

Personal Banking and Finance

CSX Business Explorer Post 333

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We live in a “money” economy.



- We do not carry around animal skins, bushels of corn or other items to trade with other people.
- We do carry small pieces of paper, called “dollars”.
- Dollars represent value, but only because we believe that other people will accept them.

Dollars are accepted almost everywhere, but are still bulky to carry around.



- Imagine being paid with dollar bills (or even larger denominations)
 - If you're doing well, this could be \$1,000 or \$2,000 per week.
 - Would you walk around with this much money in your pocket?
- Imagine paying all your bills by handing over dollars to people:
 - \$1,200 for house payment
 - \$ 450 for car payment
 - \$ 200 for groceries, each week
- Would you mail dollars to someone?

For the dollars we don't want to carry around with us, we have a few choices.



- Put them under the mattress or bury them in a can in the yard.
- Leave them with a friend, who will give them back to us later.
- Buy something big and valuable, then plan to sell it later, so that we have dollars again.
- Find someone who is in the business of keeping money “safe”.

If you use a business that keeps money “safe”, you have options and obligations.



- You deposit your money, intending to get it all back (accounts are insured)
 - In a few years – Certificates of Deposit
 - In a few months – Savings Account
 - Anytime you need it – Checking Account
- You hope that the amount of money in the bank grows.
 - Savings Accounts and CDs pay interest
- You promise to abide by the rules.

Checking Accounts enable you to send money without sending dollars.



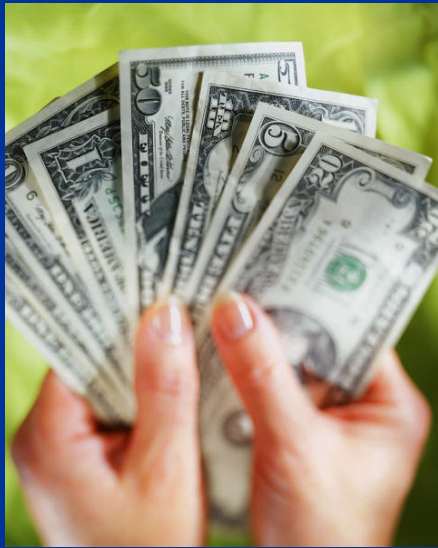
- You deposit your money, get a receipt and write that into your check register
 - You can then write a check to another person, and mail it.
 - That person deposits the check in their bank.
 - Their bank sends it to your bank, and asks for the money.
 - Your bank sends them the money, if you have enough in your account.
 - No dollar bills actually move; each bank changes its electronic record

In a Checking Account, you have to know exactly how much money you have.

<u>Date</u>	<u>Activity</u>	<u>Deposit</u>	<u>Spend</u>	<u>Balance</u>
09/03/10	Paycheck Deposit	\$ 900.00		\$ 900.00
09/08/10	Car Payment		\$ (450.00)	\$ 450.00
09/08/10	Car Insurance		\$ (135.00)	\$ 315.00
09/10/10	Paycheck Deposit	\$ 900.00		\$ 1,215.00
09/11/10	Rent		\$ (800.00)	\$ 415.00
09/11/10	Credit Card Bill		\$ (280.00)	\$ 135.00
09/13/10	Groceries		\$ (95.00)	\$ 40.00
09/14/10	TV Cable Bill		\$ (35.00)	\$ 5.00
09/17/10	Paycheck Deposit	\$ 900.00		\$ 905.00
09/18/10	New Clothes		\$ (243.00)	\$ 662.00
09/19/10	Car Repair		\$ (521.00)	\$ 141.00
09/20/10	Cold Medicine		\$ (26.00)	\$ 115.00
09/21/10	Car Emergency		\$ (125.00)	\$ (10.00)
09/22/10	Bank Bad Check Fee		\$ (40.00)	\$ (50.00)
09/22/10	Car Shop Bad Check Fee		\$ (40.00)	\$ (90.00)

A single bad check can cost you almost \$100 in extra fees, plus having to appear in small claims court, and risking your credit rating.

In summary, living in a money economy can be great, if everyone follows the rules.



- You don't have to carry bushels of corn, or animal skins to trade.
- You can send money to people far away, with little risk of loss.
- You can deposit money with someone who will make sure it is safe, and get a little extra in return.
- You can track how much you have, all the time.
- You can save for future events, like buying a car or a house.