

Handy Dandy Guide

To the Economic Way of Thinking

ECONOMICS is a SYSTEM for MAKING CHOICES!

People choose. People choose the alternative which seems best to them because it involves the best combination of costs and benefits.

All choices involve costs. Costs are the choices people give up when they make their best final choice.

People respond to incentives in predictable ways. Incentives are actions or rewards that encourage people to act. When incentives change, people's behavior changes in predictable ways.

People gain when they trade voluntarily. People can produce more in less time by concentrating on what they do best. The surplus goods or services they produce can be traded to obtain other valuable goods or services.

People's choices have consequences which lie in the future. The important costs and benefits in economic decision making are those which will appear in the future. Economic reasoning stresses making decisions about the future because it is only the future that we can influence.

We cannot influence things that have happened in the past.

Six Literacy Skills Kids Need To Know

How to manage a cash allowance Give your kids a specific allowance, and let them decide how to spend real money. It's very concrete. Plastic is not real to them.

How to manage a checking account and an ATM or debit card Set up a checking account for your teens before they go to college, preferably when they start a part-time job. They will have a place to deposit paychecks, keep records, and they'll learn how to manage an account.

How to save for a goal/"Saving Makes Us Wait" This is a lesson in delayed gratification. Kids have to decide how much they will spend for a desired item, consider how to get the money to pay for it, and calculate how long it will take to get the money. When kids pay for their own possessions, they are more likely to take care of and value them.

How to figure the time value of money Compute how long it would take to be a millionaire or to save up for a new bike. Herein lies the beauty of compounded interest.

How to get out of debt (or not get into it) Here is an eye-opening exercise to help kids learn about the pitfalls of credit: If you pay \$50 a month toward a \$2000 credit card balance at 18% interest, it will take 62 months and cost an additional \$1,077 in interest to pay it off.

How to compare prices Show your kids unit pricing at the supermarket, do blind taste tests comparing cheaper items with name brands, compare items from popular to less expensive labels.

Excerpted in part from Pittsburgh Magazine, April 2006 and Raising Money Smart Kids by Janet Bodnar