

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 Account Liquidity, easily accessible, and FDIC insured. Disadvantages to a Savings Account Withdrawal fees, minimum balance needed to avoid fees, low interest rate, and opportunity cost. Advantages to US Savings Bonds Backed by the USA and a higher interest rate. Disadvantages to US Savings Bonds No liquidity, withdrawal fees or loss of interest if money is taken out early, not accessible, and inflation. Advantages to a CD Backed by a bank, higher interest rate, and insured. Disadvantages to a CD Minimum deposit required and no liquidity. Advantages to Mutual Funds Potential for large gains, diversified, and collections of stocks. Disadvantages to Mutual Funds Potential to lose all and commission paid. Advantages to Stocks Potential for big gains and high pay-out = high reward. Disadvantages to Stocks Big losses and it is risky. Savings Account An account at a bank where you earn interest on deposits. Compound vs. simple interest. Rule of 72. US Savings Bond A 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 Funds A collection of stocks-shares of stock for many different companies. Stocks Shares 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 against inflation and too many loans taken out of

banks causing them to collapse. Compound Interest Interest added to one's account. Interest paid both on savings and on the interest already earned.

Rule of 72 It 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.

Liquidity The 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.

Capital A 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.

Shares Portions of stock. **Equities** Claims of ownership in a corporation. **Capital**

Gain The difference between a higher selling price and a lower purchase

price, resulting in a financial gain for the seller. **Capital Loss** The difference

between a lower selling price and a higher purchase price resulting in a

financial loss to the seller. **Stock Split** The division of a single share of stock

into more than one share. **Stockbroker** A person who links buyers and sellers

of stock. **Brokerage Firm** A business that specializes in trading stocks. **Stock**

Exchange A market for buying and selling stock. **Over-the-Counter (OTC)**

Market An electronic marketplace for stocks and bonds. **Nasdaq** American

market for OTC securities. **Futures** Contracts to buy or sell at a specific date

in the future at a price specified today. **Options** Contracts that give investors

that choice to buy or sell stock and other financial assets. **Call Options** The

option to buy shares of stock at a specified time in the future. **Put**

Options The option to sell shares of stock at a specified time in the future.

Bull Market A steady rise in the stock market over a period of time. **Bear**

Market A steady drop in the stock market over a period of time. **The**

Dow Index that shows how certain stocks have traded. **S & P 500** Index that

shows how certain stock have traded. **Great Crash** The collapse of the stock

market in 1929. **Speculation** The 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.

Diversification Spreading investments to reduce risk. **Portfolio** Collection of

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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 is due.