

# Introduction



“We are more than what we buy, aren’t we?”

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### **Financial Literacy: More Important Than Ever**

“A fool and his money are soon parted” is a proverb that has been in use since at least 1557, when poet Thomas Tusser wrote a similar phrase in a poem titled “Five Hundred Points of Good Husbandry.” The “fool” refers to someone who loses money quickly by being tricked or by spending wastefully. As Tusser’s maxim shows, the lack of money smarts – or financial literacy – has plagued people for a very long time.

Even though we have made progress recently in financial education, we still need to do a lot more. The task is made more difficult these days by the volume of financial knowledge a person needs to master in order to function effectively. Add to this the many ways people can lose money either through wasteful spending or fraud and we see how important it is to redouble our efforts to increase financial literacy. Young people in particular need money smarts so they can successfully negotiate the complexities of the modern world of money. If there’s any doubt about the need for investment in financial education, consider the following:

- The very nature of money is changing. Currency as we know it (coins and banknotes) is being replaced by a cashless system that uses electronic money, virtual wallets and the Internet. To take advantage of this new money system and not be exploited by it, people need to understand how it works.
- As borrowing money and buying on credit have become more commonplace, many people are now accumulating mountains of debt that will take years to pay off.
- Workers will need more savings and more skills as a cushion against the shocks of today’s global economy, which offers less job security and a less predictable income.

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- The rising cost of college education today often requires students to borrow money. To avoid taking on too much debt, students (and their parents) need to make wise choices about how much to borrow in order to finance their educational investment.
- A comfortable retirement (indeed, any retirement) will be unaffordable for most Americans, unless they learn how to become better savers and investors. Company pensions have been replaced by individual retirement plans that provide less income and less security. In the future, social security and government benefits may be reduced.
- Financial products and services have become increasingly complex.
- Health care costs are rising and health care insurance obtained through employment is often inadequate and unpredictable.
- Advertisers are constantly finding new ways of manipulating consumer emotions, getting people to believe that “wants” are “needs” they can’t live without. It’s important to develop an awareness of advertising tactics to ensure that purchase decisions are based on real needs and reasoned (objective) criteria rather than on emotional (subjective) appeals.
- Given the overwhelming choice of consumer products and services in today’s marketplace, people need to become more informed consumers.
- Con artists are constantly inventing new ways of stealing people’s money and identities; phone and Internet scams are widespread. People need to recognize and learn how to avoid becoming victims of fraudulent schemes.

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Financial literacy is not only vital to each of us individually, it is also essential to the economic stability and vitality of our country. Financially literate citizens are more likely to be self-sufficient and less dependent on government-funded economic assistance. They will also be more discerning consumers and will demand higher-quality products and services. This, in turn, will encourage competition and innovation in the marketplace. And these informed people will incur less debt, save more money and have resources left to invest in building a healthier, stronger national economy.

### **The “Happiness Economy”**

Today’s media continually bombard us with images of the rich and famous, suggesting that we should all seek to achieve their extravagant lifestyle. If only we’d buy this car, that dream home, that electronic gadget, that diamond necklace, those designer shoes....we’d be just like them. And the more wonderful things we own – according to the ads we see everywhere – the happier we’ll be. But are all these things truly the stuff of a happy life?

If we subscribe to this materialist dream, we’ll need more and more money to be happy. From there, it’s only a short step to the belief that money itself is the main goal in life. But is this belief based on fact? Do we really need pots and pots of gold to be happy? Perhaps not. Isn’t earning the respect of our peers, having loving and meaningful relationships, enjoying good health and having opportunities to develop our talents more valuable than money?

Maybe there’s another way to think of money. Maybe you can see it simply as a tool for maximizing your happiness. This approach to managing money can be referred to as the *“happiness economy.”*

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Still, while we may not need millions to be happy, we do need a certain amount to sustain ourselves and also pursue our dreams. In the United States, the “magic number” is thought to be an annual income of about \$75,000 (2012 dollars). Researchers at Princeton University found in a recent study that up to a point, higher household incomes are, indeed, associated with a better outlook on life. Interestingly, though, the beneficial effects of money tapered off entirely after the \$75,000 mark.

***The big question for each one of us is: just how much money do we really need to be happy?*** For starters, we all need enough monetary resources for the basics of life – food, shelter, clothing. We also need a solid education and health care. For a few people, the basics are all they need to be happy, but for most of us, there’s more to life.

In determining how much is enough, look hard at yourself and decide what is central to your own personal happiness. Generally speaking, your happiness will depend on how well you engage your own personal talents, passions and values and how well you manage your money to accomplish your dreams.

Your ***talents and passions*** are unique. To be truly happy, you need to build on your talents and pursue those things you find most fun and exciting. Maybe you have an aptitude for math, love science and want to be an astrophysicist. Maybe you are musical and want to play trumpet in a symphony orchestra. Maybe you are a people person and aspire to become a social worker here in the United States or in the developing world. Maybe you just love car mechanics, gardening, cooking, painting .... the possibilities are endless.

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Besides your personal talents and passions, there is the more elusive matter of *personal values*. To be truly happy, you need to live your life in accordance with the values you believe to be most important. You absorb values from your family, friends, teachers and social and religious organizations, as well as from the cultural environment in which you live. Words that express values include: honesty, loyalty, joy, charity, sympathy, truthfulness, beauty, understanding, helpfulness.

Often you act on your values by contributing time and money to good causes. Research has shown that most of us derive more happiness from spending our “extra” money others rather than on ourselves.

Knowing who you are in terms of talents, passions and values is not enough, however. We all need a strategy for accomplishing our dreams, and that strategy almost always involves money. Unfortunately, when it comes to managing money, we seldom think or act with a view to the future, and this short-term focus is one of the greatest obstacles to realizing our dreams. Every day we are tempted to spend money on things we may not need or even really want. In this way, we may fritter away our funds and jeopardize our long-term happiness.

The best antidote to this behavior is learning how to manage money effectively. This, coupled with a set of realistic, personal goals, can lead to a happy life.

*“Choosing to pursue the four basic values of faith, family, community and work is the surest path to happiness.”*

— Arthur C. Brooks

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### **Learning About Money the Hard Way**

Most of us learn about money the hard way by making mistakes. We pick up just enough knowledge to survive, but rarely enough to thrive. In school we learn basic arithmetic that we can apply to money transactions. We go with our parents to the store and learn how to buy small items with our allowance. Maybe someone gives us some money to put in a savings account. Later we may take on a part-time job, start spending our own earned money, open up a checking account and get a credit card.

Still later we go off to work and, if we're lucky, take home enough to start investing some of our earnings. But rarely have we taken the time to seriously study and discuss how best to manage our money. In our increasingly complex financial world, this haphazard approach is clearly not sufficient to ensure that we will lead a happy life and avoid expensive, painful errors.

If we don't learn enough about managing money, we may find ourselves in a ton of trouble with our dreams drifting further and further away.

There are many pitfalls:

- We may start relying on credit cards to cover basic expenses. When we don't pay our credit card balance (what we owe the credit card company) in full every month, we incur finance charges that could grow into a large debt.
- We may take on a high-interest loan for college, a car or a house only to discover that we can't handle the costs.
- We may be victimized by a scam, give away personal information and lose money through no fault of our own.
- After a car accident we may find that our insurance is insufficient and we're liable for thousands of dollars in damages.

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- We may be lured into gambling or invest our money in some risky, money-losing enterprise.
- We may develop unrealistic expectations about our future, our earning power and how much stuff we can afford to buy. Unrealistic expectations eventually clash with reality, leading to disillusionment, disappointment, frustration and anger.

One or any combination of these troubles can scuttle our dreams, impair our health, destroy cherished relationships and even lead to irreversible poverty.

Even with some degree of money smarts, we may run into unanticipated financial difficulties that can put our dreams and happiness at risk. We may experience trouble finding a job, or lose the one we have. To be employable, we may need to borrow money for more education. We may suffer a costly health crisis. In any of these situations, the more we know about money, the better off we'll be.

### **The Fun Way To Learn About Money**

It's no fun learning about money in the "school of hard knocks," but it may not be much more fun learning about the subject in a lecture or a book. In fact, it might be downright boring. For most folks, facts about money, banks, credit cards and the like don't just jump off the pages of a book and grab their attention. They don't say, "Wow! Am I ever glad I learned that financial fact! That's so cool! What a lifesaver!"

So, how to make a potentially dull subject – personal finance – engaging and fun? Why not reverse the standard teaching approach and ask questions first before presenting content? In this way the reader's interest is immediately piqued and they're be primed to absorb the explanation. That's how this book is organized.

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The question and answer (or “guess and learn”) approach is similar to many popular TV games shows. It’s an excellent way to build knowledge. When you choose a correct answer to a challenging question, you get positive reinforcement for what you already know. And even when your answer is wrong, there is excitement in getting immediate feedback and learning something new.

A special feature of this book is that it can be used to play individual or group games. As with TV quiz games, participants in group games enjoy the excitement of competing with each other and the pleasure of sometimes winning. In this lively context, learning is inevitable (even if no one wins a million dollars).

Readers can work their way through the book one chapter at a time, or they can use the table of contents or index to zero in on a topic about which they would like to learn more. In some instances, they may find they know more than they thought; in others, they may find they know less. But, since this is not a final exam, there should be no stress – it should be fun!

### **Lifelong Financial Learning**

Of course, reading this book is just the start of a lifelong learning process. The financial world is in constant flux. Today, for instance, we are moving away from currency. The nature of money transactions the 21st century will be very different from what they were in the 20th century. We will need to stay current with this changing financial sphere.

For young people, time is on their side. If they learn the basics of effective money management, keep abreast of new developments and create long-term goals, they will have a good chance of maintaining a comfortable standard of living, realizing their dreams and living a happy life.

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### **How This Book Is Organized**

This book contains over four hundred quiz questions arranged in five levels - \$5, \$10, \$20, \$50 and \$100. Generally, the higher the dollar level, the more difficult the question. For each \$ level, quiz questions are presented on odd-numbered pages and correct answers and relevant content on even-numbered pages.

To add some fun to the learning experience, this book also offers entertaining cartoons, quotations and money trivia. These items effectively reinforce important financial concepts.

The book concludes with a compendium of essential money management advice in the form of tips for teens and parents.

The content in this book is based on two resources:

- the National Standards in K-12 Personal Finance Education (developed by the Jump\$tart Coalition for Personal Financial Literacy – [jumpstart.org](http://jumpstart.org)) and
- Money As You Grow – 20 Things Kids Need to Know to Live Financially Smart Lives (developed by the President’s Advisory Council on Financial Capability – [moneymasougrow.org](http://moneymasougrow.org)).

Money Life\$avers integrates material found in the resources above and elsewhere. It is a handy reference guide to the financial terms and concepts considered most important for young people to understand.

*“Go confidently in the direction of your dreams.  
Live the life you have imagined.”*

— Henry David Thoreau