

# [Economics chapter 11 review](https://assignbuster.com/economics-chapter-11-review/)

List 2 advantages to keeping a budget. Less of a chance of slipping into debt and keeps one more organized about their spending habits. What are 3 main reasons people save money? Special occasions, to protect against emergencies, and buy special things. Advantages to a Savings AccountLiquidity, easily accessible, and FDIC insured. Disadvantages to a Savings AccountWithdrawal fees, minimum balance needed to avoid fees, low interest rate, and opportunity cost, Advantages to US Savings BondsBacked by the USA and a higher interest rate. Disadvantages to US Savings BondsNo liquidity, withdrawal fees or loss of interest if money is taken out early, not accessible, and inflation. Advantages to a CDBacked by a bank, higher interest rate, and insured. Disadvantages to a CDMinimum deposit required and no liquidity. Advantages to Mutual FundsPotential for large gains, diversified, and collections of stocks. Disadvantages to Mutual FundsPotential to lose all and commission paid. Advantages to StocksPotential for big gains and high pay-out = high reward. Disadvantages to StocksBig losses and it is risky. Savings AccountAn account at a bank where you earn interest on deposits. Compound vs. simple interest. Rule of 72. US Savings BondA IOU to the Federal Government. Interest the Federal Government pays to investors for loaning it money (just like banks and credit unions do). Certificate of Deposits (CD)An insured, interest-bearing deposit at a bank, requiring the depositor to keep the money invested for a specific length of time (3 months – 5 years). Mutual FundsA collection of stocks-shares of stock for many different companies. StocksShares of a corporation. Explain the role banks play in the saving process. Explain how saving is vital for the U. S. Economy. Banks help protect money, they insure it. Saving is vital because it helps protect again inflation and too many loans taken out of banks causing them to collapse. Compound InterestInterest added to one’s account. Interest paid both on savings and on the interest already earned. Rule of 72It is how fast one’s savings grow when one receives compound interest. Divide 72 by the interest and the quotient is the amount of time needed for the interest to double. LiquidityThe readiness with which an item can be converted into cash without losing at least some of its value. A ability to be used as, or directly converted to cash. CapitalA human-made resource that is used to create other goods and/or services. Explain the correlation between liquidity, time invested, and interest rates when it comes to investing. If one sacrifices liquidity and invest more time, one receives a higher rate of interest. Explain how diversity is important when investing. That way is one of one’s investments is a poor choice with a poor outcome, then not all of one’s money is gone. What are the potential advantages of credit cards? Fast money you can pay later, convenient, and helps build credit. What are the potential disadvantages of credit cards? Easy to overspend with them and sink into debt. What techniques do banks use to try to get college students to open credit card accounts? Free merchandise, incentives, and advertising. List the reasons why many college students run up a lot of credit card debt. They have no income and no money and they live beyond their means. What are the effective management techniques involved with having a card? Budgeting oneself and tracking everything that one spends one. What are the advantages of a Roth IRA? It is an Individual Retirement Account. It is an account providing tax-free income growth. Contributions are made with after-tax dollars. for a certain amount each year. What are the 4 steps of Oprah’s Debt Diet? 1. Calculate your debt. 2. Track your spending. 3. Learn the credit card game. 4. Stop spending. SharesPortions of stock. EquitiesClaims of ownership in a corporation. Capital GainThe difference between a higher selling price and a lower purchase price, resulting in a financial gain for the seller. Capital LossThe difference between a lower selling price and a higher purchase price resulting in a financial loss to the seller. Stock SplitThe division of a single share of stock into more than one share. StockbrokerA person who links buyers and sellers of stock. Brokerage FirmA business that specializes in trading stocks. Stock ExchangeA market for buying and selling stock. Over-the-Counter (OTC) MarketAn electronic marketplace for stocks and bonds. NasdaqAmerican market for OTC securities. FuturesContracts to buy or sell at a specific date in the future at a price specified today. OptionsContracts that give investors that choice to buy or sell stock and other financial assets. Call OptionsThe option to buy shares of stock at a specified time in the future. Put OptionsThe option to sell shares of stock at a specified time in the future. Bull MarketA steady rise in the stock market over a period of time. Bear MarketA steady drop in the stock market over a period of time. The DowIndex that shows how certain stocks have traded. S & P 500Index that shows how certain stock have traded. Great CrashThe collapse of the stock market in 1929. SpeculationThe practice of making high-risk investments with borrowed money in hopes of getting a big return. What are the advantages of a Custodial IRA? Parents interested in helping their children get a head start on saving for their later years can open a custodial IRA. Though parents or guardians manage the account, children take control once they reach the age of majority. Rank the following from most liquid to least liquid. 1. Savings Account, 2. Certificates of Deposits, 3. Stocks. DiversificationSpreading investments to reduce risk. PortfolioCollection of financial assets. ReturnThe money an investor receives above and beyond the sum of money initially invested. Credit UnionThey are member-owned and are non-profit. They have interest rates. Basic things (cars, loans, etc…) have a lower interest rate. Savings and CDs have a higher interest rate. InvestmentThe act of redirecting resources from being consumed today so that they may create benefits in the future; the use of assets to earn income or profit. Financial AssetClaim on the property or income of a borrower. MaturityThe time at which payment to a bondholder it due.