Year 9 Financial Management

 Revision Booklet

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**Topics to be Revised**

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| --- | --- |
| **Money and Income** | **Borrowing and Investing** |
| * Needs and wants
* Goods and services
* Barter system
* Characteristics of money
* Functions of money
* Types of Income
* Saving
 | * Types of credit
* Concept of risk and return
* Interest
* Investment options
* Sharemarket
* Credit cards
* Loans and debt
 |

1. Match the correct term with the correct definition.

|  |  |  |
| --- | --- | --- |
| a. Wants | These are intangible. They cannot be seen but are provided by other people for you. Eg. Lawn mowing, accountant.  | d.  |
| b. Goods | These are goods that last for a number of years. Eg. Furniture.  | g.  |
| c. Barter | Items we need for survival.  | e.  |
| d. Services | Goods that have a short life span. Eg. Chocolate bar.  | b.  |
| e. Needs | People trading goods of equal or near equal value for another item of equal or near equal value.  | c.  |
| f. Consumer | Items that are referred to as luxuries. They are not essential to survival but help make life more pleasant. These are often unlimited despite money being limited.  | a.  |
| g. Durable Goods | Someone who purchases goods and services to satisfy needs and wants.  | f.  |

1. What are the six (6) characteristics of money?
2. Durable
3. Portable
4. Divisible
5. Hard to forge
6. Scarce
7. Acceptable
8. Identify which functions of money are being demonstrated in the following circumstances.
9. Susan spots an expensive brand of running shoe reduced in sale and hands over one of her credit cards in payment Medium of exchange/deferred payment
10. Jessica want to buy her first car and spends a day comparing prices offered by a number of car dealerships Standard of value
11. Teresa and Kim have just bought a house with their savings of $50,000 and a mortgage of $350,000 Deferred payment
12. Define the term rate of exchange.

Price for which one currency can be purchased with another currency.

1. Amanda is going on holiday to Greece. She changes £600 into Euros. How many Euros will Amanda receive given an exchange rate of 1£ = 1.25 Euros?

600 x 1.25 = 750 Euros

1. On a trip to the USA Neil books into a hotel for 5 nights. The cost of staying in the hotel is USD$ 250 per night. How much would this be in AUD$ for five nights given an exchange rate of 1 USD = 1.5 AUD?

5 x 250 = 1250 USD

1250 x 1.5 = 1875 AUD

1. Sasha has been living in London for 10 years and is returning to Australia for a visit. She changes £1,000 into Australian Dollars.
2. How many Australian Dollars will she receive at 1£ = 1.2 AUD

1000 x 1.2 = 1200 AUD

1. She spends 800 Australian Dollars while in Australia and then changes the rest back. How many Pounds (£) will she receive?

1200 – 800 = 400

400 / 1.2 = 333 Pounds

1. Define the term income and list the two main sources.

Money that is received on a regular basis. Income can be from private or public sources.

1. List the most likely type of income the following individuals are likely to earn.
2. Real Estate Agent Commission
3. Landlord Rent
4. Teacher Salary
5. Accountant Salary
6. Long-term deposit account holder Interest
7. A car salesperson Commission
8. An elderly person Pension
9. A part-time waitress Wage
10. A music band Royalty
11. A business owner Profit
12. A university student Allowance
13. A car salesperson earns 2% commission on the value of each car that they sell. If they sell three cars worth $25,000 each, how much commission will they receive?

25,000 x 0.02 = 500

500 x 3 = $1,500

1. Explain the difference between a transaction account and a term deposit account.

A transaction account is an account with a financial institution for everyday access to money. A term deposit account is an account with a financial institution in which money is deposited for a fixed period earning a set interest rate. A penalty applies for withdrawal.

1. How long will it take you to double your money if the interest rate is 4.5%?

72/4.5 = 16 years

1. Explain the concept of compound interest.

Interest earned on the initial principal plus accumulated interest.

1. Explain what cash flow is.

Cash flow is the movement of money in and out. Cash flow can be positive, negative or zero.

1. Calculate whether in the following situation the cash flow is positive, negative or zero.

Income from wages = $1,000

Phone Expense = $60

Rent Expense = $350

Food Expense = $150

Other Expenses = $250

Income = $1000

Expenses = $60 + $350 + $150 + $250 = $810

Cash flow = $1000 - $810 = $190

1. In general describe the relationship between risk and rate of return.

The higher the risk, the higher the return.

1. What is the difference between a Bull Market and a Bear Market?

A bull market is a market on an upward trend.

A bear market is a market on the downward trend.

1. Match the following term with its definition.

|  |  |  |
| --- | --- | --- |
| a. Dividend | A risk management strategy that mixes a wide variety of investments within a portfolio.  | b.  |
| b. Diversification | A market where investors purchase securities or assets from other investors, rather than from issuing companies themselves. | f.  |
| c. Sharemarket  | The capital market that deals with issuing of new securities. | e.  |
| d. Shareholder | Company profits paid to shareholders, either in cash or in more shares.  | a.  |
| e. Primary Market | A market for trading shares in listed companies.  | c.  |
| f. Secondary Market  | An individual or firm that owns shares in a company.  | d.  |

1. List and describe two factors that can influence a company’s share price.

Company performance – if a company is performing well then its share price will increase.

Company management – if a company has a strong, experienced and stable management then its share price will increase.

Other factors include takeovers and technological innovation.

1. List and describe two factors that can influence the overall sharemarket.

Interest rates – increase in interest rates makes borrowing more expensive for companies and investors to invest.

Exchange rates – increase in exchange rates makes it more expensive to invest.

Other factors include government policies, commodity prices and other financial markets and economies.

1. a) James purchased 2,000 NAB shares which were trading at $25.78 per share. Calculate the total cost of NAB shares.

2000 x $25.78 = $51,560

b) James later sold the shares when they reached a price of $27.16. Calculate the total amount James received and his total profit.

2000 x $27.16 = $54,320

Profit = $54,320 - $51,560

1. Define the term credit.

Credit is an agreement in which you receive goods and services now and pay for it later generally with interest.

1. List and briefly describe the four main types of credit.

a) Mortgage – specific loan to purchase property. Term of the mortgage between 20-30 years with lower than average interest rate. Secured by property.

b) Credit card – short term finance allowing borrower to borrow up to a maximum amount (credit limit).

c) Personal loan – used for specific purposes. Agreed period of time to repay amount.

1. Overdraft – allowance by a financial institution to spend more than what is currently in your account.
2. Complete the following table:

|  |  |
| --- | --- |
| **Advantages of Credit** | **Disadvantages of Credit**  |
| * Immediate satisfaction – buy now, pay later
* Convenient
* Potential rewards
* Helpful in emergency situations
 | * Interest
* Loss of control – debt
* Additional costs. Eg. Fees
 |

1. List and describe the ‘three C’s’ with regard to applying for credit.

Character – details your credit history including loan repayments

Capacity – your ability to repay a loan

Capital – assets used to secure loan. Provide a guarantee.

1. Using the formula, I (simple interest) = P (principal) x R (interest rate) x T (# of years), calculate the total cost of a new motorcycle which is priced at $12,000 at 6% for 3 years.

I = 12000 x 0.06 x 3 = $2160

 $12,000 + $2,160 = $14,160

1. Explain the difference between a debit and credit card.

A debit card is a payment card that deducts money from your bank account when purchases are made. A credit card is a payment card on which purchases are accumulated which you are required to pay back at a later date.

1. State whether a debit or credit card was used in the following situations.

|  |  |
| --- | --- |
| Situation  | Type of card |
| Your dog has to go to the vet for a vaccination. Your mum pays with a card. The cost of the visit to the vet shows up on her monthly bill. | Credit  |
| You got the lead in the school play. Your mum stops at the ATM to get $50 from her savings account then takes you to the fabric store to get supplies to make your costume. | Debit  |
| Your family car is hit by someone talking on a mobile phone while driving. Fortunately no one is seriously hurt, but the car has some serious damage. Your mum pays for the repairs with a card. She says, “I sure hope the insurance company pays us soon so we can pay the bill when it comes. I’d hate to have to pay interest on this bill!” | Credit  |

1. If the APR is 30% what is the monthly interest percentage?

30 / 12 = 2.5%

1. Using the previous balance method, compute the monthly rate and interest.

|  |  |  |  |
| --- | --- | --- | --- |
| Previous Balance APR  | APR | Monthly Rate  | Interest  |
| $530.50 | 18% | 1.5% | $7.96 |
| $380.60  | 22% | 1.83% | $6.96 |
| $335.90  | 12.2% | 1.02% | $3.43  |

1. Peter has a monthly income of $640. He pays $120 per month for rent. He has a car payment of $125 per month. Peter wants to buy new tyres for his car. The total cost of the new tires is $420. If he uses credit to pay for the tyres, his minimum monthly payment will be $40. If Peter buys the tyres, what percentage of his income, after rent, will he have committed to debt payments?

$640 - $120 = $520

$125 + $40 = $165

165 / 520 = 32%

1. Explain what a payday loan is.

A payday loan is a short term loan at a very high interest rate which is repaid when the borrower receives their next income payment.