A-Z Financial Terms Kids Should Learn

Annual Percentage Rate (APR): The finance charge or total amount it costs per year to use credit, calculated as a percentage of the amount borrowed (percentage rate), including interest, transaction fees, and service charges.

Annual Percentage Yield (APY): The actual interest rate an account pays per year with compounding included; calculated the same way by all banks/credit unions.

Appreciation: A rise in value or price.

Asset: Assets are things that you own that could be sold for money. Examples are cash in the bank, a home, a car or ownership in a company.

Bond: A loan that is issued by governments or corporations to raise money. They promise to repay the principal amount along with periodic interest payments.

Budget: A plan for managing money. You divide expected income and expenses with spending and saving options. The calculation is based on personal goals during a given time period.

Capital: Money available to use or to invest in a business or an asset.

Capital Gain: The difference when an investor ends up selling a stock at a higher price than the purchase price.

Capital Loss: The difference when an investor ends up selling a stock at a lower price than the purchase price.

Cash Flow: Movement of the money you receive and the money you spend.

Credit Score: A number used to represent an individual's creditworthiness. It tells a bank whether they can trust you to repay a loan. Your score also determines the interest rate you will pay to borrow money. The higher the score, the lower the interest rate you will pay.

Compound Interest: Compound interest is when you earn interest on both the money you've saved and the interest you earn. It is like a snowball, interest on interest. If you have $100 and you get 10% interest per year, you will have $110 in the 1st year. The second year you will calculate interest on $110 which is $11. So then you will have $122.

Debt: The amount of money owed to lenders such as banks, credit companies and private parties.

Dividend: A dividend is a distribution of profit to a shareholder. It is when a company shares its profits with you. It is money you get just for owning the company.

Depreciation: The decrease in the value of an asset over time due to wear and tear or obsolescence.

Diversification: Distributing funds among different types of investments to minimize overall risk.

Equity: Equity is calculated by taking assets and subtracting liabilities. This number represents the value of something. Example: A car is worth $20,000 but you owe $15,000. Your equity in the car is $5,000.

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A-Z Financial Terms Kids Should Learn cont'd...

Financial Literacy: Financial literacy is defined as having the skills and knowledge necessary to make sound financial decisions that will help you reach your short-term and long-term goals. It involves learning how to budget, save and invest your money.

Fixed Expenses: Expenses that are constant or don't change for a specified amount of time.

Gross Income: Gross income is the amount of money that is made before taxes are taken out.

Inflation: The rate at which the general price level of goods and services rises, reducing the purchasing power of money.

Interest: Payment for use of someone else's money; usually expressed as an annual rate in terms of a percent of the principal (the amount owed).

Investment: Setting aside money for future income, benefit, or profit to meet long-term goals; using savings to earn a financial return.

Liquidity: The ease with which an asset can be converted into cash.

Liabilities: Amount a person owes, such as unpaid bills, credit card charges, personal loans, and taxes.

Mortgage: Loan to buy real estate, such as land or a home.

Net Income: The amount of money from a paycheck left after deducting all taxes and other costs.

Net worth: The difference between a person's assets and liabilities.

Opportunity Cost: Whenever choices are made, the cost of something expressed in terms of what had to be given up to obtain it.

Portfolio: A collection of investments, such as stocks, bonds, and cash equivalents, held by an individual or institution.

Return on Investment (ROI): A ratio that measures the profitability of an investment relative to its cost.

Stock: An investment that makes the investor a part owner of a company.

Stock Market: The place where stocks are bought and sold.

Variable Expenses: Expenses that change over a specified period of time.

Wages: The amount of money you get in exchange for your time and service.

Wants vs. Needs: Wants are things that a person would like to have but are not essential for life. Things like travel, going out to eat, fancy clothes or jewelry. Needs are items that are hard to live without. Things like housing, a basic car, food or insurance.

Yield: The profit from an investment.

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