

**GOALS**

- Describe how the economy can affect prices and income.
- Discuss the costs of and options for higher education and post-secondary training.
- Explain how to pay for college and other education programs.

**KEY TERMS**

- economy, p. 11
- market economy, p. 11
- demand, p. 11
- supply, p. 11
- business cycle, p. 12
- tuition, p. 13
- financial aid, p. 16
- grant, p. 16
- subsidized student loan, p. 17
- scholarship, p. 17
- ethics, p. 18

**What Is the Economy?**

Regardless of where you live, you are affected by the economy. The **economy** refers to all of the activities related to making and distributing goods and services in a geographic area or country. An *economist* is a person who studies the economy. *Economics* is a study of how choices are made by individuals and societies.

The study of economics is also said to be the study of *scarcity*, which occurs because people's needs and wants are unlimited, while resources are limited. For example, resources, such as a person's income or the materials needed to produce products, are limited. Because these resources are scarce, businesses and individuals must make choices to meet needs and wants.

As an individual, you are faced with many choices. As you consider what to do and how to prepare for your future, you must also consider the economy. The economy will affect your income, and your income will affect the choices you make.

**economy** all of the activities related to making and distributing goods and services in a geographic area or country

**THE ECONOMY AFFECTS PRICES**

The United States has a **market economy**, which is based on the laws of supply and demand. In a market economy, the price for an item is set at a point that consumers are willing to pay and sellers are willing to accept. In other words, sellers charge what the market will bear. Producers wish to increase their profits. Consumers wish to get high value for each dollar spent. The willingness and ability of consumers to buy goods and services is called **demand**. The quantity of goods and services that producers are willing and able to provide is called **supply**. When demand exceeds supply, businesses can charge higher prices for the products. These prices affect your decisions on which items to buy as you spend your income. The market economy works well because both consumers and producers are acting in their own best interests.

**market economy** an economy based on the laws of supply and demand

**demand** the willingness and ability of consumers to buy goods and services

**supply** the quantity of goods and services that producers are willing and able to provide

**THE ECONOMY AFFECTS INCOME**

For many people, their main source of income is wages (hourly pay) or monthly salary. If you choose to work in a career field that is growing

and in a job that is in demand, you will likely be able to earn a good income. The money earned allows workers to meet basic needs and other goals.

When the economy is growing, people are buying goods and services. Jobs are being created, and businesses are hiring workers. Employers are more likely to give pay raises and bonuses to employees. Finding and keeping a job that will provide financial security is easier in a growing economy.

On the other hand, when the economy is slowing, people often buy fewer goods and services. The lower demand for goods and services may mean that businesses are not growing. Workers may be laid off or dismissed from their jobs and are less likely to receive pay increases. Fewer new workers are hired. Finding and keeping a job can be more difficult in a slowing economy.

When the demand for products or services that are produced by your employer is very low, your job may be in danger. When faced with this situation, some people decide to prepare for a new career field. This process is called *retraining*. Others will spend weeks or months pursuing job openings for which their skills and education may not be good matches. They may or may not find a new job without getting new training.

Understanding how the economy affects prices of products, the job market, and your income can help you make better financial decisions.

**business cycle** the alternating periods of growth and decline in the economy

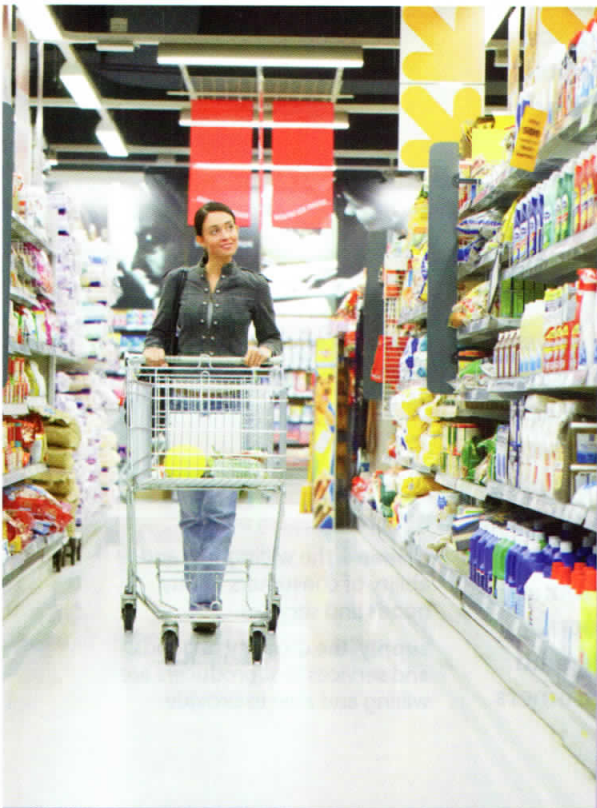
## THE ECONOMY IN ACTION

The **business cycle** is the alternating periods of growth and decline in the economy, which may be displayed graphically as shown in Figure 1-2.1. Over time, there are many ups and downs that are certain to happen. It is important to understand what each point in the cycle means and how you should prepare and respond to it. Should you buy or sell? What strategies can you use to make better choices?

Figure 1-2.1 shows the four stages of a business cycle: recovery (growth), peak, recession (decline), and trough. During periods of *recovery*, the economy is growing. People are spending money because they are optimistic and times are good. Businesses are hiring, and factories are increasing production of goods. Rather than spending, now is the time to save money.

It is difficult to know when the economy has reached its *peak*, which is the point at which the economy is as robust as it can get. At this point, prices are high because demand is high.

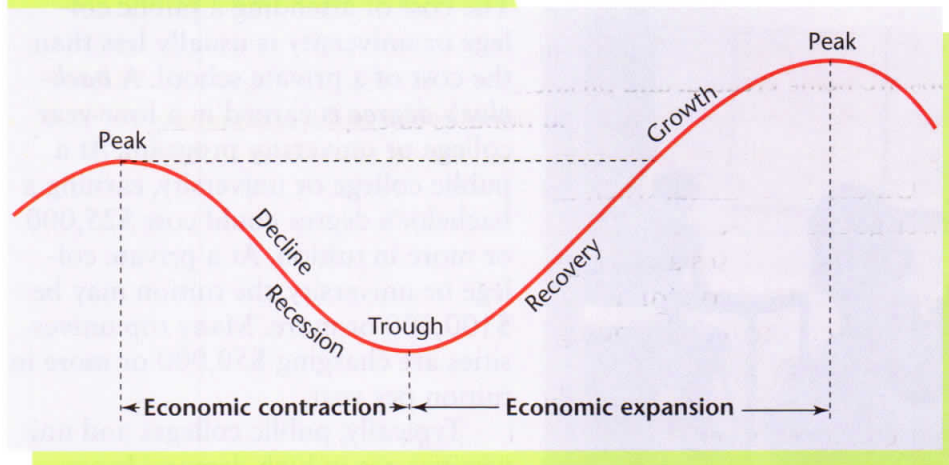
When people slow their buying and are unable to pay high prices, the economy slips into an *economic decline*, called a *recession*. In a recession, jobs are being lost, production is slowing, and people are pessimistic. As people spend less money, the economy slows down even more. It's during economic declines that the money you saved



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How does the economy affect your spending habits?

Figure 1-2.1 The Business Cycle



during the growth phase can buy you the most. You will get the best prices (values) because you have the cash to spend.

When the bottom is reached, called the *trough*, the economy is at a standstill. The trough remains until people start spending again, businesses start hiring workers, and production of goods once again begins to increase. You'll recognize the end of a trough when people are feeling optimistic again and businesses are hiring workers.

You need to be able to recognize these stages and determine what you can expect the economy to do next. Business cycles happen consistently over time. Based on your own analysis, you will make better choices. Your choices will allow you to spend money when you can get the greatest value and to save money for the bad times.

### CHECKPOINT ▶▶▶

Explain how the economy affects the amount of income you will make.

## What Are the Costs of Education?

One of the first choices you need to consider is how to prepare for the career you wish to pursue. For many people, this means investing both time and money in an education. **Tuition** is the expense paid by students for the instruction at a school. Students must pay for textbooks and meet other expenses that are not covered in tuition. **Fees** are charged to cover special expenses of education programs, such as technology, specialized equipment, or supplies. Money is also needed for living expenses such as food, rent, clothing, and transportation. Some schools have housing for students. At other schools, students must find housing on their own. Typically, students want to live near the school. Rent and other costs may be higher in those areas.

**tuition** the expense paid by students for the instruction at a school

## PUBLIC OR PRIVATE EDUCATION

The cost of attending a public college or university is usually less than the cost of a private school. A *bachelor's degree* is earned in a four-year college or university program. At a public college or university, earning a bachelor's degree could cost \$25,000 or more in tuition. At a private college or university, the tuition may be \$100,000 or more. Many top universities are charging \$50,000 or more in tuition per year.

Typically, public colleges and universities are in high demand because tuition is less expensive. Tuition is less at public schools because they are also supported by state tax dollars. It may be easier to gain admittance to a private college because enrollment is lower. You are likely to find smaller

classes and more personalized attention at a private college. You should check out private schools carefully to be sure they offer the same or better quality programs, degrees, and class offerings as found in public schools. A college or university is *accredited* when it is certified to meet educational quality standards.

You will need to do well in high school and achieve a good score on the SAT or ACT tests to ensure acceptance by a college or university. These tests indicate how well you are prepared for college-level classes. They measure your reading and comprehension skills, along with vocabulary, math, and English skills.

Many students find it desirable (and less expensive) to attend community colleges. An *associate's degree* is commonly earned at community colleges after two years of study. Admission tests aren't required for



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## Focus On...

### STUDENT ORGANIZATIONS

Students in high school and college may join career-related organizations. One such organization for business students in junior high and high school is FBLA (Future Business Leaders of America). The college level of this organization is Phi Beta Lambda. Another group, the Future Educators Association (FEA), provides opportunities for high school students to explore careers in education. The National FFA Organization is for students interested in careers in agriculture. These are just a few of the many student organizations that may be available to you. Being a member of a student organization provides opportunities for students to:

- Explore careers of interest.
- Ask questions of people who are working in the career area.
- Take part in conferences to learn more about careers in those areas.
- Compete with other students to demonstrate skills learned.

- Apply for scholarships, grants, and other forms of financial aid.
- Learn about continuing education in the field.
- Take part in community service activities.
- Network and form friendships with others who have similar interests.

Student organizations usually have bylaws (rules). These bylaws outline the club's purpose and structure. The costs and requirements for membership in the group are also given. Many student organizations provide information about their goals and activities on a website.

#### Try It Out

Search the Internet using the keyword *student organization* and a career area (such as *nursing*) to find groups that interest you. Write a one-page report describing one of the student organizations and why it appeals to you.

community colleges, and typically, tuition costs are half or less of what you would pay at public colleges and universities.

## CAREER AND TECHNICAL SCHOOLS

Career and technical schools teach specific skills. These schools may be public or private. The tuition for public schools is often less than for private schools. Public technical programs often cost \$5,000 or less in tuition. Private programs usually cost two or three times as much. The completion time for career and technical school programs is often less than for college programs. Typical career and technical school programs last a few months to a year or more. Books must be paid for, along with living expenses. Students are also responsible for fees and other charges.

## GRADUATE AND ADVANCED PROGRAMS

Some jobs require advanced training. For example, a medical doctor needs advanced training beyond a four-year college degree before he or she can practice medicine. Some jobs also require that you update skills

as you continue working. If advanced degrees are needed in the job you choose, you should consider their cost.

A *master's degree* is a graduate degree (beyond a bachelor's degree). It usually requires one to three years of additional study. The time needed depends on your background and the type of degree. A *doctorate degree* requires three to seven years of study beyond a master's degree in the same field. The course of study often requires doing research. Some programs require internships or have residency requirements. *Residency* means that classes must be taken in person on campus or at a specific facility, such as at a hospital for medical training. Tuition is higher at the graduate level. A graduate degree may cost \$25,000 or more at a public school and \$60,000 or more at a private school.

## CHECKPOINT ▶ ▶ ▶

What is the SAT and why is it important?

## How Will You Pay for Education and Training?

When you choose to pursue formal education and training, you must consider ways to pay the cost. Do you or your parents have the money needed? Will you be able to get grants or scholarships? Do you qualify for financial aid? Will you work part time to earn money as you attend classes? These options and others may be available to you.

### LOANS AND GRANTS

**financial aid** money you receive from an outside source to help pay for education

**grant** money given to pay for educational expenses that does not have to be repaid

**Financial aid** is money you receive from some outside source to help pay for education. Loans and grants are available from a variety of sources, including the federal government, local banks, and other lenders. A loan is money that you borrow and must repay. A **grant** is money given to pay for educational expenses that does not have to be repaid. The federal government gives Pell Grants based on need; many states also provide need-based grants to their resident students.

The government's Federal Student Aid Office can assist you in finding resources. It provides a form called *FAFSA (Free Application for Federal Student Aid)*, which may be completed and submitted entirely online. For those under 23 years of age, parents must disclose their income and assets. *Assets* are money or things of value that are owned, such as a savings account, house, or car. The student's income and assets are also considered. If you are able to show that you need financial aid, then you will be eligible to receive grants and/or loans.

*Interest* is money paid for the use of borrowed money. In the case of a student loan, interest is the money the student pays the lender in

addition to the amount borrowed. Interest may be considered the cost of borrowing money. Interest charged on student loans is usually much lower than for other types of loans. A **subsidized student loan** is a loan on which interest is not charged until after you graduate. With an *unsubsidized loan*, interest is charged from the time the loan is made. With both types of loans, you do not have to begin repaying the loan until you graduate from college.

**subsidized student loan** a loan on which interest is not charged until the student graduates

## PRIVATE STUDENT LOANS

Some private lenders, such as banks and credit unions, make loans to students. These loans typically have higher interest rates than loans from the government. These loans are *unsubsidized*, meaning that interest is charged from the time you take out the loan. Private loans require that you have income and a good credit history. If your income is too high to qualify for federal financial aid, a private student loan may be a good option for you. You will need to fill out an application for the loan. You may need to show tax returns and proof of income.

## SCHOLARSHIPS

A **scholarship** is a gift of money or other aid (free tuition or books) awarded to a student to help pay for education. Scholarships may be available to students with high grades, strong athletic skills, or high test scores. Many scholarships are given based on need. Scholarships are available from local, state, and national organizations, including the federal government. Money from scholarships generally is not taxable.

**scholarship** a gift of money or other aid awarded to a student to help pay for education



Scholarships vary in amounts. A *partial scholarship* may be given to pay for some educational costs. A *full scholarship* covers the entire tuition for a degree. To learn about scholarships for which you can apply, talk to a teacher or counselor. The Admissions or Financial Aid Office of the college you wish to attend can also provide information on scholarships that may be available. Search the Internet using the keyword *scholarships* to find other sources.

*Why should you consider how you will pay for your college or post-secondary education?*

## WORK-STUDY PROGRAMS

Both public and private colleges and universities (including technical schools and community colleges) have *work-study programs*. Students who are qualified are able to work on campus and are paid at contracted rates. Money received from the work reduces the amount of loans that must be repaid. To qualify for work-study, you must meet income

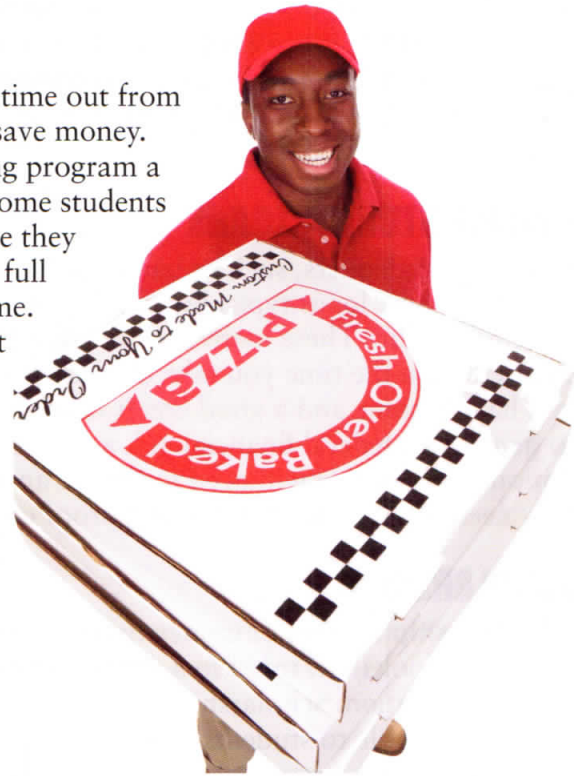
requirements. You must also have the specific skills needed to do the job tasks that are assigned.

## WORK AND SAVE

Some students decide to take time out from their education to work and save money. They start college or a training program a few years after high school. Some students continue their education while they work part time. Others work full time and take courses part time. This often means taking night classes or online classes.

These paths take a longer period of time to complete. However, a benefit may be the job experience students will gain as they work to pay for their education. Another benefit to students is being able to avoid the burden of a large student loan debt from financing their education.

Unfortunately, going to school part time will often delay graduation for several years. This means it will take longer to enter the job market with your degree. Also, by attending school part time, students may miss out on college activities, clubs, study groups, and other events that are a part of a college education.



*Would you be willing to work while you are attending college classes? Why or why not?*

## ETHICAL CONSIDERATIONS WHEN APPLYING FOR AID

When writing scholarship applications or applying for financial aid, many people are less than truthful. It's a better idea not to exaggerate or give information that will create false impressions. Doing so is not ethical.

**Ethics** refers to a set of moral values that people consider acceptable. The term is also applied to the study of what is right versus wrong. Being fair and honest in your dealings with others is considered ethical behavior.

Always be truthful when completing forms. Fill in all the blanks and boxes on the form. Use *N/A* if the information is *not available* or *not applicable*. Print data clearly. When possible, download the document to your computer and key the information into the form. Double-check the data you have entered. Make sure the information is clear, complete, correct, and truthful.

**ethics** a set of moral values that people consider acceptable; the study of what is right versus wrong

### CHECKPOINT ▶▶▶

How is a loan different from a grant?