Alternatives
The different possibilities to choose from in a given situation.

Annual percentage rate (APR)
The percentage cost of credit on an annual basis and the total cost of credit to the consumer. APR combines the interest paid over the life of the loan and all fees that are paid up front.

Annuity – A series of fixed payments of the same amount paid at regular intervals (i.e., every week, month or pay period) over a specified period of time.

Annuity equation
FV = (A/i)(1+i)n - 1, where:
FV = Future value is the amount that’s not known, but will be solved in the calculation. It’s the amount wanted in the future.
A = Annuity; annuities are the initial and subsequent payments (which must be the same amount)
i = Interest rate has a great effect on future value. The interest rate in the formula must be written in decimal form, such as 0.03 instead of 3%.
n = This is the number of periods, where “n” is the number of equal deposits that will be made.

Asset
A resource with economic value that an individual, corporation or country owns with the expectation that it will provide future benefits.

Automated teller machine (ATM) card
A form of debit card used in a cash machine to access an account by using a code or personal identification number.

Automatic transfer
An online payment that is automatically deducted from the account balance on a recurring basis.

Bank account register
A tool in which an account holder lists his or her initial balance in an account and then records all debits and credits in order to maintain an accurate record of account activity and an accurate balance.

Bank statement
A statement given to account holders by a bank or credit union to keep them informed of all transactions they made during the statement period. These statements are sent on a regular basis or posted online.

Bankruptcy
A legal process for declaring that a person is unable to pay their debts. The process may involve a court-supervised process of selling the bankrupt person’s belongings to pay part of the debts owed to creditors.

Banks
Businesses that accept deposits and make loans.

Benefits
Things favorable to a decision-maker; things that a decision maker gains

Bond
A certificate of indebtedness issued by a government or corporation.

Borrowing
Taking money with a promise to repay the money in the future.

Budget
An itemized summary of probable income and expenses for a given period. A budget is a plan for managing income, spending and saving during a given period of time.

Career
An occupation undertaken for a significant period of a person’s life and with opportunities for progress/promotion.

Capacity
A borrower’s ability to repay debt.

Capital appreciation
An increase in the price of assets.

Capital gains
A profit from the sale of financial investments.
Certificate of deposit (CD)
A savings alternative in which money is left on deposit for a stated period of time to earn a specific interest rate.

Character
A borrower’s reputation for paying bills and debts based on past behavior.

Check
A printed form directing a bank to withdraw money from an account and pay it to another account.

Checkable deposits
Deposits in accounts against which checks can be written.

Check-cashing services
Businesses that provide services such as cashing all types of checks, including payroll, insurance, tax refund, settlement, and government and Social Security payments. These businesses may also provide other services, such as payday loans, money orders, and money wires.

Checking account
An account held at a bank or credit union in which account owners deposit funds. Account owners have the privilege of writing checks on their accounts and are able to use ATM cards and debit cards to access funds.

Choice
A decision made between two or more possibilities or alternatives.

Collateral
Property required by a lender and offered by a borrower as a guarantee of payment on a loan. Also, a borrower’s savings, investments or the value of the asset purchased that can be seized if the borrower fails to repay a debt.

Collateral (elementary)
Something of value that a bank is able to keep if a borrower fails to repay a loan.

Commission
A percent of the sale price of a product or service paid to the sales person/account representative for making the sale or for work completed.

Commodities
Raw material or primary agricultural products that can be bought and sold, such as copper, cattle, wheat, or coffee.

Compound interest
Interest computed on the sum of the original principal and accrued interest.

Consumer price index (CPI)
A measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

Consumers
People who buy goods and services to satisfy their wants.

Consumer Financial Protection Bureau (CFPB)
A regulatory agency charged with overseeing financial products and services that are offered to consumers.

Contract
An exchange, promise or agreement between two parties that is enforceable by law. For example, a car buyer agrees to pay the amount financed at an agreed upon interest rate for the length of the contract.

Cost of living
The amount of income needed to achieve a given living standard.

Costs
Things unfavorable to a decision-maker; things that a decision maker gives up.

Credit
The granting of money or something else of value in exchange for a promise of future repayment.

Credit card
Cards that represent an agreement between a lender—the institution issuing the card—and the cardholder. Credit cards may be used repeatedly to buy products or services or to borrow money on credit. Credit cards are issued by banks, savings and loan associations, retail stores, and other businesses.

Credit history
A person’s payment activity over a period of time.

Credit report
A loan and bill payment history kept by a credit bureau and used by financial institutions and other potential creditors to determine the likelihood that a future debt will be repaid.

Credit reporting bureau
An organization that compiles credit information on individuals and businesses and makes it available to businesses for a fee.

Credit responsibilities
Refers to the actions or behaviors in which people should engage when they use credit.
Credit rights
Refers to the protections put in place by law to help people obtain and maintain credit.

Credit score
A number based on information in a credit report, which indicates a person’s credit risk.

Credit Union
A nonprofit financial institution that is owned by its members.

Creditor
A person, financial institution or other business that lends money.

Credits
Additions or deposits to an account. In a bank account register, credits are added to the balance.

Criteria
A set of standards to consider when choosing among alternatives.

Criteria (elementary)
Things that are really important to think about when making a decision.

Debit card
A plastic card similar to a credit card that allows money to be withdrawn or payments made directly from the holder’s bank account.

Debits
Charges to or withdrawals from an account. In a bank account register, debits are subtracted from the balance.

Debt
Money owed in exchange for loans or for goods or services purchased with credit.

Decision-making
Deciding among choices (alternatives or options).

Decision-making grid
A table used to evaluate alternatives based on criteria for the purpose of making a decision.

Default
The failure to promptly pay interest or principal when due.

Deferral
Postponed until a later time.

Defined Benefit Plan
Also known as a traditional pension plan—promises the participant a specified monthly benefit at retirement.

Defined Contribution Plan
A retirement plan in which the employee and/or the employer contribute to the employee’s individual account. Examples of defined contribution plans include 401(k) and 503(b) accounts.

Delinquent
Failing to make timely payments under a loan or other credit agreement.

Disincentives
Perceived costs that discourage certain behaviors.

Disincentive (elementary)
Actions or penalties that determine the choices people make.

Direct deposit
An electronic transaction in which money is deposited directly into a payee’s bank account from a payer’s bank account.

Dividend
A sum of money paid regularly (typically quarterly) by a company to its shareholders out of its profits.

Discretionary income
The portion of personal income available for spending after taxes and basic essentials have been deducted.

Discretionary spending
Government spending authorized by Congress on an annual basis.

Disinflation
A decrease in the inflation rate or a slowdown in the upward movement of prices for goods and services in the economy.

Disposable income
The amount of a person’s paycheck that is available to spend or save.

Diversification
Investment in various financial instruments in order to reduce risk.

Down payment
A sum of money put toward the purchase price to reduce the amount of money borrowed.

Durable goods
A category of consumer products that are made to last for a long time (usually lasting for three years or more). They are also called consumer durables or durables.
**Earned income tax credit**
A refundable federal tax credit for low-income working people designed to reduce poverty and encourage labor force participation.

**Earnings**
Money or income received in exchange for labor or services.

**Economic wants**
Desires that can be satisfied by consuming goods and services. Also known as wants.

**Educational attainment**
Level of education a student completes (high school, college, graduate).

**Elements of a contract**
Competent parties, consideration and mutual agreement are the elements of a contract that must be present to make the contract legal and enforceable. Competent parties are individuals involved in a contract who must be able to understand the conditions of the contract. Consideration refers to the fact that each party of a contract gives up something in exchange for what the other party is providing. Mutual agreement means that each party to the contract must be clear about the essential details, rights and obligations of the contract.

**Entrepreneurs**
Individuals who are willing to take risks in order to develop new products and start new business. They recognize opportunities, enjoy working for themselves and accept challenges.

**Entrepreneurship**
A characteristic of people who assume the risk of organizing productive resources to produce goods and services.

**Exempt (from withholding)**
Free from withholding of federal income tax. A person must meet certain income, tax liability and dependency criteria. This does not exempt a person from other kinds of tax withholding, such as the Social Security tax.

**Exemption**
Amount that taxpayers can claim for themselves, their spouses and eligible dependents. There are two types of exemptions: personal and dependency. Each exemption reduces the income subject to tax. The exemption amount is a set amount that changes from year to year.

**Expenditures**
Money spent to buy goods and services.

**Expenses**
The costs people incur for goods and services. Expenses are often categorized as fixed, variable, and periodic. Fixed expenses are those that occur each month in a regular amount, such as rent, car payments, and mortgage payments. Variable expenses are those that change from one time period to the next, such as food, clothing, gasoline, and entertainment. Periodic expenses are those that occur several times a year, such as car insurance and life insurance payments.

**Federal Deposit Insurance Corp. (FDIC)**
The FDIC is an agency of the U.S. government that insures deposits in banks and thrift institutions, supervises the risks associated with these insured institutions, and limits the repercussions on the economy when a bank or thrift institution fails.

**Federal income tax**
The federal government levies a tax on personal income. The federal income tax provides for national programs such as defense, foreign affairs, law enforcement and interest on the national debt.

**Federal Insurance Contributions Act (FICA) tax**
A tax or required contribution that most workers and employers pay. FICA is a payroll tax used to fund Social Security and Medicare.

**Federal Reserve System**
The central bank of the United States.

**Federal student loan**
A loan provided by the government to postsecondary students and their parents to assist in paying for education.

**File a return**
To mail or transmit a taxpayer’s information in specified format about income and tax liability. The return can be filed on paper, electronically or by telephone to an IRS service center.

**Financial investment**
Placing money in a savings account or in any number of financial assets, such as stocks, bonds or mutual funds, with the intention of making a financial gain.

**Financial literacy**
Having knowledge of financial matters and applying that knowledge to one’s life.

**Fiscal agent**
A person or organization serving as another’s financial representative.
Fiscal policy
Spending and taxing policies of the federal government to influence the economy.

Forbearance
The temporary suspension or reduction of monthly loan payments, usually up to one year.

Foreclose
To take possession of a mortgaged property as a result of the borrower’s failure to make mortgage payments.

Future value
The value of an asset or cash at a specified date in the future that is equal in value to a specified sum today.

Future value equation
\[ FV = PV \times (1+i)^n, \]
where:
\[ FV = \text{Future value is the amount that’s not known, but will be solved in the calculation. It’s the amount wanted in the future.} \]
\[ PV = \text{Present value is money currently held or the amount of money that will be earning interest.} \]
\[ i = \text{Interest rate has a great effect on future value. The interest rate in this formula must be written in decimal form, such as 0.03 instead of 3%.} \]
\[ n = \text{This is the number of periods (such as years) money is saved and interest is applied. If money were to be saved for 3, 5, 7 or 10 years, then 3, 5, 7, or 10 would be “n” in the calculation.} \]

Gainful employment
A job, especially one taken after graduation, that is suited to the ability and potentiality of the one employed.

Goods
Objects that satisfy people’s wants.

Government Securities
Bonds, notes and other debt instruments sold by a government to finance its expenditures.

Government provided goods and services
Goods and services provided by government through tax dollars.

Gross pay
The amount people earn per pay period before any deductions or taxes are paid.

Human capital
The knowledge and skills that people obtain through education, experience and training.

Human resources
The quantity and quality of human effort directed toward the production of goods and services. Also known as labor.

Incentives
Perceived benefits that encourage certain behaviors.

Incentives (elementary)
Actions, awards and rewards that determine the choices people make.

Income
The payment people receive for providing resources in the marketplace. When people work, they provide human resources (labor) and in exchange they receive income in the form of wages or salaries. People also earn income in the forms of rent, profit, and interest.

Income (elementary)
Payment people earn for the work they do.

Income tax
Taxes on income, both earned (salaries, wages, tips, commissions) and unearned (interest, dividends). Income taxes can be levied on both individuals (personal income taxes) and businesses (business and corporate income taxes).

Inflation
A general, sustained upward movement of prices for goods and services in an economy.

Inflation rate
The percent change in price level determined by comparing the percentage increase or decrease in the price level of goods and services from one time period to another.

Insurance
A practice or arrangement by which a company or government agency provides a guarantee of compensation for specified loss, damage, illness, or death in return for payment of a premium.

Interest
The price of using someone else’s money. When people place their money in a bank, the bank uses the money to make loans to others. In return, the bank pays interest to the account holder. Those who borrow from banks or other organizations pay interest for the use of the money borrowed.

Interest (elementary)
Money paid to customers for keeping their money at the bank.
Interest rate
The percentage of the amount of a loan that is charged for a loan. Also, the percentage paid on a savings account.

Intermediary
One who stands between two parties to facilitate a transaction; a mediator.

Internal Revenue Service (IRS)
The federal agency that collects income taxes in the United States.

Investment in human capital
The efforts people put forth to acquire human capital. These efforts include education, experience, and training.

Job
A paid position of regular employment

Labor (Human resources)
The quantity and quality of human effort direct toward producing goods and services. Also known as human resources.

Liability
Money owed; debt.

Lien
The legal right to take or sell property as security for a debt.

Liquid asset
An asset that is easily convertible to cash with relatively little loss of value in the conversion process.

Liquidity
The quality that makes an asset easily convertible into cash with relatively little loss of value in the conversion process.

Loan
A sum of money provided temporarily on the condition that the amount borrowed be repaid, usually with interest.

Long-term savings goals
Goods or services you want to buy in a year or longer.

Median
The value in an ordered set of values below and above which there is an equal number of values; the number that divides numerically ordered data into two equal halves; the middle number of a set of numbers.

Median value
The middle number of a set of numbers; the number that divides numerically ordered data into two equal halves.

Medicaid
A jointly administered federal and state health care program for low-income people.

Medicare
A federal health care program that pays for certain medical and hospital costs for people aged 65 and older (and for some people who are under the age of 65 and disabled); part of Social Security.

Medicare tax
A payroll tax that is part of FICA, collected from most employees and employers to fund the hospital insurance provided under the Medicare system. Used to provide medical benefits for certain individuals when they reach age 65. Workers, retired workers, and the spouses of workers and retired workers are eligible to receive Medicare benefits upon reaching age 65.

Monetary policy
Central bank actions involving the use of interest rate or money supply tools to achieve such goals as maximum employment and stable prices.

Mortgage
A legal agreement by which a person borrows money to buy property (such as a house) and pays back the money over a period of years; A legal agreement that gives the conditional right of ownership of an asset or property by its owner (the mortgagor) to a lender (the mortgagee) as security for a loan.

Mortgage debt
A debt owed for loans for homes and real estate.

Mutual funds
Money collected from many investors to create a pool of funds for the purpose of investing in securities such as stocks, bonds, and similar assets with the goal of increasing the value of each share of the fund for investors.

National Credit Union Administration
An independent federal agency created by the United States Congress to regulate, charter, and supervise federal credit unions.

Nest egg
An amount of money saved for a special occasion, such as retirement or buying a house.

Net pay
Gross pay minus deductions and taxes.
Nominal interest rate
The rate of interest quoted in loan and deposit agreements; the stated price of borrowed money.

Non-interest bearing account
An account in which no interest is paid on the principal, which is the amount of deposit or account balance. Also called zero-interest account.

Non-liquid asset
An asset that is not easily convertible into cash with relatively little loss of value in the conversion process.

Occupation
A person's usual or principal work or business, especially as a means of earning a living; vocation.

Office of the Comptroller
A U.S. federal agency that serves to charter, regulate, and supervise national banks and the federal branches and agencies of foreign banks.

Opportunity cost
The value of the next-best alternative when a decision is made; it's what is given up.

Overdraft
The result of an account holder authorizing a withdrawal through a check, ATM withdrawal, debit card purchase or electronic payment when the account does not have enough money to cover the transaction.

Overdraft fee
The penalty associated with an overdraft.

Overdraft service
Provided by financial institutions to generally approve and pay overdraft transactions when the account holder does not have enough funds to cover the transactions in return for a fee.

Payday loan
A small, short-term loan that is intended to cover a borrower's expenses until his or her next payday. May also be called a paycheck advance or a payday advance.

Payroll deduction
Amounts subtracted from gross pay.

Payroll Tax
A tax imposed on employers or employees, usually calculated as a percent of the salaries that employees earn. There are generally two types of payroll taxes—deductions from an employee's wages, and taxes paid by the employer.

Penalties
Negative incentives that make people worse off.

Personal income
The income that individuals receive from all sources, including wages and salaries, dividends and interest, rents, profits, and transfer payments.

Personal Property Tax
A tax imposed on property owned by an individual or business that is any asset other than real estate; that is an asset that is movable and not attached to any property.

Personal saving rate
The ratio of personal saving to disposable personal income; the fraction of income, after taxes, that is saved.

Portfolio
A list or collection of financial assets that an individual or company holds.

Present value
Present value is the current value of a future sum of money, given a specified rate of return.

Present value equation
\[ PV = FV \left(\frac{1}{1+i}\right)^n, \] where:
- \( PV \) = Present value is the amount that isn't known but will be solved in the calculations. It's the amount needed today to achieve a determined future goal.
- \( FV \) = Future value is the amount of money wanted in the future. It is the amount that will be reduced at a determined interest rate to calculate the present value.
- \( i \) = Interest rate, which has a great effect on present value. The interest rate in this formula must be written in decimal form, such as 0.03 instead of 3%.
- \( n \) = The number of interest payments during a specified time; the number of times interest is applied.

Price
The amount consumers pay for or businesses receive for a good or service.

Principal
The original amount of money deposited or invested, excluding any interest or dividends. Also refers to the original amount of a loan without any interest.

Productivity
The ratio of output per worker per unit of time.

Progressive tax
A tax in which high-income earners pay a larger fraction of their income in taxes than low-income earners do.
**Profession**
A paid occupation, especially one that involves prolonged training and a formal qualification.

**Profit**
The amount of revenue that remains after a business pays the costs of producing a good or service; income for an entrepreneur.

**Property Tax**
The annual amount paid by a land owner to the local government or the municipal corporation of his area.

**Purchasing power**
The amount of goods and services that a unit of currency can buy.

**Rate of Return**
The gain or loss on an investment over a specified period, expressed as a percentage increase over the initial investment price.

**Real interest rate**
The nominal interest rate adjusted for inflation; the price of borrowed money, adjusted for inflation.

**Rent**
The payment for natural resources; a user’s regular payment to a landlord or owner for the use of property or land.

**Rent-to-own contract**
A contract that allows consumers to get immediate delivery on new furniture, appliances or other items. There is no down payment or credit check required. If the consumer keeps the rental item for a minimum amount of time, there is no penalty charged for returning it. If the renter misses a payment, the contract requires that he or she return the item.

**Repossess**
To retake possession of something when the buyer fails to make payments.

**Return on Investment (ROI)**
A performance measure of the effectiveness of an investment. ROI is calculated as the net gain (gain from investment minus cost of investment) divided by the cost of investment.

**Revenue**
Money received; income.

**Rewards**
Positive incentives that make people better off.

**Retirement Plan**
A plan developed to prepare for life after paid work ends, not just financially but in all aspects of life. (also see defined contribution and defined benefit plans)

**Risk**
The chance of loss.

**Risk-reward relationship**
The idea that there is a direct relationship between risk of the loss of principal and the expected rate of return. The higher the risk of loss of principal for an investment, the greater the potential reward. Conversely, the lower the risk of loss of principal for an investment, the lower the potential reward.

**Rule of 72**
A method to estimate the number of years it will take for a financial investment (or debt) to double its value (or cost). Divide 72 by the interest rate (percentage) to determine the approximate number of years it will take the investment (debt) to double its value (cost).

**Salary**
Income earned for providing human resources (labor) in the market. Salaries are generally an annual amount paid monthly or bimonthly for a specified number of hours, usually 40 hours per week.

**Sales Tax**
A tax imposed by a government at the point of sale on retail goods and services. The tax is collected by the retailer and passed on to the government entity (state or municipality). The tax is usually a percent of the price of the good or service purchased.

**Save**
Keep income to spend in the future.

**Saving**
Not spending on current consumption or taxes. Saving involves giving up some current consumption for future consumption.

**Saving (elementary)**
Keeping some income to buy things in the future.

**Savings**
The accumulation of saving (income not spent on current consumption or taxes) over time.

**Savings account**
An account with a bank or credit union in which people can deposit their money for future use and earn interest.

**Savings goal**
A good or service that you want to buy in the future.
Savings plan
A schedule listing tasks that, when completed, will allow a saver to reach a savings goal.

Scarcity
The condition that exists because there are not enough resources to produce everyone’s wants.

Search costs
The financial opportunity costs consumers pay when searching for a counterpart in a transaction.

Secured loan
A loan that is backed with collateral; a loan for which the lender requires and the borrower offers property as a guarantee of repayment.

Securities and Exchange Commission (SEC)
The SEC is an independent U.S. government agency established by Congress to police and regulate the securities industry.

Self-interest
The pursuit of personal gain.

Services
Actions that can satisfy people’s wants.

Short-term savings goal
Goods or services to be bought within a short time, such as a few weeks or months.

Skill premium
The difference between the average earnings of those with a four-year college degree and those without.

Social Security tax
A payroll tax that is part of FICA (Federal Insurance Contributions Act) and is collected from most employees and employers to fund Social Security, which provides old-age, survivors’ and disability income.

Spending
Using some or all of your income to buy things you want now.

Standard of living
A measure of the goods and services available to each person in a country; a measure of economic well-being. Also known as per capita real GDP (gross domestic product).

Stock
A share of ownership in a company. Stocks are often traded publicly.

Student loan default
A student loan with no likelihood of being paid in full by the borrower.

Subsidized loan
A loan in which the government pays the interest on the loan for a specific time.

Tax deductions
A fixed amount or percentage permitted by taxation authorities that a taxpayer could subtract from his or her gross income to reduce taxable income.

Tax refund
Money owed to taxpayers when their total tax payments are greater than the total tax. Refunds are received from the government.

Taxes
Fees charged on business and individual income, activities, property or products by governments. People are required to pay taxes.

The Truth in Lending Act
A federal law that requires the disclosure of information about the cost of credit. Both the finance charges and annual percentage rate (APR) must be displayed prominently on forms and statements.

Trade-off
Giving up some of one thing in order to gain some of something else.

Transfer payments
Payments by governments to people who do not supply goods, services or labor in exchange for the payments.

Transfer payments (elementary)
Money collected from some people and distributed to other people.

Transfer programs
Government programs designed to improve economic equity.

Travelers Checks
Checks issued by a financial institution which function as cash but are protected against loss or theft.

U.S. Treasury securities
Bonds, notes and other debt instruments sold by the United States Treasury to finance United States government operations.

Unemployment
A condition where people at least 16 years old are without jobs and actively seeking work.
Unemployment insurance (compensation)
A program providing cash benefits for a specified period of time to workers who lose a job through no fault of their own.

Unemployment rate
The percentage of the labor force that is willing and able to work, does not currently have a job, and is actively looking for employment.

Unintended consequences
The unexpected and unplanned results of a decision or action.

Unsecured loan
A loan not backed with collateral.

W-2 form, Wage and Tax Statement
A summary of a person’s earnings and tax withholdings for an entire year. Employers must provide a W-2 to employees by the end of January for the previous year’s employment to report annual income and withholding on the employees’ tax returns.

W-4 form, Employee’s Withholding Allowance Certificate
A form completed by the employee and used by the employer to determine the amount of income tax to withhold.

Wages
Income earned for providing human resources (labor) in the market. Wages are usually computed by multiplying an hourly pay rate by the number of hours worked.

Wants
Desires that can be satisfied by consuming goods and services.

Withholding allowance
The amount of money that an employer withholds from an employee’s paycheck. This money is deposited for the government on behalf of the individual taxpayer. (It will be credited against the employee’s tax liability when he or she files a tax return.) Employers withhold money for federal income taxes, Social Security taxes, and state and local income taxes in some states and localities.