Syllabus

In class this year you'll be a key member of an economic system, contributing as a producer, earner, investor, and consumer. You'll be earning and spending classroom dollars. This syllabus explains the program, and you'll have an opportunity to ask questions about it in class.

Part One: Earning and Spending Money

Overview

Starting now, you have bills to pay. You'll owe monthly rent for your desk, and you also have an electricity bill. Fortunately, you have several ways to earn enough classroom cash to pay these bills. You also have special investment opportunities, and you'll see some attractive ways to spend your earnings—assuming you can save enough. Your bills always come first.

Earning money

- You will earn $750 a month for being an exemplary student.
- You can earn more if you take on another classroom job. (See the jobs list below.) The teacher will explain how to apply for a job.
- You can earn bonus pay for achievements such as making good grades, doing extra projects, and participating in school activities.
- Finally, if you have a creative idea, you can start your own classroom business.

Spending money

- You must rent your desk for $800 per month. However, if you save enough, you can purchase your desk for a one-time payment of $2,400 and never pay rent again.
- You must pay $150 a month as your share of the classroom electricity bill. If the class Electrician finds ways to reduce our electricity usage, the bill may shrink.
- You will owe fines to the class when you do not follow the classroom rules and fall short of exemplary student requirements. The list of fines is below.
- You can use your extra money to buy items in the class auctions. (Feel free to give the Auctioneers suggestions for things to be bid on.)
- You may want to use some of your earnings for insurance or for investments. These are advanced topics that won't be covered in class for a while, although you can read about them in Part Two of this syllabus.

Classroom jobs

Jobs	Job Description	Monthly Salary
Exemplary Student Everyone in the class		$
Attendance Monitor 1 per class		$
Auctioneer 3–5 per class		$
Auditor 1 for every 5 students		$
Bonus/Fine Administrator 1–2 per class		$
Clerk 2–3 per class		$
Economist 1 per class		$
Electrician 1–2 per class		$
Insurance Agent 1–2 per class		$
Investment Banker 1–2 per class		$
Recyclist 2–3 per class		$
Messenger 1–2 per class		$
Tutor As needed		$
Visual Display Artist 2–3 per class		$
Webmaster 1 per class		$

Bonus money opportunities

Activity	Bonus Amount

Fines

Infraction	Ticket Amount

Part Two: Insurance and Investing

Starting next month, on Bill Day you will have two new options: to purchase insurance and to invest in the investment simulator. You can decide to participate in one, both, or neither.

Insurance

You are offered two types of insurance: Property insurance (covering your desk) and auto insurance. In both cases, if you buy the insurance, you'll be protected from the cost of repairs should "damage" occur when the insurance simulator is run. It's up to you to decide whether you want to buy the protection or simply hope that your possessions will escape harm. If you choose to purchase insurance, you have two options:

- Pay $1,200 for a full year of either type of coverage (or $2,400 for both).
- Pay $200 for one month of either type of coverage (or $400 for both). You can pay for a month on each Bill Day.

About once a week, our class will use an insurance simulator that employs random number generation to determine whether the class desks or autos have suffered any "damage." Depending on the results, you may suffer no damage at all, or you may incur $100, $150, or $200 worth of repairs.

If you own insurance, you will not have to pay any repair bills.

If you don't buy insurance, what's the worst that could happen? Try calculating the maximum amount of repair costs you might have to pay in a month.

Investing

For the investing component, you participate in the classroom economy in two ways: as an employee who earns classroom dollars from one or more jobs and as an investor whose financial results are determined by the investment simulator.

Once you open an account, you will need to select an asset mix of stocks and bonds. You'll find more information about how to make this selection below.

As you invest, your assets have the potential to grow. However, you also can lose money. How much you earn or lose depends in part on how aggressive or cautious you choose to be with your investments.

To learn the most you can from the simulator, you'll need to:

- Understand how two common forms of investments (stocks and bonds) work.
- Choose a mix of these investments.
- Decide when to invest extra money.
- Watch the value of your investments change throughout the year.

The investment simulator

In real life, people need to invest money to reach financial goals, such as buying a house, paying for a child's education, or retirement. Opening an account in the class investment simulator will give you an idea of how this process works, and it's also a way you can seek to accumulate wealth throughout the year. On the first Bill Day, you will have the option to open an account with as little as $100. Be sure to ask me in class about special one-time offers that are available that first day.

Each month, on Bill Day, you will have the option of putting more money into your account to seek more investment returns. The "return" on an investment is the change in its value over a specific time period. Thus, a return can be either positive or negative.

Another reason to be careful: Just as with many types of accounts in the real economy, there are restrictions on when you can take the money out. You'll only be able to withdraw the money at the end of the school year (just before the final auction, when the prizes are the best!).

The investment simulator lets you choose from five mixes of investments ("portfolios").

Before you make this choice, it's important to think a little about risks versus rewards. Imagine this scenario: You live 5 miles from your school. The first period starts at 8:30 a.m. How do you get to school?

- If you walk, you need to leave home at 7 a.m.
- If you ride a bike, you need to leave home at 8 a.m.
- If you take a car, you need to leave home at 8:15 a.m.

You need to weigh your options:

- Traveling by car is usually the fastest, but what if you get stuck in a traffic jam?
- Riding a bike is pretty fast, but what if you get a flat tire?
- Walking is a healthy choice, but what if it's raining?

You make such choices all the time after evaluating the potential risks and rewards, benefits and drawbacks. In many ways, choosing investments involves similar trade-offs.

Each of the portfolio options carries its own risks and potential rewards, just as each of your options for getting to school has pluses and minuses. Be sure to think carefully about which portfolio best suits your goals and temperament, because you'll keep it for the rest of the year.

After you choose your portfolio, you'll also need to decide how much and when to invest, just as in real life. Each month you can choose what to do with your money—spend it at the auction, save it for future bills or to buy your desk, or add it to your investment account. If you want, you can do all three, which will likely require some planning.

Although you cannot change your mix once the class starts the simulator, adding to your investment account will give you an opportunity to increase your earnings. At the end of the year, the student with the most money in his or her investment account will be recognized as the "Best Long-Term Investor"—and will have a lot of money to spend at the final auction.

The investments: Stocks and bonds

The portfolio choices are made up of stocks, bonds, or a combination of both.

A share of stock represents ownership in a company. The value of a company's stock can rise and fall based on a variety of factors. For example, exciting news of a new Apple iPhone might cause the value of Apple Inc.'s stock to increase dramatically. Investors might be willing to pay more for a share because they think a hot new product will help the company earn big profits—thus making the stock worth even more. However, if the product doesn't live up to those expectations, the value of the stock could decrease sharply.

A bond is a loan. If you need to buy a car but don't have enough cash, you could ask a bank to lend you the money. If the bank believes you'll repay the loan, it will lend you the money but require you to pay an extra amount (interest) for the privilege of using the money. Buying a bond is a way for you to be like the bank, so to speak. You are the lender, and a company or government borrows your money and promises to pay you interest for the period until it returns the money you lent. However, bonds have risks too. You're taking a chance that the borrower may not make payments on time or may even stop paying.

In general, the risk of loss for bonds is less than the risk of loss for stocks. One reason is, if a company gets in trouble, the bondholders have first claim on the company's assets. Stock owners can end up with nothing. On the other hand, stocks historically have had the potential to make more money for investors than bonds.

Choosing your portfolio

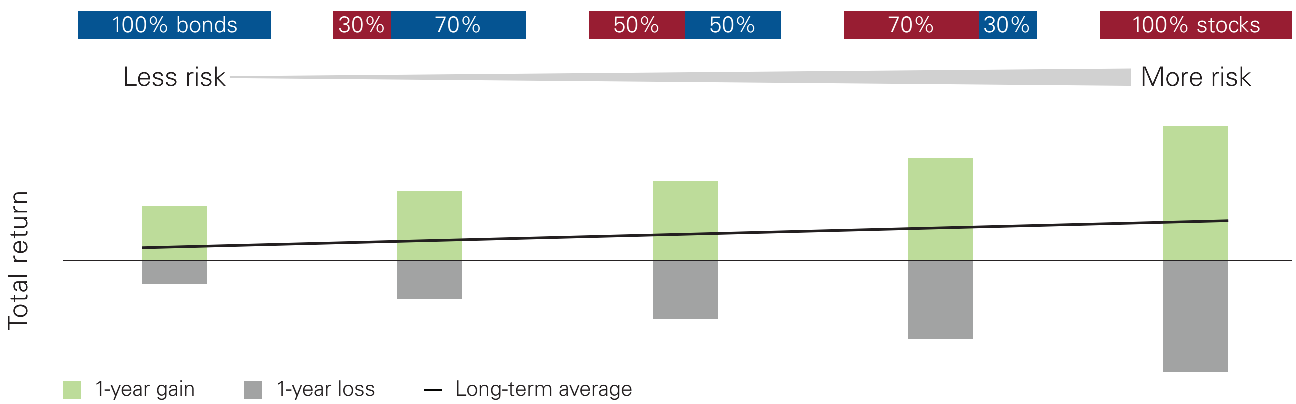
Think about the previous example of getting to school.

- Riding a bus could get you there the fastest, but it's expensive, and there are lots of risks along the way: delayed schedules, traffic jams, and accidents, to name a few.
- Riding a bike is also fast, but you could have traffic problems, an accident, or a flat tire.
- Walking might be the slowest, but it's the most predictable. It's cheaper, and there is less risk of getting into an accident.

In the My Classroom Economy investment simulator, you can choose among a portfolio that is 100% invested in stocks, one that is 100% in bonds, and three that mix the two in different proportions. The results generated by the simulator are based on actual historical returns for the broad U.S. stock and bond markets—but the years are randomized and are determined only when the simulator is run.

How low could you go? Or how high?

Over short periods, stocks historically have had much larger gains—and much deeper losses—than bonds. Over longer periods, the average annual returns have been higher for stocks.



This hypothetical illustration does not represent any particular investment.

Please remember that all investments involve some risk. Be aware that fluctuations in the financial markets and other factors may cause declines in account values. There is no guarantee that any particular mix of stocks, bonds, or other assets will meet your investment objectives or provide you with a given level of income.

It's important to understand that investment returns historically have varied greatly. Over long periods, portfolios containing a larger percentage of stocks have generated higher average annual returns than portfolios more invested in bonds. However, over shorter periods, stock-heavy portfolios on average have seen sharper swings—both losses and gains—than portfolios with a higher concentration of bonds.

The chart below illustrates the range of risks and potential rewards for the five asset mixes available in the My Classroom Economy investment simulator. Choose the portfolio that best matches your goals in terms of how much you would like to earn while remaining comfortable about the amount you could lose.

Next steps

Soon you'll be able to choose which of the five portfolios you want to invest in. When you're deciding, don't think only about how much you could earn. Be sure to think also about how you would feel if your investment account went down 40% or 50% in a given period. The chart gives you a sense of the risks and rewards you could face.

Over the course of the year, the simulator program will help you see what could happen to your money over a 30-year period. It will give you a glimpse of what it takes to save for long-term financial goals.

And remember: If you invest, be sure it's money you can afford to do without for a long time. You can't withdraw any money from your investment account until the end of the year.

Best of luck!