

FINANCIAL GLOSSARY adapted from www.Scholastic.com

Bank

A financial institution that accepts deposits and withdrawals of money. There are two kinds of banks:

- **Commercial Bank:** A traditional bank that provides services such as checking and savings accounts, credit cards, and home and auto loans.
- **Investment Bank:** A bank that specializes in services for companies rather than individuals. An investment bank sells and manages stocks and bonds. It also assists when two companies merge, or join together.

Bonds

Certificates sold by companies or governments in order to raise money. Bonds are issued for a specific amount of time. The government or company that sold the bond must pay interest to the buyer during that time. Here's an example: Let's say a city needs to raise money to build a new bridge. It decides to sell ten-year bonds to the public to get the necessary cash. If you were buying one of those bonds, you would pay a price known as the face value. The city would promise to pay you back in ten years. Every year for ten years, the city would pay you interest on the bond. When the ten years were up, you would get back the face value you spent at the very beginning.

Checking Account

A bank account where money is kept so the owner can write checks. A check is a piece of paper that tells a bank to pay the holder a certain amount of money. If your aunt gives you a check for \$10 for your birthday, you would bring the check to bank to cash it in. The bank would take \$10 from your aunt's account and give it to you.

Credit

The ability to borrow money. For example, one type of credit is a bank loan. A person might borrow money from a bank for a specific item, like a new house or car. Another type of credit is a credit card. When a person has a credit card, the bank or credit card company has agreed to lend that person a certain amount of money over time. The person can borrow small sums of money at a time by putting purchases on the credit card. In both types of credit, a person is expected to pay back a minimum amount each month. The person must also pay a fee called interest (see "**Interest**"). When a person makes payments on

time, he or she has what is known as a good credit history. A person with a bad credit history will usually find it hard to get additional credit in the future.

In the current economic crisis, credit is a big problem. Banks and stores were giving people a lot of credit. Now there is not as much money to loan out.

Debt

Money owed, usually as a result of borrowing. If someone borrows \$18,000 to buy a new car, they have an \$18,000 debt. There are two main kinds of debt:

- **National Debt:** The amount of money a country owes. The U.S. national debt is a whopping \$10 trillion! It is the highest national debt in the world. The U.S. owes about half of that money to individuals, companies, and foreign governments who have bought bonds and other investments from the U.S. Treasury. (If you have a savings bond, then some of that debt is owed to you!) It owes the rest to itself. That's because the government sometimes spends money that it does not actually have.

- **Personal Debt:** The amount of money an individual person owes.

Depression

A long period during which the economy is poor and many people are without jobs. During an economic depression, spending by consumers, businesses, and the government goes down significantly. The most serious depression in U.S. history was the Great Depression. (See "**Great Depression**" for details).

Dow Jones Industrial Average

An indicator of how the stock market is performing. It is based on the stocks of 30 well-known companies, including General Motors, McDonalds, Microsoft, and Disney. When the value of these stocks goes up, the "Dow" goes up, too. The Dow Jones Industrial Average goes up or down every day.

Economy

The way a country manages its money and resources (such as workers and land) to produce, buy, and sell goods and services. Goods are products like cars, computers, or even corn. Services are duties performed by one person for another, such as teaching and transportation. The United States has a free-market economy. That means people can freely buy and trade goods and services. The price of each good or service is determined not by the government but by demand. Demand is a measure of how many people want to

buy a particular good or service.

In a healthy economy, demand for goods and services is high. Businesses flourish as they work to keep up with that demand. In a weak economy, demand is low and businesses suffer.

FDIC (Federal Deposit Insurance Corporation)

The government agency that insures bank deposits. Let's say a bank has 100 customers who each deposit \$3,000. The bank is allowed to use a percentage of those deposits to make loans and conduct everyday business. But if all 100 customers want to withdraw all of their money at once, the bank must be able to produce the cash. What happens if the bank does not have enough money on hand to do that? If the bank is insured by the FDIC, the FDIC will step in and make sure the customers get their money. In order to be insured by the FDIC, a bank must show that it is operating fairly and obeying all banking laws. Right now, the FDIC insures every bank depositor for up to \$250,000.

The FDIC has its roots in the Great Depression. At the start of the Depression, people panicked when they heard that the economy was failing. They rushed to the banks to withdraw their savings. In many cases, banks did not have enough money on hand to give the customers. The FDIC was created in 1933 to protect bank customers from similar situations in the future.

Federal Reserve

Often called "The Fed" for short, the Federal Reserve is America's central bank. But everyday people can't open an account there. The Fed is a bank used only by other banks and by the federal government. The Fed controls the amount of money in the economy and helps to determine how high or low interest rates will be. It creates rules for the banking industry to make sure that banks are safe places for people to keep their money.

Foreclosure

A process in which homeowners lose their property because they have failed to make mortgage payments. Homeowners often borrow money from a bank to pay for their new home. (See "**Mortgage**"). They are expected to repay part of that money each month. If they fail to make the monthly payment, they might first receive a warning from the bank. When they miss many payments and have not worked out an agreement with the bank, the house might go into foreclosure. That means it becomes the property of the bank.

Great Depression

The most serious economic depression in U.S. history. It began in October 1929 when the American stock market dropped suddenly, or "crashed." Most stocks became worthless, causing investors to lose huge sums of money. Immediately after the crash, business slowed and many banks, stores, and factories shut down. Millions of people lost their jobs, homes, and savings. Many of them depended on charity and government aid to put food on their tables. The Great Depression was so severe, it impacted the economies of nations around the globe. It lasted about a decade, ending when the U.S. prepared to enter World War II. (Our involvement in the war created many defense-related jobs.)

Interest

The fee for using someone else's money. For example, if a person borrows money from a bank to pay for college, he or she pays back the amount borrowed plus interest. On the other hand, if a person deposits money in a bank savings account, he or she gets to collect interest from the bank. The bank is allowed to use the person's money temporarily. In return, it must pay the customer interest. Interest is almost always calculated as a percentage or rate. (See "**Interest Rate**").

Interest Rate

The percentage at which interest is charged or paid. For example, imagine that you borrow \$100 at an annual interest rate of 4%. At the end of one year, you will owe \$104. You calculate the interest by converting the percentage to a decimal, then multiplying it by the amount borrowed:

$$.04 \times 100 = 4.00$$

Sometimes interest is added on every day or every month, but it is basically calculated the same way.

Investment

Anything that is purchased with the hope that it will generate income or be more valuable at a future date. Some investments are "sure things." For example, a bar of gold will almost definitely be worth more in ten years than it is now. A savings bond will definitely be worth more in the future, because it is guaranteed by the government. Other investments are more risky. That means there is a chance that they become less valuable, instead of more valuable, over time. Stocks are one example. (See "Stocks" for details.)

Layoff

The loss of a job when a company cuts costs. For example, one car maker had to lay off

hundreds of employees last spring. Why? The car maker had not been doing very well. Because of high fuel prices, customers were not buying SUVs and other big cars. To survive in this economy, the car maker had to lay off some of its employees. The company will save money because it no longer has to pay those workers.

Loan/Lend

Money borrowed from a bank. People take loans in order to pay for new homes, new cars, college tuition, home improvements, and other things. Companies often take loans in order to expand their business (for example, a restaurant owner might borrow money in order to open another restaurant). Banks are willing to lend money to people and businesses because they expect to get back the amount of the loan plus a fee called interest. (See "**Interest**"). Collecting interest is how banks stay in business.

Wall Street versus Main Street

Wall Street is a bustling street in New York City. It is the heart of New York's financial district, the place where stocks are traded and important business decisions are made. However, when people talk about Wall Street in today's economic crisis, they usually do not mean the actual place. They use the phrase "Wall Street" to stand for big businesses and high-powered investors.

Main Street might be real place in your town. Thousands of towns and cities across the country have a Main Street. But when people talk about Main Street in discussions about the economy, they do not usually mean a real street. They use "Main Street" to stand for everyday people and small businesses.

Lately, you may have heard the expression "Wall Street versus Main Street." This sounds like a conflict, and in some ways it is. That's because many people feel that decisions made by big investors have been hurting everyday Americans. Many people criticized the Bailout Bill (see "Bailout Bill"), saying it does more to help big business and investors than everyday people.

Mortgage

A loan that is used to buy a house. In the past, many home buyers had to work hard to get a mortgage loan. They had to prove to the bank that they earned enough money to pay for the house over time. But over the past few years, getting a mortgage loan became easier and easier. Banks were eager to give loans, and homebuyers were eager to get them. In many cases, buyers were given mortgage loans that they could not afford to pay back. This was one reason for the current economic crisis. (See "Bailout Bill.")

Recession

A drop in economic growth that lasts at least six months. During a recession, businesses sell fewer goods and services. Once a recession becomes severe (with total sales of goods and services down by more than 10% for a long period of time), a recession can be described as a depression. (See "**Depression**").

Regulations

Rules of conduct for banks, stock markets, and other financial institutions. Regulations are passed by the government and its agencies. For example, the Securities and Exchange Commission is responsible for making rules about the stock market (see "**Stock Market**"). One rule says that any company that sells stock must publish reports about how the company is performing. Regulations like this one are meant to keep our financial system operating fairly.

Savings Account

A bank account where money is kept so that it can grow. When a person opens a savings account, he or she can deposit money into the account or withdraw money from the account. Money that is in the account earns interest from the bank. That is, the bank pays the account holder a small fee. This fee is calculated as a percentage of the money in the account. For example, a bank might offer its savings account holders 3% interest.

Stock

An ownership interest in a company. Stocks are sold by companies to raise money. When a person buys stock in a company, he or she owns a tiny part of that company. When a company is doing well (that is, selling a lot of goods or services and making a lot of money), the value of the company goes up. The price of the company's stock goes up, too. Then, a stockholder can sell his or stock and make a profit. When many stock prices stay low for a long time, it is a sign of a weak economy.

Stock Market

A place where stocks, or part-ownerships in companies, are bought and sold (see "**Stock**"). The famous New York Stock Exchange(NYSE) is the biggest stock market in this country. There, people can buy or sell stocks in more than 2,000 different companies. If a person wants to buy or sell stock in a company, he or she can go to the exchange. Or, he or she can call a stock broker, a person whose job it is to buy and sell stocks.

Taxes

Taxes are the main way people pay for their government. One kind of tax is the **income tax**. Every year, workers pay a sizeable percentage of their income, or salary, to the nation's government and to the government of the state where they live. Another kind of tax is a **sales tax**. In 45 of the 50 states, people pay a few extra cents for each dollar that they spend in a store. The extra cash goes to the state government. Income taxes and sales taxes help the government pay for things like roads, schools, and the armed forces. However, many Americans argue that taxes are too high.

Treasury Department

The part of the federal government that manages the nation's money. Once the President and Congress agree on a budget for the nation, it is up to the Treasury to raise enough money for the items on the budget and then oversee the spending. One way the Treasury raises money is by collecting taxes from people and businesses. Another way is by selling savings bonds and notes to investors. (Have you ever received a U.S. Savings bond? Those are sold by the U.S. Treasury.). The Treasury Department is very large. It has 12 sections, or "bureaus." One is the U.S. Mint, which prints all U.S. money. Another is the Internal Revenue Service, which collects taxes.

Unemployment

The unemployment rate is the percentage of Americans who are out of work and looking for jobs. High unemployment rates are a sign of a weak economy. In January 2009, the unemployment rate was 7.6%. That means more than 7 out of every 100 workers needed jobs. During the Great Depression, the unemployment rate reached almost 25%.

Unemployment Benefits

If a person is out of work and has lived in his or her state for at least a year, he or she can collect some money from the state government. This money is meant to help the person get by until he or she finds a job. Unemployment benefits are based on how much money the person used to earn. Usually, it is about 1/3 of the person's previous pay. The funding for unemployment compensation comes from tax money.

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