

Activities

1 Copy the following table into your notebook. Then complete the tasks given below the table.

Type of income	My definition	Textbook definition	Examples of occupations
Wage			
Salary			
Fee			
Commission			
Profit			
Social security			
Interest			
Dividends			
Rent			
Royalties			
Prize money			

- In your own words, write a definition for the terms listed in the first column of the table.
- Refer to pages 39-41. Find a definition for each of the types of income listed in the first column. Compare your definitions with the textbook definitions.
- For each type of income listed in the first column, give two examples of occupations that would receive this type of income.

2 A person is paid according to the following rates of pay.

Standard rate per hour	Overtime rate per hour	Penalty rate per hour
\$10	1.5 × standard rate	2 × standard rate

How much income would the person receive working:

- a standard 40-hour week
- a 45-hour week (a standard 40-hour week plus another five hours of overtime)
- a 50-hour week (a standard 40-hour week plus another 10 hours worked on the weekend)
- a 50-hour week (a standard 40-hour week plus five hours of overtime plus another five hours worked on a public holiday)?

3 Which of the following incomes would you prefer?

- \$40 000 salary per annum (p.a.)
- 10 per cent commission on expected sales of \$500 000 p.a.
- base salary of \$20 000 p.a. plus 5 per cent commission on expected sales of \$500 000 p.a.

Be prepared to discuss your reasoning with the class.

4 Refer to the employment section of a newspaper. Find examples of advertisements that offer each of the following types of income:

- wage
- salary
- fee
- commission.

Cut out the advertisements and paste them into your notebook.

Spending patterns and factors that influence the need for saving

If we looked at how we spent our money for a length of time, we would probably see a pattern emerge. In general, what our spending pattern is like will depend on how we decide to satisfy our needs and wants. We all have basic needs (items necessary for our survival), such as food, water, clothing and shelter. These basic needs will not change over our lifetime. Our wants, however, will change because they are items that are not necessary to survival but make life more pleasant; for example, a car or DVD player. Our wants will be influenced by our age, gender, peers, level of income, wealth and the society we live in. Our spending patterns will therefore vary.

What we spend our income on can also be classified into fixed and variable expenditure. *Fixed expenditure* refers to recurring expenses, such as food, rent, phone, electricity, car registration and insurance. These expenses occur on a regular basis; for example, weekly, monthly or yearly. *Variable expenditure*, on the other hand, refers to expenses that occur irregularly, such as buying movie tickets or a new CD. In general, the higher our income the more money we have for variable expenditure. The opposite is true if our income is low. As we get older we may also gain more responsibilities (such as raising a family or caring for elderly relatives) and greater financial commitments (such as a mortgage). Spending money wisely therefore carries a lot of responsibility.

To save means to put some money aside and spend it later rather than spend it now. As a child you may have had a 'piggy' bank or moneybox, or you may have a relative who hides their money under the mattress or in the cookie jar. Most people, however, save their money with a bank. People save for many reasons. The most common is that they cannot afford to purchase a good or service now because they do not have enough money. Figure 2.1e outlines some of the reasons why people may decide to save. The relationship between spending and saving is not only determined by how much a good costs to buy. A number of other factors contribute to our decision to spend or save, including:

- our age
- our **disposable income** (that is, how much income we earn after tax)
- how much wealth we have already accumulated
- whether we are an impulse buyer or a 'scrooge'
- how risk averse we are (that is, how willing we are to take a chance that we may lose the money).



Figure 2.1f 'To spend or not to spend? That is the question!'

Comprehending the text

- 1 What factors affect our spending patterns?
- 2 Why would the relationship between fixed expenditure and variable expenditure change as we get older?
- 3 What does it mean to save?
- 4 List the reasons why people need to save.
- 5 Define the term *disposable income*.

Activity

Think about the statement: 'Spending and saving patterns vary across different life stages'. In pairs, discuss what you understand by this statement. Then copy and complete the following table.

Hypothetical person	Possible spending pattern (fixed versus variable)	Possible saving and investing pattern
A 15-year-old school student who lives at home		
An 18-year-old person who lives at home and: a catches public transport b owns a car		
An 18-year-old person who lives away from home and: a goes to uni full time b has a full-time job		
A 30-year-old person who has two school-age children and: a rents b has a mortgage		
A 45-year-old person who has adult children and: a is a home-owner b is a business-owner		
A 65-year-old retiree who: a receives the aged pension b is independently wealthy		