Key Terms

- **Incentives (positive, negative)** - motivation to act in a particular way; motivating factors may be positive such as a break on auto insurance costs or negative such as a fine for speeding.
- **Rational decision-making** – making decisions based on evaluating the benefits and risks of alternatives based on your criteria.
- **Banks** – financial institutions or businesses that take in deposits and make loans for interest payments.
- **Savings accounts** – accounts at banks that hold the income set aside for use later or in emergencies.
- **Certificate of Deposit (CD's)** – a timed deposit that pays higher interest rates than savings but invokes penalties for early withdrawal.
- **Finances** – money, credit, and investments.
- **Interest** – periodic payment earned for savings or payment made for loans.
  - **Simple Interest** – interest calculated on the original principal of savings or of a loan.
  - **Compound Interest** – interest calculated on the original principal and interest earned of savings or a loan.
- **Principal** – the amount of money originally saved or borrowed before interest is added.
- **Risk** – the danger of losing money invested.
- **Return** – the profit that is made from an investment.
- **Investments** – money risked with the hope of making a profit or other gain.
- **Stocks** – shares or part ownership in a corporation or company.
- **Stock Market** – the place where stocks and bonds are bought and sold, it may be “over the counter” or “electronic”.
- **Stockbroker** – a person licensed to buy and sell bonds for consumers.
- **Bull Market** – an extended period of time during which investors are confident and stock prices are rising.
- **Bear Market** – an extended period of time during which investors are reluctant and stock prices are declining.
- **Bonds** – securities that lend money to government or corporations usually have a fixed interest rate and term.
- **Mutual Funds** – a group of stocks and/or bonds selected and managed by a professional manager.
- **Growth** – a rise in the value of stock in a company.
- **Dividends** – the part of a company’s profits periodically paid to its shareholders (owners of stock).
- **Diversify** – lowering risk by choosing a variety of investments so that in down times gains and losses will balance.
• IRA – individual retirement accounts, usually tax deferred
• Roth IRA – individual retirement account that is not fully tax deferred but may be used for education, buying a first house, or retirement
• Retirement – life cycle event when a person stops working either by choice or disability
• Credit – (revolving or installment) buy now, pay later, and pay interest
• Fees – cost of credit such as annual credit card fee, late penalties, and interest
• Mortgage – installment loan for a house, commercial building, or real estate.
• Credit Report – document provided by credit reporting agencies detail a person’s borrowing and repayment history
• Insurance policy – an agreement between an individual and an insurance company; the individual pays the insurance company in order to transfer risk to the company
• Policyholder – the person who is insured
• Transfer risk – the insurance company pays for damages and costs
• Life Insurance – provides money to one’s family at the time of death
• Health Insurance (Medical) – covers expenses for medical care
• Liability – legal responsibility to pay for damages caused
• Automobile Insurance – pays for damages if the insured causes an accident or if the auto is damaged to no fault of the individual and no one else can be held liable
• Homeowners Insurance – insures a house in the case of accidental damage and destruction, may cover other homeowner liabilities
• Renters Insurance – covers the belongings of an individual and liability in an apartment or rental property.
• Disability Insurance – provides income for a period of time if a person cannot work
• Insurance Premium – annual, quarterly, semi annual, or monthly payment for an insurance policy
• Deductible – the portion the insured must pay before the insurance company pays for damages, usually the higher the deductible the lower the premium
• Beneficiaries – the persons who are designated to benefit from an insurance policy
• Earnings – the amount workers get paid by employers
• Wages – the amount workers get paid per task or per hour
• Salary – set payment of services, example: The beginning teacher received a salary of $35,000 per year.
• Education – special skills, knowledge, training, and degrees acquired
• Skills – the ability to perform tasks
• Paycheck and paycheck stub – the check given an employee for work or services; the stub shows deductions such as payments for taxes and insurance and is retained by the worker for a record
• **Income Tax Return** – filed annually by workers with the Internal Revenue Service (IRS)