Course 1: The Basics of Financial Literacy

Income: Gross vs. Net

- **Gross income** is the total amount you earn before deductions (like taxes or health insurance).
- **Net income** is your “take-home pay” — what actually lands in your bank account.

👉 **Quick Example:** If you earn $15/hour at a summer job, and work 30 hours/week, your gross pay is $450. But after taxes and deductions, you might only take home $400 (net income).

By the way, that missing $50 didn’t just disappear — it went to things like taxes and Social Security.

Expenses and Taxes

- **Fixed expenses** stay the same each month (rent, car payment).
- **Variable expenses** change (gas, eating out, clothes).
- **Taxes** reduce your take-home pay: income tax, payroll tax, sales tax, etc.

👉 **Quick Example:** You budget $50 for eating out this month, but end up spending $100. That’s a variable expense creeping over budget.

Budgeting: Needs, Wants, Savings

- **Needs:** Essentials (food, housing, transportation).
- **Wants:** Extras (concert tickets, streaming, sneakers).
- **Savings:** Money set aside for emergencies or future goals.

👉 **Tip:** A common guide is the **50/30/20 rule**:

    - 50% needs
    - 30% wants
    - 20% savings.

Buying on Credit

- **APR (Annual Percentage Rate):** The yearly cost of borrowing money.
- **Minimum payment:** The smallest you can pay, but interest builds up if you don't pay more.
- **Real cost:** That $500 gaming laptop could cost $700+ if paid off slowly with high interest.

👉 **Quick Example:** If you buy a $150 sports jersey of your favorite basketball player on a credit card with 20% APR and only pay the $15 minimum each month, it'll take over a year to pay off — and you'll end up spending closer to $180 for the jersey.

Power of Compound Interest

- **Compound interest** = earning interest on both the money you put in *and* the interest that's already been added.
- The earlier you start saving, the more it snowballs.

👉 **Quick Example:** Save $50/month starting at age 16. By 26, with 7% growth, you'd have around $8,600. Start at 26, and you'd only have about $7,200 by 36 — even though you put in the same amount. Time is the secret weapon.

Time Value of Money

- **Growth potential:** Money grows if invested.
- **Inflation:** Prices rise, so $1 today buys more than $1 in the future.
- **Risk:** Waiting to invest can mean missed opportunities.
- **Present vs. Future Value:** $100 today is worth more than $100 in 10 years because of growth potential and inflation.

Financial Literacy in Action

Story 1: Maria and the Concert Tickets

Maria, a junior in high school, wants to buy $300 tickets to see her favorite band. She puts them on her credit card with a 20% APR and only pays the minimum each month.

By the time the tickets are paid off, she's spent nearly $400. Maria realizes the "real" price of the tickets wasn't $300 — it was much higher because of the interest charged every month.

Story 2: Jayden and the Sneakers

Jayden, a freshman, works part-time at a grocery store and makes about $200 a month. Instead of spending it all, he saves $50 each month in an investment account earning 7%.

After 3 years, he's saved $1,800 and earned about $200 in growth — giving him just over $2,000. That's enough to buy the limited-edition sneakers he's been dreaming of *and* still have money left in savings. Jayden sees how starting early with small amounts pays off big.

Story 3: Sofia and the Rising Lunch Prices

Sofia, a sophomore, remembers when her favorite caramel latte at the coffee shop near school cost $5.75 last year. Now it's $6.75.

At first, it seems like just a dollar more, but Sofia buys three lattes a week. That extra $3 adds up to about $12 more every month, and that's money she could have put toward gas or saving for her senior trip. Inflation — rising prices over time — slowly chips away at her budget, making the same amount of money buy less.

FAQs: Basics of Financial Literacy for Teens

Q: What's the difference between gross and net income?
Gross is your total earnings before taxes; net is what you actually take home.

Q: Why can't I just pay the minimum on my credit card?
You'll pay way more over time because interest keeps building.

Q: What's inflation?
It's when prices rise over time. That's why your grandparents say candy bars used to cost a dime.

Q: How can I start saving now?
Even $10–$20 a month in a savings account builds the habit — and the earlier you start, the more compound interest works for you.

Think About It

1. What's one expense in your life that's a *need* vs. a *want*?
2. If you earned $200 from a weekend job, how much would you save using the 50/30/20 rule?
3. Imagine you bought something on credit and didn't pay it off for a year. How much extra would you pay?
4. Why do you think starting early matters when it comes to investing?
5. How does inflation affect the way you see the value of money today vs. in the future?

Terms to Know

- **Gross Income** – Your total earnings before taxes or deductions.
- **Net Income** – Your "take-home pay" after taxes and deductions.
- **Fixed Expenses** – Costs that stay the same each month (like rent or car payments).
- **Variable Expenses** – Costs that change month to month (like gas, food, entertainment).
- **Needs** – Essentials you must pay for (housing, food, transportation).
- **Wants** – Extras that are nice to have but not essential (concerts, streaming, new shoes).
- **Savings** – Money you set aside for emergencies or future goals.
- **APR (Annual Percentage Rate)** – The yearly cost of borrowing money, shown as a percentage.
- **Minimum Payment** – The smallest amount you must pay on a credit card each month to avoid late fees.
- **Compound Interest** – Interest that builds on both your original money and the interest already earned.
- **Inflation** – The rise in prices over time, which makes money lose some of its buying power.
- **Time Value of Money** – The idea that money today is worth more than the same amount in the future because of growth and inflation.