

LESSON 16.3 Analyzing Financial Situations

TEKS Personal financial literacy—8.12.F Analyze situations to determine if they represent financially responsible decisions and identify the benefits of financial responsibility and the cost of financial irresponsibility. Also 8.12.E

ESSENTIAL QUESTION

How do you analyze financial situations to determine if they represent financially responsible decisions?

EXPLORE ACTIVITY

Exploring Different Payment Methods

There are several ways to pay for goods and services. These payment methods include cash, stored-value cards, debit cards, credit cards, money orders, and checks.



Research the similarities and differences between stored-value cards, also known as prepaid cards, debit cards, and credit cards.

- A** Use an Internet search engine to find images of the three types of cards. How are they similar and different in appearance?
Sample answer: They are all plastic, rectangular cards. Generally, debit and credit cards look alike, but debit cards say DEBIT and credit cards say CREDIT. Prepaid cards often come in many colors and designs.
- B** What information is on each card? **Sample answers:**
 Stored-value card: account number, name of bank, store name
 Debit card: account number, name, expiration date
 Credit card: account number, name, expiration date, photo
- C** When you use a stored-value card, debit card, or credit card, the money you spend is coming from different places. From where is the money deducted when you use each card?
Stored-value: A fixed amount is put on the card at the time of purchase. The amount on the card goes down with each purchase. **Debit:** The money is automatically taken out of your bank account. **Credit:** The credit card company pays, and you agree to pay the purchase amount at a future date.

Sample answer: birthday or holiday gifts; long-distance phone calls or fares on a public transportation system

Math Talk

What are some common uses of stored-value cards?

Lesson 16.3 453

EXPLORE ACTIVITY (cont'd)

- D** Do you need to have an account at a bank to have each type of card?
You need a bank account to have a debit card, and you often get a credit card through a bank. Prepaid cards can be purchased with cash.
- E** Research the fees associated with each type of card, such as activation fees, ATM fees, annual fees, and late payment fees. Describe the possible fees associated with each type of payment method. **Sample answers:**
 Stored-value card ATM fee for using the card to get cash at ATMs; inactivity fee; activation fee
 Debit card ATM fee; overdraft fee if the card is used and there isn't enough money in your account
 Credit card annual fee; ATM fee; late payment fee; interest charges

Reflect

- What are the advantages and disadvantages of using a credit card?
Sample answer: Advantages: widely accepted; you can buy things before you have saved for them; disadvantages: more charges and fees than with debit and stored-value cards; you can spend money you do not have, so it is easier to go into debt.
- What are the advantages and disadvantages of using a debit card?
Advantages: you don't have to carry cash; safety, because only you know your PIN; **disadvantages:** you need enough money in your account to cover entire cost of things or you might overdraw your account.

Identify the payment method used in each transaction as a stored-value card, a debit card, or a credit card.

- Stan buys a television and pays for it over the next 3 months.
credit card
- Ingra buys a cup of coffee, and the money is immediately withdrawn from her bank account.
debit card
- Yun used a \$20 bus pass to ride the bus.
stored-value card

454 Unit 7

Analyzing Situations for Financial Responsibility

Before making a monetary decision, it is important to consider whether your decision is financially responsible or financially irresponsible.

There are benefits to making financially responsible decisions, such as having more money in savings and having no debt or low debt. Financially irresponsible decisions can negatively affect your chance to buy a car, rent an apartment, own a house, and pay for college.



EXAMPLE 1

TEKS 8.12.F

Determine if the decision described was financially responsible or financially irresponsible. Explain your answer.

- A** Katarina had \$100 in cash to spend on a \$55 ink cartridge. When Katarina got to the office supply store, she noticed a sale on ink cartridges, 1 for \$55 or 2 for \$70. She purchased two for \$70.

Katarina made a financially responsible decision.

Reason 1: Katarina saved \$40 on the second ink cartridge.

Reason 2: She spent cash, so she will not owe money on her purchase.

- B** Melissa is renting an apartment for \$850 a month. In August she had \$2100 in her checking account. She used her credit card to pay rent and spent \$1800 from her savings on a second flat-screen television.

Melissa made a financially irresponsible decision.

Reason 1: Melissa had enough money in her checking account to pay rent. Instead, she used her credit card to pay rent and may now have to pay interest on her credit card balance.

Reason 2: A second flat-screen television is not a necessity.

Reflect

- 6.** Don has been saving to buy a used truck for his lawn care business. He has \$5,200 in his business savings account. The truck he wants costs \$6000, and there is a possibility of financing at an interest rate of 7.5%. What financial advice would you give Don?

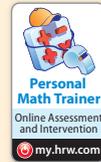
Sample answer: Don should consider how much additional money the purchase of the truck will bring in for his business. He should also consider how much he should pay up front to reduce interest payments.

Math Talk
Mathematical Processes

What are some monetary and nonmonetary benefits of making financially responsible decisions?

Sample answer: Monetary: avoiding debt and late fees, having more money; nonmonetary: less nervous due to financial security; increased sense of confidence

Lesson 16.3 455



YOUR TURN

Tom has \$524 in savings. His car needs new tires. Tom bought new racing tires for his car for \$1400 with his credit card.

- 7.** Was Tom's decision financially responsible or financially irresponsible? Explain your answer.

Sample answer: Irresponsible; He does not have the money, must pay high interest, and does not need the tires.

- 8.** What could Tom have done differently?

Tom could have purchased more reasonably priced tires.

Guided Practice

Identify the payment method used in each transaction as cash, a credit card, a debit card, or a stored-value card. (Explore Activity)

- Trina received a gift card to an electronics store and used it to buy a video game. stored-value card
- Sue gives \$5 to a street vendor for a necklace. cash
- Steve uses a card and types in his PIN so that his purchase will be withdrawn from his checking account. debit card



Determine if the decisions described are financially responsible or financially irresponsible. Explain your answers. (Example 1)

- John was just laid off from his job. He has \$750 in savings. To make himself feel better, he buys a new bike for \$650 with his credit card.
Sample answer: Irresponsible; John does not have a steady source of income and could have purchased a cheaper bike.
- Maria and Pat are recently married and work for the same company. They each pay \$45 per month for health insurance. Pat combined their insurance for a new rate of \$74 per month.
Sample answer: Responsible; the new rate will save them \$16 per month; $(45 \times 2) - 74 = 16$.



ESSENTIAL QUESTION CHECK-IN

- 6.** What are the characteristics of financially responsible decisions?

Sample answer: They enable long-term goals, avoid burdensome debt, maximize value, and increase flexibility for the future.

456 Unit 7