

# Save and Invest—The Role of Financial Markets

## Lesson Overview

### Description

In this lesson, students will learn how the financial system creates a place to match savers with investors and the role financial institutions play in facilitating savings and investment transactions. Students will also learn the importance of creating an emergency savings plan before embarking on an investment strategy. Using a sample scenario, students will adjust a budget to develop an emergency savings plan.

### Standards

- [National Standard in K-12 Personal Finance Education](#)
- [Texas State Social Studies Standards](#)
- [Texas State CTE Standards](#)

### Instructional Objectives

- Discuss the role of financial institutions and markets in saving and investing.
- Explain the benefits of saving and investing.
- Develop a strategy to save for an emergency fund.

### Time Required

- One 45-minute class period.

### Materials Required

- PDF slides
- Copies of Handout 1: Guided Notes
- Copies of Handout 2: Emergency Savings

## Lesson Procedures

1. **Display slide 1.** Tell students the topic of this lesson is financial markets and emergency savings.
2. **Display slide 2.** Review the instructional objectives for the lesson.
3. **Display slide 3.** Tell students they will explore how financial markets and institutions play a role in saving and investing.

*Suggested questions for student discussion:*

- Governments, firms and people borrow money for many purposes. What are some of them? Answers will vary but might include roads, bridges and military goods (governments); manufacturing factories, technology equipment and buildings (firms); and homes, cars and college (people).
4. **Display slides 4–6.** Review markets, financial markets and types of financial institutions.
    - A market brings together buyers and sellers for the purpose of exchange.
    - A farmers market is an example of a physical market. People who sell fruits and vegetables find consumers who wish to purchase.
    - Markets can be virtual. In virtual markets like eBay and StockX, transactions are completed electronically.
    - **Financial markets** are like consumer markets. Both facilitate the transactions for people who buy and sell something. Financial markets exist to match savers to investors.
    - **Consumer banks** offer services to individuals. These services include savings and checking accounts and loans. Consumer banks are also referred to as retail banks.
    - **Commercial banks** offer the same services to individuals as consumer banks but also serve businesses.
    - **Investment banks** offer financial services to individuals, corporations and governments. These include investment services and complex transactions such as initial public offerings (IPOs) and mergers and acquisitions.
  5. **Display slide 7.** Have students brainstorm answers to the question: “When financial markets match savers to investors, who benefits?” Answer: Both savers and investors benefit.

*Classroom response strategy:*

- Have students record answers in their guided notes.
6. **Display slide 8.** Review the saving and investing chart and the investment pyramid.
    - Explain that the investment pyramid shows the relationship between risk and return.
    - When you are saving and investing, the amount of expected return is based on the amount of risk you take with your money.

- Generally, the higher the expected return, the higher the risk of losing money.
- For less risk, an investor can expect a smaller return.
- A certificate of deposit is a savings option that allows access to cash on demand, but there are penalties for early withdrawal. Different types of savings options can be found in Building Wealth Lesson 3.

*Classroom response strategy:*

- Have students fill in the blanks of the investment pyramid and the saving and investment chart in their guided notes.
7. **Display slide 9.** Explain to students that building a strong foundation of goals, budgets, savings and emergency savings is critical before investing in long-term assets.
  8. **Display slides 10–11.** Review short-term and emergency savings examples.
    - Generally, emergency savings should cover a minimum of three months' expenses.
  9. **Display slides 12–13.** Review the realities of savings. Explain to students that although saving for emergencies seems like a great idea, the reality is only 57.8 percent of U.S. households have saved money for emergencies.
    - Savings rates also differ according to race. For example, in the U.S., 62.4 percent of white households and 48.4 percent of households of color have saved for emergencies.

*Suggested teaching strategy:*

- 3-2-1 summary: Have students go to <https://scorecard.prosperitynow.org/data-by-issue#finance/outcome> and research other financial disparities by city, state and race. Have students report back to the class, share in an online discussion post and/or write as an exit task three things they learned, two things that surprised them and one thing they would share with their family.
10. **Display slide 14.** Distribute copies of Handout 2: Emergency Savings.
    - Review the scenario on the slide, and give students time to complete their handout.
    - When students are working on the handout, remind them to assume that Trey's income can't change.
    - Students should focus on identifying needs and wants and adjusting Trey's expenses accordingly so he can save at least \$1,000 before going to college.
    - This handout can be used as an assessment.
  11. **Display slides 15–16.** Review learning objectives with students.



## Lesson 5—Handout 1

# Guided Notes

### Vocabulary

**Financial system**—A system that channels funds from people who save money to people, firms and governments that borrow money.

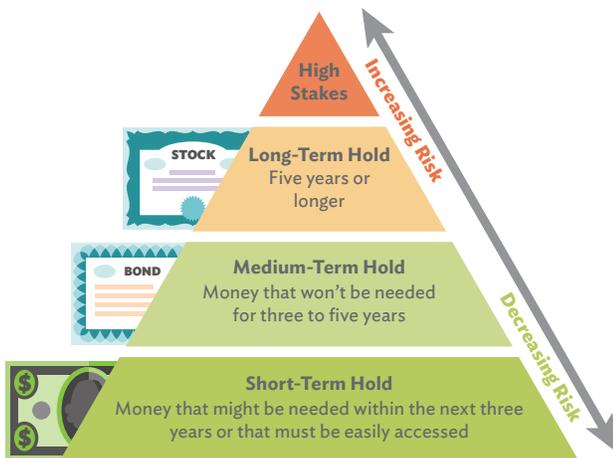
**Financial market**—A marketplace that facilitates the buying and selling of securities such as stocks and bonds.

**Financial institution**—An institution that acts as the intermediary between savers and investors who participate in financial markets.

**Emergency savings**—Money set aside for unforeseen events.

Brainstorm and write down answers to the question of who benefits when financial markets match savers to investors.

### Fill in the blanks



	Saving	Investing
<b>Risk</b>		
<b>Return</b>		
<b>Access to cash</b>		
<b>Time period</b>		



## Lesson 5—Handout 2

# Emergency Savings

**Instructions:** Use the information below to adjust Trey’s budget. Trey has a part-time job earning \$750 a month and has saved \$600 for college. The money is held in a checking account. Trey would like to develop a plan to save an additional \$1,000 in the next eight months for emergencies before starting community college next year. Assume his income each month will not change. After you finish adjusting the budget, answer the questions below:

- Identify areas where Trey can trim expenses.
- Add the new adjusted totals for each expense category.
- Record the amount saved in the last column.
- Adjust the budget until the total amount saved over eight months is equal to or greater than \$1,000.

Monthly Emergency Savings Budget			
<b>Total income</b>	\$ 750		\$ 750
<b>Expenses</b> <i>*Assumes 20 school days in a month</i>		<b>Adjusted</b>	<b>Amount saved</b>
Cellphone plan	\$ 62		
Music streaming subscription	\$ 12		
*Lunch 4x week (\$9.75 x 16)	\$ 156		
Gas 2x month (\$28 x 2)	\$ 56		
Car insurance	\$ 141		
Entertainment 4x month (\$25 per week)	\$ 100		
Gym membership	\$ 25		
Clothing/shoes	\$ 150		
Coffee 2x week (\$6 x 8)	\$ 48		
<b>Total expenses</b>	\$ 750		
<b>Total income</b>	\$ 750		
<b>Total expenses</b>	\$ 750		
<b>Available to save (income - expenses)</b>	\$ 0		

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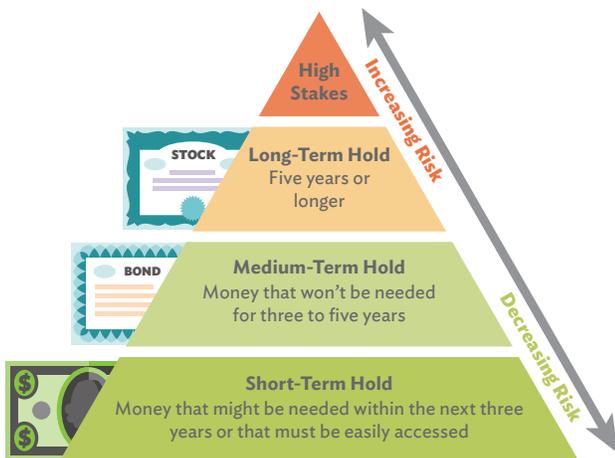
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