Financial literacy

lesson 2: SAVING

Learning Objectives

By the end of this lesson, you will be able to…

1. Understand the purpose of having an _____ _____.
2. Explain the three basic reasons for saving money.
3. Understand the benefits of _____ _____.

1

Key terms

- _____ _____: Interest paid on interest previously earned; credited daily, monthly, quarterly (every 3 months) or semiannually (every 6 months)
- _____ ____: Five hundred dollars in readily available cash to be used only in the event of an emergency
- _____ ____: Percentage paid to a lender for the use of borrowed money (in debt); percentage earned on invested principal (in investing)
- _____ ____: Saving money over time for a large purchase

Why is saving important?

unexpected expenses

making large purchases

building wealth
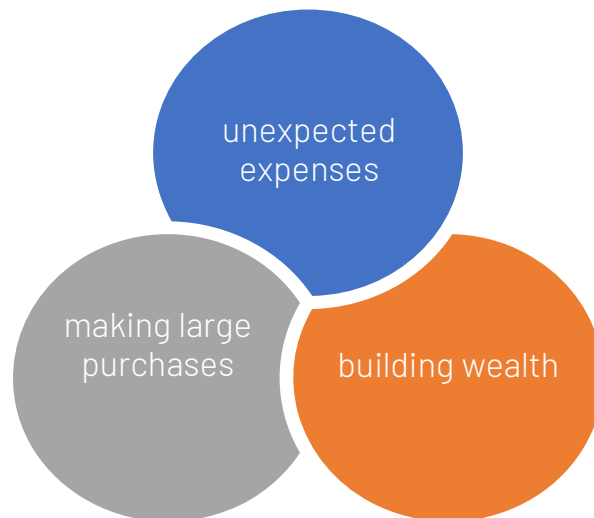
Emergency fund

What is an emergency fund (rainy-day fund)?
➢ An **emergency fund** is money you save in case of an _____ _____.

➢ What are some examples of unexpected/emergency expenses?

Saving for an emergency fund

1. As a high schooler, set a goal of _____ for your emergenc
2. Save a small amount of money each month ($1 is better $0).
3. Keep this money separate from spending money.

Saving for a purchase

- A _____ _____ is a way to save when you know you have a large purchase coming up, like a nice pair of shoes or new tires for your car. You calculate the expected cost of the item and how long you have until you need to purchase it. Divide the total cost of the item by the number of months until the purchase.

EX. New shoes
TOTAL COST = $100
MONTHS UNTIL PURCHASE = 12

$100 ÷ **12** = **$8.33 per month**

Saving for wealth building

- _____ is the key ingredient when it comes to wealth building.
- Building wealth is a **marathon**, not a sprint.

Compound interest

- **Compound interest** is interest paid on interest previously earned.
- Here's an example:
- Take a one-time investment of $1,000 and earn 10% on it. Your interest earned at the end of the year is $100. Add that to your original $1,000, and you have $1,100. At the end of the next year, your $1,100 is compounded at 10% interest, so your return on investment is $110. Add that to the $1,100, and you now have $1,210. Your interest on $1,210 is $121.

Learning check

1. Why is having an emergency fund important?
2. What are the three reasons for saving money?
3. What are the benefits of compound interest?

Journal question

In your journal, please answer the following question:

1. Explain why having an emergency fund is important. What are ways you have saved money or could save money?

Activity: savings account