other matters, it has a special department to help protect your rights.

Federal Trade Commission. One major responsibility of the Federal Trade Commission (FTC) is to protect consumers against unfair advertising. If a company misleads you to believe its product can do things it really can't, the FTC can step in and have the advertisement corrected. Another important responsibility of the FTC is to promote fair competition. In other words, it gets involved with possible monopolies. If a company tries to cheat or trick a consumer, the company is guilty of *fraud* and the FTC can step in. The FTC has the authority to stop unfair business practices, such as fraud, that limit competition or that may hurt consumers. The Commission also enforces the Fair Packaging and Labeling Act and the Fair Credit Reporting Act.

Food and Drug Administration. Located in the Department

of Health and Human Services, the Food and Drug Administration (FDA) protects consumers from impure and unsafe foods, drugs, cosmetics, and health aids. The FDA tests new health and drug products and has the power both to allow them on the market and to remove them from the market if they are unsafe. It also has the power to inspect and to judge plants where food and health aids are processed or manufactured.



The FDA tests a variety of health and drug products.

Do you know of any products that the FDA has either removed from the market or kept from being placed on the market? Name some.

National Highway Safety Administration. Another agency is set up just to deal with safety problems in cars and other motor vehicles. The National Highway Safety Administration has the power to establish and regulate vehicular safety. At times it may even require automobile manufacturers to *recall*, or take back and fix, unsafe cars. In such cases, the manufacturer must pay the cost of correcting the unsafe feature.

Consumer Product Safety Commission. The major responsibility of the Consumer Product Safety Commission (CPSC) is to promote safety in the marketplace. This agency tests consumer products for safety and has the right to remove unsafe products from the marketplace. The Commission also has the power to enforce safety legislation.

Toll-Free Hotlines

The federal government also provides toll-free hotlines for consumers. One hotline is for product safety. Consumers can call to ask about or to report on product safety. Another hotline is for questions about solar-energy systems for heating and cooling. Another lets a car owner know whether his or her car has been recalled by the manufacturer for defects. Most of the major government agencies have such hotlines for special problems.

What areas cause consumers the most problems?

STATE AND LOCAL PROTECTION

Almost every consumer has a nearby source of protection. Nowadays there are consumer affairs offices all over. Some states have set up consumer protection bureaus. In other states the state attorney general's office handles consumer affairs. A few states have "Hot Lines," toll-free telephone numbers that consumers can call to report problems. At the local level, the consumer affairs office may be the best bet. In all of these cases, the sources generally will help a consumer who is having trouble with a business.

Since **utilities**, companies that provide electricity, gas, and water, are legal monopolies, they *could* control the prices they charge consumers. However, there is in each state a *public utilities commission* that regulates rates. It is especially important in times of inflation and rapidly rising costs to have some way of checking and approving rate increases. In that way consumers are protected from unfair high prices. Usually, a utility's request for a rate increase is followed by a public meeting. At that meeting individual consumers have a right to speak out. The commission listens to both the consumers and the utility before making a decision. In a similar way, state insurance commissions control and approve insurance rate increases.

Another protection for consumers comes from a department sometimes called Weights and Measures or, in other states, Division of Standards. As may be apparent, this agency is responsible for checking scales, packages, gasoline pumps, and labels for true weights and measures. Consumers can be cheated by a *short weight*, a measure of a product that is less than it should be. If short weights are being given, the inspector has the authority to order the products removed from the market.



Sometimes consumers are cheated by a short weight.

As a final means of securing their rights, consumers can go to court. All the states have **small claims courts** that, as the name suggests, deal with minor legal matters up to a certain amount of money. In most states, a consumer may bring a case to court with little cost and without a lawyer. Indeed, some states do not permit lawyers, and others allow the consumer to decide whether he or she wants to be represented by a lawyer. A small claims court can handle consumer problems over money or personal property. The limit of the claim varies from as little as \$25 to not more than \$3,000. Typical problems include one consumer owing another and not paying, a tenant with landlord trouble, and trouble with a product or service purchased from a business firm.

Another problem for small claims courts has to do with warranties. A **warranty** is a promise that a product is of a certain quality or will perform in a certain manner. An **express warranty** is one that specifically states in writing what the product is or will do. An **implied warranty** is one that is understood but not necessarily stated in writing. For example, if you buy an electrical appliance, you assume that it will work if you turn it on. Even though you do not have a written promise, you have a right to assume that the product will work, especially when you first purchase it. That understanding is an implied warranty. Both express and implied warranties often become a matter of dispute in small claims court when consumers feel they have been cheated.

In some geographic areas, Legal Aid Societies provide legal assistance on consumer problems for people with little money.

There are certain requirements that must be met before a person is eligible to use these services.

PRIVATE CONSUMER ORGANIZATIONS

The government is by no means the only source of help for consumers. A glance at your telephone book under the title *Consumer* will give you the names of many nongovernmental organizations involved with consumer welfare. These private, not-for-profit organizations also are dedicated to protecting consumer rights.

One of the largest national organizations is the Consumer Federation of America, which has about 30 million members. It is made up of national, state, and local nonprofit groups who have a common interest in legislation at the federal level. When Congress considers bills affecting consumers, the organization lets its members know. More than keeping them up to date, the organization also actively engages in promoting or working against specific legislation. The National Consumers League is another organization that works for or against specific legislation affecting the welfare of the consumer.

Another private, nonprofit organization whose major purpose is consumer protection is Consumers' Research, Inc. This organization's *Consumers' Research Magazine*, which you read about in the previous chapter, is an important source of consumer information. The organization tests and rates products. It has three categories of ratings: Recommended, Intermediate, and Not Recommended. The results of the tests and the ratings are published in the magazine. Since products are tested for their safety or health features, among other things, this can be very useful to the consumer.

A similar independent, nonprofit organization publishes the magazine *Consumer Reports*. A subscription to the magazine makes one a voting member of Consumers Union, which is the publisher. Consumers Union also tests and rates products, and prints the results in the magazine. One or more products are customarily recommended as "Best Buy." Consumers Union also publishes books and pamphlets on subjects of interest to consumers.

One of the better-known consumer protection agencies is the Better Business Bureau, about which you have read. This nonprofit organization is supported by local businesses. It collects information on business firms, handles complaints about them, and distributes consumer information. If you have a complaint against a



You can get help with a complaint by calling the Better Business Bureau hotline.

business, the Bureau will try to find a satisfactory solution. However, it is not a legal aid agency and cannot enforce the law. It also will not recommend one business over another. The Better Business Bureau can help you only if you haven't obtained any satisfaction on your problem from a particular business firm.

Some industries have consumer assistance panels. One of these is the Major Appliance Consumer Action Panel. This organization is set up to solve problems involving large appliances such as dishwashers, washing machines, kitchen stoves, freezers, and refrigerators. If a consumer cannot solve a problem with the manufacturer of a large appliance, this organization provides a panel of private citizens to hear the facts and recommend a solution. About 80 percent of the cases are settled to the satisfaction of both sides, even though they are not forced to accept the recommendation. What makes this organization unique is that it uses a panel to solve consumer problems. It is the largest and most effective of its kind.

Many large businesses offer consumer assistance. For instance, Sears, Roebuck and Company, Giant Foods, J.C. Penney Company,

Kraft Foods, and Montgomery Ward are just a few of the companies that have special consumer affairs departments. These departments furnish consumer information, including how to get the most for your money with the company's products. In addition, they provide published materials on consumer matters at little or no cost.

PROTECTION COSTS MONEY

Needless to say, providing for safety and protection costs money. Although you may not pay directly for a government agency to regulate for your safety, you do pay in taxes. You may also pay for protection through higher prices. Safety features that a manufacturer builds into a product cost money. That extra cost is usually passed along to the consumer as a higher price for the product.

The cost of safety features added to automobiles is an example of costs being passed along to the consumer. Suppose it costs \$600 per car to make safety changes in automobile design. That cost includes a number of things. There are people working in both the office and assembly line to meet regulations. There are design engineers. There are test tracks and test drivers for cars. The cost includes new designs in seat belts, exhaust controls, and other safety features.

Every year manufacturers try to make their cars safer. Is the extra cost worth the benefits gained? The cost of additional protection can be easily figured. The value of the benefits gained is another story. It is difficult to put a value on this. What value do you put on a life saved, for example?

In the automobile industry, costs for safety may be fairly obvious. How do you measure safety costs in a new building, an airplane, or those of a factory in keeping the air cleaner? Who pays for it? How much do they pay?

SUMMARY

Is protection worth *all* that it costs us? There are public and private organizations and the mass media all giving us help. Most of that help we pay for in one way or another, probably directly through the price tag on the product. It's difficult to know exactly what the cost of protection is, and whether that protection is worth

the cost. We know that government at all levels helps to protect consumer rights. So, too, do many businesses and private agencies.

The consumer doesn't go it alone. We must pay the cost for others to protect us. Let's face up to our responsibilities as informed consumers. Remember, we make a most important contribution to our business and economic world!

BUILDING WORD POWER



Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 6. Then write the term that best matches each numbered definition.

express warranty	small claims court
grade label	utilities
implied warranty	warranty

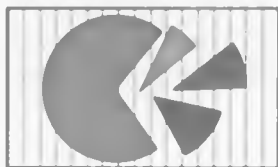
1. A court that deals with minor legal matters up to a certain amount of money.
2. A warranty that specifically states in writing what a product is or will do.
3. A label that indicates the quality level of a foodstuff.
4. A promise that a product is of a certain quality or will perform in a certain manner.
5. Gas, electric, and water companies.
6. A warranty that is understood but not necessarily stated in writing.

BUILDING READING COMPREHENSION



1. How can a TV station's consumer affairs reporter help consumers?
2. What is the purpose of OSHA?
3. How does the Postal Service protect consumers?
4. What products are graded by the United States Department of Agriculture? How do their grade labels help consumers?
5. What action may the Food and Drug Administration take if it finds a dangerous product being offered to consumers?
6. Why are utilities so closely regulated?
7. Give three examples of types of cases that are often brought to small claims court.
8. What is the difference between an express warranty and an implied warranty?
9. What services do Consumers' Research, Inc., and Consumers Union furnish to consumers?
10. Name several additional sources of consumer help besides government agencies.

BUILDING BUSINESS CONCEPTS



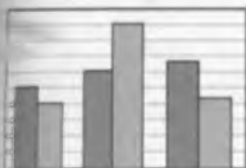
1. For the past few years, auto repairs have led the list of consumer complaints. What reasons can you give for consumers having more problems with that area than any other?
2. Businesses often conduct consumer research to find out what consumers want and need in their products. In what ways does such research protect consumers?
3. Of what value is a warranty to you as a buyer?
4. One warranty states: "This warranty does not cover damage resulting from accident, misuse, or abuse. This warranty covers products purchased and retained within the United States wherever you may live or even if you move." Why does the manufacturer make these statements?
5. Smoke and soot from a factory are ruining the paint on your house. What steps should you take to solve the problem?
6. Why do you think the need for consumer protection has grown over time?
7. Some people say that the government should not be so active in consumer protection. What reasons do you think they might give for their opinions?
8. Why do large companies have entire departments devoted to consumer affairs?
9. How does the Better Business Bureau help consumers?
10. Some people argue that consumers are intelligent enough to make wise choices in buying goods and services and don't need all of the protection that is provided. Others say that consumer affairs offices and government agencies are needed for consumer protection. With which side do you agree? What points support your side?

BUILDING BUSINESS EXPERIENCE



1. What toll-free hotlines for consumers are listed in your local telephone directory? Check under these headings: "Government Offices — Local," "Government Offices — State," and "Government Offices — U.S."
2. Check the warranty on a new product that you or someone else has bought. If you do not have a new product, check the warranty label on a product in a local store. What kinds of protection are offered by the warranty? What can a consumer do if the product is defective in any way? If possible, copy the warranty information or bring the warranty to class.
3. Bring a popular magazine to class. List all of the products that are advertised in that magazine. Opposite the name of each product, indicate whether or not a seal, label, certified test, or other evidence of quality is included in the advertisement. List the type of proof given.

4. Study an issue of *Consumer Reports* or *Consumers' Research Magazine*. List the types of products that are reported. What types of information about each product are given to you in each magazine? What difference do you find in the types of information given?
5. Find out what the laws say about mail orders and about merchandise you receive that you did not order. What is your legal responsibility for such merchandise?

**BUILDING
MATH
SKILLS**

1. Kenny is shopping for some new jeans. One brand is priced at \$30 a pair, another at \$19, and a third at \$22. He plans to buy three pairs. How much will three pairs cost him in each case? The sales tax in his state is 7%. What will be the amount of sales tax on three pairs of jeans of each brand? What will be his total cost for three pairs of each brand?
2. In 1985 a law was passed to allow generic copies of brand-name medicines whose patents had expired. John Stamps found the generic copy of his brand-name medicine for two thirds of the price he had been paying for his medicine. If a two-week supply of his medicine cost him \$12.90, how much will the generic brand cost? How much will a one-week supply of the generic brand cost?
3. Mitzi had her car repaired. These items are listed on her bill:

Oil filter	\$ 6.95
Distributor cap	9.95
Plugs	15.00
Water pump	71.70
Labor	94.88
Oil	10.50
Air filter	8.00

Her state sales tax is 6 percent. What is her total bill?

People in Business

George E. Johnson

In 1954, George E. Johnson did not realize that he was forming a company that would someday be the first black-owned company to be listed on the American Stock Exchange. The company is Johnson Products, and it manufactures personal care products.

In his early career years, Johnson worked for S. B. Fuller, owner of Fuller Products Company, the largest black cosmetics company at the time. While with Fuller Products, Johnson invented a hair straightener for men. Eager to go into business for himself, he took \$250 in savings and \$250 as a loan, and found a partner. Johnson and his partner, a barber, agreed that Johnson would make the straightener and the barber would sell it. When this arrangement did not work out, the partnership was dissolved.

Johnson did not give up though. He tried to convince S. B. Fuller to join in the venture with him, but Fuller declined. Dr. Herbert A. Martini, a fellow Fuller employee, was the person who finally supported and assisted Johnson during the new company's beginning years.

Throughout the 1950's and 1960's, the Ultra Sheen line of hair care products expanded and attracted more customers. However, as the market changed, Johnson changed his products also. Thus, when the Afro hairstyle came into vogue, Johnson moved his hair straightening products to the back of the shelves to make room for the Afro Sheen line, products designed to accentuate the Afro hairstyle.

Johnson Products Company remains highly competitive even though several other companies have entered this specialized market. The company now has a subsidiary, Debbie's School of Beauty Culture, that operates eight training facilities. In addition, Johnson opened a manufacturing plant in Nigeria in 1980 that offers another market for his successful hair-care products.



UNIT

5

GOVERNMENT AND LABOR IN A PRIVATE ENTERPRISE SYSTEM





CHAPTER 18

Government and Business in Our Economy

- Some people feel that government is too involved in our economic system. Why do you think this is so?
- Suppose there were thousands of businesses doing what they pleased. They all used up natural resources as fast as they could. Some charged whatever they could and tried to control the market. What do you think would happen to our economy? to the consumer?
- You have rules and regulations in sports. There are rules and regulations for spelling bees and beauty contests. Should there be some for business? Who should provide the rules and regulations, and why?

Do you know what these terms mean?

patent	real annual interest rate
copyright	Sherman Antitrust Act
registered trademarks	Federal Trade Commission
Small Business Administration	public utilities
subsidy	minimum wage
bait-and-switch	

You'll learn all about these terms in this chapter.

If you are looking for a street address in an unfamiliar city, you might go to a police officer for directions. If you are looking for a job, you might go to a state employment agency for assistance. If you are looking for assurance of safety or quality in a product, you might check for a government seal of approval on the product's label. In each case, you know that one government agency or another can help make your daily activities a little easier.

The various levels of government also regulate some of your activities. A local government may enact a law to restrict parking on a busy street. The state government may enact a law requiring you to go to school until you reach a certain age. And the federal government may pass a law prohibiting the sale or manufacture of some item that you may want to buy.

Local, state, and federal governments have much the same effect on businesses. Some governmental agencies help businesses conduct their activities more efficiently. Other agencies provide rules and regulations that serve to control the activities of business. How government helps or controls business will be examined in this chapter.

GOVERNMENT PROTECTION AND AID

In our private enterprise system it is expected that government will provide the kind of environment or circumstances in which businesses can succeed. After all, businesses are an important part of our society. They provide income to individuals, produce goods and services that people want, and pay taxes to the government. They have given us as consumers one of the highest standards of living in the world. For these reasons, it is in the best interest of government to help business.

Protecting Rights and Property

Individuals have many rights under our system of government. In our private enterprise system, business has some similar rights. Anyone has the right to own property and to start a business. Businesses have the right to fair trade practices among and between themselves, as well as with consumers. Businesses also have the right to government protection of their properties. Some of the governmental agencies that protect businesses include city councils, state legislatures, and federal departments such as the Department of Commerce. The courts and police and fire departments also protect the rights and property of business.

Government also protects business firms in another way. Business has special techniques, inventions, and innovations that it may wish to protect. For instance, a business may invent a machine or a process that it wants to protect. Entrepreneurs sometimes get their start in a business by inventing something. A business that develops a new manufacturing technique would like to decide who can use that technique. The United States Patent Office will grant a patent, a legal "right" that prevents anyone else from making the same thing for seventeen years. Sometimes a business will decide to sell its patent to other businesses if the patent is particularly valuable. Other businesses are willing to pay for the use of the patented item or idea because they need it. They cannot just steal the idea without violating the law.

A copyright is also a kind of protection. In this case, the protection is for authors or creators of books, plays, software, movies, and musical compositions, as well as for photographers, painters, and sculptors. This protection extends for the lifetime of the person or persons who produce the item, plus fifty years. Copyright is also a kind of right to property and a protection against persons copying what others have already made. Publishers, music recording studios, and movie studios are all examples of businesses that may be involved with copyrights.

Government further protects business firms by granting them the sole right to use certain identifying marks. Registered trademarks are names, brands, or symbols that have been listed with the government by a business. Once registered, these trademarks may not be used by other businesses.

Some registered trademarks are so well known that they now are mistakenly used when speaking of similar goods or services. Name five such trademarks.

Providing a Trained Labor Force

Government plays several roles in helping to supply business with trained workers. Government-supported schools provide courses and instruction in skills that directly relate to jobs in business. Vocational education, for example, receives encouragement, both in legislation and funds, from all levels of government. Because government assumes the primary responsibility for education, the training of workers does not have to fall solely on business. As a result, business can decide to use its time and money in other ways if it wishes.

Business firms also depend on state and local employment agencies to provide a source of workers. These agencies enable unemployed workers to see what types of jobs are available to them. And because they are familiar with the specific needs of local businesses, the agencies can send only those applicants who match these needs. Businesses can hire those workers who fit their jobs. The government agency aids business by bringing businesses and workers together.

Job matching is a valuable function performed by state employment agencies.



Supplying Information

Various governmental agencies gather and publish information that businesses can use. Information such as the rates of inflation and unemployment and the level of consumer spending can be helpful to business. For example, business firms cannot afford to have huge amounts of products on hand that they cannot sell. If government agencies find that the general level of consumer spending is going down, some businesses may decide to cut back on production. Such information from the government influences the decisions businesses make about production, hiring new workers, setting prices, and building new plants.

The various levels of government also publish guides designed to help individuals start and run businesses. They offer advice on obtaining financing, maintaining records, managing personnel, and making all kinds of decisions in business.

Providing Tax Advantages

Government at all levels can aid business through reduced taxes or special tax treatment. For instance, local governments may give special tax advantages to businesses that want to move into the area. Taxes may be lowered for a certain number of years on property that a new business is using. If businesses locate in the community, there will be jobs. If jobs develop, there will be more prosperity in the community. The tax advantage attracts business, but the local government gains, too.

Tax advantages are available to businesses that borrow money. Interest paid on money borrowed can be deducted from the amount of federal taxes owed by a business.

Other businesses may receive special tax benefits for building new plants and adding new equipment. By lowering taxes because of these purchases, government encourages businesses to build new plants or update their technology. These improvements can, in turn, increase productivity.

Still another way the federal government helps business is by putting a tariff, or special tax, on goods made in another nation and sold here. The tariff is paid by the foreign producer that makes the goods. The purpose of the tariff is to place the foreign producer at a price disadvantage. Tariffs protect United States businesses from foreign competition. In many cases, the foreign manufacturers cannot sell their goods for less than the products made in the United



Local businesses benefit from the money spent when a movie is made in the area. Many cities and states have film bureaus that encourage filmmakers to come to their area to film "on location."

States. In some instances, we use tariffs to help our new businesses to grow.

Giving Financial Help

Often a more direct form of help is needed by businesses. Newer or smaller businesses in particular face the problem of getting enough money. When starting up a business, an entrepreneur needs cash. The federal government established the **Small Business Administration** to assist smaller businesses. This agency provides not only low-cost loans but also advice and other help.

A number of businesses have been helped directly by the federal government. As you may remember, some very large corporations experienced serious financial problems in the last ten years. Because the government did not want them to go out of business, throwing people out of work and giving a jolt to the economy, a special kind of arrangement was made. The government guaranteed that loans made by banks to these businesses would be repaid. The government did not lend the money, but its guarantee encouraged lending agencies to provide the needed loans.

An outright form of financial assistance, called a **subsidy**, has been used by the government to help agricultural businesses. Sometimes a subsidy has been given for the growing of a certain crop that might not be profitable without a governmental subsidy. For example, the growers of rice, cotton, and peanuts have received subsidies. The government has also given subsidies for not growing crops because of the possibility that too much production would drive down prices. In the last few years, the amount of these subsidies has declined.

Distributing Goods and Services

Government also helps businesses by providing some of the means by which they distribute products. Governments at various levels pay for and maintain many of the highway and transport systems over which goods and services are moved. Goods are also carried through the United States Postal Service, which is a governmental agency. Many business firms also depend heavily on postal services to deliver printed advertising material.

Acting as Buyer and Partner

Government at all levels also purchases goods and services from business. Total federal, state, and local government purchases of goods and services account for about 20 percent of all the goods and services produced in the United States. In some industries the federal government may be the biggest consumer of all. Automobile companies sell thousands of specially built cars and trucks to police and fire departments and other governmental agencies. Firms make equipment and uniforms for the armed services. It is business that constructs the highways and builds the schools. Government is dependent on business for goods and services.

Besides those just mentioned, what other goods and services does the government purchase from business?

It is in the best interest of both government and business that the economy go along smoothly. In this respect the two act almost like partners. When there are few unemployed workers and unused factories, both government and business benefit. Through taxes and other financial policies, the government can help to provide an environment in which business has the best chance to prosper and stay healthy.

GOVERNMENT REGULATIONS

Although government wants business to succeed, it is also a government of *all* the people. It has to satisfy and even protect other groups. Sometimes the activities of certain businesses do not go along with what other groups, such as consumers, believe is best. Sometimes government is called on to judge the complaints of some businesses against other businesses. In these cases the government serves as a referee or judge. The government makes judgments that involve making and enforcing laws. Let's see how this process comes about.



Government sometimes has to act as a referee.

Helping the Consumer

One of the ways in which government helps the consumer is by settling differences between consumers and business. Consumers often want more information about the goods and services they purchase than is available from business. They want protection against unfair business practices and unsafe products. They want more common or similar features in products so they can compare those products.

The various levels of government have responded to consumer requests. Unfortunately, the increased help costs the government money. The cost must be passed along to consumers in the form of higher taxes. Some measures increase the costs of business; and

these costs, too, are passed on to the consumer in higher prices. Whether the increased costs are worth it to the consumer depends on the individual and the situation.

The government helps the consumer through a variety of rules and regulations. Here are examples of a few ways that government protects the consumer:

1. Certain business practices that are regarded as dishonest are not permitted in various states and local areas. For instance, a business may not use dishonest advertising practices. One such unlawful practice is **bait-and-switch** advertising. Using this technique, a business advertises a product for a low price in order to get consumers into the store. When people inquire about the advertised item, they are switched to a more expensive one for possible purchase. This practice is not permitted by law. The consumer is protected from such trickery.



Some salespersons bait you with one item and then try to hook you on another.

2. When consumers borrow money, either directly or through a charge account, the **real annual interest rate**, the interest rate actually charged for a year, must be shown. For instance, the interest charge for installment loans is often stated as $1\frac{1}{2}$ percent per month on the unpaid balance. The real annual interest rate is 18 percent. By law, business firms must be sure the consumer is told that annual interest rate.

3. Meat and meat products must satisfy standards of wholesomeness before being sold to the public.

4. Certain safety features must be standard equipment on such products as lawnmowers and automobiles.

5. Certain fabrics that will catch fire quickly can no longer be used in clothing.

6. New drugs must be tested by the United States Food and Drug Administration before they can be sold in this country.

7. The formulas for some items, such as aspirin, vitamins, and certain types of food, are set by the government. All firms that produce the item must then meet the standard.

These seven examples are only a few of the ways in which government assists the consumer. To protect the consumer, government must force business firms to follow certain rules. Following these rules may cost money. In some cases, people question whether or not the rules are worth the cost. In fact, some governmental regulations have been changed because of this concern. Whether they agree with the rules or not, business firms must obey or be in violation of the laws passed by the government.

Why might it be helpful to consumers to have standards set for aspirin or vitamins?

Helping Competition

In a way, competition is another form of consumer protection. Competition encourages the production of the best quality item at the lowest price. When several firms produce the same item, they have to outdo each other to attract customers. Price and quality are two major areas in which they compete.

When only one firm controls the market for particular goods or services, there is little or no competition. As you know, this firm is said to have a monopoly. There is also little or no competition when a few firms agree together on one price. Both situations encourage high prices, limited supply, and the wasting of resources. When there is little competition, supplies and prices are controlled by a few firms to get the most profit. Similarly, there is less encouragement for firms to be efficient.

To encourage competition, the Sherman Antitrust Act was passed near the end of the nineteenth century. This act permitted the federal government to break up companies that had control of a particular market. Oil, telephone, and railroad companies have been broken up under provisions of that act.

One of the federal agencies watching out for monopolies is the Federal Trade Commission (FTC). It has the responsibility to make sure that competition is maintained. The FTC can request a business firm to correct any action that is unfair to competition.

There are certain kinds of businesses that the government actually permits to be monopolies. Gas, water, and electric power companies, which are called **public utilities**, are allowed to operate as legal monopolies. The reason for this is that the cost for establishing each of these utilities and providing the goods or services is so great that competition would be harmful. Imagine the tangle of lines in your community if more than one electric power company were providing service! Imagine the network of pipes if more than one water company could operate. The cost, too, would be higher because of having two systems. Permitting some firms to be monopolies is, in this case, helpful to the consumer.

Competition generally helps consumers because it often assures better quality at a lower price. Activities by the government to promote more competition also can help businesses. In these cases the government permits some business firms to enter a market that, under other circumstances, would have been closed.

Name some new product markets in which the lack of monopolies has allowed many business firms to compete.

Helping the Worker

Workers have also asked government to help them in their dealings with business. The right for workers to organize into unions has come about with the active help of government. Now there are numerous laws regulating the actions of both business and labor.

One of the laws that has been passed concerns workers' wages. Government sets by law the **minimum wage**, or lowest possible wage, that an employer can pay an employee. Certain types of workers, such as those on farms, are not included. As the cost of living goes up, the minimum wage is set higher by the government. The minimum wage recognizes that workers need enough income to support themselves and their families.

Government also assures that workers will have a safe and healthy environment on the job. Under the Occupational Safety and Health Administration (OSHA), firms are required to follow certain regulations to maintain the quality of the workplace, and sometimes must act to improve that quality.

Helping Our Society

Because citizens have voiced their concern, government has looked into the effects of business on the environment. Certain kinds of mill operations may pollute rivers and streams, for instance. Some industries require huge quantities of water in their operations. After they use the water, they do not necessarily return it in the same condition. Some industries have buried used chemicals, which are now leaking, polluting the ground and even causing disease. Some types of fish have disappeared entirely from lakes and rivers because of water pollution. Other types of fish have been poisoned by industrial waste products and passed that poison on to humans. Smoke from industries and car exhausts has polluted the air. So the government has said, "Clean up your act!"

Both federal and state laws and regulations have gone into effect to deal with the problems. At the national level, the Environmental Protection Agency (EPA) was established to enforce and maintain the laws. Some states have similar agencies. New equipment and procedures must be used by business to cut down on the pollution. For instance, some industries have put "scrubbers" into their smokestacks to scrub out the impure particles in the smoke.

Some businesses have made the environment unhealthy.



The extra costs to business are passed along to the consumer in the form of higher prices.

Government also helps society by transferring income from one group to another. For example, tax money paid by wealthier people and businesses goes toward programs to help the poor, unemployed, elderly, and disabled. Our citizens generally believe that such payments are fair, but may disagree on the amount of such payments and who is to receive them.

Maintaining a Healthy Economy

At the federal level, the government is expected to maintain a healthy economy so that businesses and consumers will benefit. The federal government does this through two primary means: regulating taxes and regulating the amount of money in the economy. Taxes are regulated primarily through increases or decreases in tax rates. If taxes are lowered, for example, individuals will have more income to spend. That spending will spur the production of more goods and services. This type of policy is usually desirable during an economic recession.

The federal government regulates the money supply through the banking system. The Federal Reserve System can help to increase or decrease the money supply in several ways. For example, if less money is needed to help control inflation, the Federal Reserve Bank can require its member banks to hold a larger percentage of their total deposits. The banks will then have less money to lend, thus decreasing the money supply. If the percentage of total deposits to be held is decreased, an increase in the money supply will occur.

The Federal Reserve Bank also controls the money supply through its discount rate, which is the interest rate charged for loans to member banks. An increase in the discount rate means that banks will borrow less money and will therefore have less money to lend to the public. A decrease in the money supply will then occur. In contrast, a decrease in the discount rate will allow banks to borrow more money, thus increasing the money supply.

The money supply also is affected by open-market operations, which is simply the buying and selling of government securities to the public. The Federal Reserve buys government securities to increase the money supply, thereby placing more money in the hands of the public. The money supply decreases when the Federal Reserve sells securities to the public.

THE SOCIAL RESPONSIBILITY OF BUSINESS

Once business leaders believed that the only social responsibility of business was to *do* business. In other words, they felt that business provided a lot of benefits to people in general just by being in operation. Their argument ran: We provide jobs that give workers income to buy goods and services. Profits provide income to owners so they can buy goods and services for themselves and improve their businesses. Business produces goods and services wanted by individuals and society. Business pays taxes that help pay for schools, highways, and other public goods and services.

Some people still believe that business's only responsibility is to produce goods and services and to make a profit. However, many people, including business leaders, believe that the responsibility of business goes beyond that. They believe that businesses should also be concerned about the effect their operations have on society.

Some businesses have responded to this challenge by providing funds to support community concerts, art exhibits, and plays. Many are generous in providing scholarships for students in the community. Some firms help their employees get other jobs when one of their plants is being closed. Many businesses work to clean up the environment and are active in all community affairs.



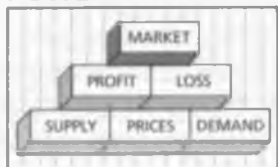
Many businesses believe they have responsibilities to the community as a whole.

It is important to realize that business's involvement costs money. In many cases the consumer is asked to pay more for goods and services in the marketplace because of this involvement.

SUMMARY

Government wants to help business because it is important for and to our society. Businesses can be helped to provide jobs and to produce goods and services. Even taxes can be used as a tool to encourage business to grow and prosper. Yet government must provide some controls. Consumers demand some controls. Products should be safe. Food should be healthful. Prices should not go out of sight. Occasionally businesses have disagreements among themselves and need a referee in the form of the government. We've got to protect our environment, and business has to help. We're all in this together: consumer, business, and government.

BUILDING WORD POWER



Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 11. Then write the term that best matches each numbered definition.

bait-and-switch technique
copyright
Federal Trade Commission
minimum wage
patent
public utilities

real annual interest rate
registered trademark
Sherman Antitrust Act
Small Business Administration
subsidy

1. A form of financial assistance given by the government to agricultural businesses.
2. Legislation that permits the federal government to break up companies that have control of a particular market.
3. A legal right that prevents anyone except the inventor from using an idea or making a product for 17 years.
4. The lowest wage that an employer can pay an employee.
5. An agency established by the federal government to help smaller businesses.
6. A federal agency that is responsible for making sure that competition is maintained.
7. The interest rate that is actually charged on a loan.
8. A protection for authors or creators that extends for the lifetime of the person plus fifty years.
9. Gas, water, and electric power companies.
10. A name, word, or symbol that is used to identify a product that has been listed by its maker with the government.
11. A business practice that involves advertising a product for a low price to get consumers into the store and then switching customers to a more expensive item.

**BUILDING
READING
COMPREHENSION**

1. Why are businesses an important part of our society?
2. What is the difference between a patent and a copyright?
3. What types of businesses use copyrights?
4. How does the government contribute to a well-trained labor force for our economic system?
5. Describe how a local government can use special tax treatment to aid new businesses in its community.
6. Give three examples of ways in which the government acts as a consumer of goods and services.
7. How is competition another form of consumer protection?
8. Name a federal agency that can break up monopolies.
9. Why are public utilities allowed to operate as legal monopolies?
10. Name two ways that the federal government uses to bring about a healthy economy.

**BUILDING
BUSINESS
CONCEPTS**

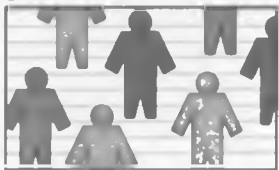
1. List seven benefits provided by government to businesses.
2. How does government encourage businesses to build new plants and put in new machinery?
3. Explain how a tariff protects our own businesses.
4. Name two ways in which government gives direct aid to businesses.
5. Why is it said that various levels of government are major consumers in our economy?
6. In what ways can more governmental regulations increase costs to the individual consumer?
7. Why has the government set a minimum wage?
8. List at least four ways in which the government helps the consumer through rules and regulations.
9. List two areas in which workers have asked the government to assist them in their dealings with business.
10. Why have the social responsibilities of business become so important?

**BUILDING
BUSINESS
EXPERIENCE**

1. Many people say that tariffs, such as those on shoes and steel, may protect businesses but are hard on consumers. Why may this be true?
2. Minimum wage laws can help keep fair wages for workers, but such laws can cut down on the number of available jobs. Why may this be true?
3. Tax policy or the way taxes are set may encourage or discourage development. Give two examples of how tax policy has encouraged development or improvement by businesses.

4. What would happen if the government stopped all help in the form of tax breaks, loans, and loan guarantees to businesses?
5. Why has our government set up regulations against such practices as the bait-and-switch technique? Can you name other regulations that have been made to protect us in this way?
6. The Environmental Protection Agency was established to enforce and to maintain federal laws regarding the effects of industries on our environment. Many states have environmental agencies as well. Go to your school library to find out the name of your state agency. What are some of the things the agency has done in your state? What businesses in your area have been affected by its regulations?
7. Businesses have taken on social responsibilities that include providing funds for scholarships. List businesses in your community that have helped your school. To get information, interview your guidance counselor, librarian, principal, or coaches.
8. Some people have suggested that the minimum wage should be lowered for teenagers. Give arguments both for and against this idea.

BUILDING HUMAN RELATIONS SKILLS



Suppose you have just been offered a job. You are well qualified and really want the job. However, your prospective employer has offered you a wage that is much less than the minimum wage, explaining that after your training period of three months you will receive the minimum wage followed by raises at appropriate intervals. You are aware that by law you are entitled to receive the minimum wage.

1. What is your reaction to this situation?
2. Should you explain to your prospective employer that you are entitled by law to receive the minimum wage? How would you go about this? What would you say?
3. What other actions can you take besides turning down the job?
4. Should you take action to protect other prospective employees even if you do turn down the job? Why or why not?

The copyright laws also provide for "fair use" of copyrighted materials. But what *is* fair use? Copying a TV movie or show for replaying at a later time is fair use. Copying rented videotapes for your own use is not fair use, nor is it legal. Such illegal copying denies the creator of the videotape the payment that belongs to the owner of a copyrighted work.

A Right to Copy?

We can all agree that a poem created by a poet and a musical composed by a songwriter belong to their creators. They own the rights to the poem and the musical. Those rights include the right to receive payment for use of the poem or the musical. Our copyright laws protect the rights of people who create a variety of things from movies to music videos.

With today's VCR (video cassette recorder) equipment, the copyright laws are harder to enforce. For example, some people make copies of movies or videos and sell them, with no payment to the legal owner of the movie or video.

The VCR came on the market less than ten years ago. Its capability for copying everything from your favorite TV show to movies and other commercial creations has created a storm of controversy in the last few years. Movies, music videos, TV broadcasts of sports events, and specials are all copyrighted works. The copyright laws protect the rights of the creators of such productions. One important protection of the copyright laws is the right of the creator of a copyrighted work to make copies and to decide whether others may make copies in return for a fee.



The use of the VCR has grown so fast that the legal considerations of how it should be used have lagged far behind. Radio stations pay fees for the use of records to an organization that distributes such fees to songwriters and composers, but users of VCR equipment do not pay fees for the right to copy movies or other video productions. So long as copies are made for reasons that fall into the fair use description under the copyright laws, no law is being violated. It's when copies are made to give or sell to others that the rights of the copyright holders are being ignored.



CHAPTER 19

Government Spending

- What you buy has to do with your personal wants and needs. What the government spends money on may be very different. Can you think of some differences between your spending and the government's?
- You get income from working at a job. The income a business makes is from sales. How about the "income" of government? Where does that come from?
- Like any other consumer, the government spends money for goods and services. But the government is not exactly like an individual consumer. How does it differ? Do you know why it is different?

Do you know what these terms mean?

public welfare	deficit spending
transfer payment	surplus
national debt	balanced budget

You'll learn all about these terms in this chapter.

When you want something, usually you can save your money to buy it. But there are some things that you can't buy. You can't buy highways and schools, even if you wanted to. You might be able to buy a car, but you probably couldn't afford even one mile of the road your car travels on. Some goods and services are provided by the government, but obviously they're not free. Who determines what the government spends? And for what?

Our society needs highways and schools to operate effectively and efficiently. Through their elected officials, people in a democracy make known their social wants that government should help to satisfy. The **public welfare**, or well-being of society, is the "business" of government. Government operates or runs with taxes paid by the people.

You can look at it this way. A part of your income goes for taxes to buy public goods and services. The rest of your income you use to buy goods and services in the marketplace. Government officials, including those you elect to office, determine *how* tax money will be spent. In the next chapter we will see where the tax money comes from. For the moment, let's see where it goes.

FOR THE GOOD OF ALL

Goods and services provided by the government are not just your personal responsibility. They are also the responsibility of those around you. In the case of private goods and services, businesses charge a price to cover costs and to make a profit. A hair stylist stays in business because consumers buy the service offered. Those who want a haircut pay the cost through the price that is charged. Those who do not buy the services are not directly helping to support the hair stylist.

It's a little different with public goods and services. Practically everybody contributes to picking up the cost of public goods and services. You probably pay a sales tax on the goods and services you purchase. Often there are taxes in the purchase price that you don't

even know about. You pay taxes for public goods and services at the local, state, and national levels of government.

A lot of people pay because a lot of people benefit. That's the idea, even though some people may never receive some of the benefits directly. For instance, police and fire departments are of value for everyone in the community, even though some people may never have to call them for services. The entire community benefits from having better educated children and adults, even though some families do not directly use the schools.

For most public goods and services, the consumer is not charged a fee covering the full cost of the item. As examples, parents do not have to pay tuition to send their children to public elementary and secondary schools. There is generally no charge to use city parks. If there is a suggested admission charge for a public museum, the money received from visitors usually is not enough to cover the museum's costs. The charges for public health services generally are far below costs. Government uses taxes from all the people to make up the difference between actual costs and what users pay.

An effective fire department is important for community safety.



Some people regard public goods and services as practically free, or at least inexpensive, because they don't pay a fee equal to the actual cost. Yet it is misleading to think this way. Most people pay taxes. So most people help pay for the goods and services. If you pay taxes, *you* help pay for them. That's why you should take pride in public property, since you help to buy and keep it in good repair.

GOVERNMENT AS A PROVIDER

There are a number of reasons why government provides goods and services. Running courts, making and enforcing laws, and providing for the security of our nation are services that government should provide. These services are part of the governing process. They would be impossible for business to provide.

Government provides some services simply because business has found them to be unprofitable. For instance, the government has taken over passenger rail service in many parts of the country. The railroad companies could not operate some of their passenger lines at a profit. Government believed the service should be continued for the well-being of the nation. Government also provides health care for the poor and many of the elderly. A business furnishing that health care would not be able to recover its costs because the poor and many of the elderly could not afford to pay the fees. Government provides this necessary service, supported by the taxes paid by many people.

Sometimes people want the government, rather than a business, to provide a service because it is more convenient and because the use of the service won't be limited. Imagine if all our streets and highways were owned by business. We would have to pay tolls every time we went shopping or ran an errand. What an inconvenience! Also, poor people would not be able to use the streets as often because of the toll charge.

What would it be like if all schools were run by business?

GOODS AND SERVICES AT ALL LEVELS

Public goods and services are provided by local, state, and federal governments. Sometimes they're very noticeable. At other times you may be getting goods or services provided by government without even realizing it.

Certain items are provided only by a particular level of government. Fire protection is provided by local government and postal service by the federal government. Sometimes similar services are provided by all three levels of government, such as highways and streets, court systems, and parks. In such cases, the service is intended for the benefit of the particular group being served. As an example, highways and streets built and maintained by the local government are used primarily by people in the local community. State highways link various parts of the state together, an advantage to people living within the state in getting from place to place. Finally, the federal government is primarily concerned with interstate highways. The federal highway system links all of the states together so that transportation is easier throughout the nation.

Sometimes financial support for a particular kind of service is shared by more than one level of government. This is certainly true for education, and it is also true of aid for the poor and needy. Every level of government provides some services. And almost every area of society benefits from these services.



Parks and recreational facilities are provided by all three levels of government.

The Local Level

You probably “see” more of the goods and services being provided at the local level of government than at other levels. A variety of local governmental units, including cities, towns, townships, counties, and school districts, furnish these goods and services. You are involved with one or more of these levels much more frequently than with the state and federal governments.

The highest percentage of total spending at the local level is for public education, primarily elementary and secondary schools. Support may also go to vocational schools and other special types of schools. Local government also provides a court system, libraries, prisons, police and fire protection, and the maintenance and building of streets and highways in the community. Water and sewage treatment are other services provided at the local level. Special services for the poor are usually provided by the local government.

Local governments vary in the amount, quality, and kinds of benefits provided for their citizens. Some communities have more modern schools and more parks than others. In larger cities the local government may spend quite a bit of money on museums and cultural activities. The way in which a local government spends money depends to a great extent on two things: (1) What do the people in this community want in the way of goods and services? (2) How much are they willing to spend on them?

Other than those mentioned above, what services are provided at the local level in your community?

The State Level

In most states, the biggest chunk of money for services goes for education. This money is used primarily to support state-operated colleges and universities or to provide financial assistance to local school districts. The next largest spending category in most states is direct payments to the poor and disabled. The following list gives only some of the other goods and services provided at the state level:

Public health programs	Parks
Hospitals	Recreation areas
Highways	Unemployment benefits
Housing and urban renewal	Consumer protection
Courts	Aid to workers
Prisons	Assistance for businesses

The ways in which state governments spend money vary from state to state. Again, the needs of various states and the wishes of their people are different. State services are also influenced by the kind of business that is most important to them. In some states, the tourist business is important, so there is much spending on recreational areas, for instance. In other states, farming is important, and



Some services provided by government are also provided by private organizations.

much money is spent on agricultural services. States, like local communities, provide what people want most.

The Federal Level

The federal government spends between 40 and 45 cents of every dollar for transfer payments. A **transfer payment** is money received by people who are not currently producing goods or services

in exchange for it. Transfer payments are made for retirement, disability, health and hospital expenses for the elderly, unemployment benefits, and assistance to families when the wage-earner has died.

A second large area of government spending is for defense. Currently about 30 cents of every dollar of government spending goes to some kind of military use. The biggest share of this money is for paying the wages of members of the armed services. Then there is money used for building ships, airplanes, and tanks. There are military bases to be maintained, and supplies and equipment to be bought. Some money is spent on weapons and on research into new types of systems for our national defense.

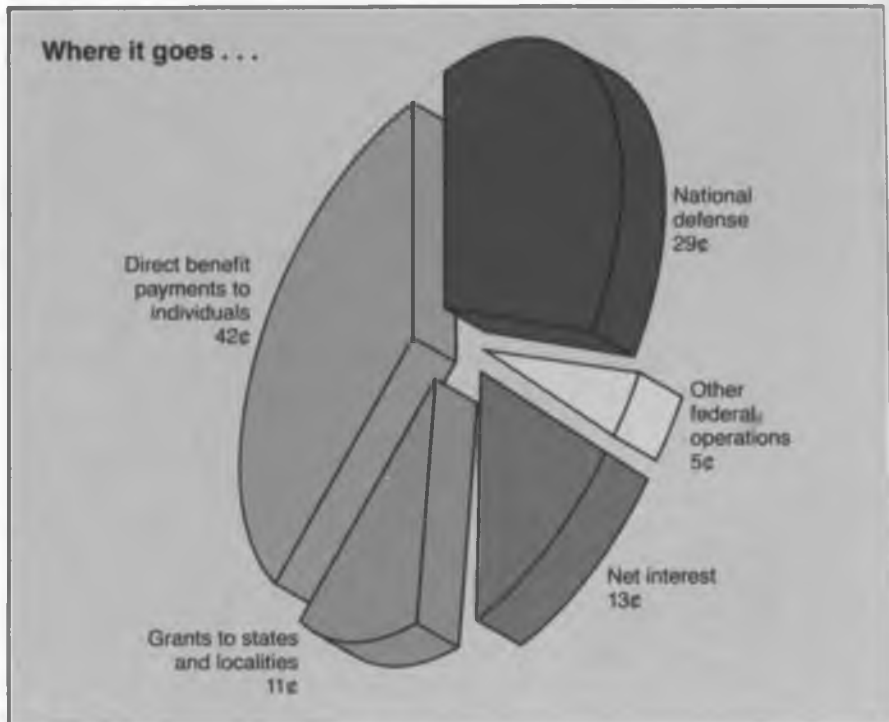
The federal government also shares with state and local governments the financing of such services as education, assistance for the poor, renewal of our cities, and special programs for the unemployed. The list that follows contains only part of the services for which the federal government provides money:

Interstate highways	Science and technology programs
Mail services	Conservation of natural resources
Farm programs	Aid to foreign countries
Energy programs	System of national parks
Pollution control	Printing and minting of money

Another large part of the federal budget goes to pay the interest on the national, or public, debt. The **national debt** is the total of all loans made to the federal government by individuals or groups of individuals. For instance, you can buy a Treasury note or a bond. In effect, you are lending money to the federal government for its operations. Many times recently, the federal government has exceeded its budget. It has gone into **deficit spending**, spending more than it collects in taxes. If the government spends less than it brings in, a **surplus** is created. For the past several years the government has added to the federal debt every year. Some people are concerned about the debt and want to have a **balanced budget** — as much tax money coming in as money going out in spending.

SPENDING IS GOING UP

Indeed, government spending is going up. For some levels of government, spending may not be going up as fast as it used to, but it is still increasing. Why does government spending continue to increase?



How the federal government spends its money.

The biggest reason is that people in the United States demand more and more services. We expect more spending on social security. We expect the government to do more with environmental problems than we did fifteen years ago. Many people want a more sophisticated defense system to protect our national security. All this means more money — and more government spending.

Inflation has also had its effects. With a few exceptions in the last 30 or 40 years, inflation has increased every year. The same goods and services cost more from year to year. Government cannot escape inflation in providing goods and services. More money has to be paid to workers and for equipment and supplies.

A final reason for increased spending has been more people. Although our nation isn't growing as fast as it once did, our population is still increasing. As one of the largest nations on earth, we have more and more demands for goods and services. The result is more government spending to satisfy those demands.

In the last few years there has been a big push to hold down government spending. What has happened in many cases is that spending for some items has decreased while spending for other

things has increased. For example, during the early 1980's the federal government's expenses for energy programs, education, and social services declined while the expenses for national defense, health, and income security programs increased. Yet the overall result was more and more spending.

IS THERE TOO MUCH SPENDING?

When the people of the United States become concerned about government spending, they can always do something about it. They can elect representatives and officials who will cut it down or change the way in which the money is spent. Or they can vote to reduce taxes, or both. Actually, concerns about federal spending often boil down to three basic issues.

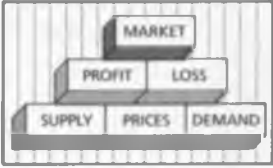
1. Are the goods and services important enough for the government to provide?
2. Are the goods and services efficiently provided by the government? Could the service be improved and even cost less money in the process if handled entirely by business?
3. How well does our spending on public goods and services relate to our beliefs and values? Is the government spending too much on some services and not enough on others?

SUMMARY

Local, state, and federal levels of government provide goods and services, as do businesses. The difference is that the goods and services we get from the government are paid for in the form of taxes. Whether you use a government service or not, you generally help to pay for it. Government provides some goods or services because business finds it unprofitable to do so. Sometimes people prefer that government rather than business supply a service.

Government spending has increased rapidly. There has been more demand for services. There has been inflation. And there has been an increasing population in our country. All of these have had an effect on government spending. We hear many complaints about the amount of government spending. Evaluating government spending is the job of responsible citizens. Are we getting what we paid for? Is our tax system delivering the most for our money? We'll examine those questions next.

BUILDING WORD POWER



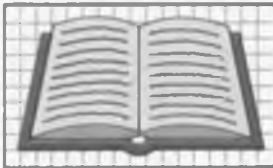
Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 6. Then write the term that best matches each numbered definition.

balanced budget
deficit spending
national debt

public welfare
surplus
transfer payment

1. When the amount of tax money coming in is equal to the money going out in spending.
2. The situation that exists when the government spends less than it collects in taxes.
3. The total of all loans made to the federal government by individuals or groups of individuals.
4. The situation that exists when the amount of money that the government spends is greater than the amount of money that it collects in taxes from its citizens.
5. The well-being of society.
6. Income that is received from the government by people who are not currently producing goods or services in exchange for it.

BUILDING READING COMPREHENSION



1. How do people in a democracy make known their social wants that government should help to satisfy?
2. Why are public goods and services not really free — or even inexpensive?
3. Why does the government provide certain services that businesses find unprofitable?
4. What are the three levels of government? Give two examples of services provided by each of the three levels of government.
5. Give two examples of services provided to the public for which financial support is shared by more than one level of government.
6. For what purpose does the highest percentage of total spending at the local level go?
7. A large share of the federal government's money goes for transfer payments. What types of programs are included in that category?
8. Why does spending by the various levels of government continue to increase?
9. What can people of the United States do about high government spending?
10. What are three important questions to ask when considering how to improve government spending?

**BUILDING
BUSINESS
CONCEPTS**

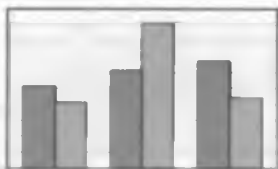
1. How is paying for private goods and services different from paying for public goods and services?
2. List five local government units. Which unit of local government are you most familiar with?
3. Explain how inflation raises taxes without a change in the tax rate.
4. Why are most elementary and secondary schools referred to as *public schools*?
5. Some people say that public libraries are actually not free to people within a community even though the libraries do not charge fees for each borrowed book. Why might this be true?
6. Like haircuts, tennis lessons can be provided by businesses. Why do some local governments use tax dollars to provide tennis lessons — but not haircuts — to local residents?
7. Many towns and cities have parks. Suppose your city park was sold to a business. What changes would probably occur? Would everyone be able to use it? Do you think such a move would be a good one for your community?
8. The local, state, and federal governments provide public education in this country. Education *could* be provided by business instead. Why do you believe that the people of the United States want government to have this responsibility?
9. It has been said that some of the goods and services provided by the government are paid for through loans made to the government, not through taxes. What is meant by that statement?
10. Through transfer payments, money is moved from the productive members of a society to those who are not currently productive. What is meant by that statement? Do you believe transfer payments are necessary and fair?

**BUILDING
BUSINESS
EXPERIENCE**

1. Think about the people in your community. Make a list of those you know who help to pay the cost of public goods and services but do not directly use them.
2. Make a list of the goods and services in your community that are "free" or "inexpensive." Are they really free or inexpensive? Why or why not?
3. Highways can benefit people who do not own cars. Explain.
4. List the services provided to you and your family by the government during the past week. Identify each service as to whether it was provided by local, state, or federal government.
5. Ask for a copy of your local government's budget for this year. Study the budget and then answer these questions:
 - a. What are the government's sources of income?

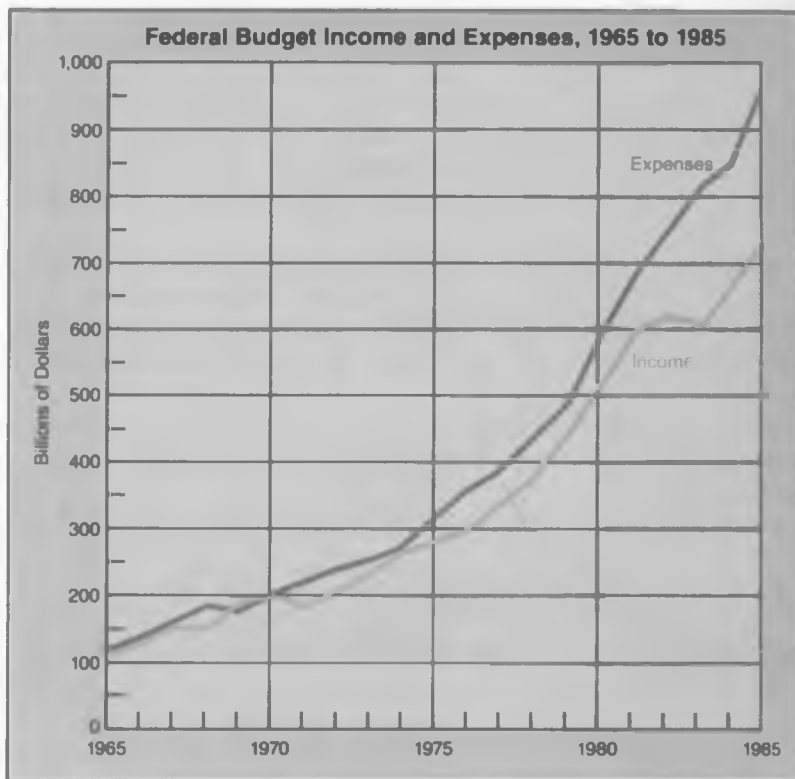
- b. Which category of spending takes the largest share of your local government's budget?
- c. Are there any types of spending that you did not know your local government was responsible for? Which ones?

BUILDING ANALYTICAL SKILLS



The graph below shows the federal budget income and expenses for 1965 to 1985. Study the graph, and then answer these questions.

1. During which year was there a surplus?
2. During which years were income and expenses about the same?
3. During which of the four five-year periods did expenses increase at the fastest rate?
4. During which year was the deficit the greatest? What are some probable causes of this deficit?



Careers in Business

Protective Service Occupations

Tax money provides for a variety of things, including roads, schools, sewers, and waterworks. One of the largest expenses for any city or town is police and fire protection. A career in protective services can be both rewarding and dangerous.

Duties of police officers vary from directing traffic and responding to accidents, to investigating crimes and arresting people under suspicion of breaking the law. Depending on the geography of the city in which they work, police may patrol on foot, by car, on horseback, by motorcycle, by boat, or even in a helicopter. In large cities, undercover work may also be part of the job. Police work requires good physical conditioning, a willingness to follow orders, and the ability to work well under pressure.

Firefighters spend only a small part of their time actually fighting fires. The rest of the time they maintain equipment or inspect buildings to help prevent fires and dangerous situations. Fire departments often are responsible for ambulance and rescue service. This work may involve pulling people out of car wrecks, rescuing people who have been trapped by natural disasters, and transporting ill people to the hospital.

Because of the hazardous conditions of firefighting, this occupation is considered a dangerous job.

Both police officers and firefighters may be required to work long hours, nights, weekends, and holidays. While much of the training is provided on the job, many colleges now offer programs in fire science and criminal justice. A civil service test, which measures general knowledge and some skills needed for a police or fire career, is often required before a person can be hired.



The job outlook for protective service careers is generally good. However, the greatest number of new openings for firefighters will occur in smaller towns with expanding populations that replace volunteers with career firefighters. Slow growth in government revenues is expected to limit growth in police employment.



CHAPTER 20

The Taxes We Pay

- Why is it necessary for us to pay taxes to the government?
- Government taxes many different things. Can you name a few?
- What are some examples of “hidden” taxes, that is, taxes that are a part of the price of an item?
- People usually complain about taxes, so you would think that the government would try to keep taxes down. This is not always so. Under what conditions might the government increase taxes?

Do you know what these terms mean?

revenue	benefits-received principle
tax base	ability-to-pay principle
FICA	direct taxes
general sales tax	indirect taxes
excise tax	progressive tax
property tax	proportional tax
estate and inheritance taxes	regressive tax

You'll learn all about these terms in this chapter.

David and Ray live in the same neighborhood. David goes to a private school. His parents pay a yearly fee, or tuition, for him to attend. Ray goes to a public high school. His parents don't pay any tuition. Does this mean that the public education for Ray is free? Not really.

The public school and the private school have similar costs. Teachers have to be paid, the buildings must be heated and cleaned, and supplies have to be purchased for *both*. The tuition that David's parents pay helps cover the private school costs. The government pays for the costs of the public school. And all of us, including David's parents, pay taxes to support the public school. Services like education are not free. Let's see how we — through the government — go about paying for them.

TAXES IN GENERAL

The money the government receives from people to provide all kinds of goods and services is, in general terms, called **revenue**. There are two major types of revenue: nontax and tax. Parking meter fees, postage, and tuition paid to a state university are nontax revenue. Fees for various licenses — driver's license, fishing license, occupation license, and so on — are also nontax sources of revenue.

For government at all levels, however, taxes are the major source of revenue. In general, taxes have some common characteristics. Each tax is applied to a **tax base**, which is the item or activity that is the source of the tax. For instance, income, wealth, and consumption or buying are tax bases. To find the amount of tax to be paid, a tax rate is applied to the base.

Let's look at an example. Suppose your state has a sales tax, or tax on consumption, of 6 percent. You buy a \$100 stereo component,

and pay a total of \$106. The tax base would be the \$100 purchase, and the tax rate would be 6 percent (\$6).

Let's look at the three major types of tax bases: income, consumption, and wealth.

TAXES ON INCOME

The income tax is the primary means used by the federal government to raise revenue. Both individuals and corporations pay federal income tax on their incomes. About 55 percent of the federal government's revenue comes from income tax. The majority of states also have an income tax. Some cities have an income tax, but it is not a major source of revenue for them.

Federal Individual Income Tax

Individuals must pay federal income tax primarily on wages and salaries. Earnings from savings accounts, stocks, bonds, and the rent from apartments or houses may also be taxed as income. Federal income taxes are generally paid on a pay-as-you-go basis. When you work for someone else, a certain amount of your pay is withheld by your employer each pay period to be forwarded to the federal government.

The pay-as-you-go procedure is used for a number of reasons. In the first place, most people do not like to wait until the end of the year to pay all of their income tax. They might not have enough money set aside. When taxes are automatically paid every pay period, it doesn't seem as hard as paying them all at once. The pay-as-you-go procedure also provides a steady flow of revenue to the government. Obviously this helps the government to operate more smoothly.

State Individual Income Tax

State individual income taxes do not differ a great deal from the federal variety. In fact, those states that tax earnings from work use a pay-as-you-go basis, just like the federal tax. While some states tax earnings, others tax only the income from savings accounts, dividends on stocks and bonds, and the selling of property or stocks.



Every working person must file a federal income tax return by April 15 of each year.

Corporate Income Tax

Corporations must pay a tax on their profits each year. At the federal level, corporate income tax provides less than 10 percent of total revenue. In general, the rate of taxation on corporate income is much lower at the state level. Corporate income taxes are almost nonexistent at the local level.

A corporation is taxed on its yearly income. Owners or shareholders are also taxed on the dividends they receive from the corporation. Many people believe that this double taxation is unfair. Do you agree?

Social Security Tax

Another tax on income that is handled on a pay-as-you-go basis is the social security tax. Part of the money raised through this tax is used to pay retirement benefits. When the wage-earner in a family covered by social security becomes disabled or dies, the family receives social security benefits. Elderly people with health problems may also receive medical and hospitalization benefits.

Many people do not consider social security a tax because it is really an insurance program run by the government. However, it is a form of tax because everyone must pay it unless they have another plan that does the same thing. Approximately nine out of ten workers in the United States currently pay social security taxes.



Both employers and employees contribute toward social security.

Perhaps your employer has withheld some of your wages for social security taxes. The social security tax is abbreviated **FICA**, for Federal Insurance Contributions Act, on your payroll check stub. Your employer must also pay social security taxes equal to the amount you pay. Self-employed people pay social security taxes, but at a higher rate than the individual rate.

TAXES ON CONSUMPTION

Still another tax base includes goods and services that are *consumed*, or used up. Consumption taxes are a major source of revenue for most state governments, but not for the federal or local governments. Approximately one quarter of all state revenue comes from the consumption tax. General sales taxes, excise taxes, and tariffs are the three major types of consumption tax.

General Sales Tax

A **general sales tax** is one that is added to the price of goods and services at the time of purchase. Almost all of the states currently have a general sales tax. Some local governments receive a share of the revenue collected in their areas.

Sales tax procedures vary from state to state. In most states the purchases of goods, but not of services, are taxed. Food, clothing, and medicine, which are often considered basic necessities, are not taxed in some states. And the sales tax rate varies from state to state.

The general sales tax is collected at the time of purchase. If your purchase of \$100 worth of stereo equipment is subject to a sales tax of 5 percent, you must pay \$105 to the store. The store, in turn, has the responsibility of forwarding the \$5 collected for sales tax to the state government.

Excise Tax

An **excise tax** is collected on the sale of particular goods and services. Usually the tax is a certain percentage of the price, or so much for each item. Alcoholic beverages, tobacco and oil products, automobile tires, firearms, and air travel all have a federal excise tax. State governments often tax alcoholic beverages, tobacco, gasoline, and utility services. Many local governments have utility, amusement, and hotel/motel room taxes. In some geographic areas, an item may have an excise tax from all three levels of government — local, state, and federal.

Unlike general sales taxes, excise taxes are automatically included in the price. For instance, a gallon of gasoline costs a certain amount, which already includes the excise tax. If there is an additional general sales tax on the gasoline, it is added on separately to the price.



The federal government adds an excise tax to air travel.

Tariff

Taxes paid by foreign businesses on the goods they want to sell in this country are called *tariffs*. This tax is collected only by the federal government. It increases the price of the foreign goods sold in our market because the seller passes on the cost of the tariff. Early in our history, tariffs accounted for a major share of federal revenue. Of course, that is no longer true. Today tariffs are often used as a matter of economic policy to help out our own businesses rather than to collect revenue.

Many people have called for higher tariffs on such goods as textiles and shoes to protect United States manufacturers against foreign competition. What would be the advantages and disadvantages of such a move?

TAXES ON WEALTH

Wealth, the total of goods, property, and money owned by an individual, is another source of tax revenue. There are a number of taxes on wealth, all intended to get revenue from people or organizations that own things.

Property Tax

A **property tax** is levied on items owned by a person or business. Local governments — including counties, cities, towns, townships, and school districts — get a major share of their revenue from property taxes. The state and federal governments receive almost no revenue from this tax.

A *real estate property tax* is one on the value of land, and anything on the land such as houses, barns, garages, or other buildings. A *personal property tax* may be levied on machinery used by businesses, automobiles, furniture, and other personal property. Because of the ease with which personal property can be hidden, the personal property tax is being used less and less. Real estate has thus become the most important property tax base and source of revenue for local communities.

Estate and Inheritance Taxes

Estate and inheritance taxes are paid on the value of real estate and personal property left at the time of death. The federal government collects an estate tax on the value of the property left by an individual. Some states also collect an estate tax. Most states collect an inheritance tax, which is paid by the heir or heirs of an estate. An *heir* is one who receives part or all of the estate of another. If the value of the estate falls below a certain amount, however, no tax is collected.

Gift Tax

The gift tax was created because some people tried to give away their property before death, thus avoiding estate taxes. Gift taxes are collected by the federal and some state governments. Only gifts above a certain value are taxed.

THE BASIS FOR TAXATION

You should be able to identify most of the taxes you pay. Then you can better evaluate them and the effects they have on your own personal economic situation. Through our elected representatives we can make changes in how our government raises revenue. To make informed decisions, though, all citizens should know some basic principles of taxation.



Real estate taxes are the major source of community revenue.

One of those principles is based on the market concept that if you enjoy or use something, you should pay for it. This is called the **benefits-received principle**. Those who get benefits from a public service should expect to pay the charge or tax for providing it. The gasoline tax is an example of revenue obtained according to the benefits-received principle. Money from gasoline taxes is used to build and maintain highways. Therefore, those who pay for fuel directly contribute to good highways and streets.

However, there is a problem with the benefits-received principle of taxation. Sometimes it's hard to know exactly how much benefit has been received, and therefore how much tax should be collected from an individual. For instance, how would you measure the benefits people receive from public education or parks? Perhaps it could be done, but it certainly would be awkward.

In addition to the example just given, what other benefits that people receive might be hard to measure?

Most of our taxes are based on the **ability-to-pay principle**. Quite simply, this means that those who can afford to pay more taxes should do so. Those with more taxable income, purchases, and wealth are required to pay more taxes than those with less.

Taxes may also be described according to their method of collection and the effect they have on people with different incomes.

Direct and Indirect Taxes

Taxes that are charged to the person or persons who finally pay them are called **direct taxes**. They cannot be shifted to another party, and it is evident who is paying them. Estate taxes and some property taxes are direct. So, too, is the individual income tax.

Indirect taxes, on the other hand, are those that are paid by one party but passed on to another. Sometimes they are called hidden taxes. Some examples are excise taxes and customs duties or tariffs. The property taxes that businesses pay are also indirect. The owners of an apartment building pay property taxes but pass those taxes on to tenants in the form of higher rents.

Progressive and Proportional Taxes

Some taxes are described by the effect they have on people of different incomes. A **progressive tax** is one in which the rate of taxation increases as the income increases. The federal income tax is an example of a progressive tax. People with very low incomes pay no tax at all. As income increases, so does the tax rate. For instance, someone with an income of \$14,000 may pay 20 percent, or \$2,800, while someone who makes \$40,000 may pay 35 percent, or \$14,000.

Some state income taxes are also progressive. Other states have a tax rate that is the same at every level of income. Such a tax is a **proportional tax**, one in which the *amount* of tax increases with income but the rate remains the same. For example, incomes of \$14,000 and \$40,000 are taxed at 4 percent. For the person making \$14,000, the tax is \$560; for the person earning \$40,000, it is \$1,600.

Regressive Taxes

A **regressive tax** is one in which the proportion of income spent on the tax *decreases* as income increases. A sales tax is an example of a regressive tax. Regressive refers to the effect of the tax, which is harder on those with low incomes. For example, people with high

incomes generally do not spend as great a percentage of their incomes on necessities as do those with lower incomes. The poorer family will spend a greater percentage of its income on food, clothing, and shelter. For that reason, many states do not tax necessities such as food, medicine, and clothing.

WHAT IS A GOOD TAX?

Perhaps the question should be: *Is there a good tax?* In evaluating any tax, there are a number of ways of determining how well the tax does the job. No one tax can be perfect, but some do a better job than others. There are certain yardsticks we can use in measuring a tax and, as citizens, we can change the tax laws if they don't measure up.

Fairness

Whether a tax is just and even-handed in its treatment of all people in our society is a matter of its fairness. As a nation, we have adopted the ability-to-pay rather than the benefits-received principle as a yardstick for most of our taxes. The ability-to-pay principle favors the progressive over the regressive tax. People with higher incomes not only pay more tax but also a greater percentage of their incomes. That's why a progressive income tax is considered to be fairer than a regressive sales tax.

Income is generally considered a fairer base to tax than is consumption or wealth. It is felt that the ability to pay is better indicated by income than by the other two. For example, two families with different incomes may buy the same amount of clothing and pay the same amount of sales tax, but the family with the lower income will be paying a higher percentage of that income in sales taxes.

Direct taxes are considered fairer than indirect. People have a better idea of what they are paying to government with a direct tax than with an indirect tax. That's one reason why excise taxes are often considered unfair.

Ease of Collection

Another mark of a good tax is its ease of collection. For most taxes, government has to rely on somebody else to do the collecting



It is sometimes difficult to measure the fairness of a tax.

and forwarding. This is certainly true for such taxes as income, sales, social security, and excise. Sales and excise taxes are paid to the store or manufacturer who, in turn, forwards them to the government. Most social security and income taxes are deducted from the employee's wages by the employer and sent to the government.

Property tax is one that is not easy to collect. Government must value the property, send out the bills, and then collect the taxes from a variety of individuals and groups. Generally property taxes are more expensive and difficult for the government to collect than other major taxes. This is especially true of the personal property tax, where it is difficult to know the real worth of the property.

Acceptability

Taxes are generally not very popular, but most people recognize the need to pay them. By and large, the federal income tax, sales tax, and property tax are accepted. Of the three, property taxes are probably the most objectionable. In fact, personal property taxes have become so unacceptable that many local communities have dropped them. At the state level, income and sales taxes are probably the most accepted.

The attitude of people about the sales tax is unusual. It is really not the fairest tax since it is one of the most regressive we have. And yet it is probably one of the most popular! The way the tax is collected and the fact that people do not usually keep a record of the

total amount of sales tax they have paid over the year may account for its popularity.

Indirect taxes are generally more acceptable to the public than direct ones. There are few who really oppose indirect taxes. After all, those who pay the taxes to the government know they can pass them along to others in the form of higher prices. Often those who pay the final price aren't aware that the cost of the tax is hidden in it. Yet indirect taxes do not provide citizens with a good idea of how much they are paying in taxes.

Which Tax Is Best?

No one tax meets all the requirements for being a "good" tax. Of the three major taxes, the income tax comes the closest to being a "good" tax. People should work toward encouraging taxes that are the best for society, even though there is a tradition of using certain taxes. Tax decisions, like any other choices, should be made after considering the trade-offs of having one tax instead of another.

EFFECT ON ECONOMIC ACTIVITY

All taxes affect economic activity, and thus can be used to try to make changes in the economy. For example, periods of inflation may be caused by too much money in the economy, so taxes may be



Those who pay the price aren't always aware that the cost of the tax is hidden in it.

increased. On the other hand, during periods of recession, too little money is in the economy, so taxes may be decreased. When it comes to setting tax rates, though, there is no exact way to know how high is too high or how low is too low.

In recent years, federal government programs have required more and more of our tax dollars. While the federal personal income tax rates have decreased within the recent past, over the last fifty years both tax rates and dollar amounts have increased by leaps and bounds. It is estimated that in 1929 eleven cents of every dollar earned by the average United States citizen was paid in taxes. This amount has increased to about thirty-three cents today.



The average taxpayer works until April 30 of each year just to pay federal taxes.

Existing taxes have been raised and new taxes put into effect to raise more money. For the most part, these new and increased taxes have resulted from increased government spending at all levels. Growing demands and a growing population, along with inflation, require more and more revenue to keep the government operating.

SUMMARY

People commonly complain about the taxes they pay. Many, however, do not really understand either the reason for taxes or the differences among them. Government at all levels provides a vast

number of goods and services, most of which are paid for through taxes. Taxes, both direct and indirect, are paid on the basis of income, consumption, and wealth.

To make informed decisions, it is important that we understand the various types of taxes we have, some principles of taxation, and some ways to determine what is a "good" tax. In the final analysis, the best tax is the one that we least mind paying and that is the best for our society.

BUILDING WORD POWER



Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 14. Then write the term that best matches each numbered definition.

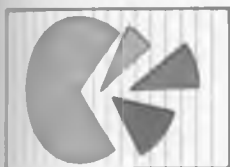
ability-to-pay principle
benefits-received principle
direct tax
estate and inheritance taxes
excise tax
FICA
general sales tax

indirect tax
progressive tax
property tax
proportional tax
regressive tax
revenue
tax base

1. Taxes paid on the value of real estate and personal property left at the time of death.
2. The item or activity that is the source of a tax.
3. A tax paid by one party but passed on to another.
4. A basic principle of taxation based on the idea that those who can afford to pay more taxes should do so.
5. The money received by the government from people to provide all kinds of goods and services.
6. A tax in which the tax *rate* decreases as income increases.
7. A tax that is added to the price of goods and services at the time of purchase.
8. A tax in which the rate of taxation increases as the income increases.
9. A tax that is assessed to the party that eventually pays it.
10. A tax in which the amount of tax increases with income, but the rate stays the same.
11. A tax on items owned by a person or business.
12. A principle of taxation based on the concept that those who enjoy or use something should pay for it.
13. An often unnoted tax on the sale of certain goods and services, which is included in the price of those goods and services.
14. The social security tax.

**BUILDING
READING
COMPREHENSION**

1. What are the two major types of revenue for government? Give three examples of each.
2. What are the three types of tax bases used in this country? Explain each one of them.
3. What is the primary means used by the federal government to raise revenue? List three other sources used by the federal government to raise revenue.
4. What are the purposes of the FICA tax?
5. What types of taxes are most used by state and local governments?
6. Define *wealth*. List three kinds of taxes on wealth.
7. What is the difference between the benefits-received principle and the ability-to-pay principle? Give an example of a tax based on each principle.
8. Explain the difference between an indirect tax and a direct tax. Give two examples of each.
9. Compare a progressive tax with a regressive tax. How are they different? How do they affect taxpayers differently?
10. List three yardsticks that can be used to measure how good a tax is.

**BUILDING
BUSINESS
CONCEPTS**

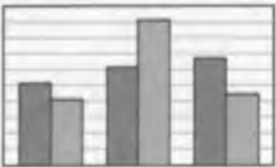
1. Explain why the pay-as-you-go basis is used for federal income tax collection.
2. Do you think social security is a tax or an insurance? Explain.
3. Explain how general sales taxes, excise taxes, and income taxes are influenced by the ups and downs in the business cycle.
4. Why is the personal property tax not considered a very fair tax?
5. Rates for some types of taxes vary from state to state. How might this affect the behavior of businesses and individuals? How might this affect where they locate? what benefits they receive? their operating expenses or cost of living?
6. Give one advantage and one disadvantage of an indirect tax.
7. Explain why it is difficult for the government to collect the property tax.
8. Explain why the sales tax is considered by many people to be unfair.
9. Explain how a personal income tax system can hurt someone who is promoted at work.
10. Under our tax system, taxes automatically go up when we have inflation. Why is this so?

BUILDING BUSINESS EXPERIENCE



1. Make a list of several goods that have an excise tax included in their prices in your state.
2. Corporations are taxed on their earnings twice. Many people believe that a way should be found to do away with double taxation. How do you feel about this? Explain your answer.
3. Why have social security tax rates gone up steadily in recent years?
4. Do you believe more of our taxes should be based on the benefits-received principle rather than the ability-to-pay principle? Explain.
5. In 1929 eleven cents of every dollar was paid in taxes. Today about thirty-three cents goes to taxes. What reasons can you give for taxes going up?

BUILDING MATH SKILLS



1. Your state has a sales tax rate of 6 percent. Figure the amount of tax and total price you must pay for the following items:

<i>Item</i>	<i>Price</i>
color television set	\$389.00
two record albums	7.98 each
jeans	18.95
sweater	25.00
shoes	29.95

2. You have three employees for whom you must figure gross pay, FICA deduction, and net pay. Figure FICA tax as 7.15 percent of gross pay.

Employee	Hours Worked	Hourly Pay Rate	Gross Pay	Federal Income Tax	Health Insurance	FICA	Net Pay
Eileen	35	\$3.45	?	\$36.69	\$12.85	?	?
David	40	3.75	?	46.18	12.85	?	?
Carla	35	3.80	?	40.74	12.85	?	?

3. The amount of real estate taxes is determined by multiplying the value of the property by the tax rate. Figure the taxes on the following properties. The real estate tax rate is \$8 per \$100 of assessed value.

<i>Property</i>	<i>Assessed Value</i>
1	\$119,000
2	64,000
3	134,000

Careers in Business

Astronaut

Of the thousands of people who have applied for the job of astronaut, fewer than 200 have ever flown in space. Although the risks are great and the pay is not sensational, there is no lack of candidates for the job. During a recent eight-year period, the National Aeronautics and Space Administration (NASA) had more than 16,000 applicants, of whom just 84 were selected. How does one qualify?

If you want to be a commander or pilot of a space mission, you must have flown more than 1,000 hours in top performance jet airplanes. A college degree in engineering, physical or biological science, or mathematics is a requirement, and it helps if you have a master's degree. Some astronauts want to be mission specialists, performing experiments in space, operating shuttle booms, and launching and repairing commercial satellites. Mission specialists who do not know how to fly must spend up to a year in flight training.

Although age is not critical, astronauts must be in excellent physical condition. They must not have a phobia about being confined in small spaces over long periods of time. They must not suffer ill effects from weightlessness, nor be temperamental or high-strung under pressure.

Astronauts receive anywhere from six months to two years of training. This training may include work in simulators that imitate the actual conditions of spacecraft, including walking in space! Astronauts spend much time in classrooms, and they also train with equipment and in uniforms they will use in space. They are taught how to handle a specific assignment in realistic mockups at a NASA installation. In the past, some of the astronauts who worked with Russian cosmonauts had to learn how to speak Russian.



Many astronauts never leave the ground. Some serve in mission control in NASA's Johnson Space Center in Houston, Texas. Some operate computers or radios. Others experiment with equipment and work with engineers testing and designing new procedures and equipment. Regardless of their tasks, all are involved in sending people and equipment into space.



CHAPTER 21

Organized Labor in Our Economy

- You may belong to an organization or a club. Certainly it has a name. Perhaps it has rules and regulations. But what does it want to achieve? Why do you belong?
- When you work full time some day, you will be a part of our economy's labor force. Will you have any rights? How will you go about getting a raise?
- When you listen to the radio or TV or read the newspaper, you often hear about strikes. In what types of jobs are these strikes? What are some of the issues that bring on the strikes?

Do you know what these terms mean?

labor force	open shop
labor union	fringe benefits
collective bargaining	seniority
featherbedding	grievance
closed shop	strike
right-to-work law	injunction
locals	arbitration
union shop	mediator

You'll learn all about these terms in this chapter.

All of you will be affected by unions throughout your lives. You may become a member of a union yourself. You can even expect that people will ask you, "Do you belong to a union?" It's important that you know something about unions, how they function and how they affect our economic world.

THE LABOR FORCE

The United States Bureau of Labor Statistics has an official definition of the **labor force**. It is the total number of people sixteen years or older who have jobs, or who are available and looking for jobs. Officially, those under sixteen, students, those keeping house, retired people, disabled or ill people, and those unable or unwilling to work are not considered members of the labor force. Over 114 million people in the United States are in the labor force.

Each year thousands of new jobs are created. We lose some jobs to automation and technology. But overall, the number of new jobs is increasing steadily year after year.

The federal government conducts national surveys from time to time to determine how the labor force is changing. For one thing, the survey determines how many in the labor force are unemployed. *Unemployed workers* are those who are willing to work and are looking for work but do not have jobs. As a matter of economic policy, the government often states what rate of unemployment it considers satisfactory. The unemployment rate is one way to determine how healthy our economy is at any one time.

Do you know what the country's unemployment rate is right now? Is that rate considered to be high?



Although many teenagers are unemployed, they are not included in the government's figure of unemployed workers.

ORGANIZED LABOR

There are many organizations or associations of workers employed in the same types of jobs. Doctors may belong to the American Medical Association, secretaries to the Professional Secretaries International, and lawyers to the American Bar Association. It may be that the organization sets or recommends standards that individuals must meet before entering the occupation. There are many many such organizations.

The purposes of these organizations vary quite widely. Some provide continuing education for their members through journals, magazines, and even classes. Others try to get elected officials to pass laws that would benefit their members. Some try to get mem

bers to work together on a project or activity. During elections, some organizations actively campaign to help elect people who favor their goals.

A labor union is an organization that is formed to represent workers, often in the same type of occupation. Sometimes a union or many unions together are referred to as *organized labor*. Like other organizations of workers, unions engage in a variety of activities. However, there is one activity that is unique to a labor union. That activity is *collective bargaining*, the coming together of union members and their bosses, or management, to discuss basic issues that arise between them. In the course of collective bargaining, representatives of the union and management sit down to bargain about issues. Some of those issues might be pay, working conditions, and hours of work.

A union is somewhat like a small democracy in action. That is, the union members elect other members to represent them in dealing with the management of a business. The union members send their demands to the union representatives. The union representatives, in turn, work toward getting those demands accepted by management. The whole process of collective bargaining is an important one in our economic system. We'll look at it later in this chapter.

Why Unions?

There was very little reason for workers to join together during the early history of our country. For one thing, there were very few large businesses. Outside of the many farmers, there were only small shopkeepers and family-run businesses. There was generally a close relationship between workers and bosses. Then came the Industrial Revolution.

From about 1850 to the early years of the twentieth century came a revolution of machines and technology. It put large numbers of people, including women and children, to work in factories. Machines became important, and workers were sometimes regarded only as so many numbers. Low pay, long hours, and unhealthy conditions were common. Workers were easily replaced, and there were many waiting for their jobs. Relationships between workers and bosses became much more impersonal. A big problem for workers was that they weren't organized. Individuals who complained about conditions to management were not heard.



Unions helped eliminate child labor.

Building Union Strength

Workers soon realized that they had to join forces to be heard. The first truly effective union was formed in 1869. This union, the Knights of Labor, represented workers of many different occupations. It failed because of poor leadership and differences of opinion, but it was a beginning.

Some twenty years later, craftsmen or skilled workers formed an organization called the American Federation of Labor (AFL). It was actually a collection or federation of craft or trade unions. Each union generally represented a single trade such as bricklayers or carpenters. In 1936 the Congress of Industrial Organizations (CIO) was organized to represent blue-collar, semi-skilled, and unskilled workers. Unlike the AFL, the CIO sought to organize industrial unions, composed of all the workers within an industry, like automobile, coal mining, and steel.

Nearly twenty years after that, the two organizations joined to create one giant labor federation, the AFL-CIO. Eventually it had over thirteen million workers. In addition, there are now a number

of large independent unions such as the Teamsters and the United Mine Workers. The principle of strength through numbers has been a major organizing thrust of unions throughout their history.

Unions and Government

Unions did not have an easy time in getting started and acquiring the power they have today. Getting better pay, better working conditions, and a shorter work week were hard-won victories. Sometimes there was even violence. Finally, in 1935, the National Labor Relations Act, or Wagner Act, was passed by Congress. This act gave workers the *right* to organize a union and bargain with management.

A second major labor law, the Taft-Hartley Act, was intended to control unfair practices on the part of unions. Two practices in particular were declared illegal. One was *featherbedding*, a practice in which labor unions forced unnecessary extra workers on businesses. The *closed shop*, a rule that businesses cannot hire anyone who is not a union member, was also made illegal by this Act.

Another important effect of the Taft-Hartley Act relates to the legalization of the right-to-work law, which is actually passed by a state government. The *right-to-work* law declares that workers have a right to work regardless of whether or not they join the union in the place where they are employed. Many states have such right-to-work laws.

Unions oppose right-to-work laws for a number of reasons. The strength of a union is certainly hurt when some workers in a business do not belong to a union. Also, the nonunion members get the benefits of collective bargaining without having to support it. The contract that the management of the business signs with the union covers *all* workers.

Those in favor of right-to-work laws insist that workers should have the freedom to join or not to join the union. Keeping a job, they say, should not depend on whether one belongs to the union. Needless to say, unions are trying to get right-to-work laws declared illegal. Many businesses meanwhile are trying to get more state governments to pass them.

Another major federal law affecting unions is the Landrum-Griffin Act. Like the Taft-Hartley Act, this act controls union activities, particularly the behavior of union officials. A union must provide reports to both the federal government and its own members on how union dues are being used or invested.

HOW A UNION OPERATES

Workers have the right, legally given to them by the Wagner Act, to form and belong to unions. In the case of craft occupations, the local union is formed by those working in a particular location. For instance, all the carpenters, painters, or bricklayers in a given geographic area join together to form a craft union. Of course, many craft unions have been around awhile, and many already have central offices or even *locals*, small branch unions, in a large number of places. The locals for an industrial union, such as steelmaking, are often found right within a company.

A local union is formed by a majority vote of the workers. Most local unions in turn belong to the national union. Members pay dues to support the work of both the local and national unions. If the national union belongs to the AFL-CIO, part of the dues are used to support the federation.

Negotiating a Contract

If you're employed in a business that already has a union, you obviously will not be involved in setting one up. However, you probably will be involved in the most important task a union has, negotiating a contract. A *contract* is an agreement on working conditions between the union and the management of a business.

A primary goal of discussions on a contract is to reach agreements that both sides will accept. Most contracts cover a period of from three to five years. When a contract is about to end, steps are taken by labor and management to extend it for another three to five years. The various provisions in the contract are reviewed. Some new ones may be added. There are a number of provisions common to practically all contracts.

Union or Open Shop. A union shop exists when workers do not have to belong to the union in order to be hired, but they are required to join after a given period of time. In states where union shops are permitted, the unions work to require union membership in their contract with management. A situation that is more to the liking of most management is the *open shop*, under which a worker is not required to join a union before or during employment. But in many older businesses, the union shop has long been accepted.

Wages. Perhaps the most common provision in a union contract is for an increase in wages. Since the contract period is for a number of years, the union has to look both back and ahead for its



Before settlement of a contract can be announced, both sides must agree to it.

workers. It has to see whether the old contract has kept up with the cost of living, and how much wage increase will be required for the future. The union may try to add a clause to the contract that ties increases in workers' wages to the cost of living — a *cost-of-living provision*. About 53 percent of all union contracts have a cost-of-living clause. Other factors affect wages, too, such as whether the workers have become more productive and whether the business has become more profitable.

Business management looks at the same factors. What will higher wage costs do to the costs of goods and services? If the productivity of workers does not increase, are higher wages justified? Can the added costs be passed on in higher prices for the product or service? Will the produced items still be competitive? All of this will not be very pleasing to the owners if negotiating the contract results in lower profits.

Sometimes when a business has been making little or no profit, workers agree to take no increase or even a reduction in wages. This can lower the cost of goods and services and make the business more competitive. Workers realize that if the firm goes out of business because it can't make a profit, there won't be any jobs.

Fringe Benefits. Some things outside of wages or earnings, such as health insurance, paid vacations, and pensions, are called fringe benefits. They are "fringe" because they often do not show up directly on the paycheck. But whether they show up or not, they still cost the employer money. Fringe benefits cost employers about 37 cents on each dollar paid to workers. More and more fringe benefits, and particularly the security they provide, are regarded favorably by unions. Nowadays unions often bargain for dental and legal insurance, counseling on family problems, and advice on financial planning.

Hours of Work. This contract provision contains information about the number of hours per day and per week to be worked. In addition it defines the working day, for instance, as being between the hours of 7:00 A.M. and 3:00 P.M. It gives the amount of time for the lunch period, and the number and amount of time for breaks, if any.



Working hours are frequently defined in union contracts.

Seniority. The workers employed the longest are said to have seniority over those employed for a shorter time. In a union contract with a seniority provision, those who have been hired last will be laid off first. Obviously older workers approve of this procedure because it provides greater security for them. Younger workers respond by asking that more than just seniority determine which employees are laid off.

From both the worker and management points of view, what do you believe are the advantages of a seniority system? the disadvantages?

Working Conditions and Responsibilities. Provisions in the union contract require that the employer maintain certain kinds of working conditions. In addition, the particular responsibilities of the employee are spelled out. An example is the typical union contract between teachers and a school district. A working condition for the school district to maintain might be a certain average number of students per class. A teacher responsibility might be the amount of after-school activities required.

Grievance Procedures. A grievance is a cause for complaint. In a contract, when either party believes the other is not living up to the agreement, grievance procedures are followed. Perhaps a worker believes a supervisor or foreman has done him or her a wrong. The grievance can be referred to a particular union representative and then on to a management representative. Specific procedures for hearing and taking action on the grievance are a part of the contract.

The Process of Collective Bargaining

Collective bargaining refers to the union's ability to negotiate for all workers at one time, collectively. Before the old contract ends, the union members elect a bargaining agent to represent them. It may be a worker from the local or it may be someone brought in from the national office. The bargaining agent goes over with the union membership what they want in the new contract. At the same time, management is trying to determine what the business feels it can and cannot provide.

Finally the bargaining agent and representatives of management meet. Both sides indicate their bargaining positions. Generally the bargaining agent asks for more than is realistically possible. Management proposes less than it can afford to give. After each side makes its case, discussion follows. Each side is prepared to move toward the middle. This is the time when there is give and take between what workers will accept and what management will give.

If the contract runs out before an agreement is reached, there is sometimes a work stoppage, or **strike**. Strikes are usually a last resort. They can be effective, but they can also hurt both the firm



Workers sometimes strike when they can't reach an agreement with their employer.

and the workers. If no products are made, then none are sold, and certainly no profit is made. The workers, of course, are not receiving wages. Workers on strike often receive money from a strike fund set up by the union. The strike fund is financed by the dues paid by the workers. However, the payments to striking workers are usually less than the workers' wages.

Occasionally workers will have a *wildcat strike*, which is a work stoppage unauthorized by the union. Such a strike can occur any time, but usually results from some delay or hitch in the collective bargaining process. In the case of a wildcat strike the courts may be called in to decide who is right in the circumstances. A judge may assess a fine against a union if the court decides that the union is in the wrong.

During a strike workers generally *picket* or demonstrate outside the building where they are striking. One reason for the picketing is to call the strike to the attention of the public. Another reason is to prevent others from entering the company to take the jobs. In most cases, strikes do not affect the general welfare of the nation. If a

strike is harmful, the President of the United States has the power, under the Taft-Hartley Act, to halt the strike temporarily. The President can have a court issue an **injunction**, an order that prevents the union from continuing with the strike. Under the terms of the Taft-Hartley Act, the injunction calls for a maximum eighty-day cooling-off period. During those eighty days, discussions between labor and management continue. The pressure of the injunction, together with national attention, often results in a settlement.

When the bargainers from both sides reach agreement, the provisions are submitted to the workers. If the majority of union members accept the provisions, the new contract is drawn up. The bargaining agent signs it for the union, and a representative of management for the business. If the union members turn down the contract, it's back to the bargaining table.

When a real hang-up occurs in drawing up the contract, both parties may agree to another procedure. This process is **arbitration**, or submitting the disagreements or differences to a third party who acts as a kind of judge. Since the arbitrator must be acceptable to both parties, the ruling he or she finally gives must also be accepted. Another procedure may be used instead of arbitration. It involves bringing in a third party, a **mediator**, who listens to both sides and then provides a decision as to what the provisions of the contract should be. Neither side, however, has to go by the mediator's judgment. Occasionally the federal or state governments provide mediation or arbitration services, if called upon. Generally government does not step in with decisions on a union contract.



An arbitrator listens to both sides and then tells them how the contract will read.

THE STATUS OF LABOR UNIONS

The total number of workers belonging to unions has decreased over the last few years. For example, from 1980 to 1984, union membership dropped from 20.1 million to 17.3 million members. There are a number of reasons for this decrease. Traditionally, unions have been strongest among workers in firms that manufacture goods, such as apparel, steel, automobiles, and tires. However, many of these firms have cut back on the number of workers because of automation or because they are no longer competitive with foreign manufacturers of the same goods. In some instances, businesses have moved to parts of the country where workers are not as interested in having unions represent them.

The growth area for jobs is in the service sector. Unions have made some inroads in organizing service workers in such areas as government, teaching, food service, and offices. Even so, increases in union membership in service jobs have not kept up with increases in the number of service jobs that have been created. For example, from 1980 to 1984, the number of service jobs increased greatly. Yet the percentage of service jobs that were unionized dropped from 13.5 to 10.5 percent.

SUMMARY

Workers established unions to improve their lives as workers. Through collective bargaining, unions have sought better pay and working conditions for their members. Federal laws and union contracts guarantee the rights that organized labor has won.

Labor unions have brought about better working conditions, better pay, and more security for workers. They have fought for laws to help the wage-earner. Child labor laws setting up rules against the employment of very young children are one example. Unions have also gotten laws that provide measures for workers' health and safety on the job.

BUILDING WORD POWER



Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 16. Then write the term that best matches each numbered definition.

arbitration

closed shop

collective bargaining

featherbedding

fringe benefits

grievance

injunction

labor force

labor union

local

mediator

open shop

right-to-work law

seniority

strike

union shop

1. A rule that businesses cannot hire anyone not belonging to the union.
2. A work stoppage.
3. Workers who have been employed the longest in a company.
4. Submitting the disagreements or differences to a third party who acts as a judge. The final ruling must be accepted by both parties.
5. A practice in which unnecessary extra workers are forced on businesses.
6. A practice in which an employee must join the union after a specified period of time.
7. A cause for complaint.
8. A law that gives workers the right to work whether or not they join the labor union where they work.
9. The total number of people sixteen years or older who have jobs, or who are available and looking for jobs.
10. Extras outside of wages or earnings such as health insurance, paid vacations, and pensions.
11. A court order that prevents a union from continuing a strike.
12. The coming together of union members and management to discuss basic issues that arise between them.
13. A small branch union.
14. An organization that is formed to represent workers, often in the same type of occupation.
15. A third party who listens to both sides and then provides a decision as to what the provisions of a labor contract should be. Neither of the two sides has to accept the third party's judgment.
16. A practice in which an employee may or may not join the union before or during employment.

BUILDING READING COMPREHENSION



1. Define *unemployed workers*.
2. What is the difference between organized labor and the labor force?
3. What are three common issues that might be bargained for in collective bargaining?
4. Why were unions formed in the first place?
5. What did the National Labor Relations Act provide?
6. What was the purpose of the Taft-Hartley Act? What two practices were declared illegal by this law?
7. What is the purpose of the Landrum-Griffin Act?
8. In a union contract with seniority provisions, who would be laid off first?
9. What is a *wildcat strike*?
10. Give three reasons that unions have lost membership in the last few years.

BUILDING BUSINESS CONCEPTS



1. What activity makes labor unions different from other organizations of workers?
2. Why is collective bargaining more effective than individual bargaining by each employee?
3. Why do unions oppose right-to-work laws?
4. Explain how a union is established.
5. Explain what is meant by a contract between a union and management.
6. Explain why unions favor a union shop.
7. One of the most common provisions in a contract is the increase in wages. What are some things the union must consider? What must management consider?
8. Why is the grievance procedure important to union members?
9. Explain how strikes hurt both the firm and the workers.
10. Why would a court issue an injunction? What does an injunction do?

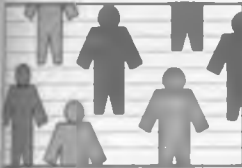
BUILDING BUSINESS EXPERIENCE



1. Unions are becoming more common among government workers, including those in police and fire departments. Do you feel that these organizations should be allowed to go on strike? Why or why not?
2. Do you think a worker should have to join the union in order to keep his or her job? Defend your answer.
3. Workers first began to organize into an effective union in 1869. Research and write a report on the need for and the beginnings of unions.

4. Interview your family and friends about unions. Some questions you might ask are as follows:
 - a. Do you belong to a union? If yes, which union?
 - b. What benefits do you receive because of union negotiations?
 - c. For how long does the union contract exist in your company before it has to be negotiated again?
 - d. Have you ever been elected as a union representative?
 - e. Do you feel the money you pay in union dues has been money well spent?
 - f. Do you favor a union shop or an open shop? Why?
5. Unemployed workers, as defined by the government, include those who do not have jobs but are looking for work. What types of individuals are unemployed but would not be counted as unemployed by the government?

**BUILDING
HUMAN RELATIONS
SKILLS**



In this activity you will participate in one of the steps of the collective bargaining process. Your class will be divided into groups for this project. One person from each group will become the arbitrator. The remaining members of each group will then be divided into two teams. One team will represent the labor union, and the other team will represent management.

You have been bargaining and have come to the point where an agreement cannot be made. Both sides have agreed to arbitration. As a member of the team, it is your responsibility to help defend your side.

The management team must give reasons why it cannot increase wages or fringe benefits and provide longer vacations, a four-day work week, a one-hour lunch period, and a fifteen-minute break each morning and afternoon. The company does not earn enough profit to support even half of the demands.

The union team must give reasons why all of the above provisions should be included in the contract.

The arbitrator listens to both sides and then, based on the defense given by each team, makes a decision.

Trends in Business

Working at Home

Be your own boss. Manage your own time. You can do that if you work with a computer in your own home. A mini-revolution is under way, and it is changing the way some people work. Now computers at home can be tied in to others almost anywhere in the world.

The relatively new practice of working at home computers is called telecommuting. It is estimated that fully 10 percent of the work force may eventually work at home at least two to three days a week. With the proper equipment, the processing of huge quantities of data can be done just as well at home as at the office. So why isn't everyone working at home?

Many people want the companionship and interaction found in an office environment. Others actually work better with guidance and supervision. Some fear that their chances for promotion will be poorer if they're away from the office and out of sight. And, of course, there are many jobs that simply cannot be done at home by telecommuting.

On the other hand, there *are* jobs that require little or no support from an office staff. Some of these are in communications, such as public relations, advertising, or writing. Jobs that make use of the computer's capacity for collecting, storing, and adding to data are ideal for telecommuting.

Many parents of small children prefer to work at home on a flexible schedule. Salespeople, some of whom had offices in their homes before the home computer came into existence, now find it increasingly easy to do all of their recordkeeping, filing, and updating of accounts away from a central office. For those with physical limitations or for invalids, working at home can be the answer to a much more interesting and productive life.

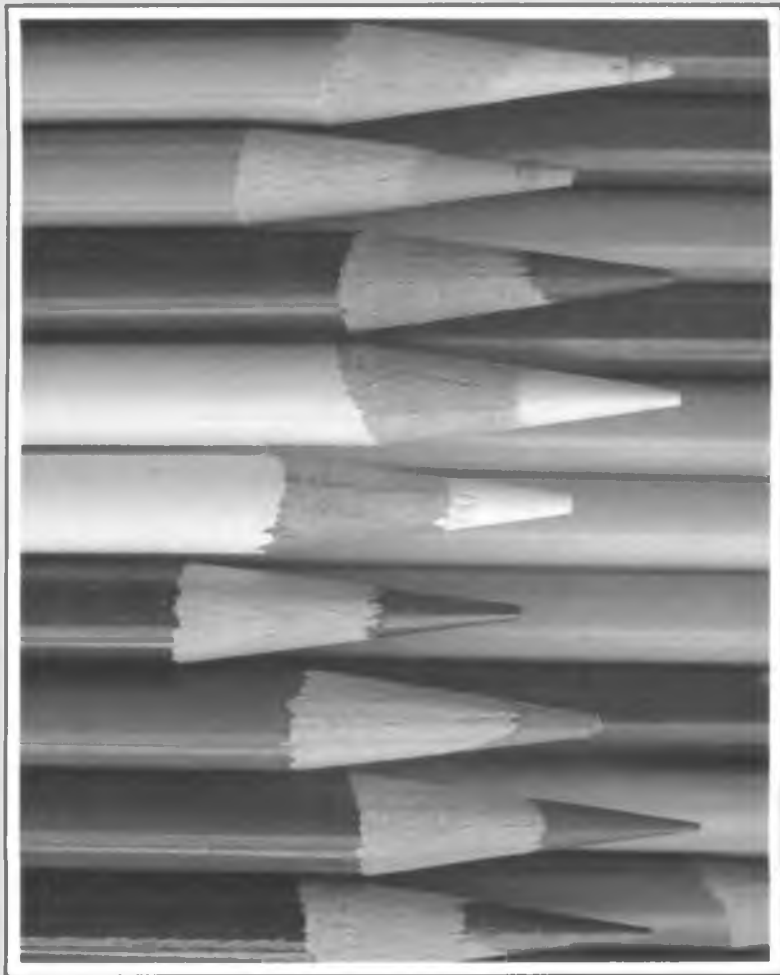


Few people expect telecommuting to replace the office. However, it is another option to long commuter trips. It permits more flexible work styles as well as schedules. The computer has provided greater freedom and more alternatives. Now when a worker punches a clock, it may be the one at home.

UNIT

6

CHOOSING A CAREER





CHAPTER 22

Our Working World

- We live in a world where practically everybody works — or wants to. Have you ever thought about how many jobs are out there? What kinds of jobs have the most openings?
- There are over 105 million people in our country who work at everything from making pincushions to selling flowers. There are butchers and bakers and candlestick makers. Is there a convenient way of putting all of these occupations together? What makes some occupations similar to others?
- You've heard about the person who started out in the shipping room and wound up as president of the corporation. Then there's the story of the former secretary who now heads her own surgical instrument company. If you have a job now, what could it lead to?

Do you know what these terms mean?

automation	blue-collar workers
mass production	journeyman
specialization of labor	career ladder
standardization	turnover
white-collar workers	

You'll learn all about these terms in this chapter.

There are many, many different kinds of jobs in our country. Look at your own school. Besides teachers, there are cooks, payroll accountants, secretaries, bus drivers, engineers, maintenance people, coaches, gardeners, typists, and nurses. You can find a lot more occupations in the central school headquarters for your town or city. The place where you live has many more kinds of occupations from which you can choose. Perhaps you live in a rural area, where there is farming. Maybe you live in a small town that has a business or factory that offers jobs for many people. A large city has a variety of businesses and a large choice of jobs. There are shopkeepers, doctors and dentists, restaurant owners, police and town officials, and others. There are hundreds of different jobs — many of which you've never heard of.

JOB CLASSIFICATIONS

The choice of a job is largely up to you. But before making a career choice, it would be a good idea to find out about the basic characteristics of jobs in which you're interested. You won't have the time or opportunity to examine each occupation in detail. To start, we'll briefly examine jobs classified by the types of tasks completed by workers — goods-producing and service.

The Goods-Producing Occupations

The worker in the automobile plant, the farmer, and the carpenter who builds homes are producing goods. If you are a steelworker or a baker, you are producing goods. The total number of jobs in the area of goods-producing occupations has not increased much in this country since the 1960's. Surprisingly, more goods have generally been produced from year to year without a great increase in the number of workers. Why?

One reason for this is that more and more of the goods you buy are made by workers in other countries, not by workers in this country. For example, look at all of the shoes, clothing, televisions, cameras, and even automobiles that we buy that are made in other nations. Even more and more of the steel in the products that we buy is produced in other countries.

Another reason relates to ways in which goods are produced. **Automation**, the substitution of machines for people, means that more goods can be made by about the same number of workers. In **mass production**, a method of producing many similar things at once, one person does the same task or several similar tasks over and over again. This process is called the **specialization of labor**. Another process that helps to produce many goods is the moving belt or arrangement of tasks in a row called an *assembly line*.



Specialization of labor means that more work can be done faster.

The automotive factory has long been a marvel of our business and economic world. It is a remarkable example of how more goods can be produced without necessarily increasing the number of workers. As you know, no one automotive worker puts together an entire car. That would require someone skilled in every step of automobile manufacture. It would be both time-consuming and expensive. Instead, an automated assembly line moves cars through the plant until they are completely assembled. Someone puts on fend-

ers, someone else windshields. Others tighten belts, do welding here, add a part there. In some factories, robots do some of the assembling, especially the more routine or dangerous steps.

The assembly-line process can be used because of still another process. Each car can be put together in the same way because interchangeable parts are used, a concept called **standardization**. Mass production really could not be achieved if each car had to be custom made. Indeed, if each car required a different engine and each engine called for different hand-made parts, there would be fewer cars than there are now. And the cars would be far more expensive. Mass production — made possible by automation, specialization, and standardization — enables the manufacturers in our country to produce more goods with fewer people.

The Service Occupations

Instead of producing goods, other workers provide services. The secretary, salesperson, lawyer, airlines pilot, and social worker provide services. So do the automobile mechanic, the dry cleaner, and the ski lift operator. As you can see, many of these jobs require regular contact with other people. The number of jobs in the service areas has increased quite rapidly in the past twenty years and will continue to increase. Service occupations are projected to account for about 75 percent of all new jobs by 1995. You can probably think of some reasons why.

At least one fairly obvious reason is that people in the United States are spending a greater part of their income for services. In 1940 approximately 37 cents of each consumer dollar was spent for services. By the mid 1980's this amount had increased to approximately 50 cents of every dollar. The travel and recreational areas are an example of this boom in service occupations. People in this country are traveling more than they ever have — by car, plane, bicycle, van, recreational vehicle, and backpacking on foot. They're also eating out more, at restaurants, fast-food places, and drive-ins. At least one result of all this has been the steady growth in service jobs, such as chefs, park service workers, reservation clerks, lifeguards, and hotel maids.

About how many of your family and friends work in service industries? in goods-producing industries?

More efficient work practices and even automation have not made all that much difference in the way some service occupations



Day-care workers provide a necessary service for many parents.

are run. For instance, the cleaning of hotel and motel rooms has not really changed much in the past twenty years. There's no easy way to make the beds and dust the furniture. Thus, an increased demand for hotel and motel rooms has led to a greater number of jobs for cleaning personnel. People still want the same services — and are willing to pay for them.

White-Collar Workers

Another way of classifying workers is by the kind of environment in which they work. Years ago some jobs, particularly in offices, were performed by people who wore white shirts or blouses. So the name *white-collar worker* caught on to describe the type of work they did.

For the most part, **white-collar workers** work with people, information, and ideas. Most of the jobs in the white-collar area involve producing services — the biggest growth area for the future. White-collar jobs have been increasingly affected by the use of computers and other types of electronic equipment. And more and more of these jobs require skills to operate such equipment. For example, many businesses provide desk-top computers for their

employees, so even managers need to know how to use the computer efficiently. Let's look briefly at the four basic types of white-collar workers.

Office Support. This group includes jobs commonly found in the office, such as secretary, administrative assistant, file clerk, bookkeeper, machine operator, typist, and receptionist. Most of the jobs in this group involve providing services to business, industry, government, and medical and legal concerns. Office support workers prepare and maintain records, analyze data, and may indirectly or directly deal with customers. Some office support workers operate machines, such as typewriters, word processors, computers, and copiers. Secretarial and receptionist occupations are "people-type" jobs. Usually at least a high school diploma is needed.

Professional and Technical. Accountants, lawyers, teachers, computer programmers, engineers, journalists, and doctors are among those included in the professional and technical category. Working with ideas, analyzing data, and creating new information are often included in the job tasks of these white-collar workers. Lawyers, teachers, journalists, and doctors have a lot of contact

In many white-collar jobs, workers must interpret complex data.



with other people in the course of their jobs. A college degree is required for many jobs in the professional and technical category. More than four years of college is required for doctors, lawyers, and college professors.

Managers and Administrators. Company executives, school principals, office managers, and small-business owners are among those workers found in this white-collar category. Generally there is a lot of people contact in managerial and administrative occupations. Analyzing data, coming up with new ideas, and especially dealing with people are important in this occupational group. A four-year college degree may be required.

Sales. Retail selling, door-to-door selling, and telephone selling are all various types of the same occupation. Selling goods and services that have been produced is the primary responsibility of this white-collar group. Developing new ideas for selling goods and services may be important. Mainly, however, this is an occupational area in which, it is said, first you sell yourself to people — and then you sell the product or service. Sometimes little formal training is required. But often four years of college can add a great deal to one's selling techniques and provide the background for eventual promotion to management positions.

Blue-Collar Workers

Here again, the clothing workers used to wear for their jobs came to describe how they were called or grouped. Factory workers, construction workers, and craft workers often wore coveralls or overalls, usually blue, while working. And so, workers in these jobs were known as **blue-collar workers**. Many blue-collar jobs still require hard work, but machines and equipment have cut down on the amount and even the nature of it. Still, working with or operating machinery may be a large part of the job.

Approximately 25 to 30 percent of the jobs in our working world are blue-collar. Many of these jobs involve the production of goods and, as a whole, these occupations are not increasing as much as service occupations.

Operatives. Operators of cranes, bulldozers, compressors, road pavers, and many other kinds of equipment are included in the operatives category of blue-collar workers. Often people in these jobs are referred to as heavy machinery operators or engineers. Although they may be semi-skilled, requiring little more than an automobile driver's skills, some of these jobs require much on-the-

job training. Many of these jobs are found on construction sites, and at dams, mines, and factories. Occasionally this occupational category is referred to as *semi-skilled*.

Many employment opportunities for operatives exist in the construction industry.



Crafts and Skilled Trades. Carpenters, painters, plumbers, bricklayers, electricians, and mechanics are among those included in the crafts and skilled trades category. Crafts and trades are old terms used to describe certain kinds of highly skilled or trained blue-collar workers. For instance, it wasn't unusual for a young person to become apprenticed (or go into training) in a trade or craft at a very early age. Many years later the apprentice might become a journeyman, or trained worker. Much later, the best and oldest of these workers became master craftsmen. You'll recognize in the word "handicraft" that sometimes this kind of worker is very skilled with his or her hands. Today many of the occupations in the crafts and skilled trades are remembrances of the way work was done a long time ago.

The greatest increase of jobs for blue-collar workers is expected to occur in the crafts and skilled trades occupations. Why do you suppose this is so?

Nonfarm Laborers. As a group, workers in this category are often referred to as *unskilled*. Very little training, either educational or on-the-job, is usually required. Unloading trucks, ships, or trains is typical of the work done by nonfarm laborers. Some people work in stockrooms and warehouses. In a matter of hours or days at the most, any skills required can be learned. Many unskilled laborers' jobs have been eliminated due to automation. Obviously it is not a growth area of occupations!

Farm Workers

Traditionally, farm workers have been viewed as a separate category. Their work environment and needed skills are unlike those of any other group. Those occupations in managing and operating farms form the largest group in this job category.

Big farms, sometimes called *agri-businesses* ("agri-" is short for "agriculture"), need many workers to work with tools and equipment. Big farms, like big businesses in other areas, need managers, accountants, and clerks. People must examine data, plan better methods of producing crops, and control fertilizing and irrigating operations. These big farms now account for more and more of the total farm workers in this country.

Better equipment and higher crop yields have combined to decrease the number of farm jobs. In the 1970's about 3 of every 100 jobs in our working world were in farm work. Now only 2 out of

every 100 jobs are in farm work. Because of increased automation, the percentage of farm workers in our total working force is expected to decrease still further.

CAREER LADDERS

For people who start working in a particular career area, there is often a path of advancement. To start, there is what is called an entry-level job. From there, one advances in steps of increasing skill, experience, and responsibility. This method of progressing from one level to another in an organization is called a **career ladder**. Within a career ladder, there may be many different positions, or *jobs*, as shown in the career ladder below.



The career ladder just describes the typical experience from entry-level position to the top of the job. Entry-level positions are generally where a beginner starts. People who have had experience with other companies, or who have greater skills, may start at a higher level. However, if you're interested in a sales job in some field, don't plan on becoming sales manager straight from high school! You'll probably have to work at some entry-level jobs first. What is most likely is that you'll follow some kind of career ladder. If you get to be sales manager, you'll probably have to have some training even beyond a college degree.

AN OVERVIEW OF THE JOB MARKET

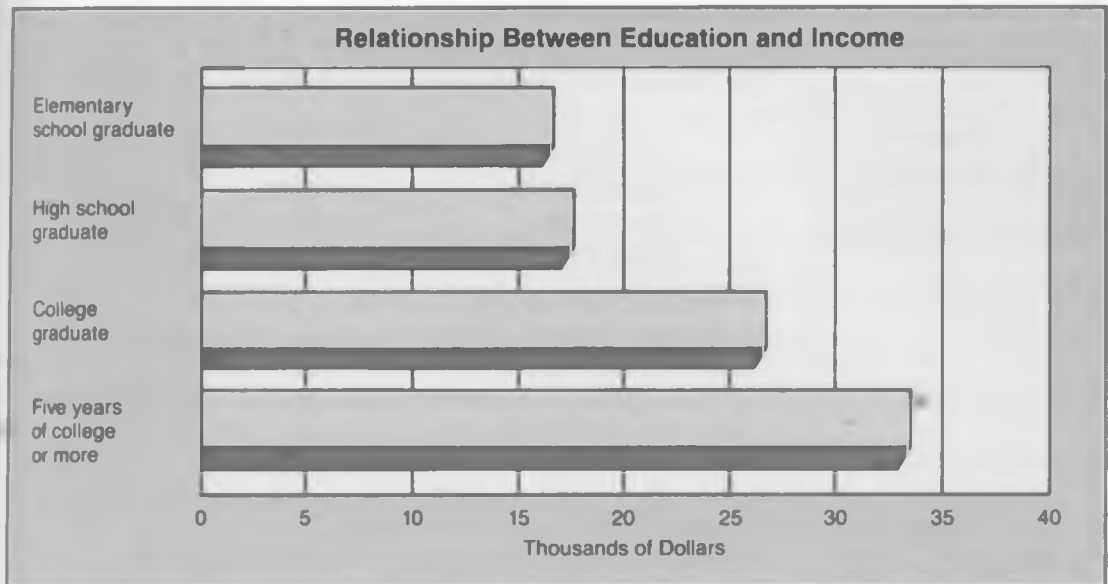
As we have said, the number of jobs in the service area is steadily increasing. The reason for this growth is the demand for such services by consumers, businesses, and government. The greater the demand for these services, the more people are needed to produce them. Without such demand, the career opportunities would decrease. For example, the demand for blacksmiths declined considerably in the earlier part of this century because of the introduction of the automobile. But the automobile created a demand for mechanics because people needed to have their cars fixed. In looking at any job outlook, keep in mind what kinds of goods and services will be in demand. This will give you a good idea of the types of jobs that will be available.

Another factor affecting the number of job openings in any one year is the turnover in a field. **Turnover** is the number of people who leave one job for another. People leave jobs for a number of reasons including advancement, retirement, dismissal, and relocation, or moving to another part of the country or world. Generally, there is a greater turnover in entry-level positions than in higher-level positions. For example, the turnover rate is higher for clerk-typists than for executive secretaries.

Another important factor to look at is how many people are entering a particular career field. For example, it is estimated that there will be a 49 percent increase in the number of people who choose careers in acting. Yet it will be difficult to obtain a steady position in this field, unless you are very good, because of the competition created by the number of people wanting to be actors and actresses.

Job opportunities vary from one part of the country to another. In the 1970's and early 1980's, many businesses and people moved to the Western and Southern states from the Midwestern and Northeastern states. The number of job openings in these areas changed as a result. The availability of teaching positions, for example, in Phoenix, Arizona, was much greater than in Buffalo, New York, during that time.

Finally, the amount of education that you have usually affects the income that you will receive during your lifetime. Generally speaking, the more education you have, the more income you will earn. This is certainly not always true, but for most people the principle applies.



Generally, the more education you have, the more income you earn.

SUMMARY

There are many jobs, hundreds of them. You've got to look at many of them to really decide which one is best for you. One way of starting is to examine careers under broad classifications like "white-collar" and "blue-collar" jobs. That will save time in organizing your own hunt. You'll find out about entry-level jobs and what it takes to advance up the career ladder. Look at the general outlook of the job market, such as what jobs are in demand, what regions of the country have the most job opportunities, and what role education will play in your success in the job market. Learn all you can from first-hand observation or on-the-job experience. It's important. It's the rest of your life.

BUILDING WORD POWER

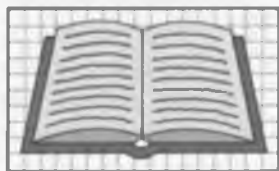


Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 9. Then write the term that best matches each numbered definition.

automation	specialization of labor
blue-collar jobs	standardization
career ladder	turnover
journeyman	white-collar jobs
mass production	

1. A trained worker with a skilled trade or craft.
2. A process in which a worker becomes a specialist in just one or a few operations.
3. Jobs that usually deal with people, information, and ideas and involve producing services.
4. The substitution of machines for people.
5. Jobs that usually consist of operating machines and equipment.
6. A method of producing many similar things at once.
7. A method of progressing from one job level to another within an organization.
8. The use of interchangeable parts in mass production.
9. The number of people who leave one job for another.

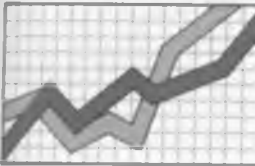
BUILDING READING COMPREHENSION



1. How have foreign-made goods in our stores affected some goods-producing jobs in this country?
2. How does an assembly line work? Give an example of where an assembly line has been successfully used.
3. Why has there been an increase in the number of new job openings in the service occupations?
4. Name four basic kinds of white-collar jobs. Give two examples of jobs in each category.
5. What kind of work is done by workers in the professional and technical category?
6. What are the three groups of blue-collar workers? Give two examples of each.
7. Which one of the three groups of blue-collar workers is occasionally referred to as semi-skilled? Why?
8. What is a career ladder? Why is it important to study a career ladder in an occupational area?
9. Which regions of the country seemed to have the most job opportunities during the 1970's and early 1980's?
10. How does education generally affect the amount of income you can earn in the job market?

**BUILDING
BUSINESS
CONCEPTS**

1. Explain how mass production, specialization of labor, and standardization have made it possible for the same number of workers to produce more goods.
2. Why have a number of service-producing jobs not become automated?
3. What are some of the responsibilities of today's office support workers?
4. Blue-collar workers are often described as people who work primarily with tools and machines. Since blue-collar workers generally have to work with one another as well as with tools and machines, why are these positions not considered people-oriented?
5. Why are unskilled labor jobs not considered a major growth area?
6. What is another name for a big farm? How did this name come into being?
7. What is an entry-level position? Give an example of such a position, and describe what types of jobs it might lead to within the same career field.
8. What factors can cause the employment outlook for some careers to change? How would changes in job opportunities affect your career choice?
9. Explain how demand for certain goods or services affects the job outlook for a career field. Give an example of a good or service for which demand dropped, and explain how this drop affected the job market.
10. How important is the level of education you have for a successful career?

**BUILDING
BUSINESS
EXPERIENCE**

1. In what way would choosing a career be different for a young person in the Soviet Union than for a young person in the United States?
2. Why do you think a college degree is required for many jobs in the professional and technical area?
3. How will increased automation cause the percentage of farm workers in the United States' total working force to decrease still further?
4. Why do you think it will probably be necessary for you to have at least a college education for the higher levels in some careers?
5. If a new firm employing 5,000 workers moved into your community, how would it affect the number of jobs in your community? Explain.

**BUILDING
ANALYTICAL
SKILLS**

You have interviewed with and have received offers of jobs from three different companies. The jobs are basically the same and all pay an amount enough for you to live on. Other information you have is as follows:

Job 1. This job has moderate chances for advancement. Most people who work on this job move up a notch or two but rarely reach the higher ranks of the firm. Retirement, health, and education benefits are good, but there is a 30 percent chance that people who work in this job get laid off permanently within three years.

Job 2. This job offers the potential for more than double the pay of the other two jobs. However, there is no security plan — insurance, health benefits, etc. — and most people in this job do not stay more than five years, even though they make a lot of money in that time.

Job 3. Once you are hired in this job, you will probably be expected to stay for a long time. Retirement, education, and health benefits are excellent, but the salary is the lowest of the three jobs.

Using the decision-making process, determine which job you should take. List any information that would help you to make a better decision.

Trends in Business

Job Sharing

The concept of taking one full-time job and dividing it between two (or more) permanent part-time employees is called job sharing. The job-sharing partners share responsibilities of the same job, but they do not work at the same time. One might work Monday, Tuesday, and Wednesday morning while the other works Wednesday afternoon, Thursday, and Friday.

Although the issue of job sharing is getting quite a bit of attention, job sharing has not been fully incorporated in many companies. And, where it is being used, it is usually by office support and blue-collar employees, not by managers or administrators.

The advantages of job sharing can be many if all goes well. Employees who want to decrease their workload so they can return to school, undertake an internship, or stay home with their children have that flexibility with job sharing. Those employers who offer job sharing believe that it helps to retain experienced employees, reduce absenteeism, and increase efficiency. They also find that two workers generally bring a wider range of skills and abilities to a job than does one person.

However, because one job is shared by two people, many employers are concerned about the interaction between the job-sharing partners. The partners must be team players. If they don't get along, their work will suffer. In addition, many employers believe that there are higher costs involved. Although medical, dental, and insurance benefits are often paid according to the hours the employee works, having two people instead of one increases such base costs as unemployment compensation.

Job sharing is an issue whose future is hard to predict. There have been many recent innovations affecting daily work schedules, such as flextime, permanent part-time positions, and freelancing. Job sharing, however, often involves a definite division of duties and responsibilities. Therefore, it may take longer for it to become widely accepted.





CHAPTER 23

Selecting a Career

- You probably have more questions than answers when it comes to a career. How do you go about finding the answers? What's the first question you have about a career?
- You have to know yourself. What you can and cannot do are equally important in deciding on a career. How do you go about analyzing yourself?
- You have studied a method for making decisions. How might it work with career decisions?

Do you know what these terms mean?

career	communication skills
interests	human relations skills
ability	problem-solving skills
manual dexterity skills	lifestyle
computational skills	

You'll learn all about these terms in this chapter.

You'll work about one fourth of your life. Anything you spend that much time on is too important to be left to chance. Besides that, of course, how well you live and how happy you will be are determined largely by your work. Choosing a career, your primary lifetime work, is a critical step!

School may be almost a full-time concern for you right now. Even a part-time job may be a year or two off. But regardless of your present circumstances, it is not too early to begin thinking about a career. The courses you are taking now and the information and skills you are acquiring will affect the career you finally enter.

GETTING ORGANIZED

You've learned how to use the decision-making process already. In the examples given, choices were made about things that were not as important as the choice of a career. However, you will probably use the decision-making method to arrive at major decisions in your life. It is a surprising statistic, but workers in this country change careers two or three times during the course of their working lives. Note that this is *careers* — not jobs. Switching careers can be a major step. So be as thoughtful as possible, and use the decision-making method. Do you remember the steps of decision making?

Identify the Problem

The first step is a fairly obvious one. What is the problem or choice? In this case, the problem is, "Which career should I enter?"

List the Alternatives

In the case of careers, there's obviously more than one alternative to consider. You have to gather information on some — not

all — of the jobs available in our business and economic world. When you begin, the key factor should be interest. Are you interested in this career? Other important considerations should come later. In the beginning, though, get a list together of the careers that seem most interesting to you. How?

GATHERING CAREER INFORMATION

There are some obvious and not-so-obvious ways of getting information about careers. Let's look at a few.

First, get the *Occupational Outlook Handbook* and the *Dictionary of Occupational Titles* from your guidance counselor or librarian. Also get other books — biographies and reference books about particular industries or businesses — anything that will give you some career information. Many industries publish booklets about careers in their fields. Ask your counselor, school librarian, and teachers for advice. Ask at home.

Next, keep your eyes and ears open for events like career days or fairs at your school or a neighboring college. Various branches of the armed forces make information available. Sometimes businesses have open houses. The United States Department of Labor has free or inexpensive materials on jobs and work throughout our country. Again, ask your counselor about such materials.

Besides the armed forces, what kinds of jobs are available in the various levels of government?

In addition to watching for career information on TV and reading books and newspapers, remember that people are a good source of information, too. Sometimes relatives or older friends have jobs that interest you. If you can, visit them at work. Find out more.

Take a part-time job in a career area that interests you. Even volunteer! It may be well worth it to work for nothing to find out about the career you may have for the rest of your life. Working on the job is obviously the most realistic experience you can have.

GETTING THE FACTS

It isn't enough just to ask or to read about various careers. You must get the *right* information. You must know which questions to ask — and make sure you get the answers. The eleven questions



Get the proper education for the career you want.

that follow will serve as guidelines in helping you to learn the most about a job.

1. What are the educational requirements? What level of education is generally required or preferred? Do you need a high school diploma, two-year college degree, four-year college degree, beyond that? Are majors or specific courses required or preferred?

2. What are the tasks and responsibilities of the position? What are the typical tasks performed in the job? What are the responsibilities? Are the tasks primarily working with data, people, machines, tools, or a combination of these? Does this job have a variety of tasks, or is it the same one or a few repeated over and over? Do the tasks involve a lot of hard work and muscle?

3. What skills are required? What specific skills are necessary? Are these skills primarily developed on the job, or must the worker have these skills before applying for the job?

4. What personal and physical characteristics are necessary? What type of personality is preferred or required for the position? For example, an outgoing personality is required for some occupations, like sales work. Sometimes an occupation requires a pleasant speaking voice because the worker talks on the phone a great deal. Is strength or good eyesight required?

5. Is any previous work experience required or preferred? If so, what kind of work?

6. Is there any required licensing or certification? Must a worker be certified or licensed by a state or professional organization before he or she enters the occupation? For instance, if you

want to be a teacher, certification by the state is usually required. Will joining a union be required? If so, what are the union requirements for becoming licensed, certified, or a member?

7. What are the working conditions? Is the work indoors or outdoors most of the time? Is the work location generally a pleasant and healthy one? Are there openings in the local community, or is relocation necessary? What is the typical length of a workday?

Is there a particular spot in the United States where you would most like to work? Do you know what kinds of jobs are available there?

8. What is the range of income? What are the typical wages or salary to start, and what are the income steps beyond? Does the income vary according to the educational level of the worker?

9. What are the opportunities for advancement? What opportunities are available to the worker who wants to advance? In other words, what is the career ladder? What are the requirements for obtaining advancement? Are any additional courses or degree work necessary?

10. What is the job outlook? When you are ready to enter the occupation, what will be the chance of getting a job? Will there be too many or too few qualified people applying for each opening?

11. What are the advantages and disadvantages? What attracts workers to this job? Why do people like the occupation? What are some possible disadvantages of the job?

A SELF-INVENTORY

For the next step in the decision-making process, you should do a very important analysis. It may be long overdue, but now you should take a long, hard look at yourself in connection with choosing a career. You must look at your interests and abilities, your financial resources, and what you want out of life. To make this inventory count, you've got to be realistic. You must be as honest with yourself as you can. Something as important as a career deserves a careful, realistic self-inventory.

Interests and Abilities

What do you like? What are you good at? There are a number of tests that you can take to help you answer these questions. If you

haven't done so, check with your teacher or guidance counselor to see if you can take these tests. The results will tell you a little more about yourself.

Think about your **interests**, the types of things you enjoy doing. What are your hobbies? Do you enjoy cooking, writing short stories, fixing clocks, making models, or playing a musical instrument? Each of these hobbies might suggest an occupational area. Maybe you like designing clothes or working with people. You may find that you enjoy taking care of sick people at home. Whatever your interest, see if it relates to a career choice.



An interest in dressmaking could lead to a career in the fashion industry.

Don't forget your school subjects. If you enjoy working with test tubes, writing for the school newspaper, or playing on the school tennis team, you may find that one of those interests leads to a career possibility. Look also at the various jobs you have had in

school or in the community. Ask yourself if you are interested in serving people, leading a group, or going it alone.

Because you like something doesn't necessarily mean that you are good at it. In addition to interest, you may also need **ability**, a natural or learned talent or skill. Your abilities can be classified into five major types of skills: manual dexterity skills, computational skills, communication skills, human relations skills, and problem-solving skills. **Manual dexterity skills** are those you may have if you work well with your hands. A pianist, automotive mechanic, or surgeon should have good manual dexterity skills. **Computational skills** are those you may have developed by working with numbers. Accountants, cashiers, and retail salespeople should have these skills. **Communication skills** are those that you use to express yourself, orally or in writing. Good communication skills are necessary for people who want to work as secretaries, technical writers, or sportscasters. **Human relations skills** are those that relate to your understanding of others and your capability of getting along with them. All of us need a good measure of this. But supervisors, members of the clergy, and social workers require particularly sharp human relations skills. **Problem-solving skills** are those related to your ability to find good solutions to various problems. This ability involves applying the reasoning process to various situations. Engineers, systems analysts, and managers need good problem-solving skills.



"My counselor recommended that I get into something with manual labor."

Other than those jobs mentioned, what other jobs demand good manual dexterity skills? computational skills? communication skills? human relations skills? problem-solving skills?

Test results will tell you some things, but so, too, will your grades in various subjects. Top grades in biology or algebra are an indication that you are fairly good in those subjects. Recall what others have said about your abilities to do certain tasks. If you held a particular job for quite a while, is it because of some special abilities? Remember, ability may be developed, depending on the depth of your interest. Sometimes people overcome real obstacles to succeed at what they like.

Financial Resources

It costs money to go to college, so you should take a hard look at your financial resources. A career as a doctor requires more than four years of college — a lot more. So, too, does a career as a lawyer. An accountant and a teacher generally require graduation from college. Don't forget that some colleges cost considerably more than others. But if you elect a career that requires a college degree, you'll have to get the money somehow. Only you know if your family can afford it. You can get jobs in high school and college that will help. Scholarships, grants, and low-cost loans are available, if you qualify. To see if you can get financial assistance, check with your guidance department. And if you haven't done so yet — start saving!

Values and Goals

Now let's take a different kind of inventory. What is important to you? Fame? Money? Challenge? Adventure? Good times with family and friends? Helping others? Status? Probably a few of these values are very important to you, and others are less so. Your career can help you satisfy your values and goals. Or to put it in a different way, *knowing* your values and goals can help you determine which occupations will be best for you.

Being an airline pilot or a flight attendant or traveling a lot on business may satisfy your appetite for adventure. On the other hand, if you value being home nights or weekends with family and friends, these kinds of careers may not be for you.

Some people may place great emphasis on independence and may not want to work for someone else. Most individuals, however, will work for others. Generally, these people prize financial rewards, job security, and job benefits over independence.

Helping others may be a primary concern of yours and, in that case, a career in social work or in teaching may be right for you. Most of these jobs don't pay great sums of money. You've got to weigh one value against the other.

Prestige and fame may come to you because of a career. For instance, careers in the entertainment world or in high elected government offices may offer fame and recognition. Some people do not mind the long hours, the stress, and the challenges associated with careers like these. Others want more leisure time, free time away from work.

What other examples can you provide in which conflicting values and goals might cause you not to pursue a specific career?

Your occupation certainly will affect your lifestyle, or the way in which you live. Your income will determine the kind of house you have and the kind of neighborhood in which you live. The car you drive, the clothes you wear, the vacations you take, and the type of leisure-time activities you follow will all be controlled to some extent by your income level. Your occupation will determine how much leisure time you have. Your friends at work and in your neighborhood will often result directly from your occupation. Participation in community activities may be related to your work. If you work overtime a great deal, or travel, your outside activities will be affected.

Your life is a little bit like a circuit board in a TV set. One part depends on and is affected by another. What career you choose will have an effect on many parts of your life. So examine your values and goals to determine what you want to get out of life. How well you achieve your goals and satisfy your values will be directly related to your career choice.

MAKE SOME TENTATIVE CHOICES

You have found out some characteristics of careers, and you have made a self-inventory. Now it is time to match characteristics with occupations to determine which career alternatives seem best

for you. In reaching a decision, look at the advantages and disadvantages of each career from your point of view.

You can start eliminating if you do not have the interest or the necessary abilities. Drop those careers for which you are not willing to take all the additional schooling. If the competition to get a job in a particular occupational area is too tough, you may not want to go after it. You'll find that competition is especially keen in professional sports, the theater, and music. On the other hand, you may want that kind of career badly. You may be willing to sacrifice and try extra hard. So more power to you!

It is important to realize that each career will have some disadvantages. But the advantages should outweigh the disadvantages. Mark, for example, liked the waiter job he had. But for him it had several disadvantages. There were few opportunities for advancement as a waiter. Mark felt the waiter job could become routine and boring if he did it year after year. He was interested in the food service occupations. In fact, one of his career objectives was

Your choice of a career may be limited by your own abilities.



to become the manager of a restaurant. After researching his goal, Mark realized he had to take some college business and food management courses in order to learn more about cooking food and managing a business. He also was aware that taking such courses would cost money and take time — time that could be spent at leisure or at work making money. Yet the trade-offs were worth it. The money and the time would be well invested. They would help to prepare Mark for a career that would be far more interesting and challenging.

At this stage, you may find it advisable to have several career objectives in the same occupational area. For instance, Verna's first choice for a career was to become a lawyer. She was also interested in becoming a paralegal, and had the ability to become either one. Verna had two career objectives for a number of reasons. If she couldn't afford legal training or lost interest in becoming a lawyer, she could follow a career as a paralegal. And her work as a paralegal could help to support her in law school.

FOLLOWING THROUGH

Once you've made some choices about careers, you need to follow through on courses, work experience, and skill development. You may need some vocational courses before you leave high school if you are going to work directly afterward. There may be certain courses to take in preparation for college. For instance, some advanced science and mathematics courses may be desirable if you want to get into engineering programs at the college level.

While preparing for a career, take time to get some valuable experience. Jobs after school and work with various groups in your school or community may be directly related to your career preparation. You may find a job that is closely related to your eventual career. Or while working for a community organization you may find an opportunity to demonstrate leadership qualities.

EVALUATING YOUR CHOICE

As you prepare for your career, and then actually start a job leading to your career goal, you should evaluate your choices. For instance, Kim thinks she would like to become a doctor. She has taken science courses in school and also has become a volunteer



These students have already started preparing for careers.

worker at a local hospital. Kim is following through. More importantly, she is able to evaluate her choice based on her school and hospital work. She may change her mind because of her experiences. On the other hand, her experiences may convince her that her career choice is the right goal.

SUMMARY

When choosing a career, apply the decision-making process. Put careers in the test tube. Examine them. Find out the characteristics of the careers that interest you. Ask the right questions — and get the answers. Determine your own interests, abilities, values, and goals. This self-inventory is very important. Then match your own personal qualities with the characteristics of the various careers you have chosen. After reviewing the advantages and disadvantages of

the various careers, and looking at the opportunity cost of choosing one career over another, you can make some informal choices. This is one of the most important choices you will ever have to make.

BUILDING WORD POWER



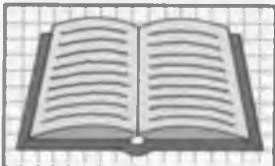
Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 9. Then write the term that best matches each numbered definition.

ability
career
communication skills
computational skills
human relations skills

interests
lifestyle
manual dexterity skills
problem-solving skills

1. Those skills that you may have developed by working with numbers.
2. Those skills you may have if you work well with your hands.
3. The type of things you enjoy doing.
4. Those skills that you use to express yourself, either orally or in writing.
5. Natural or learned talents or skills.
6. Your primary lifetime work.
7. Those skills that relate to your understanding of others and your capability of getting along with them.
8. The way in which you live.
9. Those skills that you use to find solutions.

BUILDING READING COMPREHENSION



1. How much of a person's life is usually spent at work?
2. Is it too early to start thinking of a career during high-school years? Why or why not?
3. How often do people in the United States change careers during their working lives?
4. What should be the key factor when a person begins to select a career?
5. What are two key books a person might use to get information about careers?
6. List four different ways to get information about careers.
7. List the eleven questions you should ask to learn about a career.
8. Explain the difference between interests and abilities.
9. What are five major types of skills?
10. Explain how financial resources can affect your choice of a career.

BUILDING BUSINESS CONCEPTS



1. List as many part-time jobs as you can that students in your school have now. Which of these part-time jobs do you think could lead to careers in the same field?
2. List three areas in which you think a person should do a self-inventory.
3. How can you determine what your interests and abilities are?
4. What can a person who wants to go to college do if the family cannot afford the cost?
5. How can an occupation affect a person's lifestyle?
6. In reaching a career decision, analyzing your own values and goals and the characteristics of careers is not enough. Why?
7. How can someone evaluate a career before entering the occupation full time?
8. Do you believe you are currently preparing yourself for the working world? Why or why not?
9. Discuss the statement, "You should use the decision-making process to make a career choice only when you are young."
10. Comment on the statement, "If there are a lot of openings in a particular field, you can be assured of a great opportunity for getting a job in that area."

BUILDING BUSINESS EXPERIENCE



1. Why should a person consider the tasks or responsibilities performed in a job when choosing a career?
2. Explain why there are always trade-offs in selecting an occupation.
3. After making a tentative career choice, why should a person look into the courses, work experience, skill development, and choice of occupations in that particular career?
4. Prepare a realistic self-inventory that includes your:
 - a. interests and abilities
 - b. financial resources
 - c. values and goals
5. Based on the results of your self-inventory, choose a career in which you are interested.
 - a. Read some books or articles about this career. Interview some people employed in this job, and write a report including the answers to the eleven questions you should ask about an occupation.
 - b. What courses in school have you already taken that will help prepare you for this career?
 - c. Make a list of those courses that you will need to take to pursue this career.
 - d. Estimate the financial resources that would be necessary to prepare for this career.

**BUILDING
HUMAN RELATIONS
SKILLS**

Linda is a junior in high school. She is shy and has difficulty in talking to other people. Linda's favorite course in school is biology. She spends most of her free time scuba diving or swimming. As a matter of fact, the only time Linda forgets her shyness is when she is discussing her major interest — the ocean and its inhabitants. Linda worked part-time for an oceanographer last summer and thinks she might like to be a marine biologist.

While Linda was discussing her schedule of classes for her senior year with her parents, they told her they wanted her to go to law school because the pay can be good, the job is prestigious, and they could help her get into a well-known law firm.

1. Do you think Linda should go to law school?
2. Considering Linda's personality, abilities, and interests, should she think about a career in law? Why or why not?
3. If Linda decides against law school, how can she explain her decision to her parents?

Issues in Business

Business Takes to the Streets

The business of selling goods on the street has been thriving for several centuries. Walking down the streets in many of our larger cities, you will find a variety of goods being sold from pushcarts or from sidewalk stands. In a private enterprise economy, all types of businesses can flourish.

Both licensed and unlicensed vendors operate on the streets. Unlicensed vendors are operating illegally. Licensed vendors have followed all the necessary procedures to operate legally. If you buy goods from licensed vendors, they must have receipts and warranties available. If a problem arises, licensed vendors can usually be traced through a number assigned to them from the local licensing board.

Some store owners do not like to have street vendors operating on the streets in front of their stores. Retailers fear that the vendors will detract from the atmosphere of the store and lure customers away. Sometimes, the street sellers will set up their temporary "stores" in front of a department store and sell some of the same items that are sold in the store.

Shrewd consumers might find real buys from street vendors, but these

vendors cannot offer the same services as retail stores. Also, consumers must be aware of the problems that can occur when buying from a vendor, even a licensed one. Although the goods are not usually stolen, they can be seconds or factory close-outs. Many of the goods are imitations that are being passed off as the real item.



Street vendors often sell souvenirs or other small items that appeal to people who are walking past. Indeed, many people like to buy from street vendors because the lines are short and service is quick. In spite of complaints by retailers, vendors will continue to hawk their wares on the streets. Local police do check on street vendors, though, to make sure they do not interfere with the rights of retailers.



CHAPTER 24

Finding That Job

- When it really gets down to it, you will be the one who has to go out and find a job. Oh yes, a rare job may come looking for you. More likely, though, you'll have to do the looking. Where do you start?
- Regardless of the job, there are some qualities or abilities that will be expected of you. How do you find out about what is required?
- What you do well won't stop when you apply for a job. You may get better and better at what you do. Is it wishful thinking to believe you will continue to grow in skills?

Do you know what these terms mean?

resume

job interview

fringe benefits

on-the-job training

cooperative work program

You'll learn all about these terms in this chapter.

The people who want you to work for them are called employers. You and others who work *for* employers are called employees. Most employers have a fairly routine way of finding out about new employees. Since, like almost everyone else, you'll sometime have to apply for a job, you should learn what's expected of you.

It's all a little bit like buying groceries in a supermarket. In this case *you're* the product, and your potential employer is the consumer. The employer doesn't "buy" everyone who is applying for a job. Only certain skills and abilities will sell. So it's important that you put your best foot forward.

TAKING THE FIRST STEP

If you haven't done it yet, zero in *now* on the jobs you both like to do and are best able to do. Make sure that you include several choices of *types* of jobs. For anyone entering the job market for the first time, opportunities are limited enough. You will find that some openings require previous work experience. Other openings may require certain skills. Don't try to get a job for which you are not qualified. Trying to get a secretarial job when you don't have any typing skills doesn't make much sense. It wouldn't take long for an employer to discover the lack of skill.

Where do you find out about job openings? Start where you live, with your parents, friends, neighbors, and, if you work, with your friends there. Word-of-mouth can be the best source of information sometimes.

Visit businesses and knock on doors. Some large businesses put ads for openings on billboards. Others have bulletin boards listing available jobs. Check with personnel departments to see what jobs are open.

Want ads in newspapers and magazines are another important source of information. Want ads can be useful in several ways. First, you can find out quickly if there are any jobs listed that you might be interested in. Also, you can get a good idea of how much certain

jobs pay and what skills or education are required. Or you can run a "Job Wanted" ad yourself telling possible interested employers what you're looking for.

Your school guidance counselor is another good source. Employers often call schools in their area when they have job openings. Perhaps there is a bulletin board carrying job listings in the guidance department.

Employment agencies are organizations especially set up to help people find jobs. Government agencies generally provide the service free of charge. Private employment agencies, on the other hand, generally charge a fee. Sometimes the fee for placing a worker in a job is paid by the employer. At other times, the person looking for the job must pay the fee.

*What is the state employment agency in your area called?
Do you know what types of jobs it lists?*

The employment agencies match job hunters with the particular jobs they have on file. To do this they require information from you. Some of this information you can give them directly. Usually they will have you complete an application form on which you give information about yourself and your background.

YOUR RÉSUMÉ

A résumé, also called a personal data sheet, is a kind of life history or biography of an individual. Before looking for a job, you should prepare this kind of form. Preparing a résumé will help you fill out a job application. All the background information you will need for your applications should be found on your résumé. Often you will be sending a résumé with a letter of application. The prospective employer may file your résumé with your application.

Put your name, address, and telephone number at the top of the form. Next give your educational history, together with the dates of graduation or degrees (if any). All education, including summer courses or special programs, should be included. List the most recent educational experience first. Major courses of study should be given, as well as any honors, awards, or scholarships. Participation in any extracurricular (out-of-school) activities such as sports and clubs should also be noted. Sports and club awards, honors, or positions help a possible employer get an idea of your leadership ability and special talent.

PAULA M. STEWART
134 North Avenue
Indianapolis, IN 46268
(317) 969-2492

CAREER OBJECTIVE To secure an office support position with potential for growth.

EDUCATION

September 19-- Northwest High School, Indianapolis, IN 46244.
to present Will be graduated on June 10.

WORK EXPERIENCE

June 19-- Office Stationery, Inc., 193 Troy Street, Indianapolis,
to present IN 46244. Part-time cashier.

ACTIVITIES

Treasurer of high school business club
Member of Junior Achievement
Member of high school band

REFERENCES (by permission)

Mr. Peter Durkee, Programmer
54 East Border Road
Indianapolis, IN 46268
(317) 783-6014

Ms. Amanda Freymann, Accountant
1037 Crawford Drive
Indianapolis, IN 46268
(317) 969-3744

Mr. William Council
468 Center Street
Indianapolis, IN 46244
(317) 881-9468

List all work background, again starting with the most recent and going back. Try to account for as much time as possible. Don't forget any job you had, including working for your own family or for the school as a library assistant or selling tickets at sporting events. List your hobbies and special skills separately. Don't forget anything! *You* are the one this document best describes.

The last section of the résumé lists *references*. These are people a possible employer can contact to find out about your work, your habits, and your personality. Before listing people as references, get their permission. Teachers and employers you have had, especially recently, are good references. So is a minister, priest, or rabbi if you have been active in a church or synagogue. Do not include best friends or close relatives unless they are your only employers.

LETTER OF APPLICATION

Suppose you want to respond to a newspaper want ad. Or you heard about a job opening through a friend. How do you let a possible employer know of your interest? One of the best ways is to write a letter of application. A letter of application is your first link with a potential employer. As such, it should deliver as favorable an image of you as you can honestly write.

Be brief but complete. Put in all the information about yourself that you think someone hiring you may want to consider. Mention where you heard of the job. State your qualifications for it. List several local references. And suggest that you are available for follow-up interviews.

If you have a résumé, you may want to enclose an up-to-date copy. If you do enclose one, you need not repeat in the letter exactly the same information that you have on the résumé. Instead, simply draw the reader's attention to the résumé. Then you can spend more time in the letter of application relating your personal experiences to the particular job.

THE JOB APPLICATION

Almost all employers ask job applicants to fill out an application form. This form represents *you* to a possible employer. That's why you want to do your best in filling it out. Questions should be answered as fully as possible, and you should respond to every one.

May 15, 19--

Ms. Marcia Chisholm
Personnel Officer
Compu-Search, Inc.
One Acorn Park
Indianapolis, IN 46244

Dear Ms. Chisholm:

Mr. William Council, a teacher at Northwest High School, told me of the opening in your company for a data entry clerk. I would like to apply for that position.

I will be graduated from Northwest High School next month. I have taken courses in business mathematics, accounting, and office machines, and I am very interested in a career that involves working with computers. Working for your company would help me become better acquainted with the possibilities in this field. I have also worked as a cashier at a local stationery store for the past year. My resume is enclosed with additional background information.

I would like to have an interview with you at your convenience to discuss this opportunity with you. You may telephone me at 969-2492 any day after 3:00 p.m.

Sincerely,

Paula M. Stewart

Paula M. Stewart
134 North Avenue
Indianapolis, IN 46268

Enclosure

APPLICATION FOR EMPLOYMENT

Compu-Search Inc.

One Acorn Park

Indianapolis, IN 46244

Name Stewart Paula Marie Date May 20, 19--
Last First MiddleAddress 134 North Avenue Indianapolis IN 46208
Street City State ZIPPhone No. (317) 969-2402 Social Security No. 032-82-2712In case of emergency, notify Albert Stewart, 134 North Avenue, Indianapolis, IN 46208Position desired Data Entry Clerk Salary desired Open

EDUCATION	Name and Address	Dates attended		Date Graduated	Major Area of Study
		From	To		
Elementary	<u>Valley Elementary School</u> <u>Indianapolis, IN 46266</u>	<u>Sept 19--</u>	<u>June 19--</u>	<u>N/A</u>	<u>N/A</u>
High School	<u>Northwest High School</u> <u>Indianapolis, IN 46244</u>	<u>Sept 19--</u>	<u>June 19--</u>	<u>June 19--</u>	<u>Bus Ed.</u>
College	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Other	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

Check Business Courses Taken in School:

☒ Accounting ☒ General Business Shorthand Speed _____ WPM
☐ Business Law ☒ Office Machines
☒ Business Math ☐ Office Practice
☒ Consumer Economics ☒ Record Keeping Typewriting Speed 62+ WPM

EMPLOYMENT: List most recent employer first. Use extra sheet if necessary

Name and Address of Employer	Dates Employed		Position	Reason for leaving
	From	To		
<u>Office Stationery Inc</u> <u>193 Troy Street, Indianapolis, IN 46244</u>	<u>June 19--</u>	<u>Present</u>	<u>Part-time cashier</u>	<u>Need full-time job</u>
<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

REFERENCES: Do not list relatives or former employers.

Name	Address	Telephone	How long Known
<u>Peter Durkee</u>	<u>54 East Border Road</u> <u>Indianapolis, IN 46268</u>	<u>783-6014</u>	<u>4 years</u>
<u>Amanda Freymann</u>	<u>1037 Crawford Drive</u> <u>Indianapolis, IN 46268</u>	<u>969-3744</u>	<u>7 years</u>
<u>William Council</u>	<u>468 Center Street</u> <u>Indianapolis, IN 46244</u>	<u>881-9468</u>	<u>3 years</u>

Are you currently employed? YES Date available for work June 11

To the best of my knowledge all of the foregoing is true and given voluntarily

I authorize Compu Search Inc. to contact my references, including previous employers, to confirm credentials

Paula M. Stewart
Signature

If the question does not apply to you, write in N/A (not applicable). By responding to every question, you show care and thoroughness. Also, correct spelling and neatness in completing the application form are essential.

In some cases the application process may require you to take some tests. These can take many different forms. For secretarial positions, for instance, typing, shorthand, and even transcribing machine tests may be given. Some companies require physical examinations because of the nature of their work.

THE JOB INTERVIEW

The **job interview** is a more-or-less formal discussion between an employer and a possible employee. It is an exchange of information about the nature of the job opening and your qualifications for it. There are a number of things that you should keep in mind about the interview.

- **Be on time.** If you are late for your first meeting, will you be late often for work? If you are on time, you put the employer in a good frame of mind.
- **Wear the right clothes.** If it's a white-collar job, men should wear a suit and tie, and women should wear a suit, dress, or skirt and blouse. On a blue-collar job, make sure your clothes are neat and clean. You can always be informal *later*. First impressions count a lot.
- **Do some homework about the job.** Find out about the company or organization. If there are reports about the company, read them in advance. Your local library may have information, especially if the company is a large one. If you know a friend who works for the company, talk with him or her. Get as much information as you can from other employees or knowledgeable people.
- **Put your best foot forward.** Remember that one of the most important reasons for the interview is to show that you've got the ability for the job. It is important to be courteous, cooperative, alert, and interested during the interview. Ask questions. Try not to be too nervous. It is assumed, however, that you *will* be nervous during an interview. Try to leave a good impression by being positive without being boastful.



When applying for a job, put your best foot forward.

- Find out about the job. The interview is a two-way street. You want to be happy and successful in the job, so find out about it. Most interviewers appreciate people who ask intelligent questions since it shows they have taken time and have thought about the job.
- Ask about the pay and benefits — tactfully. If salary or pay is not brought up, raise the matter as tactfully as possible near the end of the interview. Discuss **fringe benefits**, those extras like insurance, vacation, educational assistance, and retirement. Often a company prides itself on the fringe benefits it provides. Since many of these benefits — medical and health insurance, inexpensive meals in a cafeteria, generous vacations with pay, and others — add real dollars to your paycheck, you should know about them. But do not press these points, especially early in the interview. Salary and fringe benefits are indeed important, but you want the job offer first!
- Don't expect an offer right away. Most interviewers need some time to think and discuss with others whether you should be offered the job. There may be other people being considered. There may be a number of reasons, none of them necessarily bad, why you are not offered a job at the end of the interview. Most interviewers will indicate the procedures

to be followed in letting you know whether you do or do not have the job. If they don't, it is proper to inquire at the end of the interview how you will be informed.

WHAT EMPLOYERS LOOK FOR

Different jobs require different qualifications. What is important for one job may be less important in another. A certain skill may be required for one kind of occupation and a totally different one for another. Regardless of the nature of the job, however, employers do look for some common qualities and characteristics. The letter of application, the résumé, and the application form supply much of the information.

Level of Education

Most jobs require at least a high school diploma. On the whole, the level of education of employees in our country has risen. More and more people have at least some college education. High school dropouts have fewer job opportunities, especially if they have no previous work experience.

Required Skills

Certain basic skills are required today in practically any job. Employees must be able to read at least well enough to function. They must be able to communicate with others and do simple mathematical problems. And they must be able to follow instructions. These are the essentials.

Other skills requirements may vary from job to job even in the same company. Some job skills are developed through actual practice and instruction while working. This method of acquiring job skills is called **on-the-job training**. Supermarket cashiers, waiters and waitresses, and assembly line workers are types of workers whose skills are learned while they are actually at work. Most occupations have some on-the-job training, but other skills may be required. Before you get an automotive repair job, it is assumed that you have good mechanical ability. Typing skills are required for many office support positions. You wouldn't be hired for a job as a newspaper reporter or as a secretary without fairly good English skills.

Employers check on your skills by looking at your past work experience, your courses and grades, and the results of tests you may have taken. Sometimes they'll check your references, and occasionally even your hobbies can provide a clue about skills.

Character and Personality

Though skills are important, one of the primary reasons for failure at a job is a combination of character and attitude. Employers value honesty, dependability, and hard work. Being cooperative with other employees and loyal to the employer are also highly regarded personal characteristics. A good attitude and character are qualities that are always in style, and they are qualities that employees are expected to have.

An employer learns about these characteristics in several ways. An applicant's behavior during the interview provides some clues. If the person is fidgety and uninterested, that's a minus. Sloppy dress may also indicate a poor attitude. A check of school records provides still more information. If a student was seldom absent, it probably indicates dependability and good attendance at work. If the grades

You must sell yourself as a high-quality product.



match what you seem *capable* of doing, that may show a willingness to apply yourself. Extracurricular activities may indicate both additional enthusiasm and effort, as well as possible leadership ability. Your references may also emphasize personality and character in their replies to inquiries.

Previous Work Experience

"Must have previous work experience," the ads often say. Sometimes they even give the number of years required. For certain kinds of jobs in certain areas, it may be next to impossible to secure employment without experience. You can understand why a proven track record can help an employer judge your worth. Some schools offer a program that helps to substitute for full-time work experience. In a *cooperative work program*, students are placed in a job in a store, office, plant, or restaurant while still in school. The employer and the teacher together plan the work experience for part of the school day. The student graduates with full credit but also has work experience and an added opportunity to get jobs.

The Satisfied Worker

It doesn't pay an employer to continually hire and train employees for a particular job. On the contrary, hiring and training people costs both time and money. A satisfied worker is one who will probably stay for a while. But finding out in advance whether a worker will be happy may be a difficult task. The best thing to do is to try to match the worker to the job. A person who likes creativity will be bored by routine, repetitive tasks. Someone who enjoys working alone may not want to meet people all the time. People with particular skills and talents want to use them on the job. It is wise for the employer and employee to explore as widely as possible *beforehand* whether the job will be interesting over the long haul.

Ability to Grow

Finding and getting the job come first, but then there is the ability to keep it and to show growth potential. There are a number of things employers look for to indicate that an employee is likely to stay for a while. If a worker continues his or her education, the employer may assume he or she wants to improve on a job. Having a good attitude and a pleasant personality suggest satisfaction.



"Clock-watching" is just one of the signs of job dissatisfaction.

Doing *anything* above the requirements of the job is a pretty sure indicator that the employee likes the job. Enthusiasm has a way of communicating itself to an employer.

IN TRAINING NOW

In effect, you are engaged in on-the-job training right now. You are developing, improving, and refining your qualifications for the world of work. The courses you take in school and the grades you make are directly related to your qualifications for *some* job. Work experience you acquire, skills you gain, and extracurricular activities you engage in all affect your future. Your personality, character, and attitudes will all be factors in determining your qualifications. Use care *now* in planning the development of those qualifications necessary for meeting your career goals.

SUMMARY

There is a step-by-step procedure to getting a job. First, decide on the types of jobs you want by using the decision-making process. Second, look at all the possibilities you can think of or find to help you determine if there are any openings in your area of interest.

Third, after finding a job, apply for it. A résumé is often needed. You may be given an interview. Remember that employers look for certain things in possible employees. They look for level of education, types of skills, character and personality, previous work experience, and whether you are likely to be a satisfied worker. Once you've got the job it's up to you to hang on to it. That's something that concerns both you and your employer!

BUILDING WORD POWER

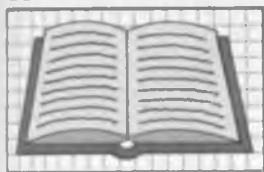


Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 5. Then write the term that best matches each numbered definition.

cooperative work program	on-the-job training
fringe benefits	résumé
job interview	

1. Those extras beyond the regular salary that an individual receives, such as insurance, vacation, educational assistance, and retirement plans.
2. Developing skills through actual practice and instruction while working.
3. A more-or-less formal discussion between an employer and a possible employee.
4. A kind of life history or biography of a person.
5. An education program in which a student gains experience by working at a part-time job during the school day.

BUILDING READING COMPREHENSION



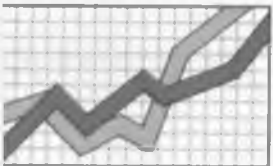
1. Identify four sources for learning about job openings.
2. Name three ways in which newspaper want ads can help you find a job.
3. What is the difference between government and private employment agencies?
4. What information should be included on your résumé?
5. Who should be used as references on a résumé?
6. What are two specific things you need to include in an application letter?
7. What should you do on an application form when a question does not apply to you?
8. Why should you answer every question on an application form?
9. Why should you find out something about a firm or organization before going for an interview?
10. Why should a person include participation in extracurricular activities on a résumé?

BUILDING BUSINESS CONCEPTS



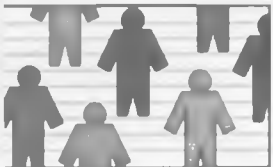
1. On your résumé, why should you list your most recent job first, followed by previous positions?
2. Why should you list all of your previous jobs on your résumé?
3. Why is it not a good idea to include your best friends or relatives as references unless they have been your only employers?
4. List seven important things to keep in mind when being interviewed for a job.
5. Should a person expect to be offered a job immediately following an interview? Why or why not?
6. List those things for which an employer will look when interviewing someone for a job.
7. How can an employer check on a person's skills?
8. List the steps in the job-hunting process.
9. Why would an employer be interested in knowing your school attendance record?
10. Why is it so important for an employer to find a person who will be satisfied with the job?

BUILDING BUSINESS EXPERIENCE



1. What are some essential skills needed for practically any job?
2. Prepare a résumé that shows your current education and experience. Use the sample and the text material as guidelines.
3. Look back to Paula Stewart's letter of application on page 359. How did Paula point out her strengths for the position for which she was applying?
4. Bring to class the "Help Wanted" section from a recent newspaper. Clip advertisements for positions that a high school student could fill. What qualifications do employers list for those positions?
5. Why should one be tactful about asking about pay and fringe benefits on the first interview?

BUILDING HUMAN RELATIONS SKILLS



You are looking for a job and find several job openings advertised in your community. Choose one of the advertisements on the following page and write a letter of application for that job. The letter should be no longer than a full page. Explain to the employer, briefly, how your special skills and abilities match those required for the job. You should mention where you read about the job and that you are available for follow-up interviews. Remember that your letter of application will make the employer's first impression of you. You must sell yourself and your abilities.

BUILDING BUSINESS CONCEPTS



1. On your résumé, why should you list your most recent job first, followed by previous positions?
2. Why should you list all of your previous jobs on your résumé?
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Business Help Wanted**ACCOUNTS PAYABLE**

Will train ambitious individual to work in the Accounts Payable Dept. of our busy and congenial office. We are a fast-growing company with excellent benefits.

Apply to Personnel Supervisor, ABC Company, 918 Sea Street, Your City, State

Clerk-Typist

Must be able to work well with customers in person and by phone. Good typing and general clerical skills necessary. Excellent working conditions in modern facilities. Benefits.

Personnel Director**McNEIL CHEVROLET**

391 Providence Hwy., (Rte. 1)
Your City, State

SOMETHING BETTER**A Career at SouthBanks****PUBLIC CONTACT**

If you enjoy serving the public we will train you for a permanent clerical/cashier position with excellent working conditions and fringe benefits. Position is in the Canton area. Please apply to Mr. Franklin at SouthBank, 1108 E. Main Street, Your City, State

ENERGETIC PERSON WITH suitable vehicle for afternoon deliveries. Very short hours, excellent pay. Apply in person. Kraft's Supermarket, 45 Atlantic Avenue, Your City, State

**NAIL DOWN A CAREER WITH
PLANKON'S SALES & STOCK**

We're one of the largest building materials retailers. We're looking to fill a starting position in sales/stock. Experience helpful, but not necessary. Comprehensive benefits package and unlimited growth opportunity.

Mr. Anderson, Plankon's Bargain Outlet, 419 Park Street,
Your City, State.

Careers in Business

Personnel Worker

Do you enjoy meeting different kinds of people, learning about their differing backgrounds? When a business expands and needs to hire new workers, the people who make the hiring decisions usually have the human resource, or personnel, office screen the initial job applicants.

A job seeker's first face-to-face contact with a prospective employer may be through the personnel office. Personnel workers explain the job responsibilities and company benefits to prospective new employees, and interview, select, and recommend applicants for job openings. Personnel workers must have a good understanding of the company and the many jobs within it so they can successfully match a person's skills and background with the job that best uses those skills.

Human resource development is emerging as a specialization within personnel administration. Human resource workers manage programs for on-the-job training to strengthen employees' skills or to teach new skills for advancement within the organization.

Educational requirements for personnel workers vary but a college degree is usually necessary. If this type of career interests you, good preparation includes some high school business courses and good communication skills. Many colleges offer courses in personnel administration that are helpful in gaining advancement.



Almost three out of every four personnel workers are employed in private businesses. As businesses expand, the need for personnel workers will grow. In addition, state and federal laws and regulations concerning working conditions and pay practices will also create a need for more professional personnel workers.



CHAPTER 25

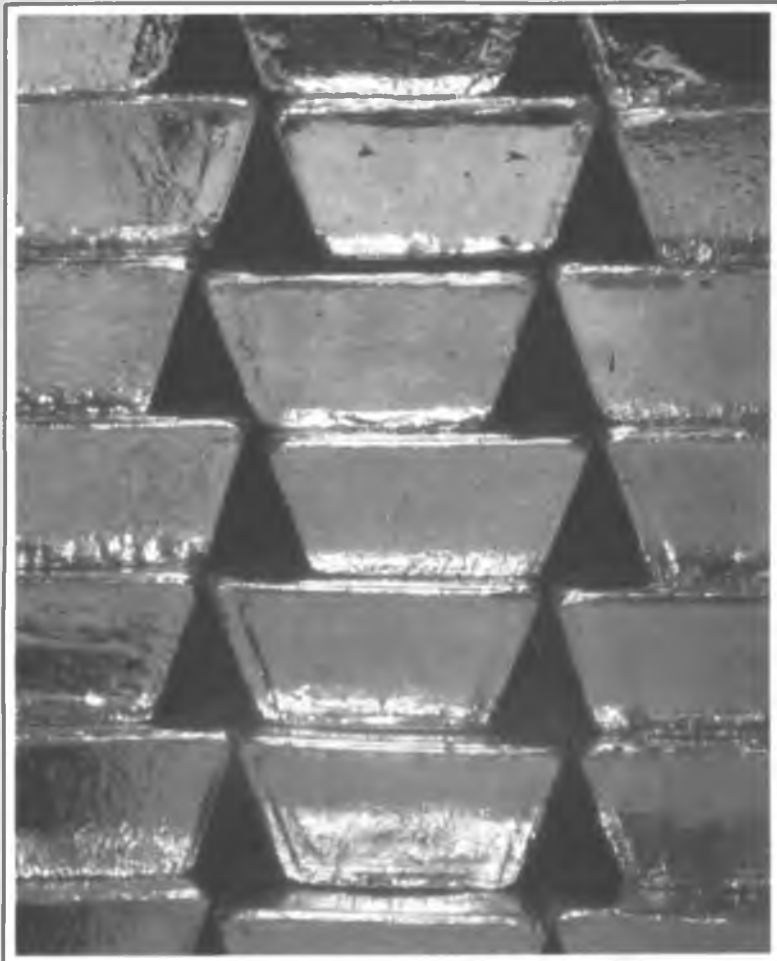
All About Money

- You probably take money pretty much for granted. Maybe you've traded things before, but mostly you've used money. What does money do? What would you do without it?
- During inflation, money loses value. You can't get as much for your dollar, we say. Is a dollar worth more than the paper it's printed on?
- You wouldn't accept a three-dollar bill. Would you accept a bar of gold? Why do you think a bar of gold is more valuable than a bar of iron?
- How can you determine the value of a dollar? Isn't the value of the dollar related to the amount of gold stored at Fort Knox?

UNIT

7

MONEY AND BANKING



Do you know what these terms mean?

barter	standard of value
medium of exchange	store of value
currency	checkbook dollars

You'll learn all about these terms in this chapter.

You have to go back a long way in history to find a time without money. Perhaps people who lived in caves many years ago didn't have any kind of money. Suppose one of them made tools out of stones but wanted clothing. Suppose another made clothing from animal skins but wanted tools. They could trade a tool for an item of clothing. Now suppose someone wanted jewelry in exchange for a stone tool. Unfortunately, there weren't many people around who made jewelry and were willing to trade for the tool. The search would continue until a jewelry maker who was willing to trade for the tool was found. These searches to find an exact trade were time-consuming. They were not always successful even then.

The persons who made tools may have thought they were worth more than clothes. Some people probably thought jewelry was not worth as much as either tools or clothes. So they wanted to add something else to jewelry to increase its value. The exchanges were not simple. Everything had a different value, and many things could not be exchanged one for one.

BARTER

We have been describing a time when there was no money. People exchanged goods and services for other goods and services. This system is still called **barter**, and some people still use only this system. They exchange goods and services with one another by bartering. In the Middle Ages, the serfs, or people who worked the land, had a barter system. The serfs exchanged their labor for housing and food from the landlords.

Some form of bartering or swapping will probably always be around. We still see it used in our country. Swap meets, where people gather to exchange items, are regular events in many communities. And "swap" columns may be found in newspapers and magazines. In some cases, people agree to perform a service in exchange for another service. For example, a lawyer might agree to perform some legal service in exchange for a carpenter's services.

Have you ever engaged in any form of barter? What did you trade?

WHY MONEY WORKS BETTER

Bartering, however, is awkward because everything has to be just right to make it work smoothly. Somebody that you know has to have something that you want and be willing to trade it for something that you are willing to give up. Bartering has other drawbacks, too. There is no common standard against which to measure the exchanges. A pair of skates may be worth six cassettes or sixteen baby sittings. Another problem with bartering is that many items cannot be easily divided. You may want only three cassettes, but does the person with whom you're trading really want just one skate?



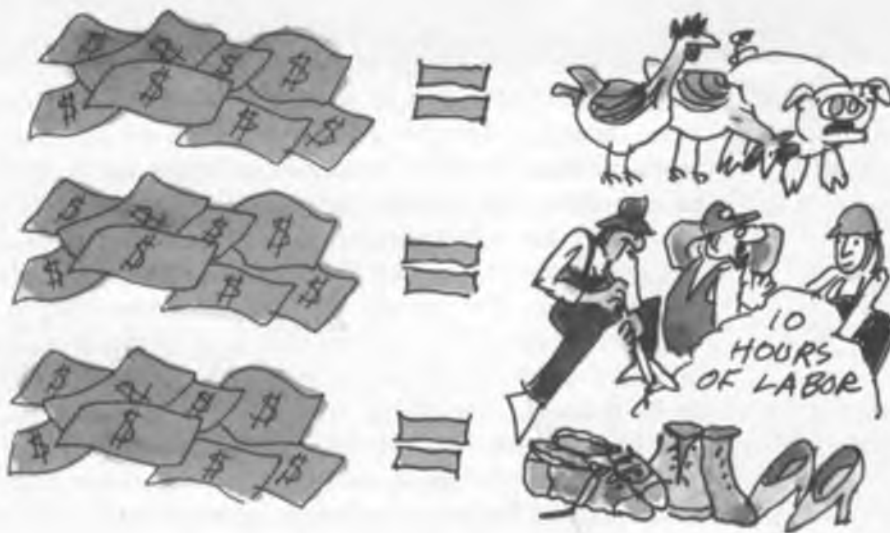
Bartering works when you have something that someone else is willing to trade for.

Money is better than swapping for a number of reasons. In the first place, money is accepted by people in exchange for goods and services. Therefore, it serves as a **medium of exchange**. Before it can do that, however, it has to be accepted by the people in the society. They have to believe in its value or it won't become a medium of exchange.

Paper money and coins, which together are called **currency**, are a common form of money. They are a medium of exchange in most

countries because they are accepted for their value. You will accept paper money or coins for your work, for example, in a sports equipment store. That's because you know you can go down the street and buy those shoes or that stereo with the same currency. You might not want to work in the sports equipment store if you could receive only sports equipment for your work, which could happen in a barter system.

A second reason why money works better than bartering relates to value. You remember that in a cave society, jewelry was not considered as valuable as tools. How do you determine what the jewelry is worth? That's where money can be very helpful. In determining the value or worth of one thing in relation to another, money becomes a **standard of value**. The jewelry is worth so much money. The tools are worth this much money. Money has become the common standard of value. And it's much easier to compare values by looking at price tags than by comparing one item to another.



Money is a standard of value. It is used to compare the values of different items.

Our standard of value is the dollar and all the coins, like pennies and nickels, that are part of the dollar. Other currencies serve the same purpose in other countries. Goods and services are valued in terms of roubles in the Soviet Union, pesos in Mexico, and francs in France. What the money is called or how it looks doesn't really matter. What matters is that it is accepted as a medium of exchange and a standard of value within that nation.

There is a third important function that money serves, which bartering cannot. In some tribal societies, cattle were swapped for other things. But cattle grow old, and as they grow old they are usually worth less. Eventually, they die. It wouldn't be very useful, then, to save cattle as a means of increasing your future purchasing power. Money, on the other hand, can be stored or kept for later use. It has a **store of value**. By itself it is worth something. It can increase your worth or value.

THE TESTS OF MONEY

Diamonds, beads, seashells, and gold have served as money in various societies. In practically all of the world today, paper currency and coins are common kinds of money. Despite this acceptance, all these different kinds of money must meet certain tests.

The seashells from which American Indians made wampum were scarce. Because they were scarce, they were valuable. There was more demand than supply. To be used as money, an item must be scarce. If the supply of an item is unlimited, or overly plentiful, it loses its value. Thus, it could not very well serve as money or as a store of value since it would have little worth. People would lose faith in its value as a medium of exchange. Dollars are accepted as money in our society because they are scarce. If dollars were relatively unlimited, they might not be accepted in exchange for goods and services. The money would be inflated. There might come a time when people would say, "It isn't worth the paper it's printed on." If something serving as money becomes too plentiful, it ceases to be money.

In addition to its relative scarcity, money must also be accepted. People have to be willing to take it in exchange for goods and services. Before accepting it, they must have faith that the item used as money has value and will continue to hold its value. If they don't believe in their money, they may try something else like gold or diamonds. To be valuable, money has to be accepted.

Finally, money must be durable and convenient to use. Of course paper wears out, so the government has to destroy worn-out paper money. Fruits and vegetables would not make good money because they are not durable. An iron bar is pretty durable — but it's certainly not convenient! Coins and paper money serve well enough. They are convenient and long-lasting or can be easily replaced. They help to make and keep money valuable.



Even teeth have been used as money. These are from the Solomon Islands.

In the past, furs and other animal skins have been used as a medium of exchange. How well do they meet the three tests of money?

CHECKBOOK DOLLARS

Currency makes up only about 20 to 25 percent of the total money supply in the United States. The remaining 75 to 80 percent of the money supply is made up of **checkbook dollars**, the money that people have in checking accounts. So checking accounts are our major source of money, with bills and coins playing a lesser part. Individuals, families, businesses, and even governmental departments and agencies use checks to pay most of their larger bills. In practice, they do not draw out cash to pay bills. Rather, they write checks for the particular amount of the bill. Even for an amount of less than a dollar, most businesses and governmental agencies will write out a check.

Many people deposit checks for their wages and salaries directly into their accounts. Then they buy groceries and make rent, telephone, utility, and car payments by check. Most need a certain

amount of currency to meet daily expenses for such things as lunches, transportation, newspapers, and other small purchases. But the total amount of goods and services paid for by currency is much less than that paid for by check. Payments by check are estimated to outnumber payments by currency nine to one.

Checking account balances are real money because they represent total amounts of dollars and cents. Furthermore, that money is readily available for transfer to another party.

Checking accounts also meet the four tests of money. People do not have unlimited amounts in their checking accounts. In other words, there is a relative scarcity of funds in the account balances. Checks are acceptable as a means of payment, especially if the receiver believes that there is enough in the account on which the check was written. Checking accounts are convenient. The depositor does not need to carry around all that currency but instead needs only a checkbook. Checks are durable. They will last a long time.

We pay with checks more often than we pay with cash.



Checking accounts also meet the functions of money. In the first place, checks are used as a medium of exchange. Too, checking accounts use dollars and cents as the standard of value, just as our paper currency and coins are valued in dollars and cents. Finally, the balance in the checking account is an indication of wealth or store of value.

Why do you suppose so much of our money supply is in checkbook dollars?

BACKING UP OUR MONEY

In the early days of our country, gold, silver, and even nickel backed up our money. When coins were made of gold, silver, copper, and nickel, the metal in them had a value close to that marked on the coin. A silver dollar was worth a dollar in silver. The coins could be, and sometimes were, melted down. Then they could be sold for just about the value marked on them.

Similarly, paper money was backed up by gold and silver. Obviously a hundred-dollar bill was not made out of materials worth \$100. But enough gold and silver was stored in various places in the country to match the amount of paper money that had been printed. Of course in those days there weren't as many people around, and therefore not as much money was needed. Even as recently as the 1930's, a citizen could turn in paper money to the United States Treasury for the exact amount in gold or silver.

As time went on, backing money with gold and silver was not really necessary. People would accept paper and coins without such support. Today our coins are not made up of metals that are worth the value of the coins themselves. Our paper money is not backed up by storehouses full of gold and silver. Gone are the days when you could exchange one of your bills for gold or silver in the United States Treasury.

The financial institutions that handle checking accounts don't store gold and silver either. If they did, they'd have to have much larger vaults. They don't even keep enough currency on hand to equal the balances in all accounts. Banks are required to keep only a certain percentage of the money in all accounts, such as 20 percent, on hand. The banks determine from experience how much currency is likely to be withdrawn from accounts. They keep that amount of currency, plus somewhat more, to support the checking accounts. In



Our money is backed up by our faith in the economy.

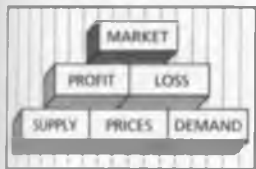
the final analysis, our money is backed up by our belief in the soundness of our economy. And the value of our money is based on what it will buy in the way of goods and services that are offered throughout the economy.

SUMMARY

Most of the time we take money for granted. It is certainly easy to spend. We don't appreciate that it is a medium of exchange, a standard of value, and a store of value. Not just anything can serve as money. In fact, money should be limited in some ways or be scarce. Also it should be acceptable to users, convenient to use, and durable in nature.

Although we think of money in terms of coins or bills, the most popular kind of money is checkbook dollars. Over 75 percent of the money supply consists of checking accounts. We conduct a major share of our business with checks. And most of our money is not backed up by gold and silver. Instead, money holds its value because of the faith we have in our productive ability, our institutions, and our economic system.

BUILDING WORD POWER



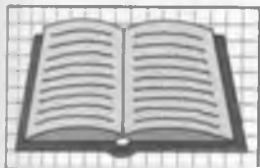
Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 6. Then write the term that best matches each numbered definition.

barter
checkbook dollars
currency

medium of exchange
standard of value
store of value

1. Paper money and coins.
2. Something that is used as a base for determining the value or worth of one thing in relation to another.
3. The money that people have in checking accounts.
4. Something that can be stored or kept for later use and by itself is worth something of value.
5. Something that is accepted by people in exchange for goods and services.
6. The exchange between people of goods and services for other goods and services.

BUILDING READING COMPREHENSION



1. Why is bartering difficult?
2. What determines whether something used as money is a medium of exchange?
3. What is a common form of money used today?
4. What is our standard of value?
5. What features must an item have to be used as money?
6. Why are checking accounts considered to be real money?
7. How do checking accounts meet each of the four tests of money?
8. What percentage of our total money supply is made up of currency? of checkbook dollars?
9. Even though we do not have enough gold and silver to back up our money, why are coins and paper money still accepted?
10. What actually determines the value of our money today?

BUILDING BUSINESS CONCEPTS



1. What kind of barter system did the serfs of the Middle Ages have?
2. List three forms of bartering that we have today.
3. Give three reasons why using money is better than swapping.
4. List three requirements for keeping money valuable.
5. What would happen to the value of our money if our money supply were unlimited?
6. Why do people sometimes invest money in paintings or other valuables instead of storing money?

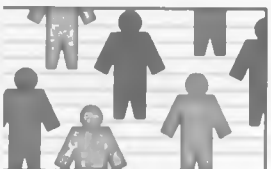
7. How do checking accounts meet the functions of money?
8. Why are checks easier and safer to use than money?
9. Why don't banks store all the money in the customers' accounts?
10. What would happen to the value of our money if people lost faith in our economic system?

BUILDING BUSINESS EXPERIENCE



1. The American Indians used seashells to make wampum and used it as a medium of exchange. Do you think wampum could be used as a medium of exchange today? Explain.
2. Today our currency is not backed up with gold and silver. Why is this no longer necessary? What do you think would happen to our money supply if we had to have gold and silver equal to our money supply?
3. Comment on the statement "We would not produce as many goods and services if we relied on bartering instead of the use of money." Give reasons why you believe this statement is true or false.
4. Different nations have their own currencies. How do the currencies help nations trade goods and services?

BUILDING COMMUNICATION SKILLS



Have a Barter Day with your class tomorrow. Think of something you own that you no longer want or need. Bring the item or items to school to barter or trade with the other members of your class. For this one class period, money does not exist. You are back in the days of bartering one good for another. You and the other members of your class will be trying to get the best deal for your item or items. What factors determine whether or not an item is successfully traded? Discuss the advantages and disadvantages of the barter system with the other members of your class.

7. How do checking accounts meet the functions of money?
8. Why are checks easier and safer to use than money?
9. Why don't banks store all the money in the customers' accounts?
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BUILDING BUSINESS EXPERIENCE



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People in Business

Katherine Ortega

When United States Treasurer Katherine Ortega graduated from college, she had planned to be a high school typing and shorthand teacher. The chairman of the Business Department at her college told her that she probably would not get a job in her home state, New Mexico, because she was Hispanic.

"I forced myself to look at these discriminations as unfortunate instances that must be gotten around," says Mrs. Ortega. "Everyone encounters obstacles. I tell people if one road is closed take another."

After she was told she could not get a job as a teacher, Mrs. Ortega went to work for her sister, a CPA, and became a CPA herself, eventually going on to work for one of the eight largest accounting firms in the country.

Ortega recalls that "once, in California, I applied for work with a prestigious accounting firm. I was offered the job, but not the pay I wanted. Well, I took it. I saw that job as experience that was more important than the pay. That job ultimately opened other doors."

The doors did finally lead to a position as a vice president at the Pan

American National Bank of Los Angeles. Following that, Katherine Ortega became the president of the Santa Ana State Bank, the first woman president of a bank in California.



Mrs. Ortega went on to become one of ten members of the President's Advisory Committee on Small and Minority Business and then one of five commissioners on the Copyright Royalty Tribunal. On September 12, 1983, she was nominated to the post of United States Treasurer by President Reagan. Ten days later she was confirmed by the Senate and sworn into office by the Secretary of the Treasury. Her signature now appears on all dollar bills newly issued by the United States Treasury.



CHAPTER 26

Banks and Banking

- Most of us think of banks as places where we put money in and take money out. At any rate, they have to do with money. But we don't think of them as businesses. Why not?
- If you have a savings account, you know you can earn money on it. Perhaps you can earn money on your checking account, too. Where does the bank get this money to pay you?
- You could get a car loan at a bank. Where else could you get such a loan? Why would you shop around for a loan rather than going to the bank where you have your savings or checking account?

Do you know what these terms mean?

commercial bank	withdrawal
Federal Reserve System	interest
Federal Deposit Insurance Corporation	NOW account
deposits	mortgage
demand deposit	line of credit
time deposit	bonds

You'll learn all about these terms in this chapter.

On a business street in your community, you'll find stores offering goods and services. The scene will be similar in communities anywhere in the country. The businesses provide goods and services for a price and at a profit. A music store sells records, tapes, stereo equipment, and musical instruments. A department store sells everything from clothing to paint and garden tools. A dry cleaners provides dry cleaning service.

Similarly, a bank on that street is a business. A bank doesn't have a product. It sells many different kinds of services, all involving money in one way or another. And a bank makes a profit, too, on the services it provides.

As a nation we have become very dependent on the services of banks for conducting business transactions. Without them we would find it extremely difficult to carry out the many exchanges of goods and services not only in our country but with the rest of the world. Banks play a very important part not only as places for saving money but also in making it easier to use money to do business. Let's look at the best-known kind of bank and see how it operates.

COMMERCIAL BANKS

A **commercial bank** is a bank that provides a wide range of banking services. As a matter of fact, it is often called a *full-service* bank. As its name suggests, a commercial bank is a business, and in many ways starting a bank is like starting a corporation. People decide that a bank is needed in a particular area and then apply for a charter. The charter can be granted by either the state or the federal government. If the charter comes from the federal government, the bank is a national bank. It must have the word *national* in its name. Banks whose charters come from state governments, however, need not contain the word *state* in their names.

The state and federal governments do not own the banks. However, they do set up rules and regulations that the banks must follow in order to keep their charters. All national banks must belong to the **Federal Reserve System**. This is like a big national bank with branches in many of our leading cities. The Federal Reserve System provides services to member banks. It controls and regulates the flow of money, not only in the member banks but throughout the country as a whole. The Federal Reserve System makes sure that banks operate properly within the established rules and regulations. Many state banks also belong to the Federal Reserve System, although their membership is not required.

Banks have more rules and regulations than most other businesses. There are a number of reasons for this. During the Depression of the late 1920's and early 1930's, many banks failed. There were few controls on banking and, as a consequence, many people, as well as businesses, lost a lot of money. The federal government decided to set up agencies to regulate banking operations in the national interest. Banks are in a special position of trust and responsibility, since they are handling other people's money. The rules and regulations that were established by the government were set up to protect those who use banks.

One example of the kind of protection now required of banks is insurance. The federal government requires that nationally chartered banks must insure each account for up to \$100,000. The government agency that handles this insurance program is the **Federal Deposit Insurance Corporation (FDIC)**. When you see the initials FDIC, you know the bank is covered by insurance. Most state banks also carry FDIC insurance.



FEDERAL DEPOSIT INSURANCE CORPORATION

This symbol tells you the bank is covered by FDIC insurance.

Suppose an FDIC-insured bank failed. What do you think would happen to the money you had in it?

COMMERCIAL BANK SERVICES

You have heard a commercial bank described as a full-service institution. The most obvious services such a bank provides are savings and checking accounts. Other services you might use only once in a while. Businesses need certain special services from banks. Most commercial banks can help you handle practically anything of a financial nature. Let's now look at some of the services these banks provide.

Taking Deposits

Despite the problems banks had before and during the Great Depression, people still regard them with considerable trust. They are thus willing to put money into accounts held by the banks. In fact, one of the primary services of a bank is the acceptance of **deposits**, or sums of money placed in accounts. The bank then is the keeper or guardian of the people's money.

There are two kinds of deposits. One is the kind you put into a checking account. A checking account deposit is called a **demand deposit** because you can get the money in your account right away, on demand. In fact, it is almost like having currency. But instead of your carrying all of it around, a financial institution keeps your money and pays it out as directed. You deposit money in the account and then write checks, or demands, against the deposited money. Later the bank subtracts the amounts written on the checks from your account when the checks are presented to the bank for payment.

A deposit that is left with a bank for a fairly long time is called a **time deposit**. This is the second major kind of deposit, and it is typical of a savings account. Still another reason why it is called a time deposit is that it may not be given right away or on demand. When you take money out of an account, you are making a **withdrawal**. You may not be able to withdraw money immediately on a time deposit.

Suppose you have \$100 in a savings account and you go to the bank to withdraw it. The bank does not legally have to give you the money right away. If it is a relatively small amount, such as \$100, the bank probably *will* let you withdraw it. But when the amount is quite large, you may have to wait a day or two.

The banks actually owe money in the case of demand and time deposits. It may sound unusual, but look at a bank as you might look



Accepting deposits and giving withdrawals are two services of a bank.

at a private individual. If you give a person some money to keep for a period of time, that individual actually owes you the money. You expect to get it back at a later time. The same is true with a bank. You give the bank a deposit, expecting the deposit back in time because it is "owed" to you.

There are two primary differences between the traditional savings and checking accounts. You can write checks against a check-

ing account. You cannot write checks against the traditional savings account. A second difference concerns the amount of money one can earn from both kinds of accounts. A savings account earns money, called interest. **Interest** is the price banks pay for the use of the depositor's money. In effect, depositors lend their money to the bank. The bank uses that money to make loans. Unlike the savings account, the traditional checking account does not earn interest.

New developments in the banking industry have blurred the differences between the savings and checking accounts, however. Some banks have set up an interest-bearing account on which one may draw checks. This account is called a **NOW account** (for negotiated order of withdrawal). In other words, the account serves as both a savings and checking account. There are usually some restrictions. One of these is that a minimum balance be kept in the account. The amount required can be adjusted by the bank.

Transferring Money

Another major service of banks is the transferring of checking account money from one party to another. Let's look at an example. If you take a check for \$50 to the bank and cash it, you'll get \$50 in currency in any form you want it. Suppose the \$50 were wages from the restaurant at which you work. The amount of \$50 is subtracted from the checking account of the restaurant.

Most transfers of checking account money, though, do not result from cashing checks. Rather, the transfer involves some changes in two accounts. Suppose you receive a \$50 check from the Pilgrim Restaurant and decide to deposit the check into your account instead of cashing it. The bank increases your account balance in the amount of \$50. In a short while, the bank that has the Pilgrim Restaurant account will *decrease* the balance in it also in the amount of \$50. Cash, in the form of coins and bills, does not change hands. Instead, money is transferred from one account to another account.

Many transfers of checking account money from one account to another are being done electronically today. Computers are used for *Electronic Funds Transfer (EFT)*. For example, the \$50 from the Pilgrim Restaurant could be deposited directly into your account through a computer. The bank subtracts the \$50 from the restaurant's account and adds the \$50 to your account. You receive a receipt, instead of a check, from the restaurant showing the amount deposited to your account. EFT provides faster and cheaper service

by eliminating the need for checks and the paperwork required to process them.

Making Loans

A third major service of banks is to make loans, which are a primary source of income for them. The borrowers who receive the loans must pay an interest charge, which is like a rental fee, for the money. The interest earned on loans goes to pay bank costs and expenses — and to earn a profit.

There is an interesting relationship between taking deposits and making loans. According to regulations, banks must keep a certain percentage of deposits on hand. They can lend out the rest. Through experience the banking business knows how much money *on an average* will be withdrawn at any given time. All of the money in the bank will not be demanded at once. On the rare occasions when that happens, there is said to be “a run on the bank.” People have lost their faith in the bank and its operations and want their money back. Fortunately that has happened only under extremely unusual circumstances.

Although rare, we still have runs on banks today.



Find out if anyone in your family remembers a time when there was a run on the banks in your community. What effect did it have on the depositors?

In general practice, it works like this. You deposit your \$50 check in your savings account. Suppose the bank is required to keep 20 percent of the deposit on hand, or \$10. They then can lend the balance of \$40.

The money you deposit in a bank thus assists others in getting loans. In other words, your deposit can be used for loans to help consumers, businesses, or groups of people to buy the goods or services they want. There are different kinds of loans, varying in their purpose and the period of time for repayment.

Personal Loans. A personal loan is a loan made to an individual for a variety of reasons. A common reason for a personal loan is to purchase a car. Others may be to finance a vacation, do some major home repairs, or pay some bills. Generally the period of repayment on a personal loan is a few months to several years.

Business Loans. Businesses, including farms, go to banks for loans for somewhat different reasons than do individuals. Sometimes business loans are made for the purchase of equipment or machinery. An airline may go to a bank or a number of banks to get loans to buy airplanes. A store may obtain a loan to purchase goods that will be sold later. After the items are sold, the loan is paid back. Business loans can run for very short or very long periods of time, depending on their purpose. For instance, some businesses, like a ski lodge, get all of their income at one time of the year. But they may have expenses all year long. So they go to a bank for a short-term loan to tide them over until their big income period comes again.

Mortgage Loans. Homes, office buildings, manufacturing plants, and even skyscrapers cost very large sums of money. Most people, including businesses, have to get a special loan called a **mortgage** to purchase such buildings. Mortgage loans are made for both the construction and purchase of buildings and other large projects. Mortgage loans on homes are usually made to individuals. Because of the large sums of money involved, repayment of mortgage loans may extend for a period of 20 to 30 years.

Line of Credit. A bank can arrange for customers, either businesses or private individuals, to get a certain amount of money, or **line of credit**, on call and as needed. Suppose your bank extends you a \$1,500 line of credit. You can use all or a part of that amount at one time. You can also use it for any purpose.

Other Bank Services

Certainly taking deposits, transferring checking account money, and making loans are the three most important services banks provide. But there are other services. Some banks provide financial advice to their customers. An individual or an entire department may be set up to give this assistance. Some people need help in planning a budget or living within their incomes.

Banks also provide locked vault boxes for customers to store valuables. These *safe deposit boxes* are rented from the bank and are usually located in a vault that may itself have a guard or a locked door. Each locked box has two different keys, one of which is held by the bank. It takes both keys to unlock the box. If you lose your key, the finder cannot go to the bank and open your box. The identity of a person is always checked against bank records. In safe deposit boxes you can keep such things as jewelry, stock certificates, birth certificates, insurance policies, and other valuable papers.

Sometimes people want a special program for investing money or handling their property. A bank's *trust department* provides the services of advising on and managing such programs. It may decide how and when to invest a customer's money in stocks and bonds. Naturally the department gets a fee for providing such services.



Many banks provide a variety of services.

There are a variety of other services commercial banks provide. They sell government **bonds**, loans of money to the government on which interest is paid to the owner. In addition, banks sell traveler's checks, which are special checks used instead of money. They also issue credit cards, such as VISA and MasterCard, and provide links to brokerage firms for the buying and selling of stocks and bonds. A

commercial bank indeed has a wide range of services, most of which involve money in one way or another.

Other than the services listed above, what services are offered by the banks in your community?

OTHER FINANCIAL INSTITUTIONS

Commercial bank services, as you have seen, range from providing checking and savings accounts to giving financial advice. Other financial institutions offer many of these same services, although they tend to specialize. *Mutual savings banks* specialize in savings accounts. A major service of mutual savings banks is giving mortgage and home-improvement loans. *Savings and loan associations* handle over 80 percent of all home mortgage loans. They tend to offer slightly higher interest rates on savings accounts than do commercial banks.

Because of changes in regulations on financial institutions, the differences between commercial banks and savings banks have lessened. Mutual savings banks and savings and loan associations are allowed to offer many of the services once provided only by commercial banks. For example, many savings and loan associations and mutual savings banks now offer NOW accounts with check-writing privileges. Some even offer credit cards.

Some organizations specialize in the personal loan. A *credit union* is made up of individuals who work for the same company or community organization. After buying a share in the credit union, often no more than a deposit of \$5, a member may apply for a personal loan. Credit unions make loans for the purchase of automobiles and furniture, for paying bills, for taking vacations, and for other consumer needs. The accounts of the members are the source of money for loans. With new legislation, credit unions can make some special types of mortgage loans. They also can offer credit cards.

SUMMARY

Banks and other financial institutions are a necessary part of our economic system. They provide services essential for our economy to work. Like shoe stores, restaurants, and dry cleaners, banks

are businesses. They provide services that both businesses and individuals need. If they are successful as businesses, they make a profit.

Banks take deposits and set up savings and checking accounts. They arrange for the transfer of money from one checking account to another by means of checks and EFT. They make loans to individuals and businesses for many purposes. They provide advice and help in investments. Savings banks, savings and loan associations, and credit unions specialize in providing a wide range of financial services. Together with commercial banks, they provide the overall service of making our money work for us.

BUILDING WORD POWER



Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 12. Then write the term that best matches each numbered definition.

bonds	interest
commercial bank	line of credit
demand deposit	mortgage
deposits	NOW account
Federal Deposit Insurance Corporation	time deposit
Federal Reserve System	withdrawal

1. A deposit that is made to a checking account and can be withdrawn at any time.
2. The removal of money from a bank account.
3. A special loan made for the construction or purchase of buildings or other large projects.
4. Loans of money to the government that earn interest for the owner.
5. A financial institution that is often called a full-service bank because it offers a wide range of services.
6. The government agency set up to handle insurance of bank deposits.
7. A bank deposit for which a waiting period may be required for withdrawals.
8. An agency that provides services to member banks and controls and regulates the flow of money.
9. The price or fee paid for the use of money.
10. A certain amount of money that a bank will arrange for customers to borrow on call or as needed.
11. Sums of money in bank accounts.
12. A savings account with a check-writing privilege.

**BUILDING
READING
COMPREHENSION**

1. Why is a commercial bank referred to as a full-service bank?
2. Why did the federal government decide to set up controls on banks and banking?
3. How much insurance must a national bank carry for each customer's account?
4. What are the two kinds of deposits? How do they differ from each other?
5. What are the three primary services that a bank can offer its customers?
6. What is a primary source of income for a bank? Explain how this works.
7. What is "a run on the bank"?
8. What is a personal loan? Give three reasons for getting a personal loan.
9. List three other services, besides the three major ones, furnished by commercial banks.
10. What is a credit union? What is the difference between a credit union and a savings and loan association?

**BUILDING
BUSINESS
CONCEPTS**

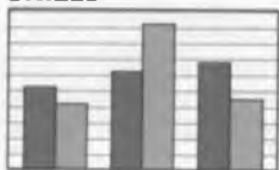
1. How does a bank get started or come into being?
2. The Spencers have an account in the amount of \$103,000 at a state bank. The bank carries FDIC insurance. If the bank failed, how much money would the Spencers be assured of getting from the insurance?
3. Banks pay depositors for leaving their money in savings accounts. Why do banks do this?
4. Why are banks considered to be debtors to depositors?
5. What is the difference between a NOW account and a savings account?
6. What are two differences between traditional savings and checking accounts?
7. You receive a check from your employer, Barnett's Food Stores, and you deposit the check in your account at the bank. What will happen to your account? to the Barnett's Food Stores' account?
8. Banks are businesses set up to earn a profit. Name four things a bank can do to increase its profit.
9. List four types of credit provided by commercial banks to their customers.
10. Savings accounts are offered by several types of financial institutions. What should you consider before choosing where to open a savings account?

BUILDING BUSINESS EXPERIENCE



1. Could our society survive without banks and the banking system? Why or why not?
2. Interview an adult about his or her bank and its services:
 - a. Does his or her bank belong to the FDIC?
 - b. Is the bank a state or national bank?
 - c. What kinds of accounts does this person have?
 - d. Which of the bank's services does he or she use?
 - e. Does this individual belong to a credit union? For what reasons did he or she decide to join or not to join the credit union?
3. What do you think would happen if everyone decided to take his or her money out of the banks?
4. One of the services offered by a bank is the trust department. Why might you choose to let the trust department of your bank advise and manage the investing of your money?
5. Why might we as a nation be moving to a checkless society?

BUILDING MATH SKILLS



Leigh has been saving money to buy a new bicycle that costs \$139.95. Leigh has the following amounts of money saved:

<i>Quantity</i>	<i>Bill or Coin</i>
1	\$10.00 bill
3	5.00 bill
21	1.00 bill
7	.50 coin
45	.25 coin
92	.10 coin
117	.05 coin

1. How much has Leigh saved?
2. How much more money will Leigh need to save to have enough to buy the bicycle?
3. If Leigh can save \$3.25 per week, how long will it take her to save this money? Round your answer to the nearest full week.

Careers in Business

Public Relations Worker

Organizations from political parties to schools, from hospitals to businesses, use public relations workers to affect the way people think about them. Without good public relations, the very existence of an organization can be threatened. Public relations, or PR, workers put together information that keeps the public aware of the organization's policies and accomplishments. Public relations is not only "telling the employer's story," however. Keeping management aware of the public's attitudes and improving communications are also important parts of the job.

Public relations workers handle publicity for the organization. Many radio or television announcements, special reports, newspaper items, or magazine articles begin at the desks of public relations workers. Public relations workers write speeches for management and set up programs and events for the company officials to meet with the public. Public relations workers often work under tight deadlines and are constantly called upon to generate new ideas.

Most public relations workers major in journalism, communications, or public relations in college. Many of them first work in other areas of the communications industry, such as newspapers, television, radio, or advertising. Many employers also will hire people who have had training in the field related to the business, such as engineering or finance. A strong background in English, an outgoing personality, and the ability to work under pressure are all necessary for a successful career in PR work.





CHAPTER 27

The Checking Account

- We use checks, as you know, for about 80 percent of the activities involving an exchange of money. "Write a check" has become a common phrase. Why do you think this is so?
- Banks, like other businesses in our economic system, are in competition with one another. They offer a variety of checking accounts to satisfy their customers. As an eventual or actual customer, what features do you want?

Do you know what these terms mean?

forge	check stub
service charge	deposit ticket
automatic transfer plan	endorse
signature card	blank endorsement
joint account	restrictive endorsement
check register	full endorsement

You'll learn all about these terms in this chapter.

If people couldn't use checking accounts, it would be very difficult to do business. Did you ever stop to think what would happen to our activities if we couldn't use checks? More coins and bills would have to be carried around by people to buy goods and services. And more currency would have to be stored in homes and businesses in order to conduct activities. It would be very awkward.

People in this country have come to take checking accounts for granted. When we do use cash, it's usually for small purchases. There are over 95 million checking accounts for individuals, businesses, and organizations. Why are checking accounts so popular? Let's look at some reasons that make the checking account a common and acceptable way of doing business.

THE ADVANTAGES OF CHECKS

People use checks for a variety of reasons. For one thing, a checkbook is usually safer than currency is. If someone steals your currency, there's little chance you'll get it back. On the other hand, a stolen checkbook will do a thief little good. The bank will not accept your check without your signature. A thief could try to forge, or fake, your signature and cash the check. But that would work only if the signature were very similar to yours. And this could happen only if the thief knew what your signature looked like. Banks are always on the lookout for forged checks. So if you do lose your checkbook, report it to the bank as soon as possible.

Checks are safer than currency in yet another way. You probably will make payments on bills through the mail. If you send a check through the mail and it is lost, no one except the party named in the check can cash it. Another check can be issued to pay the party. If you mail money and it's lost, it's lost. That's why it's not a good idea to send money through the mail.

Checks have other advantages over currency. Suppose you write a check to Bicycle World for fixing your bicycle. The shop will then cash your check. Eventually the bank will return it to you, after deducting the amount of the payment from your checking account. If Bicycle World later questions whether you have paid the bill, the returned check is your proof that you have. Had you paid with cash and failed to get a record of it, you would not have any proof of payment. However, a check that has been processed by the bank is a legal record of payment. A check not only is safe but also provides a permanent record.

Have you ever had a situation in which using a check as proof of payment might have been helpful in solving a problem?

Recordkeeping as a whole is generally easier when using a checking account. For instance, you may have a budget for spending your income. It would be handy if you had a record of how much you spent on food, clothing, rent, the telephone, and other things. If you were to use cash to pay these expenses, you would need to keep all of your receipts. Paying them by check, on the other hand, provides a form of recordkeeping.

Checks are useful in other ways. If you paid all of your expenses with bills and coins, you would probably have to carry a lot of currency around. Carrying currency for everything, especially for large purchases, is not always convenient or safe. But checks can be written for as much or as little as you need, up to the amount that you have in your checking account, of course.



Checks can be a lot more convenient to use than currency.

TYPES OF CHECKING ACCOUNTS

Because checks are so useful, it's not too surprising that you have a choice of types of checking accounts. Some offer advantages that others do not. There are also considerations about the cost of operating accounts. When you go to a financial institution to open an account, find out what kinds are available. An official will be glad to explain the advantages of one type of checking account over another. In addition, ask parents and friends what their experiences have been. As you would with anything else you buy, shop around and compare.

The Regular Checking Account

If you're going to write a large number of checks each month and intend to keep a fairly high balance, a regular checking account may be your answer. Banks may require that a balance of \$500 or more be kept in a regular checking account. If the balance is not kept, a service charge is deducted from the account. A **service charge** is a fee for the paperwork the bank does in recordkeeping and in maintaining the account. It may be a flat fee, such as \$5 to \$7 per month. Or the fee may be charged against each check you write and may amount to 10 or more cents a check. Occasionally the service charge may include both types of fees.

Regular checking accounts sometimes are available without any minimum balance requirements or service fees, although this is becoming more uncommon. These advantages may be offered simply to attract customers. After all, the bank has many other services besides checking accounts. If a bank does not charge service fees to operate an account, it may increase other fees to make up for it. For instance, the rental fee for safe deposit boxes may be higher than it is at other banks. There are going to be costs for the bank to handle checking accounts, and they must be paid somehow. In any case, you will want to compare the costs of having a checking account with various banks.

The Special Checking Account

The special checking account is for those who write few checks each month, perhaps less than fifteen. In addition, a lower balance than for a regular checking account is permitted. Many times no



A checking account makes doing business easier.

minimum balance is required. There is considerable variation in the service fees charged by banks to handle these accounts. However, the fees generally are less than they are for a regular checking account. A special checking account may be to your advantage if you intend to use checks sparingly.

The Automatic Transfer Plan

Some banks offer a plan to people who have both checking and savings accounts in the bank. All deposits are placed in the savings account to earn interest. The checking account always carries a zero balance. When the depositor writes a check, the amount is subtracted from the savings account and transferred to the checking account for payment. Hence the name of this type of account is **automatic transfer plan**. The total balance on hand — in the savings account — is always earning interest. Generally such a plan is available only to those who have large account balances. Here again service fees vary from bank to bank. Many charge for each transfer of funds from the savings to the checking account. There may also be a flat monthly fee and a fee for each check that is processed.

The NOW Account

As you learned in the last chapter, banks offer NOW accounts, savings accounts on which checks can be written by the depositor. With this plan, a depositor can write a negotiable order of withdrawal, a NOW, transferring funds from his or her account to pay another party. The advantage of the NOW account, like the automatic transfer plan, is that the balance in the account is always earning interest. Most mutual savings banks, savings and loan associations, and commercial banks offer NOW accounts or Super NOW accounts. Super NOW accounts generally pay a higher rate of interest than NOW accounts, but a higher minimum balance may be required.

Do banks in your area offer either the automatic transfer plan or NOW account? Do you know anyone who uses either type of account?

The Share-Draft Account

Share-draft accounts are offered by some credit unions. A savings account in a credit union is called a share account because each member actually owns shares in the credit union. Now some credit unions permit a type of draft or transfer of money, similar to a check, from a share account to another party. Share-draft accounts in this way are similar to NOW accounts and the automatic transfer plan. They make savings accounts more flexible by allowing a check-like transfer of funds from them.



There are many different types of checks and checking accounts available.

The Money Market Account

Many brokerage firms — those involved in buying and selling stocks and bonds — now offer checking accounts. These accounts are offered in conjunction with money market mutual funds, which are similar to savings accounts in that they earn interest. A check is written against the balance in the money market account. A minimum balance may be required for this account. Generally, there is no extra charge for using the check-writing service, but in some instances checks must be above a certain amount of money, such as \$500. The money market account is generally not insured by the FDIC.

Can you think of some brokerage firms that offer money market accounts? Do you have any in your community?

OPENING YOUR OWN ACCOUNT

Now that you have looked at the types of accounts available, let's follow the process of opening a checking account in a bank. Similar procedures are used by other financial institutions when opening accounts of a like nature. The first step is to fill out a **signature card**, the means through which a bank will verify your identity. A signature card requires your name and signature, home address and telephone number, and the name, address, and telephone number of your employer. The new accounts adviser will assign an account number to you.

Naturally, your signature is the most important part of the signature card. It is important to write your name as it will appear on your checks. Generally a middle initial is requested. The bank may check your signature card when a check comes in bearing your

Sign the signature card exactly the way you will sign your checks.

<input checked="" type="checkbox"/> Checking <input type="checkbox"/> Savings		Personal Account	
<input checked="" type="checkbox"/> Individual <input type="checkbox"/> Joint		Account Number <i>421-067-1</i>	Date <i>5/15/--</i>
Account Title <i>Ruth Ling</i>			
Signature <i>Ruth Ling</i>		Signature	
Home Address (Include Zip Code) <i>20 Park Street</i>		Home Address (Include Zip Code)	
<i>Butte, Montana 59101</i>			
Social Security Number <i>0 3 2 3 2 2 7 1 2</i>	Date of Birth <i>8/28/65</i>	Social Security Number	Date of Birth
Citizen of (Country) <i>U. S. A.</i>	Birth Place <i>Butte</i>	Citizen of (Country)	Birth Place
Name and Address of Employer (Include Zip Code) <i>Mc Donald's Restaurant</i>		Name and Address of Employer (Include Zip Code)	
<i>Butte, Montana 59101</i>			
Home Telephone <i>725-5327</i>	Work Telephone <i>726-1842</i>	Home Telephone	Work Telephone
Identification <i>Montana Driver's License</i>		Identification	

name. If the signatures match, the check will be cashed. If they do not match, the bank will not make payment on the check. This is obviously a protection for you and prevents forged checks from being cashed.

Sometimes people want a **joint account**, with two people using the account. In this case both signatures must appear on the card. Either person, then, can write checks on the account.

You will want to decide what type of check you wish to use. Some banks provide checks with only your name printed on them. Such checks may be provided free of charge. On the other hand, if you want a really personalized check, you'll undoubtedly have to pay a printing fee. You can get your name, address, telephone number, and check number printed on a personalized check. Often personalized checks are worth their cost, because merchants prefer to cash such checks.

Another decision may be about the type of checkbook you want. One type has a kind of listing area, or **check register**, up front where you can record the checks you have made out and the balance in your account after each check has been written. The checks and deposit tickets follow the check register. Another type of checkbook has a **check stub**, a record portion to the left of or above each check. You simply pull out the check on the perforation and leave a written record on the stub. Either the check register or the check stub will provide a record of payment.

MAKING A DEPOSIT

When you open your account, you start out with a deposit. You complete a **deposit ticket**, an item-by-item record of the amount of money you want to put in. Let's start out with an actual step-by-step example. Ruth Ling opened an account and made a deposit. She had \$5 in currency, 75 cents in coins, and two checks — one for \$132 and the other for \$8. The steps she used to complete the deposit slip are as follows:

1. Ruth wrote her name, address, and account number where indicated. With a personalized checking account, the deposit slips would have Ruth's name, address, and account number printed on them. They are not available, of course, when she is opening the account.
2. Ruth wrote the date she was depositing the money.

3. She put the amounts of currency and coins in the correct rows. Then she listed each check singly, as requested on the slip. She wrote down both the amount of each check *and* the check number. This gives Ruth a more complete record and helps the bank process the deposit. Next she added the various amounts together and put \$145.75 opposite the word *Total*. Since she did not want to take anything out of the deposit, no amount was placed opposite *Less Cash Received*. The *Net Deposit* was thus \$145.75.

Do you want a checkbook with a check register or with stubs?

RECORD ALL CHARGES OR CREDITS THAT AFFECT YOUR ACCOUNT

Number	Date	Description of Transaction	Payment/Debit (-)		✓ T	Fee (If Any) (-)	Deposit/Credit (+)	BALANCE	
								\$	
	6/12	Deposit	\$			\$	\$ 145 75	145	75
101	6/16	Fenton Brothers Ltd. clothes	29	95				29	95
102	6/16	Di Gio's Market groceries	16	42				16	42
	6/19	Deposit					102 25	102	25
								201	80

CHECK REGISTER

101	\$ 29.95
June 16 19 --	
TO Fenton Brothers	
FOR	
BAL FOR D	145 75
DEPOSITS	
TOTAL	145 75
THIS CHECK	29 95
OTHER DEDUCTIONS	
BAL FOR D	115 80

CHECK STUB

CHECKING ACCOUNT DEPOSIT TICKET			
Second National Bank			
DATE <u>June 12</u> 19 <u>--</u>			
NAME <u>Ruth Ling</u>			
ADDRESS <u>20 Park Street</u>			
<u>Butte, Montana 59101</u>			
ACCOUNT NUMBER <u>4210671</u>			
CASH	CURRENCY	<u>5</u>	<u>00</u>
	COIN		<u>75</u>
CHECKS	<u>81-20</u>	<u>132</u>	<u>00</u>
	<u>47-20</u>	<u>8</u>	<u>00</u>
Total From Other Side			
TOTAL		<u>145</u>	<u>75</u>
Less Cash Received		<u>20</u>	
NET DEPOSIT		<u>145</u>	<u>75</u>

Ruth Ling's deposit ticket.

After making the deposit, Ruth recorded it in her check register. Here, too, she recorded the date of the deposit, and then put the amount of \$145.75 in the deposit column. Since this is a new account, she put the same amount in the balance column to indicate the current balance. It is always wise to place the amount of the deposit in the check register or on the check stub *at the time* the deposit is made. To do so later is possibly to forget the deposit and to wind up not knowing your current balance.

ENDORSING CHECKS

When Ruth made out her deposit slip, you noticed that she listed two checks. These checks were made out to her. Before depositing the checks, she must endorse, or sign, the checks on the back. The endorsement always includes the signature of the party to whom the check has been written. An endorsement is necessary for transferring a check to another party. Certain rules should be followed in making any kind of endorsement.

- Write the endorsement at the left back of the check.
- Write the endorsement in pen so that it cannot be erased.
- Endorse a check made out to you exactly as your name is written on the front of the check. If your name is misspelled on the front, the endorsement should include the incorrect

spelling, followed by the correct spelling. For instance, if Ruth Ling received a check made out to her as Ruth Long, that's the way she should endorse it, followed by the correct spelling, Ruth Ling.

Why must the spelling in the endorsement of the check match the spelling of the name on the front of the check?

Because her name was misspelled on the face of the check, Ruth had to endorse the check twice — once misspelled and once spelled correctly.

Kevin D. Tighe

076
93-177
921

DATE March 3 19 --

PAY TO THE
ORDER OF Ruth Long \$ 12.00

Twelve and $\frac{00}{100}$ DOLLARS

SECOND NATIONAL BANK
Butte, Montana 59101

Kevin D. Tighe

⑆0000737⑆ 275⑉197⑉8⑆ 078

Ruth Long
Ruth Ling

076
93-177
921

March 3 19 --

\$ 12.00

Kevin D. Tighe

DOLLARS

Types of Endorsements

There are three common types of endorsements. The **blank endorsement** includes only the signature of the party to whom the check is payable. The blank endorsement should be used only when you are actually in the bank ready to cash or deposit the check. A check with a blank endorsement can be cashed by anyone who has it. If such checks are sent through the mail and lost or stolen from you, they can easily be cashed.

However, a **restrictive endorsement** limits or restricts how the payment of money may be made. A common restrictive endorsement is "For Deposit Only," followed by the signature of the party to whom the check is payable. In using this endorsement, as she did in the illustration, Ruth intended to have the check deposited into her account. This type of endorsement could not be used for cashing a check. Now if a check with a restrictive endorsement is lost or stolen, no one can cash it. The endorsement clearly indicates that the amount of the check is to be deposited into Ruth's account. When depositing checks by mail, always use a restrictive endorsement.

A third type of endorsement, which includes the name of the party to whom the check is payable and the name of the party to whom the check is transferred, is called a **full endorsement** or *special endorsement*. Suppose that Ruth received a \$10 check payable to her. She owes Rhonda Cooper \$10 for doing some clothing alterations. Ruth could transfer the \$10 check to Rhonda by using a full or special endorsement: "Pay to the order of Rhonda Cooper, Ruth Ling." Before Rhonda could cash the check, she, too, would have to endorse it.

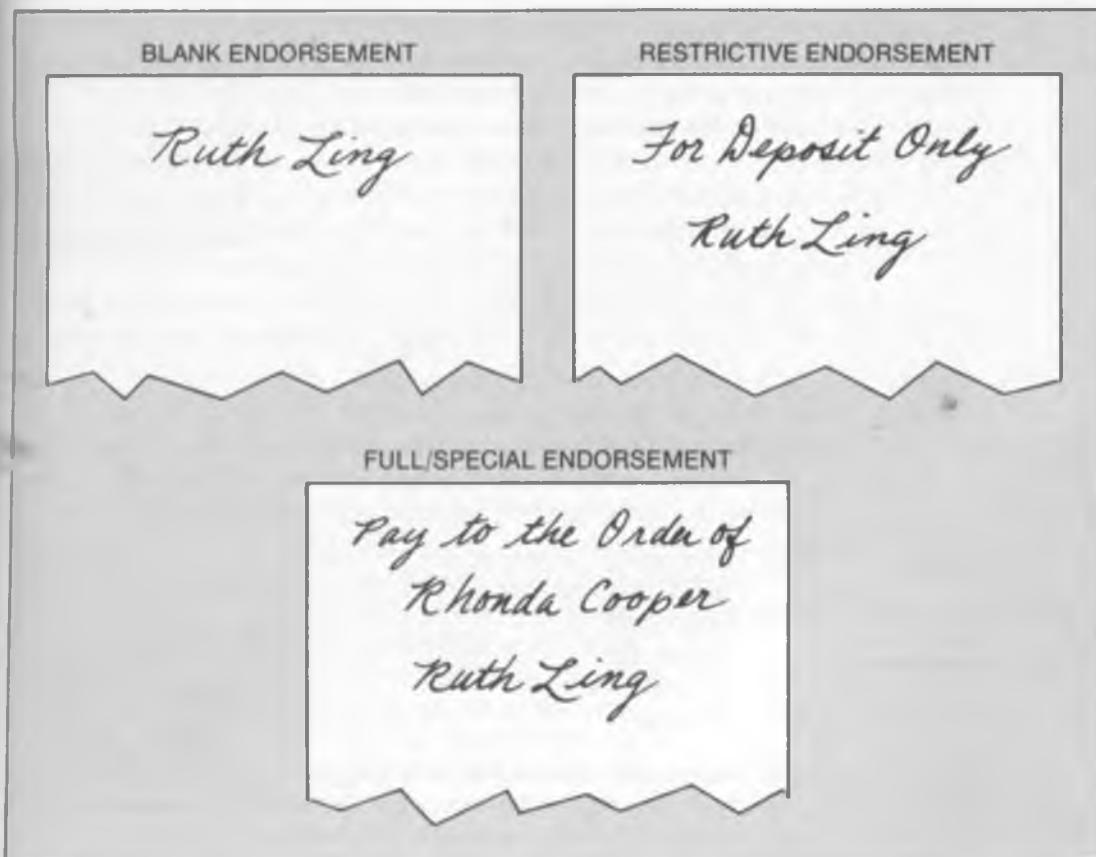
Purposes of Endorsements

The most important purpose of an endorsement is to permit the person to whom the check is payable to give instructions as to what is to be done with it. An endorsement is also legally necessary to transfer the check to another party. Finally, an endorsement means that the person who endorses the check stands behind it in case the next party to whom it is transferred cannot receive payment.

Suppose you receive a check payable to you for \$50. You cash the check at your bank, using a blank endorsement. Your bank finds *insufficient funds*, or not enough money in the account of the party who wrote the check. Your bank can then legally come back to you, the endorser, to collect the \$50. You will then have to try to collect

Types of e

SUM



Types of endorsements.

the amount from the individual who wrote the check. To begin with, you had better have some faith in the individual who writes you a check. Otherwise you're taking a chance that there will be insufficient funds, and no payment will be made to you.

Endorsements, as you have seen, can serve many important purposes. In many ways, your name and the instructions you put with it are the most important parts of the check.

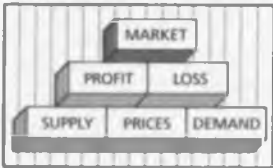
SUMMARY

Checking accounts have become the most important way of transferring money in our business and economic system. Where once only commercial banks offered the service, now there are all

kinds of financial institutions offering various kinds of checking accounts. It pays to shop around to select the right account.

Opening your own account involves a number of steps. First, you have to fill out a signature card and decide what kind of checkbook plan you want. You open an account with a deposit, again following certain steps. Finally you should understand the importance of your signature, both in making out a check and in endorsing one made payable to you. The checking account is a service that takes the place of using currency for all of your business purposes. If you use this service well, it can help you manage your money.

BUILDING WORD POWER

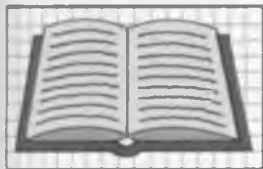


Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 12. Then write the term that best matches each numbered definition.

automatic transfer plan
blank endorsement
check register
check stub
deposit ticket
endorse

forge
full endorsement
joint account
restrictive endorsement
service charge
signature card

1. An account in which deposits are put into a savings account to earn interest, with money automatically transferred to a checking account as checks are written.
2. An account that is used by more than one person.
3. A portion, often at the left of each check, for recording the amount of the check and any deposits.
4. To write another person's signature in an effort to deceive.
5. An endorsement consisting of the signature of the person to whom the check was made payable.
6. An item-by-item record of the money you put in the bank.
7. The separate section of a checkbook where checks and deposits are recorded as they are written.
8. An endorsement that includes the name of the person to whom the check is transferred.
9. To put your signature on the back of a check that has been written to you.
10. A fee that is charged by the bank for paperwork done in recording and maintaining an account.
11. A card kept on file at the bank that contains a customer's signature and other important personal information.
12. An endorsement that limits how the payment of money may be made.

**BUILDING
READING
COMPREHENSION**

1. List four advantages of using checks rather than currency.
2. If a bank offers free checking accounts, where does the bank get the money for its operating expenses and profit?
3. What is a special checking account?
4. What is the advantage of the automatic transfer plan and NOW accounts over regular checking accounts?
5. What is a share-draft account?
6. What do the automatic transfer plan, NOW account, and share-draft account have in common?
7. Why do banks keep a signature card on file for each customer?
8. What are the three items included in a checkbook?
9. Where should an endorsement for a check be written?
10. What are the three kinds of endorsements?

**BUILDING
BUSINESS
CONCEPTS**

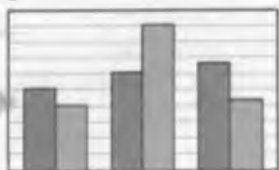
1. What are the differences between a regular checking account and a special checking account?
2. What are the differences between the automatic transfer plan and a NOW account?
3. What purpose does a check stub serve?
4. What are the differences between a brokerage firm's checking account and a NOW account?
5. What is the purpose of a deposit ticket?
6. List four rules that apply to any kind of endorsement.
7. Why and when would a person use a restrictive endorsement? a full or special endorsement?
8. List three purposes of endorsements.
9. What promise does a person make by endorsing a check and transferring it to someone else?
10. Write an example of a blank endorsement, a restrictive endorsement, and a full or special endorsement.

**BUILDING
BUSINESS
EXPERIENCE**

1. Why should you shop around when you are planning to open a checking account?
2. You have paid a bill by check. A month later you get a notice asking you to pay the bill. What should you do?
3. Invite a banker to talk to your class about the types of accounts offered by the bank, how service charges are figured, and the procedures that would be taken by the bank if a forged check were used.
4. Go to your school library to research specialized accounts like the NOW account, automatic transfer plan, and the share-draft account. Why have such accounts come into being?

5. Why do some banks now cash checks only for their depositors?
6. Why do banks not charge a service fee for a checking account if a certain average balance is maintained in the account, such as \$1,500? Does this mean that there are no costs to the bank for servicing that account?

BUILDING ANALYTICAL SKILLS



You recently opened your first checking account and are now ready to make a deposit. You have the following:

<i>Bills</i>	\$27.00
<i>Coins</i>	7.89
<i>Checks</i>	25.00 (from parents)
	83.91 (payroll — Value World Foods)
	7.43 (refund — Good Sounds Records)

1. On a sheet of paper draw a deposit ticket similar to the one shown below and fill it out. Your account number is 4250735. Be sure to include your name and account number on the deposit ticket.

CHECKING ACCOUNT DEPOSIT TICKET		CASH		CURRENCY		
		COIN				
C H E C K S	DATE _____ 19____					
	NAME _____					
	ADDRESS _____					
		Total From Other Side				
		TOTAL				
		Less Cash Received				
		NET DEPOSIT				

ACCOUNT NUMBER

2. Two weeks later you are ready to deposit two payroll checks, one for \$77.17 and one for \$84.13. You want to make a deposit and receive \$25.00 in cash. On a sheet of paper draw another deposit ticket. Then fill out the ticket for your deposit.

People in Business

Connie Chung

Although the field of broadcasting can be a grueling one from which many people flee, Connie Chung has survived. Having worked her way up through the ranks, she has held some of the most sought-after news-anchoring positions on CBS and NBC television.

After studying journalism at the University of Maryland, she began her career as a copywriter for a television station in Washington, D.C. She advanced to newswriter and then to on-air correspondent. Her break came in 1971 when she was asked to report on national politics for "CBS Evening News."

While at CBS, she followed George McGovern's campaign for the presidency and reported on the Watergate break-in, making a name for herself. In 1976 she went to Los Angeles to become the news anchor for KNXT, a local CBS station. During her seven years at KNXT, she won two Emmys.

In 1983 she switched to NBC and began to juggle five different on-air positions. She is an admitted workaholic who still works well on only three hours' sleep a night, with another few hours squeezed in when there is time.

Her marriage to Maury Povich in 1985 added more chaos to her already hectic schedule. Povich, who is also a news anchor, lives and works in Washington, D.C. Their marriage is similar to those of many other professionals today who live and work in different cities and who commute to be together on the weekends. Connie usually goes to Washington because, she says, "the home team has to stock the refrigerator."



Connie Chung seems content with her life and her career. Yet she is always ready to pursue new avenues and may add even more responsibilities to her busy schedule. Only time will tell if she can squeeze anything else into the 24 hours she has in a day.



CHAPTER 28

Using Your Checking Account

- Using your checking account properly adds to your economic power. You can transfer your money, deposit your money, and endorse checks over to others. For what purposes should you write a check?
- You can mail a check to someone across the country. Or you can make out a check to someone in your family. In either case, money is transferred from you to someone else. How do you suppose these transfers are actually done?
- It's important to be accurate in keeping track of your checking account. Why? What will happen if you run out of funds? How can you avoid it?

Do you know what these terms mean?

payee

drawer

drawee

American Banking Association

(ABA) number

Magnetic Ink Character

Recognition (MICR) number

stop-payment order

clearinghouse

canceled check

bank statement

bank reconciliation

outstanding checks

You'll learn all about these terms in this chapter.

A checking account is a very handy tool to use in purchasing goods and services. As with any tool, certain skills are necessary for using it effectively. It's a good idea to understand what this tool is and how it works.

READING AND WRITING A CHECK

Fortunately most printed checks contain the same information. Usually it is located in the same place. When it comes to preparing a check, therefore, you will always follow the same steps. As you know, there are several different kinds of checking accounts. But the information on the *face*, or front, of a check and the method of writing one do not differ from one financial institution to another.

What's on the Check

There are generally three separate people, or parties, named on a check. The party who gets the money and to whom the check is written is called the **payee**. Goldsmith's Discount Center is the payee on the check shown on page 418. The party on whose account the check is written and who signs the check is called the **drawer**, in this case Paul Boudreau. The third party, which is the financial institution that has the drawer's account, is the First National Bank, the **drawee**. It must pay the amount of the check when it is presented — unless Paul's account has insufficient funds.

Sometimes the drawer makes the check payable to "Cash" or to himself or herself. This is generally done for a withdrawal of currency. When making a check payable to "Cash," it's a good idea to be inside the bank. And you should not sign the face of the check

until you present it to the teller. Otherwise, anyone can pick up such a check and get money with it.

The information printed on the face of each check usually includes many, if not all, of the following items:

- The check number in the upper right-hand corner
- The name and, often, the address of the drawer. Some people also choose to include their telephone numbers, as merchants often request their customers' telephone numbers on personal checks.
- The name and address of the drawee
- The bank's American Banking Association (ABA) number, its identification number in the upper right-hand corner.
- A Magnetic Ink Character Recognition (MICR) number, the electronic coding number that includes the customer's account number and the bank's identification number, to be used in processing checks by machine. This information is printed at the bottom of the check.

The parts of a check.

The diagram shows a check from Paul Boudreau to Goldsmith's Discount Center. Labels with arrows point to the following parts:

- Payee:** Goldsmith's Discount Center
- Printed name and address of drawer:** Paul Boudreau, 121 Bayside Road, San Francisco, CA 94108-8521
- ABA number:** 30-507
- Check number:** 0105
- DATE:** April 7, 19 --
- PAY TO THE ORDER OF:** Goldsmith's Discount Center \$ 12²⁵
- Twelve and 95/100 DOLLARS**
- FIRST NATIONAL BANK San Francisco, CA 94108**
- Drawer's signature:** Paul Boudreau
- MICR number:** 1:24370785"" ""905 517 9"" 0105
- Drawee:** (Label pointing to the bank name)

Writing a Check

The first thing to do, even before writing a check, is to record it in the check register or on the stub. Too often people put this record-keeping off, only to find later on that they have forgotten the amount or other information about the check. Write the amount of the check in the payment column. Then write the number of the check. Next comes the date, and then a description of whom and what the check was for. The last step is to figure the new balance in the account.

Be sure to use a pen when writing a check. Checks written in pencil can be easily changed when lightly erased. Checks are made of a special type of safety paper that clearly shows any heavy erasure. A check will not be cashed if there is any apparent erasure.

The very first step in completing the check itself is to write in the current date. Don't ever date a check ahead. A bank will not accept a check that has been dated after the day received, or post-dated. Number the check, if the number is not already printed on it. Then write in the name of the party who is to receive payment on the line that reads *Pay to the order of*.

Can you think of an occasion when you would want to date a check earlier than the date on which it is written?

There are two separate places in which the amount of the check is given. The place where there is a \$ sign on the right of the check will show the amount of the check written in numbers. Place the first number of the amount as close to the dollar sign as possible so that another number cannot be slipped in. You will notice that it doesn't take much room to make \$12 into \$112! Also show a difference between the amount of dollars and the amount of cents by placing the amount of dollars right on the printed line and the amount of cents above the line, with another line drawn under it.

On the next line, which reads *Dollars* at the right, put the amount of the check in words and figures. Write out the amount in dollars, follow with the word *and*, and put the cents as 95/100. Ninety-five cents is really 95/100 of a dollar, and if you write it that way there will be no confusion. It is important to use a figure for cents, even if there are none. Suppose the check was for \$12 exactly. Then the line would read "Twelve and 00/100." The same applies to the line with the dollar sign. Now draw a wavy line from 95/100 over to the word *Dollars*. This will prevent anyone from adding to or changing your check without erasing.

Having to write the amount twice on the check safeguards against mistakes. If there is a slight difference between the amount written in numbers and that written in words, most institutions that cash checks will rely on the amount written in words. If the difference in the amounts is considerable, the check will not be cashed.

The next step is to sign your name, being sure it is exactly the way you signed it on your signature card. Finally, on some checks there is a line to indicate the purpose or reason for the check. It may have the word *Memo* printed at the beginning of the line. Although it is not essential to fill this in, it is helpful as a reminder of the reason for the check.

Sometimes you may have to write a check for an amount less than a dollar. If you do, follow this procedure. On the line next to the dollar sign, write the amount as a fraction and then circle it. On the next line spell out the amount in cents, and precede it with the word "only." Cross out the word *Dollars*.

Be careful when writing a check for less than a dollar.

Paul Boudreau 121 Bayside Road San Francisco, CA 94108-8521		0106 30-507 1213
DATE <u>April 9</u> 19 <u> </u>		
PAY TO THE ORDER OF <u>Bay City Bookstore</u>	\$ <u>83</u> ¹⁰⁰	
<u>Only eighty-three cents</u>		DOLLARS
FIRST NATIONAL BANK San Francisco, CA 94108	<u>Paul Boudreau</u>	
⑆211370785⑈ ⑈⑈⑈405 517 9⑈ 0108		

Stopping a Check

There are times when you will want your bank not to pay a check you have written. A check may have been lost in the mail or elsewhere. Perhaps you wrote and sent a check for an incorrect amount. Maybe you wrote a check for a purchase that didn't turn

out too well. If the item was damaged or didn't work, you might want to stop payment on a check already sent.

You can do this through a stop-payment order, which is a request for a bank not to cash a particular check. The first thing to do is to get in touch with the bank right away. Otherwise, the check might have been processed and it would be too late. If the check has not been paid, you will be asked to supply such information as the date, check number, payee, and amount of the check. Then you will have to fill in a stop-payment order for the bank and pay a fee. It's probably worth the fee for peace of mind alone about the missing or wrongly sent check. In any case, care should be used in the first place in writing and sending a check.

A stop-payment order tells the bank not to pay a check you have written.

FIRST NATIONAL BANK		
STOP PAYMENT ORDER		
Date <u>4/12/--</u>		
ACCOUNT NUMBER	<u>905-517-9</u>	
ACCOUNT NAME	<u>Paul Boudreau</u>	
ADDRESS	<u>121 Bayside Road</u> <u>San Francisco, CA 94108-8521</u>	
PLEASE STOP PAYMENT ON THE CHECK DESCRIBED BELOW:		
Check No.	<u>107</u>	Check Date <u>4/10/--</u> Amount <u>\$15.00</u>
Payable to	<u>Discount Records and Tapes</u>	
INFORMATION ON CHECK MUST BE ACCURATE		
<small>THE UNDERSIGNED AGREES TO HOLD FIRST NATIONAL BANK (FNB) HARMLESS FOR ALL EXPENSES AND COSTS INCURRED IN THE PROCESS OF REFUSING PAYMENT ON SAID ITEM, AND FURTHER AGREES NOT TO HOLD FNB LIABLE ON ACCOUNT OF PAYMENT CONTRARY TO THIS REQUEST IF THE SAME OCCURS DUE TO CIRCUMSTANCES BEYOND FNB'S CONTROL, INCLUDING PAYMENT TO A HOLDER IN DUE COURSE, AND PAYMENT MADE WITHIN A REASONABLE TIME FOR THE BANK TO PROCESS THE REQUEST</small>		
<u>Paul Boudreau</u> Authorized Signature		
Please notify the bank if above check is found or destroyed or if duplicate check is issued.		

Why do you think banks charge for a stop-payment order?
What might happen if they didn't charge you, or charged very little?

THE TRAVELS OF CHECK #105

Let's go back to our original example of the check written by Paul Boudreau to Goldsmith's Discount Center for \$12.95. Have you ever wondered what happened to a check after it got to the party named on it? In this example, what happened to it *after* it went to Goldsmith's Discount Center? Well, it was deposited in Goldsmith's account at the Citizens National Bank. The Citizens National Bank in turn must transfer it to the First National Bank in order to get paid, because the First National Bank is the drawee of the check.

This process of returning a check to the drawee and making the adjustment in accounts is called *clearing a check*. If the banks are in a large city, there is generally a central *clearinghouse* that handles all such check processing. At the clearinghouse, checks cashed or deposited in one bank but drawn on another are sorted and distributed. Citizens National Bank would send Paul's check to the clearinghouse for distribution to First National. If there are only a few banks in a certain location, a messenger service ordinarily handles the exchange of checks. A messenger takes those checks that have been cashed or deposited in one institution to the one on which they are drawn.

The actual transfer of checks is only one part of the clearing process. There is also a payment of money. Generally many checks are cashed or deposited during a day in the bank. Suppose that Citizens National Bank processed \$5,000 worth of checks drawn on First National on a particular day. The check written by Paul and cashed by the Goldsmith's Discount Center could be one of them. First National also would have processed checks drawn on Citizens National during the same day. Imagine that First National processed \$6,000 worth of checks drawn on Citizens National. Citizens National would then owe First National \$1,000. The difference is paid by a check that Citizens National would write on an account it has with another bank, or with the Federal Reserve bank in the area. The money could also be transferred from these accounts by EFT.

THE FEDERAL RESERVE SYSTEM

The clearing of a check becomes more complicated when it is drawn on a bank in one part of the country and cashed thousands of miles away. In such a case, a Federal Reserve bank may be used in



Checks drawn on and deposited or cashed at the same bank are usually cleared faster than those from different banks.

the clearing process. You've already heard about the activities of the Federal Reserve System with regard to controlling the flow and amount of money. Now let's look at some of its other functions, in addition to that of acting as a clearinghouse.

The Federal Reserve System was created by an act of Congress in 1913. It has two major responsibilities. One is to help control banks, and the other is to control and manage the flow of money. In addition, it helps banks carry out their operations in a more efficient manner. In a way, it is the banker's bank and also the federal government's bank.

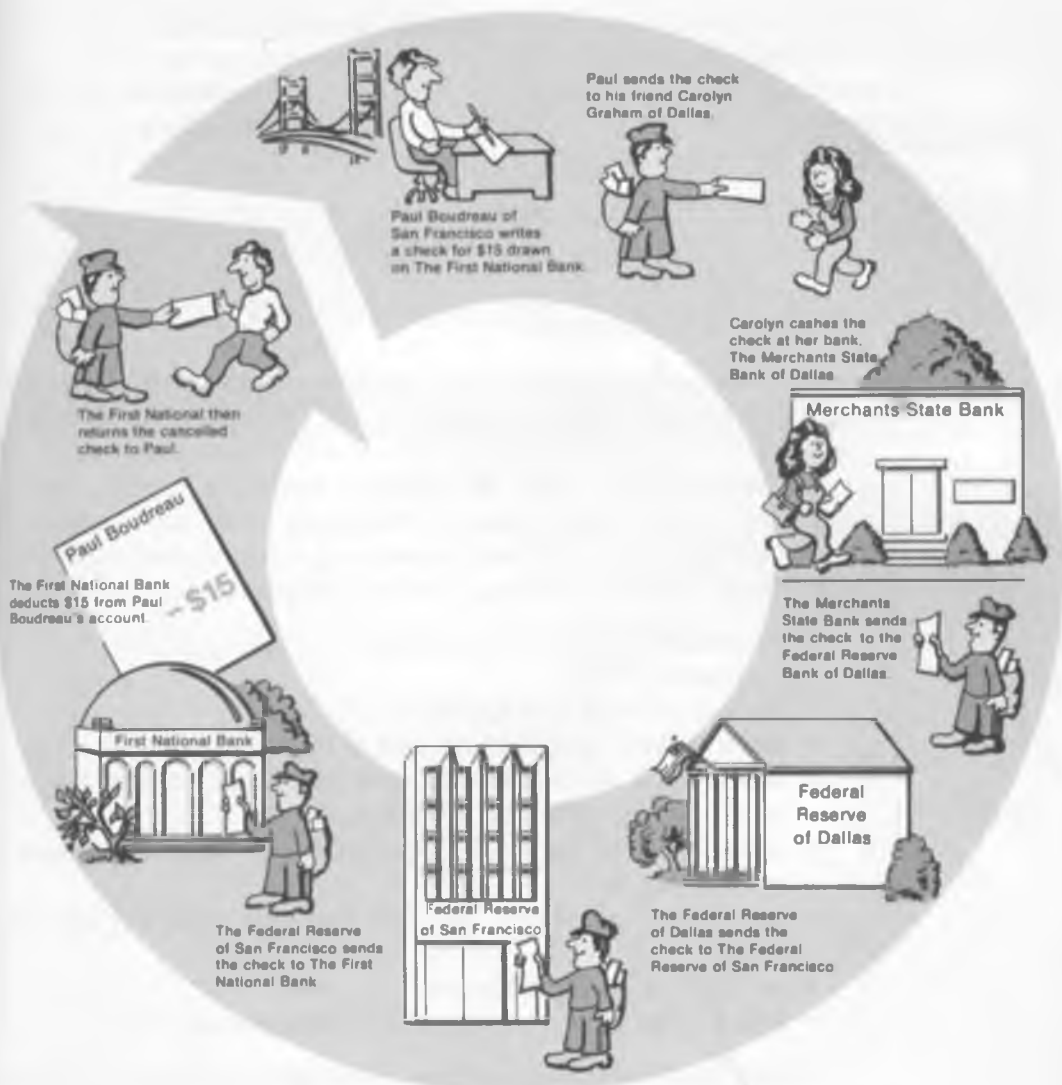
The Federal Reserve System is run by a governing board, whose chairperson and members are appointed by the President. The System is divided into twelve districts, with a Federal Reserve bank in each. All national banks must belong to the Federal Reserve



The twelve districts of the Federal Reserve System.

System. Many state banks are also members. The Federal Reserve banks offer services to member banks that are very similar to the services commercial banks offer their customers. For instance, they accept deposits from member banks and also make loans to them. These services are not available for use by private individuals or organizations. And, as we have said, they also provide a clearing-house service.

Let's look at an example of how checks are cleared through the Federal Reserve System. Imagine that Paul, who lives in San Francisco, writes a check for \$15 to a friend of his, Carolyn Graham, who moved to Dallas. Carolyn cashes the check at the Merchants State Bank of Dallas. The check goes to the Federal Reserve Bank of Dallas. It is then transferred to the Federal Reserve Bank of San Francisco because Paul's bank, First National, is located in the San Francisco Federal Reserve District. From there it goes to the First National, where \$15 is deducted from Paul's account. Finally, the canceled check is returned to Paul. This canceled check is proof that Carolyn received and cashed his check. Although this check travels farther than Check #105 did, the process is identical. In this case the Federal Reserve System operated as a clearinghouse.



The route a check takes, from the time it is written until it is returned.

KEEPING A BALANCED ACCOUNT

After a check has been cleared and any transfers from one account to another have been completed, the check is returned. Eventually it goes back to the party who wrote it in the first place, as a canceled check. Canceled checks indicate that payment was

made by the bank, and that the amount of each check was deducted from the account balance of the depositor. A canceled check cannot be used again to make payments. Your canceled checks should be kept in a safe place. They are important for showing proof of payment for a variety of purposes.

What particular times can you think of when canceled checks might be especially useful?

The Bank Statement

Usually once a month all canceled checks that have gone through the clearinghouse process are sent to the depositor, together with a bank statement. A **bank statement** shows additions to and subtractions from an account during a specific period, according to the bank's records. Although bank statements may vary in the period covered and the kind of account used, all of them provide most of the following kinds of information:

- Name and address of depositor
- Account number
- Period covered by statement
- Balance at beginning and end of statement period
- A listing of all checks deducted from the account, together with the total amount of all deductions
- A listing of all deposits, together with the total amount of such deposits
- The dates on which all deposits and withdrawals were made
- Amount of service charges
- Other charges, corrections, and miscellaneous notes

Some financial institutions do not return the canceled checks. In these cases, the statement includes not only the amount for each check but also the name of the party to whom the check was written. The statement then legally serves the same purpose as the canceled checks and can be used to show that money has been paid to the various parties.

Don't forget that the bank statement shows the balance of your account according to *the bank's* records. It is important that you do some figuring to determine whether the bank's records agree with yours. You'll need your check register or stubs to help you in this process. Banks and machines are not always right!

STATEMENT

Paul Boudreau
121 Bayside Road
San Francisco, CA 94108-8521

ACCOUNT NUMBER 905-517-9

DATE OF STATEMENT 3/31/ --

PREVIOUS BALANCE	CHECKS AND CHARGES	NO. OF DEPOSITS	NO. OF CHECKS	DEPOSITS AND CREDITS	BALANCE AT THIS DATE
45.50	55.30	2	3	120.00	110.20
CHECKS AND OTHER CHARGES		DEPOSITS AND OTHER CREDITS		DATE	BALANCE
		100.00		3/2	145.50
20.00				3/10	125.50
11.55				3/24	113.95
21.75		20.00		3/25	112.20
2.00 S				3/31	110.20

PLEASE EXAMINE YOUR STATEMENT AT ONCE. IF NO ERROR IS REPORTED IN 10 DAYS THE ACCOUNT WILL BE CONSIDERED CORRECT AND VOUCHERS GENUINE. ALL ITEMS ARE CREDITED SUBJECT TO FINAL PAYMENT.

C = Certified Check T = Ticket Debit or Credit S = Service Charge L = List CR = Overdraft R = Returned Check

The Bank Reconciliation

The process of seeing whether your records agree with the bank's is called a **bank reconciliation**. To reconcile is to bring into agreement — or balance. Generally a form on the back of the bank statement can be used to reconcile the account.

Paul Boudreau's check register shows a balance of \$132.20. On the other hand, the bank statement shows a balance of \$110.20. To determine the reason for the difference, let's do a step-by-step bank reconciliation for Paul's account.

1. Place a check mark in the check register for each of the checks and deposits that have been processed, or listed, by the bank. You'll get this information either from the bank statement itself or from the canceled checks and deposit slips enclosed with the statement. Two deposits for \$100 and \$20 were noted by the bank. Checks for \$20, \$11.55, and \$21.75 were also processed.

2. Use the form on the back of the bank statement to continue the process. The first step is to list the period-ending balance shown on the front of the statement, \$110.20.

3. Next, list the checks that have been written but have not yet reached the bank for payment. These are called **outstanding checks**. There is only one outstanding check, #104 for \$5. The total of outstanding checks should be subtracted from the balance shown on the statement.

4. The next step is to enter any deposits that were made after the end of the statement period. In this case Paul made a deposit of \$25 on April 7 that was not recorded on the statement. This deposit amount should be added to the balance.

5. Now compare the balance on the back of the reconciliation form with the balance in the check register. There is still a difference of \$2 between the balance in Paul's check register and that figured out on the statement. Why the difference? There is a \$2 service charge, which the bank deducted but Paul did not. He should deduct the \$2 fee in his check register. Now the "true" balance in the account is \$130.20. Paul's figures are now reconciled, or in agreement, with the bank statement. His check register has been corrected and the bank reconciliation completed.

Sometimes the bank reconciliation is not that easy. Even after the steps given here have been followed, there can still be a difference between your records and those of the bank. If your balance still differs from the bank's balance, then follow the steps listed on pages 430 and 431.



Accurate checkbook records make reconciling at the end of the month a lot easier.

- Check the bank's additions and subtractions. Are all the canceled checks and deposits listed on the bank statement? If you find a mistake in the bank figures, report it immediately.

The process of doing a bank reconciliation is not difficult, if you do one thing at a time. You are really comparing your records with those of the bank in order to come up with the same balance. Remember that sometimes you can look at an error without seeing

it. If you absolutely and positively cannot reconcile your balance with the bank's, contact the bank.

SUMMARY

Since we do so much of our personal business with checks, it is a good idea to learn how to use them properly. Understanding how a check works can help you use this tool effectively. Our business and economic system has a way of processing checks and regulating the operations and services of banks and other financial institutions. Keeping your checkbook account in balance with the bank's records is one of the responsibilities of using a checking account skillfully.

BUILDING WORD POWER

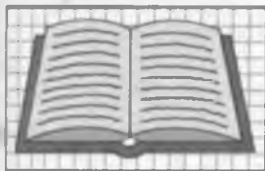


Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 11. Then write the term that best matches each numbered definition.

American Banking Association	drawer
(ABA) number	Magnetic Ink Character
bank reconciliation	Recognition (MICR) number
bank statement	outstanding check
canceled check	payee
clearinghouse	stop-payment order
drawee	

1. A place where checks that have been cashed or deposited in one bank but drawn on another are sorted and distributed.
2. A check that has been through the clearing process and is returned to the drawer with the bank statement.
3. A request made by the drawer of a check for the bank not to cash a particular check.
4. A form from the bank that shows all additions to and subtractions from an account during a particular period of time.
5. The financial institution that has the drawer's account.
6. The process of bringing your account records into agreement with the bank statement.
7. The party on whose account a check is written.
8. The electronic coding number printed at the bottom of a check.
9. The party who gets the money and to whom a check is written.

10. The bank's identification number, usually located in the upper right-hand corner of a check.
11. A check that has been written but has not yet been paid by the bank on which it is written.

**BUILDING
READING
COMPREHENSION**

1. When would a person make a check payable to cash?
2. Why is it a good idea to write a check payable to cash only after you get to your bank?
3. Why should you use a pen for writing checks?
4. Why should you write the figure amount of a check as close as possible to the printed dollar sign?
5. If there is a slight difference between the amount written in numbers and the amount written in words, which amount will the bank use when cashing the check?
6. How do you write a check for less than a dollar?
7. What should you do if you think a check of yours has been lost or stolen?
8. What are the two major responsibilities of the Federal Reserve System?
9. Why should canceled checks be kept in a safe place?
10. What are you doing when you reconcile your account?

**BUILDING
BUSINESS
CONCEPTS**

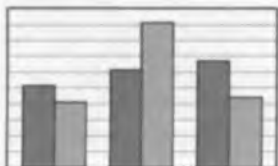
1. List and define the three persons, or parties, to a check.
2. What is the purpose of the memo line on a check?
3. How are checks usually cleared between banks in an area where there are only a few banks?
4. Who runs the Federal Reserve System? How are these people chosen?
5. What services does the Federal Reserve offer its member banks?
6. What items are usually listed on a bank statement?
7. What are the four steps you should follow in doing a bank reconciliation?
8. What can you do if your check register balance and the bank statement balance do not agree after you have reconciled the statement?
9. What can a depositor do to prove that he or she has paid a bill if the financial institution does not return the canceled checks?
10. What is the difference between an outstanding check and a canceled check?

BUILDING BUSINESS EXPERIENCE



1. Why is there a fee for a stop-payment order on a check?
2. You have received a refund for a record you ordered through the mail from a store in New York City. You endorsed and deposited the check in your account. Trace the check through the clearing process. Use diagrams to illustrate.
3. To reconcile a bank statement is to bring your check register and the bank statement into agreement. Why is this necessary?
4. You accepted a check as payment for work you did for someone. You deposited the check in your account. Now when you receive your bank statement you find that the check has been returned to your bank because the drawer's account has insufficient funds to cover the check. The bank has subtracted the check from your account. What can you do to recover your money? Is it possible that you may never recover your money?
5. Banks will not accept a check that has been postdated, or dated for a future date. Why do you think banks have this policy?

BUILDING MATH SKILLS



1. Today is the 30th of the month. You are writing checks for your monthly bills. Your checkbook balance is \$483.62. You will write the following checks:

<i>Check</i>	<i>Amount</i>	<i>New Balance</i>
#270	\$26.78	<u>?</u>
#271	15.85	<u>?</u>
#272	49.50	<u>?</u>
#273	88.88	<u>?</u>
#274	5.59	<u>?</u>

- a. What is your checkbook balance after you write each check?
 - b. You deposited \$180 today. What is your balance after this deposit?
2. Your bank statement came today, showing a balance of \$663.02. The balance in your checkbook is \$324.43. The following checks and deposits have been made but are not included on the bank statement. Checks: #168 — \$10.98; #170 — \$25.17; #173 — \$95.18; #178 — \$159.26; #180 — \$210.00. Deposit: \$160.00. The bank statement shows a \$2.00 service charge. Reconcile the bank statement.

Trends in Business

A New Image for Checks

When you receive your monthly bank statement, most of you also receive the canceled checks that you have written during the month. The high costs of sending out canceled checks with monthly bank statements have prompted banks to attempt cost-cutting solutions. One way to cut costs is to avoid the actual movement of thousands of checks between banks.

According to the system used by most banks, a check is deposited in the receiver's bank. Then, after that person's, or company's, account has been credited, the check is forwarded to the clearinghouse and eventually is returned to the bank of the drawee.

Many banks believe that the *information* on checks can be moved more quickly than the actual piece of paper. The process of moving only the information on a check is called check truncation. With this method, the bank of first deposit keeps the check, transmits the data from the check over the automated clearinghouse network, microfilms the check, and then destroys the actual check after 90 days. With the customer's monthly statement, the bank sends a printout of the information taken from the check, rather than the actual check.

Another form of cost cutting is check imaging. With check imaging, an actual picture of both sides of the check is taken and stored on microfilm. Copies of the checks are sent each month with the bank statement.

It seems likely that some changes will be introduced to curtail the costs of processing checks. Check truncation or check imaging are possible solutions. However, the process of destroying checks is one that customers may not accept easily. The future of either option is uncertain and depends on research into possible savings and on customer opinion.





CHAPTER 29

Other Forms of Payment

- You want to buy a used car, and you have enough money for it. The only problem is that the car dealer won't accept a personal check. What can you do?
- You've probably heard about people who believe in "cash on the line." They pay cash everywhere they go and for every purchase they make. But how do those people buy items through the mail?
- Suppose you're away on vacation and run out of money. No one will cash your check. How can you get money from home?

Do you know what these terms mean?

money order	bank draft
traveler's checks	Electronic Funds Transfer
certified check	automatic teller machine
cashier's check	debit card

You'll learn all about these terms in this chapter.

Personal checking accounts aren't necessarily the answer to all situations that require money payments. Sometimes personal checks may not be accepted. The person or business to be paid may lack faith that there is sufficient money in the account to cover the check. Or the individual trying to cash the check may not be known. So when making a large purchase or traveling far from home, people often must use a different means of payment.

Furthermore, not all people have checking accounts. Yet there are still occasions when it is either impractical or unsafe for them to use cash. There's certainly little safety involved in carrying around a lot of currency. And even sending a small amount of cash through the mails is risky. There's no record of it. If it's lost, it's lost.

Finally, emergencies may occur for which people need money immediately. Sending a personal check through the mails may take several days. And when it does reach the person for whom it's intended, there's no guarantee that he or she will be able to cash it.

PAYING BY OTHER MEANS

When neither cash nor personal checks are suitable for making money payments, people have to find other ways. Usually they turn to money orders, traveler's checks, certified checks, cashier's checks, or bank drafts. These methods have advantages over personal checks. One of these advantages is the *time* needed to pay the amount. With a checking account, the amount to be paid is not deducted from the account until the check is actually received by the bank on which it is drawn. As you have discovered, clearing a check may take several days. With other kinds of payment, the money is paid or deducted from an account almost immediately. A second advantage is that these other kinds of payments are made or backed by a well-recognized financial institution. Obviously the average individual writing a personal check cannot be regarded in the same way as a national or international financial institution.

Money Order

A **money order** is a form of payment, like a check, that can be purchased. It orders the payment of money to a party from the funds of the organization that issues the money order. Money orders can be bought for the amount of the order, plus a service fee. Generally money orders are used to transfer relatively small amounts of money. They are very safe to use, since they are payable only to the party named on the order. If they are lost, they can easily be replaced. And they can be purchased in a number of places.

When a person buys a money order, the institution that issues it writes or imprints the amount on the order. The purchaser generally has to write in the date, the party to whom the order is payable, his or her own name and address, and the purpose of the payment. The purchaser is given a receipt for the money order.

The party to whom the money order is payable can cash the money order by endorsing it, just as for a check. When a money

When you buy a money order, you are always given a receipt.



order is cashed, the amount is paid by the organization that issued it. That organization gets the money order back after it has been paid.

If a money order is lost, the purchaser has to show the receipt to the organization that issued it. If the order hasn't been cashed, a new money order is issued. Money orders are often used by people who don't have checking accounts. When making payments by mail, they wisely use a money order instead of cash.

Often people who do have checking accounts use money orders to purchase goods through the mail, even if sellers accept personal checks. The reason for this is that the order will be processed more quickly. Generally a seller first waits for a personal check to clear before filling an order. This clearing may take several days. With a money order, steps to fill the purchase can be started immediately. There is little risk of insufficient funds, since the organization that issued the money order has a well-known reputation.

The decision about what kind of money order to use depends on the selection in your community. If all kinds are available, and you purchase money orders frequently, it may pay to shop around. Service fees do vary, so you will want to compare them.

Postal Money Order. Postal money orders obviously can be purchased at a post office. They have a limit of \$700. If the amount to be paid is over \$700, more than one order may be purchased. The service charge for a postal money order depends on the amount for which the order is written, but it is quite small.

A postal money order.

UNITED STATES OF AMERICA POSTAL MONEY ORDER													
26773739504	810409	021521	**2*75										
MONEY ORDER	<table border="1"> <tr> <td>DATE</td> <td>10/10/95</td> </tr> <tr> <td>TO THE ORDER OF</td> <td>The Book Warehouse</td> </tr> <tr> <td>AMOUNT</td> <td>141 Hemlock Street</td> </tr> <tr> <td>CITY</td> <td>Brooklyn MA 02125</td> </tr> <tr> <td>STATE</td> <td>MA</td> </tr> </table>			DATE	10/10/95	TO THE ORDER OF	The Book Warehouse	AMOUNT	141 Hemlock Street	CITY	Brooklyn MA 02125	STATE	MA
	DATE	10/10/95											
	TO THE ORDER OF	The Book Warehouse											
	AMOUNT	141 Hemlock Street											
	CITY	Brooklyn MA 02125											
STATE	MA												
<table border="1"> <tr> <td>TO THE ORDER OF</td> <td>Charles Town MA 02129</td> </tr> <tr> <td>DATE</td> <td>10/10/95</td> </tr> <tr> <td>TO THE ORDER OF</td> <td>Bobbs</td> </tr> </table>			TO THE ORDER OF	Charles Town MA 02129	DATE	10/10/95	TO THE ORDER OF	Bobbs					
TO THE ORDER OF	Charles Town MA 02129												
DATE	10/10/95												
TO THE ORDER OF	Bobbs												
VOID WITHOUT POSTAL SEAL													
Dollars MAXIMUM VALUE USA													
:000000 204:		26773739504											

An American Express money order.

Express Money Order. Express money orders can be purchased in many places, including travel offices, department stores, and grocery stores. One of the most common express money orders is issued by the American Express Company. The maximum amount for an American Express money order is \$1,000. Again, more than one may be purchased if the total amount to be paid is over \$1,000. The service fees are similar to those charged for postal money orders.

Bank Money Order. Commercial and mutual savings banks, savings and loan associations, and other banking institutions supply money orders also. In some areas the service charges for bank money orders are less than for postal and express money orders. In some instances no service fee is charged if one is using other services of the bank. The maximum amount for a bank money order varies from one institution to another.


Telegraphic Money Order. When money has to be transferred quickly to another location, the telegraphic money order may be the best bet. Travelers who run out of funds and cannot easily get more money frequently use this kind of money order. It is also used to pay for items purchased from a distant seller so that the ordered goods can be sent immediately. Waiting for the mail to deliver a payment may take too long in some cases. On the other hand, sending a telegraphic money order takes a matter of minutes.

How does a telegraphic money order work? Think of a situation in which you're traveling and run out of money. Suppose you're in London and you need about \$1,000. You contact someone back in the United States either by telegraph or by telephone. The person

can have a telegraphic money order sent to you in London by purchasing the order at a telegraph office for \$1,000, plus a service fee. You then pick up the money at the telegraph office in London.

In placing a long-distance telegraphic money order, an interesting technique is used to establish identity. The sender may be asked to provide a question that you have to answer correctly before the money will be given to you. For instance, you might have to give your mother's maiden name. You'd have to answer the question correctly before receiving the money from the London telegraph office. This safeguard assures that the correct party receives the money. Compared with others, the telegraphic money order is generally more expensive. However, it can be very helpful if you want to transfer money quickly.

Have you ever had to use a money order? If so, what kind? Did you find it safe and convenient?

 western union		<h1 style="margin: 0;">Telegraphic Money Order</h1>																																													
Send the following Money Order subject to conditions below and in back hereof which are hereby agreed to																																															
SENDING DATA	CHECK	SERVICE	DATE AND PLACE TIME	CURRENCY RATE PER \$100 US DOLLARS	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td style="width: 5%;">NO.</td><td style="width: 15%;">SERIAL</td></tr> <tr><td>1</td><td>YES</td></tr> <tr><td>2</td><td>NO</td></tr> <tr><td>3</td><td>TEST</td></tr> <tr><td>4</td><td>RECEIVED</td></tr> <tr><td>5</td><td>RECEIVED</td></tr> <tr><td>6</td><td>RECEIVED</td></tr> <tr><td>7</td><td>RECEIVED</td></tr> <tr><td>8</td><td>RECEIVED</td></tr> <tr><td>9</td><td>RECEIVED</td></tr> <tr><td>10</td><td>RECEIVED</td></tr> <tr><td>11</td><td>RECEIVED</td></tr> <tr><td>12</td><td>RECEIVED</td></tr> <tr><td>13</td><td>RECEIVED</td></tr> <tr><td>14</td><td>RECEIVED</td></tr> <tr><td>15</td><td>RECEIVED</td></tr> <tr><td>16</td><td>RECEIVED</td></tr> <tr><td>17</td><td>RECEIVED</td></tr> <tr><td>18</td><td>RECEIVED</td></tr> <tr><td>19</td><td>RECEIVED</td></tr> <tr><td>20</td><td>RECEIVED</td></tr> </table>	NO.	SERIAL	1	YES	2	NO	3	TEST	4	RECEIVED	5	RECEIVED	6	RECEIVED	7	RECEIVED	8	RECEIVED	9	RECEIVED	10	RECEIVED	11	RECEIVED	12	RECEIVED	13	RECEIVED	14	RECEIVED	15	RECEIVED	16	RECEIVED	17	RECEIVED	18	RECEIVED	19	RECEIVED	20	RECEIVED
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TO <u>Marcia Schultz</u>		REPORT PAYMENT BY MAIL GRAM YES <input checked="" type="checkbox"/> TEST QUESTION <u>5/10/71</u>		ONLY ON YES																																											
ADDRESS & TELEPHONE NO <u>1121 Franklin Street</u>		CITY & STATE <u>BALTIMORE MD</u>		ZIP <u>21203</u>																																											
SENDERS NAME <u>George Schultz</u>		SENDERS ADDRESS <u>6700 Avenue Shaw, Hampden, NY</u>		ZIP CODE <u>14071</u>																																											
DELIVER THE FOLLOWING MESSAGE WITH THE MONEY																																															
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SENDER'S FULL NAME: <u>Marcia Schultz</u> <u>1121 Franklin Street, Hampden, NY 14071</u> <u>212-3246</u> (Please sign below the "RECEIVED" column as to how to pay this money order or at my risk without person as his paying agent intended to be the above named person, person's name being shown. Foreign money orders accepted.)																																															
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A telegraphic money order.

Traveler's Checks

One form of payment that is almost always bought by people before a trip or vacation is **traveler's checks**. When traveling, it is not wise to carry a large amount of cash because of risk of theft or loss. In addition, personal checks may not be accepted even outside

one's city or state, to say nothing of foreign countries. Traveler's checks have the feature of making money available on the spot.

American Express, Bank of America, First National City Bank, Thomas Cook, VISA, Barclay's Bank, and the First National Bank of Chicago are some of the companies that provide traveler's checks for banks and other organizations to sell. Traveler's checks can be purchased at financial institutions, telegraph companies, travel agencies, airports, and even from automatic dispensers. They generally come in denominations of \$10, \$20, \$50, \$100, \$500, and \$1,000.



An American Express traveler's check.

To demonstrate how traveler's checks work, imagine that Howard wants \$500 worth of checks. He may purchase them at a local bank or private business. In either case, there is usually a service charge of about 1 percent. With such a service charge, Howard pays \$505 for his \$500 worth of traveler's checks, either in cash or by credit card. He receives the checks and a record sheet for them. He must sign each of the checks when he purchases them. Each check has a rather long identification number. Howard's traveler's checks are numbered CD69-101-110, CD69-101-111, and so on. The separate record tells him the numbers of the checks, should they be lost or stolen. He should also be sure to carry the record separately from the checks, since it lists the numbers of the checks that were issued to him.

When cashing one of the checks, Howard will first have to fill in the date and to whom it is payable. He will again sign the check. Then the individual cashing the check should compare the two signatures to see whether they are similar. If they are not similar, the check will not be accepted, since the person cashing the check is not the rightful owner. After cashing the check, Howard should note its number on the record form.

If the checks are lost or stolen, the issuer of the checks should be notified. If, for instance, they are American Express traveler's checks, let American Express know immediately. Report the numbers of the checks that have not been cashed. These will then be replaced by the issuing company, American Express. The identification numbers are very important in this case.

Special Bank Checks

Commercial banks in particular offer several other forms of payment that are often more acceptable than the typical personal check. Since they function a great deal like checks, however, they can be regarded as special checks. People use them for specific purchases for which personal checks are not suitable.

A personal check that a bank stamps with a guarantee that there is enough money in the account to cover it is called a **certified check**. When a bank certifies a check, it deducts the amount of the check from the depositor's account at the time the check is certified.

A certified check.

Joseph M. Bartlett
1906 Glen Oak Road
Dallas, Texas 75217

0187
32-69
1110

CERTIFIED
WHEN PROPERLY ENDORSED

PAY TO THE ORDER OF Sumner Inc. \$ 152.85

One hundred fifty and 85/100 DOLLARS

First Federal Bank
Dallas, Texas

MEMO Bus trip

Joseph M. Bartlett

1:0719-1007 0710: 0187

In this way the person or business to whom you are writing the check is assured that enough money is actually set aside. Usually a certified check is a good idea when a large sum of money is being transferred. For instance, if you were to move and hired a professional mover to take your furniture to your new home, the company probably would require you to pay with a certified check.

A cashier's check and a bank draft are very similar in that they are both checks written on the bank's own accounts. A cashier's check is a bank check paid from an account that is held right in the bank. A bank draft, however, is a bank check drawn from an account in another commercial bank or at the Federal Reserve Bank in the district. Both the cashier's check and the bank draft are made payable to the party indicated by the purchaser of the check. Both are considered to be quite safe, since most banks have a good reputation. They are often used, like a certified check, when large sums of money are transferred and a personal check will not be accepted. They can be purchased from a bank in the amount desired. In some cases, the bank charges a service fee.

The image shows a cashier's check from the Second National Bank, located in Boston, MA 02106. The check is numbered 1904 and has a MICR line at the bottom: 00-4321 8765. It is dated August 25, 19--. The payee is Sunny Villa Caterers, and the amount is 242 DOLS 50 CTS. The check is signed by Margaret Bennett, whose signature is written in cursive and is an authorized signature. The words "CASHIERS CHECK" are printed on the left side of the check.

A cashier's check.

Many banks also have the means whereby they can transfer money quickly to another bank or even a foreign country. This transfer is similar to a telegraphic money order, except that banks are involved rather than telegraph offices. Some credit card companies, such as American Express, also have the capacity to transfer money quite quickly from one office to another in a distant place.

LET THE COMPUTER PAY IT

Probably the fastest and most efficient way of transferring money is by Electronic Funds Transfer (EFT). This is an electronic, machine-operated, and computer-run program. Electronic Funds Transfer can do the same job as checks or drafts.

There is really some flexibility in the way EFT operates. One way is with a computer terminal that operates like a bank teller — except that it is a machine. You probably have seen such an automatic teller machine (ATM) in banks, malls, or grocery stores. Customers can make deposits or withdrawals twenty-four hours a day. They can also transfer funds from one account to another account in the same bank, such as from a savings account to a checking account. They can even give you the balance in an account. Suppose you want to withdraw \$50 from your account. All you do is insert a special plastic card, like a credit card, into the automatic teller. Then you enter your *personal identification number* (P.I.N.) into the machine and indicate that you want to withdraw \$50. The computer determines whether you have enough in your account and, if you do, deducts the \$50 from your account and pays you.

Another way in which the Electronic Funds Transfer is used is for payrolls. Instead of writing payroll checks, an increasing number of firms provide certain banks with computer tapes showing the wages that should be added to the employees' accounts. The tapes are put through each bank's computer, and the balances in the employees' accounts are increased. The employee receives a record of the amount of wages sent to the bank and the amounts withheld for taxes and other purposes. The Social Security Administration, for example, uses EFT for making many payments. Social security checks can be stolen, but transferring funds by computer prevents such losses.

A third way in which EFT is used is at the point of sale. Suppose you want to buy some clothes from a department store that has installed the system. Instead of charging your purchase, paying cash for it, or writing a check, you could use EFT. Just give the salesclerk your special plastic card, a *debit card*. If the store is linked directly to the computer at the bank where you have your account, the amount of your purchase can be deducted from your checking account immediately and added electronically to the department store's account. You are given a receipt showing the transfer. The transfer also appears on your bank statement.

Many businesses like this system because they get immediate



With 24-hour teller machines, you can do your banking at any time.

transfer of money from a customer's account to their own accounts. With a personal check, on the other hand, a business doesn't know whether it's going to be paid until the check clears. Clearing a check may take several days. With the debit card, the computer will indicate whether there's enough money in the account to cover a purchase. Businesses consider use of EFT as a more secure method of transferring payments than the typical check.

EFT is also found in the home. In some areas, individuals use their home computers to do much of their banking. Their home computers are hooked up by telephone to their banks' computers so that they can pay bills, transfer money from one account to another, and even check on the balances in their accounts. The home computer, however, cannot be used to cash a check for currency.

Transferring money electronically is a growing trend. Each day more and more financial institutions, businesses, and individuals are linked together by computer. Some people believe that we will eventually become a checkless society. Others believe that Electronic Funds Transfer will become a major way of transferring money but will not cut out paper checks completely.

One big advantage of EFT is that it is less expensive in the long run than moving money with paper. The new equipment is quite costly, but the cost is offset by the considerable savings in labor costs.

Are there any banks or other businesses in your local area that offer electronic funds transfer? If so, which ones?

SUMMARY

As you have discovered, there is more than one answer to the question, "Why *not* a check?" First of all, personal checks are not as safe as some other means of transferring money. They are not as quick as sending money by telegraph. They are not as reliable as a certified check. And they take a lot more time and paper than a computer. There are a number of substitutes for cash and for personal checks. Some of them are more convenient or safe. There are other reasons why the personal check may not be the best option in a particular situation. But any and all ways of transferring money are designed for just one purpose — to make your business and economic activities easier, safer, and faster.

BUILDING WORD POWER



Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 8. Then write the term that best matches each numbered definition.

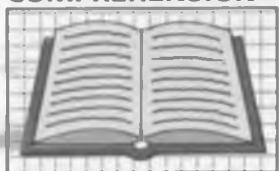
automatic teller machine
bank draft
cashier's check
certified check

debit card
Electronic Funds Transfer
money order
traveler's check

1. A bank check that is drawn by a bank employee on an account held within the bank.
2. A form of payment usually bought by people before going on a trip.
3. A bank check drawn by the bank on an account in another commercial bank or at the Federal Reserve Bank in the district.
4. A personal check that has been guaranteed by the bank to have enough money in the account to cover the check.
5. A form of payment like a check that can be purchased to order the payment of money to a party from the funds of the organization that issued it.

6. An electronic, machine-operated, and computer-run program for transferring money from one person to another.
7. A card used to pay for a purchase electronically.
8. A computer terminal that allows people to make deposits or withdrawals 24 hours a day.

BUILDING READING COMPREHENSION



1. Give two common reasons that a personal check may not be accepted by a business.
2. How is a money order different from a personal check?
3. What is a postal money order? What is the maximum amount for which one can be purchased?
4. What is an express money order?
5. When might you need to use a telegraphic money order?
6. What is the purpose of keeping a record of traveler's checks purchased?
7. When might a person need a certified check?
8. What is the difference between a certified check and a cashier's check?
9. Name three procedures you can complete at an automatic teller machine.
10. Explain how some businesses use Electronic Funds Transfer to pay their employees.

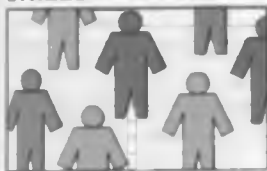
BUILDING BUSINESS CONCEPTS



1. List three reasons why a person may want some form other than a personal check for transferring money.
2. Give two reasons why money orders are a safe form of transferring money.
3. Why would a person who has a checking account choose to send a money order rather than a personal check when ordering goods through the mail?
4. What is the difference between an express money order and a bank money order?
5. Name three institutions that provide traveler's checks.
6. Explain the procedure for buying and using traveler's checks. Why is the procedure set up in this way?
7. Why should a person using traveler's checks be sure to carry the checks and the record listing the checks' identification numbers in separate places?
8. List four ways EFT is used.
9. What is the advantage of using an ATM over banking by a home computer?
10. Why do businesses seem to like the debit card more than consumers do?

**BUILDING
BUSINESS
EXPERIENCE**

1. Some people believe that with EFT our society will become a cashless, checkless society. Do you agree or disagree? Why?
2. You are buying your first car, a used car priced at \$4,100. You have money in your checking account and your savings account, a personal check from your parents, and some cash. All these together will give you enough money for the car. How are you going to get all the money together? Since the car dealer will not accept a personal check for \$4,100, what form of payment should you use? Why?
3. There are over 120 million ATM cards in the United States, and more than 1,300 of them are lost or stolen each day. What effect do you think this has on the cost of goods and services? on the cost of banking services?
4. The implementation of EFT has and could have many effects on our society and the banking community. Predict what you think will happen in each of the following areas as EFT becomes more popular. Give reasons for your responses.
 - a. Amount of mail involving payment of bills
 - b. Number of bank tellers needed
 - c. Number of bank employees knowledgeable about computer operations
 - d. Number of customers visiting banks every day
 - e. Size of new bank lobbies

**BUILDING
HUMAN RELATIONS
SKILLS**

Phyllis was getting ready to go on vacation. She went to her bank to buy traveler's checks. The bank was very busy, and Phyllis had to wait in line. Her lunch break was almost over by the time she got up to the teller's window. Since Phyllis had never used traveler's checks, she asked the teller how to use them. The teller said it was really easy. All she had to do was to write in the date, payee, and sign the checks as she used them. Phyllis took them and left.

Phyllis had been on vacation for four days when she lost her purse. She didn't remember what company provided the traveler's checks for her bank. Since the receipt and record listing the checks were in the folder with the checks, she couldn't rely on them. She couldn't even remember which checks she had used.

1. How can Phyllis find out the information she needs?
2. Can the teller be blamed? What didn't the teller tell Phyllis?
3. Should Phyllis share the responsibility for the situation?
4. If the teller did not give Phyllis all the information she needed to know how to use traveler's checks, where could Phyllis have gotten the information before she began her trip?
5. What would you do if you were Phyllis?

Careers in Business

Data Security Administrator

When you hear stories about people breaking into computer data files and changing financial statistics or deleting information, do you ever stop to wonder *how* someone got into the files? If you enjoy trying to solve "whodunits," you might enjoy a career as a data security administrator.

The duties of a data security administrator are varied. Clearances must be checked for employees who desire access to protected computer files before passwords can be issued. The access of those employees using the system must be monitored regularly. If an employee transfers within the company or leaves the company, his or her access rights change.

Many companies purchase or design sophisticated software to control access to their computer systems, but someone must check up on the software. The data security administrator develops reports that verify the security of the computer system. A printout is requested from the access control software package and then examined for glitches, such as a protected file being accessed by an unauthorized user.

Another responsibility of the data security administrator is checking the systems resources to make sure they are protected. Just as a security guard checks doors and locks, so too must the data security "guard" verify, by sitting in front of the keyboard and testing the access, that the locks are still on the system's important documents.



Experience in computer programming is beneficial to those seeking a career as a data security administrator. The federal government, large corporations, and even small banks employ data security administrators. As the use of computerized files grows, the need for qualified data security personnel will grow too.



COMPUSENSE

A Bank Reconciliation

If you have a computer that uses the BASIC language, run this program to try some problems in bank reconciliation.

Program

```

10 DIM U(20), D(2), S(5)
20 PRINT "ENTER CHECKBOOK BALANCE"
30 INPUT B2
40 PRINT "ENTER BALANCE FROM BANK STATEMENT"
50 INPUT B1
60 PRINT "ENTER NUMBER OF OUTSTANDING CHECKS"
65 INPUT C
70 FOR X = 1 TO C
80 PRINT "ENTER AMOUNT OF OUTSTANDING CHECK": X
90 INPUT U(X)
100 NEXT X
110 PRINT "ENTER NUMBER OF DEPOSITS NOT ON BANK STATEMENT"
120 INPUT D1
130 FOR X = 1 TO D1
140 PRINT "ENTER DEPOSIT": X
150 INPUT D(X)
160 NEXT X
170 PRINT "ENTER SERVICE CHARGE"
180 INPUT S1
190 PRINT "ENTER THE NUMBER OF WITHDRAWALS NOT RECORDED IN CHECKBOOK"
200 INPUT W
210 FOR Z = 1 TO W
220 PRINT "ENTER UNRECORDED WITHDRAWAL": Z
230 INPUT S(Z)
240 NEXT Z
250 FOR Z = 1 TO W
260 S4 = S4 + S(Z)
270 NEXT Z
280 FOR Y = 1 TO D1
290 D2 = D2 + D(Y)
300 NEXT Y
310 FOR K = 1 TO C
320 U1 = U1 + U(K)
330 NEXT K
340 B3 = B1 + D2 - U1
350 B4 = B2 - S1 - S4
360 PRINT "ADJUSTED BANK STATEMENT BALANCE IS $": B3
370 PRINT "ADJUSTED CHECKBOOK BALANCE IS $": B4
380 IF B4 = B3 GOTO 999
390 D5 = B4 - B3
400 PRINT "THE DIFFERENCE BETWEEN THE BANK STATEMENT BALANCE AND"
410 PRINT "THE CHECKBOOK BALANCE IS $": D5
999 END

```

Sample Output

```

ENTER CHECKBOOK BALANCE
? 137.75
ENTER BALANCE FROM BANK STATEMENT
? 100.75
ENTER NUMBER OF OUTSTANDING CHECKS
? 1
ENTER AMOUNT OF OUTSTANDING CHECK 1
? 5.00
ENTER NUMBER OF DEPOSITS NOT ON BANK STATEMENT
? 1
ENTER DEPOSIT 1
? 25.00
ENTER SERVICE CHARGE
? 1.00
ENTER THE NUMBER OF WITHDRAWALS NOT RECORDED IN CHECKBOOK
? 2
ENTER UNRECORDED WITHDRAWAL 1
? 5.00
ENTER UNRECORDED WITHDRAWAL 2
? 10.00
ADJUSTED BANK STATEMENT BALANCE IS $ 120.75
ADJUSTED CHECKBOOK BALANCE IS $ 121.75
THE DIFFERENCE BETWEEN THE BANK STATEMENT BALANCE AND
THE CHECKBOOK BALANCE IS $ 1

```

Problems

Reconcile the checking accounts for these four people.

1. Robert Baker

Checkbook balance: \$228.15

Bank statement balance: \$255.06

Outstanding checks:

No.	Amount
834	\$10.00
849	23.85
851	15.56
853	5.00
854	20.00

Deposit not shown on

bank statement: \$ 39.50

Unrecorded withdrawal: \$ 5.00

Bank service charge: \$ 3.00

3. Luis and Maria Valdez

Checkbook balance: \$396.55

Bank statement balance: \$699.96

Outstanding checks:

No.	Amount
1432	\$ 21.00
1448	30.34
1451	222.81
1458	44.70
1459	30.00
1460	15.81

Deposit not shown on

bank statement: \$ 58.75

Bank service charge: \$ 2.50

2. Miles Landry

Checkbook balance: \$148.56

Bank statement balance: \$112.94

Outstanding checks:

No.	Amount
115	\$17.85
117	6.53
120	15.00

Deposit not shown on

bank statement: \$ 50.00

Unrecorded withdrawal: \$ 25.00

4. Mary Sue Buroker

Checkbook balance: \$664.74

Bank statement balance: \$980.50

Outstanding checks:

No.	Amount
95	\$ 25.00
98	13.68
101	128.37
104	103.13
110	50.00
112	23.58

Deposit not shown on

bank statement: \$ 25.00

Bank service charge: \$ 3.00

UNIT

8

USING CREDIT WISELY





CHAPTER 30

Credit: A Promise to Pay

- "Buy now, pay later." "No money down, easy monthly payments." "Charge it." You've heard all of these expressions before, probably many times. Why do you suppose credit is so big in our economy?
- You don't have any money, but you want to go out and buy a ski jacket, or a used car, or a stereo. Would you use the same kind of credit for each one? Why or why not?
- When you borrow money or use credit, you have to pay for it. So do businesses and the government. Why do they use credit?

Do you know what these terms mean?

credit	credit rating
creditor	charge account
debtor	installment credit
consumer credit	down payment
commercial credit	consumer finance company
finance charge	public debt

You'll learn all about these terms in this chapter.

We are all in the same boat when it comes to credit. Individuals, businesses, and government all want things *right now* that they can't afford to pay for at the moment. Furthermore, to postpone buying some items actually means a higher cost. To start with, there are some good reasons for using credit. There are some advantages and some disadvantages. Credit costs money. The question really is, "Does it cost more than it's worth?" That is the decision you as a consumer of credit have to make.

THE NATURE OF CREDIT

Credit is the opportunity to obtain money, goods, or services now for payments to be made in the future. Credit is based on trust. When you borrow money, you promise to pay it back in the future. The one who lends the money or provides the credit is called a **creditor**. The one who borrows money or uses credit is called a **debtor**. All of us, including businesses and government, can be either a creditor or a debtor, depending on whether we are borrowing or lending.

Individual credit for personal use is called **consumer credit**. Credit enabling a business to buy — and pay later — is called **commercial credit**. Government uses credit to provide citizens with services that benefit all of us. Local, state, and federal governments may borrow money to provide police and fire protection, operate schools, build highways, supply clean water, and provide for the national defense.

Why Use Credit?

Consumers in our economy buy almost anything and everything on credit. They use credit for vacations, gasoline, furniture,

cars, and so on. There are several reasons why you see credit being used everywhere.

- For convenience. Credit can make life a lot easier if used properly. It is convenient, especially if you don't have enough money. Credit makes it unnecessary to carry large amounts of cash while shopping. You can use credit cards for food, transportation, and lodging while traveling. You can manage a whole trip on credit.
- For emergencies. Using credit under unusual conditions may be very helpful. There may be times when you don't have enough money to cover an emergency. For instance, suppose your car blows a tire while you're traveling, and you have to be towed and buy a new tire. Or suppose somebody in the family breaks a leg, and it's necessary to get a wheelchair or crutches. Emergencies don't always happen when you have money for them.
- For expensive purchases. Some items, such as an automobile, a refrigerator, a vacation, or a home, cost a lot of money. Many people want or need these things before they have enough money to pay for them. If these things could be bought only when people had the money for them, many people would never be able to afford them.

There are good reasons for using credit. However, it must be used wisely. When buying on credit, consumers should decide whether the additional cost is worth it. Credit can lead to wasteful spending and money management problems. Before buying on credit, you've got to be sure you can make the payments. And be sure you have a reason for getting the item in the first place.

If you could get credit right now, what would you use it for? What things would you buy?

Advantages of Credit

There are some obvious advantages to using credit, and at least one that may not be so obvious. For instance, if you buy on credit, you may get better service. Customers who use credit and buy at a place over a long period of time often get notices of sales or receive special discounts. Regular credit customers may be able to get faster repair service, since the product may not yet be paid for. When returning something bought on credit, there is no need to

wait around or stand in a second line for a cash refund. The cost of the returned item will be used to reduce the amount of your next bill.

An obvious advantage of credit is that you can use the product while you are still paying for it. You can enjoy a vacation without having to save up to pay for it. Or you can wear your new winter coat before you've saved enough money to finish paying for it.

Buying on credit can help you take advantage of sales to purchase items you had planned to buy sometime in the future. Sales, after all, don't come at your convenience! While you are saving for new furniture, for instance, some of the pieces you want may be offered at reduced prices, but for a limited amount of time. Taking advantage of the lower prices and buying the furniture on credit may actually save money.



You can use credit to take advantage of sales.

In a larger sense, credit also contributes to the success of our economy. When consumers buy more goods and services to satisfy their wants, additional people are put to work producing and selling these things to keep up with the demand. The economy expands and business is good. The people who make their living on credit are better off. Billing clerks, collection agents, and credit managers are working more. The whole economy is healthier, up to a point. Of course, overusing credit can cause economic problems.

Disadvantages of Credit

In using credit, you would be wise to know the disadvantages as well. There is a cost, or **finance charge**, for credit. This cost of credit is charged for the use of goods or services while they are still being paid for. The finance charge certainly increases the total amount paid for the item. For instance, a television set may cost \$250 if you purchase it for cash. Purchased on credit, with payments spread over three years, for example, the cost might increase to \$350. The cost of credit? \$100.

Another disadvantage of using credit is that you may buy more than you can afford. For some people, easy credit provides too much of a temptation to buy things that are not really needed and cannot be paid for. In such a situation, a person may not be able to keep up with the credit payments. Missed or late payments may result in a poor credit rating. A person's **credit rating** is his or her reputation for making payments on time.



Easy credit may encourage you to buy more than you can afford.

Another disadvantage results from getting too much credit. Consumers who buy on credit and then cannot make all of their payments create costs for creditors. Because creditors must collect what is owed, there are extra costs for billing, recordkeeping, and other office work. These costs are passed on to other customers in the form of higher prices for goods and services.

Some retail businesses, such as gasoline stations, offer reduced prices to customers who pay cash. Do you know of any local businesses that do this?

THE KINDS OF CREDIT

The kinds of credit a consumer can get vary a great deal. In part, the nature of the loan or delayed payment the person wants to obtain identifies the type of credit. One of the best-known kinds is the **charge account**, which allows purchases on credit up to a certain amount in a specific store. Clothing, furniture, department, and other kinds of stores may encourage customers to open charge accounts. It's convenient for customers, and it also helps business by encouraging shoppers to buy regularly at the same store.

Credit cards are another extremely popular kind of credit use. Practically everything can be bought with credit cards nowadays. Credit cards are issued by a variety of businesses. *Single-purpose cards* are issued by business firms or corporations, to be used only at their places of business. For example, most of the major oil companies issue credit cards that may be used at any of their service stations. Department stores issue their own credit cards to be used in their stores.

Banks issue *multipurpose cards*. They may be used at stores, restaurants, hotels, airlines, and a number of other businesses. The two most popular multipurpose cards are VISA and MasterCard. These multipurpose cards, also called bank credit cards, are accepted by thousands of stores and businesses. Many banks charge an annual fee of \$20 to \$25 for these cards.

Travel-and-entertainment cards, such as Diners Club and American Express, are accepted worldwide. They may be used for restaurant and hotel bills, car rental, airline reservations, and at most businesses that sell to tourists. Holders of these cards pay an annual fee, and usually they must meet strict requirements to be considered for membership.

Credit that involves signing a contract for the purchase of an item over a specific period of time is called **installment credit**. Many people buy large home appliances, furniture, and automobiles with monthly payments over a period of one to five years. With the signing of the contract for the installment credit, a percentage of the total cost of the item is required. This is the **down payment**. As an example, suppose you purchase a stereo for \$280 and make a down



When you make purchases over a certain amount, such as \$50, your account is checked for any problems in payment.

payment of \$30. The remaining \$250 of the loan, plus a finance charge, is then divided into 12, 24, or 36 monthly payments.

Another common type of credit is the loan itself. You may use a loan in a variety of ways, including depositing some or all of it in the bank until you need it. The cash from the loan allows a consumer to shop around for an item in order to get the lowest price and the best service. Some customary uses for loans are for home remodeling, vacation trips, or a college education.

Charge accounts and credit cards are known as *short-term credit* because they are usually repaid in less than five years. More expensive purchases on credit, such as houses, businesses, and other property, usually require payments for many years. Credit of this type is called *long-term credit*.

Charge accounts and credit cards are covered in greater detail in Chapter 31. Loans are discussed in Chapter 32.

WHERE TO GO FOR CREDIT

As you have learned, there are different kinds of credit. Credit is available from different sources, too. Commercial banks make loans to individuals and businesses, and they are one of the most-used

sources of loans. They also issue bank credit cards, like VISA and MasterCard. Most banks set a limit on the amount of credit a person can have at one time. For example, a bank may set a credit limit of \$1,000 on your credit card. This means that you can never carry more than \$1,000 worth of debts on your credit account at any given time.

Credit unions are a good source of credit for their members. They lend only to members who may live in the same area or work together. Their costs for loans are usually among the lowest from lending agencies, partly because they are nonprofit organizations and can make fairly safe loans to members only.

Credit is available through other types of credit cards, such as those issued by credit card companies like American Express. Individual stores issue credit through their own credit cards by allowing customers to charge their purchases to their accounts.

Another less-used kind of credit is borrowing on life insurance. Certain kinds of life insurance, which have a savings plan along with insurance protection, build a cash value. The owner of the life insurance policy may borrow part or all of the cash value. Generally such loans are low in cost.

A business that specializes in personal loans is a **consumer finance company**. Such a company may lend money to people who can't get credit elsewhere. Consumers who are not able to hold a steady job or who have failed to make credit payments in the past may have trouble borrowing from other sources. Obviously, since a greater risk generally is involved, the cost of a loan from a consumer finance company is higher than the cost of a loan from other sources.

Pawnshops provide a unique way of obtaining credit. A consumer brings in jewelry, musical instruments, cameras, and so on. Then the pawnshop lends a portion of the value of the item to the customer and holds the item. The individual can get back the item if the loan plus interest is paid within a certain period of time. The cash the pawnshop gives in exchange is usually only a fraction of the value of the item. Obviously the risk is great that the pawnshop will not get its money back. If the customer does not repay the loan, the pawnshop sells the item.

The risk a creditor takes in lending money or selling on credit is one of the most important factors in determining the cost of credit. If a consumer has a good credit rating, he or she will generally pay less than one who has a poor rating. In general, the lower the risk, the lower the cost for obtaining credit.

BUSINESSES AND CREDIT

Businesses often use credit for the same reasons that consumers do. For instance, they may need to buy goods on credit. Or they may need short- or long-term loans to pay salaries or to buy property. Manufacturers borrow money to buy raw materials, new machinery, factories, or trucks. Usually the larger the business, the larger the number of reasons there are for obtaining credit. When businesses borrow money, however, they can pass along the cost of credit in higher prices on their own products.

But credit is also used by businesses to *help* sell their products. For instance, stores that accept credit cards or sell on an installment basis make it easier for consumers to buy. When consumers buy more, businesses sell more — and make more profits. In addition to increased sales of products, businesses may make money on finance charges. If they offer credit, consumers must pay for it. So the more credit that businesses sell to consumers, the more they make on finance charges.

Businesses use credit to finance the goods and services they offer to consumers.



While there are advantages to offering credit, there are also problems. The company will have extra costs. For example, workers must be hired to keep records of payments and to send out monthly bills. The business will also have to take additional risks. When people don't pay their bills, profits are reduced. Businesses that are well run, however, can make credit work for them in both ways.

GOVERNMENT AND CREDIT

During World War II, 1941–1945, the federal government's use of credit to finance military spending increased enormously. Since that time, the **public debt**, or the amount owed by any level of government, has grown at a rapid rate. The federal government uses credit to pay for many services it provides citizens. Some of the services include national defense, support for agriculture, and maintenance of national parks. State and local governments use credit to pay for highways, housing, stadiums, and water systems, among other things.

While most of us would agree that the use of credit by the government for such services is worthwhile, some people think it is overused. Today the debt of the federal government has become so large, the interest payments are a large part of the government's budget each year. Many people want this debt cut.

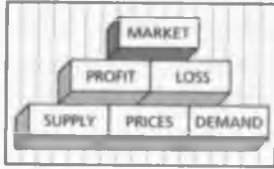
What local facilities were provided through government use of credit? How is their cost being repaid?

SUMMARY

Credit allows individuals, businesses, and government to buy goods and services now and pay later. Credit is commonly used for convenience, for emergencies, and for purchasing expensive items. While credit provides an opportunity to buy when products are on sale or convenient, there is also a cost for it.

Credit is available to consumers in several different forms and from a variety of sources. Business and government also use credit, and for many of the same reasons individuals do. However, credit is sold by business much like any other service. And government pays for it with the taxes we all have to pay. Regardless of who uses credit, the individual consumer winds up paying for it. It is important, therefore, to understand how to use it and why.

BUILDING WORD POWER

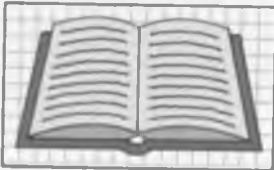


Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 12. Then write the term that best matches each numbered definition.

- | | |
|--------------------------|--------------------|
| charge account | creditor |
| commercial credit | debtor |
| consumer credit | down payment |
| consumer finance company | finance charge |
| credit | installment credit |
| credit rating | public debt |

- The one who lends the money or provides the credit.
- A percentage of the total cost of an item that is paid at the time of purchase.
- A business that specializes in consumer loans.
- The opportunity to obtain money, goods, or services now for payments that must be made in the future.
- The amount owed by any level of government.
- The cost for using credit.
- Credit used by businesses.
- A person's reputation for making payments on time.
- A form of credit that involves the signing of a contract for the purchase of an item over a specific period of time.
- Individual credit for personal use.
- A form of credit that allows purchases up to a certain amount in a specific store.
- The one who borrows money or uses credit.

BUILDING READING COMPREHENSION



- Name three main reasons consumers use credit.
- What are the advantages of consumer credit? What are the disadvantages?
- What are the three types of credit cards? Give an example of each.
- How can a cash loan help consumers get the best buy?
- What is the difference between short-term and long-term credit? What types of purchases are made with each type of credit?
- What are four common sources of credit?
- Why do consumer finance companies have higher finance charges than other places?
- What advantages do businesses have in offering credit?
- How can the use of credit cause problems for businesses?
- List three services for which the federal government uses credit.

**BUILDING
BUSINESS
CONCEPTS**

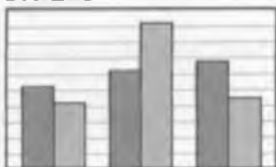
1. Why is credit important to our economy?
2. Name some items you should not buy on credit.
3. "Credit is a privilege. It should not be abused." Explain what you think this statement means.
4. What is risk? How does risk affect the cost of credit?
5. Convenience is one of the reasons for using credit. But cash is also convenient. Describe two situations in which cash would be more convenient. Next, describe two situations in which credit would be the better choice.
6. Some people say that most pawnshop loans are not really loans at all. Explain what they mean.
7. "Everyone would gain if there were no consumer credit. Consumers would benefit because goods and services could be sold at a lower price. The lower price means that businesses would sell more goods and services." Do you agree or disagree? Give reasons for your answer.
8. Why have credit cards become so popular? Who benefits from the increased use of credit cards?
9. Do you think credit cards are a good thing for the economy? Why or why not?
10. If a person uses credit, does that mean he or she has money problems? Explain your answer.

**BUILDING
BUSINESS
EXPERIENCE**

1. Ask several members of your family whether they use credit. What items do they buy most frequently on credit? What types of credit do they use most often?
2. Bring in newspaper articles and advertisements that show uses of credit by consumers, businesses, and government. Who benefits the most from these examples of credit?
3. The Martin family's washing machine has broken down. They can get it repaired, but since it is quite old it may not be worth it. A new washing machine will cost \$290, but it will take eight months for them to save the money. In the meantime, the family will have to take their clothes to a laundry. They can instead buy a new machine on credit now for \$380, which includes the finance charges. For each of their choices, list the advantages and disadvantages.
 - a. Repair old washing machine
 - b. Buy new washing machine on credit
 - c. Save to buy new washing machine for cash
 Which choice do you suggest for the Martin family? Why?
4. Contact a credit union in your community to determine who is allowed to join and what services are offered to members.

5. Rate each of the following situations as a *wise* or an *unwise* use of credit. Give reasons for your answers.
- A person borrows from a bank to purchase a sewing machine to use in making clothes.
 - A consumer uses a credit card to buy weekly groceries and currently owes over \$800 to the credit card company.
 - A person borrows money from a consumer finance company to take a vacation and still owes for last year's vacation.
 - A consumer gets a cash loan with an annual percentage rate of 17 percent to buy a refrigerator on sale for 25 percent off.

BUILDING MATH SKILLS



1. Most installment contracts require a percentage of the total price as a down payment. For each of the following items, compute the down payment. The first entry is given for you.

Item	Price	Required down payment (%)	Amount of down payment
Stereo	\$ 295	10%	\$29.50
Television	298	10%	?
Electric stove	489	20%	?
Desk and chair	163	15%	?
Used car	3,495	25%	?
Sofa	495	17%	?

2. The law requires that the cost of credit be stated as an annual percentage of the total amount financed or borrowed. For example, \$100 borrowed at an annual rate of 16.9% would mean a cost of \$16.90 a year. If the loan were for two years, the total cost would be \$33.80 ($2 \times \16.90).

For each loan in the table below, determine the cost of credit for one year and the total cost.

Amount borrowed	Annual rate	Cost per year	Number of years	Total cost
\$ 100	16.9%	\$16.90	2	\$33.80
700	17.9%	?	3	?
60	14.5%	?	2	?
1,200	12.0%	?	5	?
950	12.5%	?	4	?

Day Care as a Fringe Benefit?

Although employees cannot demand fringe benefits from a company, they can influence those that are offered. Whether or not companies should provide day care as a fringe benefit has become a major issue because employees are making it one.

The number of mothers who work outside the home and the number of working single parents have increased dramatically in recent years. In addition, two-job couples are fast becoming the rule rather than the exception. With these statistics, many parents have a difficult time finding quality day care. Thus, it is not surprising to find employees pressuring their employers to offer day care as a fringe benefit.

With company-sponsored day care, parents bring their children to work, visit them at lunch, and are close by in case of an emergency. Employers who agree with the idea of providing day care believe it reduces absenteeism, creates a less stressful working environment, and improves productivity.

However, unlike medical and dental benefits, day care is not a fringe benefit in which all employees can share. For this reason, it can prove to be a hindrance to

company morale. Also because of the personnel needed, the insurance costs, and, in some companies, round-the-clock supervision, many employers decide against offering day care because it is not cost-effective.

As an alternative to a yes or no decision regarding day care, some companies offer day care but charge the employees who take advantage of it. Other companies offer referral services to assist parents in finding day care.

The need for day care is no longer considered primarily a woman's issue or a problem reserved only for those with low incomes. With the current social changes, day care has become a need of many families. How this need will be filled is still uncertain.





CHAPTER 31

Buying on Time

- You can buy now and pay later. In fact, it's very easy to do so. Before you pay, what does a salesperson in a large store ask you? Why?
- Some people boast that they have a wallet full of credit cards. There are indeed a lot of such cards. Can you name some credit cards? What are they used for?
- You can travel and eat and buy clothes — all on a credit card. Sooner or later, however, there is a reckoning. What's a possible problem with the use of credit cards?

Do you know what these terms mean?

regular charge account	average-daily-balance method
revolving charge account	credit bureau
option account	credit history
annual percentage rate	credit limit
adjusted-balance method	credit agreement
previous-balance method	

You'll learn all about these terms in this chapter.

Buying on credit is almost a way of life for some consumers. In practically every store they enter, they are asked, "Cash or charge?" Charge accounts and credit cards give consumers a choice. "Should I buy this suit now and charge it?" "Should I buy this gasoline with a credit card and save my cash for something else?"

Sometimes the decision is not that easy. Paying later may mean paying more! For example, buying a \$120 coat may mean an additional cost for finance charges. The consumer must decide whether the convenience of having the coat right away is really worth the extra cost. When does the convenience stop being worthwhile?

CHARGE IT!

To make buying easier and faster, many stores offer a method of allowing customers to make purchases and postpone payments on them. This type of consumer credit is the charge account. With such an account, a customer can charge purchases and pay for all or part of them when the bill is received later. Both large chains and small independent stores may offer the convenience of charge accounts. An obvious and important purpose is to encourage customers to shop regularly in those stores.

There are two main types of charge accounts. One that requires all purchases to be paid for within a certain period of time, usually 25 or 30 days, is called an open, or **regular charge account**. This kind of credit features convenience. As a consumer, you have a chance to buy on credit, but with no finance charge. However, if the entire amount is not paid on time, a finance charge is added.

The other type of charge account allows you to keep adding to it. Each month, as new purchases are made, the costs of these are added to the total amount owed. When the monthly bill is received, you may pay only a portion of the total. The amount still owed, the



Credit card signs often lure customers in to shop.

unpaid balance, is used to figure the finance charge. This charge is a percentage of the amount still owed and is added to your bill. For instance, if your bill shows that you owe \$150 and you pay \$50, your unpaid balance is \$100. If your finance charge is 1 percent a month of the unpaid balance, \$1 will be added to your next month's bill. This type of account is called a **revolving charge account**.

Under what circumstances do you think a revolving charge account may be particularly useful?

Most charge accounts combine the features of both the open and revolving methods. You therefore have the choice of paying off the total amount owed or just a portion. If you pay the entire amount due, there is no finance charge. If you pay only a part, then a charge is added to the balance owed. Such a charge account, permitting you to go either way, is called an **option account**.

THE CONVENIENT CREDIT CARD

Although credit cards have been used for quite some time, their popularity has increased greatly in recent years. Currently over 715 million cards are in circulation. People are traveling more and spending more on recreation. The convenience of credit cards, particularly for traveling, has helped to make them widely used and accepted. Use of credit cards for automobile expenses, restaurant bills, and clothing purchases has greatly expanded.



An ever-increasing number of credit cards are available for consumers.

As with charge accounts, credit cards do away with carrying a lot of cash. Consumers are able to obtain goods and services immediately and do not have to make payments until later. Business people who travel prefer credit cards for another reason. When they buy a meal at a restaurant with a credit card, they receive a record of it. Remember, though, that credit cards usually add to the cost of purchases. There is a charge for paying later, in most cases.



Business people who travel often use credit cards to pay their expenses.

Types of Credit Cards

As you learned in Chapter 30, credit cards are of three types: single-purpose, multipurpose, and travel-and-entertainment. One of the ways they differ is in the cost. Single-purpose cards, issued by companies solely for use in their own stores or branches, do not have a fee. There is neither a fee to obtain the card nor one to keep it from year to year. Businesses who use this type of card — such as Gulf Oil; Sears, Roebuck; and J. C. Penney — want to encourage consumers to become regular customers.

Many bank credit cards, or multipurpose cards, have an annual fee, however. To use the card, a consumer may have to pay \$20 or \$25 per year. One monthly bill is sent for all purchases charged to the card, and once a year the bill includes the annual fee. MasterCard and VISA are the two best-known bank credit cards.

Travel-and-entertainment cards are issued by companies specializing in the credit card business. The credit card holder is charged a yearly fee for using the card. Examples of these cards are American Express, Diners Club, and Carte Blanche.

Many retail stores and other businesses display signs in their windows or on their doors indicating which credit cards they honor. From your observations, which credit cards seem to be the most popular in your community?

Costs of Credit Cards

If you pay your entire credit card bill within 25 to 30 days, most companies do not add on a finance charge. On the other hand, bills not paid in full will have a finance charge added on. The **annual percentage rate (APR)** is used to determine the amount that credit will cost you on a particular credit card account. The APR tells you in the form of a percentage the true rate you are paying per year for the benefit of credit. For example, an annual percentage rate of 18 percent means you will pay \$18 extra on each \$100 borrowed or owed for an entire year.

*Will that be cash (\$5,380.12)
or financed (\$6,260.07)?*



When you buy on time, remember that the finance charge increases the total cost.

There are three different methods of arriving at the finance charge on credit card and charge accounts. Although the annual percentage rate in each case may be the same, the amount of the finance charge can vary depending on the method used to determine the monthly cost.

Using the previous balance *minus* payments as a basis for determining the finance charge is called the **adjusted-balance method**. Since payments are deducted from the amount owed *before* the finance charge is determined, this method results in the lowest

finance charges. On the other hand, the **previous-balance method** does *not* deduct payments before the finance charge is determined. Customers are charged for the *entire* amount owed from the previous month. As a consequence, this is the most expensive method of determining credit costs.

Finally, there is the **average-daily-balance method**, which determines the finance charge on an average of the balance for each day of the month. Payments made during the month reduce the amount on which finance charges are based. The sooner a payment is made, the lower the finance charge will be. Since payments with this method *do* decrease at least the average balance owed, it falls in between the other two methods for total finance costs.

Since the use of credit cards at a store costs the business a fee, businesses sometimes give consumers a discount if they pay in cash. Instead of paying a percentage of the purchase to a bank or credit card company, the store reduces the price to the customer if cash is used at the time of the sale. Cash discounts are available at many businesses that accept credit cards.

Applying for Credit

If you decide to open a charge account or obtain a credit card, you will be required to fill out a credit application. This form consists of questions about you that help the store or credit card company decide if you are a good credit risk. The information you provide will be used to evaluate you as a reliable credit customer. It helps to determine if you are able — and likely — to make payments. There are usually four different types of information required on the credit application.

- **Personal information** — your name, address, social security number, length of time at current address, number of dependents, and whether you own your home or rent.
- **Employment information** — your employer's name and address, your number of years with current employer, and your occupation.
- **Financial information** — amount of wages or salary, location of savings account and checking account.
- **Previous credit use information** — name and address of other charge accounts or credit cards.

Businesses ask for this information to determine your character, capacity, and capital — *The Three C's of Credit*. Your personal

CREDIT APPLICATION

RYAN'S DEPARTMENT STORE

ABOUT YOU

Name	First <i>Terry</i>	Middle <i>E.</i>	Last <i>Bradley</i>	Date of Birth	Mo. <i>5</i>	Day <i>15</i>	Year <i>65</i>
Home Address	Street No. <i>37 Allen Street,</i>	City, Town <i>Minneapolis, MN</i>	State <i>MN</i>	Zip <i>55440</i>	Years There <i>3</i>	Own <input type="checkbox"/>	Rent <input checked="" type="checkbox"/>
Home (Area Code) Phone	<i>(612) 648-2539</i>		Monthly Rental or Mortgage Payment <i>\$ 350</i>	Social Security No. <i>0 3 8 3 2 2 1 6 2</i>			
Previous Address	Street No. <i>24 Lake Street,</i>	City, Town <i>St. Paul, MN</i>	State <i>MN</i>	Zip <i>55101</i>	Years There <i>19</i>		
Name of Close Relative	Name <i>Daniel J. Bradley,</i>	Address <i>24 Lake St.,</i>	City <i>St. Paul,</i>	State <i>MN</i>	Zip <i>55101</i>	Relative's (Area Code) Phone <i>(612) 595-6098</i>	

ABOUT YOUR WORK

Present Employer	Name of Company <i>Mayflower Insurance Company</i>				Your Position <i>Administrative Assistant</i>		
Business Address	Street No. <i>75 Colony Street,</i>	City <i>Minneapolis, MN</i>	State <i>MN</i>	Zip <i>55432</i>	Business (Area Code) Phone <i>(612) 725-5327</i>		
Annual Salary <i>\$14,600</i>	Years There <i>3 1/2</i>		Other Income <i>N/A</i>				
Previous Employer <i>N/A</i>						Years There <i>N/A</i>	

YOUR OTHER CHARGE ACCOUNTS AND BANK ACCOUNTS

American Express <input type="checkbox"/>	Account No. <i>N/A</i>	Exact Name of Account <i>N/A</i>
Visa <input type="checkbox"/> MasterCard <input type="checkbox"/>		
Savings Bank <i>Home Savings</i>	Account No. <i>045-1115</i>	Address of Bank <i>617 Marquette Ave.</i>
Checking Bank <i>Home Savings</i>	Account No. <i>045-1115</i>	Address of Bank <i>Minneapolis, MN 55402</i>
Loan Reference <i>N/A</i>		

I hereby certify that all statements made are true and complete and submitted for the purpose of obtaining credit. I authorize you to check my credit and employment history.

Signature *Terry C. Bradley*

Date *August 28, 19--*

qualities, such as dependability on the job and in paying bills, make up your *character*. Businesses want to know if they can count on you, if you will be a responsible consumer. *Capacity* is your ability to earn money, which may be shown by your occupation or by your years with your employer. Your capacity is important to your lenders because it reassures them that they eventually will be paid back. Finally, *capital* is what you own or are worth. If you own a house or an automobile or have a savings account, you may be a better credit risk than a person without these possessions.

How might information about whether you own or rent your residence be useful to a creditor?

The Three C's of Credit affect your credit rating, a measure used to decide if you are going to be a good credit risk. A person's reputation for paying bills on time and holding a steady job are two important factors in a credit rating. It goes without saying that a person with a good credit rating can more easily borrow money or buy on credit.

To check your credit rating, a business contacts an area **credit bureau**. This agency provides information to businesses, banks, and other agencies about you and other consumers of credit. For a fee, the credit bureau will send a **credit history**, a full report about you and your past credit experiences, to a credit card company or another lender. This report is a summary of various personal and financial information. Your credit history shows past credit use, such as any overdue payments or any charge accounts that you have or once had. It also shows previous addresses, employers, and so on. For the creditor, your credit history serves as both a double check on your credit application and a record of your credit history.

From your credit application and credit history, a company determines how much you can "borrow" on the credit card or charge account at any one time. In other words, what is your **credit limit**? A credit limit protects you from charging more than you can pay back. It also protects the business from customers who may charge too much and may be unable to pay it back.

All credit and charge account applications also include a **credit agreement**. This section of the application, usually at the end of the form, explains the interest rate, finance charges, and the smallest payments that can be made each month. Once a consumer decides to use a credit card or charge account, the credit agreement is signed. The signature indicates that the individual will follow the rules as described in using the credit.

The Monthly Statement

Charge account and credit card customers receive a monthly bill that lists all new charges and payments during the previous month. The monthly statement has the following information:

- Previous balance, or the amount owed at the end of the last billing period.
- New purchases, including each item bought during the past month. These purchases increase the amount owed.
- Payments and/or credits, which are the money paid on the account and goods returned to the store for credit. All of these *decrease* the total amount owed.
- Finance charges, if any, that were added to the bill. These charges *increase* the amount owed.
- Current balance, or the total amount now owed. Customers may have the choice of paying all or part of this total.

It is important for the customer to check all of this information carefully to make sure that it is correct.

Credit statements are usually sent monthly.

CREDIT STATEMENT						
Ryan's Department Store 1212 Nicollet Avenue Minneapolis, MN 55403					Amt. Enclosed \$ 	
					Terry E. Bradley 37 Allen Street Minneapolis, MN 55440 Acct. No. 789462	
Billing Date: 9/13/--						
Date	Ref No	Dept.	Description	Purchases	Payments and Credits	
8/13/--	423	18	Sportswear	15.95	25.00	
8/21/--	62	8	Hosiery	4.98		
9/1/--	2039	39	Stationery	4.25		
9/5/--			Payment, Thank you			
9/8/--	398	4	Cosmetics	12.50		
Previous Balance	Payment	Finance Charges	Total Purchases	New Balance	Min. Due	Due Date
37.43	25.00	.56	37.68	50.67	25.00	10/17/--

THE PROBLEMS WITH CREDIT

One of the most common troubles people have with credit is overusing it. With credit cards, the more one has, the more one is tempted to make purchases on the spur of the moment. You must be careful to buy only what you really want and can afford.

What makes it harder to be careful is that credit cards are usually quite easy to obtain. Most people can meet the requirements for one or more cards. Businesses may send you a charge card through the mail so that you will shop at their stores. This is an illegal practice unless you have asked or applied for the charge account. Businesses can send you a credit application without your asking for it, but they cannot send you the actual charge card.

Another problem for a credit card holder occurs when a card is lost or stolen. You must notify the credit card company immediately if your card is misplaced. If you have notified the credit card company — and *then* someone uses your card illegally — you will not be charged for these unauthorized purchases. However, if you don't notify the company, you can be charged for purchases on your card. This charge used to be unlimited, but the law has now set a limit of \$50. This problem emphasizes that lost or stolen credit cards should be reported immediately. The loss of several cards can mean a \$50 charge for each one if it is used and not reported missing. Convenient and popular as the credit card is, like any good tool it has to be used with care.

SUMMARY

Among the many decisions a wise shopper makes, there is one that has to do with paying for a purchase. "Should it be done now or later?" "Should I apply for a charge account? a credit card?" There are various choices available. But like most things in our business and economic world, credit isn't free. It is very convenient, but it can cost money if it's not paid for within 25 to 30 days.

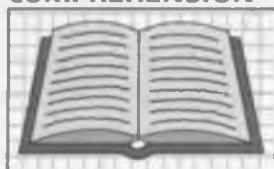
Some credit cards cost more than others. Read the fine print on the credit agreement. Make sure you know what you're signing when you put your signature on the application for a charge account or a credit card. It isn't important how many credit cards you can collect. But it *is* important what kind of credit rating you maintain.

**BUILDING
WORD
POWER**

Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 11. Then write the term that best matches each numbered definition.

adjusted-balance method	credit limit
annual percentage rate	option account
average-daily-balance method	previous-balance method
credit agreement	regular charge account
credit bureau	revolving charge account
credit history	

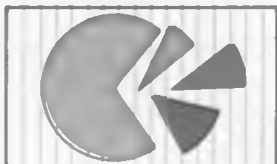
1. The rate that credit will cost on a credit card account.
2. A type of charge account that can be added to during the month. At the end of the month, part of the total due is paid.
3. The most that a person can borrow on a credit card or charge account.
4. A method of figuring the finance charge using the previous balance minus payments as a basis.
5. A type of charge account that requires all purchases to be paid for within a certain period of time, usually 25 to 30 days.
6. A method of figuring the finance charge by using an average of the balance for each day of the month.
7. A type of charge account that includes the choice of paying off the total amount owed or just a portion.
8. A method of figuring the finance charge on the entire amount owed from the previous month.
9. An agency that provides information about your credit history to businesses.
10. A report about you that is sent to lenders.
11. The section of a credit application that explains the interest rate, finance charges, and the smallest payments that can be made each month.

**BUILDING
READING
COMPREHENSION**

1. What are the two main types of charge accounts available to consumers?
2. If a consumer has an option account, what happens if only part of the amount due is paid?
3. Which method of computing the finance charge is least expensive? Which is most expensive? Why do finance charges differ even when the APR is the same?
4. Why do some stores give a discount to customers who pay cash?

5. What four types of information are usually required on a credit application?
6. What are The Three C's of Credit? Explain what each one is and why businesses would want this information.
7. What information is on a customer's monthly credit statement?
8. What are some common problems that are caused by credit cards?
9. How can a business firm legally use the mail service to attract new credit customers?
10. If a credit card is lost or stolen, what should the card holder do?

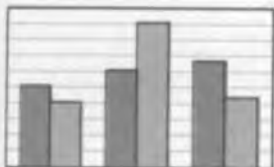
BUILDING BUSINESS CONCEPTS



1. When a person uses credit, is he or she really borrowing? Explain your answer.
2. Why are people willing to pay the annual fee that travel-and-entertainment cards have?
3. "The real benefit of credit cards comes when a consumer pays his or her bill in full each month." What does this statement mean?
4. Why do you think years on the job, years at present home address, and owning your own home or automobile help your credit rating? Can you think of other factors that might affect your rating?
5. Many credit accounts charge $1\frac{1}{2}$ percent per month on the unpaid balance. For each \$100, what is the charge per year? Do you think most users are aware of the true cost of using credit? Why or why not?
6. If a lost or stolen credit card is used by someone else, the card holder has to pay the first \$50. If the unauthorized purchases are for amounts over \$50, who pays?
7. There are companies that will notify all your credit card issuers if your wallet is lost or stolen. They charge a fee for this protection. Would it be worthwhile for all consumers to use this service? Why or why not?
8. Why do you believe it is illegal for businesses to send credit cards to consumers without first receiving their request for the cards?
9. Should consumers who pay cash for their purchases be charged less than consumers who use a credit card? Why or why not? Who would benefit?
10. Why would a credit card company increase a consumer's credit limit without a request by the customer to do so?

**BUILDING
BUSINESS
EXPERIENCE**

1. Ask your parents, neighbors, and teachers if they use credit cards. What types of cards are used most often? Which ones have an annual fee?
2. Obtain several charge account and credit card application forms from various stores and companies. Compare the information requested on each application.
3. Visit local stores to determine what types of charge accounts they offer and what credit cards they accept.
4. If you receive a credit card through the mail that you did not request and you do not want to keep and use it, what should you do?

**BUILDING
ANALYTICAL
SKILLS**

Matt McClellan operates a clothing store near a college campus. Many of his customers are students at the college. He has debated about whether he should sell for cash only or allow his customers to use all of the popular credit cards. Many of his competitors accept all of the multipurpose credit cards, and some have issued their own single-purpose credit cards. List reasons *for* using the credit cards in Matt's store and arguments against the use of credit cards in Matt's store.

Would you advise him to issue his own single-purpose card? What would you want to know about his store before you would advise him either to issue one or not to issue one?

Careers in Business

Commercial Artist

Do you have a knack for knowing which colors go together, what designs are pleasing and eye catching, or how different kinds of lettering can be used? People with these skills are needed in business to help turn an idea into something people can see and recognize — such as an eye-catching album cover.

These people are called commercial artists. Many things around you — from the box your macaroni comes in to a shoe advertisement in the newspaper, from the title of a movie flashed on the screen to the cover of this textbook — require the skills of commercial artists.

Commercial artists often work together as a team, each artist using special skills to come up with the final product. One person who is good at drawing makes the illustrations needed. Another who is familiar with typefaces puts the lettering in place. Another may select the colors for printing the finished products. They all follow the directions of the art director overseeing the project.

Preparation for a career as a commercial artist can begin in high school, with student experience on yearbooks and school newspapers. On-the-job training is possible through work with an advertising agency or publisher, for example. But special training is usually necessary for a person to move up from an entry-level job. Most professional commercial artists have had four or more years of college education in painting, sculpture, or architecture.



In addition, many commercial artists work as freelancers who do individual projects for those wishing to use their services. Freelancers can set their own hours and working conditions. However, competition for available work can be fierce.



CHAPTER 32

Buying the Big Item

- You wouldn't have much luck trying to buy a car with a credit card. It takes a lot of credit for that. Just how would you go about getting credit to buy a car?
- If you're going to make a big purchase on credit, be prepared for a big finance charge. You may also need some way to back up your credit. How do you think you would do that?
- When you shop for credit, there are a number of things to consider. For example, where do you go, and how much does it cost? What can you do to cut down on the costs?

Do you know what these terms mean?

installments	dollar cost of credit
collateral	promissory note
repossession	secured loan
cooling-off period	unsecured loan
balloon payment	cosigner
acceleration clause	principal
add-on clause	simple interest
wage assignment	discount method
credit life insurance	add-on method
holder in due course	

You'll learn all about these terms in this chapter.

While many small items can be purchased with credit cards and charge accounts, different kinds of credit are used to buy big items. Payment for expensive items — such as automobiles, furniture, and large appliances — is usually spread over several months. Sometimes money is borrowed for large purchases.

BUYING ON INSTALLMENT

As a consumer, you have two choices when you buy a large, expensive item. You can save your money and buy it in the future when you have enough cash. Or you can get it now and pay for it in the future — in **installments**, regular monthly payments. Instead of saving beforehand, you are forced to save after the fact.

Let's consider that you want an automobile to get to work. Is it possible to get to work on the bus or with a friend while saving money for a car? Or do you need the car now? You must decide whether obtaining the car *now* is worth the extra cost of buying on credit. Thousands of decisions like this are made all the time because buying a car on installment is the most common use of credit in our economy. Appliances such as television sets, refrigerators, and washing machines are usually sold on installment. The costs of electric guitars, pianos, and other expensive musical instruments also are usually spread over a number of payments. Some of the things you buy from door-to-door salespeople are customarily bought on installment plans too. These are such items as reference book sets, vacuum cleaners, home repairs, and photography service sold to you in your home.



Musical instruments are frequently bought on installment.

When you use installment credit, you make a down payment in cash or by check. The remainder of the amount owed, plus the finance charge, is divided into monthly or weekly installment payments. What you buy is actually used as security to reduce the risk of the credit sale. The security or backing, called **collateral** (*kuh LAT ur uhl*), for the loan is the item you have bought on credit. A television set or an automobile can serve perfectly well as collateral. If you fail to make the payments on the installment loan, the automobile or television set can be taken back. It was your property, or possession, until then. The act of taking it back upon your failure to make payments is called **repossession**. The business can then sell the automobile or television set to another consumer to obtain the money still owed.

What happens when a creditor sells a repossessed item to recover the amount still owed? Suppose, for instance, that an automobile is repossessed and sold for \$1,500, but the person who signed the contract still owes \$2,000. The debtor would still have to pay the balance due of \$500, even though he or she no longer has the car. If the repossessed car were sold for \$2,500, then the debtor should get a refund of \$500. Unfortunately, in some cases the debtor may not be notified if the amount owed is more than covered.



"Sorry, pal. You missed a payment and I'm going to have to repossess them."

Why do you think it's important that creditors who sell repossessed items do not profit from the resale? What might otherwise happen?

Before You Buy on Installment

Buying an expensive item is a big decision — and a costly one. Here are some questions you might ask yourself before making that big purchase on credit.

1. Do I really need this item immediately? Or can I wait until I save the money or at least *some* of the money to make as large a down payment as possible? This is the first and most important question to ask yourself before using credit. You must decide whether having the item now is worth the extra cost of buying on credit.

2. Will I be able to make the payments? Loans and credit purchases require some type of monthly payment. You must be sure that this additional expense will fit into your budget.

3. Will the item have a lasting value? Buying an item on credit allows you to use the item while paying for it. What happens if the purchase becomes useless or wears out before I finish paying for it? Will it be more difficult for me to make the payments after that point?

4. Did I shop around for the best credit rates? Like comparison shopping for any product, comparison shopping for credit can save money. Interest rates can vary widely, depending on economic conditions and on where you borrow.

The Installment Contract

When using installment credit, you are required to sign an installment contract. This contract is the legal agreement between the creditor, or lender of the money, and the debtor, or buyer. Consumers should be sure that all blanks on a contract are filled in. Equally as important, *all* the information on a contract should be understood. The following information is usually found on an installment contract:

- Description of the item
- Cash price
- Down payment and/or trade-in allowance, in the case of an automobile
- Unpaid balance
- Other charges, such as sales tax or fees
- Total amount financed
- Amount of finance charge
- Cash total of payments
- Deferred payment price (total cost including cash price, finance charge, and other charges)
- Annual percentage rate (APR)
- Number, amount, and due dates of payments
- Explanation of penalties for late payments
- Description of collateral

An installment contract with a door-to-door salesperson can be canceled *if* several requirements are met. First, the installment purchase must be \$25 or more. Second, the consumer must cancel the contract within three business days — not Sundays or holidays. And third, the installment contract must be with a door-to-door salesperson. This time during which a buyer can cancel is called a **cooling-off period**. To help avoid troubles, be sure to keep a copy of the installment contract for future reference.

Reading the Fine Print

Before you sign the installment contract, be sure to read the fine print. There may be an item there about the last installment payment you make. If the last payment is more than twice as large as a regular payment, it is called a **balloon payment**. As an example, suppose a particular installment contract calls for regular monthly payments of \$100. However, the final payment is for \$350. Perhaps

the consumer can't make such a balloon payment. As a consequence, just this missed last payment can mean repossession of the purchase even though most of the loan has been paid. Many states have made this balloon payment practice illegal.

Another bit of fine print may allow a lender to ask for full payment of the contract if an installment is late. This is a so-called **acceleration clause**. If the full amount is demanded and not paid, the item may be repossessed. Taking on only monthly payments that you can afford will help to avoid any use of the acceleration clause.

Another paragraph in the contract may allow you to buy several items on the same agreement. This is an **add-on clause**. Once the very first items are paid for, they serve as collateral for purchases made later and added to the installment contract. You may go along for some time, and then miss a payment on an item you have recently bought. Unfortunately, you might get *all* of your items repossessed. For example, you might buy a stereo, a television, and a radio on the same contract. Once the first two are paid for, you can miss a payment on the radio and have *all three* repossessed.

Still another clause permits a lender to take part of your wages if a payment is missed. This is called a **wage assignment** and amounts to your giving the store permission to have a part of your salary deducted if payments are missed. A wage assignment can mean a payroll deduction of money needed for living expenses.

Another bit of fine print in the contract may be a requirement to buy insurance to help cover the risk of the loan. **Credit life insurance** only makes the lender more secure and more likely to get the money. It is of little benefit to the borrower. In fact, it is usually quite expensive compared with other kinds of life insurance. Such a provision should be avoided, if possible.

Remember also that credit contracts are negotiable. That is, they can be bought and sold and transferred to another business such as a bank or finance company. Then the consumer has to make payments to the new contract holder, called the **holder in due course**. In the past, problems sometimes occurred when the product or service bought later turned out to be defective. The consumer complained, but the original seller had all the money from the bank or finance company. The holder in due course could legally continue to demand payments, not accepting responsibility for the defective product or service. Now, however, a Federal Trade Commission rule permits a consumer to refuse to pay for goods and services if the original agreement is not completely upheld and fulfilled.

A-1 AUTOS

121 S. MAIN STREET, AKRON, OH 44308

RETAIL INSTALLMENT CONTRACT

Date: Sept. 25 19 --Buyer's Name (Print): Marguerita SantosAddress: 207 E. Buchtel Avenue, Akron, OH 44325

The undersigned Seller hereby sells and the undersigned Buyer, having been quoted both the following Cash Price and the following Deferred Payment Price, hereby buys for the Deferred Payment Price, on the terms and conditions hereinafter set forth, the following described motor vehicle, with accessories and equipment thereon, receipt and acceptance of which, in satisfactory condition, are hereby acknowledged by Buyer:

NEW OR USED	YEAR	MAKE	BODY STYLE	MODEL NO	NO. CYL.	FACTORY OR SERIAL #
<u>Used</u>	<u>1983</u>	<u>Chev.</u>	<u>4-door</u>	<u>8-046</u>	<u>4</u>	<u>RL27884625</u>

Special Accessories and Equipment
 (Check or specify those applicable)
Transmission: ☒ Automatic☐ 4-Speed☒ Power Steering☒ Power Brakes☐ Power Windows☒ Air-Conditioning☒ Radio☐ Other (Specify) _____1. Cash Price
(incl. taxes, accessories, services) \$ 37952. Downpayment
Cash Downpayment \$ 795
Trade-in \$ -

Yr. Model Make Serial #

Total Downpayment \$ 7953. Unpaid Balance of Cash Price (1-2) \$ 30004. Other Charges
Certificate of Title Fee \$ 10Registration Fee \$ 35Optional Insurance \$ -5. Unpaid Balance
Amount Financed (3 + 4) \$ 30456. Finance Charge \$ 280.147. Total of Payments (5 + 6) \$ 3325.148. Deferred Payment Price (1 + 4 + 6) \$ 4120.14Annual Percentage Rate 9.2%

PAYMENT SCHEDULE

Buyer hereby agrees to pay to Seller the Total of Payments (Item 7 from above) in 24 monthly installments of \$ 138.55 each and one final installment of \$ 138.55 on the like day of each month commencing Oct. 1, 19 -- or, if different from date of transaction, finance charge begins to accrue Oct. 1, 19 --.

Signed M. Santos Date: 9/25/--

Signed _____ Date: _____

Do you know of someone who bought an expensive item on the installment plan that turned out to be less than what the seller represented? What did the buyer do?

The Cost of Installment Credit

The simplest way of determining how much you will pay for installment credit is called the **dollar cost of credit**. This is the difference between the cost of an item if you pay for it in cash and what it will cost if you buy it on installment. As an example, you can buy a television set for \$350 in cash. If you buy it on an installment plan, you may be told you will have to make a down payment of \$50, and then pay \$15 a month for 24 months. That's $\$15 \text{ a month} \times 24 \text{ months} = \$360 + \$50 \text{ down payment}$. The total is \$410. The difference between \$410 and \$350, the cash price of the television, is \$60. This is the dollar cost of credit on this particular item.

Another way of stating the cost of credit is in terms of the annual percentage rate. As a matter of fact, under the Truth in Lending law, which will be dealt with more fully in Chapter 33, a lender is required to state the true annual percentage rate. That makes it possible to compare the rates of several lenders. If everything else is equal, then you can buy the same product from the lender who gives you the best APR. Sometimes a dealer or a business may give somewhat better service than another, however, so it may be worthwhile to pay a higher interest rate on installment credit from the dealer with better service.

OBTAINING A CASH LOAN

You can also purchase a big item by obtaining a cash loan rather than buying it on the installment plan. One advantage of a cash loan is that you may get the loan at one place and buy the item at another. That way you can shop around and get the lowest price for a product. The cash loan isn't tied to the item purchased. You can use loans to pay for automobiles, household improvements, vacations, education expenses, medical bills, and emergencies.

Cash loans can be obtained from banks, credit unions, savings and loan associations, and consumer finance companies. Consumers can also obtain cash on bank credit cards, with the loan billed on the customer's monthly credit card statement. The percentage rates

charged for loans vary, based on where the money is borrowed and the credit rating of the borrower.

When you get a loan, you have to sign an agreement to repay the loan within a certain period of time. This written agreement is a **promissory note**. The promissory note states the amount of the loan, the date the loan was made, the due date, and the interest rate. Both the lender and the borrower must sign a promissory note.

A cash loan that has collateral to ensure payment of the borrowed money is called a **secured loan**. An automobile, stocks and bonds, and property are examples of items used to secure a loan. A loan that is not backed up by collateral is referred to as an **unsecured loan**. Understandably, the rates for this type of credit are usually higher due to the increased risk for the lender. An unsecured loan is sometimes called a *signature* or *character* loan.

Another way of reducing the risk of a loan is to get someone who will agree to make the payments if you can't. This person, called a **cosigner**, may be a relative or close friend who not only knows you, but also knows that you are reliable in paying your debts. In effect the cosigner is actually lending his or her credit

Requiring a cosigner for a loan reduces the lender's risk.



rating to the person who wants to use credit. Through a cosigner, people who have never used credit can borrow for the first time.

In shopping for a loan, you have more freedom than when buying on an installment plan. Any bank or agency that makes a loan is required by the Truth in Lending law to post the true annual rate of interest. That still leaves several different methods of determining the cost for the loan. For a cash loan that is to be repaid in a series of regular payments, interest is figured as it would be on an installment contract. However, some cash loans are *single-payment loans* — the entire amount of the loan, plus the interest, is repaid at the end of the time agreed to in the promissory note. In addition to comparing annual interest rates, you should see what method is used to determine the cost of credit.

Simple Interest

The amount borrowed, or **principal**, is one of the three factors in determining the cost of a loan. The two other factors are the interest rate and the amount of time for which the money is borrowed. With the **simple interest** method, the principal is multiplied by the interest rate, and then by the amount of time expressed on a yearly basis. Two sets of examples, using the simple interest method, show how the *rate* of interest and the length of time affect the cost of a loan even when the principal remains the same. In the first example, only the interest rate varies:

Principal		Interest rate		Time		Cost of credit
\$500	×	12% (.12)	×	1 year	=	\$60.00
500	×	18% (.18)	×	1 year	=	90.00
500	×	15.5% (.155)	×	1 year	=	77.50

Now, using the simple interest method, we'll change the time of the loan, keeping the principal and interest rate the same:

Principal		Interest rate		Time		Cost of credit
\$500	×	12% (.12)	×	4 years	=	\$240.00
500	×	12% (.12)	×	3 months (.25)	=	15.00
500	×	12% (.12)	×	6 months (.5)	=	30.00

You can see how shortening the time of repayment or getting a lower interest rate affects the cost of credit.

Discount and Add-On Methods

Another factor to consider when requesting a cash loan is exactly how much you actually need. There are two methods used in figuring the actual amount of a loan. With the discount method, the interest is deducted from the principal in advance. You get only the principal less the interest to work with. For instance, a \$500 loan discounted at 12 percent for one year means you get \$440 to use ($\$500 - \60). The total payment to be made, however, will equal \$500.

With the add-on method, you get \$500. The interest rate of 12 percent, however, means that the total loan is \$560. When requesting a loan, you have to be aware of both methods.

SOME RULES TO FOLLOW

Interest costs or finance charges are the price that goes with buying now and paying later. Credit costs are not the same everywhere, so it is wise to compare. A difference in interest rates can mean hundreds of dollars on a big item over a long period of time. Traditionally, borrowers have observed several important rules, as listed below:

- Compare the cost of credit at different stores and lending places. Banks and credit unions will usually be less expensive than a consumer finance company or a department store.
- Make the largest down payment you possibly can. The more money you put down, the smaller the amount to be carried on credit.
- Make your monthly payments as large as you can afford on your budget. You will be paying your loan back faster, and thus saving on credit costs.
- Reduce the length of your installment contract as much as possible. It might be easier to pay \$20 a month than \$40. But an installment loan for 12 months will cost you a lot less than one for 24.

The traditional rules about borrowing may not apply during periods of high inflation. Why is this so?

SUMMARY

In buying an expensive item like an automobile or a vacation trip, there are a couple of ways to go. You can enjoy the car now by paying for it in installments. By signing an installment contract and agreeing to make regular payments over a period of time, you don't have to wait. But using credit does add to the cost of the car, and there are some things to watch for in the fine print of the contract. The cost of installment credit can vary widely, and sometimes you have to get the credit where you are purchasing the item.

When you get a cash loan, you can shop around a bit more. And you may be able to get a cosigner to make it even easier to obtain credit. Whatever you do, observe some simple rules in shopping for credit. Don't sign anything until you're sure. In buying the big item, remember that there's usually a *long* time to pay.

BUILDING WORD POWER



Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 19. Then write the term that best matches each numbered definition.

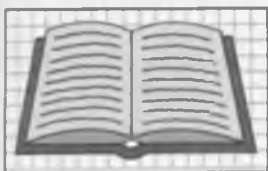
acceleration clause
add-on clause
add-on method
balloon payment
collateral
cooling-off period
cosigner
credit life insurance
discount method
dollar cost of credit

holder in due course
installments
principal
promissory note
repossession
secured loan
simple interest
unsecured loan
wage assignment

1. Insurance purchased by the borrower to help cover the risk of the loan.
2. The last payment of an installment contract that is more than twice as large as a regular payment.
3. A method of figuring the actual amount of a loan in which the interest is deducted from the principal in advance.
4. A clause in some installment contracts that allows a lender to ask for full payment of the contract if an installment payment is late.
5. The amount borrowed.
6. A method of figuring the actual amount of a loan in which the amount of interest is added to the principal.

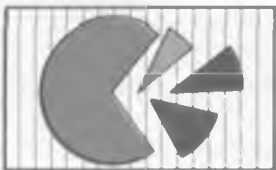
7. The security or backing for a loan.
8. The person, bank, or finance company that has bought and holds credit contracts from a business.
9. A cash loan that has collateral to ensure payment of the borrowed money.
10. The time during which a buyer can cancel a contract with a door-to-door salesperson.
11. A person who agrees to make the payments on a loan if the borrower does not.
12. A clause in a contract that allows for the purchase of several items on the same agreement.
13. A method of figuring interest in which the principal is multiplied by the interest rate, and then by the amount of time expressed on a yearly basis.
14. The difference between the cost of an item if you pay for it in cash and what it would cost if you bought it on installment.
15. The act of a creditor taking an article back when the debtor fails to make payments.
16. A loan that is not backed up with collateral.
17. A clause in a contract that gives your permission to deduct a part of your salary if payments are missed.
18. Loan payments that are made on a regular monthly basis, allowing you to use a good or service before you have finished paying for it.
19. A written agreement to repay a loan within a certain period of time.

**BUILDING
READING
COMPREHENSION**



1. What are your two buying choices when purchasing expensive items?
2. What are some common uses of credit in our economy?
3. Why does collateral reduce the risk of installment buying?
4. What are four questions to ask yourself before buying on installments?
5. Under what conditions can an installment contract signed with a door-to-door salesperson be canceled?
6. What problem can be caused by an acceleration clause in a credit contract?
7. What is the danger of having an add-on clause?
8. What is a holder in due course? How has the law regarding holders in due course changed? In what ways is the law helpful or harmful to consumers?
9. What is the difference between a secured loan and an unsecured loan?
10. What is the role of a cosigner of a loan?

BUILDING BUSINESS CONCEPTS



1. Should people who are not able to save money use installment credit to force them to save in the form of installment payments? Why or why not?
2. Do you think repossession of goods bought on installment should be allowed if the buyer cannot make payments? What advantages does repossession give to the seller? What problems still are not solved by repossession?
3. Suppose you want to buy a television set but have only part of its cost saved. What guidelines would you follow in deciding whether to buy one on credit?
4. What problems should consumers be aware of when buying on the installment plan from a door-to-door salesperson?
5. Why do you think many states have outlawed balloon payments on installment contracts?
6. Some lenders of money require the buyer to buy credit life insurance. What problems do you see with this practice?
7. What is the best way for consumers to compare interest rates when using credit?
8. "Credit contracts are all slanted in favor of the lender." Do you agree? Explain.
9. Why may buying on the installment plan help a person get a defective purchase repaired?
10. Which would be more expensive, a 10 percent discounted loan or a 10 percent add-on interest loan? Why?

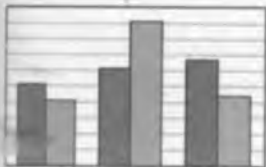
BUILDING BUSINESS EXPERIENCE



1. Consumers who pay off an installment loan early will usually get a refund for some of the finance charge. Many times, the amount of the refund will be less than that for the amount of the time the money is not used. For example, a consumer who pays off a loan six months early may get a refund of only four months' finance charge. Why does this happen?
2. Survey a number of adults on their opinions about buying expensive items. Do they favor using credit for such purchases? For what types of items would they pay only cash? Do they buy from door-to-door salespeople? Why or why not?
3. You purchased a refrigerator on the installment plan from an appliance store, and your contract was sold to a finance company. If the refrigerator is defective, what can you do to make sure the store exchanges or repairs it even though the store has been paid by the finance company?
4. Many items can be bought for cash, on the installment plan, or with a charge account. For each of the items at the top of the next page, indicate the best way, in your opinion, to pay for it. Explain your choice in each case.

- a. A swimming pool
- b. A sofa and chair
- c. Clothing
- d. Books for school
- e. A stereo system
- f. A motorcycle
- g. A refrigerator
- h. A week's groceries

BUILDING MATH SKILLS



1. For each of the following items, calculate the *dollar cost of credit* by deducting the cash price from the total credit price. The first answer is given for you as an example.

Item	Down payment	Amount of monthly payment	Number of payments	Total credit price	Cash price	Dollar cost of credit
Car	\$500	\$200.00	36	\$7,700	\$6,000	\$1,700
Chair	50	14.00	14	?	200	?
VCR	30	31.00	12	?	350	?
Desk	35	13.50	18	?	225	?
Stove	0	18.50	24	?	349	?

2. Using the simple interest method ($\text{Principal} \times \text{Rate} \times \text{Time}$), compute the interest for the following loans:

Amount of loan \times Annual interest rate \times Time of loan = Interest			
\$3,600	18%	3 months	\$162
2,450	15%	6 months	?
825	18.5%	1 year	?
1,850	16.5%	1 year	?
2,500	21%	1½ years	?
680	13.25%	3 years	?

3. For each of the following loans, compute the amount of the monthly payment by dividing the amount borrowed plus the finance charge by the number of payments.

Amount of loan	Finance charge	Number of payments	Amount of payment
\$ 660	\$ 90	6	\$125
1,000	152	12	?
7,540	2,300	48	?
460	65	15	?
2,300	250	24	?

People in Business

Mary Kay Ash

"The speed of the leader is the speed of the gang," according to Mary Kay Ash, founder of Mary Kay Cosmetics, a multimillion-dollar corporation headquartered in Dallas, Texas.

In 1963, using her 25 years of selling experience and her \$5,000 of life savings, she founded Mary Kay Cosmetics after buying the formula for a skin softener she had been using. She began to make this softener herself and, with ten saleswomen, called beauty consultants, she began to market it and other cosmetics. Marketing by these consultants was so successful that by 1968 the public sale of shares in the Mary Kay Cosmetics Corporation had made Mary Kay Ash a multimillionaire.

Today Mary Kay cosmetics are still sold by beauty consultants. A consultant sets up a beauty show in a friend's home and demonstrates Mary Kay cosmetics to other women. These women can buy the products right away, without having to order through the mail.

Ms. Ash attributes her company's success to her personnel management policy, which she says is based on the

Golden Rule. Famous for the diamond bumblebees, mink coats, and pink Cadillacs with which it rewards successful saleswomen, Mary Kay's "people management" policy emphasizes employee development by managers. Everyone is responsible for making others feel important, regardless of the work they do. Ms. Ash admits she looks upon employees as entrepreneurs accountable for their own successes or failures, but she will not ask an employee to do a difficult task unless she also does it herself.

Again and again Ms. Ash's managers tell employees her story of the bumblebee, whose body is too heavy for its wings. The insect should not be able to fly. But because the bumblebee doesn't know this, it flies anyway. In other words, beauty consultants should not think about what they can't do, but just go out and try.





CHAPTER 33

Credit and the Law

- When you consider the amount of credit in our economy, you can appreciate why consumers need protection. What would you say was the biggest single matter that there ought to be a law about when it comes to credit?
- Since a credit rating is so important, there should be laws spelling out what information can and cannot be used to determine it. What do you think your rights should be as far as a credit rating is concerned?
- Let's suppose you could make your own list of rights for consumers of credit. What "rights" would you have in it? Why?

Do you know what these terms mean?

usury law

Truth in Lending law

Equal Credit Opportunity Act

Fair Credit Reporting Act

Fair Credit Billing Act

collection agent

Fair Debt Collection

Practices Act

credit counselor

consolidation loan

bankruptcy

You'll learn all about these terms in this chapter.

Easy credit has led some consumers deeply into debt. Unfair credit charges, billing mistakes, and refusal to give credit are other problems that have been created as credit has become so popular. What can you do about them? How do you prevent someone from charging too much for credit or unfairly treating some people who apply for credit? What help is available to you if you do have problems with debt?

PROTECTING YOUR CREDIT RIGHTS

Many abuses of credit are not the fault of consumers. To protect consumers, the control and regulation of credit have become a matter of federal regulation. When it comes to credit in our business and economic world, there now are laws that assure that consumers will be treated more fairly.

The first credit laws were designed to protect consumers from high interest rates. Lawmakers decided on the highest rate of interest that could be charged for credit. That kind of protection was called a *usury* (*YOO zhuh ree*) law. Today the maximum rates of interest are set by each state.

Concern about consumer problems resulted in the passage of other national laws. Among other things, these laws helped to inform consumers about the costs and other matters concerning credit. They established rules and regulations concerning credit application, credit history information, and debt collection. Above all, they provided for a smoother running of our credit machinery.

Consumer Credit Protection Act

At one time a major problem consumers faced when buying on credit was knowing just how much credit would cost. In one place



"I meant that when you find out how much it costs, your interest will be low."

credit might be available for \$10 down and \$2 a week. An advertisement might say "12 percent add-on interest." A department store might be promoting charge accounts "... with only $1\frac{1}{2}$ percent per month carrying charge." How do you figure all of this out? To make comparing credit costs easier, Congress passed the Consumer Protection Act, commonly known as the Truth in Lending law.

The single most important part of this law is the requirement that *all* costs of borrowing be made known to the consumer. The Truth in Lending law requires costs to be expressed in two ways that you have already read about. One is the dollar cost of credit, or the total finance charge. The other part of the cost of borrowing is the annual percentage rate, or APR. Consumers are able to see the total finance charge at a glance, which helps them determine whether buying on credit is worth the extra cost. In addition, the APR can be compared with interest rates at various banks, credit unions, and finance companies. Besides cost information, the Truth in Lending law requires that consumers be told the credit terms and conditions. For instance, what happens if a payment is late? Is the finance charge reduced if the loan is paid off earlier than agreed? If so, by how much?

Another important condition in the Truth in Lending law involves the advertising of credit. An advertisement must tell the number, the amount, and the period of payments *if* the amount of the down payment is given. In other words, if an ad states "\$10 down and \$2 a week," the number of weeks must also be given.

Personal Loans to Fit Your Budget

Amount	Term	Monthly Payment
\$2,500	36 months	\$ 95.34*
3,000	48 months	94.35*
4,000	48 months	125.80*
5,000	48 months	151.88**

*21.9% Annual Percentage Rate.

**19.9% Annual Percentage Rate

Other amounts and terms also available. Call for details.

Tri-County Finance Corp.

1128 South Willow Blvd. 982-7701

The Truth in Lending law enables consumers to get accurate information.

The Truth in Lending law also protects credit card customers. As you know, if your lost or stolen card is used by someone else, your payment for any purchases is limited to \$50. Also, credit card companies may not send unrequested cards to consumers.

How could unrequested credit cards pose a threat to consumers?

Equal Credit Opportunity Act

When you apply for a loan or a credit card, you are required to provide certain information. The credit application is evaluated to determine whether you are a good credit risk. This information should be judged fairly to decide who is to be granted credit. One consumer must not be treated less fairly than another. To do so is to engage in *discrimination*. The **Equal Credit Opportunity Act** makes discrimination in credit applications illegal.

No person may be denied credit or discriminated against on the basis of age, sex, marital status, race, nationality, religion, or

income that comes from government assistance. A person may be denied credit only if he or she has a low income, currently owes large amounts of money, or has a poor record of past payments. If a person is denied credit, he or she must be given a written statement of the reasons for that denial. The Equal Credit Opportunity Act requires that all credit applicants be informed of their acceptance or rejection within 30 days. This means that a consumer does not have to wait long without knowing whether his or her application has been accepted or rejected. If your credit application is rejected, you must be told the reason.

The credit rights of women are especially spelled out in the Equal Credit Opportunity Act. It is in fact illegal to deny a person credit just because she is a woman. Also, it doesn't matter, as far as obtaining credit is concerned, whether a person is married, single, widowed, divorced, or separated. Every credit application must be evaluated solely on the basis of financial responsibility. And a married woman may use either her maiden name or her married name when using credit.

Signs don't always tell you all the credit terms and conditions. Get all the information before you buy.



Fair Credit Reporting Act

As a person applies for and uses credit, a file is kept on that person at one or more credit bureaus. This file includes personal, employment, and financial information. In the past there has been a lot of concern about the accuracy of credit file information. Too often it seemed that information that was merely hearsay or gossip somehow got into the file. For these and other reasons the Fair Credit Reporting Act was passed.

The Fair Credit Reporting Act gives you the right to know what is in your credit file. Incorrect information must be removed after a re-examination of the situation. If there is still disagreement between you and the credit bureau, you have the right to have your version of the situation placed in your file. For example, suppose you stopped payments on a stereo system because you believed it was defective. The store you bought the set from had different information on file. *Both* your version and the store's version should be included in your credit file.

*Why do you think it's important that all versions of a disputed credit problem be placed in one's credit file?
What might happen otherwise?*

The Fair Credit Reporting Act also requires that when a credit investigation is being conducted, you must be notified of this action. In addition, if a person is denied credit, insurance, or employment because of a credit report, that person must be given the name and address of the credit bureau that provided the report.

The privacy of the information in your credit file is certainly very important to you. According to law, not everyone can get a copy of your credit report. Only authorized persons may request to see it. A credit report on you may be legally obtained when you apply for additional credit, a job, or insurance. Curious friends and neighbors are not allowed to see your file.

Fair Credit Billing Act

Every month millions of credit card and charge account customers receive their monthly statements. Most of the time these bills are correct. But occasionally a billing error can occur. Errors may be due to a computer problem, the listing of incorrect amounts, or charges to your account that are not yours. The Fair Credit Billing Act gives steps to be followed when errors occur. The law also



Keep your charge slips so you can check them against the monthly statement.

requires that consumers be notified regularly of what to do to get an error corrected.

The first step in correcting errors is to notify the creditor in writing within 60 days of the billing date. You must give your name, account number, an explanation of the error, and the amount of the error. While waiting for a reply, you do not have to pay the part of the bill that you believe to be in error. You still have to make any other payments that are due. The creditor must either correct the error or explain in writing why the account is correct within two billing periods, or not more than 90 days. Your account cannot be closed for refusal to pay during that time. If the creditor made the mistake, you will not have to pay any finance charge on the part in error. If there was no error, you may have to pay a finance charge for late payments.

This law, like the Fair Credit Reporting Act, allows a consumer to tell his or her side of the story, in this case with a possible billing error. Any information sent to a credit bureau must report that the consumer believes the bill to be in error.

The Fair Credit Billing Act permits consumers to stop a credit card payment for items that are damaged or defective. You must first attempt to return the damaged or defective item before you stop your payment. In addition, the item has to cost more than \$50, and the store has to be within 100 miles of your home. On items valued at less than \$50 or purchased more than 100 miles away, payment must be made and the problem worked out with the store.

Fair Debt Collection Practices Act

A **collection agent** is a person who has the job of collecting debts that are overdue. Consumers who get behind in their credit payments may be called on by an agent. At one time, collection agents could use almost any method they chose to collect overdue bills. They could call late at night, use threats of jail or seizing property, and even try to collect more than was owed. The **Fair Debt Collection Practices Act** made all of these practices illegal.



"Now, Mr. Fiske, about that \$83 you owe me . . ."

This act protects consumers from collection agents in several ways. First, collection agents must identify themselves to the people whose bills they seek to collect. They cannot tell others about the debt. This is considered a violation of privacy and is forbidden by the law. They cannot contact people at work, if that is not permitted by the employer. Collection agents are not allowed to make telephone calls without identifying themselves. They can't keep calling

or pretend to be someone else. Nor can they use postcards that mention the amount of the debt owed.

Why should collection agents be forbidden to mail postcards listing the amount owed?

ENFORCING THE LAWS

Enforcing the various laws that have to do with the use of credit is the job of several government agencies. Overall responsibility for enforcement belongs to the Federal Trade Commission (FTC). The FTC helps consumers with credit problems. It handles complaints about being unfairly turned down for credit, being overcharged on a bill, or being bothered by collection agents. The FTC is charged with helping with the Truth in Lending law, the Fair Credit Reporting Act, and credit card problems.

In addition to the Federal Trade Commission, other government agencies deal with particular credit matters that fall under their supervision. The following list gives federal agencies and the institutions whose credit complaints they handle:

<i>Federal Agency</i>	<i>Credit Activities of</i>
Comptroller of the Currency	Over 4,700 national banks
Federal Reserve System	Member banks
Federal Deposit Insurance Corporation	State banks that have federal insurance
Federal Home Loan Bank Board	Savings and loan associations
National Credit Union Association	Federally chartered credit unions

As you can see, consumer credit protection extends right up to the federal government. In addition, you can contact your state banking department about credit problems. A consumer protection division of the state attorney general's office also deals with complaints that may not be handled by other governmental agencies. Many cities and other local governments also have consumer credit protection agencies. Telephone books list those agencies.

Final responsibility for credit protection rests with you. After all, a law can help you only if you know about it in the first place. You have credit rights. Insist on those rights, and the laws will protect you.

WHEN YOU'VE GONE TOO FAR

What can you do when *you've* caused the credit problem? Can anything be done after you've gone too far in your use of credit? It's best to try to avoid credit problems; but if it is too late, there are some answers or solutions.

If you find yourself unable to meet payments, your first step should be to contact the creditor. By talking to the credit manager, you will probably be able to work out a plan that will make your payments easier. The credit manager might agree to smaller monthly payments by increasing the total number of them. Or you might arrange to pay only the finance charges for a month or two until you can get caught up on your money problems.

Consumers who simply cannot work out their own credit problems should consider talking to a **credit counselor**. This person has the job of assisting consumers with their credit problems. A credit counselor will help revise a person's budget, contact creditors to arrange a new payment plan, and even assist in obtaining extra income. Credit counselors can be found in banks, credit unions, and nonprofit counseling services.

Another possible answer to your credit problems is to bring all your debts together into a large loan, called a **consolidation loan**. While this may seem like a desirable way to solve your problems, there are two dangers. First, a consolidation loan is a kind of desperate, last-measure effort to shore up your credit. As a consequence, it has a high interest rate because the person getting the loan is a poor credit risk. Second, although a number of monthly payments have been consolidated into one, that doesn't stop the person from making new purchases. A person who has to get a consolidation loan should be careful not to get into additional credit problems.

When all answers still don't work, one last possibility is **bankruptcy**. This is a legal process in which some or all of the property and wealth of a person who is declared incapable of carrying any more debt is distributed among his or her creditors. Bankruptcy can be declared for individuals as well as for businesses. The court decides how much of the person's property may be kept and how much must be sold to pay off the debt. Although bankruptcy permits an individual to start again with a clean slate, it is the last solution to be considered. It will obviously have a very bad effect on a credit rating. And it leaves a permanent record of credit failure in a person's credit history.



"I recommend plenty of rest and consolidation of your debts."

What circumstances, if any, might cause you to file for personal bankruptcy?

SUMMARY

Since credit has become almost a way of doing business, it has become necessary to protect and safeguard the consumer in the use of it. There now are laws with these requirements that specifically protect the person using credit:

- Statement of annual percentage rate of interest
- Statement of total finance charge
- No discrimination on the basis of age, sex, race, nationality, or religion
- The right to know your credit history — and to challenge it
- The right to privacy of credit information
- The right to challenge and to stop incorrect billing
- Control of debt collection practices

Standing behind these laws are not only federal agencies but also state and local governmental agencies as well. Your good credit is worth protection — by you as well as by the government.

If your good credit has gone bad — or has gotten out of hand — there are several steps you can take. All of the solutions have a "cost," however. For example, you may pay in higher interest costs or in a lowered credit rating. It is best, therefore, to avoid credit problems in the first place.

BUILDING WORD POWER



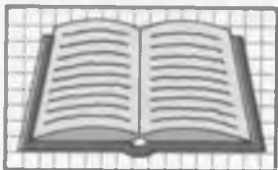
Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 10. Then write the term that best matches each numbered definition.

bankruptcy
collection agent
consolidation loan
credit counselor
Equal Credit Opportunity Act
Fair Credit Billing Act

Fair Credit Reporting Act
Fair Debt Collection
Practices Act
Truth in Lending law
usury law

1. Law that makes discrimination in credit applications illegal.
2. A person who has the job of collecting debts that are overdue.
3. Credit law that lays out steps to be followed when errors occur on monthly statements.
4. Credit law designed to protect consumers from high interest rates.
5. Credit law that sets up regulations that must be followed by anyone who collects money owed.
6. A credit law that requires listing all costs of borrowing for consumers.
7. Credit law that gives you the right to know what is in your credit file.
8. A person — usually with a bank, credit union, or nonprofit consumer counseling service — who helps persons with credit problems.
9. A loan that brings together all of the debts of a consumer.
10. A legal procedure that distributes a debtor's property or money among the creditors if the debtor cannot manage the debt.

BUILDING READING COMPREHENSION



1. What is the purpose of a usury law?
2. How does the Truth in Lending law help consumers compare credit costs?
3. Give six examples of credit discrimination.
4. What are three reasons a person may be denied credit?
5. What should a consumer do if there is an error on a credit card or charge account bill?
6. Name five practices that are not permitted under the Fair Debt Collection Practices Act.
7. What government agencies can consumers contact to get help with their credit problems?
8. How does a credit counselor help people with their credit problems?

9. What is an advantage of a consolidation loan? What are its disadvantages?
10. Why is bankruptcy a last resort for a consumer with debt problems?

**BUILDING
BUSINESS
CONCEPTS**

1. A person may be denied credit only if he or she has a low income, owes large sums of money, or has a poor credit record. Why do you think the Equal Credit Opportunity Act allows these reasons? In what other ways does the Act protect consumers?
2. What credit rights of women are protected under the Equal Credit Opportunity Act?
3. You have applied for credit at a department store. The store has denied you credit because of your credit rating. Since you know that you have always paid your bills on time, what action should you take?
4. For a small fee, you can see your credit file at any time. Why would you want to check your file?
5. How does the Fair Debt Collection Practices Act protect a person's privacy?
6. Gary owed money on a loan. He had made arrangements, he thought, for repayment over a longer period of time than his original agreement. One day he received a phone call at work. A collection agent threatened to call his employer and tell him about Gary's failure to pay his debt. Late that night he called Gary again and said he must receive full payment of the loan or he would "take drastic action." What actions by the collection agent were in violation of the law? What would you suggest Gary do in this case?
7. How can consumers become better informed of their rights as credit customers? Suggest some methods to inform and educate people about credit laws.
8. Jeannie owed several bills and just could not keep up the payments. One day she saw an ad in the paper: "Consolidation loans. Let us solve your problems with bills. Make only one payment per month." What questions should Jeannie ask before she uses this solution?
9. Why should bankruptcy be considered a last resort for an individual who has credit problems?
10. The Truth in Lending law requires that consumers be told the dollar cost of credit and the annual percentage rate. How can this information help protect consumers from getting into credit trouble?

**BUILDING
BUSINESS
EXPERIENCE**

1. The Truth in Lending law requires that consumers be given complete credit cost information in advertisements that mention credit sales. For each of the following, decide whether the ad gives complete credit information. Explain your answers.
 - a. "\$20 down, \$43 a month."
 - b. "Finance charge is \$10 a month, 18.15% APR."
 - c. "\$35 down, \$14 a month for two years."
 - d. "Payments for 52 weeks, only \$15 down payment."
2. For each of the following situations, decide if it is a violation of the Equal Credit Opportunity Act.
 - a. A woman denied credit due to missed payments on her charge accounts.
 - b. A man denied credit because he is 79 years old.
 - c. A woman denied credit because her husband owes a large amount of money.
 - d. A person denied credit because of an income of \$8,000 a year.
3. Look through your local newspaper for several days. Collect advertisements for installment and consolidation loans and installment purchases. Bring them to class for discussion. What is the dollar cost of the advertised loans?
4. Consult your local telephone book and list all of the local, state, and federal agencies that provide consumer credit protection for your community.
5. List as many reasons as you can that you think are good reasons for people to be denied credit. Ask your parents, neighbors, and business people for their ideas on good reasons. Bring the list to class and be ready to discuss the reasons.

**BUILDING
COMMUNICATION
SKILLS**

The Business Club at your school has asked you to give a report on Consumer Credit Protection. You decide to use the information in this chapter as your basic guideline and to do further research in your school and local libraries. Also, you have decided to prepare a written outline of your report to give each person attending the meeting. The outline will list the laws and their provisions for protecting consumers who buy on credit. To help your audience, you want to include the government agencies that protect credit customers. You also want to tell them about local sources of help for consumers.

1. Prepare an outline that could be given to members of the Business Club.
2. Form a panel with some other members of your class and report to the rest of the class on information about consumer credit protection.

Issues in Business

Comparable Worth

The issue of comparable worth has been called the civil rights issue of the decade. Comparable worth refers to determining the value of a job according to its worth to the employer. In comparing jobs, comparable worth requires a look at all jobs, not just similar jobs. Thus, the jobs of secretary and electrician could be compared and similarly valued, for they might be

People who support comparable worth believe that requiring both public and private employers to rate jobs would help rid the work force of discrimination. Those against comparable worth believe that such a system ignores supply and demand in the marketplace. Different jobs are worth more, or less, to employers at different times, depending on the economy. The issue of comparable worth came about because of the difference between the average earnings of men and women. On average, women earn two-thirds the amount that men earn.

Although there have been favorable court findings for both sides of the comparable worth issue, the decisions have not been clear enough to make any dramatic change in the system. Also, a problem in any discussion of comparable worth usually involves a discussion of discrimination against women. For both sides, this point only increases the complexity of the issue.

Women began to enter the job market in great numbers in the 1970's, and the numbers have continued to rise since then. In spite of the greater numbers of women in the work force, men still hold the majority of managerial positions. Thus, it is sometimes difficult to separate discrimination problems from comparable worth problems.

Both sides do agree that job evaluations are necessary and long overdue, but they cannot agree on how to make these comparisons. Until this roadblock is passed, comparable worth will remain a much discussed issue.



viewed as being equally demanding and essential to a business. Which job has more value, or worth, to the company is usually decided by rating the two jobs on a point system.

Using Credit as a Consumer: A Simulation



Do you or your parents have a credit card? If so, you are among the majority of consumers in this country who use credit cards for making many of their purchases. Credit plays an important part in the lives of most consumers. As a consumer, you have a choice in deciding how to buy the goods and services that you want or need:

1. You can save your money so that you can pay in cash.
2. You can buy goods and services on credit and pay interest on the amount of money borrowed.

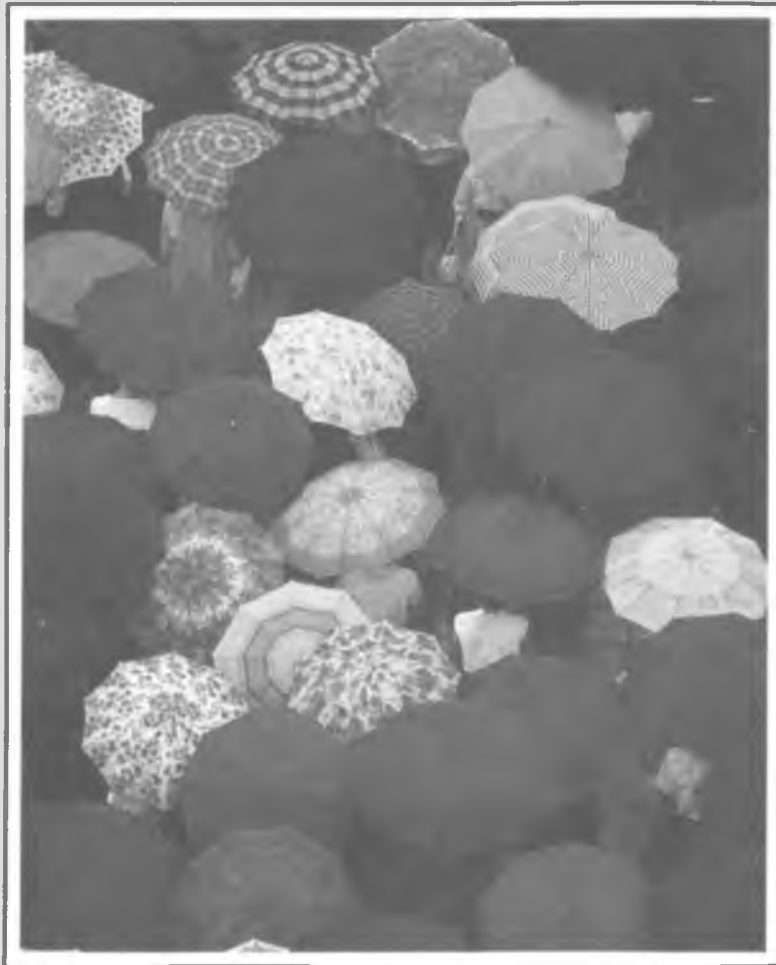
To learn how to use credit wisely, complete the simulation, *Using Credit as a Consumer*. In this simulation, each person in your class will assume a role in our market system. Four people will be lenders. They will decide whether or not a consumer can be granted credit and, if so, at what interest rate. The other members of the class will be consumers. Each consumer will try to acquire as many of the wants on his or her list as possible, and will try to end the simulation with more cash left over than anyone else in the class.

To start the simulation, go to your workbook *Student Activities, Chapters 22–41*. The materials and instructions for the simulation are located after Chapter 33. If you do not have a *Student Activities* book, ask your teacher for the materials and instructions you will need to complete the simulation.

UNIT

9

SAVING AND INVESTING





CHAPTER 34

Putting Your Money to Work

- In the future you probably want to be a lot better off financially. You can get started now. How? More importantly, why?
- You can put your money to work. This is especially true with your "extra" money. How would you plan to use extra money?
- You've heard of people who put their money in a can and bury it in the back yard. Why is this money really wasted?

Do you know what these terms mean?

saving	risk
investing	rate of return
collectibles	liquidity

You'll learn all about these terms in this chapter.

Earlier you read that your personal budget really is not complete without a regular plan for savings. **Saving** is putting aside money for future use. You may save just for a "rainy day" or for that special vacation. Sometimes you may have a goal, sometimes you may not. No matter why you save, you should know that while you are saving, you can be earning additional money at a regular rate. Your money, therefore, will be working for you. There are various ways of putting your money to work. Some ways may return more money. Some may return money faster than others. Some involve more chances. In the chapters that follow, specific places where you can put your money to work will be described. Here you'll learn general guidelines for making the best use of your savings.

WHY SHOULD YOU SAVE?

Saving makes sense for practically everybody. All of us need a large amount of money at some future date. Perhaps it's for a car, a vacation, or an education. Even if you are lucky enough to avoid the unexpected big expense, there's still the big item you can't manage with your weekly income. People save for many reasons, but there are three overall ones: a specific goal, an emergency, or security.

A Goal

Usually the goal in savings is for an expensive item such as a new car, a big household appliance, or a vacation trip. Items such as these may require saving for more than a year. Shorter savings goals, of less than a year, may be set for purchasing new clothing or buying holiday gifts for friends and relatives. A goal provides both a reason and the desire to save, regardless of the size or nature of the item involved.

Do you have a savings goal right now? What is it for? Is it a short-term goal or a long-term goal?

An Emergency

An illness or unexpected automobile repairs can cause a need for extra money. Sometimes that extra money is needed so quickly that there's hardly time to shop around for a loan. And a loan *costs* money. A sensible person usually has money set aside for emergencies. Some people even establish two savings plans. One plan is for savings to meet a particular goal; the other plan is for savings to handle an emergency.



It's a good idea to save some money for a rainy day.

Security

A person or family usually wants to be free of money worries, that is, to have financial security. Having a regular savings plan or some other form of investment will certainly reduce your money problems *and* insecurity. The ideal situation is to be able to buy expensive items as you need them and to meet emergencies as they come.

The decision to save makes sense for practically everybody. Like most decisions, however, this decision involves opportunity costs. The opportunity cost of saving is what you could buy immediately with the money you put aside for future use. When you save, you are saying in effect that the satisfaction you gain from knowing your money will be there when you need or want it is greater than the satisfaction you gain from an immediate purchase.

MAKING THE MOST OF YOUR SAVINGS

Once you have made the decision to save, you must decide what to do with your savings. You can, of course, simply hide the money under a mattress or bury it in the back yard. When you need it at a later date, it probably will be just where you left it. But you'll only have just as much as you put there. In fact, if the buying power of the money you hid or buried shrank, you might end up with less in terms of real dollars.

A better way of saving is to place the money somewhere or in something so that after a period of time you may have more than you saved. You can do this by investing it. **Investing** is putting your money to work so that it earns extra income.

This is one way of saving money. What ways might be safer?



Where To Invest

There are many places where you can invest your money. Banks, credit unions, and savings and loan associations, for example, have different forms of accounts in which you can invest your money. The interest, or earnings, on these accounts is what you are paid to let others use your money. In effect, you are lending your money. Actually, the banks, credit unions, and savings and loan associations then lend your money to others. Sometimes your money builds homes, sometimes it goes into making a product, and sometimes it helps people go to college or buy an automobile. The accounts offered by these various financial institutions differ as to interest rates as well as terms for depositing and withdrawing your money. That's why it is important to shop around — just as you would for any good or service.

You can also purchase bonds from businesses and government. Such purchases represent loans made to them. A bond is a way of letting a business or government use your money. Bonds will pay you interest. They vary in interest rates, length of time, and terms of purchase and repayment. There are also differences in the financial solidness of the business or governmental unit selling the bond. This means that some are better able to pay the interest and return to you the amount of the loan than others. Again, you should make comparisons before buying bonds.

Another way to invest your money is to buy into a business. Many people nowadays are using their savings to start a business at home. Others invest in a business by buying shares of stock. In this way, they become part owners of the business. The annual return for their investment is based on the business's profit. This return can vary from year to year depending on how well the business does during the year. Moreover, as an investor you may gain an additional return by selling your share of the business to someone else for more than you paid for it. Generally, you take on more risk when buying into a business than when putting your investment dollar in a bond or in savings accounts. However, you may get a greater return on this form of investment than on the others.

Some people invest in real estate — land and the buildings on that land. Most people use their real estate investment — for example, a house — as a place to live. Others invest in real estate, such as apartment buildings or farm land, for the purpose of collecting the rent charged those who use the property. In times of inflation, the value of real estate usually increases.



Even the government will pay you for the use of your money.

Some people put their money into **collectibles** — art, antiques, and other items they like to collect. If they are knowledgeable about what they are collecting, they may get a good return on their investment. If they aren't, they may get no more than the enjoyment of having the objects in their possession. Unlike other forms of investment, these collectibles do not provide interest or rent. Your return is based on an increase in the value of the item, which is determined by what other collectors are willing to pay. Moreover, only when you sell the object can you realize the return.

Guidelines for Investing

Investment choices differ greatly. Some earn more money than others. Some are safer. The key to wise investing is knowing the various sources where you can invest *and* knowing yourself and what you want your investment to do for you. Before making any investments, you should ask yourself the questions below and on the following pages.

What Is the Risk? When you invest, you must always realize that you are placing your savings at risk. Risk is the possible loss you face if your investment fails. Anyone who invests must accept the fact that no investment is risk-free. Even banks and other financial institutions fail. Some investments, however, involve less risk than others.

Most savings accounts in commercial banks are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$100,000. This means that if the bank goes under, you will still get your money out of your account if you have \$100,000 or less in it. Many accounts in savings and loan associations are insured by the Federal Savings and Loan Insurance Corporation (FSLIC). Government bonds also carry little risk because it is unlikely that the government will fail.

With other types of investments, you do not have guarantees. You risk losing some or all of your money. For example, any business can have a bad year. If you have money invested in that business, you'll have a bad year, too, because the value of your investment will decrease. Real estate and collectibles also carry no guarantees of a return on investment. You should become aware of the possible risk involved in a given investment.

What Is the Rate of Return? How much will your money grow each year? The **rate of return**, or **yield**, is the percentage of the investment that you earn each year from your invested money. The rate of return is figured on an annual basis and is stated as a percentage. For example, suppose that you have \$100 in a savings account and it earns \$6 a year in interest. The rate of return on your investment is 6 percent ($\$6 \div \100). A gold coin that increases in value from \$50 to \$60 in one year has a rate of return of 20 percent ($\$10 \div \50), which you get if you sell the coin at the year's end.

For some investments, like bonds and savings accounts, the rate of return can be fairly well predicted because there is a promise to pay a certain amount each year. With other investments, the rate of return is uncertain. With gold coins, for example, the return is based on what happens in the gold coin market in a given year. The coins may increase or decrease in value. One cannot be sure what will happen when purchasing the coins. With stocks, the return is based largely on how much profit the company makes during the year. Usually the amount of profit cannot be predicted accurately unless you invest in a firm that is well established and traditionally pays the same amount to its stockholders each year.

Generally, the rate of return from an investment is directly linked to the risk involved. The greater the risk, the greater the *possibility* of a higher rate of return. This relationship does not always hold true. At times, the rate of return on a more risky investment is lower than on a less risky investment. You should consider the possible trade-offs. How much of a rate of return do you want? How great a risk are you willing to take to get it?



The greater the return on your investment, the more the risk.

How Available Is the Money? How easily can you get at your money? Can you get your investment when you need it, and particularly if you need it quickly? Some investments are easier to get at than others. You can sell stocks more quickly and easily than you can sell a piece of property. Some things move easily, like a liquid. **Liquidity** is the ease or quickness with which you can change your investment into cash. For example, an antique table is a less liquid investment than a savings account. If you need money in a hurry, you can easily withdraw your money from a savings account. However, you might not be able to find an immediate buyer for your antique table — or one who would pay you what you think it is worth.

What instances can you imagine where the liquidity of your investments may be particularly important to you and your family?

How Inflation-proof Is the Investment? Will your investment earn enough money to keep up with the increased prices of goods and services? A concern of many investors is that the inflation rate will be higher than their rate of return. If inflation is galloping along at 10 percent a year and your investment is getting only 6 percent, you're losing ground! Your money is actually losing value in what it can buy. High inflation rates can limit your investment choices. You should compare the inflation rate with the rate of return on your investments.

Are There Any Tax Advantages? You may also want to consider the tax advantages that some investments have over others. For example, federal law currently allows real estate investors to deduct the cost of the interest on a mortgage from the total income on which they pay taxes. This savings in taxes plus the likely increase in value of the real estate can be substantial.

Other investments may also offer tax advantages. The interest earned on many government bonds is not taxed as income by the federal government. On the other hand, the interest earned on savings accounts is taxed.

What Can I Live With? In addition to knowing what to look for in investments, you should know what to look for in yourself. Are you the type of person who likes to take high risks, hoping to strike it rich? Or are you the type of person who would lose sleep at night worrying about whether your investments are decreasing in value? Learn enough about yourself to determine what type of risk taker you are. Then choose investments that best suit your personality.

You should also consider how much you have in savings. If you have a lot in savings, you might feel safe in putting some in high-risk investments. If you have just a little savings, it probably would not be a good idea to risk those savings. You might lose and wind up with little or nothing for that "rainy day."

These, then, are the six questions to ask yourself when evaluating investment plans. First, what is the risk? Second, what is the rate of return? Third, how easy is it to get your money? Fourth, is the rate of return anywhere near the rate of inflation? Fifth, are there any tax advantages? Sixth, how much risk can you live with? An important point to remember is that no single investment scores highest for all questions. For example, savings accounts have little risk and are very liquid, but they neither provide the highest rate of return nor are they inflation-proof.

YOUR OWN SAVINGS PROGRAM

How much should you save? How should you go about it? After using the guidelines and deciding what kind of investment plan you want, you should organize your personal savings plan. The amount you can save depends in large part on your expenses. All saving involves at least a little sacrifice. You must give up some spending now to save for the future. There are several things you can do to help move your savings program along.



Setting a goal makes saving easier.

1. Set a goal. You should have some kind of goal, like a clock radio or a vacation trip, to spur you on. If you can't think of an item you want right away, set a goal of saving so much money a month. Set a goal for the year so that you have some kind of yardstick to measure your program's success. When you're saving a regular amount, something will come up, like buying a car or going to college, that will make it all worthwhile. Remember: Set a goal, any goal, to start!

2. Get a piggy bank. This idea may sound childish to you, but you'll be surprised at how it helps your savings grow. Save one kind of coin. Get a jar so you can see them, and collect all your pennies, nickels, or dimes. Throw in all the change you have left at the end of the day. Then, when you have enough in the piggy bank or jar, transfer it to your savings account. It's a pretty painless way to save and can even be fun.

3. Set aside a regular amount. Each week or month, set aside a certain percentage of your income. Budget for it. If you save only what you have left after spending, forget it! That's not regular enough. You need to develop a habit of saving. A savings rate that

many people use is 10 percent of their income. If you make \$800 a month, you put \$80 into savings. Many companies allow their workers to have a fixed amount deducted from their pay to go into savings. If you have a payroll deduction, you'll hardly miss the money. But after a while you'll be pleasantly surprised at how your savings have grown. Look at the table below to see how even small deposits can grow, if they are made regularly and if the income is left in the account. The interest rate for these deposits is $5\frac{1}{4}$ percent.

HOW YOUR DEPOSITS GROW

Weekly deposits	After 1 year			After 10 years		
	Total deposited	Total interest	Total in account	Total deposited	Total interest	Total in account
\$ 5	\$ 260	\$ 7.08	\$ 267.08	\$ 2,600	\$ 820.65	\$ 3,420.65
10	520	14.15	534.15	5,200	1,641.29	6,841.29
15	780	21.23	801.23	7,800	2,461.94	10,261.94
25	1,300	35.39	1,335.39	13,000	4,103.23	17,103.23
50	2,600	70.77	2,670.77	26,000	8,206.46	34,206.46

Keep at it. When you get to one goal in your personal savings program, start with another one. Put some or all of your savings into an investment. Let your money work for you.

THE BIG PICTURE

The money you invest grows in value because it is used to make more money. It can be lent by a bank to a business to manufacture products. Someone can get a loan to buy a car. Buying cars keeps the automobile companies in business. Companies borrow the money you save to build new factories, buy new machinery, and open new stores. As businesses grow, so does the number of available jobs. People with jobs are paid and have money to spend.

Some of them save and invest a part of their money. More businesses can be started or expanded. The economy grows and expands. What you have done with your investment is to help in a whole chain of events that keeps our economy healthy. Investing is a very important part of our business and economic world.

Can you give an example of how your investment might be part of a chain of events that keeps our economy healthy?

SUMMARY

Investing money makes sense in a number of ways. You can accomplish some important goal like getting a college education. You can be ready for an emergency. If you invest, your money can grow in value.

When choosing where to invest, use some guidelines. Determine the risk involved and whether your personality is suited to risk taking. Ask yourself certain questions. What is the rate of return? Is my money available when I want it? Is the investment inflation-proof? Are there any tax advantages?

Savings is important not only to you but to our economy. If you are not already doing so, start your own savings plan. Organize it so that you will be contributing to it on a regular basis. Make sure your money works for you. You'll be amazed at how fast it grows.

BUILDING WORD POWER

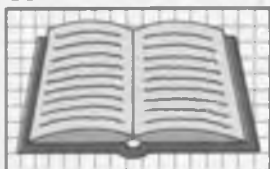


Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 6. Then write the term that best matches each numbered definition.

collectibles	rate of return
investing	risk
liquidity	saving

1. The ease or quickness with which you can change your savings or investment into cash.
2. The annual percentage rate earned on an investment.
3. Putting money to work so that it earns extra income.
4. Putting money aside for future use.
5. Possible loss from an investment.
6. Items that people collect.

BUILDING READING COMPREHENSION



1. Name three major reasons people save.
2. How does investing differ from saving?
3. Name three types of financial institutions where savings can be deposited to earn interest.
4. Name five different types of investments.
5. What six questions should you ask about any possible investment?
6. How might your personality and financial circumstances affect your choice of investments?
7. Why should you know the liquidity of an investment?

8. Why should you set a goal for saving?
9. Name three ways in which you can help move your savings plan along.
10. How does the money saved by consumers help our economy?

BUILDING BUSINESS CONCEPTS



1. Is a person who saves as much as he or she can using a wise savings plan? Why or why not?
2. Name three emergencies for which people might put money in savings.
3. If you are interested in buying bonds as an investment, why is it a good idea to shop around?
4. Comment on the following statement: Government bonds are actually risk free.
5. Under what circumstances might you lose money in a pass-book savings account insured by the FDIC?
6. How does one get a return from an investment in antiques and works of art? How does this differ from the return received from a passbook savings account or a bond?
7. Why is it not a good idea to put your savings into a high-risk investment if you have only a small amount of savings?
8. What might be some saving goals for (a) a teenager, (b) a family with young children, and (c) an older couple with grown children?
9. For what reasons might people choose to invest their savings in investments other than savings accounts?
10. Why is liquidity sometimes more important to a person than the rate of return?

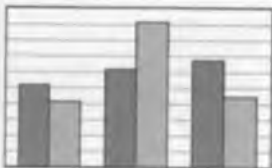
BUILDING BUSINESS EXPERIENCE



1. For each of the following reasons for saving, indicate if it is for a savings goal, for emergencies, or for financial security.
 - a. unexpected medical bills
 - b. money for retirement
 - c. a vacation trip
 - d. unplanned repairs of water pipes
 - e. money for college education
2. Rank the following types of investments from most liquid to least liquid: a savings account, some stock, and a home.
3. Collect advertisements, pictures, and articles on places to save and ways to invest your money. Prepare a bulletin board or poster.
4. Talk to someone who has invested in stocks, bonds, or real estate. What advice can the person give you for future investments?

5. When buying an expensive item, a person has the choice of saving to buy it or using credit. The main factor in making such a decision is how important it is to have the item immediately. For each of the following, decide if the person should save for the item or buy it on credit. Explain your answer.
- a van for camping trips to a nearby lake
 - a refrigerator to replace one that is old and not working
 - a truck to use for moving tools while on the job
 - a television to replace an old one that still works

BUILDING MATH SKILLS



1. Most people like to set aside a certain percentage of their income for savings. For example, if you wish to save 10 percent of your \$180 weekly income, you would put aside \$18 for savings. After a year (52 weeks), you would have \$936 in savings. For each of the following, find the amount you would save in a year.

Income per week	Percentage to savings	Annual savings
\$180	10%	\$936
136	15	?
243	18	?
570	10	?
943	15	?

2. The amount earned on savings or an investment is used to determine the rate of return. For example, a rare coin that costs \$100 and is sold a year later for \$112 has a rate of return of 12 percent. Find the rate of return for each of the following:

Item	Amount	Amount of return	Rate of return
Rare coin	\$ 100	\$ 12.00	12%
Stock	360	28.80	?
Savings account	400	26.90	?
Farm land	4,600	423.20	?
Savings bond	50	3.85	?

3. At the beginning of the year, Joan bought 100 shares of stock at \$40 a share. She sold them at the end of the year for \$50 a share. During the year, she received \$4 a share of profit from the firm. How much of a return did she receive on her investment? What was her rate of return?

People in Business

Barbara Proctor

"You're not cute, but you're smart, and some day, you're gonna amount to something." That was the prediction of Barbara Proctor's grandmother, a poor, hard-working woman who raised Proctor in Black Mountain, North Carolina. There they lived in a shanty with no water and no electricity.

Proctor remembered that prediction and studied hard, winning a scholarship to Talledega College in Alabama. She earned two bachelor's degrees and went on to a successful career as a writer and jazz critic.

In 1963, she switched gears and became an advertising copywriter, eventually earning \$40,000 a year. After seven years' experience in advertising, Proctor took a gamble. She left her job to start her own agency. To get money to start the agency, she applied for an \$80,000 loan from the Small Business Administration, a federal agency. Since Proctor had no money or property to guarantee that the loan would be repaid, she used her professional reputation as an advertising copywriter, asking clients for whom she had written

advertisements to send letters of recommendation to the Small Business Administration. She thus became the first person ever granted a Small Business Administration service loan, which was not guaranteed by money or property.

Today Barbara Proctor is president and chief executive officer of Proctor & Gardner Advertising, the second largest black-owned advertising agency in the country. The agency, which employs 27 full-time staff members, bills millions of dollars in fees to a list of clients that includes Kraft, Alberto-Culver, and Sears.



Proctor refuses to accept clients whose products or services she does not consider to be family oriented. With her selective policy toward clients, Proctor has achieved her goal of building an advertising agency based on community service as well as her grandmother's goal of "amounting to something."

Her greatest challenge? Overcoming her fear of risks. "Once I overcame that," she says, "I had no problem."



CHAPTER 35

Your Savings Account

- There are different ways to save and different places to go for savings accounts. What would be your choice for both? Why?
- To a certain extent, where and how you save are influenced by your goals for saving. For instance, do you want to be able to withdraw from your savings whenever you want?
- Since it's your money — and hard to come by — you probably want to be sure you have everything going for you in a savings plan. What should you look for?

Do you know what these terms mean?

thrift institutions	certificate of deposit
money market fund	DD/DW method
savings passbook	compounding

You'll learn all about these terms in this chapter.

There are a number of things you should look for when opening a savings account. For example, you'll have to decide what kind of savings account you want. Where should you save? What kind of services do you want from the place where you save? At first glance, it may seem as if one financial institution is the same as another when it comes to savings accounts. After looking around, however, you will find that that's not true. There are differences and similarities among the various financial institutions. To get the most out of your savings account, you'll have to make comparisons. You'll have to shop around just as you would for any good or service.

A PLACE TO SAVE

Commercial banks are probably the most common place for people to have savings accounts. A full-service commercial bank obviously can offer many advantages. It has several different types of savings plans. Since you already may have a checking account there, it's very convenient for opening a savings account, too. This may not always be the wisest consumer choice, however, as other savings places may pay higher interest on your money. Sometimes you pay a price for convenience!

Savings and loan associations and mutual savings banks are sometimes referred to as thrift institutions. This is because they both specialize in savings. Like savings and loan associations, mutual savings banks lend most of the savings they receive as mortgages to home buyers.

Still another place where you can save money is a credit union. As you know, people who work for a company or governmental organization often have a credit union in which they can become members. Savings consist of shares that members "buy." Credit unions earn money on the loans they make to members, and that's how they pay interest on shares. As a credit union member, you can both save and borrow. Because you are an employee and work regularly, your credit rating is usually good, and you can get loans

easily. You can also save easily because your company may allow you to take savings out of your paychecks automatically and put them in the credit union.

If you have a job, do you have a credit union at your place of employment? What benefits are available?

Many investment firms offer interest-bearing savings accounts in the form of money market funds. A **money market fund** is a kind of time deposit in which the interest rate generally varies from month to month. However, the interest rate is usually higher than it is for traditional savings accounts, and you can withdraw money without penalty at any time. This kind of fund often has restrictions, such as a high minimum amount to open and maintain the account. Some accounts may require a minimum of \$2,500, for example.

PROTECTING YOUR ACCOUNT

Most savings accounts are insured by agencies of the federal government. This means that if the savings place fails and goes out of business, you are guaranteed to get back the amount you had in savings. As you learned, banks are insured for safety by the Federal Deposit Insurance Corporation (FDIC). Savings and loan associations are insured by the Federal Savings and Loan Insurance Corporation (FSLIC). And savings in credit unions are protected by the National Credit Union Administration.

Savings account insurance was first introduced in 1934, following a period of frequent bank failures, in order to protect depositors. At that time, the maximum amount insured was \$5,000. Today, each savings account is insured for up to \$100,000. Although money market fund accounts in banks are protected by federal insurance, money market fund accounts offered by investment firms generally are not.

During the Depression, bank failures were common. Nowadays, they occur rarely. Besides insurance, there are other kinds of protection available, mostly from the same federal agencies who issue insurance or regulate banking. When a bank, a savings and loan association, or a credit union is in trouble, it can first receive help in the form of a loan. If this financial aid isn't enough, then the institution may combine with another, stronger savings place. You hear of very few bank failures today because there *are* very few. Our economic system provides a great deal of protection for the investor.



When you save at a savings and loan association, your money is insured.

What effect do you believe government protection of deposits has on the investor?

A PLAN FOR SAVING

Now that you have a place to save, you need to choose a savings plan. The rate of interest paid should be a major factor in your decision. Just because it's the largest bank, with branches in every part of your region, doesn't mean a bank will pay the highest rate of interest. Nor should you open a savings account where your checking account is located purely as a matter of convenience.

When you're shopping around for interest rates, keep in mind a number of considerations. First, the *amount* you deposit may affect the interest rate you receive. Larger amounts may earn you a higher

interest rate. And the length of time you intend to leave your savings in an account may also affect your rate of return. The longer you agree to keep your money in savings, the higher your interest rate. Large amounts deposited for a long time can be invested at a better rate of return than small amounts invested for a short time. This means more money for the savings place — *and* more money for you.

Of all plans, the regular savings account is the most common. With this kind of account, you can deposit as little as \$10 to start. You can add or take out any amount at any time. Records of withdrawals and deposits are kept in a booklet called a **savings passbook**. Usually a machine will print each withdrawal or deposit right in your passbook. You may also make deposits and withdrawals by means of automatic teller machines, in which case you will get a printed receipt. When interest is earned, a statement of the amount is mailed to you. It is a good idea to add the interest to the balance in your passbook right away.

Another kind of savings plan involves keeping a larger sum of money on deposit for a specific period of time, a kind of time deposit. This plan, called a **certificate of deposit**, may be for amounts of at least \$500 and for varying periods of time. Banks pay higher interest rates on certificates of deposit than on regular passbook accounts because they can invest your money with greater certainty. After all, you specify how long you are going to leave it in the account. Moreover, if you do cash your certificate of deposit before its *maturity date*, you will lose some of the interest as a penalty for early withdrawal.

As you read earlier, both banks and investment firms offer money market fund accounts. Usually they require a minimum balance but permit unlimited deposits and withdrawals. In a bank money market account, when you keep your account at or above the established minimum daily balance, the entire amount in your account earns interest based on money market rates. If the amount in your account falls below the minimum daily balance, however, a lower interest rate is earned. In money market accounts offered by investment firms, you must maintain a minimum balance in order to earn any interest. Another difference between the two types of money market fund accounts is, of course, that those offered by banks are federally insured, whereas most money market funds offered by investment firms are not.

Banks and other savings places also have special savings accounts. These are designed to help consumers save for a certain



If you cash a certificate of deposit before it matures, you will lose some of the interest from it.

item or goal. For instance, there are special accounts to provide you with a certain amount of money for your vacation. Other special accounts may exist for education funds. These special accounts resemble the regular accounts at least in the interest rate, but often they involve depositing the same amount each week or month.

Try to tailor your savings account to your own needs. After you have developed a habit of saving, you may want to make some changes to take advantage of some savings features you did not originally have. You may be able to save some money in certificates, save some money in a regular account, and still maintain a special savings account.

What special savings account services are available in your local area?

MAKING MONEY THROUGH SAVINGS

In the past, the interest rates paid on regular savings accounts were fixed by law. Now, as of 1986, interest rates are determined by the economy. They are influenced by business conditions, competition, and inflation. If people are not saving money and banks want to encourage more savings, they can offer a higher interest rate to attract new savers.

Even if the interest rate is the same on two accounts, that does not necessarily mean the savers make the same amount of money. Why not? It depends on the method used for figuring the interest earned. For example, some savings accounts earn interest on money from the day of deposit to the day of withdrawal, the **DD/DW** method. This method of figuring interest works best for you because your money will earn interest for every day it is on deposit.

Other savings accounts use a different method. Some pay interest on the lowest balance for the month or the quarter. Suppose you have \$500 in your savings account on the first of the month. On the 15th, you deposit \$200. You had \$500 before and \$700 after your deposit. Your interest would be figured on the lower balance, that is, \$500. You would not earn interest on the additional \$200 deposit until the next month or the next quarter when the bank would compute interest again. This method would earn less than the DD/DW method. Since there are many methods of figuring interest, it pays to ask what method is used in the place you intend to keep your savings account.

When you earn interest, it's added to your account balance. Then in the next period, interest is figured on the new balance. This procedure is called **compounding**. Here is how it works. Suppose you have \$200 in your account earning 5 percent interest. You get \$10 interest, add it to your balance, and now have \$210. Next period you earn 5 percent interest on \$210, or \$10.50, so your new balance is \$220.50.

Obviously the more often interest is compounded, the better off you are. Interest compounded semi-annually, or twice a year, means that interest is figured on your account every six months. Six months later you earn interest on your total savings, which then includes the interest added six months earlier. The more frequently interest is compounded, the greater the total earnings you receive at the end of the year.

Making money through savings is affected by other factors besides the interest method used. Sometimes there are regulations or considerations not related to the interest rate that still figure in the money earned. For instance, in some cases a minimum balance is required for savings to earn interest at all. The minimum balance requirement might be for \$100. A balance in your account of less than \$100 means that you will not earn interest on your savings.

Another limit has to do with the number of times you can make withdrawals from your savings plan. In some cases, if you withdraw money from your account more than three times during a quarter,



Earning interest is no magic act — it just takes time and know-how.

or three-month period, you pay a penalty. This may be no more than \$1 for each extra withdrawal, but it still costs *you* money. And it helps pay for the bank's recordkeeping costs.

Occasionally, what you get "free" may carry a hidden price tag, as far as savings accounts are concerned. Some savings places give away toasters, radios, tennis rackets, or other items when you open a new savings account. When you open an account with a larger amount, you may even get a television or a stereo system. The catch is that none of these gifts is really free. Earnings on your savings may be reduced accordingly. Sometimes banks pay for these "free" gifts by increasing fees for other services. You have to decide whether the gift is worth the cost.

STARTING A SAVINGS PLAN

When you decide to open a savings plan, there are several decisions you must make. In many ways, they are like the decisions you must make in opening a checking account. First, where do you want to put your savings? You must decide among different banks, savings and loan associations, investment firms, and credit unions. Remember that interest rates, as well as the amounts earned, vary from place to place.

Then you have to decide what type of savings plan is for you. Do you want a regular savings account, a savings certificate, or a money market fund account? The advantages of a regular account are that you can start it with any amount and you can take your money out at any time. With a savings certificate, your money will increase in value at a faster rate. However, you must leave your savings on deposit for a certain period of time. And the amount you start with is generally larger than with a regular account. With money market fund accounts, interest varies according to market conditions. On the other hand, there are no fixed terms.

As with a checking account, to open a savings account you must first sign a signature card. The next step is to fill out a deposit slip for your first deposit. Every time you wish to add money to your account, you will use a deposit slip. In return, many banks or savings institutions will record your deposit in your passbook.

Besides a signature card, there should be other safety features for your savings plan. When you deposit your money somewhere —

You will fill out a deposit slip each time you add money to your account.



anywhere — you will want to know that your money is safe. To withdraw money from your savings plan, you will have to sign a withdrawal slip with your name written just as it is on your signature card. That signature is the bank's or investment firm's way of checking to be sure you are the owner of the account. Requiring your signature on a withdrawal slip is a protection for you against just anyone being able to withdraw money from your account. Your withdrawal then is recorded in your passbook to give you an up-to-date record of your account. If you make withdrawals by means of ATM's, protection is provided by your personal identification number (P.I.N.).

Why must you sign your name on a withdrawal slip just as you did on the savings account signature card?

GETTING YOUR DOLLAR'S WORTH

Getting the most from your savings plan is really what it's all about. To ensure that you do get the most, ask yourself the following questions when deciding on a savings plan. Make sure you get the answers *before* making a final decision.

1. Convenience. Does the location of the savings place allow you to make deposits and withdrawals easily? If not, can you do so by mail?
2. Safety. Are your savings insured?
3. Liquidity. Will your money be easy to get when you need it?
4. Interest rate. Are you earning the highest possible interest?
5. Interest method. On savings accounts, are your earnings based on the DD/DW method?
6. Compounding. Do you earn interest on your balance *plus* the interest already earned on a daily basis?
7. Hidden charges. Is there a minimum balance required to earn interest on your savings? Is there a fee charged for extra withdrawals? Is interest lost due to gifts given to new customers?

Naturally, no one plan can give you everything you want. As always, there are trade-offs. For example, an investment firm may offer money market fund accounts that earn high interest and are extremely liquid, but they are not insured. A regular passbook savings account may be convenient and safe, but it may not earn the highest possible interest. To get one benefit, you may have to give up another.

SUMMARY

You can place your savings in banks, savings and loan associations, credit unions, and investment firms. Not all offer the same interest rates or the same plans, so you will have to shop around for a savings plan that is best for you.

Starting a savings plan is easy. Getting the right one is a little harder. It involves trade-offs. You probably want to get at your money easily and quickly. Most important, you want your money to work as hard as possible for you — that is, to earn money.

BUILDING WORD POWER



Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 6. Then write the term that best matches each numbered definition.

certificate of deposit
compounding
DD/DW method

money market fund
savings passbook
thrift institutions

1. A method of figuring interest earned on savings accounts from the day of deposit to the day of withdrawal.
2. A savings plan that involves keeping a larger sum of money on deposit for a specific period of time.
3. A term used to describe savings and loan associations and mutual banks.
4. A procedure in which the interest earned on a savings account is added to the account balance, and then the interest for the next period is figured on this new balance.
5. A booklet in which withdrawals and deposits are recorded.
6. A kind of time deposit in which the interest rate varies from month to month.

BUILDING READING COMPREHENSION



1. Name four places where a person can save.
2. How does saving at a credit union differ from saving at other places?
3. What agency insures savings accounts in a bank? in a savings and loan association? in a credit union?
4. Before a bank or other savings institution fails, how is it helped to stay in business?
5. What two things affect the rate of interest on a savings plan?
6. How does a certificate of deposit differ from a regular savings account?

7. Why might savings accounts with the same interest rate earn different amounts?
8. Which method of computing interest gives you the best deal?
9. How can "free" gifts affect the earnings on savings?
10. What steps does a savings institution take to protect your savings account from being used by another person?

BUILDING BUSINESS CONCEPTS



1. What are some of the reasons a person would choose to save at a credit union?
2. "Certificates of deposit are always the best savings plan since they pay the highest interest rates." Do you agree? Why or why not?
3. Why do banks sometimes require a minimum balance for savings to earn interest or allow only three withdrawals during a three-month period?
4. Why are savers penalized for early withdrawal of money in a certificate of deposit?
5. Are free gifts for new savings accounts always a wise consumer choice? Explain.
6. Money put into money market funds offered by investment firms is generally reinvested in high quality governmental and corporate bonds. Would savings put into these funds be very risky? Explain.
7. Some government officials want to lower the taxes that consumers pay on interest earned by savings accounts. What effect do you think such a step might have on savings?
8. Why do some people choose to buy a certificate of deposit when they could possibly make more money with an investment like stocks, bonds, or real estate?
9. What could cause many banks to fail at the same time? Do you think this could happen?
10. Why is the convenience of where you save important? What makes a savings plan convenient? What are the trade-offs?

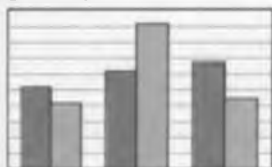
BUILDING BUSINESS EXPERIENCE



1. For each of the following, indicate whether it best describes a bank, a credit union, or a savings and loan association.
 - a. must be a member to save
 - b. convenient place to save, since many people have checking accounts here
 - c. a nonprofit organization
 - d. most money saved is lent to consumers for buying homes
2. For each of the following business news items, decide if it would cause people to increase or decrease their savings.

- a. Unemployment increases for auto workers.
 - b. Savings and loan associations announce higher rates for savers.
 - c. Congress votes to decrease taxes on savings interest.
 - d. Prices are increasing faster than wages.
3. Ask a local bank, savings and loan association, or credit union about the method used to compute interest on savings. Also ask if there is a minimum balance required to earn interest or a limit on the number of withdrawals during a certain period of time. Or, check advertisements for local savings institutions for this information.
 4. Most banks and investment firms prominently display their current interest rates for money market funds. Record the rates posted at a local financial institution over a period of four weeks. How did the rates change? By how much?
 5. Ask relatives, neighbors, and teachers about their saving habits. What is most important to them when choosing a place to save: convenience, safety, or interest earned?

BUILDING ANALYTICAL SKILLS



Using the following compound interest chart, answer the questions below.

Stated Annual Rate	True Annual Rate If Compounded . . .				
	Semi-annually	Quarterly	Monthly	Weekly	Daily
4.00	4.0400	4.0604	4.0741	4.0794	4.0808
4.25	4.2951	4.3183	4.3337	4.3397	4.3413
4.50	4.5506	4.5765	4.5939	4.6007	4.6024
4.75	4.8064	4.8352	4.8547	4.8623	4.8642
5.00	5.0625	5.0945	5.1161	5.1245	5.1267
5.25	5.3189	5.3542	5.3781	5.3874	5.3898
5.50	5.5756	5.6144	5.6407	5.6509	5.6536
5.75	5.8326	5.8751	5.9039	5.9151	5.9180
6.00	6.0900	6.1363	6.1677	6.1799	6.1831

1. Which method earns the most interest?
2. Why does more frequent compounding increase earnings?
3. What would be the interest earned on \$100 at 5.75 percent compounded daily for a year?
4. What would be the interest on \$100 at 5.00 percent compounded quarterly for a year?
5. What would be the interest on \$1,000 at 5.50 percent compounded weekly for a year?

Careers in Business

Secretary

Although the term *secretary* has been used for years, the responsibilities that go with the job have changed dramatically. New job titles, such as administrative assistant and executive secretary, are evidence of this change.

In the past, most of the secretary's time was spent typing, maintaining appointment calendars, and filing. A secretary spent the day primarily carrying out the daily jobs of the office.

However, with the introduction of computers and specialized software packages, secretaries no longer need to spend hours trying to produce a perfect document; the equipment allows them to make corrections before the document is printed. Also, electronic filing systems have reduced the time needed to keep file cabinets full of records. Software programs that allow secretaries to keep appointment calendars on the computer are another advancement. These changes have enabled secretaries to expand the scope of their responsibilities.

The secretary is now able to research information for reports and meetings. This person is also able to assume more initiative. Although these duties may not be new to the position, they can now be given more attention.

These administrative duties illustrate that the secretarial career has changed from one categorized as clerical to one more closely linked with administration. Because of these added responsibilities, good career preparation is necessary. High school business courses; a solid background in English, grammar, and math; experience with computers or electronic office equipment; and the ability to work well with others are qualifications for a career as a secretary. Secretaries must stay informed of the latest advances in office automation and be flexible and willing to incorporate them into their offices.





CHAPTER 36

Investing in Stocks and Bonds

- Savings accounts are safe, but they don't pay a very high rate of return. What if you want to make more money sooner than you can from a savings account? What other investment opportunities are there?
- What about stocks and bonds? How are they alike? How are they different? How can you buy or sell them?
- How safe are stocks and bonds? Do you always get a return on your investment in them? What things should you think about before entering the stock market?

Do you know what these terms mean?

securities	coupon bonds
common stock	registered bonds
preferred stock	secured bonds
stock exchange	debenture bonds
over-the-counter market	redeem
mutual fund	callable bonds
corporate bonds	convertible bonds
municipal bonds	stock market quotations
U.S. Savings Bond	

You'll learn all about these terms in this chapter.

Savings accounts are certainly a dependable place to put your money and watch it grow. But what if you want your money to grow faster? Suppose you want a greater return on each dollar you've invested — and want it faster? Where do you go then? If you are willing to take more risk with your money than you do in a savings account, you might want to look into certain securities. Securities are generally used by corporations and governments to finance their growth. The two most common types of securities are stocks and bonds. They are sold in the marketplace to individuals and groups, who expect to gain some return on their investment. The return, or money earned, on a security varies according to the risk that the issuer will not repay the amount paid by the buyer. Government securities generally carry little risk since governments can raise taxes to pay off their debts. Securities issued by businesses carry more risk because there is a greater chance that the business will fail or will not earn enough income to pay off its debts. However, there is also a trade-off between the amount of risk and the amount of the return on an investment. Generally, the greater the risk, the higher the return. When investing in securities, then, you must decide which is more important to you: safety or a high return.

STOCKS

Suppose a corporation needs a great deal of money in order to expand. How can the firm get it? The company can try to use whatever profit it has. But most likely there wouldn't be enough profit. And the firm wouldn't want to tie all of its cash up even if there was



A stock certificate is proof that you own one or more shares in a corporation.

enough. The company could try to obtain a bank loan. But a bank probably wouldn't want to lend so much money. Often corporations faced with the need for a lot of money try to raise it through the sale of stocks. Stocks, as you learned in Chapter 10, are shares in the ownership of a corporation. A *shareholder*, or stockholder, is someone who buys stock and usually has a voice in the operation of the company. Sometimes the ownership and the voice are very small. At other times, both can have a major effect on the company.

Stocks are not a source of funds for the government since the government is not a business and thus cannot issue any shares of ownership.

Forms of Stock

There are two forms of stock: common and preferred. **Common stock** is the stock that all profit-making corporations must offer. Holders of common stock participate either directly or indirectly in

the management of the company. They can cast votes for members of the board of directors, and can vote on certain other policies and procedures. In return, holders of common stock may receive *dividends*, which are a return on their investment. However, they may have to wait in line while others are paid off. Sometimes they may receive no dividend at all.

Preferred stock, on the other hand, is stock that gives its holders certain privileges. Not all corporations issue preferred stock. But when it is issued, its dividends must be paid before dividends are paid to the common stockholders. Similarly, if a corporation fails, holders of preferred stock must be paid before holders of common stock. There is a disadvantage to preferred stock, however. Holders of such stock generally have no voice in the management of the corporation.

Which do you think is more important — to have a voice in the management of the company, or to be first in line when dividends are paid?

Proof of ownership of both types of stock is provided through a document called a *stock certificate*. The stock certificate shows the name of the shareholder, the number of shares held, the type of stock, and any other special details. The certificate has no *maturity date*, that is, no end date on which stocks have to be cashed in. They can be held for as long — or as short — a time as the shareholder wants to hold them.

Buying and Selling Stocks

Suppose you decide that you want to invest some of your money in stocks. How do you go about buying them? Most people first seek out the services of a *stockbroker*, a dealer who specializes in stock transactions. Stockbrokers will advise you on which stocks to buy and when to buy them. Stockbrokers will also process your order, charging you a certain percentage of the order as a fee. Stockbrokers will also help you sell your stocks, again for a fee.

Stockbrokers usually buy and sell stocks through a trading market known as a *stock exchange*. There are several hundred stock exchanges in the United States. Of these, the best known are the New York Stock Exchange (NYSE) and the American Stock Exchange (AMEX), both of which are located in New York. Other cities such as Chicago and San Francisco also have stock exchanges. Stock exchanges provide a central place in which both buyers and

sellers of stock can meet. Brokers who are members of the exchange carry out the orders of their customers. This means that many different brokers are carrying out many different orders. The final buying or selling prices are arrived at as a result of an auction.

Some investors feel that they are sufficiently knowledgeable to decide on their own which securities to buy or sell. Rather than pay full fees for such services as consultations and research, they take advantage of the brokerage services offered by many banks. Generally, bank brokerage services allow the investor to save on brokerage commissions since they do not provide advice about which stock to buy.

Thousands of transactions are handled daily at the New York Stock Exchange.



Stocks not listed on any one of the exchanges are bought and sold through the **over-the-counter market**. If you wanted to buy or sell an unlisted stock, you would first call your stockbroker. The stockbroker checks for the latest prices. If you agree with the price, you trade. If you don't agree, you don't trade. Over-the-counter (OTC) stocks are quite popular. In fact, more shares of stock are traded over the counter than in any exchange.

You can also invest in stocks by buying shares of a mutual fund. A **mutual fund** is a pool of money that is used by an investment company to purchase the stocks and bonds of other corporations. When you invest in a mutual fund, you entrust your investment dollars to experts who are trained money managers. They research the market before choosing the securities to buy. Since mutual funds can buy from many different companies at the same time, you have less risk of losing part of your investment if one stock performs badly.



A mutual fund has greater purchasing power than each investor does individually.

BONDS

When corporations or federal, state, or local governments need to borrow a large amount of money for a long time, they often issue bonds. As you know, bonds are written promises to repay. Bondholders are creditors of the corporation or government issuing the



Cities and towns use bonds to raise revenue for new construction.

bonds. In return for the use of the bondholders' money, the corporation or government promises that on the maturity date it will repay the buyer of the bond the amount borrowed plus a certain amount of interest. For most bonds, periodic payments of interest are made up to the maturity date.

Types of Bonds

Bonds issued by corporations are called **corporate bonds**. Bonds are also issued by various levels of government and government agencies. **Municipal bonds** are sold by local or state governments and by certain government agencies. Municipal bonds are sold to finance highway construction or other government projects. Many people prefer to buy municipal bonds because over the years they have earned a reputation as safe investments. But perhaps even more people like them because the interest they pay to investors is free from federal income taxes.

A type of bond issued by the federal government is the **U.S. Savings Bond**. Savings bonds are available in a variety of places. You can buy them in banks or through a payroll-deduction plan at

work. You must pay federal taxes on the interest you earn from U.S. Savings Bonds, but you do not have to pay state or local taxes on them.

Two series of government savings bonds are available. Series EE savings bonds are available in values ranging from \$50 to \$10,000. When you buy these bonds, you buy them at a 50 percent discount. For example, for a \$50 savings bond, you have to pay only \$25. The \$25 difference is the amount you will receive as interest when the bond matures. At present, Series EE bonds mature after ten years. Series HH bonds also mature in ten years. With these bonds, you get back exactly what you paid for them — \$500, \$1,000, \$5,000, or \$10,000. In the meantime, however, you receive interest semiannually. For example, if you buy a Series HH bond for \$500, you are paid \$18.75 in interest twice a year.

You or someone in your family may also own Series E or Series H bonds. In 1980, these bonds were replaced by the Series EE and HH bonds. However, the Series E and H bonds will continue to earn interest until they mature.

Do you, or does anyone in your family, own U.S. Savings Bonds? Find out which series the bonds are and when they mature.

There is no charge, or fee, for purchasing or selling a U.S. Savings Bond. These bonds are registered with the U.S. Treasury, so they can easily be replaced if they are lost or stolen.

The federal government also issues other bonds for special projects, such as the construction of a federally funded power plant. The United States Treasury issues bonds that are classified according to the length of the loan. Bonds that are issued in terms of three months to one year are called treasury bills (or T bills). Treasury notes are issued for two to ten years and treasury bonds for ten or more years. Investments of one thousand dollars or more are required to buy treasury issues.

The Forms of Bonds

Bonds are classified according to who holds them, what backs them, and how they are repaid. Bonds that are “payable to the bearer” are called *bearer* or *coupon bonds*. No record is kept of the owner of coupon bonds. The issuer simply pays interest to whoever clips and sends in the coupons attached to the bonds. If the bonds were lost or stolen, anyone who found or stole them could claim the

Save for a sunny day.



Buy U.S. Savings Bonds.

U.S. Savings Bonds are a good way of saving for long-term goals.

interest. That person could also claim the full value of the bond when it became due. The holder of a coupon bond is assumed to be its rightful owner.

On the other hand, there's little trouble in identifying the rightful owner of a registered bond. **Registered bonds** are bonds that

show the name of the owner on the face of the certificate. These bonds and their owners' names are listed with the issuer. Moreover, the issuer mails interest payments to the owner of record. Registered bonds are more convenient and safer than coupon bonds and for these reasons are now more popular. Many bond issuers, however, continue to offer both kinds.

Which kind of bond, coupon or registered, do you think would be easiest to sell in an emergency? Why?

Bonds can also be classified according to what backs them. **Secured bonds** are bonds that are backed up by some specific asset of the issuer. The asset may be land or other real estate, in which case the bond is called a *mortgage bond*. Or the asset may be machinery or trucks. In this case, the bond is known as an *equipment trust certificate*. Bonds that are not backed up by a specific asset are called **debenture** (*dih BEHN chur*) bonds. Debenture bonds depend heavily on the good reputation of the issuer. Usually only those issuers that have the best credit ratings can successfully sell debenture bonds.

A third way of classifying bonds is according to how they are repaid. Usually bondholders cash in, or **redeem**, their bonds on a specified maturity date. But sometimes a bond issuer wants to pay off its bonds earlier. For example, suppose interest rates were dropping sharply. The bond issuer might want to replace all high-interest bonds with new, low-interest ones. The issuer can replace the older bonds only if they are **callable bonds**. **Callable bonds** are bonds that contain a clause stating that they can be called in whenever the issuer desires. Other bonds, known as **convertible bonds**, permit the issuer to repay the bondholder in shares of stock rather than in cash.

FINDING INFORMATION ABOUT SECURITIES

Newspapers, magazines, television, and radio offer a wealth of information about securities. Many newspapers, such as *The Wall Street Journal*, contain **stock market quotations**, which are records of the opening and closing prices of stocks, and the number of shares traded on a particular day. They also provide data about bonds and over-the-counter stock transactions.

Magazines such as *Barrons*, *Forbes*, and *Business Week* are either entirely or largely devoted to financial affairs. And a variety

of programs — from one-minute “spots” to regularly scheduled thirty-minute features — can be seen or heard on television and radio.

But perhaps the best source of information about the financial affairs of a corporation is its annual report. *Annual reports* are documents detailing a corporation's financial condition that are sent to the firm's stockholders. The information in them must be approved by an independent accounting firm and must meet guidelines set up by the Securities and Exchange Commission.

Highest and lowest prices this year		Stock	Div.	P-E Ratio	Sales 100s	Highest and lowest prices paid today		Close	Net Chg.
High	Low					High	Low		
79-7/8	54-1/2	AetnaLf pl	2	474	11	67-1/4	66-1/8	67-1/2	+ 2
17	7-7/8	Aguirre Co		36	15	12-1/8	12-1/8	12-1/8	
31-1/8	22-3/4	AhmansMF		9	35	24	23-1/2	24	+ 1-1/8
78-1/4	53-1/2	Air Prod	20	24	20	74-3/4	73-1/8	74-3/8	+ 1/2

A typical newspaper stock market quotation.

CHOOSING SECURITIES

Clearly, investing in stocks and bonds is not for everyone. But for those who are willing to give up some of the safety of an investment such as a savings account, the rewards can be great. Investors have been known to get back four, five, and more times the amount they put into a particular corporate stock. And some have been known to lose their shirts. On the other hand, government bonds, especially Series EE and Series HH bonds, are quite safe. The return, however, is not spectacular.

Before investing in the more risky securities, you should ask yourself several questions. Do I really want a quick return on my investment dollar rather than a slower but safer return? Can I afford

to lose all of my investment if the company or government I'm investing in should fail? And have I really armed myself with enough information to make wise investment decisions? If the answer to any of these questions is no, perhaps you should pass up securities with high risks for the time being.

SUMMARY

To obtain money to finance costly projects, governments and corporations sell stocks and bonds to the public. Stocks are sold through brokers, who buy and sell on stock exchanges and in over-the-counter markets. Some banks also offer brokerage services. Stocks are either common or preferred, and dividends are usually paid on both types. Preferred stockholders are paid dividends before common stockholders. Stocks are sold only by corporations, and they do not have a specified maturity date or rate of return.

Both corporations and governments sell bonds to raise money. There are several types of bonds, and they vary according to who holds them, what backs them, and how they are repaid. Bonds have specified maturity dates, and interest must be paid on them.

With any investment, there are risks that the return will not be as great as expected or that the investment will be lost completely. Generally, government securities are less risky than corporate securities. Before investing in stocks and bonds, the investor must decide whether to buy securities with a low risk, and usually a low rate of return, or those with a high risk and a higher rate of return.

BUILDING WORD POWER

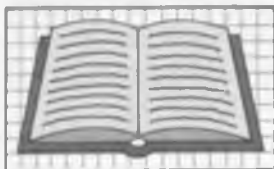


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callable bonds
common stock
convertible bonds
corporate bonds
coupon bonds
debenture bonds
municipal bonds
mutual fund
over-the-counter market

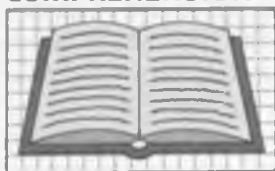
preferred stock
redeem
registered bonds
secured bonds
securities
stock exchange
stock market quotations
U.S. Savings Bond

1. Bonds that are not backed up by a specific asset.
2. The stock that all profit-making corporations must offer that gives each shareholder a voice in the management of the corporation.
3. Bonds that are backed up by some specific asset of the issuer.
4. A market for buying and selling stocks.
5. To cash in a bond.
6. The stock that gives its holder the privilege of receiving dividends before the holders of common stock, but whose holder generally has no voice in the management of the corporation.
7. The stocks and bonds that corporations and governments use to finance growth.
8. A way by which stocks that are not listed on any one of the stock exchanges are bought and sold.
9. Bonds that contain a clause stating that they can be paid off whenever the issuer desires.
10. Bonds marked "payable to the bearer."
11. A special type of government bond that can be bought in banks or through a payroll-deduction plan at work.
12. Records of the opening and closing prices of stocks and the number of shares of stock traded on a particular day.
13. Bonds that permit the issuer to repay the bondholder in shares of stock rather than cash.
14. A type of investment company that uses the money that you pay for its stocks to purchase the stocks and bonds of other corporations.
15. Bonds sold by local governments, state governments, and certain other agencies.
16. Bonds that show the name of the owner on the face of the certificate.
17. Bonds that are issued by a corporation.

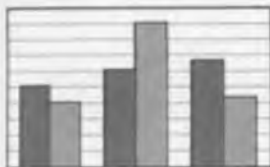
**BUILDING
READING
COMPREHENSION**

1. What are dividends?
2. What are the two best-known stock exchanges in the United States?
3. What is the difference between stocks and bonds?
4. Why do many people prefer to buy municipal bonds over other types of investments?
5. Why are U.S. Savings Bonds easy to replace if they are lost or stolen?
6. How are coupon bonds and registered bonds different from each other?

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**BUILDING
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**BUILDING
MATH
SKILLS**

1. A person who buys stock hopes to sell it at a later date for a higher price. Calculate the amount of gain or loss on the following stock purchases and sales.

Number of shares	Price at which stock was bought	Price at which stock was sold	Gain or loss	Amount lost or gained
100	\$68.00	\$71.00	gain	\$300
100	46.00	51.50	?	?
40	53.00	39.00	?	?
80	87.50	79.75	?	?
30	34.00	46.25	?	?

2. The rate of return on a corporate bond is found by dividing the amount of interest received by the cost of the bond. For the following bonds, find the amount of interest and rate of return.

Bond value	Interest rate	Interest amount	Cost of bond	Rate of return
\$1,000	7%	\$70	\$ 960	7.29%
1,000	7½	?	875	?
2,000	8	?	1,850	?
1,000	9¼	?	910	?
3,000	6¾	?	2,300	?

Careers in Business

Stockbroker

A news item appears in a business journal: The XYZ Company, a privately owned corporation, is going public by selling stock in the company. A securities worker, or stockbroker, immediately calls several good customers, advising them to buy stock in XYZ because the stock is likely to increase in value. The customers follow the stockbroker's advice and watch the company's stock increase in value over the next several months.

Investors who want to buy or sell stocks, bonds, or mutual fund shares cannot actually trade in those items. They must work through registered traders or brokers, who set the complicated market machinery in motion to make a trade. Brokers charge a fee or commission for making trades. Some brokers also advise customers on which stocks to buy or sell. Brokers often help their customers plan an entire financial package that may include securities investments, life insurance, and other investments.

Other brokers may offer no services other than making the trade a customer orders. These brokers, called discount brokers, do not offer any advice. However, they do charge less for each trade.

Brokers can act either for individuals or for institutions. An institutional broker carries out buy and sell orders for insurance companies, pension fund managers, and other organizations that invest millions of dollars.



While a college education is not a requirement for a stockbroker, it is becoming increasingly important. An understanding of how the stock market works is also necessary. Courses in business administration, economics, and finance are helpful. Good communications skills and a strong desire to succeed are also important. Most large firms train beginning brokers to help them pass licensing tests. The need for stockbrokers will remain strong because turnover is heavy in this highly competitive field.



CHAPTER 37

Real Estate and Other Investments

- What if you want to use and enjoy whatever you're putting your money into? What type of investment can you make then?
- Suppose you don't want all the trouble that goes along with owning a house. Can you find a home better suited to your wants and needs?
- Margo's hobby is collecting old buttons. Do you think enough other people may also be interested in her collection to make it valuable?

Do you know what these terms mean?

settlement costs	undeveloped property
condominium	equity
title	commodity
income property	commodities exchange

You'll learn all about these terms in this chapter.

Apart from savings accounts and securities, there are several other sound investments you can make. Indeed, for some people savings account balances or stacks of bonds and stock certificates aren't very satisfactory proofs of ownership. These people want something more concrete. They actually want to see, touch, and — above all — use and enjoy whatever they're investing in. So in addition to or, perhaps, instead of savings accounts and securities, they choose to invest in real estate, collectibles, or commodities.

INVESTING IN REAL ESTATE

On the face of it, you would think that there couldn't be a safer, surer investment than real estate. Real estate is, as you recall, land and all the buildings attached to it. Even though the number of people living just about everywhere grows larger and larger each year, the amount of available land remains the same. Remember

When you invest in real estate, you must consider the location carefully.



the laws of supply and demand that you read about earlier? According to them, when there's increased demand and decreased supply of any item, the price of that item should go up. So as demand for land goes up and supply goes down, its value should increase.

How, then, can anyone make a poor real estate investment? There are a number of ways. They can choose the wrong location. They can choose the wrong time to buy or sell. They can pay too much — either initially or through unexpected hidden costs. Or they may choose the wrong type of real estate to invest in.

People invest in a variety of different types of real estate, and they do so for a variety of reasons. In the main, however, people generally choose these three major types of real estate: homes for personal use, income property, and undeveloped property.

Home Ownership

If you're like most people, the single most expensive purchase you will ever make is a home. Few buying decisions require as much planning and wise decision making. But two money considerations are often what most influence the final buying decision. How much will it cost me, now and later? How much can I get for it when I sell? Clearly, the type, size, location, and condition of the home will affect its overall selling price. But the timing of the purchase or sale may also play a part. Interest rates may vary. And certain locations may become more or less desirable with the passage of time.

Most home purchases involve three different kinds of costs: down payments, settlement costs, and mortgages. As with all loans, the larger the down payment, or money paid up front, the smaller the rest of the payments will be. Often the seller of the home or whoever provides the mortgage demands a certain amount in down payment, such as ten or twenty percent of the selling price. **Settlement costs**, or closing costs, are the costs involved in completing the sale, such as those for tracing the history of ownership and recording the transfer of ownership. Because settlement costs must be paid at the time of sale, you should make sure that you can afford both those costs and the down payment — and still have money left in your savings account for emergencies.

What other costs might you have to consider when buying a house?

As you know, a mortgage is a form of repayment for an installment loan. Sometimes a home mortgage also includes your home



Your values come into play when you decide where to live.

insurance and property taxes. But if it doesn't, remember that payments for these two items also must be included when you figure out how much a home will cost.

In addition, you have to consider the cost of keeping up a home. After a certain number of years, you may need to repaint, put on a new roof, or install a new furnace. Can you afford these expenses along with mortgage payments, insurance, and taxes?

Not all of the considerations involved in the decision to buy a home are related to money, however. For example, some people want to live in a city. Others do not. Some want a home that's small and easy to clean. Others want a large house with plenty of rooms. Some want a great deal of privacy. Others prefer to have neighbors close at hand. Some really don't care where they live. But others believe that a certain neighborhood or address increases their social importance. For some people, a particular home is considered a temporary way station as their job takes them from place to place. For others, a home is a permanent residence. Because different people have different needs, a variety of homes are available. Apart from the familiar separate single- or multiple-family houses, there are condominiums, cooperatives, and manufactured houses.

Condominiums. Suppose you want all the advantages of home ownership but don't want the accompanying maintenance problems. What if you don't want to mow lawns or shovel snow? What kind of home should you look into buying? For some, condominiums are the answer. A condominium is an individually owned unit in a building or group of buildings. Condominium buildings may be run by either profit or nonprofit organizations. The owners of individual condominiums agree to obey a written set of rules that guide the operation of the condominium complex. The owners pay the mortgages and taxes on their units only. They pay a proportionate share of the expense of keeping up common areas such as hallways, entrances, laundry rooms, and lawns. The condominium owner holds title, the written proof of ownership, to his or her unit. The owner, therefore, is free to sell the unit at will to anyone. However, there are some disadvantages to condominiums. Many of them share common walls with neighboring units. So privacy may be sacrificed. Equally important, individual owners have little control over maintenance fees. If most other owners within your condominium building want a particular service, you'll have to go along with them — and pay for the unwanted service as well.

Some people want to invest in condominiums located in such vacation areas as the mountains or beaches. Since they will not be using their resort "homes" for more than a few weeks at a time, many choose *time-sharing plans*. In a time-sharing plan, different investors buy into the same condominium, often for as little as one week at a time. A major disadvantage of time-sharing is that the buyer can select only those weeks that are open. If you can't arrange to swap weeks with someone, you may be forced to spend your vacation at a time that may not be too convenient for you. Also, the rates for weeks during the prime seasons — winter in a skiing resort, summer in a lake resort — generally are much higher than those during off-season periods.

Cooperatives. In some respects, cooperatives are similar to condominiums. They are individual units within larger buildings. However, you don't actually own a unit. A cooperative is a form of ownership in which you buy shares in a nonprofit organization that owns your building. In addition to paying the mortgage, you pay an equal share of the taxes and operating costs of the entire building. You are, in a sense, responsible for paying a neighbor's share if the neighbor fails to pay. The cooperative, like a corporation, is run by a board of directors. Thus, the board of directors must approve of a buyer before you may sell.



Condominiums let people own homes without having to do maintenance chores.

Why do you think a cooperative would want to have a say in who is buying your unit?

Manufactured Houses. Many people, especially young people just starting out, cannot afford traditional houses but want some of the comforts associated with them. For such people, manufactured houses may be a wise choice. Manufactured houses are constructed in factories and then shipped completely assembled to their final sites, usually in a park with similar houses. Most are relatively small and easy to maintain. Often they come equipped not only with all the typical household appliances, but also with bedroom, dining room, and living room furniture. A major advantage of manufactured houses is their low cost. In many instances, they can easily be paid off within ten years. And except for park rental fees and utility hookup charges, you can live almost rent-free thereafter.

Income Property

Many people are not content to sit back and wait until they sell a piece of real estate before they get a return on their investment. These people prefer to invest in **income property**, property on which rent or some other form of payment is earned. Farms, stores, factories, shopping centers, and office buildings are some kinds of income property that you can invest in. So are two- or three-family houses. You buy the house, occupy one floor or unit, and rent out the other units. The rental income then can be used to help you pay off the mortgage. Unlike a condominium or a cooperative, a building that you own is yours to run — in your own way.

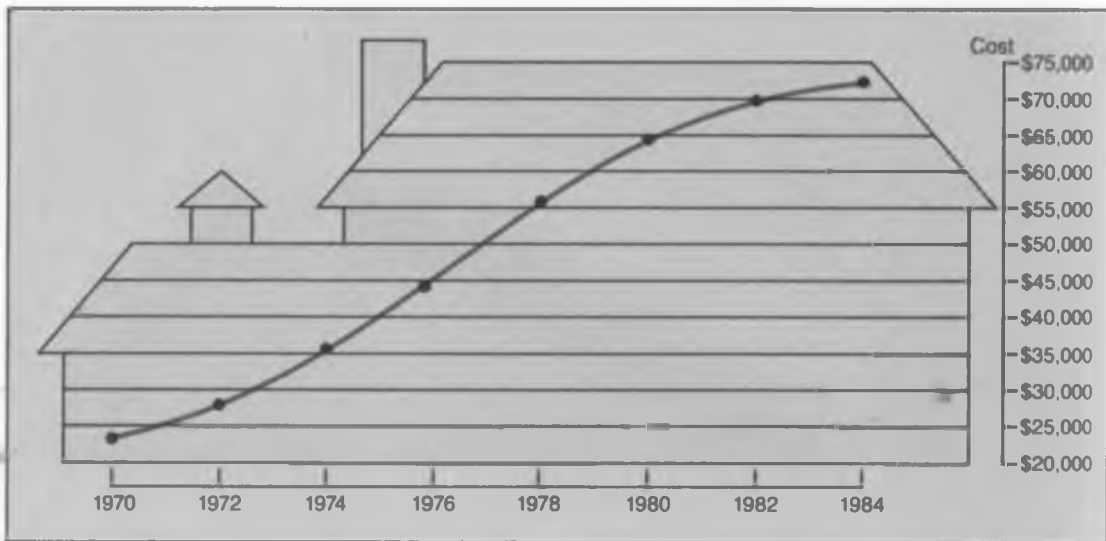
Undeveloped Property

You can also invest in undeveloped property. **Undeveloped property** is land that generally is in its natural state. Usually it isn't even cleared. No roads go through it. And utilities such as water pipes and electrical lines have not yet been put in. Often, but not always, it may be fairly inexpensive.

People invest in undeveloped property largely with the hope that its value will increase sharply over the years. Sometimes it does. The land may be wanted as the site of a shopping center or housing development. Perhaps a new industrial park may be built on it. Or a new recreational area may rise up close by. In other instances, however, very little may happen to its value. Or its value may go down. A planned highway may never be built, so the undeveloped land along its route may, therefore, remain undeveloped.

Why Invest in Real Estate?

If you can't always be sure of a return on your investment in real estate, why put your money there? People do it for a number of reasons. When they invest in homes, they're also providing a shelter for themselves. Perhaps they wouldn't pay quite as much if they were renting and not buying. But at the end of a fairly short time, they do have **equity** — the value of the money they've invested — in the house. And that equity can be used to raise their credit rating. For some, real estate is a safe investment. They may not make very much out of their investment. But then they shouldn't lose very much either. For still others, investing in real estate, especially housing, provides security. Come what may, they have some kind of



The fact that real estate generally increases in value makes most people consider it a safe investment.

roof over their heads when the mortgage is paid off. Still others consider the tax advantages of home ownership. In most states, renters get few or no tax breaks. Homeowners, however, usually have heavy interest payments for the greater part of their mortgage period, and interest payments are deductible.

COLLECTIBLES

Perhaps you or someone you know collects bottle caps, baseball cards, or stamps. If so, then you know that such items have value. Collectibles, items that people collect, may increase greatly in value over the years. This is particularly true if the collectibles are so popular and hard to find that many people want them.

An important point to remember about most collectibles is that you know how much of a return you'll get on an item only when you actually sell it. Collectibles are worth only what some other collector will pay for them. An antique bowl may bring very little, either because many similar bowls are available or because no one really wants that particular type at that particular time. On the other hand, a comic book or record that is perhaps only twenty years old may bring a very good price if you find a buyer who needs it to complete a collection.

Among the collectibles that are especially popular are antique furniture, old silverware, art, coins, and stamps. But almost any object could become a collectible. Old license plates, toys, and ordinary bottles all bring very good prices when sold to those who want them for their collections. You must be careful, however. You have to know a lot about what you're dealing in to be able to distinguish a really good collectible from the ordinary — or from the phony. And, if the objects in which you are investing go out of fashion, they may lose almost all their value.



Before you invest in collectibles, be sure they will be worth something.

COMMODITIES

Silver teapots and gold charms are collectibles, but silver or gold bars are not. They, along with such other items as wheat, corn, and cotton, are called commodities. Commodities are agricultural or mining products that can be traded. People can make a lot of money quickly by trading in commodities. But they can lose all they've gained — and more — just as quickly. Through a market very much like a stock market, a commodities exchange, investors buy contracts for quantities of a given commodity. They buy at a certain price for delivery much later on. However, the investors do not want to take delivery of the commodity. They want to sell their contract sometime before the delivery date. They're hoping that the

relatively safe investment. You can put your money in a home, in income property, or in undeveloped property. When deciding to invest in a home, you can choose among separate houses, condominiums, cooperatives, or manufactured houses.

Before you invest in such collectibles as antiques, art, or coins, you should be sure you know what you're dealing in. And while investing in commodities such as gold, silver, or wheat could return a lot of money in a short time, it could just as quickly take it all from you. As with all investing, you should know what you want, understand the advantages and disadvantages of the venture, and be willing and able to accept whatever happens.

BUILDING WORD POWER



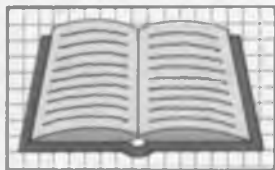
Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 8. Then write the term that best matches each numbered definition.

commodities exchange
commodity
condominium
equity

income property
settlement costs
title
undeveloped property

1. An individually owned unit in a building or group of buildings.
2. Land that generally is in its natural state.
3. The costs involved in closing a real estate sale, such as those for tracing the history of ownership and recording the transfer of ownership.
4. A market where investors buy contracts for quantities of a given commodity at a certain price, for delivery much later.
5. Written proof of ownership.
6. The value of the money invested in real estate.
7. An agricultural or mining product that can be traded.
8. Property on which rent or other payment is earned.

BUILDING READING COMPREHENSION



1. What are the three major types of real estate?
2. What is the single most expensive purchase that most people are likely to make?
3. What two money considerations influence the home buying decision?
4. What three costs are involved in most home purchases?
5. What is a mortgage?
6. Name two major disadvantages of owning a condominium.
7. Why might a person invest in a manufactured house?

8. Why do people invest in undeveloped property?
9. How does investing in real estate provide security for some people?
10. Why do people invest in commodities?

BUILDING BUSINESS CONCEPTS



1. Name at least four considerations involved in the decision to buy a home.
2. A person who owns a house has to pay a mortgage, make repairs, and pay homeowner's insurance. With all these expenses, why would anyone want to buy a house?
3. For what reasons might a person choose to buy a condominium? Why might a person want to buy one on a time-sharing basis?
4. How do cooperatives differ from condominiums?
5. Houses, apartment buildings, farm land, empty lots, and ranches are examples of different types of real estate investments. What makes each of these valuable? Why will the value usually increase in the future?
6. What risks are involved in investing in undeveloped land?
7. Why should someone who trades in commodities be very willing to take chances?
8. Many apartments have been converted into condominiums. What problems can this create for the people who rent in these buildings?
9. Other than the collectibles mentioned in this chapter, name four items that might be saved as both a hobby and an investment.
10. What types of investments do you believe to be the safest? Which do you believe to be the best for you?

BUILDING BUSINESS EXPERIENCE

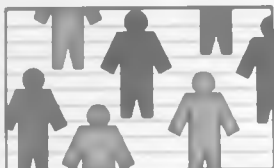


1. "Even though the number of people living just about everywhere grows larger and larger each year, the amount of available land remains the same." Explain this statement.
2. Invite a real estate agent to speak to your class about the types of real estate that are in demand in your area. Ask about settlement costs and other expenses you might meet with when you invest in real estate.
3. Talk to people who have invested in real estate, gold, antiques, stamps, coins, or other items. Ask them about the benefits of these investments.
4. Go to your library and get back issues of newspapers that are one-year and six-months-old. From the financial section, randomly select three commodities. Look in the one-year-old

issue to determine what the price of each commodity was one year ago. Assume that at that time you invested \$1,000 in each commodity.

- a. What was the amount of return on your total investment after six months? after one year?
 - b. What was the rate of return on your total investment after six months? after one year?
 - c. Did any of the three commodities perform much better than the others? much worse? What caused the commodities to perform as they did?
5. Collect advertisements for rare stamps or coins. Try to determine if any would be a wise investment.

BUILDING HUMAN RELATIONS SKILLS



You have \$20,000 that you must decide how to invest or save. You want the money to earn more money for you. Yet, you feel you need to have part of the money available in case of an emergency.

1. Knowing your own tendencies either to buy impulsively and spend your money lavishly or to be careful and make wise decisions, decide how much money you will put aside for easy accessibility. Will you save or invest this money? How?
2. Decide what you will do with the rest of the money. Will you save or invest? How much? What type of savings or investing? Why did you make these decisions about your money?
3. Report to the class on the decisions you made about your money. How did the rest of the class decide to invest or save their money?
4. Why did each member of your class choose a particular way of either saving or investing the money?

Trends in Business

Remodeling Instead of Buying

A small, two-bedroom house without many extras used to be the type of house most first-time homeowners sought. After a few years they would sell this starter house for a larger one. Some people would do this many times until they had the house they really wanted. However, with the higher prices of houses today, more and more people are keeping their starter homes and remodeling them rather than buying new ones.

Another reason for remodeling is the relatively stable cost of building materials. In addition to the financial benefits, there are also the personal benefits. Many people enjoy their neighborhoods and do not want to move. Remodeling gives them a solution.

The majority of people who remodel are families who have outgrown their homes. However, single people with condominiums are also remodeling or adding onto their units.

Remodeling varies according to the owner's needs and wants. Kitchens and bathrooms are often the first rooms to

be remodeled or added on. In the past, the most desirable room to add on was the family room in the basement. Now, however, family rooms are not in the basement, and they are more likely to be entertainment centers designed for the most recent high-tech equipment.

For those who think they might someday sell their homes, additions and remodelings that offer the greatest return on the investment are most desirable. For example, the addition of a fireplace can result in a return of 125–130 percent on the investment. An added bathroom can yield 100–130 percent return. However, a swimming pool will probably result in a return of only 25–30 percent.



The trend toward building up and out rather than buying up is likely to continue, especially in areas where the cost of new housing is increasing. Older homes often offer some extras in addition to lower prices. Hardwood floors, old window moldings, and ceiling decorations are very expensive extras for new homes, but are often found in older homes. Many people prize these features, choosing to remodel rather than build a new home just for such features.

UNIT

10

INSURING AGAINST LOSS





CHAPTER 38

Buying Protection

- You can save for a rainy day, or for emergencies. But you can't take the risk out of everything. So what do you do? How do you buy protection?
- You may have heard the saying, "There is safety in numbers." That's a pretty good definition of insurance. Why? Can you give a better, more complete definition?
- Do you have anything valuable, anything you couldn't afford to replace? Would you be willing to buy insurance to protect it? What do you want out of insurance?

Do you know what these terms mean?

insurance	stock insurance company
perils	mutual insurance company
insurer	life insurance
agent	property insurance
policy	liability insurance
policyholder	health insurance
premium	insurable interest
claims	

You'll learn all about these terms in this chapter.

"House Burns in Midnight Fire." "Thousands Homeless After Tornado." "Three-car Pile-up Injures Five." Each of these headlines represents an emergency and a probable loss to people. Thousands of us face such unexpected losses each year. What can we do about them? How do we avoid these losses? At the very least, can we get some financial protection against the worst consequences of these disasters?

DEALING WITH RISK

Each of us runs risks every day. You can fall down the stairs going to school or work. While walking on the sidewalk, you can be hit by a runaway car. Any time you ride in a car, a bus, a subway, or a train, you run the risk of an accident. If you are doing business or are *in* business, you take a chance with financial loss. Losing money or property is an economic risk, but it is a risk all the same.

How Can You Handle Risk?

Since you cannot avoid the risk of having an accident or losing property, how can you handle the risks that you run every day? You can try to deal with these risks all alone. You can plan to save enough money to cover all emergencies — and all losses. If you are afraid of losing your watch, for example, you can save for another one. By saving a little bit each week, you may be able to get enough money to replace your watch if you lose it. But what happens if you start saving now and lose your watch next week? What if you lose both watches? The cost of covering economic losses might be too much for one person to handle.

There is a way out. You can share your losses with others who have the same risk. Suppose you had to pay if you lost a book. Sometime during the year one person in your class is likely to lose a copy of this book. All of you could band together to protect each other in case of that loss. If, for instance, thirty of you divide the cost of the book, that wouldn't be very much for any one of you to pay. But what if ten of you lose your books? That would really wipe out any fund you had. Sharing losses with very small groups of people is better than going it alone, but fortunately there is an even better choice.

How Can Insurance Help You Avoid Loss?

Economic risks are shared most effectively when many people are involved. Insurance divides a possible loss among large numbers of people. Each individual then pays a small fee for protection. You pay much less for this protection than you would if you had to bear the whole loss alone. And because so many share through insurance, the cost of losses can be covered. Sharing the risk of losing a textbook is a form of insurance, but thirty people is too small a group for the insurance to be really useful. Sharing the cost among many people reduces financial loss. This "*principle of large numbers*" means many share a loss so one person suffers less. It is a basic concept of insurance. Insurance protects against all kinds of perils, or causes of loss. Examples of such perils are fire, shipwrecks, automobile accidents, death, sickness, and dishonesty.

The purpose of insurance is to provide you with greater financial security. Without insurance, a serious illness could change your whole way of life. A fire could destroy all of your belongings and force you to live differently. An automobile accident could injure you so that you could no longer work, thus leaving you much poorer. Insurance frees you from some of the worry you would face without that protection.

Fortunately, many economic losses are not costly. If you break a ballpoint pen costing 69 cents, that's not a real financial hardship. Nor would you attempt to protect against such a loss. But if you smashed up the family car, that would be serious. Insurance protects you against major financial troubles.

Why wouldn't you want to buy insurance to protect against minor economic losses?



Insurance is available for all kinds of life, property, and health protection.

GETTING THE RIGHT INSURANCE

Insurance protection requires careful planning and decision making. Choosing the right insurance plan is an important task. Insurance companies provide almost any kind of protection that you might want. How do you make your insurance choices? You must look at your own individual situation and then choose protection that fits your needs. If you are single, you may be most concerned about money to live on in case you are sick or injured. You may also want insurance to protect your apartment and personal possessions, such as furniture or a car. If you have a family, your major concern may be income for them if you are not able to work. Regardless of your circumstances and age, you will also want to have additional income for living expenses, and protection against serious illness after you retire. For whatever reason you want it, there is probably an insurance plan to fit your needs.

How It Works

An important part of our economic system is business firms that offer services. An insurance company sells the service of protection. The insurance company you work with is called the **insurer**. Because our system has so many different insurers, you have to choose the one that is best for you. As a consumer, you should be sure to compare, evaluate, and then decide.

When you decide to buy insurance, the **agent**, or representative of the company, is the person with whom you will work most closely. He or she can discuss what you want, help you identify the purposes of your insurance plan, and develop a good program for you. Good agents take pride in planning the best insurance program for you that they can. They offer information, help, and guidance.

When you and your agent have decided on a plan, the agent writes an application for you. The company then will issue a **policy**, a formal written agreement between you and the company. You are the **policyholder** — the person who has bought insurance protection. The policy gives in detail all of your protection, costs, rights, and responsibilities. It spells out how to file claims to cover losses and what coverage you have. Because it is a legal contract between you and the insurer, you should read your policy carefully.

What You Pay for Protection

When you and the agent have come up with an insurance plan and the policy is signed, you make your first payment. The amount of money charged by the insurance company for protection during a certain period of time is called a **premium**. Part of the premium covers the cost of the services the agent and company give you. The company uses some of the premium to pay **claims**, or requests for payments due to financial losses.

The premium paid for insurance is actually quite small compared to the amount of protection. How can this be? An insurance company may insure hundreds of thousands of people. Only a small number of them will suffer a loss each year. Through sharing the cost, premiums can be kept at a level that most can afford.

Protecting yourself against loss would be very expensive if it were not for sharing. Companies have a system for predicting how many losses will occur over a given period of time. By collecting records for years, then adding the figures and getting averages, an insurance company can come very close to predicting actual losses.



A good agent will tailor your policy to suit your needs.

Using these figures, they can judge how much they should charge for insurance protection in order to meet all claims. The accuracy of their predictions generally depends on the number of cases studied. The larger the number, the more accurate they will be.

Do you think it's fair that insurance companies base your charge for insurance on what happens to others?

THE BUSINESS OF INSURANCE

Insurance companies are big business both in terms of sales and employment. Over 2,018,000 persons are employed by insurance companies. Insurance contributes to our economic system by offering many services as well as jobs. When you look for an insurance company, chances are that you will find dozens of companies and agents listed in your community.

There are two major types of insurance companies. One, the **stock insurance company**, is a corporation with stockholders, a board of directors, and officers who run the company on a daily basis. The second major type is the **mutual insurance company**, a cooperative owned by its customers. Its owners are the people insured. Profits, called *dividends*, are distributed to the owners each year from investments made by the company.



The federal government often helps victims of major flood disasters.

Kinds of Insurance

There are several types of insurance. **Life insurance** is a protection usually for the family and relatives of a person after death. **Property insurance** covers damages and losses to your own property. **Liability insurance**, on the other hand, covers damages or

losses to someone else or to his or her property that you may have caused accidentally. Health insurance provides money to pay bills in case of accident or sickness.

The federal government handles protection for some kinds of disasters or risks that private companies cannot afford to cover. For instance, there is crop and flood insurance. Damage to or loss of crops and damage from floods can cost huge amounts of money. The government sometimes steps in where massive losses of property or crops have occurred and declares a federal disaster area. As you know, federal agencies also insure banks, savings and loan associations, and credit unions on their accounts. When a bank fails, tremendous amounts of money are involved. The federal government handles the social security program, which is an income and retirement insurance plan.

Regulating Insurance

The states are responsible for regulating the insurance industry. In each state there is a department that deals with the insurance companies and their operations. Each state has an insurance supervisor, often called a commissioner, who is responsible for applying the rules and regulations set up by the state. An insurance company must be licensed by the state in which it operates. After the company is licensed, the state insurance department reviews its operations on a regular basis.

One of the most important areas of supervision, of course, is setting rates, or premiums, for policies. Some states have laws under which the rates charged for premiums must be approved by the insurance commissioner. In other states, premiums can be set without approval of a commissioner. However, they are still subject to review. In any case, the insurance companies are closely supervised by the commissioner to ensure that the consumer gets sound protection. In effect, the commissioner represents the consumer and often seeks the advice of consumer groups.

THE FACTS ABOUT INSURANCE

Some people believe that they are not getting their money's worth if they pay insurance premiums but never suffer a loss. That is not true. When you buy insurance — other than life insurance — you have no way of knowing whether you ever will suffer a loss.

When you do, it will be an accident. Insurance companies do not pay for deliberate losses. In buying life insurance, you do not know *when* you will suffer a loss. When you do, it too will be unexpected. You also buy insurance because you do not know how large a loss you might suffer. You want to share the economic risks and the losses that result from them with large numbers of people. That is the concept behind insurance. The consequences of not having insurance if you do suffer a major loss can be far more costly than any amount of money you may pay for insurance premiums.

To buy insurance, you must have an **insurable interest** in the person or property covered by the insurance. In other words, you must be able to prove the possibility of financial loss before you can buy insurance on property or on another person's life. You have an insurable interest in all of your personal property. If you don't have an insurable interest in something, you cannot insure yourself against loss of it. But how about life insurance? Life insurance is different from real and personal property insurance. If you lose your life, *you* will not suffer a financial loss. Those who benefit from the insurance — your family and relatives — will suffer a financial loss, if you are their primary means of support. Your family thus has an insurable interest in your life.

"I have insurance. I don't have to worry. The insurance company will take care of it, so I don't have to be careful." Those are comments from a person who doesn't have all the facts about insur-



With insurance, you have a net of safety.

ance. Insurance is intended to cover those financial losses that occur because of accidents or unexpected events. Being careless will only drive up the costs of insurance. When losses increase, costs go up. All of us pay larger premiums to cover these costs.

SUMMARY

Most of us want to avoid financial risk. We want to cover our losses and protect ourselves. Through an insurance plan, we can get the protection we want.

There are life, property, health, and liability insurance companies and plans. If you have an insurable interest in something, then it may need protection. Be a smart shopper when it comes to buying a service like insurance. Determine your insurance needs carefully so that you pay premiums only for the coverage you need. Get the best agent you can, with a company you've checked out. Insurance should be part of your total money management plan. That's not a gamble. It's a fact.

BUILDING WORD POWER



Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 15. Then write the term that best matches each numbered definition.

agent	mutual insurance company
claims	perils
health insurance	policy
insurable interest	policyholder
insurance	premium
insurer	property insurance
liability insurance	stock insurance company
life insurance	

1. A representative of an insurance company.
2. An insurance company set up as a corporation with stockholders, a board of directors, and officers who run the company.
3. The amount of money charged by the insurance company for protection during a certain period of time.
4. A protection that provides money to pay bills in case of accident or sickness.
5. Insurance that protects you against claims of others whose person or property you may have accidentally damaged.

6. Causes of loss, such as fire, shipwrecks, automobile accidents, death, sickness, or dishonesty.
7. A protection usually for the family and relatives of a person after the death of that person.
8. A formal written agreement between you and the insurance company.
9. An insurance company that is owned by its customers.
10. A financial interest in insured property.
11. A way of sharing economic risks and the resulting losses.
12. Requests to the insurance company for payments because of financial losses.
13. A protection against damage or loss of your own property.
14. The insurance company that protects against loss.
15. The person who buys insurance protection.

BUILDING READING COMPREHENSION



1. What is an economic risk?
2. How does insurance reduce financial loss?
3. Describe an insurance policy and the information it includes.
4. In what ways does the insurance company use the money that you pay in premiums?
5. How does an insurance company determine how much to charge for insurance in order to meet all claims?
6. How are stock insurance companies and mutual insurance companies alike? How are they different from each other?
7. Name the four major types of insurance. How does each protect you?
8. What types of insurance are furnished by the federal government? Give several examples.
9. Give examples of ways the insurance industry is regulated and supervised.
10. How is life insurance an exception to the principle of insurable interest?

BUILDING BUSINESS CONCEPTS



1. "Those who need insurance the most can afford it the least." Do you agree or disagree? Give reasons and examples to support your answer.
2. Do you think it is possible to avoid all economic risks? Why or why not?
3. Explain why the principle of insurance can work better with a large group than with a small group.
4. Explain how liability insurance is different from property insurance.



5. Why does government, instead of private companies, provide some forms of insurance?
6. Some people argue that insurance really is not necessary. "Each of us should save for a rainy day and plan to take care of ourselves instead of depending on someone else to do it." Do you agree? Why or why not?
7. A good agent is important when you are buying insurance. In what ways does an agent help you? What kinds of qualities would you look for in an agent?
8. Since an insurance policy is a legal document, what advice about it would you give a person who has just bought insurance protection?
9. Give examples of ways in which you have an insurable interest in someone or some property.
10. What advice would you give a person who is considering whether or not to buy insurance protection? What could you tell that person about the advantages and disadvantages of having insurance?

BUILDING BUSINESS EXPERIENCE



1. Each of us can be involved in economic risks — risks that may result in loss of things of value or that may affect our health and well being. On a sheet of paper, print these headings:

Risks I Face

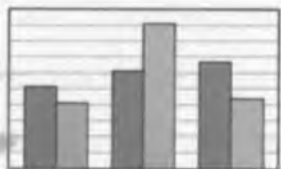
Ways to Avoid or Reduce Each Risk

In the left column, list the risks that you might face in a year. Include the time you spend at school, at home, at work, and in sports and fun activities. In the right column, list how you might be able to prevent the risks or reduce the seriousness of the risks. For each one, put a check mark at the end of the column if it is worthwhile to have insurance against that risk.

2. Prepare a list of questions that you would ask an insurance agent if you were planning to begin an insurance program for yourself.
3. Collect magazine advertisements about insurance and bring them to class. Classify the type of insurance according to these categories: life, health, property, and liability. Look in business magazines to see if you can find advertisements for insurance that is especially for business firms.
4. Listen to TV and radio advertisements and read newspaper and magazine advertisements for insurance. List reasons given by insurance companies for buying insurance. Identify the emotion to which each ad appeals: fear, health, security, prestige or keeping up with the neighbors, comfort, economy, or others.

5. Check your local telephone directory. How many insurance companies are listed for your area? List those you can classify as *stock* or *mutual*. How many are life insurance companies? How many are property insurance companies? Bring your findings to class for discussion.

BUILDING MATH SKILLS



1. The Hernandez family is figuring how much their insurance program costs. This year they spent these amounts of money for their insurance:

Auto insurance	\$191.00 each six months
Life and health insurance	35.00 each month
Homeowner's insurance	17.50 each month

- How much will each type of insurance cost for the year?
 - What was their total cost for insurance for the year?
2. An insurance agent told Jeff that an insurance policy would cost him \$6.50 each month, \$19.20 for three months, \$37.50 for six months, or \$74 for a year.
- How much would each plan cost him for a whole year?
 - How much would he save by paying for a whole year at once rather than every month?
3. One insurance company charges extra for those persons who have auto accidents. If a person has one accident for which the company must pay at least \$200, the added charge is 10% of the premium. Barbara has been paying \$141.70 for her auto insurance each six months. Now she has had one accident for which the company will add a charge. How much will her premium be this time? If she were to pay her premium once a year instead of every six months, her premium would be reduced by 5 percent of the six months' premium. How much could she save by paying her new premium once a year?

Careers in Business

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Insurance Claims Representative

When fire destroys a building, one of the first people on the scene after the firefighters have left is an insurance claims representative. This person investigates claims against his or her company's fire-insurance policy on the building to determine the amount of loss and negotiate settlement with the owners before authorizing payment. Claims representatives have two responsibilities. They must protect their companies from false or overstated claims, and they must settle claims quickly and fairly.

Claims representatives for property insurance companies usually specialize in one type of coverage, such as fire, auto, theft, or liability insurance. These people are known as adjusters. People who handle claims for life insurance companies are called claims examiners.

While some adjusters who handle small property-damage settlements work in an office using the telephone, most claims representatives work outside an office. They may be called to the scene of an accident or fire in the middle of the night, or they may travel to another city to interview witnesses and people filing claims. They may also be called on to testify in court if a case they investigated becomes part of a lawsuit.

No particular experience is required for becoming a claims representative, but previous experience is important in some cases. For example, someone familiar with auto-repair work may be qualified to handle auto damage claims. Determining the amount of loss and keeping up with complex insurance laws requires a lot of study throughout a claims representative's entire career. Two years of college may be helpful in preparing for this continuous study.



Most representatives are licensed by the state in which they work. Because they deal with a wide variety of people, they should be able to communicate with people of differing backgrounds. The nature of their work also requires that they have a good memory and be able to follow through on details.



CHAPTER 39

Automobile Insurance

- You probably will have more to do with automobile insurance than any other kind. When you think of it, you may be driving an automobile for fifty or sixty years. How many total miles will you drive? Why is insurance important to you?
- You want to save money. If you want to get the best buy for your money in automobile insurance, how will you go about it? What matters will you consider?

Do you know what these terms mean?

financial responsibility law	collision insurance
bodily injury liability	deductible
insurance	comprehensive insurance
property damage liability	depreciation
insurance	uninsured motorists coverage
medical payments insurance	no-fault insurance

You'll learn all about these terms in this chapter.

Car accidents can cause loss of income, loss of property, pain, and suffering. Automobile insurance is one way to cope with some of those problems.

Every time you drive, you risk an accident. Is that enough reason to have automobile insurance? If not, consider this. Even the best drivers have accidents. They run the risk of being involved in an accident caused by a poor driver, regardless of how hard they try to avoid it. Driving instructors say you should drive as if everyone else on the road were a poor driver! Insurance offers you some protection against the financial risks involved in owning and operating an automobile.

THE AUTOMOBILE INSURANCE

In most instances, the driver of an automobile has a legal responsibility, or *liability*, to pay for damages that he or she causes in an accident. In many states, you may drive a car legally without having liability insurance. However, if you are involved in an accident for which you are liable, you will be held responsible for paying for the damages. Most states have a **financial responsibility law** that requires you to show proof of your ability to pay, either with money or insurance. If you have no insurance, you must post a cash bond, usually immediately. The amount of the bond varies from state to state, but may be as much as \$50,000. As most of us do not have that kind of cash, the best solution is to buy insurance.

Why do you think it might be important for drivers to have to show proof of ability to pay for an accident either with money or with insurance?

Automobile insurance is made up of several different types of coverage. Most policies include coverage for bodily injury liability,



You are legally responsible for the passengers in your car.

property damage liability, medical payments, collision, comprehensive, and uninsured motorists protection. Let's look at each of these six basic types of coverage.

Bodily Injury Liability

Injuries or deaths caused by the policyholder in an accident are covered by **bodily injury liability insurance**. This type of coverage does not include the policyholder, but it is a must for anyone who owns a car. Bodily injury liability insurance has two types of coverage. One is for injuries to one person, and the second is the total coverage for one accident. The amounts are stated in thousands of dollars. If you have 100/300 bodily injury coverage, you have \$100,000 maximum coverage for injuries to one person and a \$300,000 maximum to meet total claims for one accident.

How much bodily injury liability insurance should you buy? Having enough bodily injury liability insurance is very important. It is better to cut down on some other types of coverage rather than to take out too little liability coverage. The extra cost for increasing

the amount of insurance is small. A good rule of thumb is to buy as much bodily injury coverage as you can afford. The high cost of extensive medical care can easily take all your coverage in a case of serious injury. For example, if you have coverage of \$50,000 for injuries to one person and that person's medical costs are \$75,000, your insurance company will pay only \$50,000. You will be liable for the remaining \$25,000.

Property Damage Liability

Coverage for the cost of damage to another person's property in an accident is provided by **property damage liability insurance**. Such coverage pays for the damage to the other person's car if you are in an accident and are at fault. Other property damaged in the accident, such as telephone poles or street signs, is also covered. This type of insurance, like bodily injury liability, should be carried by every driver. It, too, will protect you in case of lawsuits.

Frequently property damage liability insurance, which is also available in thousands of dollars, is quoted with bodily injury liability insurance. For instance, if you have \$100,000 and \$300,000 in bodily injury liability coverage, together with \$50,000 in property damage liability coverage, your rates may be shown as 100/300/50. Since additional coverage costs little, it is again wise to carry as much as you can afford and your agent recommends.

Medical Payments

Medical payments insurance covers the expenses from injury to the driver or anyone in the car. If you are injured in an accident while riding with someone who has medical payments protection, most or all of your medical bills will be covered. Medical payments coverage is available as a maximum amount per person, such as \$5,000. With medical costs rising every year, it is desirable to have as much medical coverage as you can afford.

Collision

Collision insurance covers damages to the car itself in case of accident. Only the car is covered, not the damage to property of others or injuries to people in the car. Collision insurance has one unusual feature — a deductible. A **deductible** is the amount of damages in an accident that will be paid by the policyholder, not the

insurance company. A deductible works like this. If you have a \$200 deductible, *you* pay the first \$200 of damages to your car. The company pays the rest of the damages, up to the limit set by the policy. The purpose of a deductible is to make you responsible for the losses you can afford yet still protect you against large losses. A deductible cuts the cost of your collision coverage. The higher the deductible amount, the lower your premium. Claims on collision coverage are limited to the cash value of the damaged car. For example, if repairs to your damaged car will cost \$3,000 and the value of the car is \$2,000, you will receive \$2,000.



Accidents can happen to anyone.

With collision insurance, payments are made to the owner no matter who caused the accident. If the other driver is at fault, the policyholder's insurance company will pay the claim and then try to collect the amount from the other driver's insurance company.

Comprehensive

Losses from such things as glass breakage, falling objects, theft, windstorm, hail damage, flood damage, and vandalism are covered by comprehensive insurance. This coverage is for the car itself and pays for damages for most things except collision. For example, comprehensive coverage pays if your car is stolen. The maximum

amount that can be recovered under this protection is the actual cash value of the car. This is determined by first figuring out how much the car has declined in value because of wear and tear and age, or depreciation. The actual cash value of the car is the new cost minus depreciation or what a car of the same type is selling for in the marketplace.

Comprehensive insurance may also cover the loss of items stolen from or along with your car. The amount that will be paid for such items is based on the new cost minus depreciation.

Under no circumstances can you collect more for your car than it is worth at the time the accident occurred. For that reason, and depending on the age of your car, you may not need collision and comprehensive coverage. You can drop those coverages if your car has such a low cash value that you can afford to replace it. With the money thus saved, you may want to increase your liability or medical payments coverage.

Why does comprehensive insurance limit the maximum amount that can be recovered to the actual cash value of the car?

Uninsured Motorists

One of the dangers of driving an automobile is that you may be involved in an accident caused by someone who has no liability insurance and no money to pay for your losses. **Uninsured motorists coverage** protects you by paying damages when you are in an accident with an uninsured driver. It also protects you if you are struck by a hit-and-run driver. It provides protection, too, for you and members of your family if you are hit by a car while walking. All persons riding with you are protected in your car. Most states now require uninsured motorists coverage.

Miscellaneous Coverages

Besides the basic coverages of liability, medical payments, comprehensive, and collision, you can get other kinds of protection on your automobile policy. Coverage is available to pay the cost of renting a car if yours is out of action for a time. You can get coverage for the cost of renting a car if your car is stolen. You can buy protection to pay the cost of towing. If you work for someone who asks you to drive a car as part of your job, you can add that car to your

policy. Your insurance agent will help you to decide which additional coverages are good for you.

Insurance protection is also available to persons who ride motorcycles, motorbikes, and motor scooters. The coverages are very similar to those for cars, but there are a few restrictions. Most do not give protection for speed or riding contests. In some cases, the policy does not cover passengers or anyone who borrows the cycle. Some policies do not include medical payments for the owner. The bigger the cycle, the higher the cost of insurance. Two other important factors in the cost of the insurance are the driver's age and driving record.



You can get insurance for any type of motor vehicle.

PAYING THE COSTS

Any driver who is responsible for an accident can be held liable for the damages. The fact that you have insurance does not remove your responsibility for preventing accidents. A person who violates traffic laws or operates a car unsafely can be held responsible for the consequences.

Some states require the parent or guardian of a *minor*, a person under the legal age of responsibility in his or her state, to sign an application for car insurance. The parent or guardian, as well as the minor, is responsible for any accidents. If a minor has an accident in someone else's car, the parent or guardian can be held liable.

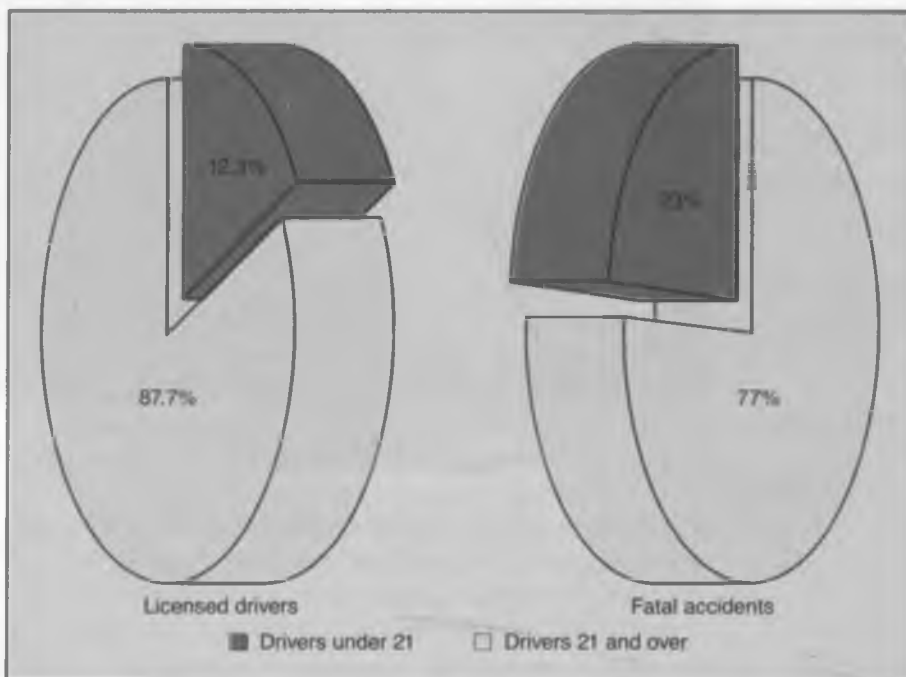
People who have accidents that are their fault become poor risks for insurance companies. Their insurance premiums may go up. Insurance premiums go up if the number and amount of claims increase. Many insurance companies write policies for no longer than six months, instead of a year as they used to do. To keep up with rapidly rising costs, they must figure premium rates twice a year instead of once a year.

Determining the Premium

Insurance companies base their premiums on the number, extent of damage and loss, and cost of claims of automobile accidents. From their records, the companies can decide which cars are more likely to have more costly losses. The costs of auto parts, repairs, and medical attention are all figured into the premium. Drivers within the age group 16 to 25 have been found to have more accidents, so their premiums are higher.

High-performance or sports cars usually are more of a risk. How a car is used can affect the cost of insurance, too. If you drive

Even though drivers under 21 years make up only 12 percent of the country's drivers, they are involved in almost one fourth of all fatal accidents.





Insurance costs vary for different types of cars and drivers.

your car to work, it will cost you more for protection. If you use your car only for personal purposes or drive it less than the average motorist, you may have a lower premium.

Where you live also can affect the cost of your insurance. If you live in an area with a record of many traffic accidents and high

repair costs, your insurance will cost more. Persons living in rural areas with fewer accidents usually pay less. Generally speaking, drivers in urban areas pay more for their insurance — regardless of their personal driving records.

Unmarried male drivers under 25 years of age pay higher premiums. Statistics show that this group of drivers has more accidents and more severe losses than other groups. Many insurance companies do consider the individual record of young drivers, however. If you have successfully completed a driver education course in your school, you may qualify for lower premiums. Some companies have found that good students have a better safety record than others, so they give students with higher grades a better rate. When you shop for insurance, your agent will tell you how to save money and still get the best coverage you can afford.

Why do you think sports car owners must pay more for their car insurance?

No-Fault Insurance

One of the problems in handling accident claims is deciding who is at fault. If it is not clear who is legally at fault for an accident, policyholders and insurance companies must spend much time and money trying to determine who should pay. Such expenses, delays, and uncertainties led to a new way of handling both costs and responsibility, called “no-fault insurance.”

With no-fault insurance, medical and other expenses of each person injured in an accident are paid by his or her own insurance company. It doesn't matter who is legally responsible for the accident. Before no-fault insurance can be accepted, it must be approved by the state legislature. Many states now have this kind of insurance, and the laws regarding it vary widely. In some states the injured party has no restrictions on the right to sue the other person. In other states there are restrictions.

Most no-fault protection includes payment for medical expenses, lost wages, and funeral expenses. If you are involved in an accident and no-fault insurance is in force, your insurance company will pay your medical expenses, lost wages up to a maximum number of weeks, and other losses up to a stated amount. The other driver's company will pay his or her claims.

No-fault insurance is intended to speed up the payment of claims. It does not release a person from legal responsibility for

obeying the law. If laws are broken by a person causing the accident, he or she can still be punished regardless of no-fault. In case of the serious injury or death of someone in your family, no-fault insurance may still give you the right to sue the other driver, too.

What if your expenses are more than the amount allowed by a no-fault law? For anything over that amount, you can sue the driver at fault. Although the amount covered varies widely among states, the no-fault laws eliminate a great number of cases from the courts.

If no-fault insurance is so good, why don't all states have it? Not everyone is convinced that it's so much better than other plans. Many people object to the fact that the person at fault in an accident does not bear the cost. No-fault insurance hasn't reduced the number of deaths and injuries on our highways. It doesn't solve the problems of inflation and rising medical and car repair costs. No-fault obviously will not solve the problems caused by reckless or unfit drivers and unsafe roads and car designs. However, more states will undoubtedly consider adopting no-fault insurance. It is a plan, after all, that offers hope of checking some of the rapidly rising costs of insurance.

As claims increase, insurance rates also increase.



SUMMARY

When you buy automobile insurance, your agent can help you to plan your coverage. Be sure you have *enough* bodily injury liability, property damage liability, and medical payments. Decide how large a deductible you can afford on collision insurance, and consider carefully whether you need both comprehensive and collision insurance. Uninsured motorists coverage is a must. Decide how much coverage you can afford and avoid being overinsured.

You can hold down the costs of insurance by doing your best to prevent accidents. Many companies reduce premiums for drivers who have no accidents on their records. You can do your part by choosing coverage wisely and by being a good, safe driver. Earning good grades and completing driver education may save you money on your premiums, too. Automobile insurance protects you, but protecting yourself and others with safe driving habits and adequate insurance is part of your responsibility.

BUILDING WORD POWER



Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 10. Then write the term that best matches each numbered definition.

bodily injury liability insurance	financial responsibility law
collision insurance	medical payments insurance
comprehensive insurance	no-fault insurance
deductible	property damage liability insurance
depreciation	uninsured motorists coverage

1. Insurance coverage to protect the automobile owner from loss due to breakage, falling objects, theft, windstorm, hail damage, flood damage, and vandalism.
2. Insurance coverage that covers the cost of damages to the policyholder's car.
3. The reduction in value of an item due to wear and age.
4. A part of an automobile insurance policy that states that damages less than a stated amount will be paid by the policyholder.
5. A law that requires automobile drivers to prove that they can pay for damage, either with money or with insurance.
6. Automobile insurance coverage that protects the policyholder by paying for damages caused by someone who has no liability insurance and no money to pay for the losses.

7. Automobile insurance coverage that pays for the damage to another person's property in case of accident.
8. A type of automobile insurance policy in which the medical and other expenses of each person injured in an accident are paid by his or her own insurance company.
9. Automobile insurance coverage that insures the policyholder against losses due to injuries or death of other people caused by the policyholder's car.
10. Automobile insurance coverage that covers the expenses due to injury to anyone in the policyholder's car.

BUILDING READING COMPREHENSION



1. What is the purpose of a financial responsibility law?
2. Name the six basic types of automobile insurance coverage.
3. If you have 50/100 bodily injury liability coverage, what kind of protection do you have?
4. If you carry \$5,000 in medical payments coverage and have an accident, who will be covered by that insurance? What is the maximum amount that each person may collect under that coverage?
5. What is the purpose of a deductible in insurance?
6. What is the maximum amount you can collect under comprehensive insurance?
7. What protection does uninsured motorists insurance provide for you and your family?
8. What types of coverage may you add to your auto insurance?
9. Name three factors that may cause you to pay more for your auto insurance.
10. Who pays under no-fault insurance? What types of losses are paid under no-fault insurance?

BUILDING BUSINESS CONCEPTS



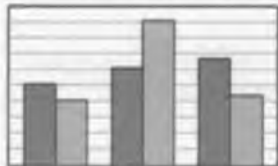
1. It would cost \$23,400 to replace all of the parts on a totally wrecked new car that was priced at \$5,097. What do you think this problem means to the cost of auto insurance?
2. Do you agree that a person can have too much auto insurance? If so, give examples of ways in which a person can be overinsured. If not, defend your answer with reasons why a person cannot be overinsured.
3. Herb parked his car on the street in front of his apartment building. The next day he found that someone had broken the back window, as well as the radio antenna. He has all six types of coverage on his auto insurance policy. Which type of coverage will pay for his damages? How much of his loss will his company probably pay?

4. People who buy new cars are often amazed at the increased cost of their auto insurance. Why is the cost of insurance for a new car higher than for a used car? Which coverages probably increase the cost the most?
5. You have just bought a ten-year-old car to drive back and forth to work and to school. What kinds and amounts of auto insurance do you think you should buy?
6. How does the risk of an auto accident in the country compare with the risk in a city? If there is a difference in the degree of risk, how does that affect the cost of auto insurance?
7. Juan and Carla were driving in very heavy traffic. Suddenly a car pulled out in front of them. Juan avoided a crash, but he went off the road. The other car never stopped. He and Carla were slightly injured and were treated at the emergency room of a nearby hospital. The front of Juan's car was heavily damaged. Juan has all six types of insurance coverage. Which coverage will apply to these damages?
8. Why do some states require a parent or guardian to sign a car insurance application for a minor? How do you think this requirement might affect the occurrence of accidents?
9. Should a young man have to pay higher rates for auto insurance than a young woman? Give reasons for your answer.
10. Study the various types of auto insurance coverage. Are any of them in a regular policy really "no-fault"?

BUILDING BUSINESS EXPERIENCE



1. Divide into teams and debate the following issue. Should 16- to 25-year-olds pay higher auto insurance premiums than those who are older? Should older drivers pay for the accidents of 16- to 25-year-olds?
2. Check to see how many states now have no-fault insurance. Does your state have it? If your state has it, find out what regulations apply.
3. Bring newspaper clippings of auto accidents to class. For each accident, decide which types of coverage would be needed to cover the damages for each accident.
4. Investigate the rates for auto insurance in states that have no-fault programs and compare those costs to the costs in states that do not have no-fault insurance. Report your findings to the class.
5. Check to see at what age a person is still considered a minor in your state. Report to your class on your findings about the legal responsibilities of persons who are considered minors in your state, particularly in regard to auto ownership and auto insurance.

**BUILDING
ANALYTICAL
SKILLS**


The United States Government reports statistics for automobile insurance companies every year. Study this chart about automobile premiums and claims over a three-year period, and answer the questions that follow.

U.S. AUTO INSURANCE PREMIUMS AND CLAIMS

	First Year	Second Year	Third Year
Number of Companies Reporting	1,470	1,507	1,531
(reported in millions of dollars)			
<i>Total auto insurance</i>			
Premiums earned	37,621	39,752	42,605
Claims paid	27,887	30,605	34,937
Percentage of premiums paid on claims	74.1%	77.0%	81.4%
<i>Bodily injury liability and property damage liability</i>			
Premiums earned	22,480	23,623	25,390
Claims paid	17,221	19,154	21,807
Percentage of premiums paid on claims	76.6%	81.1%	84.6%
<i>Property damage (fire, theft, collision, and comprehensive)</i>			
Premiums earned	15,141	16,130	17,215
Claims paid	10,665	11,452	13,130
Percentage of premiums paid on claims	70.4%	71.0%	76.8%

1. What has happened to the amounts of premiums and claims paid over this three-year period?
2. What has happened to the percentage of premiums paid out on claims?
3. What conclusions can you draw from these figures about the claims and expenses of automobile insurance companies?
4. Which type of auto insurance has cost insurance companies a larger percentage of their premiums in claims?

People in Business

Berry Gordy, Jr.

Berry Gordy, Jr., changed forever the sound of American pop music. As the founder of Motown Records, he put a new vision of love, life, and dance into popular music.

Gordy combined elements of soul, gospel, rock-and-roll, and "street-corner harmony" into a sound that became distinctly Motown. This sound is characterized by stock phrases, such as "baby, baby," and melodic motifs that appear and reappear in many of the Motown classics, such as "Please, Mr. Postman." This "Motown sound" was not an accident since Gordy produced the songs in an almost production-like manner, calling his music "The Sound of Young America."

Motown's first headquarters were in Detroit, the reason for the name Mo(tor)-Town. Gordy lived on the second floor of a two-story house with many of his co-workers while they produced records on the first floor. Their dream, expressed in the sign that hung outside the house, "Hitsville U.S.A.," became a reality as the company recorded hundreds of hits with such stars as The Supremes, Marvin Gaye, and "Little" Stevie Wonder.

While retaining such "old" stars as Stevie Wonder, Motown continued to attract many newer artists, like Lionel

Richie, Rick James, and DeBarge. Some stars, such as Michael Jackson, began their successful careers at Motown. Others — Boy George and Hall & Oates, for example — developed their careers elsewhere but imitated the Motown groove in their own songs.

Today, Motown is the largest black-owned company in America. Now headquartered in Hollywood, the company has three divisions: a music publishing house; a television/movie production arm, which produced "Lady Sings the Blues," "Mahogany," and "The Wiz"; and Motown, which is still the heart of the company.

Through various jobs before Motown, Gordy formed his dreams for his record company. His theme through all these years may have been "Ain't No Mountain High Enough."





CHAPTER 40

Real and Personal Property Insurance

- Jewelry, homes, and stereo sets are things of great value to you. You don't want to lose them. You don't want them damaged. Against what kinds of perils do you want to protect them?
- Property insurance policies offer a variety of plans and kinds of protection. If your home or apartment is destroyed by fire, what do you want insurance to do for you?
- People who insured property five years or even a year ago often have to add insurance. Why? What can happen in the meantime?

Do you know what these terms mean?

real property	homeowner's policy
personal property	inventory
standard fire policy	rider
extended coverage	

You'll learn all about these terms in this chapter.

Since an automobile is property, automobile insurance is a type of property insurance. You will have other kinds of property for which you will need protection, too. Houses, jewelry, furniture, and other valuables can be damaged or lost. Property insurance offers protection against all kinds of losses.

WHAT KIND OF PROTECTION?

Anyone who owns a house, manufactured home, or condominium or who rents a house or apartment needs insurance. If you buy property, the financial institution from which you get your mortgage will insist that you protect the property with insurance. You want to protect other property, too, like jewelry, a stereo set, your TV, or a computer. Property insurance can give you the protection you need to replace what has been lost.

Property insurance provides coverage against two kinds of loss. One is the loss of **real property** — buildings and other structures. Then there's the loss of **personal property** — appliances, furniture, clothing, and other belongings that are not part of the building.

Different kinds of protection are available for both real and personal property. There are some obvious dangers or perils you would certainly want to have coverage for. And then there are less likely risks that could still be costly.

Fire and Extended Coverage

Probably the biggest worry anyone has about a home is loss or damage by fire. You can buy fire insurance to provide such protection. A **standard fire policy** is one that covers losses from fire and lightning and damage from smoke and water. If your property is damaged by smoke or the heat from a fire, the policy covers that loss, as well as loss from an explosion. You can add to this basic protection with protection against other losses through extended

coverage. **Extended coverage** adds protection against damage due to riots, aircraft or vehicles, windstorm and hail, and vandalism or mischief. Also, if someone breaks into your house and damages the building or its contents, extended coverage pays for such losses.

Liability Protection

If someone is hurt on your property or in your home, you can be held liable for the costs of the injuries. Liability means you are held responsible for damage or injury to others. Accidents happen, even if you take care not to have any hazardous objects around. *Liability insurance* protects you from the costs of injuries to others on your property. It pays for two things. First, it pays for actual damages for which you are held liable. And second, it pays for any legal expenses you may have in connection with the accident. Suppose someone falls on your snowy sidewalk and breaks a leg? That person might sue you. Personal liability coverage would protect you.

Why do you think you are held responsible when others are hurt on your property?



"I hope you have plenty of liability insurance. I fell out of your tree!"

Additional Living Expenses

As you know, auto insurance may include coverage to pay for a rental car if you can't use your car for a time. *Additional living expenses insurance* pays for the cost of renting a place to live if your

home is damaged. If your house caught fire, for example, you might have to live somewhere else while it was being rebuilt. Paying out of your own pocket for another place to live, even for just a few weeks, could be very expensive! As a part of fire insurance policies, this protection is essential.

THE HOMEOWNER'S POLICY

The **homeowner's policy** combines all major types of property insurance into one. It packages fire and extended coverage, personal liability, and additional living expenses insurance. With all of its coverage, it is still less expensive than buying each of the other policies separately. Except in unusual cases, a homeowner's policy is the best kind of insurance protection for your home and personal belongings. This policy is one of the most widely used of all insurance policies.

What type of protection does a homeowner's policy give you? Its basic coverage is for a house and attached structures, such as a

Your insurance should protect you from the costs of all types of damage.



garage. Buildings away from the house, such as a separate garage or storage shed, can be covered by some policies. Trees, shrubs, and plants are also insured by a homeowner's policy. Personal property in your home is usually insured for 40 or 50 percent of the total amount of insurance on your house. But to reduce the cost of your insurance, you may want to cut the amount of insurance you have on personal property.

Homeowner's policies usually carry \$25,000 worth of liability coverage. This amount can be increased. If someone slips on your sidewalk, is bitten by your dog, or trips on your stairs and is injured, your liability insurance protects you. The policy sets limits for the amount that will be paid for medical care for each person. A standard amount is \$500 per person, with up to \$25,000 for all persons injured in one accident.

Six types of homeowner's policies, identified as HO-1 (Homeowner's-1) to HO-6 (Homeowner's-6), are sold, although not all insurance companies handle all six. Four types are designed for owners of homes. A fifth is for a renter who lives in a house or apartment. The sixth type of homeowner's policy is for the owner of a condominium.

Basic Coverage

HO-1, the least expensive homeowner's policy, protects your home and personal property against eleven perils. All homeowner's policies carry at least this basic protection. In addition, the basic policy includes personal liability coverage and additional living expenses coverage. A typical policy pays up to \$250 for damage to the property of others. If you should break a valuable antique while visiting a neighbor, your homeowner's policy might pay at least part of the loss. Trees, shrubs, and plants are insured for a maximum amount per item, usually \$250.

Additional Coverage

All other homeowner's policies provide coverage for the eleven perils included in HO-1. HO-2, referred to as the *Broad Form*, adds more coverage. This policy provides for damage from falling objects; collapse of the building; ice and snow; and steam, water, and electrical systems. This is one of the two most popular homeowner's policies. HO-4, for renters of apartments or houses, is similar in its coverage to the *Broad Form*. It covers the personal

PERILS AGAINST WHICH PROPERTIES ARE INSURED
HOMEOWNERS POLICY

COMPREHENSIVE**BROAD****BASIC****PERILS**

- | | |
|--|--|
| 1. fire or lightning | 7. vehicles |
| 2. loss of property removed from premises endangered by fire or other perils | 8. smoke |
| 3. windstorm or hail | 9. vandalism and malicious mischief |
| 4. explosion | 10. theft |
| 5. riot or civil commotion | 11. breakage of glass constituting a part of the building |
| 6. aircraft | |
| 12. falling objects | plumbing, heating or air-conditioning system or domestic appliance |
| 13. weight of ice, snow, sleet | |
| 14. collapse of building(s) or any part thereof | 17. freezing of plumbing, heating and air-conditioning systems and domestic appliances |
| 15. sudden and accidental tearing asunder, cracking, burning, or bulging of a steam or hot water heating system or of appliances for heating water | 18. sudden and accidental injury from artificially generated currents to electrical appliances, devices, fixtures and wiring (TV and radio tubes not included) |
| 16. accidental discharge, leakage or overflow of water or steam from within a | |

All perils **EXCEPT**: flood, earthquake, war, nuclear accidents and others specified in your policy. Check your policy for a complete listing of perils excluded.

Coverages provided by the different forms of homeowner's insurance.

property of the renter and includes additional living expenses. Because the building is not owned by the policyholder, it is not included in the coverage for HO-4.

The second most popular policy is HO-3. This provides maximum protection for the house itself, with less coverage of the contents or personal property. For many people, additional coverage on the building is well worth the cost.

The most comprehensive coverage is provided by HO-5, called the *All-Risks Policy*. It has maximum coverage on both the building and its contents. With its comprehensive protection, it is the most expensive policy. Like all homeowner's policies, however, it does not cover loss from floods, earthquakes, landslides, acts of war, or nuclear hazards. Special policies, however, are available in some instances to protect against floods, earthquakes, and landslides.

Why is it that most homeowner's policies do not protect against loss by earthquake or flood?

HO-6 is the homeowner's policy for condominium owners. It covers personal property and anything inside the condominium unit. The building itself is covered under a separate policy.

Choosing One

The policy you buy depends on what you can afford and which policy fits your needs best. HO-3 is best for many people. However, HO-5 has more insurance coverage and is the better policy for those who can afford it.

You must also consider the dollar amount of coverage. Housing costs have risen rapidly in many parts of the country. In some places the price of a house has doubled in just a few years. Often the amount of insurance carried to protect a home is outstripped by the home's increasing value. Carrying too little insurance means you may have to pay a large share of any loss. Usually insurance companies recommend that the homeowner carry insurance in an amount that is 80 percent of what the home is worth on the market. On a house that would sell for \$100,000, that would be \$80,000 worth of homeowner's insurance.

Insurance that is equal to 80 percent of the market value of the house is usually enough. Even in the case of a large fire, most buildings are not completely destroyed. There is a tendency, too, to overlook the property and foundation on which the house sits, neither of which may be affected by the fire.

In what situations might the land on which a building sits be more valuable than the building itself?

Most insurance companies also offer policies that will pay the replacement cost of the insured property. With this type of coverage, the insurance company will pay the cost of rebuilding your house, for example, rather than a fixed amount such as \$80,000.

The Cost

How much will you pay for a homeowner's policy? The cost varies widely and depends on many things. The location of your home affects the cost. If you live in a high-crime area or one with no fire department, your premium will be higher. Similarly, if your home is in an area where there are frequent brush or forest fires, the cost may be higher. The location of a fire hydrant near your home or on your property may reduce your premium cost.

The building materials in your home affect the cost, too. Insurance for a home built of wood will be higher than for one built of brick. The past record of damage from wind, tornadoes, hurricanes, and hailstorms in your area also affects the cost. As companies are very competitive, it pays to shop around for property insurance.

In an attempt to keep costs down, some companies write homeowner's policies with a deductible clause similar to those found in

The cost of fire insurance is affected by many factors, including how close your home is to a fire hydrant.



automobile insurance policies. In return for a lower premium, you take the risk of small losses. For instance, if you have a \$200 deductible, you pay up to that amount before the insurance company pays for any costs. Deductible clauses cut the cost of your insurance and yet provide coverage for bigger losses. The point of using insurance is to protect yourself against *major* loss. The more dangers you insure against, the more your insurance protection costs. To hold down costs, you must decide which dangers are most threatening. By having a large deductible, you can stretch your money for broader coverage.

Making a Claim

In the event of a loss, the insurance company will pay up to the total amount for which you have been insured. You may be asked for proof of your loss. A listing of the contents of your home, an *inventory*, should be kept in a safe place, such as a safe deposit box. You should keep a record of your furniture, clothing, and valuables in that inventory. Any records you have about the original cost of expensive personal property are also helpful. Your insurance company may furnish you with an inventory form to make it easy to prepare your records.

What do you do if you have a loss? Your agent will help you to report the loss. If you have additional living expenses coverage and your home cannot be lived in, your agent will also help you to report your expenses for hotel or motel rooms. If your home has only minor damage, you will need to prepare a list of all damage done. Again, your agent will be a help to you in listing your losses. As with other types of insurance, you should choose your agent carefully. A good agent will be of valuable assistance to you in case of a loss.

SPECIAL COVERAGE

Most standard homeowner's policies provide coverage for certain special items, but for limited amounts. For example, the standard coverage for jewelry is usually a total of \$500. If your jewelry is valued at more than \$500, you can buy extra coverage through a rider. A rider is an addition to your policy that covers specific property. You pay an extra premium for this coverage, but the cost is often fairly low. Riders are most often used for property such as expensive jewelry, artwork, or silverware. You can also buy addi-



Special insurance policies to protect against unusual perils are available.

tional personal liability insurance by adding a rider to your standard homeowner's policy.

Homeowner's policies do not provide protection from floods, earthquakes, or landslides. Earthquake insurance, which is obviously more expensive where earthquakes occur frequently, is sometimes available. The federal government's National Flood Insurance Program provides low-cost flood insurance policies. Your own insurance company can help you get flood insurance if you live in an area where floods are a problem. It is also possible to get extra burglary and robbery protection in some areas. Insurance protection is available at a premium determined by the crime rate in your area.

Special coverages are available over and above those provided by a homeowner's policy. Whether or not you want additional protection really depends on two matters. Can you afford it? Is there considerable danger of loss to you?

SUMMARY

All of us have personal property that may be worth insuring. In addition, real property such as houses, manufactured homes, and condominiums requires protection from fire and other perils. You can get a lot of coverages wrapped up in what is called a homeowner's policy package. This policy will not only cover your home and personal property, but will also protect you and others from the cost of injury. You can even get insurance to protect you against earthquakes, floods, and landslides. The smart property owner buys insurance to cover real risks. It's not smart to overinsure. A good insurance agent can give you valuable advice.

BUILDING WORD POWER

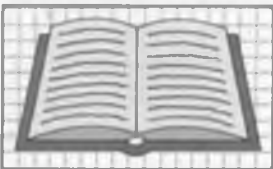


Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 7. Then write the term that best matches each numbered definition.

extended coverage	real property
homeowner's policy	rider
inventory	standard fire policy
personal property	

1. Clothing and other belongings not part of a building.
2. Protection that has been added to the standard fire policy to cover damages due to riots, aircraft, vehicles, windstorms and hail, and vandalism or mischief.
3. A listing of the contents of a person's home.
4. A type of insurance policy that combines all major types of property insurance into one package.
5. Property that consists of buildings and other structures.
6. A policy that covers losses from fire and lightning and damage from smoke and water.
7. An addition to your policy that covers specific property.

BUILDING READING COMPREHENSION



1. Give examples of real property and personal property.
2. What does a standard fire policy cover? What does an extended coverage policy cover?
3. Why should you carry liability insurance as part of your home insurance? What does it cover?
4. What types of protection does a homeowner's policy include?
5. How does a Broad Form of the homeowner's policy differ from the basic policy, HO-1?

6. What factors may cause a person's home insurance costs to be higher?
7. How does the deductible clause affect the cost of home insurance?
8. Why is it so important to keep an up-to-date inventory of your possessions?
9. List some types of special coverages that may be added to your home insurance.
10. Who provides flood insurance for those homeowners who live in areas that may flood?

**BUILDING
BUSINESS
CONCEPTS**

1. Every 13½ seconds a fire breaks out somewhere in the United States. What effect does that have on the property insurance industry?
2. Do you think someone who rents an apartment or house should have home insurance? If the owner of the building also carries insurance, what types of coverage should the renter have?
3. List three reasons for having insurance on your real and personal property.
4. If friends were to ask you what kinds of records they should keep on the personal property in their home, what would you advise them?
5. Why do you think property insurance rates are lower for those persons who live near fire stations or who have homes built of brick or stone? Do you think this is fair? Give reasons for your answer.
6. Do you think you should insure your home for the current market value of the house and property, or for more or less than that amount? What factors affect your answer?
7. The Masons have some family silver that not only is valuable in terms of money but has great sentimental value. How would you advise them to protect against loss of that property?
8. Why do lending agencies require mortgaged property to be insured?
9. For each of the six types of homeowner's policies, describe persons who typically might carry that form.
10. The Sullivans have lived in their home for eight years. When they moved into their home, they took out insurance on the building and its contents. Since then they have just paid their premium each year and have not reviewed their policy. What suggestions would you give them about their insurance? How can they determine the amounts of coverage they need?

**BUILDING
BUSINESS
EXPERIENCE**

1. Check the local newspapers to see how many news reports involve problems that home insurance may cover. Bring the clippings or a list of your findings to class for discussion.
2. Interview someone who is a homeowner or a renter. What type of property insurance does he or she have? If a homeowner's policy, which form is it? What types of special coverages are included?
3. You can insure against almost any financial loss in property. For example, you can insure against loss of your contact lenses; the death of a valuable pet; the theft of valuables such as jewelry or antiques from your home; or the loss of art, cameras, or stamp collections. Under what circumstances do you think people should have such insurance? List as many different types of special coverages as you think people might want. Check whether or not you think each would be wise to have.
4. The Chung family lives in a home with an attached garage. They store their old newspapers in the garage, along with the lawnmower and gasoline, tools, lumber, and other things that they use in the workshop. Two members of the family smoke, often while they are working in the garage. They carry insurance on both the house and the garage, but it has been so long since they bought it that they have forgotten how much coverage they have. In the last few years they have bought several new pieces of furniture for the house, and the children have new bicycles, stereos, and cameras. What kinds of property insurance should they carry? What advice can you give the family about their insurance plan and about preventing losses to their property?
5. In 1871, the great Chicago fire, reported to have started when Mrs. O'Leary's cow kicked over a lamp, burned 17,450 buildings in $3\frac{1}{2}$ square miles. The total loss was almost \$200 million. The San Francisco earthquake of 1906 destroyed much of that city. What do examples like these prove about the "law of large numbers" in insurance?

**BUILDING
HUMAN RELATIONS
SKILLS**

Maggie is being sued by a door-to-door salesperson who slipped and fell on the icy steps at her front porch. Maggie keeps telling everyone that it isn't her fault. After all, she didn't ask the salesperson to come up the steps. When asked if she had liability insurance, Maggie said she didn't need liability insurance for her home. It would be a waste of money. The people she invites to her home are her friends, and they would never sue her. Other people who come to her are uninvited and can take care of their own injuries.

1. Is the salesperson justified in suing Maggie? Why or why not?
2. If the salesperson wins the case in court, what expenses will Maggie have to pay?
3. Do you think Maggie could be mistaken in assuming that since "all" the people she invites to her home are friends, they would not sue her if they were injured?
4. Do you think you should be responsible for injuries caused by you or your property? Explain your answer.

Careers in Business

Computer Service Technician

No other technical development of recent years has affected every area of living the way the computer has. Computers keep track of millions of phone calls at once, guide airplanes through blinding storms, search through a library of information in seconds, and put out newspapers faster than ever before.

The people who maintain and repair computer systems are a necessary part of any computer company. These highly trained individuals are called computer service technicians. They may help install a new system, laying cables, making electrical connections, and testing each piece of equipment as it goes in place. At regular intervals, they routinely check equipment and make minor repairs. But they are also called in when something goes wrong, whether it's on a weekend or at night. They must find and correct the cause of computer breakdowns quickly, often working under pressure to do so.

Technicians may work with only one kind of equipment, such as word processors, or they may specialize in correcting certain kinds of trouble, such

as a system's internal programming, for example. As new systems are developed, technicians must continually educate themselves to handle changing products. Good, close-up vision and color perception are required for working with the small, color-coded circuitry in electronic systems. Because trouble is often discovered by sound, good hearing is also important. Hard-to-find breakdowns require patience and logic to solve. Since technicians work alone, they must be responsible and self-motivated as well.



Courses in electronics, computer programming, and mathematics are helpful in preparing for a career as a computer service technician. One to two years of training in electronics after high school is generally required by companies hiring starting technicians. Technical schools, junior colleges, and the Armed Forces all offer such training. Companies then train their own technicians to work with the systems they make and sell. As computers find their way into more and more uses in the business world, the need for computer service technicians will continue to grow.



CHAPTER 41

Protecting Your Income

- Insurance is a form of protection. Auto insurance protects you against the costs of accidents. Does life insurance protect anyone? How?
- One of the most rapidly growing expenses is for medical and hospital care. What other expenses are connected with your health?
- Being unemployed for reasons of health or lack of a job is not pleasant. How can you protect yourself?

Do you know what these terms mean?

proceeds	health maintenance
beneficiary	organization
cash-value insurance	Medicare
term insurance	Medicaid
coinsurance clause	workers' compensation
hospital expense insurance	unemployment insurance
surgical expense insurance	individual retirement
medical expense insurance	account

You'll learn all about these terms in this chapter.

One of the concerns of many people, particularly as they get older, is what would happen to their families if they could no longer work because of illness or disability? if they were to die unexpectedly? Life insurance, health insurance, and income and retirement plans can help to protect you and your family.

HOW DOES LIFE INSURANCE WORK?

In simple terms, life insurance is designed to protect the standard of living for the survivors of a policyholder. At the policyholder's death, the survivors are paid the face value of the life insurance policy. The amount of money paid to the survivors is called the **proceeds** of the policy. Each survivor who is named in the policy to receive proceeds is called a **beneficiary**. If you buy a life insurance policy that pays \$10,000 upon your death, for example, you must name a specific person, or beneficiary, to receive that \$10,000.

Two basic types of life insurance are cash-value insurance and term insurance.

Cash-Value Insurance

Cash-value insurance provides both savings and protection. Only part of the premium is used to provide protection. The rest is set aside in savings, or cash value. The cash value increases throughout the life of the policy.

Cash-value insurance is usually sold in two forms. The first is whole life insurance, for which the policyholder pays a premium that stays the same throughout his or her lifetime. The second form of cash-value insurance is limited-payment life insurance. With



People in high-risk jobs pay higher rates for life insurance.

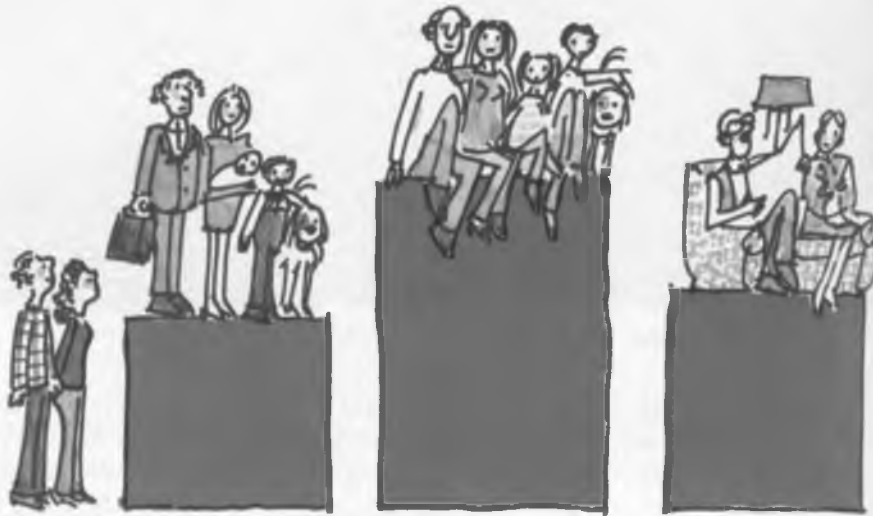
limited-payment life insurance, you pay premiums for a certain number of years. For example, if you have a twenty-payment life insurance policy, you pay premiums for twenty years only. After twenty years, you make no additional payments since your policy is considered to be paid up. The insurance coverage continues throughout your life, however. One popular type of limited-payment life insurance is a policy that is paid up at age 65. Since many people retire at age 65, they want to avoid paying premiums after they are no longer receiving a paycheck.

A special type of cash-value insurance is endowment insurance. An endowment policy emphasizes savings. Its purpose is to provide an income for the policyholder at the end of the endowment period. If the policyholder dies within that time, the proceeds are paid to the beneficiary. Endowment insurance is often used to provide retirement income or to provide an education fund. For example, parents may buy an 18-year, \$10,000 endowment policy when a child is born to provide funds for college.

Term Insurance

The second basic type of life insurance is **term insurance**, which insures a policyholder only for a specific number of years. Term insurance provides protection, but it does not accumulate cash value. The major advantage of term insurance is its low cost, which is partly possible because it does not accumulate cash value.

How does term insurance work? If you buy a 5-year, \$10,000 policy, you are protected for 5 years. If you were to die during that 5 years, your beneficiary would receive the \$10,000. After 5 years, your protection ends. Most term policies can be extended for more years, but the premiums usually go up each time the policy is renewed.



As your family changes, so do your life insurance needs.

Term insurance is often purchased as part of group life insurance. If you have term insurance that is provided through your employer or through some other organization, you have group life insurance. Group life insurance is available only to members of a specific group, such as a company, an organization, or holders of a particular credit card. One master policy covers everyone in the group. When a member of the group leaves, the coverage ends for that person. Usually, the person leaving the group is allowed to convert to an individual policy. Cost for coverage under a group policy is very low or is nothing since many business firms pay the premiums for their employees as part of their fringe benefits.

HEALTH INSURANCE

Most people are concerned not only about their dependents if they should die, but also about what would happen to the family if the wage earner should become sick or disabled. Health insurance provides protection against the costs of illness and accidents. It can help pay for medical services and for hospital and surgical expenses. Health care for a serious illness or for recovery after an accident can be very expensive today. Few people have enough savings to pay such costs alone. Most companies, therefore, provide group health insurance for their employees.

Major Medical Insurance

Major medical insurance, sometimes called "catastrophe insurance," is the most important coverage for a serious illness or accident. Major medical pays for almost every kind of care in and out of the hospital. It includes hospital care, doctors' bills, tests and X rays, nursing care, and prescription drugs. Most policies have a deductible of \$250 to \$1,000 or more. Sometimes the deductible amount can be covered by other types of health insurance plans.

Beyond the deductible amount, the policyholder shares the costs. The *coinsurance clause* of the major medical policy spells out that sharing. After the deductible, which is paid by the policyholder, the insurance company usually pays 75 to 80 percent of the costs. The policyholder pays the other 20 to 25 percent. Major medical insurance is really intended to handle health care costs that are not covered by other types of insurance.

Do you know anyone who has had very large medical bills? Do you know how they were able to manage the expense?

Hospital Expense Insurance

Hospital expense insurance pays for hospital care for a given period of time. It covers room and board, tests and X rays, operating room use, nursing care, and fees for drugs and treatments. Like major medical insurance, it may have a deductible clause. Some policies have a maximum amount that will be paid on each specific expense. Others set a maximum amount per day for up to a maximum number of days.

Surgical Expense Insurance

Part or all of a surgeon's fee for an operation is paid by surgical expense insurance. Most policies have a maximum amount that will be paid for a particular surgical expense. The policies list the surgical procedures and the costs allowed. In many cases, major med-

Health insurance helps pay hospital bills when you are injured or ill.



ical picks up where this coverage ends. Surgical expense insurance is usually bought in combination with hospital expense insurance. The higher the maximums allowed for each operation, the higher the premium for surgical expense insurance.

Medical Expense Insurance

The costs of a doctor's care *not* involved in surgery are covered by **medical expense insurance**. Coverage can include visits to a doctor's office or calls at home or in the hospital. Medical expense insurance is usually bought in combination with hospital and surgical expense insurance. The insurance company may combine all three into a basic health coverage plan.

Group Health Insurance Plans

A group health insurance plan is probably the least expensive form of health insurance. Most companies have group plans for their employees. A new employee may have to wait a certain period of time before enrolling in the plan. A major advantage of a group plan is its low cost, since most companies pay part or all the cost of the plan. The employee may have to pay for extra coverage.

Group health insurance plans are usually written by private insurance companies. Under these plans, you choose where and to whom you want to go for health care. An alternative to this arrangement is the health maintenance organization. A **health maintenance organization (HMO)** is a health care center formed within a community to provide health care for a fixed fee per month. In communities having HMOs, businesses may give their employees the choice of joining an HMO plan or a regular group plan.

The difference between a regular group insurance plan and an HMO is primarily in the use of the HMO health care center and in the cost. Under an HMO plan, you must go to a specific center, or clinic, for routine health care. You do not choose your own doctor, but you may select a doctor from the particular group of doctors who staff the clinic. This feature is generally not a drawback, however, since HMOs are staffed by trained health care professionals. HMOs are generally less expensive than other health care plans, which makes them attractive to individuals and to businesses.

Do you have HMOs in your community? Do you or anyone in your family use an HMO?

Government Health Insurance

Medicare is a major health insurance program set up by the federal government under the Social Security Administration. Medicare is mostly for retired persons who are 65 or older. The program works much like group major medical insurance plans. Medicare coverage has two parts. Part A is hospital insurance that covers treatment related to hospital care. Part B is medical insurance that covers doctors' fees, tests, and so on.

Another government health care plan is Medicaid. Medicaid is a plan that is supported by both state and federal governments for those who are unable to pay for other insurance or for health care. Medicaid provides health care for the needy aged, the disabled, dependent children, and those people who are receiving government assistance.

INCOME AND RETIREMENT PLANS

During your working life, you need protection against the loss of income that would occur if you could not work because of a long illness or disability. When you retire, you will need income to live on for the rest of your life.

Protection for Loss of Income

Companies that offer health insurance usually also offer disability insurance. Most disability insurance policies have a waiting period before you can draw benefits, usually seven to ninety days after you first become disabled. Since disability plans often require waiting periods, you should have some savings set aside for use in emergencies. Many companies pay for some disability insurance, while others require the employee to contribute to this cost.

State government also provides for income protection. Workers' compensation provides income to workers who are injured on the job. A worker must be off work for a certain number of days before workers' compensation payments begin. In most states, employers pay premiums to state-run insurance programs or to private companies to pay for this program.

All states provide unemployment insurance, through which workers who are laid off from jobs receive income, or compensation, for a limited time. In some cases, benefits are provided to workers



Workers' compensation covers on-the-job injuries.

who have been fired or have quit. Workers who receive unemployment compensation must be seeking work. They must register for work at the state unemployment office. If they refuse to take a suitable job offered through that office, they lose unemployment benefits. Benefits are generally paid for 26 to 39 weeks.

Retirement Income

There are several ways to plan for retirement income. One way is to join a pension plan through your employer. Many employers provide such plans, paying either all or a part of the cost. Under a pension plan, a percentage of an employee's earnings is contributed to a fund that is invested for all employees as a group. When employees retire, they draw income from the pension fund.

Another way to provide retirement income is to set up an individual retirement account. An **individual retirement account (IRA)** may be set up whether or not you are already covered by a company pension plan. If you are employed by a company, you may set aside up to \$2,000 each year in a special account for retirement income. If you are self-employed, you may set up a Keogh Plan. This plan allows you to set aside up to 20 percent of your income, or \$30,000 a year, whichever is less. The money in IRA and Keogh accounts is not taxed until it is withdrawn. Both plans help people to save for their retirement needs during their working years.

Retirement income may also be provided through Social Security. A retired worker may start collecting social security benefits at age 62, or earlier if he or she becomes disabled. The amount of social security benefits depends upon one's lifetime earnings. Your earnings are identified throughout your working life by your social security number. You can apply for a social security number at any

A social security application and identification card.

DEPARTMENT OF HEALTH AND HUMAN SERVICES
SOCIAL SECURITY ADMINISTRATION

FORM APPROVED
OMB NO. 72-6796-2

FORM SS-5 - APPLICATION FOR A
SOCIAL SECURITY NUMBER CARD
(Original, Replacement or Correction)

RECORDS MANAGEMENT NO. 105A USE ONLY

Unless the requested information is provided, we may not be able to issue a Social Security Number (26 CFR 422.102(a)).

Before completing this form, please read the instructions on the opposite page. You can type or print, using pen with dark blue or black ink. Do not use pencil.

INSTRUCTIONS TO APPLICANT

1. NAME TO BE SHOWN ON CARD: First, Middle, Last

2. FULL NAME AT BIRTH (IF OTHER THAN ABOVE): First, Middle, Last

3. CITIZENSHIP (Check one only):
☐ a. U.S. citizen
☐ b. Legal alien allowed to work
☐ c. Legal alien not allowed to work
☐ d. Other (See instructions on Page 2)

4. SEX: Male ☐ Female ☐

5. RACE/ETHNIC ORIGIN (Check one only) (Voluntary):
☐ a. Asian, Asian American or Pacific Islander (includes persons of Chinese, Filipino, Japanese, Korean, Samoan, etc., ancestry or descent)
☐ b. Hispanic (includes persons of Mexican, Cuban, Mexican or Mexican American, Puerto Rican, South or Central American, or other Spanish ancestry or descent)
☐ c. Negro or Black (incl. Hispanic)
☐ d. North American Indian or Alaskan Native
☐ e. White (incl. Hispanic)

6. DATE OF BIRTH: MONTH, DAY, YEAR

7. AGE: MONTH, DAY, YEAR

8. PLACE OF BIRTH: CITY, STATE OR FOREIGN COUNTRY

9. MOTHER'S NAME AT HER BIRTH: First, Middle, Last (for maiden name)

10. FATHER'S NAME: First, Middle, Last

11. If you checked very carefully items 6 through 10, indicate whether you are: ☐ Yes ☐ No ☐ Don't Know

12. Enter social security number: _____

13. Enter the name shown on your latest Social Security card: _____

14. TODAY'S DATE: MONTH, DAY, YEAR

15. Signature: _____

16. WITNESS (Required only if signed by check "X")

SOCIAL SECURITY

032-32-2712

THIS NUMBER IS ASSIGNED FOR

DIANE L. BURKEE

Diane L. Burkee

SIGNATURE

age. You must have a social security number when you begin work since you and your employer will pay taxes to the government under your number.

Can you think of other ways in which you may have to use your social security number?

SUMMARY

It is not pleasant to think of having no income, being ill, or even dying. Yet such things happen, and it is wise to plan to protect yourself and your family. If other people depend on your income, life insurance is a good buy for you. Most people also need protection for medical expenses. Health insurance can help take care of most of the costs of health care. To meet your living expenses, you need to protect your current income and to provide for an income during your retirement years. Current income can be protected through disability insurance. Workers' compensation and unemployment insurance may also provide income for certain periods of time. You can begin to plan for retirement today by investing in IRA or Keogh plans. Protecting yourself and your family with the right insurance and with savings plans is a wise use of your income.

BUILDING WORD POWER



Understanding these business terms will help you to communicate more easily with others. Number your paper 1 through 14. Then write the term that best matches each numbered definition.

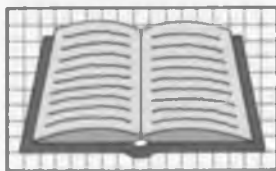
beneficiary
cash-value insurance
coinsurance clause
health maintenance organization
hospital expense insurance
individual retirement account
Medicaid

medical expense insurance
Medicare
proceeds
surgical expense insurance
term insurance
unemployment insurance
workers' compensation

1. Health insurance that covers the cost of hospital care.
2. Income protection available through state governments to provide income for unemployed workers.
3. A federal government health care program that provides hospital and medical insurance to retired persons who are 65 years or older.

4. A community-based health care center that provides health care for a fixed monthly fee.
5. A person named by a policyholder as the one who receives the proceeds of a life insurance policy.
6. A plan for setting aside up to \$2,000 a year for retirement income.
7. A life insurance policy that insures a policyholder for a specific number of years.
8. A health insurance policy that pays part or all of a surgeon's fee for an operation.
9. The amount of a life insurance policy that is paid to the survivor(s) of the policyholder.
10. Life insurance that provides both savings and protection.
11. A government health insurance plan that covers the disabled, dependent children, and others who are receiving government assistance.
12. The clause in a major medical policy that states that beyond the deductible amount, the insurance company and the policyholder share the costs.
13. Income protection available through state governments to provide income for workers who are injured on the job.
14. Insurance covering the costs of a doctor's care that are not involved in surgery.

BUILDING READING COMPREHENSION



1. What are the two basic types of life insurance?
2. What is the major difference between term insurance and cash-value insurance?
3. Who may be a part of a group life insurance plan?
4. List the types of expenses that major medical insurance will cover.
5. What are the differences among surgical expense insurance, medical expense insurance, and hospital expense insurance?
6. How does a health maintenance organization insurance plan differ from a regular group insurance plan?
7. Who can be covered by Medicare? How are Part A and Part B of Medicare different from each other?
8. What can you do to protect yourself from high costs if you should become disabled during a company's waiting period before disability payments begin?
9. Who provides unemployment compensation to workers? How does a worker qualify for these benefits?
10. What are the similarities between an individual retirement account and a Keogh plan? What are the differences between these plans?

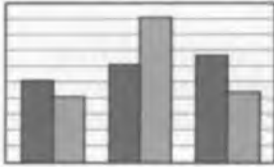
**BUILDING
BUSINESS
CONCEPTS**

1. Why should you consider buying some life insurance while you are young?
2. For what purpose would a person choose an endowment policy rather than a term policy?
3. Which type of health insurance is most important? Why?
4. Many people are concerned that social security and their company pension will not be enough for their retirement needs. What other types of income can they plan?
5. What are a family's financial needs if the main wage earner becomes seriously ill or injured?
6. Who pays the taxes for social security?
7. The Lowe family has a basic health coverage plan that includes medical expense insurance, hospital expense insurance, and surgical expense insurance. Can you suggest another insurance plan for the Lowes? What would it be, and why?
8. Why is a group health plan considered to be the least expensive form of health insurance? When does a new employee become eligible for health insurance?
9. Explain how the coinsurance clause in a major medical insurance policy works. If a policyholder's medical bill came to \$8,000 after the deductible, and the major medical policy had an 80/20 percent coinsurance clause, how much would the policyholder be required to pay?
10. Income protection is very important to a wage earner, especially if he or she supports a family. List those protection plans usually provided by the employer. List those provided by the state government.

**BUILDING
BUSINESS
EXPERIENCE**

1. Prepare a report on the trade-offs between term and cash-value insurance. What do you give up if you choose one over the other? What are the advantages of your choice?
2. If you have a health maintenance organization in your area, interview someone who works there or who is a member. What advantages and disadvantages does the person see for the use of an HMO?
3. Check to see what the current laws on social security coverage are. How long must a worker be employed to be eligible for benefits? What are the current tax rates and current benefits?
4. Survey a number of people in your school and your family to see which type of life insurance they have and why they chose it over other types.
5. Health care costs are among the most rapidly increasing costs in the United States. What ways can you list for keeping down the cost of health care as much as possible?

BUILDING ANALYTICAL SKILLS



Study this chart and answer the questions below. The chart shows the social security benefits paid each month to workers who had contributed to the fund. Benefits are shown for persons with low earnings, average earnings, and high earnings over their careers.

SOCIAL SECURITY BENEFITS

	Low Earnings (\$6,968)	Average Earnings (\$16,019)	Maximum Earnings (\$37,800)
Worker retiring at 65	\$361.00	\$542.80	\$ 703.00
Worker retiring at 65: maximum family benefit	574.60	985.70	1,232.10
Worker disabled at 55	361.00	542.00	699.00
Worker retiring at 62	289.00	434.00	559.00
Surviving child of deceased worker	270.00	407.00	527.00
Widow or widower claiming benefits at 60	258.00	388.00	503.00

1. Mr. Lowry has just retired at age 65. He earned the maximum, according to the social security tables. How much will he receive each month?
2. Mrs. Pack's husband died recently. She has never worked outside their home. She is now 60 years of age. How much can she receive each month if her husband's income averaged \$16,019?
3. Do you think that social security benefits can provide enough income for most families to live comfortably in retirement?
4. Which group of people receive the largest payments from social security, according to this chart?
5. Must a person have earned less than a given amount to be able to receive social security benefits?

Trends in Business

Walk-in Medical Care

Break an arm? About ten years ago, you could plan to spend the rest of the day in the hospital emergency room.

Now you have a more convenient choice: urgent-care centers. Fast appearing all over the country, chains of urgent-care centers — also known as FEC's, or free-standing emergency centers — are providing patients with fast, inexpensive, walk-in medical care.

Most FEC's are open 12–16 hours every day with a nursing staff and at least one doctor on duty. Usually located in shopping centers or along highways, they are fully equipped with X-ray equipment and a lab.

The business principles are the same as those used for fast-food restaurants — long hours, convenient locations, and low costs. These features attract a high volume of customers. Because the injuries treated are usually minor, as many as 80 patients a day can be handled efficiently. Spreading the costs of operating a center over a high volume of patients reduces the cost per patient.

For example, if a nurse whose daily pay is \$90 treats six patients per day, the cost per patient is \$15. If that same nurse can treat ten patients per day for minor injuries, the cost per patient is reduced to

\$9. Since all patients pay the same fee, regardless of how many of them are treated, income increases as more patients are treated. Costs per patient, however, decrease.

The profitability of FEC's attracts money from investors who want to share in the profits. The money invested covers the costs of building additional FEC's as part of a chain of urgent-care centers. The chains lower operating costs even further by buying supplies and equipment at bulk rates.



With higher and higher costs of medical care over the last several years, FEC's offer an alternative for lower medical costs without reducing medical service.

Appendix:

USING METRICS

The metric system was devised by an international group, including members from the U.S., in an effort to standardize measurement systems around the world. The official name of the updated and revised system is the International System of Units (SI). Metric/SI measurements are being used more and more in the U.S. today, because there are a number of advantages to the system.

- It is based on multiples of ten, as is our system of money.
- It is a standard recognized around the world, and its use simplifies world trade.
- Metric units are easier to use than the customary system of measurement.

Metric/SI units are formed by combining a base unit with a prefix. The most commonly used prefixes are *kilo-*, *centi-*, and *milli-*.

Prefix	Meaning
kilo-	1,000
centi-	$\frac{1}{100}$
milli-	$\frac{1}{1,000}$

LENGTH

The basic unit of length is the **meter (m)**.

1 kilometer (km) = 1,000 meters = the distance an average person can walk in about 12 minutes

1 meter (m) = about the length of a baseball bat

1 centimeter (cm) = $\frac{1}{100}$ of a meter = about the thickness of a slice of bread

1 millimeter (mm) = $\frac{1}{1,000}$ of a meter = $\frac{1}{10}$ of a centimeter = about the thickness of a dime

VOLUME

The basic unit of volume is the **liter (L)**.

1 liter (L) = about the volume of four glasses of water

1 milliliter (mL) = $\frac{1}{1,000}$ of a liter = $1 \text{ cm} \times 1 \text{ cm} \times 1 \text{ cm}$ = about $\frac{1}{2}$ of a teaspoonful

WEIGHT (MASS)

The basic unit of weight (mass) is the **gram (g)**.

1 kilogram (kg) = 1,000 grams = about the weight of a 500-page book

1 gram (g) = about the weight of two raisins

Glossary

ability A natural or learned talent or skill.

ability-to-pay principle A basic principle of taxation based on the idea that those who can afford to pay more taxes should do so.

acceleration clause A clause in an installment contract that allows a lender to ask for full payment if an installment is late.

add-on clause A paragraph in an installment contract that allows the purchaser to buy several items on the same agreement.

add-on method A method of figuring the actual amount of a loan in which the interest is added to the principal.

adjusted-balance method A method of determining the finance charge using the previous balance minus payments as a basis.

agent A representative of an insurance company.

Air Pollution Control Act Legislation that ordered automobile companies to control the gases coming out of car engines and ordered industries to scrub the air coming out of smokestacks in order to decrease air pollution.

American Banking Association (ABA) number A bank's identification number in the upper right-hand corner of a check.

annual percentage rate The rate that credit will cost you on a particular credit card account.

antitrust laws Laws established to prevent businesses from having no competition.

arbitration Submitting the disagreements or differences in drawing up a contract to a third party who acts as a kind of judge.

assets All of the things a person owns, such as money and property.

automatic teller machine A computer terminal, which operates like a bank teller, that allows customers to make deposits or withdrawals 24 hours a day.

automatic transfer plan An account in which deposits are placed in a savings account to earn interest; when a check is written, the amount is transferred to a checking account for payment.

automation The substitution of machines for people.

average-daily-balance method A method of determining the finance charge based on an average of the balance for each day of the month.

B

bait-and-switch The practice of advertising a product for a low price to get consumers into the store and then switching customers to a more expensive product for possible purchase.

balanced budget The situation that exists when the federal government receives as much money as it spends.

balance of payments The difference between the amount of money flowing into and flowing out of a country.

balance of trade The difference between what a country imports and what it exports.

balloon payment The last payment in some installment contracts that is more than twice as large as a regular payment.

bank draft A bank check drawn from an account in another commercial bank or at the Federal Reserve Bank in the district.

bank reconciliation The process of seeing whether your records agree with the bank's.

bankruptcy A legal process in which some or all of the property and wealth of a person declared incapable of carrying any more debt is distributed among his or her creditors.

bank statement A report from a bank showing additions to and subtractions from an account during a specific period.

barter A system in which people exchange goods and services for other goods and services rather than for money.

beneficiary A person named by a policyholder as the one to receive the proceeds of a life insurance policy.

benefits-received principle A principle of taxation based on the market concept that if you enjoy or use something, you should pay for it.

blank endorsement An endorsement that includes only the signature of the party to whom the check is payable.

blue-collar jobs Jobs that usually involve operating machines and equipment.

board of directors A group of individuals chosen to make the major decisions for a corporation.

bodily injury liability insurance Insurance that covers injuries or deaths caused by the policyholder in an accident.

bonds Loans of money to the government on which interest is paid to the owner.

budget A plan for using your money in a way that best meets your wants and needs.

business cycle The movement of the economy from good times to bad times and back again in four stages: prosperity, recession, depression, and recovery.

bylaws Rules of operation for a corporation; they also outline the duties of the officers of the business.

byte A unit of measurement for the memory capacity of a computer; equals one character.

C

callable bonds Bonds that contain a clause stating that they can be called in whenever the issuer desires.

canceled check A check that has been cleared and processed and returned to the party who wrote it.

capital The money or other material wealth needed to run a business.

capital goods The machines, buildings, and equipment used to produce goods and services.

career Your primary lifetime work.

career ladder A method of progressing from one job level to another within a company.

cashier's check A bank check paid from an account that is held right at the bank.

cash-value insurance Life insurance that uses part of its premium for protection and the balance of the premium for savings.

central processing unit The computer's "brain," which uses instructions and data input to calculate answers.

certificate of deposit A savings plan that involves keeping a larger sum of money on deposit for a specific period of time.

certified check A personal check that a bank stamps with a guarantee that there is enough money in the account to cover it.

charge account A type of credit that allows purchases up to a certain amount in a specific store.

charter A legal form giving a corporation the permission to operate.

checkbook dollars The money that people have in checking accounts.

check register A listing area in a checkbook for recording checks, deposits, and new balances.

check stub A record portion to the left of or above each check in a checkbook.

claims Requests for insurance payments due to financial losses.

clearance sale A sale to clear or get rid of goods that are going out of style or that are no longer profitable.

clearinghouse A place where checks cashed or deposited in one bank but drawn on another are sorted and distributed.

closed shop A situation that exists when a business cannot hire anyone who is not a union member.

coinsurance clause The clause in a major medical policy that states that beyond the deductible amount, the insurance company and the policyholder share the costs.

collateral The security or backing for a loan or credit purchase.

collectibles Art, antiques, and other items that people like to collect.

collection agent A person whose job is to collect debts that are overdue.

collective bargaining The coming together of union members and their bosses, or management, to discuss basic issues that arise between them.

collision insurance Insurance that covers damages to the policyholder's car in case of accident.

command system An economic system in which the government decides what workers will do, what goods and services they will produce, how much will be produced, and what income workers will receive.

commercial bank A bank that provides a wide range of banking services; often called a full-service bank.

commercial credit Credit enabling a business to buy now and pay later.

commodities Agricultural or mining products that can be traded.

commodities exchange A market through which investors buy contracts for quantities of a given commodity.

common law Law that is based on legal decisions and people's customs.

common stock The stock that all profit-making corporations must offer; holders of the stock participate either directly or indirectly in the management of the company.

communication skills Skills that you use to express yourself, orally or in writing.

comparison shopping Checking the prices and quality of a product in more than one store.

competition The contest among businesses to win customers.

compounding A procedure in which interest is added to the account balance and, in the next period, interest is figured on the new balance.

comprehensive insurance Insurance that covers damage to the policyholder's car caused by most things except collision.

computational skills Skills you may have developed by working with numbers.

condominium An individually owned unit in a building or group of buildings.

consolidation loan A loan that brings all your debts together into one large loan.

consumer credit Individual credit for personal use.

consumer finance company A business that specializes in personal loans.

consumer goods The products that all of us want or need.

Consumer Information Center A federal government consumer organization that encourages government agencies to release information helpful to consumers and publishes a catalog of publications of consumer interest.

Consumer Price Index An index used to compare current prices of typical consumer goods with prices of those same goods in previous years in terms of real dollars.

Consumer Product Safety Commission A federal agency that sets product standards, investigates accidents due to unsafe products, and provides consumer information and education programs.

container ships Ships that are specially equipped to handle the crates and containers that hold goods.

convertible bonds Bonds that permit the issuer to repay the bondholder in shares of stock rather than in cash.

cooling-off period The time during which a buyer can cancel an installment contract with a door-to-door salesperson.

cooperative A business firm owned and, in many cases, operated by its members.

cooperative work program A program in which students are placed in jobs in stores, offices, plants, or restaurants while attending school.

copyright A protection for authors or creators of books, plays, software, movies, musical compositions, and art.

corporate bonds Bonds issued by corporations.

corporation A business that is legally regarded as a separate entity; that is, as far as the law is concerned, a corporation exists separate from the people who own it.

cosigner A person who agrees to make the payments on a loan if the borrower can't.

coupon bonds Bonds that are payable to the bearer.

credit The opportunity to obtain money, goods, or services now for payments to be made in the future.

credit agreement The section of a credit or charge account application that explains the interest rate, finance charges, and minimum payments that can be made each month.

credit bureau An agency that provides information to businesses, banks, and other agencies about you and other consumers of credit.

credit counselor A person who assists consumers with their credit problems.

credit history A full report about you and your past credit experiences that is sent to a lender.

credit life insurance A type of insurance that some contracts require the borrower to buy to help cover the risk of the loan.

credit limit The maximum amount you can "borrow" on a credit card or charge account at any one time.

creditor One who lends money or provides credit.

credit rating A person's reputation for making payments on time; a measure used to decide whether a person is going to be a good credit risk.

currency Paper money and coins.

D

DD/DW method A method of figuring savings account interest from day of deposit (DD) to day of withdrawal (DW).

database A collection of related information.

debenture bonds Bonds that are not backed up by some specific asset of the issuer.

debit card A plastic card used to pay for a purchase through EFT; the amount of the purchase is immediately deducted from the customer's account and added electronically to the store's account.

debtor One who borrows money or uses credit.

decision making The process of determining which wants and needs will be met at a particular time.

deductible The amount of damages in an accident that will be paid by the policyholder, not the insurance company.

deficit spending The situation that exists when the government spends more than it collects.

demand The amount or quantity of goods and services consumers are willing and able to buy at various prices.

demand deposit A type of bank deposit, such as a checking account deposit, from which you can withdraw money right away.

deposits Money placed in accounts.

deposit ticket An item-by-item record of the amount of money you are putting into an account.

depreciation The process of determining how much a car has declined in value because of wear and tear and age.

depression The lowest point in a business cycle, during which business is bad and unemployment is high.

direct taxes Taxes that are charged to the person or persons who finally pay them; for example, income and property taxes.

discount A reduction in price, often given for buying in large amounts.

discount method A method of figuring the actual amount of a loan in which the interest is deducted from the principal in advance.

discount store A store that buys in large quantities so that it can sell at prices lower than competitors.

distributor Someone who moves goods from one business to another; often referred to as a middleman.

dollar cost of credit The difference between the cost of an item if you pay cash and the cost if you buy on installment.

down payment A percentage of the total cost of an item required at the time of purchase.

drawee The financial institution that has the drawer's account.

drawer The party who signs a check and on whose account the check is written.

E

economic system A way of producing goods and services and of providing a means for people to get them.

Electronic Funds Transfer An electronic, machine-operated, computer-run program for transferring money.

embargo The halting of the import or export of goods by a country in order to prevent foreign firms from competing with that country's own businesses.

emotional advertising An ad that appeals to your feelings.

endorse To sign your name on the back of a check.

entrepreneurship The ability to put together a business to make goods or to provide services.

Equal Credit Opportunity Act Legislation that makes discrimination in credit applications illegal.

equilibrium price The point at which supply and demand meet; the amount supplied of a product equals the amount demanded.

equity The value of the money invested in property.

estate and inheritance taxes Taxes paid on the value of real estate and personal property left at the time of death.

excise tax A tax collected on the sale of particular goods and services, such as alcoholic beverages, automobile tires, and air travel.

exports Goods produced in one country and sold in another.

express warranty A warranty that specifically states in writing what a product is or will do.

extended coverage Coverage that can be added to a standard fire policy to protect against damage due to riots, aircraft or vehicles, windstorm and hail, and vandalism or mischief.

F

factors of production The natural resources, labor, capital goods, and entrepreneurship that go into producing goods and services.

factory outlet A store located on factory grounds or run by a factory that often sells irregular or slightly imperfect merchandise.

Fair Credit Billing Act Credit law that gives steps to be followed when errors occur on monthly credit card and charge account statements.

Fair Credit Reporting Act Credit law that gives you the right to know what is in your credit file.

Fair Debt Collection Practices Act Credit law that protects consumers from harassment by collection agents.

featherbedding A practice in which labor unions forced unnecessary extra workers on businesses.

Federal Deposit Insurance Corporation A government agency that handles deposit insurance programs for nationally chartered banks. ✕

Federal Reserve System A big national bank, with branches in many cities, that

provides services to member banks and regulates the flow of money.

Federal Trade Commission A federal agency responsible for making sure that competition among businesses is maintained.

FICA The social security tax; abbreviation for Federal Insurance Contributions Act.

finance charge The cost for using credit; it is charged for the use of goods and services while they are still being paid for.

financial responsibility law A law requiring a driver to show proof of ability to pay, either with money or insurance, for damages in an accident for which he or she is liable.

fixed expenses Those expenses, such as rent or mortgage payments, that must be paid regularly.

foreign exchange rate The value of one country's currency in relationship to another country's currency.

forge To fake someone's signature.

franchise A grant or right to sell a company's product or service within a given area or territory.

fringe benefits Those things outside of wages or earnings, such as health insurance, paid vacations, and pensions.

full endorsement An endorsement that includes the name of the party to whom the check is payable and the name of the party to whom the check is transferred.

full-service store A store that offers as much help as possible to a customer.

G

general sales tax A tax that is added to the price of goods and services at the time of purchase.

generic Products that are representative of a whole group of common items.

goal An aim or objective, such as going to college or owning your own business.

goods Products or items that we may buy or someone else may buy for us.

grade labels Labels for food products that indicate levels of quality; standards for grades are set by the USDA.

grievance A cause for complaint.

gross national product The dollar value of all the goods and services produced by an economic system in one year.

gross pay The total amount of money earned for a specific time.

H

hardware The actual computer and any physical equipment attached to it.

health insurance Insurance that provides money to pay bills in case of accident or sickness.

health maintenance organization A community-based health care center that provides health care for a fixed monthly fee.

holder in due course A bank or finance company that has bought a credit contract from another business.

homeowner's policy An insurance policy that combines all major types of property insurance into one.

hospital expense insurance Health insurance that covers the cost of hospital care.

human relations skills Skills that relate to your understanding of others and your ability to get along with them.

I

implied warranty A warranty that is understood but not necessarily in writing.

imports Foreign-made goods brought into a country.

impulse buying Purchasing things on the spur of the moment.

income property Property on which rent or some other form of payment is earned.

indirect taxes Taxes paid by one party but passed on to another; also known as hidden taxes.

individual retirement account A plan for setting aside earnings of up to \$2,000 a year for retirement income.

inflation A period of increased spending that causes a rapid rise in prices.

information processing Work performed by a computer using numerical data, graphs, text, and special symbols.

injunction An order that prevents a union from continuing with a strike.

innovations New ways of doing things.

input Data that are entered into the computer.

installment credit Credit that involves signing a contract to pay for the purchase of an item over a set period of time.

installments Regular monthly payments on a loan or a large purchase.

insurable interest A financial interest in property or another person's life that permits you to buy insurance to protect against loss.

insurance A method of sharing economic risk among many people to reduce individual financial loss.

insurer The insurance company that sells the service of protection.

interest The price banks pay for the use of depositors' money.

interests The types of things you enjoy doing, such as hobbies.

interstate commerce Business activities between people or businesses in two or more states.

inventory A listing of the contents of your home, such as furniture, clothing, and valuables.

investing Putting your money to work so that it earns extra income.

J

job interview A more-or-less formal discussion between an employer and a possible employee.

joint account An account for two people.

journeyman A trained worker with a skilled trade or craft.

L

labor The work done by people to produce goods and services.

labor force The total number of people sixteen years or older who have jobs or who are available and looking for jobs.

labor union An organization that is formed to represent workers, often in the same type of occupation.

law of demand A principle stating that consumers will generally buy less of an item at a higher price than at a lower price.

law of supply A principle stating that producers will supply more of an item at a higher price than at a lower price.

leisure time The time you are free from work or other duties.

liabilities All of the things that a person owes, such as mortgages and loans.

liability insurance Insurance that covers damages or losses to another person or the person's property that someone may have caused accidentally.

life insurance A protection usually for the family and relatives of a person after death.

lifestyle The way in which you live.

limited liability The responsibility of the owners of a corporation for the debts of that corporation only to the extent of the amount they have invested.

line of credit An arrangement in which bank customers can get a certain amount of money on call as needed.

liquidity The ease or quickness with which you can change your investment into cash.

littering Throwing away garbage and trash in the wrong places.

locals Small branch unions.

long-term goals Those things that you want to accomplish in the distant future, such as preparing for an occupation.

M

Magnetic Ink Character Recognition number The electronic coding number that includes the customer's account number and the bank's identification number.

manual dexterity skills Skills you may have if you work well with your hands.

market system An economic system in which the interaction between buyers and sellers determines what is bought and sold.

mass media Forms of public communication, such as newspapers, radio, magazines, and television, that are directed at a large audience.

mass production A method of producing many similar items at once.

mediator A third party who listens to both sides in contract discussions and then provides a decision as to what the provisions of the contract should be.

Medicaid A government health insurance plan that covers disabled persons, dependent children, and others receiving government assistance.

medical expense insurance Insurance covering the nonsurgical costs of a doctor's care.

medical payments insurance Insurance that covers the expenses from injury to the driver or anyone in the policyholder's car.

Medicare A federal government health care program that provides hospital and

medical insurance to retired persons 65 or older.

medium of exchange Something that is accepted by people in exchange for goods and services, such as money.

memory The capacity of the computer to store information in an electronic form.

microprocessor A microcomputer's central processing unit (CPU).

minimum wage The lowest possible wage that an employer legally can pay an employee.

mixed systems Economic systems that combine some parts of other economic systems.

money management The process of planning how to get the most from your money.

money market fund A kind of time deposit in which the interest rate generally varies from month to month.

money order A form of payment, similar to a check, that can be purchased to order the payment of a specified amount of money.

monopoly A company that sells all or practically all of a product and therefore has no competition.

mortgage A special loan used for the purchase of homes, office buildings, manufacturing plants, and other types of buildings.

multinational corporations Corporations that have offices and plants in more than one country.

municipal bonds Bonds sold by local or state governments and by certain government agencies.

mutual fund A pool of money that is used by an investment company to purchase the stocks and bonds of other corporations.

mutual insurance company An insurance company run as a cooperative; its owners are the people insured.

N

national debt The total of all loans made to the federal government by individuals or groups of individuals.

natural resources The factors of production that come from the air, water, or earth; things that nature produces or helps us produce.

net worth A person's or family's assets minus liabilities.

no-fault insurance A type of insurance in which medical and other expenses of each person injured in an accident are paid by his or her own insurance company.

NOW account An account that serves as both a savings account and a checking account.

O

objectivity The quality of being based on facts.

on-the-job-training Development of skills through actual practice and instruction while working.

open shop A situation in which a worker is not required to join a union before or during employment.

opportunity cost What you give up when you make one choice over another.

option account A charge account that combines the features of both the regular (open) and revolving methods; you may pay the total amount owed or just a portion.

output The visible results of a computer's calculation.

outstanding checks Checks that have been written but have not yet reached the bank for payment.

over-the-counter market The trading market through which stocks not listed on any one of the exchanges are bought and sold.

P

partnership A business organization with two or more owners who share responsibility.

partnership agreement A kind of contract in which business partners declare certain understandings between or among them.

patent A legal "right" that prevents anyone except the inventor of a product from making the same product for seventeen years.

payee The person to whom a check is written.

perils Causes of loss, such as fire or automobile accidents.

personal property Appliances, furniture, clothing, and other belongings that are not part of a building or structure.

policy A formal written agreement between a person and an insurance company.

policyholder The person who has bought insurance protection.

pollution The dust, dirt, gas, chemicals, and waste products that make our water, air, and land unhealthy.

preferred stock Stock that gives its holders certain privileges, such as being paid dividends before holders of common stock.

premium The amount of money charged by an insurance company for protection during a certain period of time.

previous-balance method A method of determining the finance charge based on the entire amount owed from the previous month.

price The amount of money given or asked for when goods or services are bought or sold.

price fixing An agreement between two competing businesses to sell their products at exactly the same prices or to

change prices at the same time to avoid competitive pricing.

principal The amount borrowed.

priorities The order of importance of doing things at a particular time.

private enterprise A system or undertaking that individuals, rather than the government, are primarily responsible for running.

privately owned corporation A corporation whose stock is not traded on a public stock exchange.

problem-solving skills Skills related to your ability to find good solutions to various problems.

proceeds The amount of a life insurance policy that is paid to the policyholder's beneficiary.

processed goods The output of businesses, such as flour mills, oil refineries, and steel mills, that change natural materials from their original forms into more finished forms.

Producer Price Index An index used to compare the cost of producing goods now with the cost of producing them in earlier years.

productivity The rate at which goods and services are produced.

profit The amount of money left over after a business has paid for the cost of producing its goods or services.

progressive tax A tax in which the rate of taxation increases as the income increases.

promissory note A written agreement to repay a loan within a certain period of time.

promotional sale A sale that gives you a special buy on a new product or a product that is in season.

property damage liability insurance Insurance that provides coverage for the cost of damage to another person's property in an accident.

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property insurance Insurance that covers damages and losses to your own property.

property tax A tax levied on items owned by a person or business.

proportional tax A tax in which the amount of tax increases with income but the rate stays the same.

prosperity The high point of a business cycle, also known as a *boom*; employment is way up, the public's demand for goods and services is high, and businesses are turning out goods and services as fast as they can.

public debt The amount owed by any level of government.

publicly owned corporation A corporation whose stock is traded on a public stock exchange.

public utilities Gas, water, and electric power companies.

public welfare The well-being of society.

Q

quota A fixed limit on the export or import of a product.

R

rate of return The percentage of the investment that you earn each year from your invested money.

rational advertising An ad that attempts to convince you with facts and other information.

raw goods Materials gathered in their original state from such natural resources as land and water.

real annual interest rate The interest rate actually charged for a year on a loan or a charge account.

real dollar The value of a dollar of a base year (1972) against which the value or purchasing power of the dollars of other years is measured.

real property Buildings and other structures.

recession A stage in the business cycle during which the demand for goods and services falls and unemployment rises, but the situation is not serious enough to cause real alarm.

recovery The final stage in a business cycle, during which the cycle is on an upswing.

recycling Reusing materials for another purpose or to make another product.

redeem To cash in bonds on a specified maturity date.

registered bonds Bonds that show the name of the owner on the face of the certificate.

registered trademarks Names, brands, or symbols that have been listed with the government by a business; once registered, they may not be used by other businesses.

regressive tax A tax in which the proportion of income spent on the tax decreases as the income increases.

regular charge account A type of charge account that requires all purchases to be paid for within a certain period of time.

repossession The act of a creditor taking back an item bought on credit if the purchaser fails to make payments.

restrictive endorsement An endorsement that limits or restricts how the payment of money for a check may be made.

résumé A kind of life history of an individual; also called a personal data sheet.

retailer A business that sells directly to the consumer, the final buyer of the goods.

revenue The money the government receives from people to provide all kinds of goods and services.

revolving charge account A type of charge account that allows you to keep adding to the amount owed; each month only a portion of the total must be paid.

rider An addition to an insurance policy that covers specific property, such as jewelry.

right-to-work law A law that declares that workers have a right to work regardless of whether or not they join the union in the place where they are employed.

risk The possible loss you face if your investment fails.

S

saving Putting aside money for future use.

savings passbook A booklet in which records of withdrawals and deposits are kept.

scarcity A lack of something that can be used to satisfy all wants.

secured bonds Bonds that are backed up by some specific asset of the issuer.

secured loan A cash loan that has collateral to ensure payment of the borrowed money.

securities Investments such as stocks and bonds generally used by corporations and governments to finance their growth.

seniority A method of determining who has been employed the longest in a company.

service charge A fee for the paperwork the bank does in recordkeeping and in maintaining an account.

services Tasks that people or machines perform.

settlement costs The costs involved in completing the sale of a house, such as those for tracing the history of ownership and recording the transfer of ownership.

Sherman Antitrust Act Legislation permitting the federal government to break up companies that have control of a particular market.

short-term goals Those goals or objectives that we hope we will meet in the near future.

signature card A bank's record of your name and signature, home address and telephone number, and the name, address, and telephone number of your employer.

silicon chip A thin wafer, about $\frac{1}{4}$ -inch square, that plugs into a computer and contains an integrated circuit usually made of silicon.

simple interest A method of calculating interest in which the principal is multiplied by the interest rate and then by the amount of time expressed on a yearly basis.

Small Business Administration A government agency that assists small businesses by providing advice and low-cost loans.

small claims court A court that deals with minor legal matters up to a certain amount of money.

software Sets of instructions that tell the computer what to do.

sole proprietorship A business owned by one person.

specialization of labor A process in which a worker becomes a specialist in just one or a few tasks.

specialty store A store that carries only a certain line of products, such as shoes.

standard fire policy An insurance policy that covers losses from fire and lightning and damage from smoke and water.

standardization The use of interchangeable parts in mass production.

standard of living A measure of how well the people in an economic system live.

standard of value Something such as money that is used to help determine the value or worth of one thing in relation to another.

statement of net worth A record that shows the financial state of a person by listing assets, liabilities, and net worth.

stock Shares in the ownership of a corporation.

stock exchange A trading market for buying and selling stocks.

stockholders Those who own shares in a corporation.

stock insurance company An insurance company set up as a corporation, with stockholders, a board of directors, and officers.

stock market quotations Records of the opening and closing prices of stocks.

stop-payment order A request for a bank not to cash a particular check.

store of value Something that can be stored or kept for later use and is itself worth something.

strike A work stoppage.

subsidy A form of financial assistance given by the government to agricultural businesses.

supply The amount or quantity of goods and services that producers will provide at various prices.

surgical expense insurance A health insurance policy that pays part or all of a surgeon's fee for an operation.

surplus The situation that results when the government spends less than it brings in.

T

take-home pay Gross pay minus deductions.

tariff A special tax on goods made in another country and sold in the United States.

tax base The item or activity that is the source of a tax; for example, income, wealth, consumption, or buying.

term insurance A life insurance policy that insures a policyholder for a specific number of years.

thrift institutions A term used for savings and loan associations and mutual savings banks.

time deposit A deposit left with a bank for a fairly long time and from which you may not be able to withdraw money immediately.

time management The process of deciding how to use time so that you gain the most from it.

title The written proof of ownership.

trade associations Organizations set up to serve the needs of businesses that have special common interests.

trading partners Countries with which we import and export goods.

traditional system An economic system in which people do things the way they have always done them.

transfer payment Money received by people who are not currently producing goods or services in exchange for it.

traveler's checks A form of payment bought by people before a trip or vacation; they have the feature of making money available on the spot.

Truth in Lending law A law that requires all costs of borrowing to be made known to the consumer; also known as the Consumer Protection Act.

turnover The number of people who leave one job for another.

U

Underwriters' Laboratories An organization that tests products and attaches seals of approval to those that meet its safety standards.

undeveloped property Land that generally is in its natural state.

unemployment insurance The protection that is available through state governments to provide income for unemployed workers.

Uniform Commercial Code A set of laws that governs business activities throughout the country.

uninsured motorists coverage Insurance that pays damages when you are in an accident with an uninsured driver.

union shop A situation that exists when workers do not have to belong to the union in order to be hired, but they are required to join after a given period of time.

unit pricing Using a standard measurement as a basis for pricing the same product in different stores.

unlimited liability The responsibility of a sole proprietor for the debts of his or her business, even if those debts are more than the assets of the business.

unsecured loan A loan that is not backed up by collateral.

U.S. Savings Bond A type of bond issued by the federal government and available in banks or through a payroll-deduction plan.

usury law A credit law designed to protect consumers from high interest rates by setting a limit on the rate of interest that can be charged for credit.

utilities Companies that provide electricity, gas, and water.

V

values Qualities that you prize and think are important, such as being with family or friends.

variable expenses Those expenses — such as telephone, clothing, entertainment, and food bills — that usually vary in amount from month to month.

variety store A self-service store that sells a large variety of usually inexpensive merchandise.

W

wage assignment A clause in an installment contract that permits a lender to take part of your wages if a payment is missed.

wants Things that we desire or need; things we wish we could have.

warehouse showroom A place where goods, often furniture, are put on a showroom floor; customers order products directly from a connected warehouse.

warranty A promise that a product is of a certain quality or will perform in a certain manner.

Water Quality Act An act that set standards for the cleaning up of our scarce water supply.

white-collar jobs Jobs that usually deal with people, information, and ideas and involve producing services.

wholesaler A business that distributes or sells products, most often to other businesses.

withdrawal The act of taking money out of an account.

word processing An application program that lets the user edit and store typed reports or letters.

workers' compensation Protection available through state governments to provide income for workers who are injured on the job.

world trade Trade among countries.

Z

zoning code A community plan that governs the types of buildings that can be built in each part of the community.

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