Principles and Precepts of Economics

This chapter requires a companion activity book in which students respond to questions on text content. Answers are found in the Teacher's Resource Kit.



Chapter 3 Text

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CHAPTER 3
TABLE OF CONTENTS



Section 1:
Family Economics

Topic 1 1-5
Budgets

Topic 2 6-10
Banking

Topic 3 11-15
Insurance

Topic 4 16-20
Investing

Topic 5 21-24
Governmanet Considerations



Section 2:
Starting a Small Business

Topic 6 25-29
Freedom vs. Punching a Clock

Topic 7 30-33
Personal Interest + Demand = Profit

Topic 8 34-37
Resources (Help is Available)

Topic 9 38-41
Profit and Loss

Topic 10 42-44
Use it Wisely



Section 3:
Education and Economics

Topic 11 45-48
Considerations

Topic 12 49-53
College

Topic 13 54-57
Trade Schools

Topic 14 58-62
Military Service

Topic 15 63-66
Other Options

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Principles and Precepts of Economics



Topic 1
Budgets

Chapter 3



Section One
Family Economics



In this chapter, you will learn how to apply many of the concepts you have learned about economics to your personal circumstances. You will be much better equipped for success in life by using sound economic principles based upon absolute truth.

One of the most important concepts you can learn regarding personal economics is *budgeting*. Budgets enable people to manage their financial resources wisely. In its simplest form, a budget is keeping track of income and expenses in an orderly fashion. This requires careful record keeping.

Understanding income is fairly straightforward. You work to earn wages. That is your *gross income*. Money left after taxes are paid is your *net income*. Federal and state income taxes must be paid. In addition, ***Social Security*** taxes and ***Medicaid*** taxes are withheld from your paycheck. All of those taxes are usually withheld from your earnings automatically by your employer. If you own a home, you will have to pay *property* taxes. In most parts of the country, property taxes can amount to thousands of dollars every year, and that expense must be factored into your budget. Other, less obvious taxes impact your spending power. *Utility* taxes, include taxes on your electric usage, phone usage, and other utilities. *Sales* taxes are paid on items purchased at stores and online. In some places, sales taxes exceed 10% of the purchase price! When making a budget, determine your net earnings, since that is the only money that is really available to you after taxes are paid.

Understanding expenses is a bit more difficult, because you must keep track of all purchases. The best thing you can do is *make*



Social Security: government program for old-age assistance
Medicaid: government welfare program

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a list of your monthly expenses, and keep track of when each bill is due. You will want to get into the habit of paying bills a couple of weeks before they are actually due. If you develop that habit, then when you encounter a budget ***shortfall***, you will have extra time to figure out how to obtain needed funds. The best policy is to avoid debt by not purchasing non-essential items on time-payment plans.



Some examples of monthly expenses include: food, rent, utilities (electric, heating fuel, and phone bills), transportation expenses (car payment, car insurance, fuel), health insurance, and any other item billed on a monthly basis. Healthcare expenses are rising, due to government interference in the healthcare system. You may have to pay hundreds of dollars each month for a ***catastrophic*** plan that covers only major medical expenses. Smaller expenses, like doctor's office visits, must be paid at each office visit. Health plans that cover "smaller expenses" such as doctor visits and prescriptions, could cost nearly a thousand dollars each month.

In addition to the above expenses, you will also want to factor in saving at least 10% of your income, as well as allotting money for charitable contributions. Add the total of all your monthly expenses. Subtract the total of monthly expenses from your net income. A balance should remain. If you calculate a deficit, you have one of two choices: increase your income, or find ways to decrease expenses. If you do not, you will go into debt each month, eventually creating a poor credit rating and/or ***bankruptcy***.

WATCH VIDEO:
Needs vs. Wants

As you can see, budgets are fairly easy to understand conceptually. However, there is much more to having a budget than just the basics. Let's take a look at many of the things that will impact your budget.

One of the most important aspects of keeping your financial house in order is *character*. If you are honest, virtuous, and have courage, you can succeed in personal economics, both in regards to a budget, and in your dealings with other people. Character will also impact your production and consumption. The more you produce, the more you will be able to purchase, or consume. Unfortunately, many people believe they can find happiness through ***materialism***. That simply is not possible. Such people tend to believe that the "pursuit of happiness" mentioned in the Declaration of Independence means pursuit of money. Earning more and buying more will not bring happiness. Many rich Hollywood stars die of drug overdoses or self-inflicted injuries, because "at the end of the day," they did not find satisfaction in fame, fortune, or materialism.

Joy and self-worth come through achievement and helping others – character

VOCABULARY

Shortfall: failure to meet a need or expectation
Catastrophic: causing ruin or destruction
Bankruptcy: loss of property and assets
Materialism: attempting to gain value through accumulation of tangible items

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traits worthy of ***emulation***. Regarding helping others, nobody benefits more than the giver. "It is more blessed (happy) to give than to receive" is an old saying that rings true to the person of moral character. It simply feels good to help others in need. Charity is a character-building practice that you should adopt early in your budget plans. Determine to give money to organizations that promote liberty and values based on absolute truth.



Character equips you to avoid living beyond your means. In other words, do not purchase more than your income allows. You should avoid debt, especially debt incurred for items that will only ***depreciate*** in value. Going into debt to purchase a house is sometimes wise, as it can increase in value. Going into debt to buy a car or furniture is a poor choice, because those things decrease in value. In most instances, you should buy things with available money and avoid buying items on credit. This is especially true regarding consumables, like food, clothing, and gas; avoid purchasing consumables with credit cards unless you have money to pay the credit bill before it is due.

An old Hebrew proverb states, "The borrower is servant to the lender." In other words, when you owe someone money, the lender becomes your master, because you owe a part of everything you earn until the debt is paid. Not only that, but in most instances, if you borrow money, you will have to pay interest on debt. *Interest* is money paid in addition to the *principle*, or original loan amount. If you borrow $100 (principle) at 10% interest, then you must pay back $110. However, when borrowing with a credit card, the reality can be even worse; you can be charged 23% or more in interest.

Interest rates on credit cards are ***compounded*** at frequent intervals. So, the longer the money is owed, the more money you will pay in interest. You will learn more information about that when we examine banks and loans. The important thing to remember is to avoid debt. Debt can feel like an unbearable weight on your shoulders. People of good character know that going into debt needlessly or carelessly is a mistake. Independence from owing others, on the other hand, gives people a feeling of liberty, for indeed their income is their own to do with as they please!

If you accumulate debt, then getting out of debt, or debt *retirement*, is of paramount importance. Experts recommend paying off the smallest debts first. As you do, apply monies you saved by paying off those smaller debts towards reducing debts. Eventually, you will be out of debt; but it would be better to avoid debt all together.

A person who becomes irresponsible with debt can face heartbreaking consequences. For example, if a person buys a home and becomes unable to make the monthly ***mortgage*** payments because of credit card debt or irresponsible borrowing in other ways, the bank can foreclose on the debtor's home loan. In other words, for failure to pay, the bank will forcefully evict the debtor and

VOCABULARY

Emulation: immitating
Depreciate: decrease in value
Compounded: interest calculated on original principal plus accumulated interest of a loan
Mortgage: debt due on property

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reposses the house, in order to sell it to regain some financial loss.

People who are so far in debt they cannot pay their ***creditors*** often face bankruptcy. With bankruptcy, a person files for legal protection from creditors, which means that in some instances, creditors cannot get what is owed to them. The law protects the debtor from lawsuits from creditors. In many instances, the debt is erased, and the creditor claims the loss when filing annual tax reports, to ***mitigate*** financial misfortune. Filing for bankruptcy is not an easy way out of debt, however; such a person has a very bad credit rating for 7 to 10 years. Any future loans are considered high-risk by lenders, and carry very high, often double-digit interest rates. The worst part of a bankruptcy is that it negatively impacts a person's moral reputation, in most instances. On rare occasions, an honest person might be unable to pay debts, such as when an injury or illness prevents employment. Bankruptcy laws were written with such people in mind. Unfortunately, irresponsible people who rack up tens of thousands of dollars in debt (and oftentimes much more) have used bankruptcy laws to avoid responsibility and to cheat others. Once again, it is better to avoid debt whenever possible, and pay for things with available money. Self-discipline to go without is also indicative of strong moral character.

At various times in life you might not be able to buy essential items with up-front money. For example, you may not be able to buy a home, but you could rent an apartment. That way, you do not incur indebtedness that will last 30 years or more (the length of the typical mortgage loan). In some instances, when renting, you might be required to enter into a lease. A *lease* is an agreement you sign with a landlord, whereby you promise to rent the apartment for a fixed period of time, typically six months to a year. There are pluses and minuses – pros and cons – benefits and downsides. The benefit to the landlord is the security of having a paying tenant for a given period of time. The benefit to the tenant is that the cost will not rise during the lease period. Ideally, you will find a landlord who will not require you to sign a lease contract. If you receive a great job offer in another city, but have 6 months left on your lease, you would be responsible for paying the monthly rent amount through the end of the lease, even if you were not living in the apartment. If you develop a reputation as a responsible tenant, who takes good care of the landlord's property, and if you have excellent character references, many landlords will rent to you on a month-to-month basis. Often, a landlord will avoid raising the rent on a tenant who has been very good to the landlord in terms of maintaining property and paying rent on time. Being kind and cordial to others enhances your involvement in any kind of business transaction.



A vehicle is another major expense you might not have enough money to buy outright. If you purchase a used car, which

VOCABULARY

Creditors: entities to whom money is owed
Mitigate: to make less harmful or harsh

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is much cheaper than purchasing a new car, you may have higher repair bills. The older the car, the less reliable it is, and the more repair work will be needed. Unfortunately computer technology installed in post-1990s vehicles, prohibits thrifty teenagers from keeping a "clunker" running with a cheap set of mechanic's tools.

Renting a car is very expensive, and practical only for short-term situations, like a vacation or business trip. In some instances, you can lease a car for a reasonable monthly rate with a down payment. This requires far less money than purchasing a car outright. Sometimes, a person leasing a car has the option to purchase it later. If you intend to purchase a car eventually, leasing can be more expensive. Also, like leasing an apartment, leasing a car binds you to a contract which you might later regret. Perhaps the best idea for someone living away from home is to use public transportation until sufficient money can be saved to purchase a reliable used car. Another option is to ride a bike or carpool with a co-worker while offering to help pay for gas. This is an especially attractive offer for a co-worker who drives near your house on his or her way to work.



Another expensive item can be furniture or appliances for your apartment or home. Some companies offer to rent furniture and appliances, usually in a "rent-to-own" arrangement. In the long run, with interest payments, merchandise ends up costing far more than it would have if purchased outright. Renting furniture is best avoided. In many communities, online websites are available where people sell used furniture and appliances cheaply, and in some instances, give them away. Used furniture may not be as nice as your parent's living room or dining room set; but then again, when you are just starting out, it is wise to start modestly, living within your budget. Remember, your parents may have worked 20 years or more before they could afford to acquire nice things. Better to be patient than to go into debt and face financial ruin. Remember the importance of practicing good moral character and financial responsibility. Start saving a percentage of your paycheck each week, so that you can accumulate money to purchase furniture and other "big-ticket" items with cash.

In many instances, you can buy things much more cheaply at flea markets, garage sales, thrift stores, and even auctions. You will be amazed at some of the high-end, quality merchandise you can buy for pennies on the dollar! With a little time and effort, you can furnish your home with high-quality furniture, buy nice clothes, and get anything else you need inexpensively. People will think you paid a fortune, but you can tell them you bought wisely, living within your budget! One final note – do not forget about bartering! If you have things you no longer need, place an ad in the local paper or online website, offering to trade what you have for what you need.

All of the above suggestions are important to consider when understanding and establishing budgets. Spend some time reviewing these concepts carefully. Not only will you get a good grade on the quiz, but you will live a happier, more productive life!

LIFE PRINCIPLE

"A Penny Saved is a Penny Earned."

-Benjamin Franklin (Founder)



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Principles and Precepts of Economics

Topic 2
Banking

Chapter 3

Section One
Family Economics

Banking



The term "banking" can apply, in a general sense, to any interaction you have with a financial institution that handles money, and helps you to handle money. Usually, that will be a bank, but credit unions are also financial institutions used by many people.

Banks are for-profit businesses that provide customers with a variety of accounts, such as checking and savings accounts. They also provide loans to individuals and businesses.

A credit union is very similar to a bank, offering many of the same services, but it is a non-profit organization whereby its customers are members. Any profits earned are distributed among members in the form of ***dividends***. Whereas banks can be huge corporations with branches across the country or around the world, credit unions are usually much smaller, with a few branches in a specific geographic location. One exception is the Navy Federal Credit Union, but by far, most are small, locally-owned and operated entities. When you look for a financial institution with which to do business, check out a variety of banks and credit unions to see which institution can best meet your personal and business banking needs.

The most common product offered by financial institutions is a checking account. As you have already learned, a check is a type of representative money. A check represents intent to pay money. Businesses use checks to pay their employees, because checks are more secure and easier to distribute than cash. Since the government mandates withholding of federal income taxes, social security taxes, and Medicaid taxes, issuing checks enables employers and employees to track withholdings. Some banks and credit unions charge fees for managing checking accounts, while others offer them free of charge. Compare several institutions for the best deal.

VOCABULARY

Dividends: a share of a profit

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Individuals also write checks to pay bills; this makes sense when sending payments by mail, since an envelope stuffed with cash would be a prime target for thieves. Checks are simply a safe, secure way to transmit funds when electronic transfer is not feasible.

You can access funds in your checking account electronically. Using a debit card, you can make deposits or withdrawals from an Automatic Teller Machine (ATM). When using the debit card, you utilize a Personal Identification Number (PIN) to authenticate your identity and gain access to your account. Ensure you shield your hand when entering your PIN, so potential thieves cannot acquire your PIN, enabling access to your funds if the card is stolen. Also, ensure that you use ATMs only in a well-lighted area, and ensure no suspicious-looking people are in the area. When in doubt, leave. ATMs are a prime hot spot for robbers, since people using them often withdraw cash.

Debit cards can also be used to make purchases at businesses, over the phone, or online. In such instances, the debit card functions like a credit card. The difference is that when using a credit card, you are purchasing goods and services on credit. In other words, you are going into debt each time you use the credit card. With a debit card, you draw against funds in your checking account. Unfortunately, tech-savvy thieves are learning how to invade debit and credit card accounts, so keep an eye on account activity.

It is important to keep your receipts, and to deduct debit card purchases from your checkbook register, as well as ensuring that all checks written are recorded in your checkbook register. Failure to keep track of your expenditures could result in an overdrawn checking account. In other words, you will have spent more money writing checks or using your debit card than the amount of funds available in your checking account. Many businesses and banks will charge you penalty fees if you write a check with inadequate funds to cover it. Some banks offer an "overdraft protection" benefit, whereby the bank will cover an overdraft so that you do not get into trouble with the business or individual who ended up with your bad check. Such services usually cost money, and it is best not to rely on them.

Your checkbook register is the record-keeping booklet whereby you record all deposits and withdrawals from your checking account. At the bottom of this page is an example with 3 entries (usually a checkbook register will have many more sections).

The register contains several columns. The *Item No.* column is where you write the check number you are using, or if you are using your debit card for a purchase, you may record that fact. The *Date* column allows you to record the date of the transaction. The *Description* column provides an

Item No.	**Date**	**Description**	**Payment**	**Fee**	✓	**Deposit**	**Balance $200.00**
2010	4/23	Walmart (groceries)	-25.00				-25.00 $175.00
Debit	4/27	Mobile station (gas)	-40.00				-40.00 $135.00
Deposit	4/29	From Mr. Johnson (for yardwork on 4/24)				+80.00	+80.00 215.00

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opportunity to record what the transaction is about. You should be specific; in other words, if you made a check out to "Joe's Plumbing," write "Joe's Plumbing" rather than just, "paid plumber." The *Payment* column is used only if you spent money; if so, record the amount. The *Fee* column is used to record any applicable fee associated with the expenditure. For example, if you withdrew funds at an ATM and the bank charged a fee of $1.50, you could record that in the *Fee* column. The column with the checkmark is used when balancing your checkbook. Put a checkmark in the box when the check is returned to your bank as indicated on the monthly bank statement. The *Deposit* column is used instead of the *Payment* column when you are adding funds instead of subtracting them. The *Balance* column enables you to track totals, both of expenditures and deposits.

In the above example, the *Balance* column begins with $200.00 (upper right). That amount was carried over from the previous page. Each section of the register has two lines, a white line and a grey line. In the first section, a check was written to Walmart for groceries. The check number and date have been recorded. In addition, the *Description* column shows precisely to whom the check was written and for what reason. The *Payment* column shows - $25.00. That amount is also recorded on the white line in the *Balance* column. The grey line in the *Balance* column shows the balance after the $25.00 was subtracted; in this case, $175.00 remains. The other two sections show two other transactions, one was an expenditure using a debit card, while the other was a deposit. Your financial institution can help if you have questions.

Each month, your financial institution will provide a statement showing all transactions conducted during that period. You should follow their instructions



regarding balancing your checkbook. In essence, balancing your checkbook consists of comparing your financial records from your checkbook register with the bank or credit union records, to ensure accuracy. Balancing your checkbook each month can prevent costly mistakes, such as writing checks with inadequate funds in your account. Keep in mind, writing a bad check, though it may be an honest mistake, can negatively impact your reputation and your credit rating.

Another type of account offered by financial institutions is a savings account. Since banks invest money deposited by consumers, they offer incentives to encourage people to deposit funds. Usually, banks and credit unions will pay interest on amounts that you deposit. In many instances, interest rates are very low, and provide very little return. Better investment options are available, and you will learn about them later. The advantage to having a savings account is that you can keep your money in a safe place. If your savings account is linked to your checking account, you can transfer monies between accounts, often using online banking. Online banking is usually a secure, handy way to manage your accounts from the convenience of your home (or any other place, if you have an appropriate, secure mobile device).

Loans are another service offered by banks and credit unions. Financial institutions will loan money for a variety of purposes, including auto loans, business loans, and personal loans. With a personal loan, a person borrows money for things such as an emergency or a vacation. However, borrowing money for a vacation or social

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event is not a responsible use of credit. Some lending institutions specialize in a specific product, like home mortgages. A home ***equity*** loan is a loan whereby you borrow money using your home's equity as ***collateral***. In other words, if you paid down the original mortgage loan by $25,000.00, the bank will loan you up to that amount (since in essence, that is the percentage of the home you actually own). People often use home equity loans to fund major home renovations, medical costs, and education costs. Home equity loans are best avoided.



Regardless of loan type, a loan is a legal, binding contract, by which you are agreeing to pay back the loan at a specified amount each month until the debt is paid in full. It is important to ensure that any loan you receive has a clause allowing early pay-off of the balance without any penalty, or other restrictions. Paying off loans early is always wise, so do not enter into any agreement that will prevent you from doing so.

Financial institutions make money on loans by charging interest. Two types of interest paid by consumers include fixed rate and variable rate. A *fixed* interest rate loan is a loan whereby the borrower pays a fixed interest rate on the loan. For example, a car loan might have an interest rate of 5.5%, and that remains constant for the life of the loan. A *variable* interest rate loan has an interest rate that changes over time. These loans might start out with a low, introductory rate, such as 3.3%. The rate rises over the life of the loan. These loans are intended to lure consumers into purchasing something, often a house, worth far more than they can really afford. Since interest payments can be a considerable portion of the monthly payment, a lower interest rate makes payments lower – at first. Over time, however, monthly payments increase along with the interest rate. This can increase payments on a house by several hundred dollars each month.

Variable interest rates are usually tied to a national ***benchmark*** interest rate called the *prime rate* used by all banks and credit unions in the United States. In some instances, such as with a mortgage, you might be guaranteed a fixed rate for a period of years, with the loan switching to a variable rate thereafter. Adjustments will be made to the interest rate each year, based on the prime rate. Variable interest loans are best avoided because they are unpredictable.

Whenever considering debt, always remember that, perhaps with the exception of a house, wisdom is to wait and pay cash. When the time comes for a home mortgage, do your homework. Learn about all options available to you regarding mortgage types, interest rates, and reputations of financial institutions. Do not presume that your personal bank or credit union will give the best value on a mortgage or any other kind of loan.

Regarding credit cards, never incur debt greater than you can afford to pay off each month. Otherwise, you will pay interest,

VOCABULARY

Equity: The money value of a property
Collateral: something given as security for a loan
Benchmark: a standard by which to measure or judge a thing

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often compounded interest. Compound interest builds up as interest fees accumulate and they are added to the principle (original loan amount). Therefore, unless you pay off your credit card each month, any balance carried will increase each month. People who carry large balances and make minimum monthly payments (usually 3% of the remaining balance) could end up paying twice what the original debt amount was, due to compounded interest payments! Also, many credit card companies charge late fees, and many will increase the interest rate if you make a late payment.

One final note regarding loans is in order. It is best to avoid co-signing a loan for anyone. Co-signing a loan means that you agree to cover payments, if the main borrower ***defaults*** on the loan. Co-signing is usually done to assist someone with little or no credit history, or someone with a bad credit history. A co-signer is just as responsible for paying for the loan as the main borrower. In some instances, parents might co-sign a loan to help their young adult children buy their first car. If your parents do this for you, make sure you honor their trust by making the payments on time, every month. For all intents and purposes, if you ever contemplate co-signing a loan, plan on paying it off yourself. If you cannot afford to do so, and are not willing to do so, then do not co-sign a loan for anyone. Another important point to remember is that borrowing money is actually a presumption that you will be able to pay your debt in the future. Actually, no one is guaranteed "tomorrow" to pay debts. Therefore avoiding debt is wise.

As you can see, a lot of information is associated with banking. This lesson is intended only to serve as a *primer*, to introduce you to many of the most important concepts. Always spend time doing your own research online, in libraries, and by calling applicable businesses to learn more. A little time and effort up front can save hundreds or thousands of dollars in the long run.

VOCABULARY

Defaults: fails to pay financial obligations
Primer: instruction regarding basic concepts

LIFE PRINCIPLE:



"Commitment is what transforms a promise into reality."

-Abraham Lincoln (16th U.S. President)

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Principles and Precepts of Economics

Topic 3
Insurance

Chapter 3

Section One
Family Economics





Insurance policies are bought by consumers to insure an object, or a person. Insurance *benefits* provide money to the policyholder, or beneficiary, to repair or replace property or cover medical expenses. Insurance policies are available for many different reasons, and they will play a very important role in your budget. Let's take a look at insurance policies, and how each can be of benefit. Insurance companies sell a variety of insurance policies; here are some examples, with a brief description of what they cover:

Type of Policy	**What Policies Typically Cover**
Homeowner's Insurance	Damage or destruction of home and contents
Renter's Insurance	Damage or theft of personal belongings
Auto Insurance	Damage to or destruction of vehicle
Health Insurance	Medical coverage to pay doctor, hospital bills
Accident/Injury Insurance	Medical coverage to pay doctor, hospital bills when involved in certain types of accidents
Life Insurance (whole) (term)	Provides financial compensation to beneficiaries upon death of the insured

The preceeding table is a very basic overview. The types of policies shown are only a sampling of what is available. Insurance policies have even been written for pets, and to cover parts of the body for people involved in modeling. For example, if a woman makes her living as a foot model for shoe companies, she can have her feet insured so if they are ever injured and she is unable to

VOCABULARY

Beneficiary: person to whom an insurance benefit is paid

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work, she will collect a sizeable amount of money to compensate for her loss of income.

Just about anything of value, or perceived value, can be insured. If damage or loss occurs, insurance companies pay the agreed-upon benefit. You might wonder how insurance companies can afford to do this.

People pay ***premiums*** to insurance companies for desired coverage. For example, a person might pay $100.00 per month for an auto insurance policy. If that policyholder's car is wrecked, the policy will pay for damage, or to replace the car if it is totaled. Naturally, that could amount to a payment of thousands of dollars. The insurance company allocates risk based on hundreds of thousands of people paying similar monthly insurance premiums. At any given time, very few policyholders have costly accidents. As such, insurance companies take in millions of dollars a month in insurance premiums, and pay only a few hundred thousand dollars each month in benefits. While that is a very simplified explanation, it helps you to understand how insurance companies can stay in business and thrive while providing customers with insurance coverage.

Insurance companies have another way of maintaining their profit margins. In many instances, before any benefits are paid, policyholders must pay a *deductible*. For example, an auto policy might have a $500.00 deductible per accident, which means that before insurance benefits are paid, the policyholder must pay the first $500.00 of damages out-of-pocket. The higher the deductible, the lower your monthly premiums, and the lower the deductible, the higher the premiums. It is a trade-off; the best strategy is to choose a high-deductible policy, and set money aside to pay the deductible if the need arises. That way, you will have a lower monthly premium, and money set aside can earn interest for you in an interest-bearing account at a bank or credit union. Now, let's look at some specific things you should be aware of regarding types of insurance policies.

VOCABULARY

Premiums: payments made on an insurance policy



If you have a home mortgage, the lending company will require you to have homeowner's insurance coverage for the full value of the home, in case it is destroyed or damaged by a fire, or some other disaster. A homeowner's policy ensures the lender that you will not default on the loan in the event of catastrophic loss. The cost of homeowner's insurance can vary from state to state, but the premium can be in excess of $100.00 per month, depending on the amount and type of coverage. Insurance to cover earthquakes, flooding, and other unusual circumstances, costs more. You can also purchase liability insurance to protect your assets in the event someone is injured on your property and sues you for damages. The insurance company will cover the expense, usually up to $100,000.00 (though coverage amounts vary). In addition to insuring your home, you can opt for coverage for your personal property. If your home is burglarized, or items are damaged in some way, the insurance company will pay to repair or replace your personal possessions. Homeowner's insurance, and the available

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options, are factors to consider when determining monthly costs of buying a home. You might not own a home for quite some time, but people who rent apartments have insurance options, as well.

A renter's insurance policy covers personal possessions. If your apartment is burglarized or items are damaged, the policy will pay to repair or replace them. In some instances, property will be covered even while it is away from your apartment, such as when property is stolen from an automobile. Renter's policies vary, based on the amount of coverage you choose, which should be based on the value of the contents you possess. In most instances, renters insurance is very affordable, with average monthly costs at around $15.00 to $20.00 per month for approximately $20,000.00 - $30,000.00 of coverage. While homeowner's insurance is mandatory when you have a loan on your house, renter's insurance is optional, and your circumstances and property value will determine its ***feasibility***.

Automobile insurance covers your vehicle if damaged; insurance also provides payments if you damage another vehicle, damage private property, or cause injury to others. Many different types of auto insurance exist, but for the most part, policies are intended to protect your property and the property of others. *Liability* insurance pays another party for damage or injury a driver causes in an accident. Liability insurance will not cover damage to the responsible party's vehicle. If a driver fails to stop for a stop sign and crashes into another vehicle, liability insurance pays for the damage to the other vehicle and for any injuries sustained by occupants of the vehicle. Liability insurance is mandated in every state except New Hampshire; but even in New Hampshire, at-fault drivers are responsible for paying any liability. *Comprehensive* insurance covers damage or loss to your vehicle, regardless of who is at fault. Comprehensive insurance is more expensive than liability insurance. Insurance rates vary based on age, sex, driving record, location, and a variety of other factors. The older you are, and the longer you have been driving without an accident or traffic violations, the lower your monthly premiums will be.



Health insurance policies provide coverage for medical expenses. Many variables are considered in determining premiums. Catastrophic coverage costs less, but covers only major medical expenses such as cancer treatment or major injuries. Basic medical expenses, such as exams and doctor office visits, are not covered. To get coverage for basic medical expenses, you must pay much higher premiums. Now that the federal government has become involved in the healthcare industry, expenses will continue to skyrocket and quality of care will continue to drop. Recall what you learned about collectivist societies and their negative impacts on freedom and quality of goods and services. When you are ready to purchase health care coverage, be certain to do a considerable amount of research on the topic.

VOCABULARY

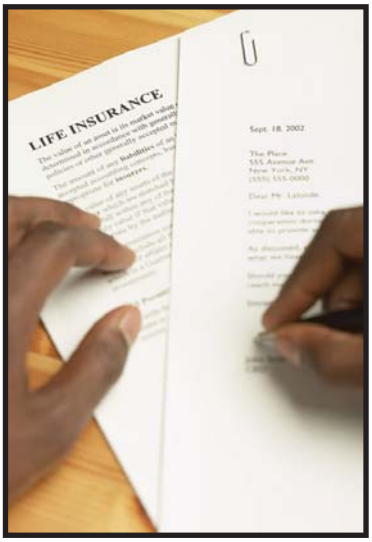
Feasibility: degree to which something is logical

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Doing so could save you tens of thousands of dollars over time.

Accident or injury insurance pays monetary compensation if you are involved in an accident or are injured under *specific* circumstances. Sometimes, people will buy policies to supplement their health insurance coverage, for extra benefits, since premiums are usually low. Most people who have health insurance, however, will not bother to add an accident or injury plan, but policies are available.



Life insurance provides beneficiaries with monetary benefits upon the death of the insured. Benefits can be used to help with expenses after the death of a wage-earner. A two-income family will suffer great financial stress when one of the wage-earners has died. When the ***breadwinner*** in a single wage-earner household dies, subsequent loss of income could cause financial ruin to the survivors. Some experts tend to recommend buying insurance coverage equal to five years of your annual salary. If you earn $50,000.00 per year, you would purchase $250,000.00 in life insurance. Naturally, other variables apply.

VOCABULARY

Breadwinner: person whose paycheck covers expenses in the home

If you have a mortgage, you might want to add enough insurance coverage for surviving family members to pay off the mortgage. Some mortgages have life insurance riders to pay off the loan if a borrower dies; the cost of the premium is added to the mortgage payment each month. If other debts apply, those should be taken into consideration. Also, if your spouse or other family members work and earn high salaries, that might factor into your life insurance decisions. A single person in college may purchase just enough life insurance to cover funeral expenses and pay outstanding debts. As with most insurance policies, premiums vary, based on several factors. Location, occupation, sex, age, and many other variables will impact premiums. Usually, the younger one is, the less expensive the life insurance premiums will be.

Basically, insurance companies offer term and whole life policies. A *term* policy has no cash value. You pay a flat premium in exchange for a certain amount of coverage. For example, a 20 year old male might buy a term policy with $50,000.00 of coverage for $15.00 per month. Rates increase as the policyholder gets older (typically adjustments are made in five-year increments). *Fixed term* policies ensure that premiums remain constant over the term of the policy. Since ordinary term policies increase in price as you age, then if you buy a fixed-term life policy, and lock in a fixed rate for a 20 or 30 year term, the premium will never increase during that term. Naturally, the longer the term of the policy is fixed, the larger initial premiums are; but in the long-run, a fixed-rate, long-term term life policy is the best life insurance value.

A *whole life* insurance policy is designed to increase in value over time. These policies cost much more than term policies, since they are building equity using

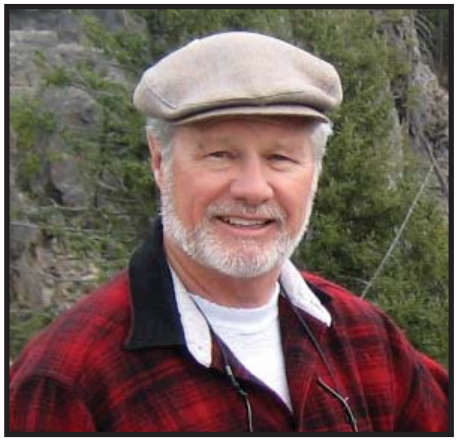
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compounded interest. Whole-life policies can be purchased for the duration of your life; they do not expire like term policies. In addition, monies paid for premiums are an investment; and the cash value of the policy typically increases. Over time, you can borrow against the cash value, which could be hundreds of thousands of dollars after 30 or 40 years. Downsides to whole-life policies are much greater cost, and in most cases if you cancel the policy, surrender charges eliminate much of the cash value that accumulated. Many experts recommend buying term, and investing the extra that a whole policy would have cost, into some other investment opportunity.

You will learn more about investment opportunities in the next lesson.

LIFE PRINCIPLE:



"We have no assurance of tommorow by which to pay debts accumulated yesterday"

-Ronald E. Johnson (Educator)

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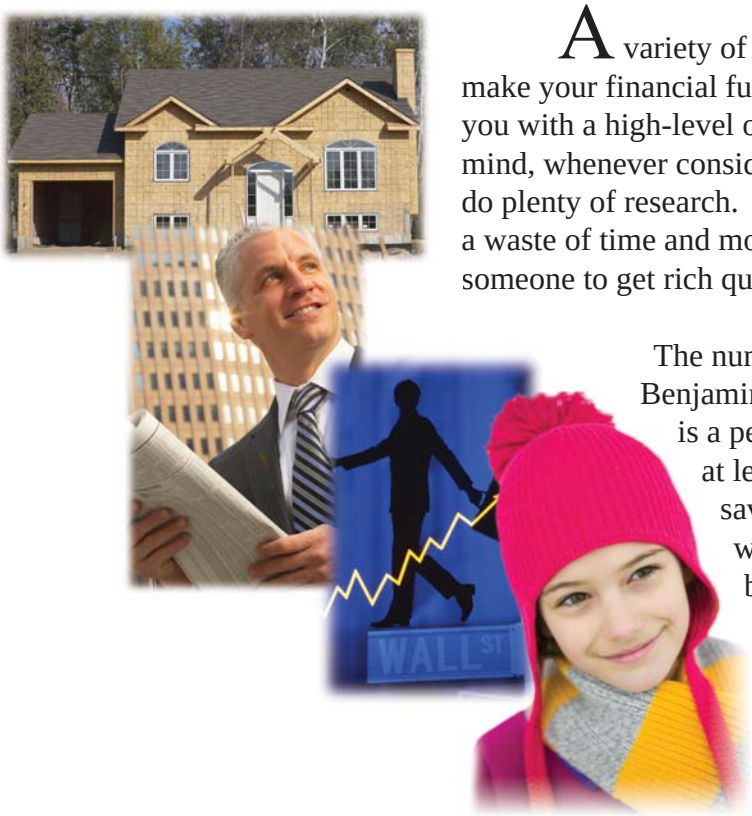
Principles and Precepts of Economics

Topic 4
Investing

Chapter 3

Section One
Family Economics

Investing



A variety of investment opportunities are available to make your financial future more secure. This lesson will provide you with a high-level overview of many feasible options. Keep in mind, whenever considering investments, knowledge is power, so do plenty of research. Avoid "get rich quick" schemes, as those are a waste of time and money. If legitimate ways were possible for someone to get rich quickly, everyone would be rich.

The number one way to invest is by saving. Benjamin Franklin once remarked, "A penny saved, is a penny earned." Get into the habit of saving at least 10% of your ***gross income***. Regular savings accounts pay very little interest, and with inflation, savings accounts can actually be detrimental, unless you opt for higher interest options like Certificates of Deposit (CD) or money market accounts. CDs usually pay higher interest rates than do regular savings accounts. In return, you allow the bank, or credit union, to keep your money for a specified amount of time, usually at least 3 months. The longer you allow your money to be held, the higher the interest rates you earn. Money market accounts usually require a very high minimum balance, but unlike CDs, you are allowed to make a limited number of withdrawals each month. In addition to saving money, avoid going into debt. Money owed to others is not going to contribute to your financial security. Neither will paying interest on debts. Once you have eliminated debt, and started saving regularly, you can consider investing extra money. Living debt free is a profitable way to generate wealth.

VOCABULARY

Gross income: amount earned before deducitons

Most investments carry risk. In other words, there is no guarantee that money invested will return a profit – or that you will not lose your investment. Do not confuse gambling with legitimate

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investment options. Gambling is foolishly risking your money on chance. Lottery tickets and trips to Las Vegas will not benefit you or your family. Business investment involves risk, since nobody can predict the future. Risk is based on the premise that the investment will return a profit over time by bringing value to other people.

The most well-known investment strategy is the stock market. Companies raise money to start and expand their businesses by selling *stock*, or shares in a company. If a company provides a valuable product or service, it will be successful and make money for investors. Investors receive a share in the profits of the company. The more successful a company becomes, the more valuable its stock shares become. If you bought stock in a new company at $10.00 per share, and five years later the company was very successful, the value of your shares would increase.



Stock Profile

One way new companies raise revenue is through venture capital. *Venture capital* is money raised by investors specifically for start-up companies. Investors own a share in the company, as with other investments, but since the companies are new, with no investment history, the risk is typically higher than with other stock investments.

VOCABULARY

Securities: any variety of investment instruments

On rare occasion does a start-up company become wildly successful. For example, had you bought 100 shares of Microsoft stock at $21.00 a share in 1986, you would have invested $2100.00. As the stock prices rose, if you reinvested new profits into buying more shares, then in in 1999, your investment would have gained 1.4 million dollars! Had you kept your money in the market instead of selling at the peak in 1999, your investment would be worth only three quarters of a million dollars. That is a substantial loss over the peak, but still a huge profit over the original investment. Microsoft is an extreme example of stock market success, and it also demonstrates the ups and downs of investing. The vast majority of companies never come close to being as successful as Microsoft. Many start-up companies fail and go out of business, and when that happens, investors lose all of their investment. Approximately 80 percent of new companies fail.

Since the value of stocks can rise and fall on a regular basis, investing in the stock market is best viewed as a long-term strategy occurring over decades. People who buy and sell stocks every day usually lose money, and inevitably experience much stress. Professional investors do their homework, and invest in stocks that will gradually mature over the long haul, and leave the stress of day-to-day investing for amateurs.

Some investment companies combine investments of many people together to form *mutual funds*, to invest in carefully selected and grouped stocks, bonds, and other ***securities***. A *bond* is an investment tool used to fund business or government projects. People who buy bonds are buying shares with the promise of a return of their monies with interest paid. The United States Government sells *savings bonds*, to help fund the government. Many cities and towns sell

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municipal bonds to help fund projects such as building new roads, fire stations, and other projects. In essence, when you buy a bond, you are like a small banker loaning money with the understanding you will get it back with interest paid.

The combined holdings of the mutual fund company are called a *portfolio*. Instead of doing research on individual companies, and investing your money in them directly, you put your trust in a reputable mutual fund company to invest your money on your behalf. This strategy makes sense, in that you ***diversify*** your risk. That is, the more companies in which you have invested, the less likely you will lose a lot of money if one of them fails. Likewise, if one of them skyrockets, like Microsoft, you will not see as big a return as those who invested directly, but the return will still be there, and without nearly as much risk. Like stocks, mutual funds are best considered as a long-term investment.

Another way to invest your money is through a retirement account, such as a *401K* or Individual Retirement Account (*IRA*). A 401K fund enables you to have some of your paycheck withheld tax-free, and invested in an investment portfolio offered by your employer. Employers will often match a portion of the amount that you invest. At retirement, you are taxed on monies you withdraw from your retirement plan. With a *Roth 401K* plan, monies are invested after paying taxes, which means that funds are not taxed later, upon withdrawal at retirement.

VOCABULARY

Diversify: spread out, vary
Real estate: land and developed property

An IRA is self-directed, and not associated with an employer. Like a 401K, you have options for investing with taxed funds or pre-tax funds. As is the case when investing in the stock market or mutual funds, 401K and IRA plans are best viewed as long-term investment strategies.



One of the best investment strategies involves ***real estate***. Many Americans have made their fortunes in real estate. Average Americans often buy homes, and over the course of decades, the value of their well-maintained property almost always rises considerably. Unfortunately, this is often due to inflation, whereby the government has pumped so much more money into the economy that, over time, its value has greatly declined, causing prices of everything to rise. On the other hand, real estate often rises in price for other reasons. For example, if you purchase land on the outskirts of a growing town, then in five or ten years, as the town expands, your property might be worth a great deal of money to someone who wants to develop it for a shopping mall or apartment complex. Real estate is often viewed as a very good, safe investment. However, a person who borrows money to purchase real estate property on speculation that the value of the property will increase over time, often loses money. Investment in real estate can be profitable if done wisely.

Other items people invest in include collectibles, such as rare coins and stamps.

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These are best considered hobbies, however. People who make a lot of money dealing in collectibles are usually professionals. They have studied their subject for years, and spent thousands of hours on research so that their buying, selling, and trading are profitable.

Precious metals, such as gold and silver, are sometimes very good investments. Precious metals markets can be unstable, so they should also be considered long-term investments. One of the best uses of precious metals is as a ***hedge*** against inflation. As the government inflates, prices of precious metals keep pace with the rate of inflation. In some instances, the prices rise above the rate of inflation. As savvy investors see the government inflating the money supply, they buy silver and gold, creating a much greater demand. As you learned when you studied the law of supply and demand, the greater the demand for something, the greater its perceived value, so prices will rise. Of course, the opposite can be true. If too many people who have stocked up on precious metals suddenly decide to sell, prices can plummet. Precious metals are another long-term investment strategy, though they can pay huge dividends over the short term, as well.

Basically, any commodity can be considered an investment, if its value over time will increase. Many people stock up on goods that have a high likelihood of maintaining a strong resale value later. Purchasing an item with today's dollars makes more sense than saving, since the value of the dollar is constantly falling. If you live in Alaska and purchase 20 wool hats at $5.00 each ($100.00), then sell them for $10.00 each ten years later when the value of the dollar is cut in half due to inflation, then you will still have the same degree of buying power with your money as you did ten years ago. Your $100.00 investment is now $200.00, though it will not buy more than $100.00 did ten years ago. On the other hand, your neighbor, who put $100.00 in his sock drawer ten years ago, now has only $50.00 in spending power, since the value of money has been halved by inflation.



As you can see, many investment options are available for you to consider. Something else to consider (and it relates well to our wool hat example), is the effect of government regulations on your budget and investment strategies. As has been shown here and throughout this course, inflation is a horrible thing to inflict upon a nation. It destroys the value of money and causes much heartache as businesses are forced to raise prices. Wages almost never keep up with the rate of inflation, so people's spending power is greatly diminished. Inflation inhibits the ability of people to invest in anything, and this further negatively impacts businesses.

You also learned earlier about government regulations, and how badly they cripple economies and liberty in general. Government regulations abound regarding investment options, and in many cases working through them is like working through a confusing maze. Remember, our government bases its laws on relative truth

VOCABULARY

Hedge: protection, defense

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now, instead of absolute truth. As a result, laws can be passed that will unjustly change investment rules. Some progressive members of Congress entertain the idea of confiscating citizens' 401K accounts! Taxes are an ever-looming threat, with some socialists even promoting a 90% tax rate on wealthy Americans! *Capital Gains* taxes are also hindering economic growth in America. These are taxes on profits made from investments in securities like stocks, bonds, and precious metals. Since these taxes are under control of Congress, they are subject to rise or fall based on how the political winds blow.

In the next Topic, we will explore ways in which the government has immersed itself in our personal economic lives. For now, suffice it to say that many great investment options are still available to you. If you will take the time and effort to research the variety of opportunities, and educate yourself on how to avoid the government pitfalls, you could do very well for yourself and your family as you prepare for your financial future.

LIFE PRINCIPLE:



"Many people want the government to protect the consumer. A much more urgent problem is to protect the consumer from the government."

-Milton Friedman (Economist)

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Principles and Precepts of Economics

Topic 5
Government Considerations

Chapter 3

Section One
Family Economics

Government Considerations



As you have probably realized, government agencies can create the greatest obstacles to free markets. Collectivist politicians and bureaucrats, who seek to control the economy, greatly limit freedoms of businesses and individuals. For this reason, some important things should be emphasized regarding the power of government, and what you can do to avoid conflicts.

The Bureau of Internal Revenue oversaw collection of an income tax instituted temporarily during the Civil War (1861-1865). Soon after the war ended, the income tax was repealed, since it was only intended to raise revenue for the war effort. In 1894, Congress instituted another income tax, but the next year the Supreme Court declared all income taxes unconstitutional. The 16th Amendment was passed in 1913, which made having an income tax part of the Constitution. The Bureau of Internal Revenue handled collection of income taxes.

In 1953 the Bureau of Internal Revenue was renamed the Internal Revenue Service. Like most government agencies and bureaucracies, the IRS expanded in size and power. The IRS has a reputation for abuse of power against US citizens, and unfortunately, IRS agents under presidents from Franklin D. Roosevelt onward used the tax collecting agencies of the US Government to ***malign*** and harass political opponents. Recent targeting by the IRS of conservative groups is a good example. Applications for non-profit status for conservative groups were stalled, sometimes for years, and conservative groups were given increased ***scrutiny*** by the IRS. In addition, collectivists in government agencies have proposed laws that would force non-profit organizations to reveal names of donors. Such a list would be particularly advantageous to government bureaucrats and politicians who want to punish people who oppose certain political agendas.

VOCABULARY

Malign: to slander or defame
Scrutiny: close examination

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Not only is the IRS intrusive, but some tax laws of the United States are ***Orwellian*** in scope. Today, the tax code consists of more than 70,000 pages of confusing, complex tax codes and laws. Large corporations hire staff to oversee tax law compliance, lest the companies unintentionally run ***afoul*** of the law and have business property confiscated or employees jailed for alleged tax evasion. Even small businesses must hire tax experts, such as Certified Public Accountants (CPAs) to handle tax preparation, and ensure business owners are not operating contrary to tax laws. When laws are based on absolute truth, citizens easily discern what is legitimate in tax laws. Since more laws are no longer based on morality, even the most honest, sincere, law-abiding citizens might find themselves on the losing side of an IRS investigation.

An *audit* occurs when the IRS investigates personal or business tax records. Audits are supposed to be random, to find tax cheats, or they are conducted when tax fraud is suspected. As noted previously, tax payers may experience the threatening hand of government bureaucrats looking through tax and financial records for potential errors that could lead to arrest, prosecution, confiscation of property, and jail time.

VOCABULARY

Orwellian: overbearing, destructive to liberty
Afoul: in conflict with

Tax laws allow the IRS to seize assets of small businesses merely *accused* of money *laundering*. Money laundering occurs when someone tries to hide money earned from an illegal activity, like drug dealing, and make it appear to be from a legitimate source, like a restaurant. In addition, federal civil-asset-forfeiture-laws enable the IRS to seize bank accounts of people merely accused of *structuring – with no conviction necessary*. To understand what structuring is, let's examine some key information.

According to federal law, any bank withdrawals or deposits exceeding $10,000 must be reported to the federal government. This practice is a breach of liberty, for it is none of the government's business how much money you deposit or withdraw from your bank accounts. As the law stands, however, structuring occurs if people intentionally withdraw or deposit money in amounts less than $10,000, to avoid having their personal financial matters reported to the government. Even if someone did not intentionally break a tax law, the IRS could assume the person is guilty, and may confiscate his bank accounts, and then require him to prove that he did not violate the law! Keep in mind, in our justice system, the burden of proof is supposed to be on the accuser: "innocent until proven guilty" is a hallmark of American law. However, a business owner may have money seized by the IRS, *with no formal charges ever being filed!*

Each year by April 15, private citizens and businesses must file their income taxes. For most individuals, much of their financial record is already on file with the IRS. Your employer is required by law to report your earnings to the government; and when you file your income taxes, IRS agents compare your tax statement with records on file with the IRS. If you have an interest-earning account at a bank or credit union, the IRS has

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a record of it from your financial institution (again, required by law). For the most part, any income you receive from most sources has to be reported to the IRS, except cash payments you receive. The degree to which government tracks your financial affairs is mindboggling. If information on your tax return does not match IRS records, you could be subjected to an IRS audit.



If you decide to file your own taxes, instead of hiring a professional tax-preparation company or CPA, you should have your work checked by professionals after you complete the paperwork, to ensure you have not made a mistake. Tax professionals can also help ensure that you have claimed all deductions you are allowed to claim. A *deduction* is a legal way the government allows you to lower your taxable income amount. Some items that might be deductible include interest paid on a mortgage loan or donations to charitable organizations. If your income is $50,000 for the year, but the government allows you to claim $10,000 worth of deductions, then you would have to pay taxes only on $40,000 ($50,000 minus the deductions). In most instances, the IRS already gives everyone a standard deduction, and often it is higher than if you claimed a list of itemized deductions.

The IRS uses a progressive, or graduated, income tax system. In other words, the more money you earn, the higher percentage of taxes you pay. In reality, low income Americans do not pay income tax at all; in fact, many low income people are paid by the federal government! The IRS takes a large percentage of income via taxation from middle-class and wealthy people, and redistributes it as "Earned Income Credit" to low income Americans. This progressive tax is, in practice, socialism. It has also been dubbed the "Robin Hood" tactic – steal from the rich (who earned it) and give it to the poor (who did not earn it).

To protect yourself from a potential IRS audit, or to survive an audit unscathed, ensure you are prepared. Keep careful records of all applicable tax documents. Organize your financial records so that they are easy to sort through if you should need to find requested documents. Get the counsel of someone with a great deal of tax-filing experience the first couple of times you file your income taxes. Learn about recent tax code changes, so you are not penalized for acting on old information. Above all, be a person of character; be honest in all your business transactions and act above-board in your relationships with all people.

The foregoing discussion about unjust laws concerning what you can and can't do with your own money is good reason to become involved in the political process to elect charactered, freedom-loving people to public office who will protect your liberties from government encroachment. Edmund Burke famously stated, "All that is necessary for evil to prosper is that good men do nothing."

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LIFE PRINCIPLE:



"One thing is clear: The Founding Fathers never intended a nation where citizens would pay nearly half of everything they earn to the government."

-Congressman Ron Paul

Principles and Precepts of Economics

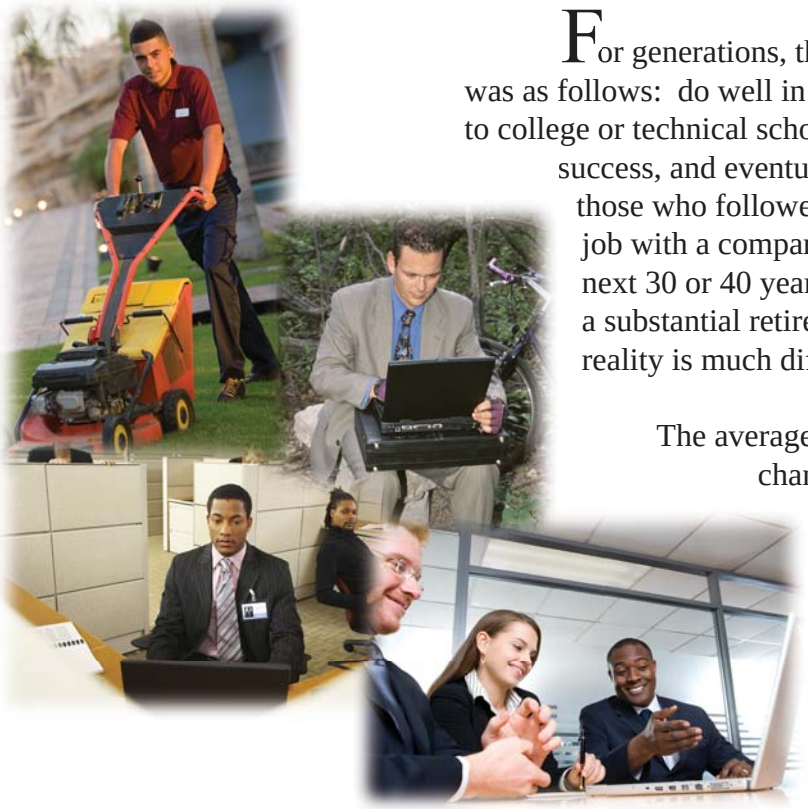


Topic 6
Freedom vs. Punching a Clock

Chapter 3

Section Two
Starting a Small Business

Freedom vs. Punching a Clock



For generations, the advice offered to young Americans was as follows: do well in school, graduate from high school, go to college or technical school, get a good job, climb the ladder of success, and eventually retire to a life of ease. Not long ago, those who followed that advice could expect to land a good job with a company by their mid-to-late 20s, and spend the next 30 or 40 years working at that same company with a substantial retirement pension waiting for them. The reality is much different today.

The average adult will make several major career changes, and some will work for more than a dozen employers during the course of employment. Employees are rarely committed to working for only one employer anymore, and employers often lay off workers if financially ***expedient***. With collectivist influence on America, the economy has taken a serious pounding, and tens of millions of Americans are unemployed or ***under-employed***. Many young Americans are wondering if there is a better way to make a living other than the traditional employment path. Indeed, you have options. You can become an entrepreneur and create your own business; you can write your own story.

An entrepreneur is someone with a business vision. Entrepreneurs prefer to take the road less traveled. In other words, they prefer to blaze their own employment trails, through their own business. Those with the courage and ***tenacity*** to follow through on their goals are usually successful. However, only about ten percent of entrepreneurs actually sustain profitable businesses. Let's look at some distinctions between being an employee, and being a successful entrepreneur.

VOCABULARY

Expedient: conducive to an advantage
Under-employed: employed part-time when full-time work is needed
Tenacity: being very persistent

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Many people prefer to walk down the beaten path, to stay on the well-trod employment roads that most people travel. Those people become employees, and remain employees throughout their careers. After all, being an employee has some advantages. Employees do not have to worry about financing a business, ***meeting payroll*** for employees, buying resources from suppliers, or any other responsibilities that come with owning and operating a business. Most employees simply show up for work, ***punch the clock***, do assigned tasks, punch the clock, and go home after working eight hours for someone else.



On the downside, many *exempt* employees work 60 or more hours each week, trying to keep their employer satisfied. Exempt employees are excluded from federal laws regarding overtime payment; they are paid an annual *salary*. Exempt employees must be committed to completing tasks, whether the assignment requires 40 hours or 70 hours per week. *Non-exempt* employees, on the other hand, are paid by the hour. Employers avoid assigning more than 40 hours each week to their non-exempt employees, to avoid paying overtime wages required by Federal law. Most professional and corporate jobs are exempt, while most other jobs are non-exempt. Even in companies where most employees are non-exempt, management staff are exempt employees who work long hours. This is particularly true in retail and restaurant businesses.

If you choose to become an employee, you will be expected to put in a certain amount of hours each week, typically 40. That has changed recently, due to Federal regulations regarding healthcare; many employers are reducing hours to below 30 each week so they do not have to provide medical coverage. In such cases, employees have to find two, part-time jobs instead of one, full-time job. Either way, you will have to arrive at your place of employment at a specified time, and you cannot leave until your shift is completed. If you are an exempt employee, you might work 10-12 hours each day, six days a week. As an employee, you must obtain permission from your employer if you need a day off. In many instances, employers are not concerned about your private life and extenuating circumstances that arise. They simply want you at work. Vacations are also subject to employer approval. In many occupations, businesses are busier at certain times of year than at other times. During busy times, vacations are off limits.

In essence, if you choose to be an employee, you are much like an indentured servant. You are not free to come and go as you please and you must obey your employer's directions while at work. In addition, your capacity to earn more money is limited by your employer and the type of work you do. A pay increase may be a rare thing. If you want additional income, you

VOCABULARY

meeting payroll: assuring sufficient funds exist to pay employees on time.
Punch the clock: checking in or out at a place of employment

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must either develop more skills that increase your value to your employer, or obtain additional sources of income elsewhere.

You might wonder why anyone would want to be an employee. On the positive side, some fortunate people have found a career they love, working for a great company, making great money. If that is the path you wish to pursue, go for it! Keep in mind, however, that far too many people choose to be employees, not because their jobs are fulfilling, but because they prefer to follow directions and do as told, rather than be independent thinkers who must create their own successes, as do entrepreneurs. Let's consider some advantages to starting your own business.



If you own a business, your time is your own. If you decide to work 12 hour days, you can do so with the full knowledge that you and your family will likely benefit financially. Your effort is not to benefit an employer who will reap the greatest benefits from your labor. On the other hand, you might decide to take a day off to attend a child's band recital or go to a doctor's appointment as convenient for you. You might decide to work while on a camping trip or vacation. When you and your family want to go on vacation, you can pick the time without having to ask anyone for permission. Freedom that comes from being self-employed is wonderful, and one of the greatest motivators for entrepreneurs.

Another advantage to being an entrepreneur is freedom to create anything you choose. Many exempt employees at a large corporation have had a great ideas for new projects, only to have management shut down the project prior to completion. As an entrepreneur, you decide where you will put your time and effort. You decide what is profitable and advantageous. At a large company, if you do succeed in getting your pet project completed, you might get a bonus and a pat on the head, but the employer profits from your creativity. When you own a business, work hard, and create new products, you reap the returns personally. If you have vision to become an entrepreneur, you will need to be knowledgeable about various business structures. Each has certain legal and tax ramifications.

The most common business structure for start-up businesses is the *sole proprietorship*. As a sole proprietor, *you* are essentially the business. You own the company and file taxes for the business under your social security number, just as any individual who files personal income taxes. While you are entitled to all of the business profits, you are also personally responsible for all business debts, liabilities, and losses. That means if someone sues your business and wins, you are personally responsible to pay damages. In many cases, sole proprietors may be required to obtain business licenses at the town, county, or state levels. In addition, local, state, and federal regulations usually pertain to your business activities, and you will want to ensure you are in compliance with such regulations. If you choose to operate your business under an assumed name, such as "Joe's Lawn Mowing Service," you can file for an assumed name, "Doing Business As" or DBA (e.g., Joe Smith, DBA Joe's Lawn Mowing Service). Sole proprietorships are easy to set up and operate, and they allow a great degree of freedom. The downside is liability if something goes wrong, and obtaining investment capital is

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sometimes challenging if you want to expand your business.

Another type of business structure is the *partnership*. In essence, a partnership occurs when two or more people share ownership of the business. Several different types of partnerships exist. Partnerships enable you to spread risk and responsibility. Several tax advantages are also associated with partnerships. It is important that you choose the right partners, however, since you will be legally bound together. Trust is essential, as is the need to establish defined responsibilities, salaries, and areas of authority. Disagreements can ruin a partnership. A partnership with a dishonest person could cost you a lot of time, money, and heartache. Many businesspersons have been cheated by a partner who ***embezzled*** money. Partnerships are not recommended.



Corporations are business structures set up to accommodate large enterprises, such as factories. A corporation exists as an independent legal entity owned by investors who purchase corporate stock, or shares in the company. The corporation, not the stockholders, is legally responsible for profits and losses. This eliminates the concern of liability for stockholders. The corporation also pays taxes as a legal entity. Starting a corporation is a complex proposition, and one that will not concern most small business owners; however, if a small business grows over time, then the business owner can consider establishing a corporation, funded by stockholders.

VOCABULARY

Embezzled: money stolen from a business for personal use

The *Limited Liability Company* (LLC) is another type of business structure. An LLC shares some characteristics of a partnership and a corporation. Owners of the LLC are considered members of the LLC. Profits and losses are passed along to individual members through the LLC. It is not taxed as an entity; each membersis responsible for paying taxes.

WATCH VIDEO: Types of Business Structures

For more information on various types of business structures, you should visit the U.S. Small Business Administration website at www.sba.gov. You will find a great deal of information on many aspects of starting and running a business.

As a business owner, you will have many rights and responsibilities, depending upon which business structure you choose. You will be wise to understand these rights and responsibilities prior to launching your new business. A good place to start is as a sole proprietor, and as your business expands, consider other business structures. In reality, if you have already mowed lawns for your neighbor, or baked cookies to sell at a fund raising event, you have already conducted business as a sole proprietor! Ensure that you

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learn about the legal way to establish your business ventures, so you can be a successful entrepreneur in compliance with business laws.

Now that you understand some of the *nuances* of being an employee verses owning your own business, you should start planning for your economic future. Do a lot of research and ask a lot of questions. Talk with people who are employees, and people who own businesses. Eventually, you will have a vision for your future, and you can start planning accordingly. Start by asking yourself this question: "What would I like to do if I knew I could not fail?" That is the question which normally encourages an entrepreneur to dare to dream of owning his or her own business. That concept prompted such persons as Henry Ford, William Boeing, Mary Kay, and Bill Gates to start their own businesses.

LIFE PRINCIPLE:



"Success is stumbling from failure to failure with no loss of enthusiasm."

-Winston S. Churchill (Former British Prime Minister)

VOCABULARY

Nuance: a slight degree of difference

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Principles and Precepts of Economics

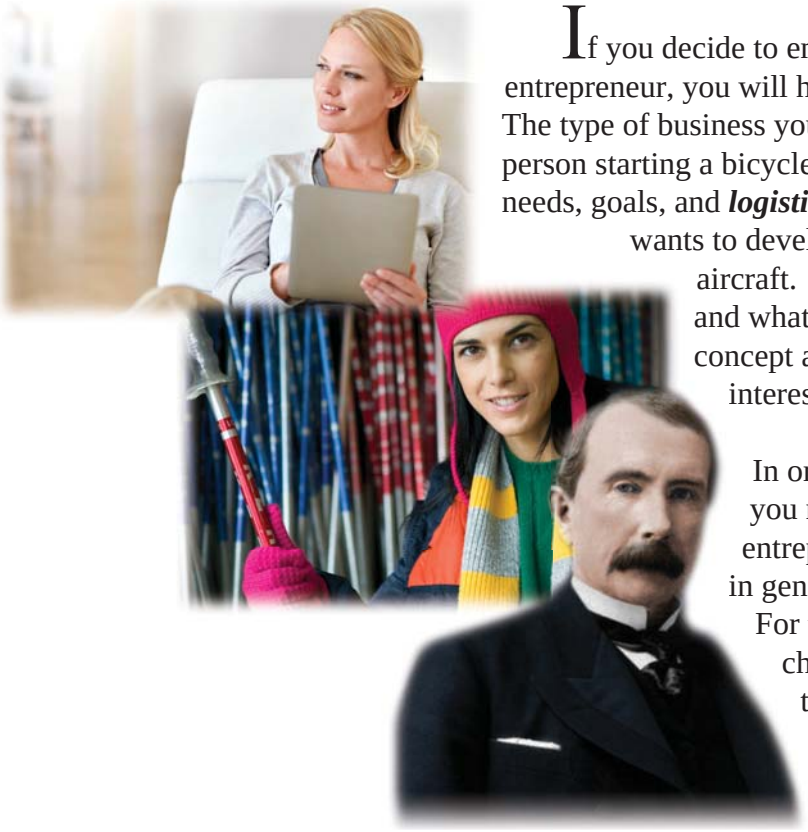


Topic 7
Personal Interests + Demand = Profit

Chapter 3

Section Two
Starting a Small Business

Personal Interests + Demand = Profit



If you decide to embrace the exciting life of an entrepreneur, you will have to make many important decisions. The type of business you start will impact specific decisions. A person starting a bicycle repair shop will have different financial needs, goals, and ***logistical*** considerations, than a person who wants to develop, build, and market a new type of aircraft. Regardless of the business you start, and what the particular needs are, an overriding concept applies. That concept is: personal interests + consumer demand = profit.

In order to succeed as an entrepreneur, you need a passion for the business. Some entrepreneurs thrive on building businesses in general, regardless of the type of business. For them, the thrill is in overcoming challenges, and bringing each business they start to financial success. For most entrepreneurs, however, especially those just starting, an important component of success is to do something enjoyable. Several people are credited for originating the quote, "Do what you love, and you will never work a day in your life." In essence, that means if you do what you enjoy as your life's vocation, it won't seem like work. While overly simplistic, the quote has a ring of truth to it, and is something for which to aspire.

Keep in mind, however, that no matter how much you enjoy doing something, if it becomes the thing you rely on to put food on the table and pay bills, it can still *feel* like work. Not that the activity is no longer enjoyable, but it is no longer an activity undertaken solely for *enjoyment*. Nonetheless, you should actively explore those things that interest you, to determine whther you can turn your ideas into a profitable career.

VOCABULARY

Logistical: management of details

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Many people, including teenagers about to leave high school, and adults wanting to make a career change in mid-life, find that they are uncertain about what type of work they would enjoy most. Fortunately, several resources exist that will help you to determine your interests and ***aptitudes***. State employment agencies and colleges usually have online aptitude and interest tests. Aptitude tests can help you determine what skills you possess, and suggest careers in which you might utilize those skills. Interest assessments will help you determine your personal interests, and then recommend related careers. These are useful tools if you are asking, "What do I want to do?" Consider the question, "What is my big dream?"

An excellent idea is to ***brainstorm*** interests and skills. On a sheet of paper, write whatever comes to your mind regarding things in which you are interested, and skills you feel that you have or could quickly acquire. Do not be concerned about writing the wrong things; remember, a brainstorming session is intended to get your thoughts on paper. The analysis should come *after* you have exhausted your ideas, not while coming up with them.

If you lack skills necessary for something you want to do, consider ways you can obtain training, and jot those down, as well. In the next section, you will discover potential ways to acquire an education, but for now, keep in mind that many entrepreneurs acquire their skills by working as employees for other people. Not unlike an apprentice who learns a trade, you can work as an employee to receive valuable training that can be applied later in your own business ventures. So, while you consider what type of business you would like to start as an entrepreneur, keep in mind that a lack of skills should not prevent you from following your dreams.



Once you have a list of interests and skills, determine how many of them intersect. In other words, how many skills you listed are applicable to interests you listed? For example, if you have an interest in skiing, and you are very skilled because of years of experience on the slopes, then it might be feasible to start a business providing skiing lessons. If your interests also include skiing gear, and you have retail experience, then another option might be opening a shop selling ski supplies. You might consider doing both; open a ski shop and offer skiing lessons for your customers. If you have writing skills, you could also write for local newspapers or online magazines to help establish your credibility as a professional ski instructor. Writing is always a career booster, regardless of your career field, since communicating effectively can be used to strengthen your credibility and reputation.

Once you have a solid list of career interests and applicable skills assessments, you can begin to do some research on demand for the products or services you

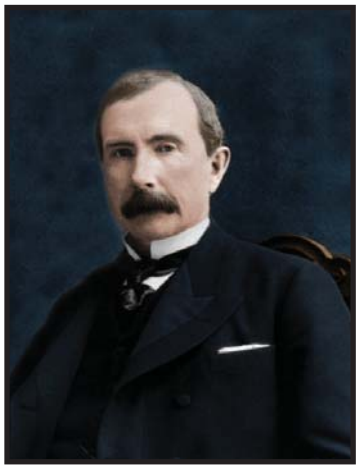
VOCABULARY

Aptitude: innate ability to do something
Brainstorm: to explore ideas

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would like to provide. Entrepreneurs seek to start businesses that have, or will have, a strong demand for their skills or services. Sometimes, demand is already present. At other times, entrepreneurs can create or increase demand. For example, in the late 19th Century, John D. Rockefeller was a very successful oil ***tycoon***. At that time, demand for oil was not as great as it is today, but Rockefeller set about to ***devise*** a way to create a greater demand for oil. He hired people to manufacture oil-burning stoves, and started to sell them very cheaply. In fact, the oil stoves were such a good deal, that people bought them quickly. As you can imagine, an oil stove is not much good without oil, so people purchased oil to burn in their stoves. Rockefeller did not expect to make a lot of money on his stove production business, but that was irrelevant to him. Rockefeller was not as interested in the stove business as he was interested in selling oil! He sold both products because of customer demand. Simultaneously, he created multiple jobs for people.


John D. Rockefeller

Sometimes an invention can spur economic activity. For example, Ely Whitney invented the cotton gin in 1793, making more efficient the removal of seeds from cotton. Consequently, there was a huge amount of cotton waiting to be made into thread. Traditional hand-spinning could not possibly use up the larger quantity of cotton, so another inventor created a water-powered spinning machine that could use the abundant supply of cotton and turn it into thread very quickly. You can probably guess what happened next. A huge supply of cotton thread meant that a much faster way to weave thread into fabric had to be invented. Wise entrepreneurs look to see where technology is moving, and then they try to be first to meet anticipated needs.

Most entrepreneurs, especially those just starting, are not as wise and experienced as Rockefeller or the people who helped invent machines for the textile industry. That is why you will be wise to consider vocations in which you are interested and have the skills necessary to succeed. Remember, try to determine existing demand for products or service you want to provide. Does a strong demand exist? Research other businesses in your area. Are similar businesses competing for limited customers? What will set your product or service apart from other businesses? Ideally, you will start a business in a place where demand is high because of short supply of businesses to meet customer needs.

Let's suppose you want to start a scuba diving business and provide scuba diving lessons. If similar businesses are already operating in your area, you must be willing to relocate to where demand is high and supply is low, or you must produce better products than those provided by competitors. If you live near Lake Champlain in Vermont, you might not earn a living in winter when lakes are frozen. You must determine which

VOCABULARY

Tycoon: efficient businessman
Devise: design, create

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products are most in demand by scuba divers in your area.

Every business venture must start out with a great deal of research and a careful study of the data. Utilize as many resources as possible when you do your research. Make a list of questions you would ask someone who is already in the business. Find people who own similar businesses and ask them questions. Be honest with your intentions, and avoid talking to business owners who would be direct competitors. Naturally, research at libraries or find information online. Remember, most new businesses fail because the entrepreneurs failed to conduct and act on thorough research.

In the next lesson you will learn more about resources that are available to help entrepreneurs succeed. In the meantime, study the concepts you have learned so far, and begin to think seriously about what you would like to do as an entrepreneur. The sooner you get started, the sooner you will succeed!

LIFE PRINCIPLE:



"You have to be burning with an idea, or a problem, or a wrong that you want to right. If you're not passionate enough from the start, you'll never stick it out."

-Steve Jobs (Co-founder of Apple Computers)

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Topic 8
Resources (Help is Available)

Chapter 3

Section Two
Starting a Small Business

Resources (Help is Available)



When you make the decision to become an entrepreneur and start your own business, you will begin a very rewarding journey that will benefit you, your family, and those who purchase your products or services. Getting started, however, can seem like a ***daunting*** task. Fortunately, you are not alone. Many talented people want to help you succeed, because small businesses drive the American economy. Every small business that flourishes provides jobs, as well as products and services.

In the previous lesson, you learned about the importance of starting a business that would involve doing something you enjoy or in which you have an interest. You also learned about the need to list your interests and skills to discover feasible business ideas. Finally, you learned the importance of doing plenty of research. Research is necessary to determine demand for your product or service, discover how much competition you will have, and learn how to distinguish your business from competitors. Although you may be tempted to view yourself as merely a student completing an economics course, you should consider ***leveraging*** these concepts and actually preparing to start your own business *now*, as you complete high school. If you complete the steps covered in Lesson 2, you will be ready for the next step: *actually launching your business*. Let's look at some available resources that will help get your business started and help it thrive.



Daunting: causing discouragement
Leveraging: making good use of something

As mentioned above, research is essential to success as an entrepreneur. Two great resources for research are the internet and libraries. With high speed internet and a search engine, nearly the entire world of knowledge is at your fingertips. When searching the internet, ensure the computer you are using is equipped

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with appropriate filters to guard against pornography and other unseemly content. Information can be a double-edged sword; guard your eyes, mind, and heart against information that will corrupt your moral character. Once you have taken appropriate precautions, use the ***plethora*** of available search engines to look for information. Different search engines yield different results, so do not limit yourself to only one or two sources.

One of the most important components in searching for information online is asking the right questions. That may seem like a "no-brainer," but in reality, you can waste a lot of time reviewing irrelevant information if you do not phrase the ***query*** appropriately. For example, suppose you want to learn how best to utilize Google, and you are concerned about using inferior search queries. Typing "lousy search queries" would bring poor results. Typing "how to search Google successfully" brings good results.



VOCABULARY

Plethora: an overabundance
Query: a question

Sometimes you might want to do a search when you have the concept in mind, but you do not know enough about the facts to ask the question intelligently. In that case, do a search to learn the facts, and then do the main search. For example, let's suppose you want to do a research paper about the type of economic system used in the former Soviet Union, but you cannot remember the name of the economic system they used. First query with "economic system used by the Soviet Union" to find the answer, which is communism. Now that you have the facts, you can do research about communism.

If you have done many searches on Google or another search engine, you understand the frustration of doing a query and having far too many results returned. For example, if you wanted to know something about starting a ski business in Vermont, then using the query on Google, "how to start a business," could return more than a billion results. Using the query, "how to start a skiing business," would produce fewer results. Using the query, "how to start a skiing business in VT," would return far fewer results. Clearly, no one will have time to check more than a few pages of search results, regardless of what is returned, but the point should be clear: the more precise you target your search, the greater the likelihood that you will get to relevant content quicker. *When searching for information online, be precise.*

Consider visiting a local library. Before the internet became popular, most research took place at libraries. They not only provide computers to assist your internet research, but thousands of available books will enable you to do research beyond online sources. You will be amazed at the huge volume of information available in print books, and you do not need to recharge batteries to read print books!

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Reading is the spark behind much creative thinking, and is one of the most outstanding traits of entrepreneurs and innovators. Books you read on your chosen subject become mentors that reveal skills and lessons that can help you more quickly climb the stairs to becoming a successful entrepreneur or innovator. Reading can also save you thousands of dollars in mistakes by discovering avoidable mistakes made by others. Computer software ***mogul***, Bill Gates, who was a ***voracious*** reader began programming computers when he was 13, and had his own small software business by age 19. "Today a reader, tomorrow a leader" is a truism stated by 19th centry journalist Margaret Fuller.



Using the internet search tools and library books will allow you to research your product or service, the feasibility for success in a given location, and the nuances in starting and growing a business. You will find information on logistical considerations, such as bookkeeping, record keeping, tax and regulatory considerations, and information on marketing and advertisement. If all of this seems overwhelming, remember that successful entrepreneurs take one step at a time, working towards their clearly thought-out and outlined goals.

Writing a business plan is an essential component of successfully starting and guiding your business. A business plan, as the name implies, is a clearly spelled-out plan with a step-by-step process to start and run your business successfully. In essence, a business plan is like an outline you can follow to ensure success. Oftentimes, banks will require a printed business plan before money is loaned to a business owner. Examples of business plans, including information about how to write them, are available online and in your local library.

Having good research tools will help you succeed with your business; but sometimes the need to talk with an experienced business owner will prove invaluable. In that case, you should turn to one of the best resources available to small business owners, the U.S. Small Business Administration (SBA). The SBA website states: "SBA works with a number of local partners to counsel, mentor, and train small businesses." The www.sba.gov website lists helpful volunteers in your area; they can help you with every aspect of starting and running a small business. The SBA has district offices in every State that offer the following services:

- Free counseling, advice, and information on starting a business is available through the Service Corps of Retired Executives (SCORE).
- Financial assistance is accessible for new or existing businesses through guaranteed loans made by area banks and non-bank lenders.
- Free consulting services are available

VOCABULARY

Mogul: a wealthy person with power and influence
Voracious: having a huge appetite for something

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through the network of Small Business Development Centers. SBDCs also conduct training events throughout the district - some require a nominal registration fee.

- Assistance to businesses owned and controlled by socially and economically disadvantaged individuals is available through the Minority Enterprise Development Program.
- Women's Business Ownership Representatives are available to advise women business owners.
- Special loan programs are available for businesses involved in international trade.
- Guaranteed loans are available for credit-worthy veterans.

The Small Business Administration also has resources available to help you develop a business plan.

Every resource needed to help you start a business is readily available to you. Go ahead and dream! You really can start a business before graduating from high school, or at least start planning for a future business. Being an entrepreneur can be a fun, exciting way to earn a living! Begin planning today!

LIFE PRINCIPLE:



"Not all readers are leaders, but all leaders are readers"

-Harry S. Truman (33rd U.S. President)

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Principles and Precepts of Economics



Topic 9
Profit & Loss

Chapter 3



Section Two
Starting a Small Business



Every entrepreneur starts a business hoping to earn substantial profit. With a solid business plan, careful research, and wise utilization of resources, an entrepreneur will likely make a good profit. Even with every "t" crossed and every "i" dotted, however, an entrepreneur's business may lose money. Understanding profit and loss will help you to maximize the probability that your business will be a profitable one. By *profit*, we refer to whatever money remains after all business expenses are paid. By *loss*, we mean the amount of money your business fails to generate to pay expenses. Many business file profit and loss statements on a regular basis to comply with requests from financial institutions, and to assist with quarterly reporting for tax purposes. Let's examine some concepts regarding profit and loss over which you have control, and then we will take a look at some things that are beyond your control, along with some ideas to help alleviate the negative impact.

Many aspects of a small business can be controlled by an entrepreneur. *Time management*, a key factor, is one of them. Successful entrepreneurs use their time ***sagaciously***. They learn to be well-organized, so that valuable time is not wasted. If you do not presently utilize a daily planner, either a paper planner, Personal Digital Assistant (PDA), or computer software program, then make it a priority to obtain one *before* you start your business. A quick search on Amazon.com will yield many excellent daily planners. A two-page, weekly planner works great, as it provides an overview of each week's events, and allows ample room to jot down important daily tasks and meetings to attend. After each task is completed, place a checkmark next to it. If you are using a PDA or computer software, mark each task completed. If a task

VOCABULARY

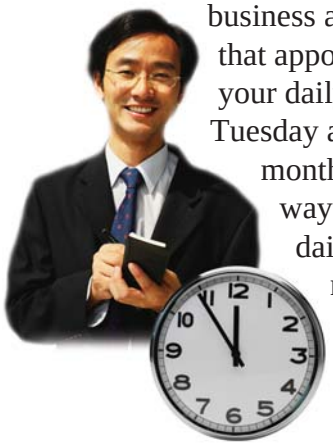
Sagaciously: keenly, wisely

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is not completed as planned, ensure it is rescheduled.

At times, your daily task list can seem like it is a mile long, and simply no way for you to accomplish everything you have planned. In those instances, number tasks in order from most important to least important. Accomplish those at the top of the list first, and work your way towards the least important items. Keep in mind, if you find that you are consistently unable to complete daily tasks, chances are good that you are over-scheduling yourself. Spread daily tasks over several days. An important skill to learn is to distinguish between tasks that are ***recurring***, and those that are "one-off" items that will be accomplished only one time. For example, if every Tuesday at noon you have a meeting with a business associate, then write that appointment down on your daily planner for every Tuesday at noon at least a month in advance. That way, when you schedule daily tasks, you will not overbook yourself on days when you have recurring tasks, as well.



Another item over which you have control is the amount of your knowledge. You determine how much knowledge you should have regarding products, customers, and marketing of the product or service. The old ***adage***, "knowledge is power" demonstrates how important knowledge is. If you own a computer repair business, and you have more knowledge about computers and software than your competitors, you will be in greater demand for your services.

Finally, you have control over your resources. This includes money, product, supplies, and anything else pertaining to the business. While you may not always have control over quantity of these things, you do have control over resources on hand. Learning to manage resources wisely is essential as a business owner. Purchasing only what is absolutely necessary to conserve resources is wise. For example, if you are an appliance repair specialist with limited cash on hand, then buying the 25-pack of paper towels for your office because they are on sale, does not make sense if you can make do with an eight-pack. On the other hand, if you have a window cleaning business, buying the 25-pack would make sense, since paper towels are a critical component of your business. Make sure you understand the difference between *essential* and *non-essential* items for your business, and utilize available funds for ***indispensable*** items first. Later, when business is booming and you have extra funds, you can stock up on non-essential items. Also, remember to designate some of your profit for advertising and savings. Savings enable a business owner to survive during difficult times. Extra cash can "hold you over" until business picks up again. As is the case with personal finances, you do not want to purchase consumables on credit.

Time, *knowledge*, and *resources* are things over which you have control. Wise management of resources and time will help ensure the likelihood that your business will be profitable. Unfortunately, some items

VOCABULARY

Recurring: happening repeatedly
Adage: a saying or proverb
Indispensable: absolutely necessary

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are not under your control. The best you can do regarding uncontrollable things is to learn as much as you can about them, and try to minimize any negative impact on your business. You learned about many of these things in earlier lessons, but now we will examine their impact on small businesses.

The first item you must deal with that will impact profit and loss, is taxes. As a small business owner, you will be impacted differently than average taxpayers. For example, in addition to paying your income tax like all citizens, you will have to pay a higher percentage of your profits in Social Security taxes. Every American worker pays 7.5% of personal income to the federal government for Social Security taxes. Employers pay an additional 7.5%. If you are self-employed, you must pay the full 15% yourself. In many instances, the federal government requires these taxes to be paid quarterly, in advance, based on *projected* income from profit and loss statements.

Taxes are essential to include in your annual budget. Keep in mind, 15% of your profit is paid to the federal government for Social Security taxes, on top of any federal, state, and local income taxes you must pay. In many instances, these taxes taken together can add up to more than 25% of your income. Since the federal government operates on a graduated tax system, the more money your business makes, the higher the percentage of income taxes you will have to pay. Keeping track of all tax responsibilities is essential if you are to avoid penalties and budget shortfalls, which will result in losses rather than profits.

VOCABULARY

Discretionary: available for use as desired



Government regulations are another item that can greatly impact business profit and loss. For example, if someone has a small cabinet-making business, any new environmental regulation that limits logging will negatively impact profit. That is because the price of lumber will rise substantially. With fewer acres to obtain lumber, lumber companies will have to spend more time and money to harvest trees. Loggers will compensate by raising their prices when selling to lumber mills. Since lumber mills will pay more to get trees, they will pass the increased expense along to lumber yards. Lumber yards will raise their prices, since they paid more for wood. Ultimately, cabinet makers will pay the extra expense created by government regulations. The cabinet maker will charge higher prices for cabinets to make up for loss in profit from the greater expense. Since consumers are already paying for government regulations on everything from car purchases to gasoline, they will have far less ***discretionary*** income with which to buy non-essentials. As such, fewer people will purchase new cabinets for their kitchens. Cabinet makers will have to advertise to attract new customers. They might offer more discounts, which will result in loss of profit. Cabinet makers might also try to create a less expensive line of kitchen cabinets, which might be attractive to people with limited incomes. That would reduce profit margins,

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since selling cheap cabinets results in less profit than selling expensive cabinets.

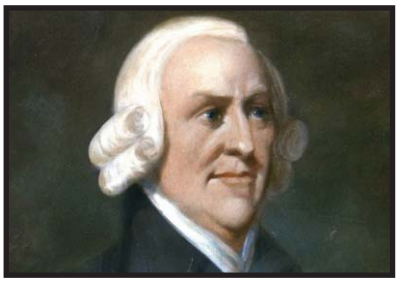
Government regulations also impact small businesses in another way. Regulations raise operating expenses for things like electricity and fuel. For example, under the Obama Administration, the government, influenced by environmentalists, passed regulations that shut down many coal-burning power plants. In addition to putting thousands of people out of work, having fewer power plants raised the price of electricity for everyone. Cabinet makers use a lot of electricity for their power tools, so the increase in electric rates negatively impacts business profits. As you can see, some government regulations greatly hinder the economy and negatively impact small businesses.

Wise entrepreneurs learn to do more than one thing well, so they can relieve negative effects of government regulations. For example, the cabinet maker can advertise his services as a carpenter to help people with small home projects. Using woodworking skills for something other than cabinet making may not be ideal, but it provides an additional source of income during lean economic times.



In every economic crisis, from the Great Depression of the 1930s, to the economic hardships people face today, efficient entrepreneurs have thrived while many other businesses failed. Successful entrepreneurs do their homework. They learn as much as they can about consumer demands, and implement ways to meet those demands. They practice sound time-management skills, increase their knowledge, and utilize available resources effectively. Wise entrepreneurs also learn about proposed government regulations, predict how they will impact the economy, and act accordingly to offset potential loss of profit to their businesses.

LIFE PRINCIPLE:



"Individual ambition serves the common good."

-Adam Smith (Economist)

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Principles and Precepts of Economics



Topic 10
Use It Wisely

Chapter 3

Section Two
Starting a Small Business

Use It Wisely



As a high school student, you might not imagine yourself as an entrepreneur. Starting a successful business and making a profit might seem like something impossible to achieve. Yet, if you implement the ideas in this economics course, and are ***tenacious***, you are very likely to achieve that goal. This section will explain some possible ideas for using business profits in a productive way. Keep in mind, even if you decide to become a successful employee instead of an entrepreneur, many of the concepts will apply in your situation, as well.

Previously, you were encouraged to start thinking about a small business venture while still in high school. Let's take a look at a business you could ***conceivably*** start now, while still a high school student. This is only an example, so simply substitute your passion for the business idea presented here. We will use Joe, a high school Junior, and his passion for woodworking, as our example.

Joe really enjoys working with wood, and has highly developed some skills he learned in his high school woodworking classes. As such, he decides to start a small woodworking business. Joe saved a couple of hundred dollars from working at ***odd jobs***. He also shared his business idea with family and friends, who provided another hundred dollars to help Joe launch his business. All of this money was Joe's *venture capital*.

Purchasing woodworking tools would be an expensive proposition, and is not an option for Joe, so he worked out an agreement with a local craftsman. Joe agreed to assist his mentor with daily shop cleanup, in exchange for the use of the shop and tools. So, while Joe does not have his own shop, or money to buy

VOCABULARY

Tenacious: persistent, never giving up
Conceivably: possibly
Odd Jobs: varous jobs of short duration

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expensive woodworking tools, he has used his ingenuity to overcome the ***impediment***.



Joe purchased some wood, sand paper, and stain from a local hardware store, and started to build his first project, a table. Working every day after school, Joe invested several days to complete the table. Prior to beginning the project, Joe visited local furniture stores to get ideas for a project that was within his skills, and that would return him a handsome profit. To determine the price he would charge for his table, Joe factored in the cost of the wood and supplies, his labor, and his expertise. The wood and supplies cost Joe $55. Joe invested about 15 hours of his time. Since most students his age earn about $9 an hour at their jobs, Joe estimated his labor costs to be around $135. Since Joe was rather inexperienced as a professional woodworker, he decided not to factor in any money for his expertise. As can be seen, Joe's overall investment was $190 per table.

Joe took some good quality digital photos of the table and posted advertisement for free on a local classified advertisement website. Taking some ideas from other advertisements for similar products, Joe created a description that was fairly professional. He emphasized that the table was "hand-built by a local, high school craftsman." In about a week, Joe sold his table for $250. His pre-tax profit was only $60, but it was a start! In addition, Joe made $9 an hour doing something he thoroughly enjoyed, rather than working at local fast food restaurants or grocery stores.

Naturally, Joe would have to withhold some money for income taxes and other government deductions. After calculating all deductions, Joe's profit was actually $47. While not a lot of money, it was his to do with as he pleased. That takes us to the topic of using business profits productively.

Joe decided to reinvest part of his profits into his business, so he purchased more supplies to create another table. Joe had ***amalgamated*** some new methodologies recommended by his woodworking mentor, and was able to reduce time needed to complete the project by two hours. In addition, Joe's profits enabled him to purchase quantities of materials in bulk, which saved additional money. Within a few months, Joe was creating tables in only ten hours, and his expense per table dropped from $55 to $40. Joe's profit margin per table increased from $60 pre-tax to $100 pre-tax!

Within six months of starting his business, Joe was making five hundred dollars each month in after-tax profits. Joe thought carefully about how he should invest those profits. He decided to invest his profits in several ways.

First, he continued to invest in expanding his business. Joe started to buy used woodworking equipment, which his parents let him store in the family garage. Joe's parents also agreed to let him use a

VOCABULARY

Impediment: obstacle, problem
Amalgamated: to be united or blended with

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corner of the garage for his projects. Now, Joe no longer had to invest time cleaning up his mentors woodworking shop in exchange for use of the shop and tools. Time saved by not having to work for his mentor provided an additional five hours each week for Joe to invest in his business.

Second, Joe decided to invest in others. Joe felt he could use his talents and skills to teach someone else the woodworking trade. Joe knew another high school student named Tom who lived nearby. Tom was taking introductory woodworking classes, but wanted to do more to learn the trade. Joe agreed to tutor Tom in woodworking. In exchange, Tom handed out flyers advertising Joe's business.



Another thing Joe decided to do with his profits was donate 10 percent to his favorite charities. Oftentimes, Joe had seen his parents contribute to worthy causes, and he had wished he could do so, as well. Now that he had a profitable business, he could also give money to other people. Joe felt great being able to give to charities that were supporting causes in which he believed.

After a year of producing marketable products, Joe was a successful businessman. His father helped Joe build a 12' x 12' shed in the backyard that he used for his own woodworking business! Besides, Joe's parents were happy to get the rest of their garage back! Owning his own shop and tools, made Joe ecstatic. His profits seemed to increase monthly. Joe gradually started building other woodworking projects. In fact, demand was so great for his products, that Joe decided to take a huge step. He decided to invest his profits in hiring an assistant. When Joe had started his business, he had only intended to create a job for himself. His goal to be a self-employed entrepreneur had been realized. Now, Joe wanted to be the kind of entrepreneur who created jobs; so Joe hired his assistant, Tom, as a paid, part-time employee.

In our example, some things have been left out intentionally for the sake of simplicity. As you can imagine, Joe's greatest challenges would come from complying with government regulations. Business permits, taxes, insurance issues, and many other obstacles would challenge Joe. Still, with patience and persistence, Joe could still operate a successful business in the free enterprise American economic system.

You may not have the passion to start a woodworking business, but perhaps you do have a passion for something else that could be turned into a money-making opportunity. Give it some thought, and you might discover you already have a job - one that you created!

LIFE PRINCIPLE:

"Those who are happiest are those who do the most for others."

-Booker T. Washington
(Author, Educator)



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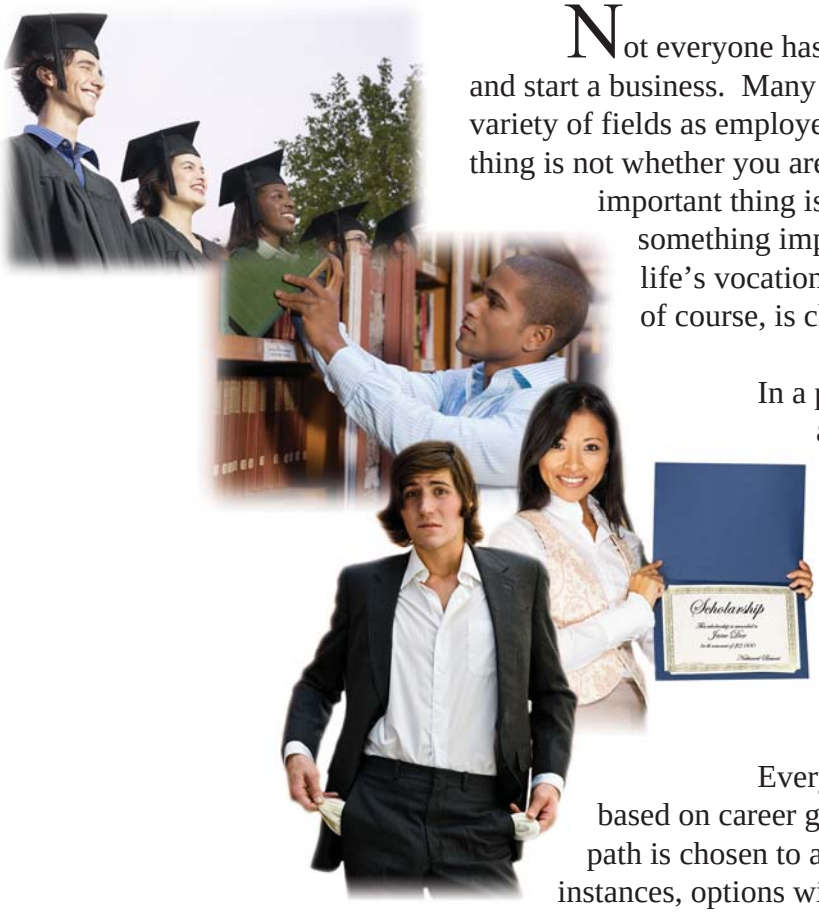
Principles and Precepts of Economics

Topic 11
Considerations

Chapter 3

Considerations

Section Three
Education and Economics



Not everyone has the desire to become an entrepreneur and start a business. Many people pursue careers working in a variety of fields as employees. As mentioned earlier, the important thing is not whether you are an employee or an entrepreneur; the important thing is that you enjoy your work. If you do something important and meaningful through your life's vocation, you will be a success. The first step, of course, is choosing a career.

In a previous topic, you learned about some assessment tests you can take to help you ***hone*** in on your interests and skills. Taking such assessments is a great place to begin if you are uncertain of your future career path. Once you have a vision for a career that excites you, the next step is to make an education plan that will get you there.

Everyone's education plan will be unique, based on career goals, temperament, values, and which path is chosen to accomplish those goals. In some instances, options will be narrow. For example, if you desire to become a Navy pilot, you will need to earn a college education, graduate from officer's training school, and then complete pilot's training. Of course, at some point, you will have to join the Navy. You have options regarding how you will finish your college education, but ultimately, you will be required to stay within ***parameters*** established by the Navy. On the other hand, if you want to be a carpenter, you can choose to attend a variety of trade schools, or start out as an apprentice for a construction company to get first-hand experience on the job. You can also read books and experiment in your own backyard. Naturally, some employers will prefer one form of education and experience over another, but you do have many options regarding education, if you

VOCABULARY

Hone: to focus attention
Parameters: constant, limiting factors

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want to become a carpenter, plumber, real estate agent, photographer, or some other craft person.

High school guidance counselors and state employment and training offices offer information to help you in determining steps to take in your education plan based on your chosen profession. Information is available on the internet, as well. Query the search engines, asking "how to become a _____." You will soon understand what steps are necessary to reach your career goals. Naturally, regardless of the path you take to obtain necessary training, a certain amount of time and money will be required. Selecting a career field involves application of your knowledge about economics and debt.

If you choose a career in retail management, chances are good that you can get started as an entry-level retail clerk. You will learn the business, customer service, and how best to become a manager-trainee for your company. Once you have completed management training, you will be able to begin managing a department in the store, and eventually an entire store. Such an education plan does not require any monetary investment; it only requires time and patience to go through each step. Other careers enable you to start at the bottom, and work your way up to management status. However, some careers require specialized training, and as such, you will need money to finance your education plan.

Depending upon your chosen career, a variety of ways are available to finance your education plan. Let's take a look at some of those ways, so you can begin thinking about your education plan and how you can best finance it. Remember, your plan depends upon which career you choose.

VOCABULARY

Alumni: former students



College scholarships are available to help pay for training. A scholarship is a monetary gift given to students to help pay for their education. In some instances, students receive a full tuition, or "full-ride" scholarship, which means that all expenses are paid for the entire duration of your college education, including living expenses. Scholarships are usually donated by individuals, corporations, or non-profit groups. Wealthy school ***alumni*** often donate money to be used to help fund the education of worthy, lower-income students. Sometimes, donors determine qualifications for recipients, and sometimes educational institutions establish requirements. College scholarship offices can help locate funds.

As a high school student, the best way to increase the likelihood of receiving a scholarship is to earn excellent grades, stay out of trouble with school authorities and the law, demonstrate leadership capabilities through scouting, Civil Air Patrol, or some other program, and do meaningful volunteer work in your community. Getting high scores on college entry exams, such as the Scholastic Aptitude Test (SAT) or American College Test (ACT), is another way to obtain scholarships. You can do a search online to find scholarship opportunities. Remember to search based on career interests, income status, and look for merit-based scholarship opportunities. Other sources of information

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regarding scholarships include high school guidance counsellors and local college financial aid offices.

High school guidance counselors and college financial aid offices can also assist you with finding grants, or another way to fund your education. Like a scholarship, a grant is given as a gift to help fund college expenses. Grants are funded at the federal, state, and ***collegiate*** levels. Most grants are awarded based on income. Federal Pell Grants, for example, are grants given by the federal government to cover education costs for low-income Americans. The Department of Education determines specific criteria, and forms must be completed to determine eligibility.



One of the most common ways to fund education in America today, and the worst possible way to do so, is through student loans. A variety of student loans are available. Federal student loans have low interest rates and attractive repayment options, since they are funded by the federal government. If a student defaults on a loan, the federal government may absorb the loss, but the student carries the burden of not fulfilling a commitment to pay a debt. In essence, federal education loans are another type of welfare. A variety of federal loans are available, and each has its advantages and disadvantages. Private lenders also offer student loans, but because they are not funded by the federal government, these loans tend to be more like regular personal loans. As such, interest rates are high and repayment options are less flexible.

The bottom line with loans of any type, is that a loan means debt. Debt should be avoided, especially debt in the tens or hundreds of thousands of dollars. College graduates may face decades of student loan balances. All that time, they are making expensive interest payments. High school students, who do not fully understand the terrible feeling of being burdened by excessive debt, fall into the trap of obtaining student loans because they seem reasonable. Students are often encouraged to request loans by people in the education industry who do not object to debt. Just because the majority of people are doing something, does not make it right. Think about everything you have learned in this course. Stand on solid moral principles and avoid debt for school, or anything else, whenever possible. Having said that, if your education expenses cannot be paid for in full through scholarships or grants, and you refuse to go into debt, you have other options.

WATCH VIDEO:
Voice of Debt

Perhaps the best option to pay for school, is to work part-time during the school year, and full-time during the summer. If you live ***frugally***, you can save thousands of dollars each year to invest in your education. Start now while you are still in high school. Learn to save your money. Some banks and

VOCABULARY

Collegiate: pertaining to college
Frugally: spending as little as possible

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credit unions offer special savings accounts for college funds. Make no mistake; going to school full-time and working part-time can be a very stressful, difficult thing to do. But, when you graduate from college or trade school debt-free, not only will you be ahead financially, you will be able to spend your money on the things that matter to you, not on paying back debt for numerous years. Consider that debt-free graduates from college and trade school are free to invest in their careers rather than paying student loan debts.



Colleges usually offer work-study programs. These are low-paying campus job opportunities funded by the federal government for students. Job opportunities include working in cafeterias, campus security offices, or in administrative roles, such as Veterans Representatives. While these jobs pay minimum wage, the benefit is that work-study jobs provide students with opportunity with which to study and pay for college expenses. That is why they are referred to as work-study programs. A work-study job on campus is designed for the purpose of helping you to study while earning money for school. Since these are taxpayer-funded jobs, you must decide whether you should accept this type of school assistance.

As you can see, a number of options are available to finance your education, whether you go to trade school or college. Your specific circumstances will determine which financial options are best for you. A wise economics practice is to do everything you can to stay out of debt. Work hard, take advantage of opportunities you are given, and do your best at all times. Success awaits you!

LIFE PRINCIPLE:



"Anyone who stops learning is old, whether at twenty or eighty. Anyone who keeps learning stays young."

-Henry Ford (Early automobile inventor)

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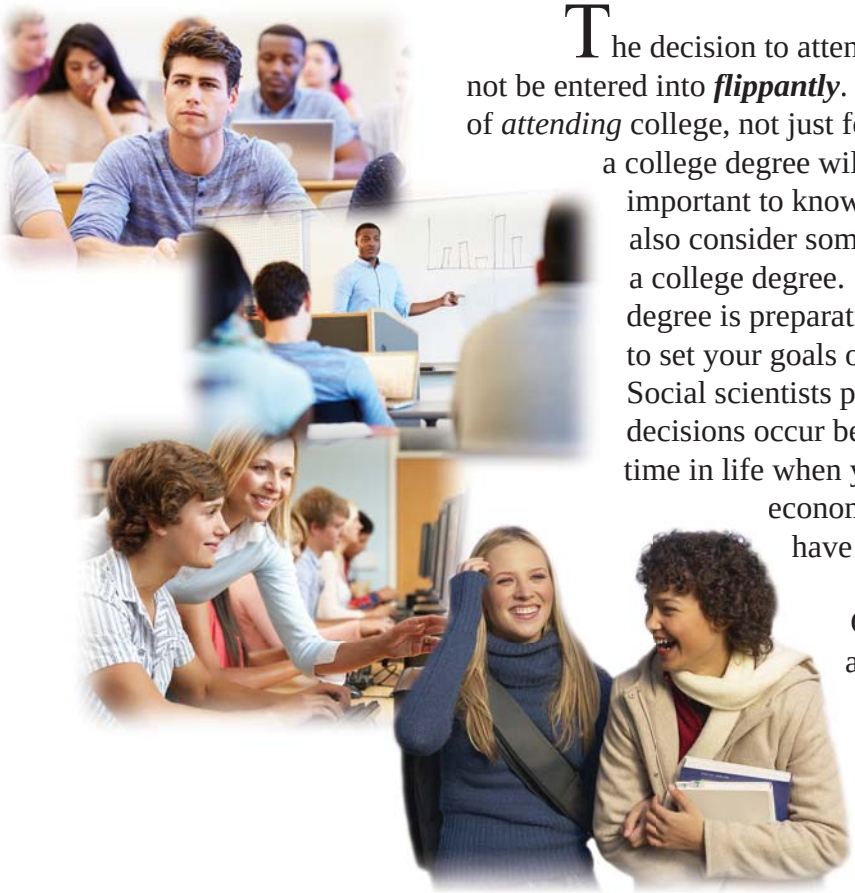
Principles and Precepts of Economics

Topic 12
College

Chapter 3

Section Three
Education and Economics

College



The decision to attend college is significant and should not be entered into ***flippantly***. You should weigh the pros and cons of *attending* college, not just focus on the advantages that earning a college degree will bring to your career. While it is important to know about those advantages, you should also consider some potential pitfalls related to pursuing a college degree. The basic reason to earn a college degree is preparation for the future. The best time to set your goals on a degree is while in high school. Social scientists point out that the most critical life decisions occur between the ages of 16-26. That is the time in life when youth make choices that determine economics that last a lifetime. All choices have consequences – good or bad.

Completing college is almost always advantageous. A college education can open career doors. In some instances, a degree is an essential part of an education plan to enter into specific professions. For example, a registered nurse will need a nursing degree. In some instances, one degree will open several career doors, as with a business degree, which can be applied to many jobs within a variety of businesses. Most people with college degrees earn more income than people in similar jobs without a degree. (However, a degree is *not* a ***requisite*** in several computer-related occupations)

Another advantage to possessing a college degree is meeting other people with similar career interests. Not only does this result in making new friends, it can enhance future career contacts. The ability to meet and interact with college professors can also be beneficial. Professors can not only teach information you need

VOCABULARY

Flippantly: lack of seriousness
Requisite: required

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to acquire, they can also provide career guidance.

You should be aware of some potential pitfalls to pursuing a college education. As previously mentioned, the cost may be ***prohibitive***. Students often juggle employment and school at the same time. Graduates often owe tens of thousands of dollars in debt. In some instances, debt can be ***mitigated*** with grants and scholarships. Students can also limit or eliminate debt altogether, by spreading their degree out over a greater period of time. Students can work more hours to earn extra money, while attending fewer classes each semester. A normal four year degree program might take 5 or more years to complete, but could result in a debt-free education. Therefore, it is well worth the time and effort.



Philosophical challenges to attending college might not be readily apparent. For example, some college professors promote a strong bias towards a collectivist ideology in the classroom, impacting the quality of material presented. Students are sometimes taught that collectivist policies, such as those found in communism or socialism, are good, while free market principles are bad. In addition, professors often ignore the Christian-Judeo influence on America's Founding Fathers, Constitution, Bill of Rights, and other foundational aspects of American history. Some professors actually condemn America's founding principles, while attempting to influence the next generation of educators, attorneys, and politicians to embrace collectivism. If you subscribe to free market principles taught in this course, you might find that you come into stressful conflict with students and professors who will ridicule and attempt to ***censure***, your views. In some instances, faculty and students at colleges and universities are unfriendly to people who embrace traditional moral or religious values. Some professors go so far as to issue failing frades to students who do not agree with them.

Whether you are a person guided by traditional views or not, you will likely encounter bad influences on college campuses. For example, some students, including underage students, drink alcohol and/or abuse drugs. Heavy drinking can lead to falling grades, sexual promiscuity, and a criminal record. Sometimes students experiment with drugs, which are detrimental for the same reasons as drinking. The party atmosphere so prevalent on many college campuses can make life difficult for students who want to study and stay focused on homework. If you decide to enroll in college, you will be wise to keep company with students who are serious about learning, and stay away from students who are involved in non-productive activities. You would also be wise to check out the reputation of any institution you plan to attend. Some are noted as being intollerant to discenting views or being "party" schools. Another item of

VOCABULARY

Prohibitive: burdensome to the point of discouraging action
Mitigated: alleviated, reduced
Censure: criticize, condemn, denounce

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concern might be coed dorms, where men and women are housed in the same buildings.

If you decide that the benefits of college outweigh the negatives, you must decide which type of college will work best for your education plan. You have several options. Local colleges are usually smaller than universities. They usually offer undergraduate programs, such as associate's (two-year) and bachelor's (four-year) degrees. Community colleges and junior colleges offer only two year associate's degrees. Universities usually contain several colleges, and offer graduate, or advanced degrees (such as master's and doctorate's degrees), in addition to undergraduate degrees.



People often start their career education path at junior colleges or community colleges. That can be a good choice for students just beginning their college education. Junior colleges and community colleges tend to be smaller, with more ***collaboration*** possible between students and teachers. Such colleges are a good choice for people who are uncertain about their field of study. Students can complete general studies courses locally at more economical rates than at prestigious colleges and universities. While students attend a local campus, their involvement in classes can help determine the specific course of study they wish to pursue. Then, students can transfer credits to a specialty college or university, and focus on classes specific to the desired degree.

VOCABULARY

Collaboration: cooperation, work jointly together

Let's use a fictitious example of how this might work. Julie is a high school graduate who knows that she wants to go to college, but is not certain regarding which field of study to pursue. Julie likes the sciences, and thinks she might want to be a doctor or scientist. She decides to enroll in a local junior college, where she can complete required general studies courses. These are courses that all college students must take towards degree completion, regardless of major; such courses include English, science, and history classes, among others.

About half-way through her second year, Julie decides to pursue a career as a doctor. At the end of her second year, she transfers credits to a college that offers undergraduate degrees. Since Julie already completed her basic course requirements at junior college, she can focus the next two years on courses more precisely related to her interest in medicine, including courses in science and mathematics. After Julie graduates with a Bachelor of Science degree, she enrolls at a University that offers medical degrees. After she completes four years of study and earns a doctorate degree, she is ready for a 3-7 year residency, where she will practice medicine under supervision of senior physician educators. As you can see, becoming a doctor takes a long time and requires a great deal of effort, but the example with Julie allows you to understand how each type of school fits into the education picture.

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In the above example, Julie opted for junior college because she was not certain which degree to pursue, and because junior college is more affordable. Julie made some wise economic choices. That takes us into another consideration regarding which college to choose: cost vs. ***caliber***. Colleges and universities offer similar degree programs in business, law, political science, education, agriculture, etc. A law degree at Harvard will cost a lot more money than a degree at a state college. Whether a law degree from Harvard is better quality or not might be debatable, but a degree from Harvard definitely has far more ***gravitas*** than a degree from most state colleges and universities.

If you desire a degree that is offered at several colleges or universities, ensure you do a considerable amount of research regarding the quality of education offered at each educational institution. You should try to determine whether you want a degree for prestige purposes, or for personal fulfillment and career enhancement. Some businesses prefer degrees from specific colleges and universities. If you have a specific employer in mind, ask which educational institution's degrees are most valued. You may want to visit any college or university you are considering for enrollment before you ***matriculate*** there. Ultimately, based on your research, you can determine the best economic and career value for your particular circumstances. Make sure to complete all high school prerequisite courses required for enrollment at the college of your choice.



Living arrangements are also an important economic and practical matter to consider when choosing a college or university. Some colleges and universities require single students to live in dormitories on campus. This greatly increases the amount of money needed to fund a college education. In addition, living in a dormitory requires some adjustment compared to living at home. In most instances, you will have to share a room with another student. ***Compatibility*** may be an issue. You do not want a dorm-mate who drinks, does drugs, or engages in negative behavior. Your dorm-mate should be serious-minded about studying. Some colleges may allow you to swap dorm-mates after a short period of time, so like-minded people can live together.

Some colleges and universities allow students to live off campus. Oftentimes, to save money on expenses, several students will team-up and become housemates, sharing a rented home or apartment. The ***criterion*** for appropriate dorm-mates applies when choosing housemates, as well. Ensure your housemates will not be a detriment to your studies, or to your principles. Tragically, less than half of students who reside on campus or in off-campus housing graduate, due to poor choices regarding relationships or economics.

VOCABULARY

Caliber: quality or value
Gravitas: seriousness, importance
Matriculate: enroll
Compatibility: in harmony with another
Criterion: standard of measure

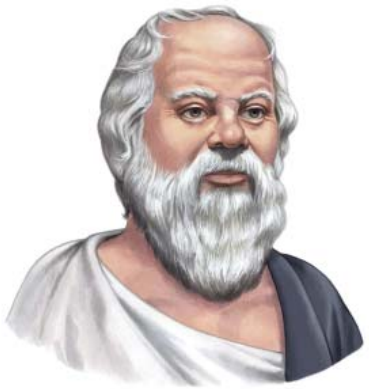
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The most economical living arrangement available for a single college student, when possible, is to continue living with parents at home. Oftentimes, parents will allow their young adults to remain at home during college years, either rent-free in exchange for household help, or in exchange for a small rental payment. Making a small rental payment assists parents with expenses, while enabling college-age students to learn responsibility for managing time, priorities, and finances. Things are always dearer and more appreciated when earned. At home, you are in a safe, familiar environment, away from social dangers that can exist in the campus environment.

The decision to attend college is an important one. You should give the decision a great deal of thought; think through concepts you have learned regarding college options and potential challenges. Ultimately, you will be able to make the best economic and practical decision possible for your specific circumstances. Seek advice from parents, teachers, and other trusted adults. If you make intelligent economic, career, and moral decisions, you can proceed toward your career with confidence.

LIFE PRINCIPLE:



"Education is the kindling of a flame, not the filling of a vessel."

-Socrates (Philosopher)

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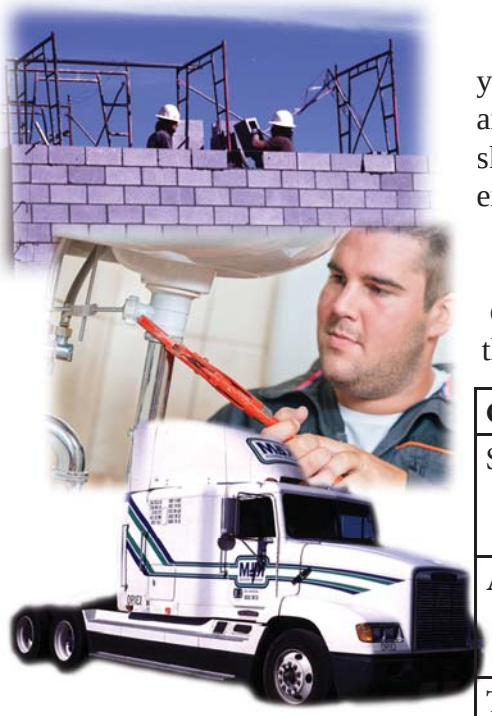
Principles and Precepts of Economics

Topic 13
Trade Schools

Chapter 3

Section Three
Education and Economics

Trade Schools



Not everyone has the ***aspiration*** to go to college. Many young men and women would prefer working at a trade. A trade is an occupation that typically requires some manual or mechanical skill. To learn skills associated with a given trade, several options exist, depending upon the type of trade.

While many people recognize carpenters, plumbers, and electricians as tradesmen, far more opportunities are available in the trades! Here are some examples of trades you can choose:

Category	Sample Occupations
Skilled Trades	Plumbing, Electrical, HVAC (Heating, Ventilation, Air Conditioning), Carpentry, Welding, Masonry
Automotive	Certified Mechanic, Auto Body Professional, Automotive Technology Expert, Truck Driver
Technology	Industrial Technology, Machine Technology
Art, Design, Fashion	Web Programming, Clothing Accessory Design, Graphic Design, Visual Effects Artist, Interior Design
Massage & Wellness	Massage Therapy, Acupuncture, Holistic Health
Healthcare	Medical Assistants, Laboratory Technician, Therapist, Ultrasound Technician, Dental Hygienist
Cosmetology	Hair Stylist, Barber, Manicurist
Culinary Arts	Chef, Baker, Restaurant Management
Miscellaneous	Appliance Repair, Burglar/Fire Alarm Installer, Court Reporter, Horticulture Specialist, Locksmith, Real Estate Appraiser, Veterinary Technician



Aspiration: strong desire to do something worthwhile

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In many instances, each of the listed categories has far more occupations available than just the ones mentioned. The type of education you will need depends upon many things, such as the level of technical difficulty and applicable government regulations. In some instances, attending an accredited, government-approved educational facility is ***mandatory***. This is particularly true with medical and dental-related trades. Such trades will require that you receive government-approved certification prior to getting a job. On the other hand, someone interested in learning how to be an auto mechanic might be able to learn the trade as an informal assistant working for an experienced mechanic. Let's take a look at the types of training programs available for the trades.

Informal training opportunities, like the mechanic's assistant, are available for several other trades. In most instances, this on-the-job training will not cost anything. Carpenters and burglar/fire alarm installers are two examples of trades that can be learned without a formal education. Usually, small companies seeking low-cost help will offer to train novices as an enticement to find quality employees. The disadvantage to this type of training is that it does not result in any official certificate to signify educational accomplishment or trade ***proficiency***.

Another method of learning a trade, is to enter a formal apprentice program. Such programs are offered by employers who want to hire and train people for specific trades. Skilled trades, such as plumbers, electricians, and ***masons***, are examples of trades that provide formal training for apprentices. Apprentices work several thousand hours and attend hundreds of hours of formal classroom training over several years. Training must be approved by the U. S. Department of Labor, or federally-recognized State Apprenticeship Agencies. Upon completion of the apprentice program, an employee can take an exam to obtain a ***journeyworker's*** license. Eventually, after additional training and experience, journeyworkers can become certified as masters. Both journeyworkers and masters earn very good wages, often surpassing salaries of many people with college degrees.

For some vocations, a person is required to attend a formal trade, or vocational school. Depending upon vocation, some trade schools can be completed in as little as one month, while others take up to two years. For a few vocations, associate's degrees are earned, as with some nursing courses. Trade schools tend to be "hands-on," with emphasis on learning information and skills necessary to become proficient at the specific vocation. Financial assistance is available for many vocational courses of study, with grants and scholarships similar to those available for college.



Let's examine some pros and cons of attending a trade school, particularly in comparison to attending college. Trade

VOCABULARY

Mandatory: absolutely necessary
Proficiency: capability, expertise
Masons: professional layers of brick or stone
Journeyworker: a person who has successfully completed an apprenticeship

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schools differ from colleges in several ways, including cost. Trade schools are almost always less expensive than colleges. For example, a certificate in radiography, necessary to become an X-ray Technician, can cost between $6,000 and $20,000. To obtain a Commercial Driver's License (CDL) to drive a semi-truck, will cost between $1000 and $7,000 dollars.

Trade schools focus on information directly related to the vocation being learned, unlike colleges and universities, which endeavor to provide a well-rounded education. Colleges and universities ***mandate*** that all students take general courses, such as English, history, or literature. Trade schools focus only on information essential to learning the vocation, and as such, it usually takes less time to complete training. In the above examples, the certificate in radiology can be earned in 18 months, and the CDL for a truck driver can be obtained in as little as four weeks.

The ability to learn a trade with less time and money invested than with a college education are definite advantages to attending vocational school. Students who do not enjoy a traditional classroom experience, often prefer the way trade schools focus on topics relating to the vocation itself, rather than on many, seemingly unrelated courses, as is the case with colleges. Nonetheless, students face some disadvantages in attending trade schools.

After attending a trade school, a person's options are limited. For example, a CDL earned by a truck driver will apply only to driving a truck. If a person with a CDL wants to become a plumber, he will need to attend another trade school. However, a person with a college degree in chemistry can easily transfer from one career to another career in industry. For that reason, you should be very certain you want to learn a particular vocation, and that you will enjoy doing the work for a long time, before you make the decision to go to trade school. A benefit of learning a trade is that the skill can allow a student to pay for tuition expenses while completing a college degree, if that is a goal.

VOCABULARY

Mandate: require



Let's look at a fictitious example of a high school student considering a trade. As a high school sophomore, Ethan thought he might enjoy working as a truck driver. His parents had a friend, Sam, who drove a semi-truck for a living, so arrangements were made for Ethan to spend a day on the road with Sam. Ethan realized that driving a truck wasn't his career choice. However, a local high school offered a strong building trades program, so Ethan enrolled. He had the opportunity to do some electrical work, plumbing, and masonry. Ethan enjoyed plumbing work the most, so he was employed part-time, working with a local plumber. When Ethan graduated from high school, he had a certificate in building trades from school, and two years of plumbing experience as an informal apprentice. He was hired by a large plumbing company, which enrolled Ethan in a formal apprentice program. Ethan was on his way to a rewarding, profitable career, because he took the right steps in high school.

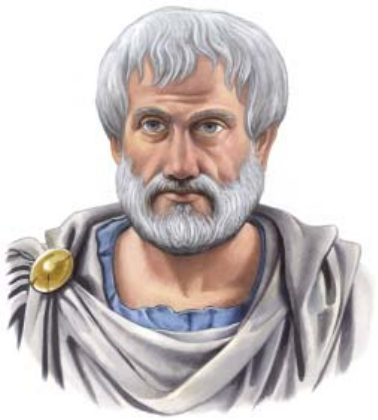
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Just like Ethan, you can look for opportunities to "try out" a trade to see if it is what you expect. Talk with local business owners, to ask permission to "shadow" an employee for a day. Offer to help as an informal assistant, at no charge to the business. Oftentimes, you will find that employers welcome opportunities to talk about their companies. By exploring various opportunities, you will discover whether the trade you think you might be interested in, is really the right choice for you.

As you explore career opportunities, do not overlook the many trade careers available for high school graduates. Trades include well-paying jobs, enjoyed by people with a passion for the work.

LIFE PRINCIPLE:



"Where your talents and the needs of the world cross; there lies your vocation."

-Aristotle (Philosopher)

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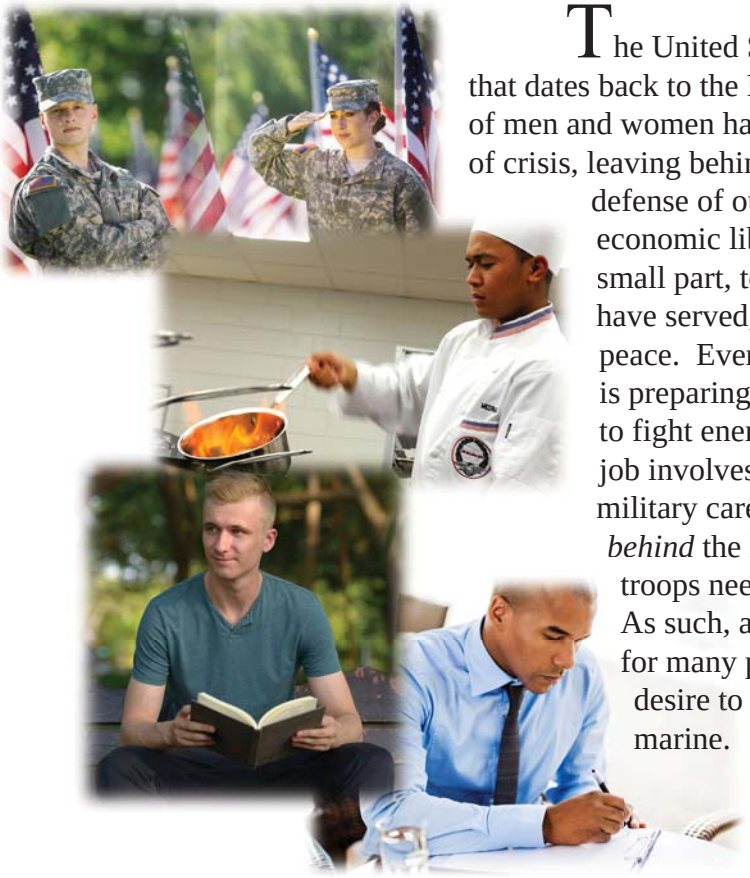
Principles and Precepts of Economics

Topic 14
Military Service

Chapter 3

Section Three
Education and Economics

Military Service



The United States military has a distinguished record that dates back to the Revolutionary War. Since that time, millions of men and women have answered our Nation's call during times of crisis, leaving behind family, friends, and careers, to fight in defense of our Nation's freedoms. We still have many economic liberties in the United States thanks, in no small part, to brave patriots. Indeed, many Americans have served, both during times of war and during times of peace. Even during times of peace, however, our military is preparing for war. Although our military is prepared to fight enemies of liberty and free markets, not every job involves a ***frontline stint***. In fact, the vast majority of military careers are troop *support* roles; men and women *behind* the lines, ensuring that everything frontline troops need for battle is available and ready for action. As such, a career in the US military is a viable option for many people, including the person who has no desire to be a frontline soldier, sailor, airman, or marine.

Just being patriotic is reason enough for someone to enlist; however, numerous advantages to serving in the military can be found, beyond love of country and liberty. Some issues of concern also exist, however, and students contemplating a military career need to be cautious before enlisting.

VOCABULARY

Frontline: war/combat zone
Stint: a period of time doing a task
Rigorous: very demanding

Students should consider both advantages and disadvantages of joining the military, whether you intend to make a career of military service, or intend to enlist for only one tour of duty. One of the greatest advantages to joining the military, is the first-class training provided in military schools. Initially, all recruits must pass through basic military training. Length of training, and degree of physical effort, depends upon which branch you join. For example, the Marine Corp has one of the most ***rigorous*** basic

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training programs, while Air Force basic training is much less intense. After basic training, new military personnel are assigned to bases with schools where technical training takes place. Length of training varies greatly, depending upon the career chosen. Regardless of the length of training, when students graduate, they are ready for additional on-the-job training (OJT) at their first assigned military installation. Joining the military for free, with its high-quality training, is a ***viable*** economic strategy.



Military Chef

Another plus regarding military service is that nearly as many career paths are available as can be found in the civilian world. People in the military build military bases, including airfields, office buildings, housing, and many other types of buildings necessary for working and living. Other military personnel provide maintenance for buildings. Military families also need hospitals, grocery stores, and many other support structures essential to everyday living. Combat duty, along with additional support roles, are also available. Some examples of support roles would include aircraft mechanics, vehicle mechanics, and fire fighters. Chances are, if you have a career interest, the military offers a place for you.

Unlike colleges and trade schools, which require you to pay for your education and living expenses, the military provides both. Not only are you paid to learn a career, you are also provided with food, clothing, and shelter, all at government (tax payer's) expense. The quality of these things will vary from base to base, and from military branch to military branch.

The best way to determine which branch to join, is to decide on a career path, and then talk with as many military personnel as you can, including military recruiters. Some branches offer career paths that other branches do not. For example, if you want to operate watercraft, the Navy or Coast Guard would have more opportunities than other branches. The needs of each branch, at the time you inquire, will also determine opportunities. If you want to become a heavy equipment operator, the Navy may not have openings in their famous Seabees construction battalion, but the Army, Marines, and Air Force might have openings in their construction organizations. Keep in mind, simply wanting to join the military does not guarantee you a position. You must take the Armed Services Vocational Aptitude Battery (ASVAB) test. Career opportunities will be determined by how high you score on the test. Some career choices require higher scores on specific parts of the test than on others. If your career choice includes becoming an officer, you must acquire a college education prior to attending officer training school. All military branches frown on criminal records, tattoos, drug abuse, and poor grades in high school.

The fact that the military provides free training, food, clothing, and shelter is a strong economic ***inducement*** for people to

VOCABULARY

Viable: practical, workable
Inducement: encouragement, incentive

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join. High school graduates unable to afford a college education or trade school, can receive their training in the military, serve their tour of duty, and then enter the civilian workforce, highly-trained and experienced. The great degree of self-discipline necessary to succeed in the military is often seen as a very positive ***attribute*** by employers. In fact, veterans tend to be well-trained and very reliable, so they are often *sought* by employers. For these reasons, the military is an excellent economic option for inner city teens who want to escape a cycle of poverty and welfare dependence to make a better life for themselves and their future families. Those who decide they like the military can make a career of it. In many instances, after serving 20 years of active duty service, a military member can retire with a full military pension. That is attractive for someone as young as 38 years of age!



Military man studying for an exam

Another advantage to joining the military is the college-funding opportunities provided. With some officer careers, the military will pay for college in exchange for several years of military service. Members of the military can also qualify for tuition assistance, which in many cases, can pay for college classes taken during military service. Some tuition assistance covers up to $4,500 per year to military members attending school during off-duty time. Veterans who sign up for the GI Bill while in the service get money for college when they are discharged. In fact, the Post-9/11 GI Bill will cover *all* in-state tuition and fees. The amount for which students qualify varies, depending upon length of service, and other criteria. Many high school graduates join the military because of college benefits.

Some high school students are interested in military service, but do not want to be full-time service members. Fortunately, a variety of options are available when enlisting. Of course, you can join full-time and serve on "active duty." Depending upon the branch and occupation, terms of enlistment range from two to six years. If that is too great a time-commitment, you can join the Reserve or National Guard. The Reserve allows you to join the military and receive the same training as active duty personnel, but your time commitment is only one weekend each month and two weeks each year. During time of crisis, however, Reservists are called to active duty service for as long as the government deems necessary.

The Air National Guard and Army National Guard are military organizations controlled by states. Service members in the Guard go through the same training as active duty members and reservists. Like the Reserve, people in the Guard serve one weekend each month, and two weeks each year, usually during summer. Both the Reserve and National Guard offer college and tuition benefits similar to active duty benefits. During times of crisis, the President has the authority to federalize state National Guard units, calling them to active duty service.

As might be imagined, a Reservist or Guardsman who is suddenly called up for full-time active duty service might not be pleased to have their lives disrupted in such a manner. In fact, during recent wars in the

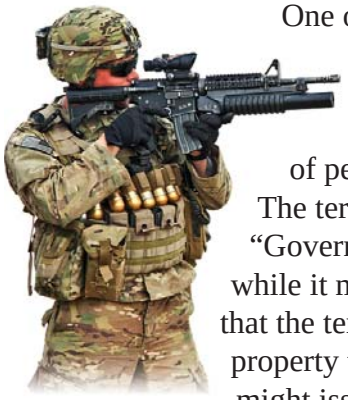
VOCABULARY

Attribute: quality or characteristic

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Middle East, some Reservists and Guardsman have not only been called to active duty for several years, but some have been killed or seriously injured. Disruption of civilian life is one major disadvantage to enlisting in the "part-time" military. In reality, several disadvantages to joining the military can be identified, so let's take a look at them now so you can make the best decision for your career path.



GI

One of the greatest disadvantages to enlisting in the military is loss of personal freedom. The term "GI" is short for "Government Issue," and while it might be assumed that the term applies to any property the government might issue to service members, in reality, since World War II, "GI" is a term that has been applied to service members themselves. The "GI" nickname also led to the term "GI Joe" being applied to soldiers (a name later applied to military action figures produced in the early 1960s). The reason is simple; once you enlist in the military, you are under the complete control of the government, in essence, becoming an indentured servant. You must go where commanders tell you to go, when they tell you to go, how they tell you to go, and for as long as they tell you to go. Even "off-duty" time is restricted, since you can never stray far from your duty station. It is always essential that you report back in time for your next shift or assignment.

VOCABULARY

Cohesiveness: unity

Not only do you lose your personal freedom by joining the military, the government is not obligated to honor their contracts with you. While it is wise to require military recruiters to spell out, in writing, any verbal agreement they make with you, such a contract is not binding on the government. For example, if you enlist in the Army to become a radiologist, but the Army decides you are needed as a medic instead, then you will be trained as a medic after basic training. The military tries to avoid such scenarios, since enlistment rates could decline if contracts were consistently broken. For example, at the bottom of the Air Force contract are these words: "The Needs of the Air Force Come First."

In addition to the above concerns, the military has become politicized in recent years. Progressive politicians, who reject traditional American values, have pressured military leaders to embrace "social change" in the military. Progressive politicians have insisted that all combat roles be opened to women, despite clear evidence indicating that such policies negatively impact troop ***cohesiveness***. Allowing people with alternative lifestyles to enlist has further eroded unit cohesiveness. In essence, Progressive politicians are turning military bases into radical, college campus-type environments less capable of accomplishing military mission objectives.

After leaving active duty, former military members are placed on Individual Ready Reserve (IRR) for several years, which prolongs their military commitment. People on IRR do not report for training, because they are full-fledged civilians, but if a war or other crisis occurs, the federal government can call reservists back to active duty. That happened with veterans during military conflicts in the Middle East and Asia (Korea, Vietnam, Iraq).

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One of the most disturbing things about serving in the military, is ***collusion*** of the federal government with the United Nations (UN). You might recall that the UN is a collectivist entity. The UN is often opposed to many Constitutional rights enjoyed by Americans, including the right to keep and bear arms. In its "peace-keeping" role, the UN encourages member nations to contribute troops to fight under the UN banner in many foreign conflicts, often under the command of foreign military leaders. In some instances, these conflicts serve to promote agendas contrary to the US Constitution. At times, the UN has even assigned human rights tasks to nations whose leaders support terrorist organizations and consistently violate human rights in their own countries. It is clear that the UN cannot be trusted to uphold American values. As such, United States soldiers, sailors, airmen, or marines might be ordered to fight under a UN commander in a conflict that violates the US service member's conscience. In fact, the United Nations Security Council has authority over all US military operations in foreign engagements!

As you can see, many pros and cons are evident regarding military service. In many ways, joining the military can be a wise economic choice. It is up to you, however, to consider arguments for both sides, and decide whether a tour of duty or career in the military is right for you. If you decide to enlist, chances are you will learn a lot, meet a lot of interesting people, travel to new places, and have many interesting experiences. In addition, you will one day join the ranks of Veterans who can say that they have proudly served their country.

VOCABULARY

Collusion: secret agreement, conspiracy

LIFE PRINCIPLE:



"The soldier above all others prays for peace, for it is the soldier who must suffer and bear the deepest wounds and scars of war."

-General Douglas MacArthur
(WWII Hero)

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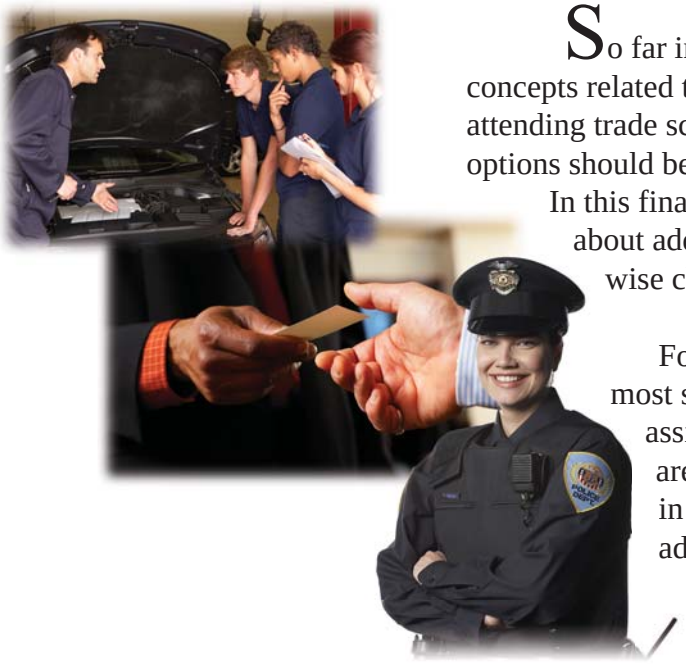
Principles and Precepts of Economics

Topic 15
Other Options

Chapter 3

Section Three
Education and Economics

Other Options



So far in this chapter, you have learned economic concepts related to starting your own business, going to college, attending trade schools, and enlisting in the military. Several other options should be ***deliberated*** as you determine your career path. In this final lesson in your economics course, you will learn about additional options to enhance your ability to make wise choices regarding your economic future.

For high school graduates with economic hardships, most states offer programs, many free of charge, to assist with career training. For example, programs are available that provide apprenticeship training in office administration, major appliance repair, advanced manufacturing, customer service and retail management, woodshop entrepreneurship and many others. Such training programs are funded by tax revenue and private grants. Each state offers selected programs with various qualifications for candidates. A simple web search will provide information about career opportunities in your area. As mentioned previously, programs funded by government taxes are a form of welfare, so you will have to decide if such programs are acceptable.

Numerous careers are available for people who enjoy public service. If you thrive on adventure, becoming a police officer, firefighter, or EMT/Paramedic will provide a challenging career opportunity with exciting experiences. The thrill of danger, coupled with the opportunity to save lives and assist people in trouble, make these career opportunities a ***practicable*** option for people who cringe at the thought of a typical nine-to-five job within four walls.

Students interested in law enforcement careers have several options. In addition to patrol officers who keep streets safe, detectives, training personnel, and forensic experts also work

VOCABULARY

Deliberated: thought about carefully
Practicable: capable of being done with available means

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to fight crime. Career opportunities abound in other security jobs at schools, prisons, sporting events, and large stores and shopping malls. To prepare for a career in law enforcement, get good grades in high school and ensure that you do not engage in unlawful acts. A sure way to be ***debarred*** from a career in law enforcement is to have a criminal record. Police departments often hire veterans with military police training, so the military is an economical way to gain experience.



Some people would rather fight fires than crime. Such students can volunteer at a local fire station, offering to clean and help with odd jobs in exchange for informal training. Utilizing volunteers makes sound economic sense for a fire department, and getting involved on a volunteer basis at your local fire department is a great way to get your "foot in the door" for jobs that could become available after you graduate from high school. Occasionally, fire departments will pay to send employees to firefighting school. Most will hire only people who have already graduated from fire-fighting academies. Some fire departments operate on a volunteer basis, and do not provide paying jobs. Such fire departments do provide invaluable training, and in time that training could be transferred to a department with paid, full-time career openings.

VOCABULARY

Debarred: excluded, prohibited

If you have the desire to assist injured people, but do not want to work in a hospital or doctor's office, then working as an Emergency Medical Technician (EMT) or Paramedic might be a satisfying career choice. Similar in their roles, Paramedics have far more advanced medical training than EMTs. Paramedics must complete training to do many tasks a doctor would perform in the emergency room. EMT training typically takes about six months, while Paramedic training can require two years.

Another unique career option is to become involved in non-profit work. The motive of a non-profit organization is not to make money, but to assist people in some way. Examples of non-profit organizations include hospitals, churches, missionary and evangelistic ministries, schools, orphanages, food pantries, emergency shelters, and emergency aid organizations. Perhaps the best-known, non-profit organization, is the Red Cross. During emergencies and times of crisis, such as earthquakes and flooding, Red Cross workers become involved with search and rescue efforts, first aid, food and water distribution, and establishing temporary housing arrangements for victims of disaster.

Non-profit organizations often hire full and part-time employees. In addition, entrepreneurs start their own non-profit organizations. Most non-profits are small, locally-operated organizations that serve their immediate communities, though some non-profits operate on a national or international scale. Non-profits are usually funded by charitable contributions. The federal government allows non-profits to apply for 501 (c) (3) status, which authorizes them to deduct various business expenses. This lowers the tax liability of non-profits, enabling them to use more of their money for charitable work. An interesting oxymoron is that progressive collectivists in the federal

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government recognize that a lower tax burden enables non-profits to be more productive, but progressives do not apply that same basic economic principle to "for-profit" businesses. If you are interested in starting a non-profit organization, the U.S. Small Business Administration provides valuable information and expertise to help you get started.

Regardless of the career path you choose, more than likely your career will be interrupted when, for whatever reason, you become unemployed. Businesses close or move, forcing people out of work. At other times, companies downsize, and lay off workers. Being unemployed can be a challenging economic time in anyone's life. If you become unemployed, you have several options worth considering.

First, consider taking some ***precautionary*** economic measures while you still have a job. Put aside at least 10% of your income in savings. That practice will allow you to get through your unemployment period without going into debt. Keeping several months' worth of food and non-food essentials on hand will help carry you through difficult financial times. Keep your resume up-to-date. As you learn new skills at work, add applicable information to your resume. Keep informed about the latest news in your industry. Learn about job opportunities in your career field in places where you would be willing to live in the event you become unemployed. Looking for work in several geographic locations will prove more fruitful than limiting yourself to opportunities within an hour's drive of your home.

VOCABULARY

Precautionary: steps taken to prevent a problem



In the event you become unemployed, consider job hunting as your new, full-time occupation, until a new job is found. Spend time on job websites looking for advertised job openings, and check ads in newspapers (especially online versions). Take a professional, quality business card and your resume when you inquire about employment opportunities for someone with your talents and skills. Dress to impress! Combed, neatly styled hair, and clean, unwrinkled, professional-looking clothes, will put you ahead of most other job seekers. Remember the old adage, "the first impression is the lasting impression." Visit your local state employment agency to inquire about jobs for which you qualify. Many agencies offer help creating resumes and with other job-hunting skills. When looking for employment opportunities, never cut corners. Do everything to the best of your ability.

During a time of unemployment, you might consider starting a business instead of rejoining the workforce. Recall all that you learned about the advantages of starting and running a business. Many people who lose their jobs consider such circumstances an opportunity to fulfill their dream of becoming an entrepreneur. The American Dream has always been fueled by entrepreneurs – risk-takers who did their homework, put in necessary time, and accomplished meaningful

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goals for themselves, their families, and other people.

As you conclude this course in economics, you should recognize that you have accomplished much! Successfully completing a course at this level is an achievement for which to be proud! Apply what you have learned to accomplish noble goals for yourself and others. America is a great Nation, and people like you are needed to practice, protect, and promote economic liberty. That way, Americans will continue to enjoy the same economic blessings that have been our *birthright*, since 1776.

LIFE PRINCIPLE:



"Life is precarious, and life is precious. Don't presume you will have it tomorrow, and don't waste it today."

-John Piper (Author, Theologian)

VOCABULARY

Birthright: a right that exists from birth

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