

The Teacher Notes were developed to help teachers understand the depth and breadth of the standards. In some cases, information provided in this document goes beyond the scope of the standards and can be used for background and enrichment information. Please remember that the goal of Social Studies is not to have students memorize laundry lists of facts, but rather to help them understand the world around them so they can analyze issues, solve problems, think critically, and become informed citizens.

TEACHER NOTES
6TH GRADE SOCIAL STUDIES
Australia
- HISTORICAL UNDERSTANDINGS -

SS6H4 - Explain the impact of English colonization on current Aboriginal basic rights, health, literacy, and language.

Standard H4 explores the impact of English settlement in Australia and the long-term societal effect this has had on the continent's native Aboriginal peoples.



An Aboriginal man demonstrates boomerang hunting techniques
(Wikimedia Commons)

Australia's original human inhabitants, known collectively as the **Aborigines**, migrated to the continent by way of Southeast Asia around 40,000 years ago. Recent genotyping studies suggest a genetic link between the Aborigines and certain indigenous groups found in the Philippines and Papua New Guinea, as well as India.¹ The Aborigines adapted to Australia's harsh environment, developing a **nomadic** hunter-gatherer way of life. They are credited with the invention of the earliest boomerangs, ground axes, and grindstones, as well as a primitive form of rock art.

The first European contact with Australia began in 1606, but it was not until 1770 that Captain **James Cook** of England claimed the continent for the British Crown. The first British colony in Australia was established at Botany Bay, near present-day Sydney. Superior weaponry and the unintentional transmission of **small pox** to the continent rendered Aboriginal resistance to European settlement all but moot.

After the loss of its American colonies in the American Revolution, Britain began shipping its prisoners to Australia, especially to New South Wales in the southeast of the continent. Australia remained a prison colony until 1868, but later came to serve a more vital role as a British naval outpost and trading center.

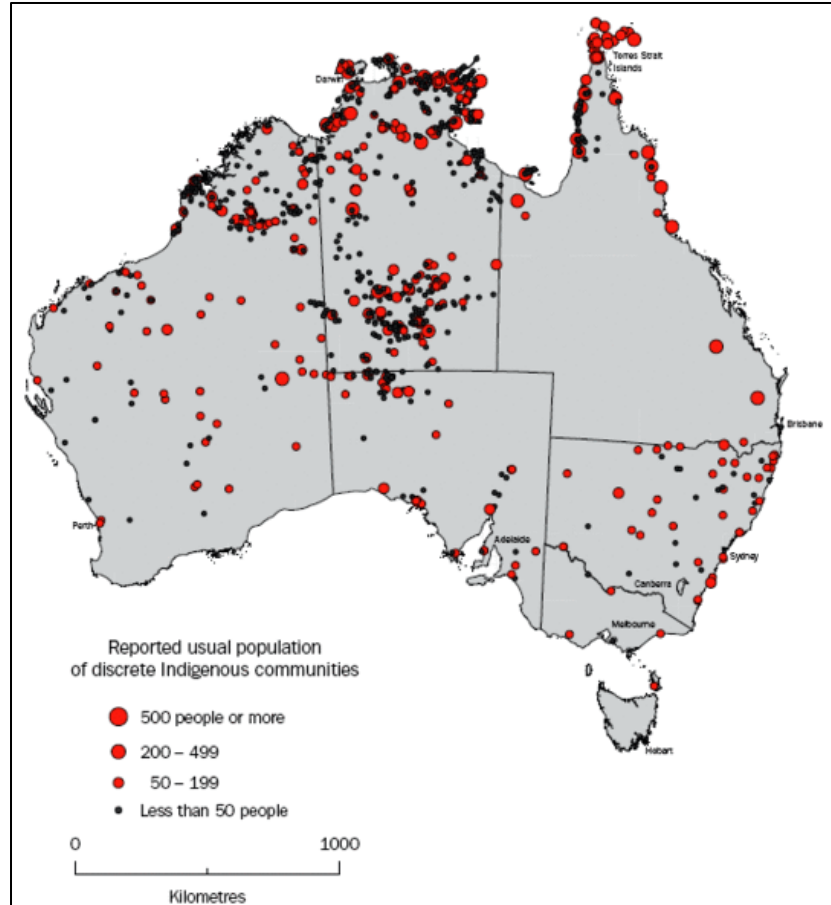
¹ Pugach, Irina, et al. "Genome-wide data substantiate Holocene gene flow from India to Australia." Proceedings of the National Academy of Sciences of the United States of America. Jan. 2013. Web. 24 Dec. 2016.

The Aboriginal way of life in modern Australia is markedly different from what it was prior to European contact. Once the dominant people of Australia, the Aborigines today account for less than 3% of the total population.² Linguistically, English has become the dominant language of the continent; only around 48,000 people speak an indigenous language in Australia today.³

Politically, although they are protected under Australia's constitution, Aboriginal peoples were not granted extensive voting rights until 1965, and were not even counted as part of the national census until 1967.⁴

In terms of education, Aboriginal school attendance and overall literacy rates, especially in Australia's more remote areas, remains very poor.⁵

Health concerns persist among Australia's aboriginal peoples as well. Aboriginal life expectancy is, on average, ten years lower than for non-Aborigines. Infant mortality rates among Aboriginal women are twice that of non-Aborigines. Cardiovascular diseases, such as heart attacks and strokes, are currently the number one cause of death among the Aborigines.⁶



Location of Aboriginal population centers in Australia today
(Wikimedia Commons)

- **Aborigines** – term for the indigenous peoples of the Australian continent; *Torres Strait Islanders* are another aboriginal distinction
- **Cook, James** – English captain who claimed Australia for the British Empire in 1770
- **nomadic** – traveling from place to place in search of food, water, etc.
- **small pox** – virulent disease, transmitted via European migration, which decimated the Aboriginal populations of Australia and the Americas

² "Reflecting a Nation: Stories from the 2011 Census, 2012-2013." Australian Bureau of Statistics. 21 Jun. 2012. Web. 24 Dec. 2016.

³ "Population Composition: Indigenous languages." Australian Social Trends. Australian Bureau of Statistics. 24 Jun. 1999. Web. 24 Dec. 2016.

⁴ "History of the Indigenous Vote." Australian Electoral Commission. 2006. Web. 24 Dec. 2016.

⁵ "Research on Indigenous Literacy – a snapshot." Indigenous Literacy Foundation. 2016. Web. 24 Dec. 2016.

⁶ "Summary of Aboriginal and Torres Strait Islander health." Australian Indigenous HealthInfoNet. 2015. Web. 24 Dec. 2016.

Resources:

Australian Indigenous cultural heritage (Australian Government)

Summary of major cultural and societal elements of the Australian Aborigines

<http://www.australia.gov.au/about-australia/australian-story/austn-indigenous-cultural-heritage>

European discovery and the colonization of Australia (Australian Government)

Historical summary of European contact with and British settlement of Australia

<http://www.australia.gov.au/about-australia/australian-story/european-discovery-and-colonisation>

- GEOGRAPHIC UNDERSTANDINGS -

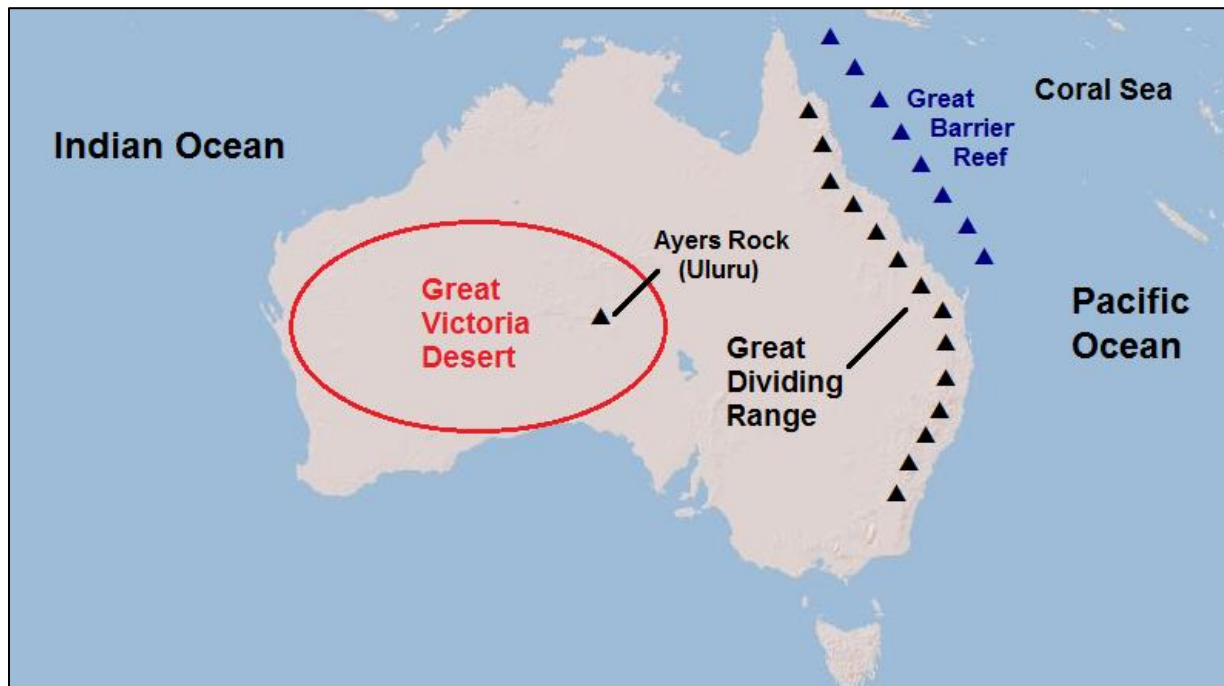
SS6G11 – Locate selected features of Australia.

Standard G11 is designed to give students a general overview of Australia’s physical geography. It is not an exhaustive look at the map as a whole, but rather a snapshot of major physiographic features.

SS6G11 – Locate selected features of Australia.

- a. **Locate on a world and regional political-physical map: the Great Barrier Reef, Coral Sea, Uluru/Ayers Rock, Indian and Pacific Oceans, Great Dividing Range, and Great Victoria Desert.**

Australia, the world’s smallest continent, is located southeast of the Asian mainland in a region known as **Oceania**. It is situated between the **Indian Ocean** (west) and the **Pacific Ocean** (east.)



Selected Physical Features of Australia (Wikimedia Commons)

The **Coral Sea**, an extension of the Pacific Ocean, lies off Australia's northeast coast. It is home to the **Great Barrier Reef**, which is Earth's largest coral reef. Extending for some 1,200 miles, the Great Barrier Reef is home to thousands of species of fish and mollusks (e.g., snails, clams, octopi), as well as over 400 types of coral!

The **Great Dividing Range**, located along the eastern coast of Australia, is the continent's largest mountain range. At over 2,100 miles, it is the third longest mountain range in the world.

Dominating the landscape of western and central Australia is the **Great Victoria Desert**. Named for the British monarch Queen Victoria in 1875, it covers more than 160,000 square miles of terrain, which is to say nearly 4.5% of the continent!

Nestled in the eastern extent of the Great Victoria Desert, in central Australia, is **Ayers Rock** – or **Uluru**

(*oo-loo-ROO*) as it is called by the Australian Aborigines. This six-mile-wide, nearly twelve-story rock formation is composed of sandstone and feldspar. Iron present in Ayers Rock causes it to rust at the surface and turn a reddish color. Uluru plays a prominent role in local Aboriginal creation myths.



Aerial view of Ayers Rock/Uluru (Wikimedia Commons)

- **Oceania** – the lands of the central and south Pacific Ocean, including Australia and New Zealand

Resources:

National Geographic Maps

Interactive political, physical, and thematic maps

<http://www.nationalgeographic.com/kids-world-atlas/maps.html>

SS6G12 – Explain the impact of location, climate, distribution of natural resources, and population distribution on Australia.

Standard G12 is designed to help students make a connection between where people live in Australia in relation to the relative climate and resource availability.

SS6G12 – Explain the impact of location, climate, distribution of natural resources, and population distribution on Australia

- a. Describe how Australia’s location, climate, and natural resources impact trade and affect where people live.



Super Pit mine in Western Australia (Wikimedia Commons)

Situated some 2,000 miles southeast of the Asian mainland, Australia is located in the southern and eastern hemispheres. As such, summer occurs between December and March in Australia, while winter is from June to September.

Southeast and southwest Australia tend to have a **temperate climate**, while northern Australia, nearest the equator, is tropical. Australia’s largely **arid** interior – known colloquially as the **Outback** – is only sparsely populated and receives very little rainfall.

Most Australians live in the coastal areas of the continent, particularly in the southwest, east, and southeast. Around 80% of all Australians live in **urban** areas.

Australia has abundant land suitable for farming and livestock grazing. It also possesses large quantities of coal, iron ore, gold, copper, tin, silver, uranium, and nickel, as well as oil and natural gas. Trade in both agricultural and mineral resources has made Australia one of the top fifteen richest nations in the world! Australia’s top trading partners are China, Japan, and the United States.

- **arid** – dry or desert-like
- **climate** – the average annual weather conditions in a given location
- **Outback** – term for the sparsely populated interior of the Australian continent
- **temperate** – climate characterized by mild temperatures
- **urban** – an industrialized area of a city or town

Resources:

Population Map of Australia (SEDAC)

Thematic map highlighting Australia’s population centers

<http://sedac.ciesin.columbia.edu/downloads/maps/gpw-v3/gpw-v3-population-density/ausdens.jpg>

GOVERNMENT / CIVIC UNDERSTANDINGS -

SS6CG4 – Explain forms of citizen participation in government.

Standard CG4 provides an overview of civics concepts in Australia, particularly as relate to the role of its citizens in a federal parliamentary democracy.

SS6CG2 – Explain forms of citizen participation in government.

- a. Explain citizen participation in democratic governments [i.e. the role of citizens in choosing the leaders of Australia (parliamentary democracy)].

Australia is an example of a **parliamentary democracy**. Australians elect members of parliament (MPs) to represent them both at the **provincial/territorial** and national levels. Australia’s citizens entrust the selection of the country’s **prime minister** to the national **parliament**’s leading political party. Australians aged 18 and older are required to vote, and there are numerous political parties to choose from.

In Australia, the prime minister is considered the *head of government* in the executive branch, which is to say he/she is the true executive leader of the nation; however, Australia recognizes the monarch of the United Kingdom as its symbolic/ceremonial *head of state*. This political arrangement traces back to Australia’s former status as a British colony.



Flag of Australia; the Union Jack (top left corner) recognizes Australia’s political history and continued affiliation with the United Kingdom.
(Wikimedia Commons)

The interests of the British monarch are represented in Australia by a *governor-general*, who is chosen based on the recommendation of the Australian prime minister.

- **parliament** – common name given to the legislature in a parliamentary democracy
- **parliamentary democracy** - form of representative government in which citizens elect legislators and entrust these legislators to select the nation’s chief executive
- **prime minister** – title often given to the head of government in a parliamentary democracy
- **province/territory** – political divisions similar to states

Resources:

Australia: Government (globalEDGE / Michigan State University)
Explanation of Australia’s current government structure
<http://globaledge.msu.edu/countries/australia/government/>

- ECONOMIC UNDERSTANDINGS -

SS6E10 – Analyze different economic systems.

Standard E10 explores the question of how various countries make economic decisions, and how Australia has chosen to manage its national economy.

SS6E10 – Analyze different economic systems.

- a. Compare how traditional, command, and market economies answer the economic questions of 1-what to produce, 2-how to produce, and 3-for whom to produce.**

Every country on Earth must be able to answer three basic economic questions: 1) What should the nation produce/provide? 2) How should the nation produce/provide this product/service? 3) For whom should the nation produce/provide this product/service? As such, countries must adopt (and adapt) various **economic systems** to answer these three questions.

There are three basic economic models (or systems):

- The **traditional** model is historically associated with small-scale economies. It is a system in which the decision of what to produce/provide, as well as how to distribute or consume it, is based on custom and habit. Economic roles tend to be static, which is to say inherited or generational (i.e., a family of carpenters will have children who grow up to be carpenters.) This model does not provide for large scale economic growth, and is frequently **subsistent** in nature. (**Bartering** is another feature characteristic of traditional economies.)
- The **command** model is one in which the government of a nation makes all the economic decisions. This includes government ownership of land and resources, as well as government control of major industries (i.e., transportation, energy, et al.) It can also include government assignment of jobs, **wage** controls, and requisite **production quotas**. Command economies tend to stifle **entrepreneurship** and **free enterprise** in an effort to maintain economic stability.
- The **market** (or **capitalist**) model places economic decisions in the hands of the people. The law of supply and demand dictate what goods/services are produced/provided, at what price, etc. This model encourages entrepreneurship, but can be economically unstable in that its success depends upon the capacity of businesses to adapt their products/services to the everchanging wants/needs of consumers.

- **bartering** – a system of exchange whereby one good/service is given in return for another; bartering does not require monetary exchange
- **command economy** – an economic model wherein government planners make all business and financial decisions
- **economic system** – an economic model used by governments to determine what should be produced/provided in terms of goods and services, how, and for whom
- **entrepreneurship** – the capacity of private citizens to create new businesses independent of government direction or intervention
- **free enterprise** – the creation, maintenance, and expansion of businesses outside the control or influence of the government.
- **market (or capitalist) economy** – an economic model which the laws of supply and demand (*not* government oversight) determine what is produced/consumed and at what cost
- **production quota** – the required amount of a specific good that must be produced in a given timeframe
- **subsistence** – producing only what is necessary for personal use/survival
- **traditional economy** – an economic model governed by custom, habit, and history
- **wage** – term for one’s financial earnings

SS6E10 – Analyze different economic systems.

- b. Explain that countries have a mixed economic system located on a continuum between pure market and pure command.**

No world economy is purely market or command in nature. As such, it is more accurate to characterize an economy as market-leaning or command-leaning on the **economic continuum**. All modern world economies can be described as **mixed economies** in that they mix market and command (as well as traditional elements) principles in various ratios to suit their national interests.

- **economic continuum** – a 0-100 scale which ranks world economies from most command-leaning (0) to most market-leaning (100)
- **mixed economy** – term used to describe the market/command/traditional blending of all modern world economies

SS6E10 – Analyze different economic systems.

- c. Describe the economic system used in Australia.**



NOTE: Percentages for the country’s rankings can be found at <http://www.heritage.org/index/ranking>. These are updated annually.

The economy of Australia may be described as mostly market-leaning. Unlike most industrialized nations, Australia has not experienced an economic **recession** in over two decades. Government **deregulation** of financial and labor markets, coupled with reductions in **trade barriers**, has made

Australia one of the most economically vibrant nations in the Asia-Pacific region. Australia's service industries and technologies are some of the most highly sought after in the region, as are its mining and agricultural exports. Australia's government strongly protects business and property rights.⁷

- **deregulation** – reduction of government oversight and/or influence in a given sector of the economy
- **recession** - a period of economic decline due to lagging trade and/or reduced industrial activity
- **trade barrier** – any activity which slows or outright blocks the free exchange of goods and services between nations

Resources:

Index of Economic Freedom (Heritage Foundation)

Economic rankings of all modern world economies in terms of command or market tendencies

<http://www.heritage.org/index/ranking>

SS6E11 – Give examples of how voluntary trade benefits buyers and sellers in Australia.

Standard E11 explores the importance of voluntary trade in Australia, and the necessity of a system for currency exchange and economic specialization. Trade barriers are examined.

SS6E11 – Give examples of how voluntary trade benefits buyers and sellers in Australia.

a. Explain how specialization makes trade possible between countries.

Trade between nations is only viable when it is **voluntary** (i.e., not coerced through military threats or economic sanctions) and mutually beneficial. When nations look for trading partners, strategic/military alliances are taken into account. Acquiring trading partners who can meet the product/service demands which one's own country cannot meet is a far greater consideration however.

Although some nations are rich in natural resources and highly developed in terms of technologies, infrastructure, et al, it is not always in a country's best interest financially to produce everything it is capable of. Often times nations choose to market only those products/services which they are capable of providing fastest, cheapest, and in great abundance. This phenomenon is known as economic **specialization**, and it is what sustains voluntary trade partnerships worldwide. Australia specializes in mineral extraction and processing.

- **specialization** – focusing on a narrow range of products/services that can be produced most efficiently and cost-effectively
- **voluntary trade**– trade in which both partners freely agree to and benefit from the exchange of goods/services

⁷ Australia. 2016 Index of Economic Freedom. Heritage Foundation. 2016. Web. 29 Dec. 2016.

SS6E11 – Give examples of how voluntary trade benefits buyers and sellers in Australia.

b. Compare and contrast different types of trade barriers, such as tariffs, quotas, and embargos.

Australia has benefited from open market trade agreements with many of their major trade partners. They continue to negotiate for free trade, and play an active role in the World Trade Organization and other trade forums.

Voluntary trade between nations may be inhibited by trade barriers. Such barriers exist to protect **domestic** markets from foreign competition; others are intended to block the importation of dangerous products. Trade barriers may also be employed to **sanction** an enemy nation.

There are three major barriers to trade which students should be aware of in the context of Australia:

- **Tariffs** place a tax on imported good. This is done to artificially inflate the price of a cheaper foreign product so as to make the price of domestic products more competitive.
- **Quotas** place a limit on imported goods. This is done so that cheaper imports do not flood domestic markets and put domestic producers out of business.
- **Embargoes** block all trade with another nation. An embargo may be employed for safety reasons, but is more frequently used to punish rogue states (e.g., Australia currently has regional embargoes against Myanmar and North Korea over those nations' human rights abuses.)
 - o A **boycott** of a specific product or of a specific country's or company's product(s) may be exercised by citizens within a country even when there is no official embargo in place at the national level.

- **boycott** – refusal to purchase a good/service from a specific company or country
- **domestic** – term which refers to the products of services originating in one's own country; it is the antonym of *foreign*
- **embargo** – a trade barrier which blocks all trade with another nation
- **quota** – a trade barrier which places a limit on imported goods
- **sanction** – the act of economically punishing another nation
- **tariff** – a trade barrier which places a tax on imported goods

Resources:

The Basics of Tariffs and Trade Barriers by Brent Radcliffe (Investopedia)

Thorough explanation of trade barriers, their uses, and their risks

<http://www.investopedia.com/articles/economics/08/tariff-trade-barrier-basics.asp>

SS6E11 – Give examples of how voluntary trade benefits buyers and sellers in Australia.

c. Explain why international trade requires a system for exchanging currencies between nations.

In order for Australia to trade with other nations, a system of **currency exchange** must exist. This is due to the fact that most nations in the Oceanic and Asia-Pacific region have their own unique **currencies**. (E.g., Australia uses the *Australian dollar*. Indonesia uses the *rupiah*. New Zealand uses the *New Zealand dollar*.) Without a method to convert monetary values between disparate currencies, international trade would be impossible.



Australian dollars (Openphoto.net)

Exchange rates are used to determine how much one nation’s currency is worth in terms of another’s. (e.g. 1.00 U.S. dollar \approx 1.39 Australian dollars)

- **currency** – a nation’s money
- **currency exchange** – converting one nation’s money into an equivalent value/quantity of another’s
- **exchange rate** – the approximate value of one nation’s currency in terms of another’s

Resources:

X-Rates Currency Calculator
Online currency converter
<http://www.x-rates.com/calculator/>

SS6E12 – Describe factors that influence economic growth and examine their presence or absence in Australia.

Standard E12 discusses economic growth factors in Australia, specifically those which directly impact gross domestic product and per capita income.

SS6E12 – Describe factors that influence economic growth and examine their presence or absence in Australia.

a. Evaluate how literacy rates affect the standard of living.

Literacy Rates in the Asia-Pacific Region⁸	<i>Male</i>	<i>Female</i>	<i>Total</i>
• Australia	99%	99%	99%
• Indonesia	96.3%	91.5%	93.9%
• New Zealand	99%	99%	99%

In order for a region to sustain high-quality, well-paying, in-demand jobs, its labor force must be **literate**. Low **literacy rates** typically correlate to lower **standards of living**; however, high literacy rates do not always translate to higher standards of living. In the case of Australia, with its 99%

overall literacy rate, the standard of living for the vast majority of Australians is very high.

⁸ Literacy. Index Mundi. 2014. Web. 29 Dec. 2016.

- **literate** – able to read and write in one’s native language
- **literacy rate** – the percent of a nation’s population over the age of 15 who are able to read and write
- **standard of living** – the level of wealth and material comfort available to a people

SS6E12 – Describe factors that influence economic growth and examine their presence or absence in Australia.

- b. Explain the relationship between investment in human capital (education and training) and gross domestic product (GDP per capita).**

The economic strength of a nation is determined by measuring its **gross domestic product**, or GDP. GDP is the estimated total value of the all the final goods and services produced in a nation in a year’s time. In other words, GDP represents what a nation is worth.

GDP in the Asia-Pacific Region ⁹	Total
• Australia	\$1.224 trillion
• Indonesia	\$859 billion
• New Zealand	\$172.2 billion

Nations who wish to compete economically must maintain a competitive GDP relative to other nations’ in their region and among their trading partners. One way to ensure a healthy and growing GDP is to invest in **human capital**, which is to say the relative health, education, and training of a nation’s labor force. Unhealthy, poorly educated, and/or untrained workers cannot be expected to support a strong national economy, let alone obtain high-quality, well-paying, in-demand jobs. Thus a nation’s GDP directly correlates to its level of human capital investment. According to a World Economic Forum report, of the 130 nations analyzed for 2016, Australia ranked 18th in the world for human capital investment.

GDP Per Capita in the Asia-Pacific Region ¹⁰	Total
• Australia	\$47,600
• Indonesia	\$11,100
• New Zealand	\$36,100

Countries who do invest in human capital tend to see a rise in **GDP per capita** incomes. GDP per capita measures the average annual income of citizens in a given nation. (This measure can be misleading, however, when one factors in the gap separating the impoverished, middle class, and wealthy.)

- **GDP per capita** – the average annual income of a nation’s citizens; *per capita* is Latin for “by each head”
- **gross domestic product (GDP)** – the estimated total value of all the final goods and services produced in a nation in a year’s time.
- **human capital** – the knowledge, skills, and relative health of a nation’s labor force

⁹Field Listing: GDP (Official Exchange Rate). The World Factbook. Central Intelligence Agency. N.d. Web. 29 Dec. 2016.

¹⁰Country Comparison: GDP - Per Capita (PPP). The World Factbook. Central Intelligence Agency. N.d. Web. 29 Dec. 2016.

Resources:

Human Capital Index 2016 (World Economic Forum)
Human capital investment rankings of 130 countries.
<http://reports.weforum.org/human-capital-report-2016/rankings/>

SS6E12 – Describe factors that influence economic growth and examine their presence or absence in Australia.

- c. Explain the relationship between investment in capital goods (factories, machinery, and technology) and gross domestic product (GDP per capita).**

Another factor which can greatly impact a nation’s GDP is its level of investment in **capital goods** (also called *physical capital*.) Capital goods are the factories, machinery, technology, etc. that are necessary to sustain a service or industry. Older, less efficient factories, antiquated machinery, and obsolete or out-of-date technology slow production and hamper the growth of national GDP. Although Australia has one of the most competitive GDP’s in the Asia-Pacific region, its level of capital goods investment is relatively low.¹¹

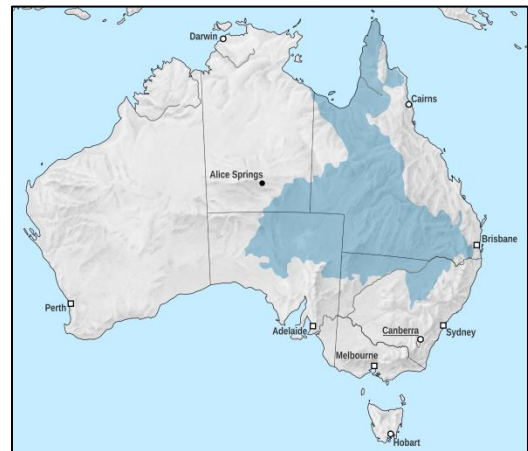
- capital goods** – the factories, machinery, technology, etc. that are necessary to sustain a service or industry

SS6E12 – Describe factors that influence economic growth and examine their presence or absence in Australia.

- d. Describe the role of natural resources in a country’s economy.**

A third factor which can affect a nation’s GDP is the prevalence, diversity, and management of **natural resources**. In the case of Australia, substantial mineral wealth (e.g., coal, iron ore, natural gas, oil, gold, silver, copper, uranium, et al) exists, as well as **arable** land. Although much of Australia is arid, the *Great Artesian Basin* provides underground freshwater to nearly a third of the continent. This 660,000 square mile basin is a critical natural resource.

- arable** – suitable for farming
- natural resource** – a material on or in the earth that has economic value



Great Artesian Basin highlighted in blue
(Wikimedia Commons)

¹¹ Taylor, David. “Business spending on capital goods now worse than 1991 recession.” Australian Broadcasting Corporation. 27 Aug. 2015. Web. 29 Dec. 2016.

SS6E12 – Describe factors that influence economic growth and examine their presence or absence in Australia.

e. Describe the role of entrepreneurship.

“Australia, a vibrant free-market democracy, has recorded impressive economic progress unmarred by recession for more than 25 years. In addition to abundant natural resources, the economy has benefited from an effective system of government, a well-functioning legal system, and an independent bureaucracy, all of which have facilitated robust entrepreneurial development.”

<http://www.heritage.org/index/country/australia>

In any given country, **public sector** (i.e., government-owned) industries will maintain a nation’s GDP, but they will not typically grow it. It is in the **private sector** (i.e., businesses owned and operated by private citizens) that the most GDP growth occurs. A solid investment in human capital will foster the entrepreneurship necessary to generate private sector growth.

Entrepreneurs are private citizens who invest their own capital resources toward the creation of a new business or industry, frequently at some financial risk. Those whose business ideas succeed will **profit**; those whose do not will fail. This is the very essence of the free market / capitalist system.

- **entrepreneur** – those who risk their own money and resources to create a new business or service
- **private sector** – the part of the economy owned and operated by private citizens
- **profit** – as a verb, to gain financially; as a noun, the economic gains of a business
- **public sector** – the part of the economy owned and operated by the national government

Resources:

“Starting up Down Under” (The Economist, 2013)

Article detailing contemporary examples of Australian entrepreneurship

<http://www.economist.com/news/business/21576711-how-australia-can-shift-mining-coal-mining-data-starting-up-down-under>

SS6E13 – Understand that a basic principle of effective personal money management is to live within one’s income.

Standard E13 is a standalone standard designed to reinforce financial literacy and sound personal money management decisions.

SS6E13 – Understand that a basic principle of effective personal money management is to live within one’s income.

a. Understand that income is received from work and is limited.

Income refers to the money one regularly earns through employment. Employers provide a **wage** (also called a **salary**) for the labor and services a worker provides. The amount of income one receives for his/her work depends on several factors. These may include:

- *The nature of the payscale.* Some professions work at a set wage, while others may be paid based on **commissions** earned from specific sales or services provided.
- *The amount of hours worked.* The average full-time employee in the United States will work around 40 hours per week, whereas a part-time employee may only work 20-30 hours per week.
- *When the employee works.* Some incomes fluctuate depending on the day of the week (e.g., weekends or holidays) or time of day (e.g., day shift vs. night shift) that an employee works. Additional pay may accompany such work periods.
- *The complexity or necessity of the work/service performed.* Low-skill jobs do not earn as much as high-skill jobs. Thus, a retail store worker might earn only **minimum wage** while a computer technician earns decidedly more.

Other sources of income not earned through work may include (but are not limited to):

- Government assistance for the economically disadvantaged.
- Retirement or veterans (i.e., retired soldiers) benefits.
- Spousal support following a divorce or legal separation.
- Earnings from stock dividends or other financial investments.

In all cases, it is important to note that all forms of income are limited. One’s financial choices must reflect the income limitations of one’s living situation. Overspending on luxury items, housing, entertainment, services, etc. can deplete one’s income before all of his/her financial obligations (i.e., **mortgage**, utilities, food, healthcare, etc.) are met.

- **commission** – money earned as a percentage of a sale or service
- **income** – money received from work, investments, or other financial support
- **minimum wage** – the lowest wage permitted by law; in the U.S., \$7.25 an hour
- **mortgage** – house payment
- **wage, salary** – terms for one’s work-related financial earnings

Resources:

Income (Investopedia)

Definition and explanation of income and its applications

<http://www.investopedia.com/terms/i/income.asp>

SS6E13 – Understand that a basic principle of effective personal money management is to live within one’s income.

b. Understand that a budget is a tool to plan the spending and saving of income.

In order to insure that one’s income is managed properly, a **budget** must be developed. Budgets are, in essence, a plan for what to spend and what to save. To budget effectively, one must determine what percentage of his/her income must be devoted to **expenses** (e.g., housing, transportation, food, healthcare, etc.), what portion should be diverted to **savings** for later use, and what remains which may be spent freely. Failure to budget effectively can result in financial shortfalls, which is to say the inability to pay one’s expenses completely or on time.

- **budget** – a plan for spending and saving one’s income
- **expenses** – financial obligations, such as bills
- **savings** – money set aside for later use or in case of emergencies

Resources:

Budgeting (Practical Money Skills)

A guide to the basics of budgeting

<http://www.practicalmoneyskills.com/personalfinance/savingspending/budgeting/>

SS6E13 – Understand that a basic principle of effective personal money management is to live within one’s income.

c. Understand the reasons and benefits of saving.

Saving is an essential skill of sound personal financial decision-making. Planning for upcoming large-scale expenses – such as the purchase of a vehicle, down-payment on a home, replacement of old or obsolete technology, etc. – is essential if one intends to have the money available at the time of purchase. Saving effectively can help one avoid the accumulation of unnecessary **debt**.

While some purchases and life events can be planned for, one should also save for unexpected and/or emergency situations. These might include anything from unexpected home or vehicle repairs to emergency dental or medical procedures.

- **debt** – money owed
- **saving** – setting money aside for later use or in case of emergencies

Resources:

8 Simple Ways to Save Money (Better Money Habits / Bank of America)

A simple how-to guide for beginning the process of saving money

<https://bettermoneyhabits.bankofamerica.com/en/saving-budgeting/ways-to-save-money>

SS6E13 – Understand that a basic principle of effective personal money management is to live within one’s income.

d. Understand the uses and costs of credit.

There will be times when one’s **liquid** income and savings are insufficient to cover the cost of a large-scale purchase or investment. At such times, **credit** may be available to certain individuals.¹² Credit is, in essence, a **loan** of money toward the purchase of something one cannot afford out-of-pocket. Such loans of credit are typically extended toward the purchase of a home or vehicle, to finance one’s college education, or even to start up one’s own business. More commonly a *line of credit* may be extended in the form of a credit card, which may be used to make purchases above and beyond one’s spending limit.

Credit is borrowed money. As with anything borrowed, the credit **lender** fully expects to be paid back. Not only that, creditors usually expect **interest** to be paid on top of the sum that was borrowed. Depending on the interest rate of the loan and the time it takes the borrower to repay his/her debt, buying on credit can sometimes cost an individual far more than he/she originally intended to spend. (E.g., A vehicle purchased for \$10,000 via an auto loan at 5% annual interest, paid back over a 5-year period, will actually cost the purchaser almost \$11,322!)

- **credit** – a loan of money
- **interest** – a percentage of a borrowed sum of money which must be paid in addition to the repayment of the loan itself
- **lender** – an individual, bank, or company who loans money
- **liquid** – money which one has on-hand that can be freely spent
- **loan** – a sum of money given for designated period of time which must be repaid

Resources:

Credit and You (Hands on Banking for Teens)

Interactive website explaining credit to teens

<https://handsonbanking.org/teens/credit-and-you/introduction/credit-and-you-introduction/>

¹² One’s credit history and existing debts play a major role in whether or not lenders are willing to extend credit.