



3

***FINANCIAL
EDUCATION
WORKBOOK***





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In school there are a variety of learning contexts and environments that complement each other. These encompass subjects and subject areas and interdisciplinary settings, which mobilise different literacies and which promote intellectual curiosity, critical thinking, proactive creativity, and collaborative work. This challenges and benefits the pupils through better teaching.

This **Financial Education Workbook** will invite you to partake in the adventures of a group of pupils from lower secondary education. This will be done in a creative, collaborative and stimulating way. It will allow you to learn new subjects or to improve your knowledge in subjects you are already familiar with, such as: planning and budgeting, savings and how to apply them, credit, insurance, and the financing system. It will encourage you to develop sound financial practices.

WE ARE A COOL BUNCH OF PEOPLE AND WE ARE READY FOR GREAT ADVENTURES.

Text by Maria da Conceição Vicente



THOMAS AND CLARA

We are Clara and Thomas, the Cash siblings. We are interested in knowing how to deal with money. Our mentors? Our parents, grand-parents and teachers of course! So far, we've learnt a lot from them, but we want to learn even more. We have a new project and... after all, we do not want to discredit our name: aren't we the Cash family?

I'm Rod. Do you need great ideas, many of them and new ones? Come join me! But as for financing these great ideas... I will join you in finding out how!



ROD



LIZZIE

Don't worry! Your friend Lizzie, here, doesn't do anything without thinking it through. Therefore, only well-grounded new ideas and adventures please! Purchases? Projects? – only after parents' approval and with well thought out savings plans...



MILLY

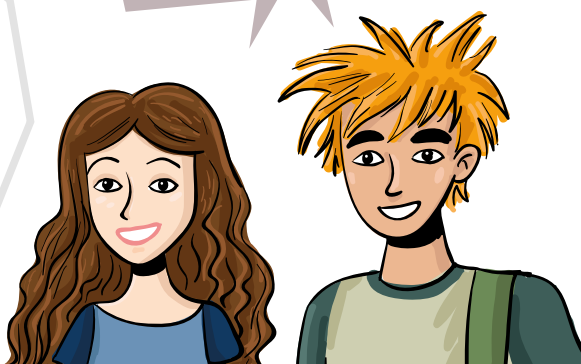
I am Milly and I love projects. But they tend to be pie-in-the-sky, therefore I still have a lot to learn about budgeting and managing!...

Come along, join us! There is always room for one more. All you need to do is to explore and participate in this workbook with us.



WILL

I'm new in the group and my name is Will. I know very little about finances. I promise adventure in exchange for financial advice. Isn't that what friends are for: to swap experiences?



1.

FAMILY BUDGET



IT'S ALWAYS GOOD TO "BALANCE THE BOOKS"

Text by Maria da Conceição Vicente

When Mum called everyone for dinner Clara immediately left her room for the table.

'Very good!' commented Peter, the Dad, 'Today we didn't have to wait for our little Clara. She is, without a doubt, growing up'.

'No, she is not Dad' said Thomas who had just finished setting up the table, 'It's only because it's the beginning of the year, and we are still on best behaviour. In a while you'll soon see what happens...'

'Today, after lunch, "the squad" got together at the school cafeteria...' Clara interrupted, ignoring the previous conversation held around the table.

'Squad'? May we know who's in the "squad"? Kate the mum asked slightly preoccupied.

'Of course, you may Mum. All of us are in my "squad". We have been together since year 5 and you know them all: Rod, Milly and Lizzie'. Kate looked reassured, and so did Peter who couldn't help commenting 'So Clara is part of a "squad" now! There you go Kate, we can't forget Clara is already in year 9, she is coming out of her shell...'

'But we have a new friend now...'

'Ooooh! A new friend, is it?!...' Thomas interrupted.

'...who came from up North, didn't know an-

yone, and looked a bit lonely wandering the school corridors...'

'Oooh I get it! I can see the big picture...'

'Shut up Thomas. Indeed, you also have a new school friend in your class... I've heard all about it!...'

Thomas was immediately silent and blushed – he had got the message! Mum and Dad shrugged, they were used to reading between the lines in their children's conversations.

'His name is Will. He is a Cub Scout. He's always going on field trips with them...'

'I see, he conquered you all with accounts of his adventures... and I bet he is very popular with the girls... I can imagine that!' said Peter.

'As a matter of fact, he tells us really cool stories... he left us all longing to go camping... but not wild camping... I'm scared of spiders, lizards and other creepy crawlies!'

'You would like a camp site covered in carpet, would you?... ' said Thomas in a failed attempt to join the conversation.

'But, you know, Mum and Dad, we've been planning some cool stuff...'

'Oh dear! What's going to come of that then?!' said Peter doubtfully, with the backing of Kate.

'We decided that we were going to ask our



parents for permission to camp on the beach for a week, this coming summer... We think that the end of year school trips is a bore... everybody goes on it and we would like to do something different. Will has a lot of camping experience and he has been telling us all these wonderful stories, so we thought about going camping. But we have thought it through very well, in a very responsible way Mum and Dad. Just hear me out please: we know our parents would not let us go camping alone, on our own I mean... we know that our parents would require the presence of adults to keep an eye on us. But listen to this, how lucky are we that Lizzie's grand-parents have a house by the seaside and they spend the whole summer there; also, the PE teacher – Mr Rogers – also goes to a camp site in the area, because he teaches swimming there... and don't say he wouldn't be interested in looking after us because he has been our form tutor since year 7, and he has looked after us on previous occasions, and he loves us very much... we are almost like his own children...

'Hey Clara' Thomas interrupted 'you sound like Emma the ostrich, the character in the bedtime stories Grandma Lizzy used to tell us ... the ostrich had swallowed a gramophone and once it opened its beak music would come out non-stop. You haven't swallowed a gramophone, but it sounds like you've eaten a TV set on the news channel... Give us a breather, please.'

'... and he can also surf... and he could teach us how to surf.'

'Then I also want to go... I'm in year 8 now, I'm not that much younger than all of you. Just because you are going to upper school...' Thomas said. 'And I want a surfboard' he added.

'You? Firstly, grow up, and secondly remember what Grandpa Mark says "wishing for and wanting to" don't come under the same dictionary entry' said Clara, quickly adding 'But on second thoughts you might be of some use: to set up the tent, do the dishes, hang the linen to dry... We will think about your suggestion.'

The conversation about including Thomas in the group continued, on a high note, till Mum

changed the tone in order to put a stop to her children's pie-in-the-sky attitude.

'Now then Clara, isn't this all a bit whimsical on your behalf, an "off the cuff" decision based on your new friend's adventurous antics?'

'You know that light-hearted decisions might result in impulsive spending' added Dad. 'We have often spoken about it: spending money on things that might give us instant gratification is all very well, but after the initial enthusiasm they will just be set aside.'

'Have you thought about all the goods you would have to buy just for one year?' Mum asked.

'That is not the case Mum. For instance, we would hardly need a lot of non-durable goods...'

'Well, don't forget mosquito repellent. It's not cheap and doesn't last long!' Dad jokingly commented.

'...almost all of what we'll get will be durable goods, which we can re-use any time we want, and we will have the opportunity to do so many times. I am sure we will all love the experience and will continue to have outdoor holidays together. Besides, all of us without exception will want to go interrailing in the future. If our plans are realised we will all have rucksacks ready to go. Just pop them on our backs ... only one slight detail missing. The money for all of this.' Clara whispered, sensing an imminent stormy answer.

'Ah! I'm glad that that part of the conversation wasn't forgotten' said Dad. 'because that is absolutely fundamental.'

'Honestly Dad, I've always seen you and Mum budgeting so I wouldn't forget the chapter on "Finances".

'I'm glad you didn't' Mum said. 'Because "balancing the books" is extremely important and this year we have to pay special attention to this. With Dad starting to work from home part of the time, it is of the utmost importance we create a work-space for him. We are thinking of doing a loft conversion – since the loft space is currently being wasted on storing junk. We want to create a space where each one of us can have a desk – their own work-space. For that to happen we need to have building work done...

'But Dad has always said that, each month, money is set aside for coping with different situations... some unexpected or unforeseen expenses and some planned ones' Clara argued.

'Risk assessment, that is what Dad calls it' corrected Thomas wanting to sound very knowledgeable.

'Actually, it isn't a matter of risk assessment' clarified Dad. 'But, truly, we always must consider life's uncertainties and plan for them, by keeping a savings plan or by taking up insurance – which is a subject we will also address.

'In this case it is different. This is something we need and building works have been in our plans for a while' Mum added.

'Only, this situation requires we rethink our annual family budget, and therefore our monthly one too. If we are going to use a good part of our savings, we must be able to replace them, mainly because we mustn't forget the risk of unforeseen situations, as Thomas mentioned...'

'... therefore, instead of adding to our expenses, namely with holiday projects, we need to reduce our expenses considerably' Mum concluded.

'But Mum, this way you are going to reduce the cost of our holidays. Camping is cheap and this way we would only have one week of holiday instead of the usual two. Look at it this way, you would only have to give us money for the food – and if we stayed at home, we would have to eat too...'

'For the rest we will think of a way to make some savings.'

'We had already thought about asking you to help us define the required expenditure, mainly the short-term expenses to start with, to help us do a budget all together' Dad said.

'I'm ready to start' said Thomas 'We can even work on a participatory budget, like I've heard mentioned in the news. It is very current.'

'That is a good idea' Dad concluded, 'in that way we can see what our individual contributions to balancing the family finances would be.'

'Don't worry Dad' Clara said, 'we are going to find the money needed for these holidays. Think about it: it will only be for one week, we don't

need longer. After that week we come home, and we will have fun here. So, if you think we can't have two weeks' holiday like in previous years, that is fine with us.'

'This way you can even set aside more money for the building work' added Thomas 'and we will try to reduce our expenses to a minimum. Come on Dad, let us start thinking it through.'

Mum and Dad went quiet for a moment, then Kate said:

'Well, let us sleep on it. Things will probably be clearer in the morning. Let's talk again then.'

'Please don't go having nightmares Mum!' exclaimed Thomas.

'Only yesterday did I hear you say to Granny "our little Clara has become a very responsible young lady..." so Mum don't forget during the night what you thought during the day.'

'We won't forget' Dad reassured 'we're even sleeping with the light on to see clearly...'

With laughter and cuddles the conversation continued until till bed time.

Next morning, the minute the alarm clock went off, Thomas and Clara ran into their parents bedroom.

'Tells us then please: are things clearer this morning?' both the siblings asked at the same time.

'Education in the home is handed down through generations' Dad started saying 'We will do with you what Grandpa Mark and Granny Lizzy did with me: we are going to give you eight days to ponder this idea...'

'... and if this idea is not a whim and you really wish to try to go through with it, in a week's time we will talk about it again and try to put a plan in place. What we can't do is compromise the works for the loft conversion, which are a short-term need' Mum concluded.

This wasn't really the answer the children were hoping for but both Clara and Thomas knew that when their parents decided on something it was better not to be argumentative. Besides that, things were still out in the open this way... and off to school they went, longing for the next scheduled family meeting.

STOP TO THINK

1.

I want a surfboard!



1.1. This demand made by Thomas, does it correspond to satisfying a wish or a need? Please give reasons for your answer.

1.2. Taking into consideration the text above, please write down what you think Thomas's Mum's answer to his request would be.

1.3. Explain the meaning of the expression used by Mark, the grandfather: *"Wishing for and wanting to don't show under the same dictionary entry"*.

2.

With Dad starting to work from home part of the time, [...] we need to create a work-space for him.



According to Kate, the mother, the loft conversion corresponds to a need, and is therefore a necessary expenditure.

2.1. Reflect on the list of expenses below and identify them under row A and B.

Expenses: School lunch, transport, new outfit for birthday party, school material, branded mobile cover, PE kit, snacks at the Cafe, cinema tickets, new backpack to replace the damaged one, yoga classes.

A) Necessary Expenditure (essential expenses)	B) Superfluous Expenditure (dispensable expenses)

2.2. Please add in each column A and B, three family expenses corresponding to the given types of expenses.

3.



It is of the utmost importance
we create a work-space.

With this statement Kate emphasized that the loft conversion was a short term need.

3.1. Below is a list of needs most families are confronted with. Please mark with **S** the short term needs and with **L** the long term needs.

☐ Replace or fix the boiler.

☐ Replace the sofa in the sitting room.

☐ Buy a new car.

☐ Pay for all the vaccinations the new adopted dog needs.

☐ Paint the house.

L _____

☐ Replace two of the car tyres which
are damaged.

S _____

3.2. After discussing it with your family, please complete the list above with two more family expenses, in the space provided.

THE ROUND TABLE

On Saturday afternoon, Dad decided to convene the family around the table, so that they could plan together the family finances. An animated dialogue ensued whilst the family sat around the table.

Right, let's all work on our family budget for next month!

In general terms, this means we need to record our revenue, which is our income, and to record our expenditure...

... in order to calculate the balance, which is the difference between the value of the revenue and the value of the expenditure.

But Dad do we all need to be doing the budget?...
It's you and Mum that control the money...

Yes, but if we all collaborate, the commitment to achieve the objectives increases.

I agree. Furthermore, if in the future something comes up that we don't like, we will not bicker with each other because we all planned together.

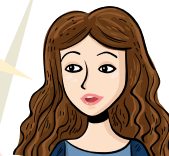
Let's start then by recording Mum and Dad's net pay.

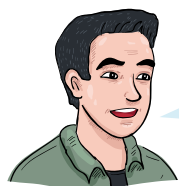
Net pay? What is that? Does it escape if you let it out of the net?...

Oh Thomas, don't make jokes! This is a serious matter!
Net pay is the amount of money we effectively take home, after taxes and other contributions are deducted.

I didn't quite get that...

In our work contracts, an amount of money is stipulated as a monthly salary - this is called your taxable gross pay...





... from which a certain amount is deducted to pay tax and other contributions like social security. These deductions follow certain percentages stipulated by law.



What is that all about?

Taxes, like for example Income Tax¹, are compulsory contributions to state revenue, for example to cover for Healthcare, for Education... these contributions are deducted monthly from our earnings...

... and the contributions for National Insurance are for our pensions, one day in the future when we reach the end of our working life. Just like Grandpa Mark and Granny Lizzy receive...



I've got it now! Let 's do the budget now... Is there a spreadsheet to make it easier?

Of course we can use a spreadsheet. But we can also use the Family Budget simulator on the website www.todoscontam.pt.

But to actually learn thoroughly it's better *to have hands on experience*. So, for now, better we do the calculations ourselves.



I think so too! Once we have understood how to do it then we can use the simulator to save time.



Moreover, *time is money!*

¹ Income Tax is a certain percentage of your income that you have to pay regularly to the government.

TASK 1 • IDENTIFY THE INCOME (REVENUES)

1. Look at the Cash family revenues list below.

Dad's net pay.
Mum's net pay.
Dad's meal allowance.

Mum's meal allowance.
Mum's overtime pay.
Dad's productivity bonus.

1.1. Knowing that Dad's net pay is €1500 and that the total monthly percentage of deductions is 26,8%, please calculate what is Dad's net pay.

1.2. When Kate started her job, she would get €800 net pay. The deductions amount to 18%. Please calculate what is Mum's taxable gross pay.

TASK 2 • IDENTIFY EXPENDITURE

2.1. With Mum and Dad's support, Thomas and Clara wrote down the list of expenses.

Monthly expenditure	
☐ Mortgage payment.	☐ Water, gas, electricity.
☐ Car loan repayment.	☐ Extracurricular activities.
☐ Insurance.	☐ Leisure (travelling, books, cinema...).
☐ Food / supermarket.	☐ Gym.
☐ Clothes / footwear.	☐ Service Charges.
☐ Transport.	☐ Clara and Thomas's pocket money.
☐ Communications.	☐ Dad's personal expenses.
	☐ Mum's personal expenses.

2.1.1. Please write down **(FE)** for **fixed expenses** (those in which the amounts can't be changed) and **(VE)** for **variable expenses** (those in which the amount varies with consumption).

TASK 3 • WORK OUT THE BALANCE

3.1. Thomas and Clara were in charge of creating a table to record the budget. Please see below:

Monthly Budget for the Cash family	
Fixed revenues:	Expenditure:
Dad's net pay: € _____	Mortgage payment: €360,00
Mum's net pay: €982,00	Car loan repayment: €190,00
Dad's meal allowance: €100,00	Insurance: €50,00
Mum's meal allowance: €120,00	Food / supermarket: €850,00
	Clothes / Footwear: €80,00
Extraordinary Incomes:	Transport: €100,00
Mum's overtime pay: €120,00	Service Charges: €20,00
Dad's productivity bonus: € _____	Communications: €50,00
Total income: €2.520,00	Water, gas, electricity: €110,00
	Extracurricular activities: €60,00
	Leisure (travelling, books, cinema): €120,00
	Gym: €50,00
	Clara and Thomas's pocket money: €100,00
	Dad's personal expenses: €70,00
	Mum's personal expenses: €70,00
	Total expenditure: €2.280,00
Balance: _____	

3.1.1. Please complete the table above:

A) write down Dad's net pay which you calculated in 1.1.;

B) calculate the monthly proportion to Dad's productivity bonus, knowing that its anual value is €1.200;

C) work out the Cash's monthly balance.

3.1.2. Complete the Cash's balance breakdown plan, given that it must consider the following items:

- €50,00, monthly amount destined to a family fund for reduction of risk;
- 25% of the total balance as savings for the loft conversion;
- the remainder of the balance to be deposited in a savings account for future needs.

3.1.3. Noting that part of the Cash's monthly income depends on extraordinary revenues, please calculate:

A) the family budget if those revenues are not taken into account.

B) how would that reflect in the family's savings.

Budget balance breakdown plan		
Savings objective	Balance percentage	Budget balance amount
Family fund for reduction of risk.		€50,00
Loft conversion.	25%	
Savings account.		

TASK 4 • REVIEW THE BUDGET

4.1. After calculating the balance and the amounts destined for the monthly savings, Peter made the following comment: *"Due to the urgency of doing a loft conversion and considering the expenses associated with the holidays we need to rethink and reduce our superfluous expenditure"*.

4.1.1. On the table in 3.1., underline the expenses which might be considered superfluous.

4.1.2. The Cash's believe it unwise to make "sweeping cuts" to the superfluous expenses. The first step to make a wise decision is to establish priorities. Write down the expenses you had underlined in order of priority (from the most to the least superfluous), according to your opinion.

Give reasons for your sorting.

4.1.3. Clara reminded that, by changing one's behaviour, it is also possible to reduce certain variable necessary expenses. Please tell us about

one of such expenses, mentioning the behaviours which might contribute for reducing it.

4.2. Kate believes that it is possible to increase the income, if the family manages to obtain some extraordinary revenues through doing little jobs. Complete the list below, suggesting small jobs for the family to earn some extra money.

Mum and Dad: To make organic gums and chocolates, to be sold in customised little boxes, decorated for occasions (such as Christmas, Halloween, Valentine's Day, Birthday...)

Clara: to make and sell little dried flowers bouquets for weddings or christenings;

Tomás: to wash Grandpa's car every week;

PRESS CUTTINGS

1. Please read the text below carefully, particularly paying attention to the sentences in bold:

“SMALL” LARGE EXPENSES

Often we come to the end of the month and **think our money has literally “evaporated”**. We pick our brains trying to understand where it all went but quite often we come to no definite conclusion. We complain about prices for this and that having increased (which is also true) but, in some family budgets this **might be the result of many small daily or weekly expenses, which when added up, translate into large expenditure.**

Here are several examples. Games, tobacco, breakfast and 5 o'clock tea out, and other small expenses you might think of, which apply to you personally. These expenses might absorb more money than deemed possible. If you calculate how much you spend in one year you might be in for a big surprise.

The aim of this little article is not to tell you if you should or should not have this type of expenditure. The way you spend your money is a personal matter – and nobody's business but yours own. What I would like is to draw attention to the fact that: **in order to have sound finances one should always consider if one's budget allows for those sorts of expenses.**

What you spend on some 'innocuous' regular purchase, might by the end of one year amount to, for example, more than your yearly expenditure car insurance or Council Tax². And **if you come to realise you haven't got enough money to cover those compulsory expenses, you might also realise that you spent your money on less important things.**

Pedro ANDERSSON/SIC,
in “*Expresso*” de 15-01-2017 (excerpt)

² A tax levied on households by local authorities in Britain, based on the estimated value of a property and the number of people living in it.

1.1. Please write brief comments on the above article excerpt.

CLUES:

1. Identify the theme.
2. Mention the aspects covered concerning small expenses (their importance and consequences).
3. State your opinion on the views presented and give reasons for your statement.

(You can give reasons based on your own personal or family experience.)



NOTEBOOK

Consolidate what you have learnt by completing the following:

Four steps to follow when doing a budget:

1. Identify _____
(fixed and _____).
2. Identify _____
(fixed and _____).
3. Calculate the balance, reserving an amount
towards _____.
4. If necessary, review the budget taking into ac-
count the savings priorities and/or planned ex-
penditure.

NOT TO BE FORGOTTEN:

1. Expenditure should not exceed _____ ,
in order to obtain a positive _____ ;
2. A family budget should consider the need for
regular saving.

2.

SAVINGS



OWNERSHIP COMES OUT OF SAVINGS

Text by Maria da Conceição Vicente

The morning could not have started in a better way: after a serious conversation at the breakfast table and having considered all the pros and cons, their parents had finally agreed with Clara and Thomas's holiday proposal.

On their way to school the two siblings couldn't help joking and laughing. After a hurried 'See you Mum, see you Dad!' as the car door was shut, the two siblings walked quickly through the school playground as it was already getting late for class. Thomas, however, couldn't help himself peering through the door of Clara's class and once sure all their friends were there, he shouted loudly enough for the whole class hear:

'Guys, we have been given the "green light" for the camping trip! General meeting, after lunch, in the common room. Don't take forever to eat lunch!...'

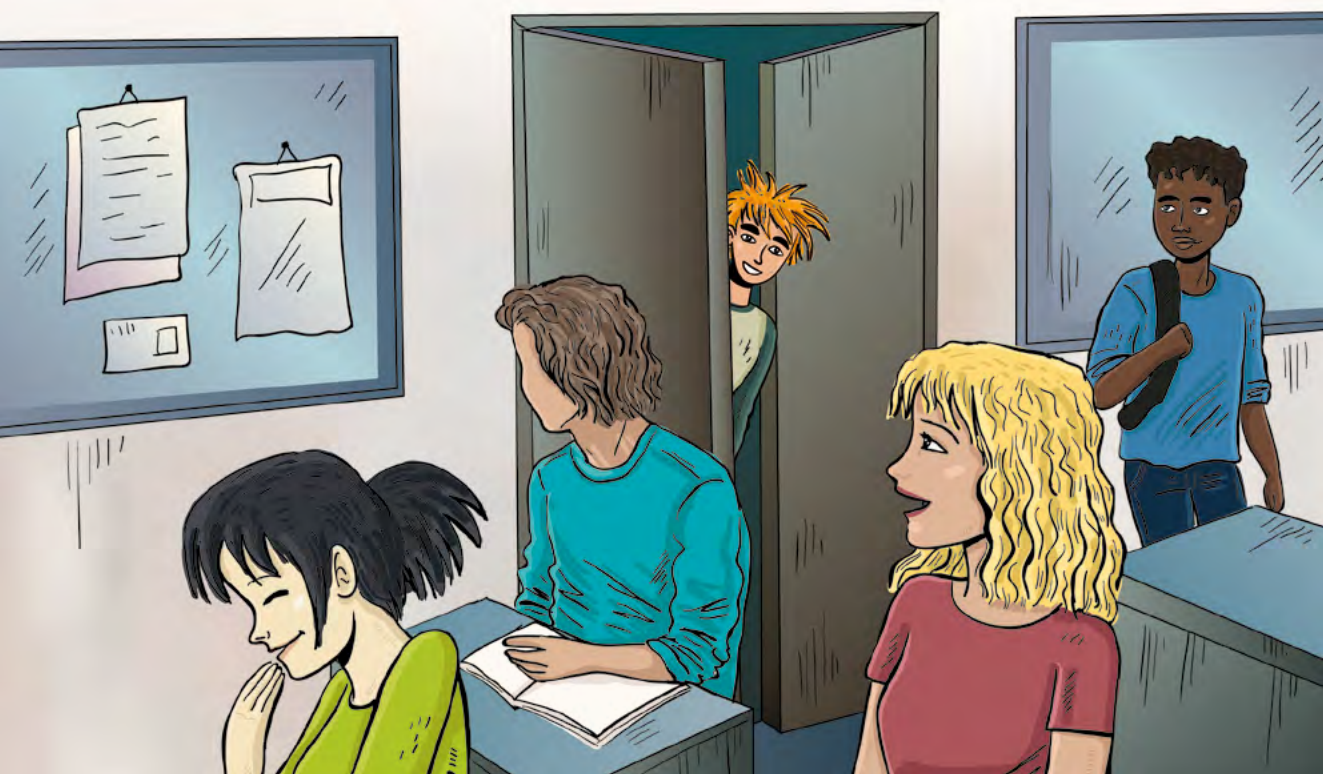
'What? But is the "hanger-on" coming too?' Rod asked.

'Yes, he is. And he'll be pretty useful as well' said Clara who had just come into class.

The conversation was cut short by the teacher coming in, but the young's thoughts seemed to have wings to fly with. The morning dragged on, and classes seemed to last double the time, although at every break lots of small talk was exchanged in the playground.

At the arranged time, all members of the group gathered in the common room for their first meeting. Clara was unanimously elected to chair the meeting and she promptly started the procedures by saying 'Before we go any further, we need to know if everybody has their parent's permission to attend the holiday camping trip'

All answered positively and in such loud manner they couldn't but be noticed by those in the proximity. Only Will looked a bit reserved. 'So Will, what's with the lack of enthusiasm?' Milly noticed.



'I really want to come too... and I do have my parents' permission. But I'm not feeling comfortable about it.'

'Spill the beans mate! Male solidarity at your service...' Rod said immediately.

'... and female solidarity too!' the girls added quickly.

'It is just that my Dad was unemployed for a while, and I do not want to add to the family expenses... that was why we moved here: my father found a job, and he only started working recently.'

'But we are all here to help, isn't that so guys?' Clara asked

'No need to question it!' said Thomas

'One for all and all for one, just like the Three Musketeers.' Said Rod without hesitation.

'We're actually six... it counts for more!' Milly said jokingly to help Will relax. And Will, feeling a bit more confident, continued:

'My parents have always been very cautious, and they have never spent all their income. They always followed my grandparent's advice, who had been through various crises and difficult times, and they always advised to have savings in order to be able to deal with any risks. Because my parents had some savings, they were in a position to save the situation.'

'My grandparents say the same, but they also add that it is good to save in order to increase the family assets, as long as there aren't any complications in the way' Lizzie said 'They even managed to buy the beach house...'

'When my Dad suddenly lost his job he resorted to savings, which helped him a lot till his work situation got sorted.'

'Listen Will', Clara interrupted 'None of us wants to burden our parents with extraordinary expenditure. It will have to be us... we, ourselves, who sort it out.'

'Got it!' Milly said. 'If we really want something, we have to fight for it. Camping in the holidays is great, but first we must think of ways to make money, by which I mean, let's create a budget to start with.'

'Exactly Milly!' Clara said, and adding to it

'Don't you remember the year we were part of "The Treasure Club"?'

'Of course!' shouted Thomas, 'and we were the ones who found the money to do the end of year field trip.'

'Well I think we can come up with a similar plan' said Clara, 'after we create the budget the first step is to arrange for a collective piggy bank where we will place what we save from our pocket money; for the second step we shall make things to sell and thus add a few coins to our savings.'

'Do you accept the proposal?' cut in Milly

Collectively they answered 'YEEEEEESSS'

'But I would like to add a third step to the proposal' said Lizzie 'I think we should all draw on our savings. Since the time of the Treasure Club, we all have savings, isn't that so?'

'Yes' said Thomas, and all agreed.

'I have a deposit account which I have been using to save for when I go to university. I could ask my parents to use a little bit of those savings' Lizzie added.

'But if the purpose of having that account is to save money for when you go to Uni, you would do better not spend that money on holidays' Thomas noted.

'Yeah, you are right! I don't think my parents would like the idea, since university is a priority...'

'I also have a deposit account, just like Lizzie's. Only my parents can access it. We aren't old enough yet!' said Rod. 'But I don't want to touch that money... I'm saving to buy a scooter for when I go to secondary school, remember? Mine is an annual deposit account, if I touch it before the due date, I will lose the interest...'

'Can you explain it all to me, because don't really understand it' said Will, who was the only one who hadn't been part of the Treasure Club, and was therefore less knowledgeable in matters of finance.

'I shall explain it to you' said Lizzie. 'If you open a deposit term account, besides keeping your savings safe, you can also "make those savings grow".'

'What do you mean "grow"? said Will quickly.

'We deposit our savings in the bank and in exchange, we receive a kind of payment, set up for a certain period of time, and this payment is calculated according to a specific pre-determined rate'. Lizzie clarified.

'That's the interest' Clara interrupted, only to immediately add. 'And you can withdraw the interest or leave it in the account to "capitalise", like the grown-ups say. This way your money just grows and grows and grows...'

'Sounds really good, can you be more specific?'

Will's question was immediately answered by Rod.

'So this is what happens: because I want my savings to increase in value faster – I'm almost old enough to get a scooter! – when the interest on my savings is due, instead of withdrawing or transferring it to my current account, I choose to add it to my savings, this means I'm 'capitalising' my money...'

'I understand now' said Will. 'If instead of withdrawing the interest we let it remain in our savings account, our money grows faster.'

'Okay then, if we do not want to touch our savings, we have to think of alternatives...' concluded Lizzie.

'My parents have a pension savings scheme' Milly interrupted. 'Perhaps I could ask them to use some of that money to help me with the trip... after all I only need a very small amount of money...'

'But if it is a pension savings scheme it should only be used to contribute to your parents pensions, and not to be used for other things' Thomas elucidated.

'But aren't all savings the same?' asked Will.

'No Will' Clara clarified. 'My parents explained that before you start saving it is important to have a specific purpose for the savings'.

'But why is that important?' asked Will.

'It is important because it helps us to plan where to invest our savings' explained Clara, 'because the available products are different and vary according to our purpose. Because the pension savings scheme has a specific objective or

purpose, if you take money out of it before the set term you might be penalised for doing so.'

'Therefore, and to end this conversation: those who can or those who want to, can use their savings' Rod wound it up, 'but remember: one should not rely to savings which have a specific objective... nor should one fall back on the emergency fund. For those who have hardly any savings, or even no savings at all, we shall find other solutions.'

'Let's all go home and think about other ways of raising more money. The next meeting will be the day after tomorrow, same place, same time. Each of us will have done a budget for their weekly pocket money with a view to seeing how much can be saved for the collective piggy bank.' Thomas suggested.

'Weekly pocket money? That's what you get when you're a little child' said Milly rather self-importantly. 'Don't forget, we are in our final year of secondary school. We now receive monthly allowance.'

'And I receive it through a pre-paid card. I'm already rather 'grown-up!'

Meanwhile to wind up matters without losing focus, Clara reminded 'That's all very well, weekly pocket money or monthly allowance, with a card or without a card... what matters is that each of us does some saving, like 'grown-ups'.

The conversation continued down the corridors on way to afternoon classes. Before entering his classroom, Thomas still added 'Don't forget to do the minutes for the meeting Clara!'

'Duly noted! I really want to see who's going to be the first to start saving.' Said Clara now down the end of the corridor.

Quite a few laughs were to be heard in the corridor.

STOP TO THINK

1. The first step to carrying out this holiday project with minimum recourse to the parents was to do the project's budget.

1.1. The six friends started with the list of the expenses for the 7 days of holiday, which you are going to help calculate:

Expenses:

A) Food (per person): €8,00/day = _____

B) Campsite (per person): €2,00/day = _____

C) Tents (2 people): €25,00/tent = _____

D) Lantern: = €15,00

E) Camping mattresses: €8,00/each = _____

F) Sleeping bags: €8,00/each = _____

Total: _____

1.2. Bearing in mind that the group has ten months (September to July) to get together the necessary money to cover the budgeted expenses, what would the monthly savings have to be from each of the friends' pocket money?

2. Thomas suggested that on top of the fixed pocket money savings, they should obtain some extraordinary revenues in order to increase the balance of the budget. They could thus have money for unforeseen events or for some extras. Please complete the final table for the holiday budget by:

- Including the calculations you did on 1.1;
- Calculating the total amount of the pocket money savings, knowing that each group member would save €8,00 per month;
- adding two new suggestions to the list of extraordinary revenues;
- completing the calculations.

The group holiday's budget

REVENUES**Fixed:**

Total pocket money savings : _____

Extraordinary:

Small paid tasks for family or neighbours:

• walk uncle's dog: €40,00

• carry the neighbour's shopping : €30,00

• : _____

Make and sell products or objects:

• biscuits: €70,00

• book markers: €25,00

• : _____

Total: €680,00

EXPENSES

Food: _____

Campsite: _____

Tents: _____

Lantern: _____

Camping mattresses: _____

Sleeping bags: _____

Total: _____

Balance: €80,00

3. To save...what for? The dialogue in the text between the friends might help you answer this issue.

3.1. Justify the correlation between column A and B, identifying the savings' objectives with corresponding characters.

A) Characters		B) Savings' Objectives	
1	Rod		To save for unforeseen situations.
2	Lizzie's Grandparents		To save for retirement.
3	Will's Parents		To save for future education expenses.
4	Lizzie		To save to increase assets.
5	Milly's Parents		To save for a long-term planned purchase.

4. Rod puts his savings in a Savings Account. Apart from Will, all friends had previous knowledge about this type of bank account. Please use sentences from the text above which confirm this:

A) **Minimum age:** you can only open and manage a bank account once you reach legal age. Until then, parents or guardians must manage the account.

Text: _____

B) When opening a savings bank account one must consider:

- **Term:** which means the duration of the deposit (annual or six- monthly...).

Text: _____

- **Interest payments:** the interest payments can be accessed on the interest date (simple interest rate) or they can be added to the initial deposit thus increasing the interest payments (compound interest) .

Text: _____

- **Early savings mobilisation:** depending on what type of contract, one may or may not, make money withdrawals before the end of the stipulated term for the deposit. If the contract allows money withdrawals, one may or may not lose the interest.

Text: _____

5. Rod already has €2.000,00 in his savings account. Calculate the gross value of the interest (pre tax) which will be due next year at an annual rate of 2%.

5.1. Knowing that the interest on fixed term deposits is subject to a tax rate of 28%, calculate the value of the interest Rod will actually receive (net interest).

5.2. If Rod opts for compound interest, which will capitalise the interests on his savings account, what will be the amount of gross interest (before taxes) for next year?

6. The text above mentions another type of savings product, besides the savings account. Please identify it and write it below.

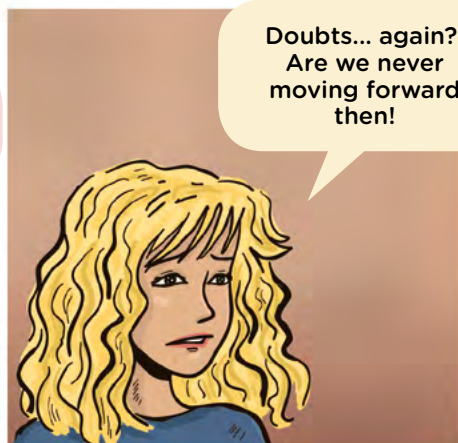
6.1. Transcribe from the text above, phrases which confirm that Thomas, Lizzie and Clara knew about the characteristics of the savings product you mentioned above.

A) Specific purpose savings.

B) Early withdrawal penalty.

THE ROUND TABLE

On the arranged date and at the arranged time, the group was sat together at the table, ready for talking about savings again



Yesterday, I was surfing the TV channels trying to find a film to watch when I landed on a programme about Savings.

And?... Did you learn how the miracle of multiplying bank notes works?

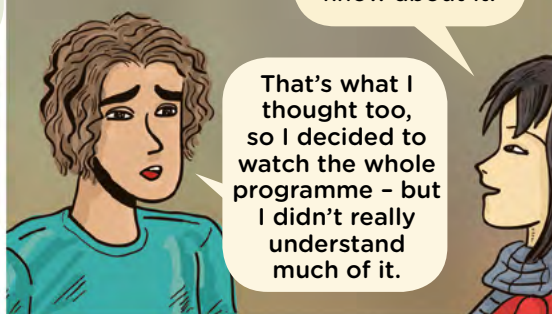
Shut up. Let Will talk.



There was a bit where they started talking about funds, shares, bonds... all in relation to savings...

Then we need to know about it.

That's what I thought too, so I decided to watch the whole programme - but I didn't really understand much of it.



Quite right! Shares... Isn't that stuff for grownups?

No. In the programme they mentioned shares were savings products and I remembered that we had spoken about them.

Look, there goes Miss Jones, the maths teacher. She must know about it, let's go and ask for her help.



At Lizzie's request, Miss kindly sat at the table with the group, willing to be help and to clear up any doubts.

What you actually want is to hear about the different financial products related to investing savings.

That's it exactly Miss! That's what they were talking about in the programme.

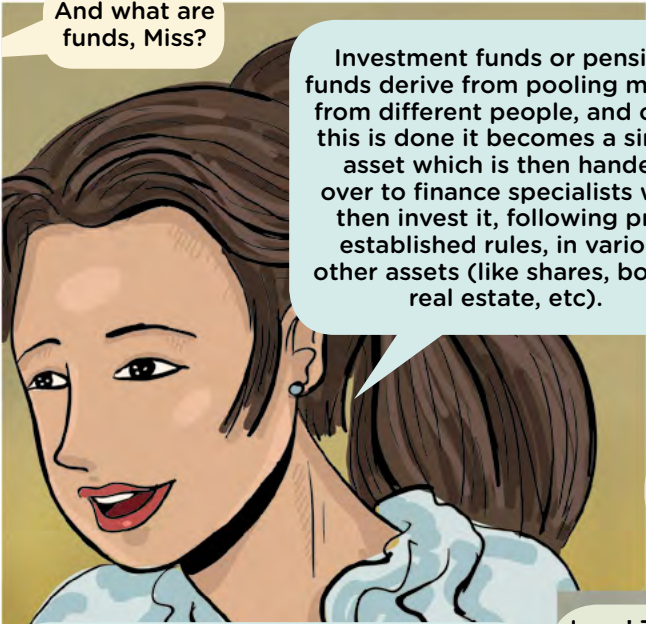
At your age, savings are normally put in a savings account because they consist of small amounts of money you are able to save.

Those of us who were members of the *Treasure Club* already have savings accounts Miss.

Good! But adults can have other saving purposes, for example larger savings, and opt for other financial products where savings can be placed.

Pension plans...

That's right, but besides the savings accounts and pension plans that you already know about, there are more financial products you can invest your savings in, like shares, bonds, investment funds, pension funds... Those who buy shares in a company become shareholders of that company. Those who buy bonds from a company are acting as if they are making a loan to the company issuing those bonds.



And what are funds, Miss?

Investment funds or pension funds derive from pooling money from different people, and once this is done it becomes a single asset which is then handed over to finance specialists who then invest it, following pre-established rules, in various other assets (like shares, bonds, real estate, etc).



So much stuff, Miss! How does one choose?

That's an excellent question. Before one chooses a savings financial product, one must determine the purpose

- What am I saving for? Is it a long-term saving purpose or is it a short-term one?
- and also know the product's specifications
- What will the returns be? What is the risk?...



I see! There is also risk to consider!...

We might need to withdraw the money and not have that possibility, or we might be penalised for it...

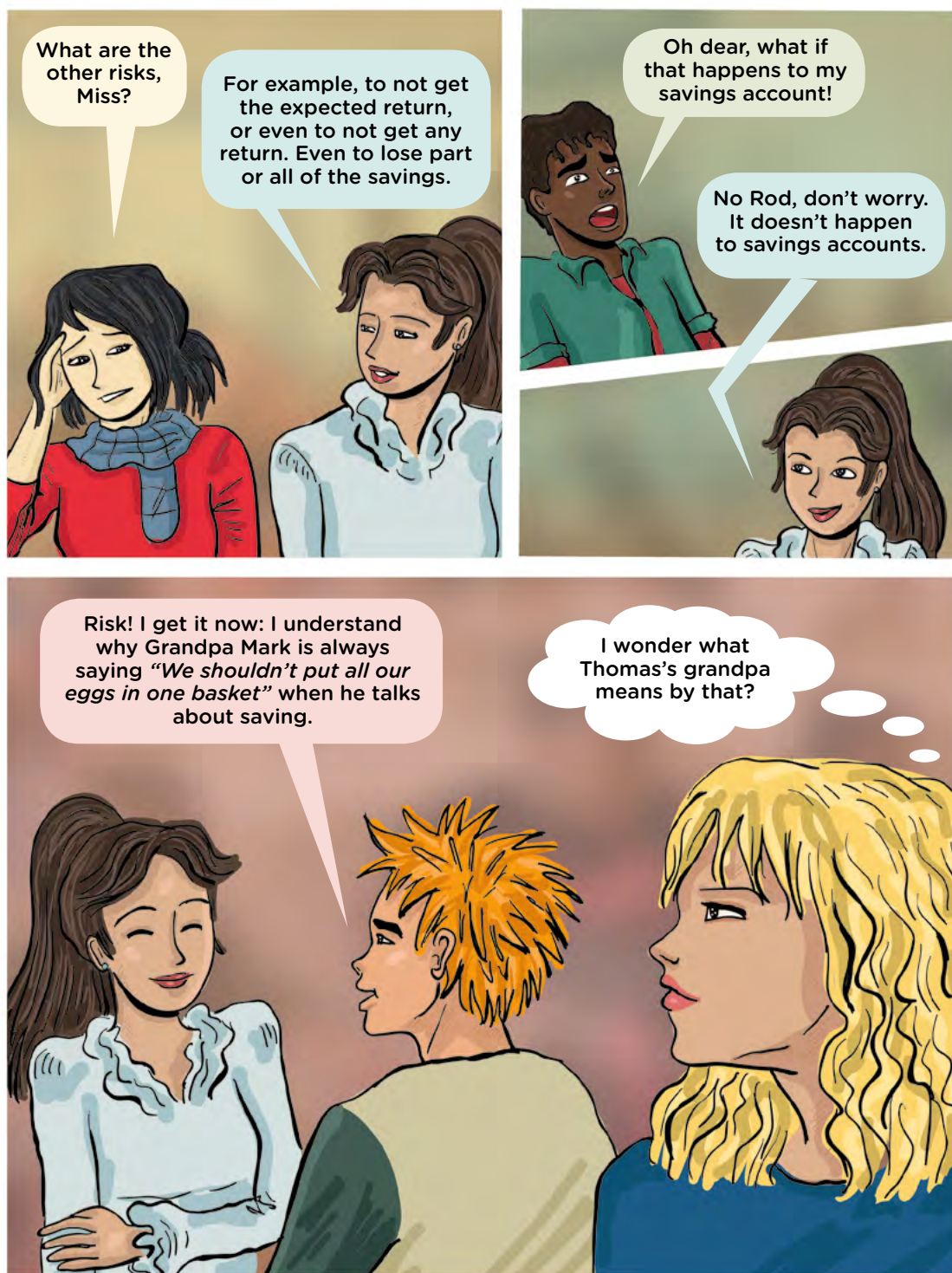


That is called the liquidity risk. But there are others.



Serious risks?

Usually, the higher the return, the higher the risk. That is why it's really important to read carefully and understand fully the information about the products before investing. One should compare the available financial products, and only then make an informed decision.



1. According to what you have learnt from the above conversation, please explain the meaning of the proverb that Thomas's grandpa uses when talking about investing his savings.

2. As you have read above, there are several financial products available where you can invest your savings. Please link each product to the appropriate definition.

Financial products for savings investment

A) Savings accounts

D) Bonds

B) Pension plans

E) Investment Funds

C) Shares

F) Pension Funds

- ☐ An instrument of indebtedness of the issuer, for example a company, a credit institution or even the State, to the holder. It represents a loan to the issuer.
- ☐ Long term financial products which have the specific purpose of generating savings for retirement.
- ☐ Financial instruments which derive from pooling the investors savings in one autonomous asset. This asset is managed by finance specialists who invest in a variety of ways (for instance, in shares, bonds, real estate, etc.).
- ☐ An autonomous asset which derives from pooling the investors savings, which is managed by finance specialists with the single purpose of generating savings towards retirement.
- ☐ Units of the company's capital stock.
- ☐ Deposit of the savings in a credit institution which in turn agrees to pay a remuneration (interest) and to allow access to raised funds within a pre-established term.

3. Like Miss Jones explained, before one places one's savings in a chosen financial product, it is essential to know the specifications of the products available within finance institutions in order to evaluate the inherent risk.

3.1. According to what you have learnt so far, please mark the following statements as **T** true or **F** false:

- ☐ Savings accounts are financial products with high risk.
- ☐ Usually, the higher the return, the higher the risk.
- ☐ Capital risk (loss of part or of total of placed savings) exists in shares investment and in investment funds.
- ☐ A pension plan is a short term savings investment.
- ☐ There are financial products for savings investment which have risk associated with remuneration (the remuneration might be below the expected amount or might even be nil).
- ☐ Shares are risk-exempt financial products.
- ☐ Those who invest in shares, bonds or funds never lose capital (the invested savings).
- ☐ Savings accounts do not have capital risk (loss of part of or total of deposited savings).
- ☐ None of the mentioned financial products for placement of savings has liquidity risk (prevention of funds withdrawal before end of set term).

PRESS CUTTINGS

1. Please read the text below carefully, particularly paying attention to the sentences in bold:

TEACH YOUR CHILD SOME SAVINGS RULES

Financial literacy is not only for adults. Young people must not only learn to save but also learn to capitalise their money.

Either for future costs with Education, or for doing a trip, or as the first instalment for a car, **parents should teach their adolescent children to save and, as soon as possible, to place their savings in appropriate financial products.**

To start with, ask them to reflect on the main variables involved. In how many years would they want to see results? Is the initial amount high? Is the objective to build up the initial amount with regular smaller amounts?

[...]

Youngsters should be made aware of the need to **check the product specifications before choosing a savings product**, reading with due attention the available pre-contractual information. One should check the interest maturity, as well as checking the for the option for the early mobilisation of the invested savings, and in such cases, the terms for charging a penalty. Before making a decision one should suggest **comparing the alternatives** offered by the same credit institution regarding the remuneration rate of the product.

[...]

Explain to the youngsters in your household that the higher the rate and longer the term for the investment, the higher the cumulative amount becomes. Also that certainly **almost everything is better than a piggy bank or putting your savings under the mattress.**

Maria João ALEXANDRE, *Teach your child some savings rules, in Dinheiro Vivo*, 04-11-2017 (www.dinheirovivo.pt) (with deletions)

- 1.1. Based on the text above, write a short paragraph commenting on the text's subtitle.

CLUES:

- Comment on the importance of "learning to save".
- Mention the need to know how to define the savings' purposes, and how to analyse the savings product's specifications before making a decision.

3. List the advantages of investing your savings. (You can refer to your own experience.)



2. Imagine you want to make a long term purchase and that you decide to start your savings plan with €100,00 which you have in your piggy bank. You then place your savings in a financial investment at an annual rate of 2%. If you succeed in adding savings of €5,00 per month, how much will the cumulative amount be after 5 years?

(To calculate use the Savings Simulator available on the web page "Portal Todos Contam - www.todoscontam.pt")

NOTEBOOK

Consolidate what you have learnt by completing the following:

THOSE WHO HAVE SAVINGS SHOULD HAVE CLEAR PURPOSES FOR THEM:

- A) _____ .
B) _____ .
C) _____ .
D) _____ .

NOT TO BE FORGOTTEN:

1. We should avoid keeping our savings at home. The most common way of keeping your savings safe is _____, but there are other ways of investing your savings. Savings can be invested in long-term savings products with a specific purpose, like the _____ plans or in _____, _____, _____ or _____.

2. Before investing we should be aware of the savings products' characteristics and make our decisions according to our savings' purposes.

3.

CREDIT



LIVING WITHIN ONE'S MEANS

Text by Maria da Conceição Vicente

The holidays were still a long way off, but the group of friends was already living them in anticipation. In the one hand the budget, in the other hand the calculator. It was Friday afternoon, classes had ended... but they were all there, in the common room, calculating the weekly savings and programming the future activities which would bring them the combined extra income.

That Friday, Thomas was not having a good day as he considered that the "client portfolio" for his dog walking venture was not extensive enough to guarantee achieving the target of the financial objective. He arrived late to the meeting and even before sitting down he spoke out loud 'What if we were to buy the camping equipment on credit? We could even buy better quality tents...'

Everyone stopped in their tracks. If seen from afar one might have said the group was playing musical statues, although they all looked far too old for the game. Clara broke the icy silence by saying 'What on earth are you on about Thomas? Don't you know that in order to buy on credit you have to guarantee the payment?! So... you need to be an adult and be working!'

Everybody started making comments at the same time:

'How do you expect to manage the monthly repayment, are you going to work washing dishes at the cafeteria...'; "...what are you giving as guarantee, your skates?"; "You still have a lot of growing up to do before you get there..."; "Check him out – credit!!! Are you nuts?..."

'I thought we could buy things now, and pay later, that's all! I didn't know! I keep hearing all



over 'buy now pay later'...I thought everybody was entitled to buy on credit.'

'Credit? Am I hearing you right? Are these youngsters talking about credit?' said Mr Rogers, the PE teacher who had just entered the room, and who, due to the high volume of the conversation, had only caught bits of it. The teacher joined the group wanting to find out what they were talking about, partly because he was to be the adult supervising the camping and wanted to make sure he was involved in the decision-making for the logistics of the venture.

'So, you want to buy tents on credit?! Fine plan indeed!'

'Mr Rogers, if we did, we could buy them immediately and we wouldn't need to wait until we raised the money for them' insisted Thomas

'Yes. In reality that is one of the reasons that makes people turn to credit' explained the teacher 'but, before you embark on it you should take two things into consideration: firstly, whether the purchase actually corresponds to a need or even to a reasonable wish – not whims!... secondly whether one has the financial capacity to pay it back.'

'I'm not really following that financial capacity bit' said Will

'Look Will, credit, just as any other loan, entails a contract between the lender, in this case the bank or other credit institution, and the borrower. The former undertakes to lend a certain amount of money; the latter undertakes to return the amount of money by the agreed deadline, accrued of interest and other costs...'

'I get it!' interrupted Lizzie, 'Financial capacity means that the person must have enough income to pay back what they owe within the given time...the money they borrowed plus the interest and other costs.'

'Exactly!' said Rod 'The bank pays us interest on our deposited savings. Now invert the roles: the bank lends and therefore charges interest, as if it was a kind of payment for 'leasing' the money.

'And how do people know if they have financial capacity to take a loan?' asked Milly.

'They have to look at their income and at their expenses – mainly the fixed expenses – and then calculate to see if what they have left is enough to pay the monthly repayment...'

'...which, in turn, becomes another fixed expense in the family budget, for the entire period of the loan' Clara concluded.

'What if someone dies in the meantime?' asked Will

'Many banks demand taking out life insurance as guarantee for the repayment of the loan in case a serious situation occurs, like for instance death' explained Mr Rogers.

'Have you ever asked for a loan Mr Rogers?' Thomas asked.

'Yes Thomas. The first loan I asked for was to pay for my Master's Degree. I had completed my undergraduate studies and I was already working, but I didn't want to delay further study until after I had saved the money to pay for it, and I also didn't want to overburden my parents, since they were helping by having me living with them.

'The first one Sir? So, you've had more than one?' asked Clara

'When I finished paying off my Master's, besides the work in school, I started giving swimming lessons, which gave me a certain "financial respite". Then, because I like the sea so much, I thought of taking up surfing, and to do that I needed equipment...'

'...and you needed a loan to buy the equipment?' asked Will.

'Yes, the savings I had were not sufficient and I was looking for high quality professional equipment...' the teacher clarified. 'It proved to be a good investment as I ended up making a bit of money by giving surfing lessons...'

'And were you able to pay it back promptly Sir?' asked Milly, causing Clara to say, 'Don't be nosey Milly, you shouldn't ask such things'.

'It's okay to be curious' said the teacher in a conciliatory tone, adding 'Because I had a reasonable financial capacity – I ended up having three sources of income and not much expenditure – I was able to agree a short-term

loan. Generally, the quicker one is able to repay the loan, the smaller the interest rates. Besides, I had my parents as guarantors, and I was planning to release them from that obligation as quickly as possible.'

'Guarantors... what's that all about?' said several confused voices.

'To obtain credit, one must often guarantee that, if by any unforeseen event one loses financial capacity and fails to make the monthly repayment, that there is another way of repaying the loan to the lending institution.'

'Like Insurance?' asked Will

'As I have already explained to you, insurance can assure the loan repayment in the case of some pre-determined unforeseeable events occurring, events which may affect one's financial capacity. In this case, however, we are talking about other types of guarantee.'

'Such as?' all asked with one voice

'One of the ways of providing the lender a guarantee of repayment is by nominating someone who agrees to pay our debt if we fail to do it. The person so nominated is as the guarantor.'

'Ah! I see!' said Lizzie 'Guarantor' derives from guarantee, from old French word *garant* or from Spanish *garante*.'

That's enough Lizzie! interrupted Clara. 'You sound as if you are giving a lecture.'

'When one gets a mortgage to buy a home, where the amount borrowed is normally high, the home itself is offered as a guarantee' Sir continued. 'If one misses the payments the home becomes the property of the lending institution.'

'That's right! When my father lost his job, we had to cut down massively on our monthly expenses in order to be able to continue to pay the mortgage in order not to lose our home...' said Will.

There was a lot more to talk about, but the clock hadn't stopped ticking and the afternoon was nearing an end.

'I'm going to the beach to catch some waves' said Mr Rogers on his way out.

'Enjoy your free time while you can Sir' Milly said. 'In a few months you will have all of us to keep an eye on, and then you will have no more tranquillity.'

'Swimming and diving will chill you out in no time' said the teacher from the end of the room.

'Wonder if Sir ever got barreled?' 'Do you think he has ever surfed at the Canhão in Nazaré?'

A sea of questions, and soon the conversation surfed from finances to water sports.



STOP TO THINK

1. Following Mr Rogers explanations, you have surely understood what credit is (or a loan), and what its characteristics are. Please complete the definition below:

A **loan** is a contract between two parties: one is a bank or a credit institution (lender) which _____

and the other is a client (borrower) who _____, for a determined _____, against payment of _____ and _____.

2. In the text you have read above, it's possible to identify two reasons for applying for loans. Please identify them by completing the sentences:

A) Will's parents applied for a loan because _____

B) Mr Rogers, the teacher, applied for a loan because _____

4. When Mr Rogers applied for a loan, he was made aware of all the costs of credit, which include interest, commissions and insurance. Please link each of the payments to the associated costs by drawing lines between column **A** and **B**.

A

1 Interest

2 Commissions

3 Insurance premium

B

Amounts paid to cover for certain risks which may affect ability to repay the loan.

Amounts paid in exchange for "using" the money during the agreed period of a loan.

Amounts to pay for the services rendered by the credit institution.

I thought of taking up surfing and for this I needed the equipment.



3. If you found yourself in Mr Rogers position – wishing for something and not having the money to make it happen – which of the following options would you decide on?

☐ A) Create a savings plan to raise the necessary amount.

☐ B) Give up on the purchase.

☐ C) Resort to credit.

☐ D) Ask your parents.

3.1. Please give reasons for your choice.

5. Although in different ways, both Mr Rogers, the teacher, and Will's parents had to give guarantees when they entered into the loan contracts. Please identify them below.

A) Teacher >> _____

B) Will's parents >> _____

6. To procure credit entails responsibility, which is why one must evaluate the circumstances required to meet the conditions of the contract, like for instance, the ability to make timely loan repayment instalments.

6.1. Gather from the text the arguments to justify the following statement:

Like any responsible citizen, before procuring credit, Mr Rogers evaluated his financial capacity.

6.2. Please comment on the following statement: When evaluating the capacity to repay a long-term loan, one must take into consideration not only the actual family income and expenditure, but also possible risk situations which may come to pass.

6.3. Will's parents bought a home with a mortgage and they found themselves in a difficult situation. Please explain what happened and what the consequences of this were.

7. When thinking of buying a new home, Will's parents evaluated their financial capacity beginning by calculating their effort rate (the percentage of their income to be used on loan repayments). Please look at the formula below:

$$ER = \frac{Me}{Mi} \times 100 = \text{_____} \%$$

ER Effort rate

Me Monthly expenditure on loans

Mi Monthly net income

7.1. Knowing that the monthly net income of Will's family is €1.600,00 and that the monthly repayments for the loans (buying a car on finance and a mortgage) added up to €480,00, calculate:

A) their effort rate.

B) the available income after loan repayments.

7.2. Will's friends wanted to learn how to do the same calculation. Please help them by completing the table below:

Mr Rogers	Milly's family (parents and 2 children)	the Cash family (parents and 2 children)
Monthly income: €1.200,00	Monthly income: €1.575,00	Monthly income: €2.300,00
Repayments: € _____	Repayments: €315,00	Repayments: €550,00
Effort rate: 24%	Effort rate: _____	Effort rate: 24%
Available income after loan repayments: _____	Available income after loan repayments: _____	Available income after loan repayments: _____

7.2.1. Based on the analysis of the calculations recorded in the table above, please comment on the following statements. Give your reasons.

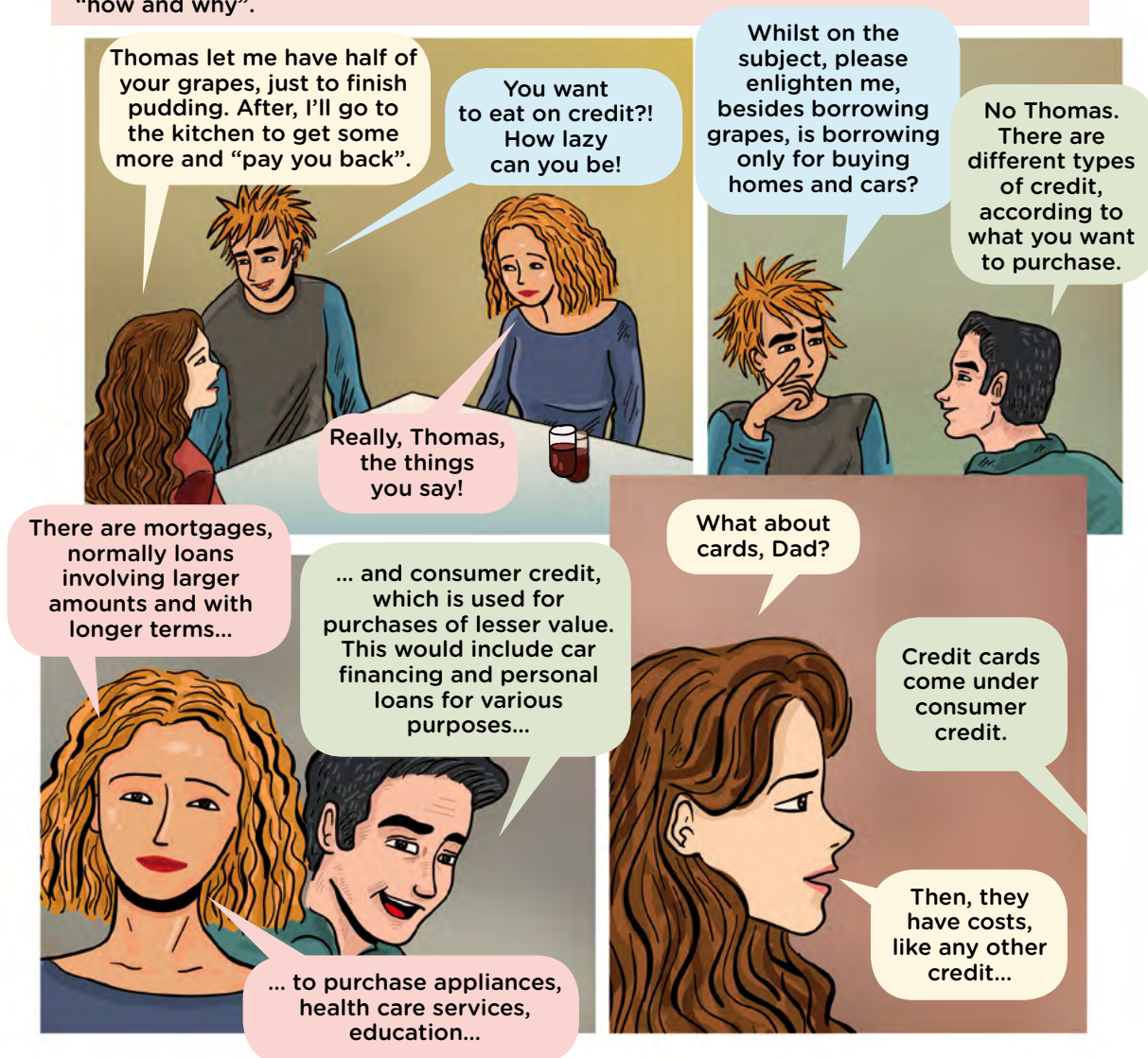
A) The Cash family effort rate is higher than Milly's family effort rate, therefore the Cash family has less to live on.

B) Mr Rogers's and the Cash Family's effort rates are both 24%, therefore they have a similar financial situation.

7.2.2. Based on what you have learnt so far, explain what factors must be taken into consideration when evaluating financial capacity before procuring credit.

THE ROUND TABLE

At the Cash's home, Sunday lunch is a good opportunity for long conversations about "how and why".



Of course they do! Every time we use a credit card to make payments we are, in reality, procuring credit to make those payments. And, like any other credit, we will have to repay the money we have borrowed subject to interest and other costs. On top of that, even if we don't use the credit card to make payments, the bank can charge us an annuity for having one...

What is that?

It's an annual commission paid by the card holder.

All this shows that, if we want to apply for a credit card, it is really important to evaluate the need for it, and whether we are aware of how it works.

Is a credit card different from a debit card?

Of course it is! Payments made with a debit card are immediately taken from the current account associated with the card. We can only use the debit card if there is money in the account.

The payments we make with the credit card, on the other hand, do not come immediately out of the current account...

... but we must always pay back whatever we have borrowed. That's what we call credit responsibility!

Is there not also a limit on the amount we can borrow on a credit card?

It's like my pre-paid card. Whilst there's money Dad that has put on the account, it works. Once I've spent it...

Once you've spent it... you can't spend more.

Of course there is. There is a credit ceiling and we call it the credit limit.

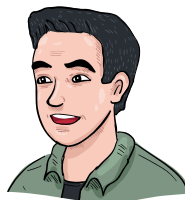
To finish off the conversation, I will repeat what Grandma Elizabeth usually says: *We must live within our means.*

And do we pay interest every time we use the card?

If we pay the total amount owed at the end of the month, then there is no interest charge... That is why this is the best option.

If only part of the amount owed is paid, then we have to pay interest.

1. Like Dad explained, 'There are different types of credit, according to what we want to purchase.'



1.1. Choose the appropriate type of credit for each of the purposes mentioned in the table below. Follow the example.

Purposes for the loan		Types of credit
	A) Mr Rogers wants to change his car.	MORTGAGE 1
1	B) Will's parents intend to buy a home.	CONSUMER CREDIT
	C) Rod's parents want to buy some of the Christmas presents on the internet.	• Car Finance 2
	D) Mr Rogers asked for a loan to do his Master's Degree.	• Personal Credit 3
		• Credit Card 4

2. According to Mum, to be a credit card holder involves "knowing well how it works".

2.1. Please complete the following statements using **credit** or **debit**.

A) The _____ card is a means of making payments; the _____ card is simultaneously a way of making payments and a type of credit.

B) The _____ card allows you to use money originating from a bank loan, whilst the _____ card allows only allows you to make payments using the money already deposited in the holder's current account.

C) The *credit limit* is the limit to the maximum amount a _____ card holder may use for a given amount of time.

3. Credit incurred irresponsibly may result in:
(Mark with **T** for true or **F** for false)

☐ infringement (breaking the terms of the repayment agreement).

☐ satisfying future needs of the family.

☐ the increase of financial capacity.

☐ accumulation of different credits agreements and consequently, of debt (accumulation of debt).

☐ difficulties in managing the family budget.

PRESS CUTTINGS

1. Please read the text below carefully, paying particular attention to the sentences in bold:

THE USE OF CREDIT CARDS DURING HOLIDAYS

According to data shared by the Bank of Portugal, the credit card is a financial tool widely used by Portuguese consumers. [...] Nevertheless, **when badly used, it can contribute to excessive debt.**

During holidays, it's common to see reckless and exaggerated use of credit cards to deal with expenses incurred during this period. Mainly associated with un-planned expenditure during this leisure period.

It's therefore necessary to alert consumers to the **risk of reckless use of credit cards.** [...] Desta forma, torna-se necessário alertar os consumidores para **o risco da utilização irrefletida dos cartões de crédito.** [...]

A credit card [...] **must be obtained and used in a responsible way.**

*The use of Credit Cards during holidays
in "Financial Literacy", gasdeco.net
(excerpt with deletions)*

- 1.1. Based on the reflections in the text above, comment on the adage *Do not live beyond your means.*

CLUES:

1. Reflect on the importance of weighing up the motives to procure credit.
2. Relate the above-mentioned adage to the responsibility one assumes when obtaining credit.
3. Mention the consequences of the reckless use of a credit card.



NOTEBOOK

Consolidate what you have learnt by completing the following:

A) Credit responsibility...

1. ... what does it mean?

It's the obligation on behalf of the borrower to _____ the credit institution the total amount of the _____, accrued of _____, _____ and of _____.

B) Procure credit for what?

When procuring a loan one usually has as a purpose:

1. _____.
2. _____.

C) To repay what?

The amount repaid by the borrower to the credit institution with which the loan agreement was made, is higher than the value of the loan: besides repaying the total amount of the loan one has to consider the **cost of the credit**:

1. _____ : repayment to the credit institution for the agreed loan, according to a pre-established interest rate.
2. _____ : remuneration to the credit institution for services rendered.
3. _____ for prevention of certain types of risk which may affect the ability to repay the loan.

4.

INSURANCE



PREDICT IN ORDER TO PROVIDE

Text by Maria da Conceição Vicente

The afternoon looked dark and greyish. The rain came slowly down the library's window panes. Near the window, at one of the tables, sat the five usual friends. Everything seemed to be against them that day: the weather had turned spring into winter, and even the work they were doing as a group seemed to be demanding double their usual concentration – preparing the oral presentation of *The Tempest*, canto VI of “*Os Lusíadas*”. Their gazes lost in the book pages, hoping for the right idea for the correct scheme, which would not disappoint the teacher or the class. Suddenly the silence was broken by Milly's strident voice ‘Do you think that at the time of the Discoveries there was insurance for the ships?’

‘What nonsense Milly! Where did you get that idea?’ said Clara.

‘Well... considering all the destruction narrated here by Camões...’ Milly said by way of justification. ‘I thought about it because yesterday, at home, we were all talking about the importance of insurance for people who have had accidents, or against natural disasters...’

‘Milly's question is actually quite reasonable’ Lizzie explained. ‘I have been researching in preparation for this group-work, and I read that in 1380, a shipping company was founded. Its purpose was to safeguard against the losses caused by the sinking of the ships.’

‘And how was that done?’

‘The merchants would deposit part of their journey's profits in a communal fund. If there was a serious accident or if the ship sank, that money was used to cover the losses or the total loss of the ships. It was already...’



'That was already similar to what happens with insurance and insurers nowadays' Rod interrupted.

'It already involved the principle of pooling, which is at the basis of insurance' Lizzie continued. 'Following a logic of mutual aid, people associate themselves with the common purpose of being able to face risks arising from unforeseen situations collectively.'

In the meantime, Will, totally entranced by the conversation, asked, 'Insurance? what is that all about? I don't get it. Has it got anything to do with the group-work we are doing?'

'No Will' replied Rod, 'it doesn't have anything to do with our group-work. Milly brought up the subject out of context, but I'll explain: insurance involves a kind of transfer of risk. It allows us to avert losses which might result from unforeseen situations.'

'Transfer of risk? I still don't get it' said Will.

'I'll explain it better' Clara suggested. 'An insurance agreement is a contract through which one transfers to the insurers the risk of financial losses that might result from unforeseen situations. In exchange, the person who transfers the risk, called the policyholder, pays the insurers a certain amount. I know this because we spoke about it at home, and we also learnt about it in school last year.'

A contract like a loan contract?' asked Will before Clara could continue:

'No, an insurance contract is very different from a loan contract.'

'In an insurance contract, the insurers evaluate the risks which might result from a certain unforeseen situation', continued Rod, 'then, they decide if they accept those risks or not. If they do accept them, the insurers are obliged to pay for any losses resulting from the situation, according to details previously established in the contract.'

'And in exchange a certain amount is paid to the insurers, correct?' Will asked

'Correct, Will' Rod commented. 'That amount is the insurance premium'. Generally, it's paid annually, but it can also be paid biannually, quarterly or monthly.'

'Then, the premium is not established by the policyholder?' Will asked.

'Of course, not Will! What are you on about!' Clara exclaimed. 'That value is set by the insurer, based on the level of risk. Normally, the higher the risk, the higher the premium.'

'For instance, my parents have an insurance policy in case of fire for our flat (as a part of buildings insurance). My Dad says it's mandatory' said Milly, going on 'But he also explained to me that, because he wanted to protect our home from other unforeseen circumstances, he took out an insurance policy with increased cover that was therefore more expensive.'

'Covers? What's all that about' asked Will

'The cover provided is the set of circumstances which, if they occur, will trigger the process of the insurance contract. In the particular case of my parents' insurance for our home, besides fire risk, the insurance covers other things, like flooding, storm damage and even theft' Milly explained.

'Then your home is protected against anything!' Will said.

'It's only covered against the situations foreseen on the insurance contract. My parents say it doesn't cover all risks, therefore it's very important to know what specifically is covered by the insurance' explained Milly.

'How do your parents remember everything that is covered?' asked Will.

'The insurers had to give them a document with all the information about the cover in writing. This is called an insurance policy.'

'Recently my parents took out insurance on my new mobile' Lizzie added.

'Is it also mandatory to take out insurance on mobile phones?' asked Will

'No, mobile phone insurance is optional. We only arrange it if we want to. But my parents thought it was best to prevent any expenses in case an accident with the mobile happens.'

'Then why is a buildings' insurance mandatory' asked Will.

'Because it's a legal requirement. When we

moved to our flat, I heard my father say that he had to send proof of the insurance to the condominium’.

‘Okay then – there is mandatory insurance...’ Will murmured as in talking to himself.

‘That’s right’ Rod acknowledged. ‘We can do a little research to look for examples.’

This having been said, they just had to turn around in their chairs to face the computers. With a couple of clicks Rod found a web page with examples, which they all looked at.

COMPULSORY INSURANCE

- **motor insurance¹**
- **buildings insurance covering fire risk²**
- **occupational injury insurance.**

‘But there is also optional insurance: we only take it out if we want to’ said Lizzie.

‘Of course!’ Rod acknowledged. ‘Like the policy your parents took out for your mobile phone. Here are some more examples:’

OPTIONAL INSURANCE

- **home Insurance**
- **health Insurance**
- **civil liability family Insurance³**
- **pet Insurance, etc.**

‘And, does insurance only cover things?’ asked Will.

‘Come on Will, think! Today you are a bit on the slow side’ Milly commented

‘Will, look at the list we have here’ ordered Rod, while pointing at the computer screen: ‘health insurance, life insurance... these are for people...’

‘There is even dog insurance – ‘Thomas, who had just joined the group, and only just caught the last sentence, interrupted.

‘There we go! The chatterbox has only just joined us and already is changing the subject’, commented Clara, continuing to say ‘Don’t you mind him Will. There is pet insurance which can cover one’s pet’s health expenses, and it can also cover for damage our pets might cause when they are naughty!’

Meanwhile Rod looked at the clock and realised time was flying and that the group-work was still making zero progress: ‘Come on guys! I know that outside the weather is rubbish but spending the whole afternoon in here studying a tempest!...’

‘You are right!’ said Will. ‘Enough of insurance chatter. I totally get it now.’

‘By the way’ said Milly with a mock tone of seriousness: ‘Do you think Camões had personal injury insurance when he saved his work “Os Lusíadas” whilst swimming away from the sinking ship?’

Everybody laughed out loud drowning Rod’s voice as he answered, making the librarian look up in reprimand.

‘Honestly Milly, you’re too much! I think we might have to ban you from the group otherwise we won’t be able to get anything done today.’ Rod said.

The group continued to chuckle as quietly as possible, apart from Thomas who couldn’t help himself laughing out loud. Did they finish the group-work? We don’t know. But what we do know, for sure, is that Will was enlightened about how insurance works.

¹ Third party liability motor insurance.

² Buildings’ insurance covering fire risk is compulsory for buildings in horizontal property (flats).

³ Civil liability insurance covers risk involving payments of losses caused to other people.

STOP TO THINK

1. Taking into consideration the text above, please write down the definitions for the following:

A. insurance: _____

B. insurers: _____

C. policy holder: _____

D. insurance policy: _____

E. premium: _____

2. The concept of insurance is based on the idea of pooling, which consists of:

(Please mark the correct option.)

☐ A) overcoming foreseen situations as a group.

☐ B) avoiding unforeseen situations by associating oneself with a group.

☐ C) members of a group pooling resources together with a mutual commitment to help each other if the need arises.

☐ D) one member of a group takes responsibility for the losses caused by risk situations.

3. To better understand the concept of **risk**, Will looked in the dictionary. Read below what he found out:

1. a situation involving exposure to danger [mass noun]

2. the possibility that something unpleasant or unwelcome will happen [in singular]

3. a person or thing regarded as a threat or likely source of danger [with modifier]

4. (usually **risks**) A possibility of harm or damage against which someone or something is insured.¹

3.1. Underline the option related to the concept of **insurance**.

4. Of the different types of insurance mentioned in the text, please indicate:

A) those which are for person's cover.

B) those which are for covering goods.

5. The law requires certain type of Insurance. However, there are many more types of insurance which are completely optional.

5.1. Please give examples of:

A) mandatory insurance.

B) optional Insurance.

5.2. From the situations introduced below, please identify the ones which should be covered by mandatory insurance.

☐ A) There has been a fire in the basement of the building where Rod lives.

☐ B) Clara's grandparents' cleaner broke her wrist while she was working.

☐ C) Will's father broke his specs and had to replace them.

☐ D) A short-circuit damaged the fuseboard at Milly's home.

☐ E) Lizzie broke a whole box of glasses whilst shopping at the supermarket with her mum.

☐ F) Mr Rogers hit a car whilst parking.

¹ Infopédia – Dicionário Porto Editora online

☐ G. Clara's dog broke a leg and was taken to the vet.

☐ H. Clara's Dad broke his arm in an accident at work.

5. The premium is the total amount the policyholder pays to the insurers when transferring risks. The value of the premium depends on the risks covered by the insurance. Therefore:

(Please indicate the correct option.)

☐ A) The premium is only paid if the risk situation occurs.

☐ B) The bigger the risks, the higher the insurance premium will be.

☐ C) The premium is calculated according to the number of instalments.

☐ D) The premium value is decided by the policyholder.

7. Will mentions that Milly's parents' home "[...] is protected against anything!" Do you agree with Will? Please give reasons for your answer.

8. Talk to your parents about unforeseen situations your family found itself in, which might have been covered by the following type of insurance:

A) Health insurance:

B) Motor insurance:

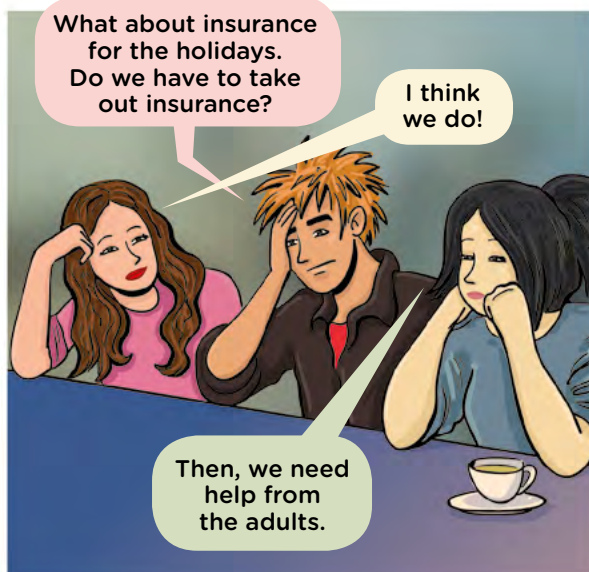
C) Home insurance (multi-risk):

D) Family civic liability insurance:

E) Pet insurance:

THE ROUND TABLE

After the group-work at the library came to an end, the six friends decided to have a snack at the school cafeteria. The preparations for the camping trip brought the subject of insurance back into the conversation.



Meanwhile, Mr Rogers entered the room.



We need to know if you think we should take out insurance to protect us from unforeseen risks which might happen during our holidays.

Good thinking, well done! And do you guys know how to take out insurance?

My parents taught me that, before we take out insurance, we need to decide what we want to be covered for, because only in this way can we choose the product most suitable for our needs.

Not only that. One must take into consideration excesses and periods of grace...

That's right! I remember my parents talking about that, when they took out home insurance. And I know they really thought it through in order not to pay too high a premium.

What is an excess Sir?

The excess corresponds to part of the value of the damages which is charged to the policyholder, in the case of a claim.

Of course! The higher the part of the value of the damages charged to the policyholder, the lower the premium. That is why, when we take out insurance, we must consider its impact on the family budget, both in terms of the amount of the premium, and the excesses we agreed to in the contract.

And what about periods of grace, what is that all about?

It's the period between the date of taking out insurance and another set date which involves validation of cover, during which cover might not yet be active.

Then, during that period we can't use the insurance?

And how long do those periods of grace last?

During such a period we can't use the cover to which periods of grace are applied.

That depends on what is agreed with the insurers.

Then we have to pay particular attention to what the contract says, in order not to have any surprises...

But, after all, since we are all here debating the subject, what we should actually do is to get in touch with the insurers or an insurance broker.



We know what the insurers are, but an insurance broker... what is that?

It's a person whose profession is to act as the liaison – to be an intermediary – between the insurers and the client.

That's all very good, but what does the work consist of?

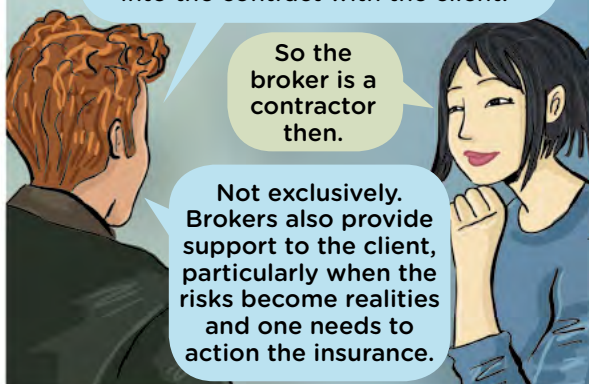
The insurance broker presents the insurance proposals to the client and assists in the preparation of the contracts...



Is that it?

There are different aspects to it. Brokers may work independently, or for one or more insurers.

If the broker has appropriate credentials, the broker can even enter into the contract with the client.



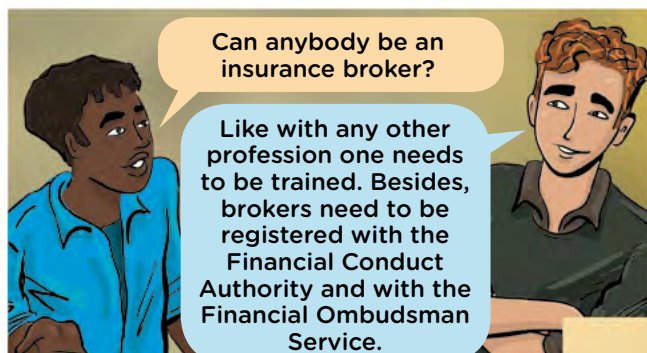
So the broker is a contractor then.

Not exclusively. Brokers also provide support to the client, particularly when the risks become realities and one needs to action the insurance.

And the broker works for the insurer?



I think that when I grow up I want to be an insurance broker...



Can anybody be an insurance broker?

Like with any other profession one needs to be trained. Besides, brokers need to be registered with the Financial Conduct Authority and with the Financial Ombudsman Service.



Very well! Listen, you can make start by arranging our insurance and that can work as a professional pre-internship!



Rest assured Clara: my internship starts as we speak...



1. Based on what you have learnt from the current section (the Round Table), please indicate which of the listed participants (1-3) are associated with which function in the preparation of an insurance contract, by writing the appropriate number by each sentence.

1 Insurance company (insurers).

2 Insurance broker.

3 Policyholder.

☐ Assessment of risk.

☐ Assists in the preparation of the contract, but does not as an individual provide, actual coverage of risks.

☐ Commits to paying the insurance premium.

☐ Issues the insurance policy.

☐ Takes on coverage of risks, according to what is pre-specified in the contract.

☐ Enters into the contract on behalf of the insurers.

☐ Passes on to the insurers all information provided by the policyholder.

☐ Is responsible for providing truthful information which will allow the correct assessment of risks.

2. When one takes out Insurance, great attention must be paid to the content of the contract. According to the information given in the text above, please complete the list of fundamental aspects to take into account and their respective definitions.

A) **Cover/coverage:** _____

B) **Limit:** maximum amount paid by the insurer in the event of a claim, even if the losses are of higher value.

C) _____ : period between entering a contract and the date agreed for the beginning of effective cover.

D) **Excess:** _____

3. The insurance premium depends on the risk covered and also on the agreed excess. Please identify and mark the correct option below.

☐ A) If damages are totally covered by the insurers, the premium will be lower.

☐ B) Damage must always be covered in its totality by the insurers.

☐ C) The value of the premium corresponds to a fixed percentage of the risk value.

☐ D) The more the policyholder contributes to the damage, the smaller the value of the insurance premium will be.

PRESS CUTTINGS

1. Please read the text below carefully, paying particular attention to the sentences in bold:

HOW TO CHOOSE HEALTH INSURANCE

[...]

Although referring to a sensitive area like **health, insurance is a contract**. The consumer is committed to paying a premium, and in exchange, the insurers will face up to the expenses which might occur from situations involving ill health or accident. **Health Insurance provision is varied, and so are the characteristics of each product. Choose the one which is most appropriate to your needs and also to your pocket.**

There is a lot to take into account before taking out insurance and during the period of cover. **Pay particular attention to all specifications, mainly to do with cover, exemptions, excesses and periods of grace.** You should opt for the product that best meets your needs, not forgetting how much you are willing to pay as premium. Typically, the basic cover for health insurance (available in Portugal) covers hospital expenses as in-patients or out-patients, or specialist appointments. Besides these, there is a range of complementary cover options. [...]

The exemptions are just as important as the cover. This, because often the policy does not cover illnesses already existing at the time of taking it out, or for expenses incurred with accidents and occupational illnesses, or psychological treatment, or intentional acts, amongst others.

Raquel GODINHO, "How to choose health insurance", in *Jornal de Negócios*, 31-10-2013
(excerpt with deletions)

- 1.1. Please write a small summary of the article you've just read.

CLUES:

1. Identify the subject.
2. Refer to the role of health insurance.
3. Based on what you have learnt, please give your opinion about the importance of knowing all the characteristics of the chosen product before taking out insurance.

(You can talk about your own experience.)



NOTEBOOK

Consolidate what you have learnt by completing the following:

A) Why take out insurance?

The aim of insurance is _____

B) I want to take out insurance. Who should I get in touch with?

C) Is insurance optional?

D) What are the factors which influence the calculation of the insurance premium?

5.

FINANCIAL SYSTEM



CASH IN HAND

Text by Maria da Conceição Vicente

The holidays were coming. The ideas ran over each other, restless, mixing up mock exams, final exams and preparations for the camping.

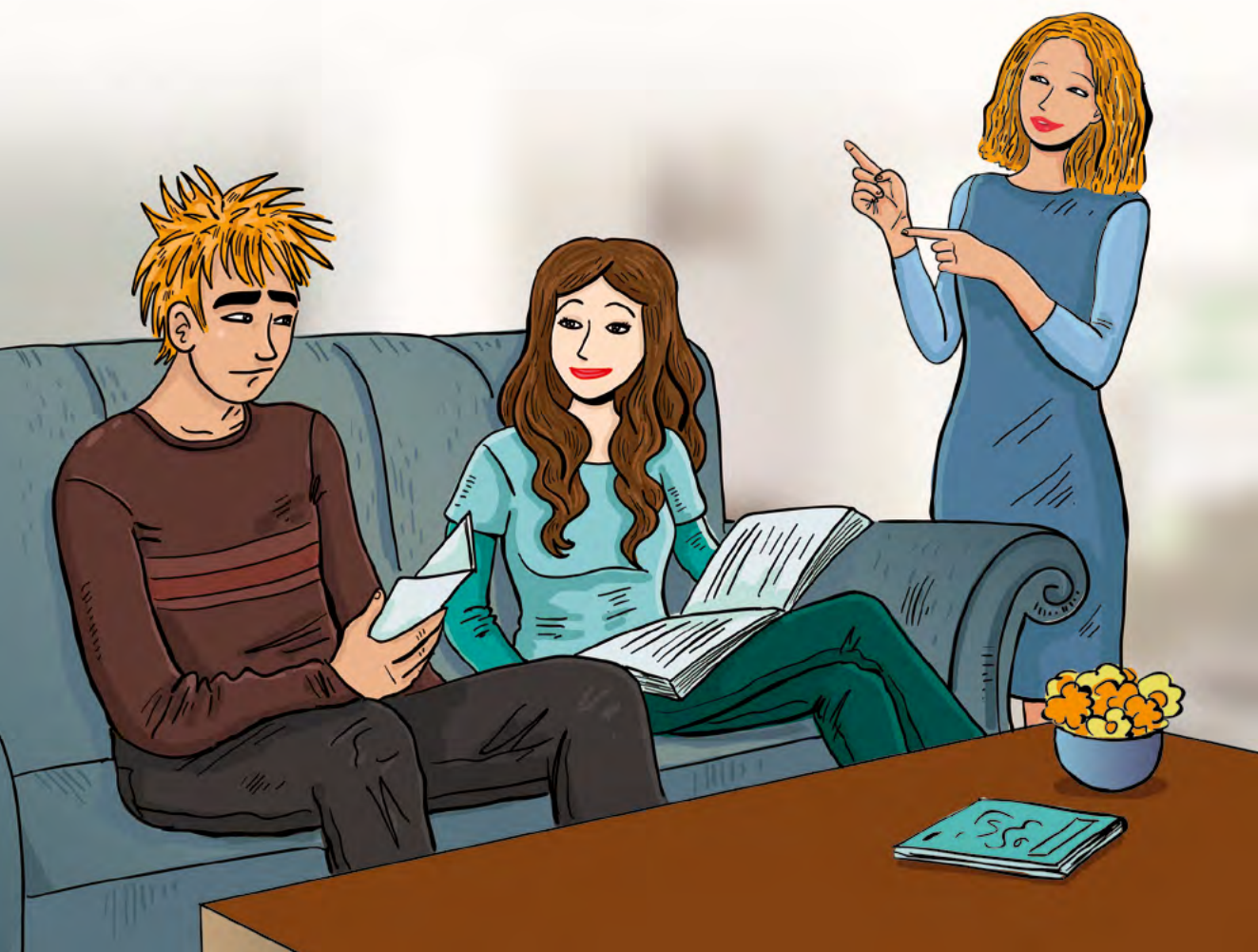
"Girls and boys, we need concentration and revision! We are almost at the finish line", the teachers encouraged; *"Children, if the predicted results are not achieved there will be no holidays!"*, the parents reminded; *"Wish the holidays were here already!"*, was the common thought in the group's mind.

The Cash siblings had dedicated their afternoon to studying and Thomas took the opportunity to clarify with his sister a few doubts in Maths.

'My dear children, you must stop for a snack. It's important to eat well while revising!' said Catherine, the mum, inviting them to have a break every now and then like the rules of productive revision recommend.

'I'm glad you called us Mum, because I wanted to talk to you about some stuff' said Thomas. *'Stuff?! I bet it will be the stuff of dreams!'* answered jokingly Mum, used as she was to Thomas's extravagant ideas.

'It's more like your advice...' Thomas went on. 'Do you think I could exchange my inline skates, which I hardly ever use, for a wetsuit for surfing?'



'Are you back in pre-historic times Thomas, back in the times of **bartering**?' Clara interrupted. 'Your inline skates are in such a state that you would need three or four pairs to exchange for a decent wetsuit.'

'You would also need to find someone who would be willing to barter' his mum went on. 'To acquire something through bartering there needs to be coincidence in both parties' wishes.'

'Thomas what you need to do is count the money you have in your piggy bank and see if it's enough to buy the wetsuit' said Clara. 'If you can remember, one of the functions of money is to establish a value for each product. It works as a unit of account! Remember?'

'I think you are going to have to ask Dad or Grandpa for some money, or else you will go surfing without a wetsuit.' Mum concluded.

'But that is not what we have agreed to do!' Clara complained.

'I don't want to break my piggy bank' murmured Thomas.

'Mum, can you hear this?' Clara went on, 'my brother has only learnt about the function of money which interests him: as a **store of value**.'

Dad arrived in the meantime and only hearing the last bit of what was being said decided to listen up the conversation:

'So, who in here doesn't want to break the piggy bank and rather wants to get into Dad's pocket?'

'It's not like that at all Dad. I didn't even think about asking you for money. It's just that I didn't want to break the piggy bank... because if I didn't use that money in the holidays, I would be able to save it towards getting a tablet. That's my secret plan... or was, until now.'

'Very well! I agree.' Dad answered

'Do you think I can do it Dad?' asked Thomas

'Well, you may be able to, only it's going to take you a couple of years...' mocked Clara.

'You can do it Thomas.' Dad cut in. 'If you wish to buy a decent tablet it might take you a little while, but that doesn't matter because **inflation** is under control.'

'What is that Dad? Is it very complicated?'

'I'm sure I'll get it, as for Thomas...' Clara continued winding her brother up, who, in turn, ignored her because he was more interested in Dad's explanation.

'Inflation is the sustained increase in the general price level' Dad explained.

'Come on then, please explain it in little people terms' asked Thomas.

'When you make the decision to start saving for a tablet, it's natural to firstly decide which tablet you want and at what price. Well then, when there is **stability of prices**, your money maintains its value. Therefore, you know that in one, two or more years' time, after you have saved the necessary amount, the price of the tablet will remain pretty much the same as it is today. All you have to do then is a price comparison to find who's selling it cheapest. If inflation is not under control, the price for the tablet can increase every year, in such a way that it may take you a lot longer to save enough to buy it, or until you give up on buying it all together.'

'But that wouldn't be happening only to tablets, right Dad?' asked Clara

'No' Dad answered. 'One talks about inflation when the general price level increases in a sustained way, meaning the price for most goods increases continuously. If the average price level increase in one year is below 2%, one considers inflation to be under control.'

'And who controls inflation?' Thomas asked.

'The European Central Bank (ECB) together with the central banks of each of the countries in which currency is the Euro.'

'And how do they do that?'

'By controlling interest rates, which, as you know, is the 'price' for borrowing money. If the ECB increases interest rates, it becomes more expensive to borrow money.'

'Yes, Mr Rogers explained that to us...' Clara remembered, 'but why would ECB do it?'

'Precisely to keep the inflation rate from going up. To guarantee price stability as well as to guarantee the Euro doesn't lose its value.'

'What's that about? The Euro losing value?' asked Thomas

'But yes! If prices increase, the amount of goods one can buy with the same amount of money decreases. That is why our savings lose value.'

'But if we make a deposit, we can receive interest and increase our savings, correct?' Thomas queried.

'Correct' answered Dad. 'But bear in mind that the interest rate we receive on a deposit is a nominal rate. For example, if we deposit €1000 at a 2% rate, at the end of the year we receive €20. However, we can't ignore that, if prices increase by 1% over the same year, we will no longer be able to buy the same amount of goods with the same money.'

'We gain 2% with the deposit, but we lose 1% with inflation!' Clara summed up.

'The difference between the nominal interest rate and the inflation rate gives us what we name the real rate of interest. It represents the real increase of the purchasing power of money we invest. In this case, 1% only' explained Dad.

In the meantime, Mum returned to the sitting room and showed some surprise with the length of the conversation taking place.

'No more revision today, children? Thomas, what is it to be... roller skates or wetsuit?'

'Don't even go there Mum. The conversation switched topic.' Said Thomas.

'We've been talking about inflation' added Dad.

'We're almost finance graduates!' said the Cash siblings at once.

'I can even understand the inflation happening in our house' Thomas added 'The sustained increase of Mum's chocolate cake price... my cuddles are no longer enough "to buy it". Some days we only get brown bread and butter as a snack.'

'Honestly Thomas!' Clara blurted out 'Not every day involves a celebration time with cake eating, as well you know!'

The snack break ended on good note, and the children went back to revise, as one has to with during exam periods.



STOP TO THINK

1. The three functions of money mentioned in the text above, are shown below. Please explain the meaning of each function.

Unit of account: _____

Medium of exchange: _____

Store of value: _____

2. Write **T** by the statements below which are true.

Quando há inflação,

A)

☐

prices remain the same.

☐

general prices sustain regular increase.

☐

prices tend to decrease.

C)

☐

there is no need to do price comparison.

☐

it is easier to make purchasing decisions.

☐

it is more difficult to compare prices.

B)

☐

money loses value.

☐

the value of money increases.

☐

the value of money remains the same.

D)

☐

the value of savings increases.

☐

savings lose value.

☐

the value of savings is not affected.

3. Please complete the following statement, choosing the correct options:

When there is price stability, money keeps its value which is of advantage to consumers, since

A)

☐

goods and services have the same price with all suppliers.

☐

price of goods and services do not vary much.

☐

there is no need for price comparison.

☐

goods and services are always low in price.

B)

- ☐ the purchasing power increases.
- ☐ the price of goods decreases.
- ☐ it makes buying on impulse more difficult.
- ☐ it's easier to make decisions on purchasing plans.

C)

- ☐ they have access to credit with interest rates more stable and favourable.
- ☐ they have difficulty raising credit.
- ☐ they pay higher interests on loans.
- ☐ they do not need to resort to credit.

4. The Cash couple has the opportunity to make a deposit on their savings account of €2.000,00 with a nominal yearly interest rate of 2%.

4.1. Calculate the real rate of interest of such a deposit in a year where the inflation rate is calculated at 2%.

4.2. Now, imagine that the inflation rate of that year is 1,5% and that the real rate of interest is 0,5%. What does the sum of €10 correspond to, when calculated in the following way: $€2.000,00 \times 0,5\% = €10,00$?

5. Clara is saving to buy two CDs, which cost, on the present day, €10,00. Below is a table with the changes in price of these CDs over time, in a stable context of prices (inflation between 1% and 2%) and in an inflationary environment (inflation rates of 5%, 10% and 30%). Observe.

Annual inflation rate	1%	2%	5%	10%	30%
	Stable prices		Inflationary environment		
In 1 year	10,10	10,20	10,50	11,00	13,00
In 2 years	10,20	10,40	11,03	12,10	16,90
In 3 years	10,30	10,61	11,58	13,31	21,97
In 4 years	10,41	10,82	12,16	14,64	28,56
In 5 years	10,51	11,04	12,76	16,11	37,13
In 6 years	10,62	11,26	13,40	17,72	48,27
In 7 years	10,72	11,49	14,07	19,49	62,75
In 8 years	10,83	11,72	14,77	21,44	81,57
In 9 years	10,94	11,95	15,51	23,58	106,04
In 10 years	11,05	12,19	16,29	25,94	137,86

Why is price stability important?

Brochura informativa para alunos, Banco Central Europeu / Eurosistema

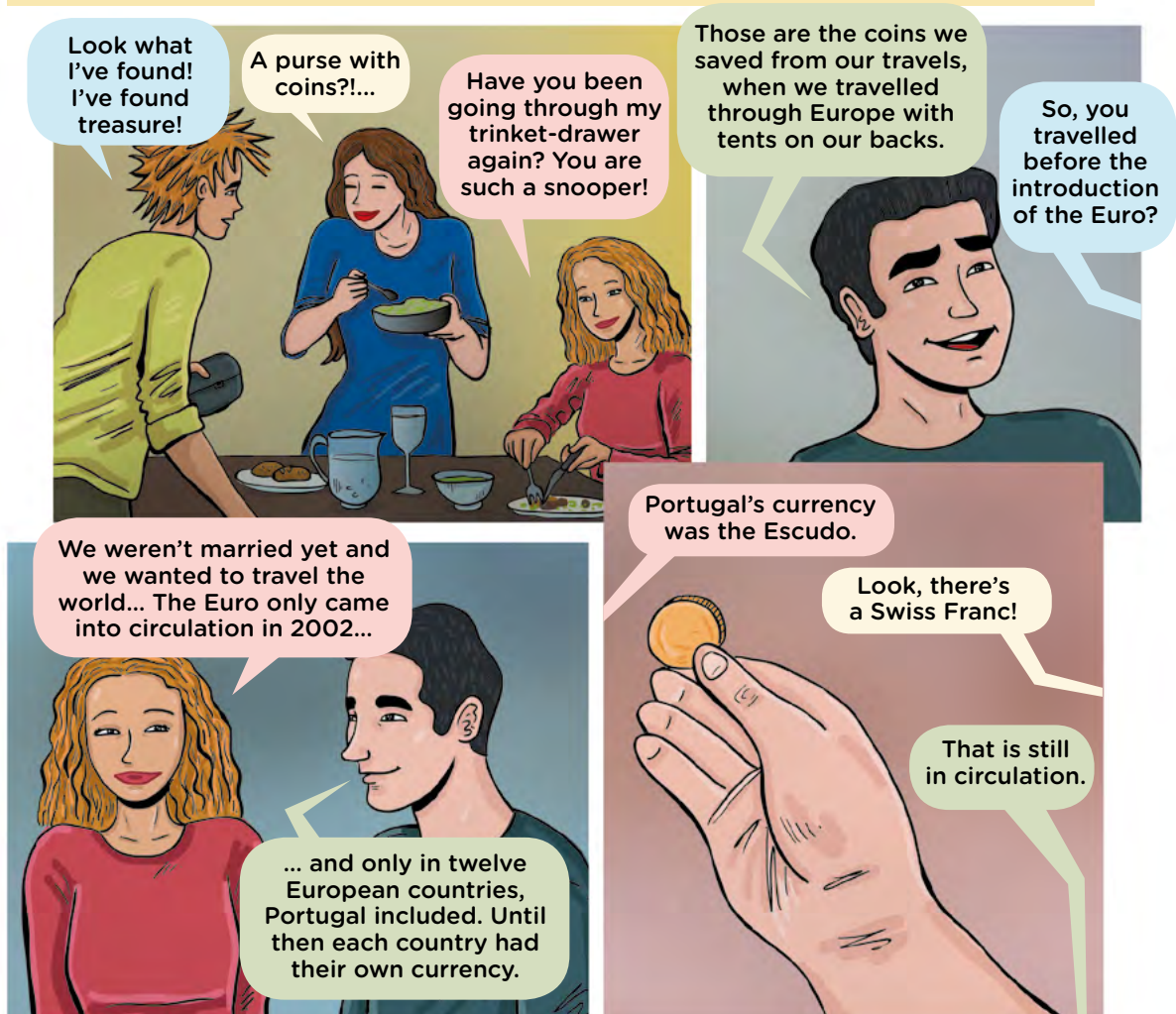
5.1. If the inflation rate is 30% / year, how much would Clara have to pay for the same CDs in three years' time? What about if prices remain stable, meaning, the inflation rate does not go above 2% / year?

5.2. If Clara saves 5 Euros per year, how long will it take her to buy the CDs, if the prices remain stable?

5.3. If the annual inflation is 30%, will Clara ever be able to save enough money to buy the CDs, considering her savings of 5 Euros per year? Please give reasons for your answer.

THE ROUND TABLE

Both Clara and her parents were already sitting at table for supper, when an ecstatic Thomas came in, carrying in his hand a small purse.



Then how did you make payments in the countries you travelled through?

Each country its own currency: when we went from one country to the next, we had to exchange currency.

How's that? And how did you know how much an Escudo was worth?

We looked at an exchange rate table, which allowed us to convert the national currency into the different foreign currencies.

You just have to look in a newspaper, that's the quickest source of information...

... or rather the web!

The table, which is updated on a daily basis and published in the Bank of Portugal site, gives us information about the exchange rates: the units of account of foreign currency which are equivalent to the national units of account, in our case, the Euro.

Then all that's left to do is some calculations, and to go to the bank or to another financial institution to exchange the currency, like a *Bureau de Change*. Remember *Change* means Exchange!

But nowadays we don't need to exchange currency. We can use Euros to travel in Europe!

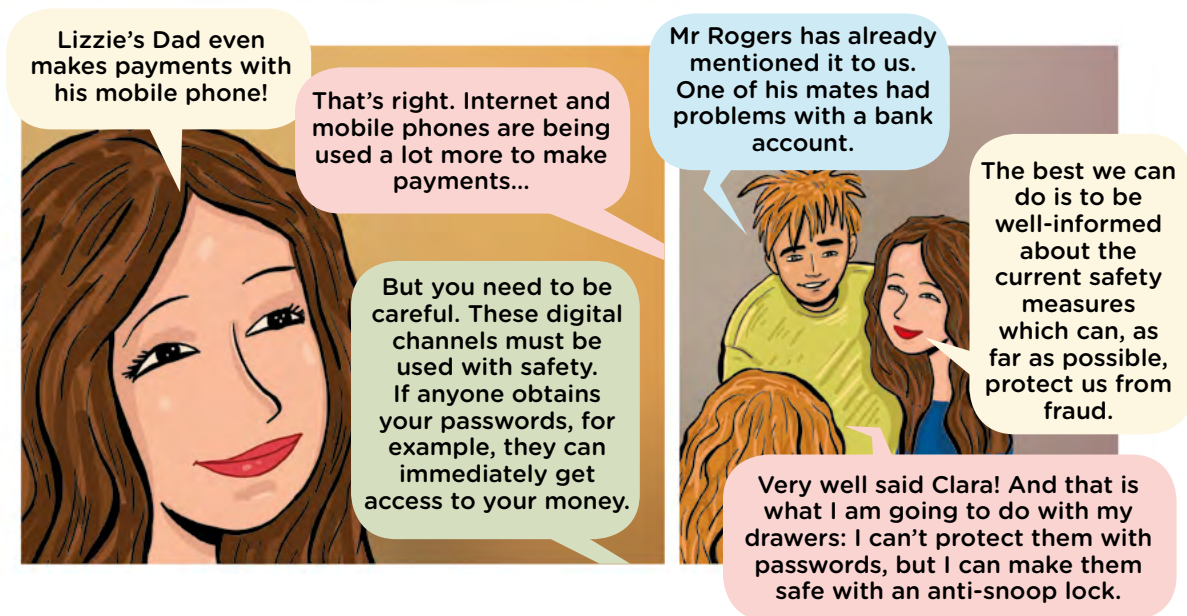
That is not quite so Thomas! As you know not all countries of the European Union joined the Euro. The British Pound Sterling and the Swedish Krona, for example, are still in circulation. If you travel to the United Kingdom or to Sweden, you have to exchange currency.

When I saw all these coins, I really thought I had found your secret stack of savings... After all, many of these coins are not even in circulation...

But Thomas, who on earth keeps their savings at home these days?!

As if I didn't know it?... Where is your sense of humour Clara!

Clara is right Thomas. Nowadays people have bank accounts where they deposit their money, as there are alternative means of payment other than coins and bank notes, like for example debit and credit cards, bank transfers, direct debits...



1. Thomas and Clara's curiosity was aroused and they looked on the internet for the day's exchange rates. See below how much €1 costs in different currencies.

	United States of America	Dollar (USD)	1,1796
	Japan	Yene (JPY)	133,66
	Norway	Norwegian Crown (NOK)	9,8825
	United Kingdom	Pound Sterling (GBP)	0, 8825
	Switzerland	Swiss Franc (CHF)	1,1679
	Brazil	Real (BRL)	3,8654

Bank of Portugal, www.bportugal.pt (consulted in 11-12-2017)

1.1. Thomas wants to know the value in Euros of the 3 coins of 1 Swiss Franc he found in the purse. What result do you think he got, considering the exchange rate on that day?

1.2. Clara has a dream of one day going for a weekend in London with her brother and parents. Considering one night in a hotel would cost £43/night/person, calculate if €200 would cover a night for the whole family. (Use the exchange rate provided in the table above.)

2. According to the text above, Sweden, although being part of the EU, has not joined the Euro, and its official currency is the Swedish Krona (SEK). Please indicate three other countries, which re part of the EU, but which have not joined the Euro and also indicate their respective currencies.

3. During the family conversation recorded above, there was mention of payments in cash. However, there are other means of payment which one should use according to the service or good one wants to pay for.

3.1. Please match each of the means of payment to the respective definition and, after that, give examples of goods or services which are normally paid by the listed means of payment.

Definition	Means of payment/Good or service to pay for
1. Bank notes or coins.	☐ Bank transfer • _____ • _____
2. Operation which entails moving money from one account to another.	☐ Payment in cash • _____ • _____
3. It allows for a regular payment, automatically withdrawing the payment amount from the current account, once the operation is authorized	☐ Cheque • _____ • _____
4. Means of payment involving a current account, which allows for the payment of goods or services in shops and also to be used for different operations at cashpoints (cash withdrawals; transfer funds, check transactions, pay for services).	☐ Card • _____ • _____
5. Payment order given to the bank, for the execution of payment to a person or to an appointed entity (beneficiary) in the specified amount.	☐ Direct debit • _____ • _____

4. With the bank card Peter, the Dad, checked the transactions in his current account. See below the receipt he obtained.

MB MULTIBANCO ATM		
ACCOUNT: 000000000000		2017/08/20 11:18
ACCOUNT STATEMENT		
2017/08/20	*CRE	DEP. CHEQUE 100,00 + EURO
2017/08/12	**DEB	PURCHASE 45,00 - EURO
2017/08/10	DEB	DEB. WATERS D.R.A. 30,00 - EURO
2017/08/09	DEB	WITHDRAWAL 40,00 - EURO
2017/08/09	DEB	DEB. COMMUNICATIONS 45,00 - EURO
2017/08/01	CRE	TRANSF. 1.098,00 + EURO
2017/07/27	DEB	TRANSF. CONDOMINIUM 20,00 - EURO
2017/07/27	DEB	WITHDRAWAL 40,00 - EURO
CURRENT BALANCE ON 2017/08/20		1,230,00 EURO
** THANK YOU **		

* Credit – money entering the account.

** Debit – money leaving the account.

4.1. Please complete the text below, according to the transactions shown on ATM receipt above:

Looking at the transactions in Peter's current account, one can see that Water and Communications are paid by _____, but payment for the Condominium was made by _____. Beside these transactions Dad also did others: _____. His salary was also paid by _____. To check is balance and transactions Dad Peter asks for a _____ periodically.

PRESS CUTTINGS

1. Please read the text below carefully, paying particular attention to the sentences in bold:

FIVE PRECAUTIONS TO TAKE WHEN BUYING ONLINE

[...] More and more people are opting for internet purchasing, although Portugal is below the European average for this. [...] The **internet can be a means of payment, provided that consumers take some precautions**, mainly concerning the safety of the details shared. Know the five things you should know about before buying online.

1. [...] Before purchasing online, **you should thoroughly check the legitimacy of the entity you are buying from**. [...] It's important that you research on the internet, namely through forums, or also consult with friends, [...] to check if there is any record of issues [...] **One should also save the contact details of the entity you are intending to buy from** [...].

2. With the increase of transactions made by internet purchasing [...], it's also possible to notice an increase in "*phishing*" activity. [...] Therefore, **one should also [...] check if the vendor guarantees the privacy of one's data. Furthermore, one should limit the amount of detail supplied**, by not providing any details other than the ones strictly necessary to complete the transaction.

3. [...] When possible **one should choose the option for payment on delivery**, which will allow for confirmation of whether the goods one is acquiring are exactly as intended. **If this payment option is not available, one should choose safer ways of payment**. [...] Furthermore, when making the payment **one should double check if the final price includes postage and packing or any other associated expenses**.

4. [...] **Care should also be taken in keeping all evidence of the purchase**, bearing in mind that the goods acquired might not reach you in perfect condition, might arrive with a delay, or not even arrive at all. [...]

5. [...] Just as with making purchases at the shops, with internet transactions **one should also thor-**

oughly research the products one intends to buy. Thus, assuring a good buy [...].

Raquel GODINHO, "*Five precautions to take when buying online*", in *Jornal de Negócios*, 12-12-2015 (www.jornaldenegocios.pt) (excerpt with adaptations)

1.1. Please write a small summary of the article you've just read.

CLUES:

1. Identify the theme.
2. Mention which precautions to take before purchasing online.
3. Give your opinion about the importance of following the safety measures enumerated in the text above, underlining how it contributes to the fraud prevention.

NOTEBOOK

Consolidate what you have learnt by completing the following:

1. There are three main functions to money:

_____ ; _____ ; _____ .

2. Besides cash payments (bank notes or coins) there are several other means of payment: _____ .

3. The Euro Zone is formed by European Union (EU) countries which joined the _____ as official currency. In some other EU countries as well as in other non-European countries, there are other _____ . in circulation. It is possible to establish equity of values between the Euro and other currencies by consulting the _____ .

4. Contrary to what happens with _____ (sustained price increase), the _____ generates trust amongst the consumers and the investors, since it allows for price comparison and for planning decisions. In an environment of price stability, the value of savings _____ . The difference between the _____ rate of interest and the _____ interest rate allows for correction of the effect of inflation and guarantees that the savings _____ .



ANSWERS

IT'S ALWAYS GOOD TO "BALANCE THE BOOKS"

Family Budget

STOP TO THINK (Page 9)

1.

1.1. It's about satisfying a wish since it concerns acquiring a non-essential good. (or equivalent)

1.2. I thought you would remember what you have previously learnt Thomas: before buying something, one must think about if one may or should do so. A surf board is not an essential good, and on top of that it's quite an expensive item. Twice as much reason to think about it before one gives in into whims. (or equivalent)

1.3. *Wanting* and *wishing* for are not synonyms, which is to say that one can't always have all one wishes for. One's needs must always be the priority. (or equivalent)

1.4. Free text answer

1.5. Impulse buying generates expenditure which, because it wasn't thought through, might contribute to unbalancing the family budget, thus compromising the basic needs of the family. (or equivalent)

2.

2.1. **Necessary expenditure:** school dinner; transport; school material; PE kit; new backpack to replace the damaged one. **Superfluous expenditure:** new outfit for birthday party; branded mobile phone case; snacks at the Cafe; cinema tickets; yoga classes.

2.2. Free text answer.

3.

3.1. **S** Replace or fix the boiler; Replace two of the car tyres which are damaged; Pay for all the vaccinations the newly adopted dog needs. **L** Buy a new car; Paint the house.; Replace the sofa in the sitting room.

3.2. Free text answer.

THE ROUND TABLE (Page 10)

TASK 1

1.

1.1. €1.098,00

1.2. €975,61

TASK 2

2.1

2.1.1. **FE** Mortgage payment; Car loan repayment; Insurance; Communications; Extracurricular activities; Gym; Service Charges; Clara and Thomas's pocket money; Dad's personal expenses; Mum's personal expenses. **VE** Food / supermarket; Clothes / footwear; Transport; Water, gas, electricity; Leisure (travelling, books, cinema...);

TASK 3

3.1

3.1.1. **A** €1098,00 **B** €100,00; **C** €240,00.

3.1.2.

Budget balance breakdown plan		
Savings objective	Balance percentage	Budget balance amount
Family fund for reduction of risk.	20,8%	€50,00
Loft conversion.	25%	€60,00
Savings account.	54,2%	€130,00

3.1.3.

A) €20,00; **B)** The Cash family savings plan would be compromised: the balance would be reduced in such way that, considering the other elements contained in the budget balance breakdown plan (namely the family fund for reduction of risk) the possibility of making some savings would be minimal or even impossible. (or equivalent)

TASK 4

4.1.

4.1.1. Leisure (travelling, books, cinema) ...; Gym; Dad's personal expenses; Mum's personal expenses.

4.1.2. Free text answer.

4.1.3. Food / supermarket. Behaviours that contribute to reducing expenses: comparing prices between brands, sales outlets or types of product; avoiding wasting; opting for a healthy diet, avoiding processed products, normally more expensive ones.

4.2. Free text answer.

PRESS CUTTINGS (Page 14)

1.

1.1. Free text answer.

NOTEBOOK (Page 14)

Four steps to follow when doing a budget: **1.** income, variable; **2.** expenses, variable; **3.** the family fund for reduction of risk.

NOT TO BE FORGOTTEN: **1.** Income, balance.

OWNERSHIP COMES OUT OF SAVINGS Savings

STOP TO THINK (Page 19)

1.

1.1.

A) €336,00; **B)** €84,00; **C)** €75,00; **E)** €30,00; **F)** €60,00;

Total: €600,00.

1.2. €10,00.

2.

Revenues: total pocket money savings – €480,00; free text answer; free text answer. (A soma do valor apresentado para as duas sugestões de resposta livre terá de ser igual a €35)

Expenses: food – €336,00; campsite – €84,00; tents – €75,00; lantern – 15,00 €; camping mattresses – €30,00; sleeping bags – €60,00. **Total** (expenses): €600,00.

3.

3.1. 3, 5, 4, 2, 1.

4.

A) Minimum age: “– I also have a deposit account, just like Lizzie’s. Only my parents can access it. We aren’t old enough yet!”; **B)** Term: “Mine is an annual deposit account.”; interest payments: “and you can withdraw the interest or leave it in the account to ‘capitalise’ [...] This way your money just grows and grows and grows...” or “[...] when the interest on my savings is due, instead of withdrawing or transferring it to my current account, I choose to add it to my savings, this means I’m ‘capitalising’ my money...” or “If instead of withdrawing the interest we let it remain in our savings account, our money grows faster.”; Early savings mobilisation: “If I touch it before the due date, I will lose the interest...”.

5. €40,00

5.1. €28,80

5.2. €40,58

6. Pension savings scheme.

6.1.

A) “But if it is a pension savings scheme it should only be used to contribute to your parents’ pensions, and not to be used for other things [...]”; **B)** “Because the pension savings scheme has a specific objective or purpose, if you take money out of it before the set term you might be penalised for doing so.”

THE ROUND TABLE (Page 21)

1. Because some of the available financial products where you can invest savings entail certain risks, it is wiser not to invest savings in one single product but rather to invest in several products (“the principle of diversification”, according to the previous analysis one must do on its characteristics. (or equivalent)

2. (in order) D, B, E, F, C, A.

3.

3.1. (in order) F, T, T, F, T, F, F, T, F.

PRESS CUTTINGS (Page 26)

1.

1.1. Free answer.

2. €418,70

NOTEBOOK (Page 26)

THOSE WHO HAVE SAVINGS SHOULD HAVE CLEAR PURPOSES FOR THEM: **A)** Prevent risk. **B)** Long-term purchase. **C)** Accumulation of assets. **D)** Saving for retirement. (or equivalent)

NOT TO BE FORGOTTEN: (in order) 1. [...] to deposit in a savings account; pension savings scheme; shares; bonds; investment funds; pension funds.

LIVING WITHIN ONE’S MEANS

Credit

STOP TO THINK (Page 31)

1. lends the money; commits to pay it back; term; interest and other costs

2.

A) ... they wanted to buy a home, which is an item of high value, and without resorting to credit they wouldn’t be able purchase it.

B) ... he wanted to anticipate the purchase of an item and he decided not to wait until he had saved enough money to do it.

3. Free text answer.

3.1. Free text answer.

4. (in order) 3, 1, 2.

5.

A) parents as guarantors;

B) the home they were buying.

6.

6.1. The first time Mr Rogers procured credit he already had a job, which is to say, he already had a regular income which allowed for the repayment of the loan. Furthermore, he considered the ratio between income and expenditure (his expenses were reduced because he was living with his parents). The second time he procured credit, he had already completed repayment of the first loan. (or equivalent)

6.2. With a long-term loan, the family assumes responsibilities for a long period of time, during which the family’s financial capacity might change, either because of an increase in expenditure or because of a reduction in income. Therefore, it’s of the utmost importance to take into consideration not only the family’s current income and expenditure but also the risks which might occur in the future from loss of income and/or increase in expenditure. (or equivalent)

6.3. Will’s parents were confronted with a situation more difficult to foresee, which was nevertheless a very serious one: loss of employment and consequent loss of income. This break in the income reflected itself in the life of the entire family: it was necessary to adjust the family budget in order not to jeopardize the mortgage payments. (or equivalent)

7.

7.1.

A) 30%;

B) €1.120,00.

7.2. Mr Rogers → Repayments: €288,00; Available income after loan repayments: €912,00. **Milly’s family** → Effort rate: 20%; Available income after loan repayments: €1260,00. **Cash family** → Available income after loan repayments: €1.750,00.

7.2.1.

A) False. Although the Cash family’s effort rate (24%) is higher than that of Milly’s family (20%), the available income after loan repayments for the Cash family (€1750) is higher than Milly’s family available income after loan repayments (€1260). The available income after loan repayments is directly comparable since

both families present the same household composition (4 people). **B)** False. Although both effort rates are the same (24%) Mr Rogers presents a better financial situation than the Cash family, since his available income after loan repayments (€912) is intended to pay the expenses of only one person (Mr Rogers). In the case of the Cash family, the available income after loan repayments (€1750) is intended to pay for the expenditure of a 4-person household, therefore the income per person (€438) is lower than Mr Rogers income.

7.2.2 Before procuring credit, one must consider the impact that the future repayments might have on the family budget. To do so, one must calculate the effort rate, which show us the percentage of the income destined for the credit repayments. But to evaluate if the rate is adequate, it's important to consider the available income remaining after deducting the repayments of all acquired credits (and include new credits) and also how many people are dependent on that income, meaning what is the available income *per capita* (per person).

THE ROUND TABLE (Page 33)

1.

1.1. (in order) 2, 1, 4, 3.

2.

2.1.

A) debit, credit;

B) credit, debit;

C) credit.

3. (in order) V, F, F, V, V.

PRESS CUTTINGS (Page 36)

Free answer.

NOTEBOOK (Page 36)

A)

1. pay back; loan; interest, commissions and charges. (or equivalent)

B)

1. to acquire a product of high value, which otherwise would be impossible to purchase

2. to anticipate a purchase (or equivalent)

C)

1. interest.

2. commissions.

3. insurance.

PREDICT IN ORDER TO PROVIDE Insurance

1.

A) Insurance is an arrangement by which the insurers undertake to provide a guarantee of compensation for a specified loss in case of a claim, in return for payment of a specified premium by the policy holder; **B)** The person or company that underwrites an insurance risk thereby undertaking to pay compensation; **C)** Policy holder is a person or group in whose name an insurance policy is held, responsible for the payment of the insurance premium; **D)** Insurance policy is a document detailing the terms and conditions of a contract of insurance; **E)** Insurance premium is the value paid by the policy holder to the insurers. It's usually paid annually but it can also be paid bi-annually, quarterly, or in monthly instalments. (or equivalent)

2.

c. (In the answer, the chosen option must take into consideration that having insurance can't prevent the occurrence of unforeseen situations, rather it protects against the financial consequences resulting from these unforeseen circumstances)

3.

3.1. The possibility that something unpleasant or unwelcome will happen.

4.

A) Health insurance, life insurance, occupational injury Insurance, personal injury insurance; **B)** Motor insurance, buildings insurance covering fire risk, mobile phone insurance, comprehensive home insurance, civil liability family insurance.

5.

5.1.

A) Choose one of the three options: motor insurance, buildings' insurance with fire risk cover, occupational injury insurance;

B) Choose one of the options: motor insurance, health insurance, life insurance, comprehensive home insurance, civil liability family insurance, pet insurance.

5.2. A, B, F, H.

6. B.

7. Free text answer. (Note: to take out insurance does not mean one is protected from any risk. One must always be sure to know exactly what the insurance contract says, including concerning any exemptions)

8. Free text answer

THE ROUND TABLE (Page 42)

1. (from top to bottom) 1, 2, 3, 1, 1, 2, 2, 3.

2.

A) Coverage is the amount of risk or liability that is covered by way of insurance services. C) Period of grace; D) Excess: part of the damages value borne by the policy holder in case of a claim.

3. D.

PRESS CUTTINGS (Page 46)

Free answer.

NOTEBOOK (Page 46)

A) The objective of insurance is to financially guard against unpredictable life occurrences. Although insurance does not stop risks occurring, it helps minimize financial losses which might result from the occurrence of those risks.; B) Insurance company or insurance brokers.; C) There is mandatory insurance according to the law: third party liability motor insurance, building's insurance covering fire risk, occupational injury insurance. Other insurance, although optional, might also be very useful if taken out. D) The premium is calculated taking into consideration the risk covered (if risk is greater, the higher the value of the premium and vice-versa), and value of the excess (the value of the part of the damages borne by the policy holder) and/or by the insurers (if the insurers' coverage is for the totality of the damages, the value of the premium will be higher). (or equivalent)

CASH IN HAND Financial System

STOP TO THINK (Page 51)

1. **Unit of account:** money allows for the "measuring" of the value of all goods, meaning it allows them to be given a price. **Medium of exchange:** because money works as a unit of account, which allows giving a price to each product, it can be used to buy any goods or products. **Store of value:** because money retains its value throughout times, it can be kept for long periods of time, to facilitate future purchasing (or equivalent)

2.

A) general prices sustain regular increase.; B) money loses value.; C) it is more difficult to compare prices; D) savings lose value.

3.

A) price of goods and services do not vary much; B) it's easier to make decisions regarding purchasing plans.; C) they have access to credit with interest rates more stable and favourable.

4.

4.1. $2\% - 2\% = 0\%$; The real rate of interest would be 0%.

4.2. These €10,00 correspond to the income obtained on the deposit, in real terms, at the end of one year.

5.

5.1. With 30% inflation the price will be €21,79. With 1-2% inflation, the price will be between €10,30 and €10,61.

5.2. Clara will be able to buy the CDs in 3 years' time because she will have saved €15,00 and the price for the CDs will be lower than €10,61.

5.3. No. She will have to save more money per year, because the increase on prices is quite rapid.

THE ROUND TABLE (Page 53)

1.

1.1. $€1 \rightarrow 1,1679 \text{ CHF} / X \rightarrow 3 \text{ CHF} = €2,57$

1.2. $(€1 \rightarrow 0,8825 \text{ GBP} / €200,00 \rightarrow X = £176,50)$

€200,00 (£176,50) would be enough to pay for the hotel, since the exact price per night for the four members of the family would be £172 (£4x43 = £172).

2. For example: Denmark - Danish Krona, Czech Republic - Czech Krona and Hungary - Hungarian Florint.

3.

3.1. (in order) 2, 1, 5, 4, 3. Free text answer.

4.

4.1. In order: direct debit; bank transfer; deposit; purchase; withdrawal; bank transfer; check account balance or transaction.

PRESS CUTTINGS (Page 58)

Free text answer.

NOTEBOOK (Page 58)

1. Medium of exchange; unit of account; store of value.

2. Cheque, bank card, bank transfer, direct debit.

3. In order: Euro, currency and exchange rate.

4. In order: inflation, price stability, does not decrease significantly, nominal, real, remuneration.

TECHNICAL FILE

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The Financial Education Workbook for Lower secondary education is to be used as a support for teachers and pupils in the approach to themes which are part of the Core Competencies for Financial Education. It can be used in different curricular contexts or different subjects or as a support in complementary projects. The Core Competencies for Financial Education themes are used in a creative as well as pedagogic way. Five short stories about pupils from lower secondary education, their families and teachers. These stories are explored through activities which explain and complement the knowledge on financial issues, through attitudes and behaviours embodied in the narrative.

The publication of this Financial Education Workbook as well as the ones already published for Primary and Elementary school, is the outcome of a partnership, under the National Plan for Financial Training, between the Ministry of Education (through Direção Geral de Educação), the financial supervisors (Banco de Portugal, the Portuguese Securities Market Commission and the Portuguese Insurance Pension Funds Supervisory Authority) and four financial sector associations (the Portuguese Banking Association, the Portuguese Association of Insurers, the Portuguese Association of Investment Funds, Pension Funds and Asset Management and the Association of Specialised Credit Institutions).

The publication of this workbook is intended to Support the financial education of young people with a view to assisting the development of responsible financial citizenship.



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