

▶ WORDS TO UNDERSTAND

capital
capitalism
commodity
compound interest
cooperative
corporation
credit card
debit card
economics
entrepreneur
exports
free enterprise
goods
inflation
median
minimum wage
monopoly
partnership
philanthropy
proprietorship
retail
salary
services
shortage
supply and demand
surplus
wage

Aplets and Cotlets are candy invented and made in Washington. Candy is one of the products that provides jobs for the people of our state.

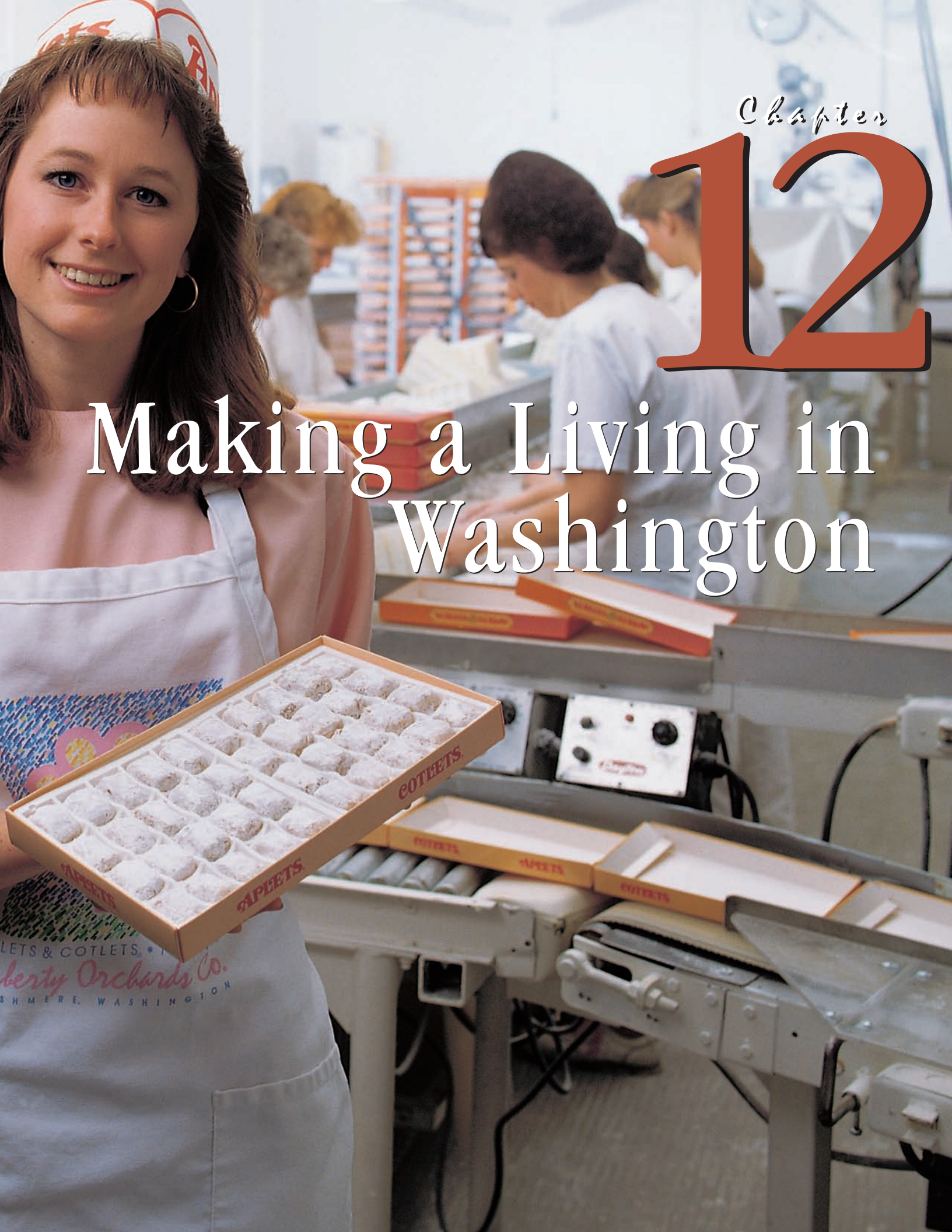
Photo by Liberty Orchards



Chapter

12

Making a Living in Washington



LETS & COTLETS •
Liberty Orchards Co.
SHMERE, WASHINGTON

Economic Systems

E*conomics* is the analysis of the production, distribution, and consumption of goods and services. In other words, it is making selling, and buying.

Economics affects all of us. In a strong economy, people have jobs, earn money, save for the future, pay for a college education, and can buy things they need. In a poor economy, many people are out of work or earn such low wages that they cannot afford the basic things that make life enjoyable.

In the United States we have a **free enterprise**, or **capitalistic**, system. Anyone is free to start a business and make or sell goods. The owner can keep the business for years or sell it. The owner chooses whom to hire as employees and decides how much to pay them. All businesses have to follow government regulations and almost all businesses pay taxes, but the government does not own or run private businesses.

Do the adults in your family work to provide goods, services, or both?

Capital is the tools, machines, and other products used to make new products that are sold. Capital is also money used to run a business. Different economic systems use capital in different ways.

Free Enterprise (Capitalism): Private ownership and control of capital and business. Some government regulation and rules.

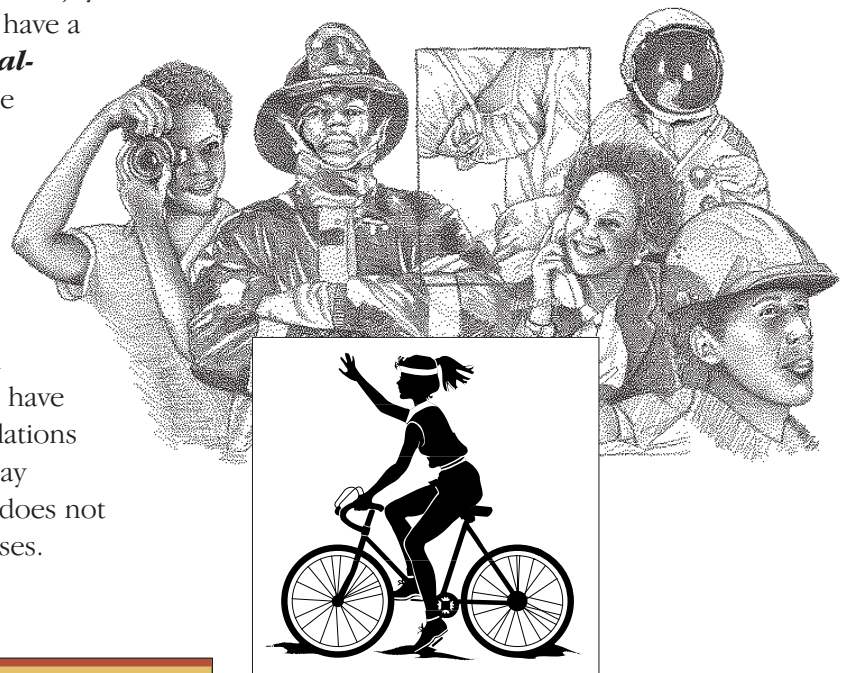
Socialism: Various forms of ownership and control by the government.

Fascism: All capital is privately owned, but controlled by the government.

Communism: All capital and means of production are owned and controlled by government.

Goods and Services

Everyone needs basic things to survive—food, clothing, and shelter. Other things—such as certain brands of clothes, books, computers, sports equipment, televisions, CD players, musical instruments, and automobiles—are not necessities, but are probably important to your lifestyle. Whether they are “needs” or “wants,” all these items are **goods** that are sold.



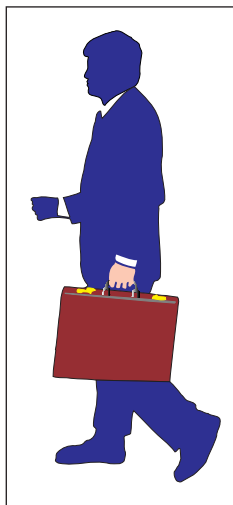
Many goods, such as computer software and skateboards, are manufactured. Other goods, such as apples and wheat, are grown and harvested. Trees are cut down. Fish are caught and frozen. All these things are goods.

We also need **services** from people who have skill and training. We need the services of nurses and doctors when we get hurt or sick. Teachers educate students, pilots fly business people on business trips, plumbers install pipes in homes, and computer programmers develop software. People pay other people for these services.

The World of Business

A business is formed to make money. In order to make money, almost all businesses sell either goods or services, or both. There are three ways to form a business:

- A **proprietorship** has only one owner. It is owned by the person who does the work of either making products, like a cabinetmaker, or providing a service, like a dentist.
- A **partnership** is when two or more people create a business together. They share in the profits and losses. One partner can sell his or her share to



someone else. All partners are responsible for running the business and helping it succeed or fail.

- A **corporation** is when many people invest money to start a business. They hire a board of directors to manage the corporation's affairs. Corporations are a good way to organize a business when it needs large amounts of money to get started.

Supply and Demand

When people have money to spend, the amount of goods and services available affects how much those things cost. We call this **supply and demand**.

Supply and Demand on the Farm

The laws of supply and demand shape agriculture. When the market is good for a product, more people begin to grow it. As more people grow the same item, the price for it often drops because of the increased supply.

In the 1950s, for example, there were so many apples that prices fell. Why was there such an increase in the apple harvest? Many people planted orchards after World War II because new chemicals such as DDT had been developed to wipe out insects, which resulted in more fruit. The market had also changed—dried apples were not being exported to soldiers around the world.

Consumers bought a lot of the cheap apples, but there were still too many. Farmers began dumping them by the truckloads at the Chelan town dump. A story about the apple market in *Life Magazine* showed 5,000 railway cars dumping fruit into the Columbia River.

Then, in 1960, desperate apple growers formed a **cooperative** and purchased an apple juice factory. Tree Top, the new company, pioneered frozen fruit juice in 1963, when frozen foods were a new technology. Tree Top is still owned by the grower's cooperative of over 2,500

members. They market juice and dried apple products around the world.



If there is a lot of something on the market and few people buy it, we say there is a **surplus**. There is not much demand for the supply.

When there are many more buyers than the supply of something, there is a **shortage** of that product. There is a great demand for a small supply.

When there is a shortage of something people want, the price goes up. In 2001, for example, there was a shortage of gas and electricity. Prices increased drastically, but people still continued to drive to work, heat their homes, and run their electric clothes dryers. If they could afford it, many people chose to pay high bills rather than change their lifestyles. Other people, of course, could not afford the high rates and found ways to use less gas and electricity.

The minimum wage in 2001 was \$6.72 per hour.



Workers Are Part of Supply and Demand

Employers compete with each other to find workers. If thousands of teenagers want to cut lawns during summer vacation, they will probably all earn low wages. However, if most teenagers wanted to sell clothes in stores, the few who were willing to cut lawns could earn a lot of money.

Fast food stands, for example, are paying much more than they used to. So many people eat out that there is a need for many

workers to run hamburger, chicken, and taco stands. The owners have to pay more to get good help.

Paying Employees

Most businesses hire employees and pay them **wages** or **salaries**. A wage is figured by the hour. A salary is a set amount that is paid each month, no matter how many hours the employee works.

The Minimum Wage

In Washington, the state **minimum wage** applies to all workers sixteen years of age or older. Younger workers must be paid 85 percent of the minimum wage. If you must work over forty hours a week, the employer has to pay one-and-one-half times



A dock worker at the Port of Seattle cannot be paid below the minimum wage. *Courtesy The Port of Seattle*

WHAT DO YOU THINK?

Do you remember reading about the children and teens who worked in factories, logging camps, and mines in the past? How have labor laws such as the minimum wage helped workers? Do you think the laws are good ones? What changes would you like to see made in labor laws?



your regular wage for time you work past the forty hours.

Who sets the minimum wage? The federal government sets a minimum wage, but states may set their own as long as it does not go below the federal wage. Washington State voters passed a law that set the wage, to be adjusted by the rate of *inflation* every year. Farm workers, who usually receive low wages, must now be paid at least the minimum wage.

Profit and Loss

Businesses try to make a profit. A profit is the amount of money left after expenses are paid. Expenses include paying workers, suppliers, rent, insurance, taxes, and other things. If a business doesn't have money left after expenses, it has a loss. Companies can't continue to lose money for long, or they will be out of business.

Working around the State

Have jobs changed in the last 200 years? What education and training do workers need today? Who buys the products and services? This section will answer some of these questions.

Food for the Nation

More than one-third of the state's land is used for agriculture. In the Puget Sound area, greenhouses and nurseries are built on tiny plots of land. The land west of the Cascade Mountains is used mostly for dairy cows and for growing fruits and vegetables. In the eastern part of the state, wheat farms are often several thousand acres in size. In the Columbia River Basin, farmers grow irrigated nut, peach, apricot, cherry, and apple orchards as well as potatoes, corn, hops, and grapes.

Cattle, pigs, poultry, and milk production are also important to our economy. Farm



Many food preparation workers will be needed in the coming years. Where will the workers fall on the pay scale?

animals are raised in different regions, just as crops are. Dairies and poultry farms are common on the west side of the state. Sheep are raised in the southeast. Cattle ranches are most common in central and eastern regions where livestock graze in the mountains and river valleys.

The Fishing Industry

Washington's coastline and many rivers make fishing a major source of income. Fishing crews work on the lower Columbia River, the waters of Puget Sound, and off the coast as far as Alaska. Salmon, albacore, herring, halibut, rockfish, cod, flounder, crabs, and ocean perch are caught and sold.

Fish farming, called aquaculture, is also becoming more common. Fish farms along the coastline raise salmon, oysters, and other seafood.

The Logging Industry

Washington is second in the nation for lumber production. The forests are made up of Douglas firs, ponderosa pines, and hemlocks. Most logging operations and sawmills are located between Puget Sound and the Columbia River. Trees used to be cut just for lumber, but now they are also

Washington State leads the nation in the number of apples grown. We are second in the nation for potatoes, third for winter wheat, and fourth for barley.

used to make pulp for paper and cardboard.

In the 1990s, many smaller sawmills went out of business because the supply of trees was limited. When sawmills closed, thousands of jobs disappeared. Towns in timber areas experienced great economic difficulties.

Manufacturing

Our most important manufacturing industry is aircraft, but companies also build boats, trucks, and other equipment. Aluminum plants, such as Kaiser Aluminum in Spokane, create aluminum used to make airplane parts and soft drink cans.

Many industries came to the state because of the large supply of hydroelectric power. Most industries are near Seattle and Tacoma because of close access to rail lines, seaports, and a large supply of workers.

Food processing plants are important in Washington, too. Flour mills operate in Spokane, Seattle, Tacoma, and Vancouver. Cleaning, sorting, canning, and freezing fruits and vegetables are important jobs. Workers and machines make apples into apple juice and grapes into juice and wine. Dairy products such as milk, cheese, butter, and ice cream are made and sold, too.



The Boeing Company airplane manufacturing plant in Everett covers almost 100 acres. About seventy-four football fields would fit inside the building. Inside, workers assemble jets such as the 747. It takes about eleven months to build an airplane. How much does a 747 cost? Prices start at \$165 million.

That's Electric!

Washington's dam system provides hydroelectric power that is sold to California and other states. That power is sent across the land through heavy-duty power lines.

The dams provide most of the electrical power, but coal-fired electric plants produce 11 percent of the electricity. A single nuclear plant at Hanford produces 7 percent of the state's electric supply.

The Computer Industry

The computer software industry plays a big role in Washington's economy. Most computer-related businesses are located in the Seattle area. Microsoft Corporation, in Redmond, is the world's leading software manufacturer for personal computers. In 2000, Microsoft sold about \$20 billion of software. The company has plants in sixty countries and employs 32,000 people around the world.

The Largest Employers

In 2001, the companies who hired the most workers in Washington were (in order):

- Boeing Company (Everett, Auburn, Renton)
- University of Washington (Seattle)
- Microsoft Corporation (Redmond)
- Seattle-Tacoma International Airport (Seattle)
- Boeing Defense & Space Group (Kent)
- Washington State University (Pullman)
- South Seattle Community College (Seattle)
- Virginia Mason Hospital (Seattle)
- Mary Bridge Children's Health Center (Tacoma)
- Tacoma General Hospital (Tacoma)
- Fairchild Air Force Base (Airway Heights)

Notice that three schools and a military base are on the list. They are government institutions that employ thousands of people who provide services. They are supported partly by tax money and do not have to make a profit.



Doctors go to college a minimum of eight to ten years. Surgeons study even longer. They are at the top of the pay scale, although some businessmen earn more.

Which Jobs Pay the Most?

Sometimes jobs that need the most workers do not pay the highest salaries. While there are lots of jobs for **retail** salespeople, for example, the wages are low. That's because the jobs selling in stores require little education or training. Jobs that require the most education nearly always pay the highest salaries.

Here are the highest-paying occupations in Washington State (in order):

- Dentists
- Physicians and Surgeons
- Podiatrists (foot doctors)
- Optometrists (eye doctors)
- Lawyers
- Engineering Department Managers
- Mathematics Department Managers
- Natural Sciences Managers
- Chemical Engineers
- Dental Hygienists
- Pharmacists
- Actuaries (work with insurance)
- Firefighters
- School Administrators
- Police Department Supervisors
- Computer Engineers
- Elevator Installers
- Factory Managers
- Real Estate Brokers
- Electric Power Managers

(From Washington Employment Security Department, Labor Market and Economic Analysis Branch, 2000)

The median (middle) household income in Washington state in 1998 was \$47,400.

The per capita (per person, or per worker) income was \$28,700.

The median household income includes all working adults who live in the home. Why is household income larger than per capita income?

ACTIVITY

Jobs for Everyone

Today's economy and job market change constantly. The occupations on the chart are expected to have the most new job openings in Washington before 2006.

1. Which occupation will need the most workers?
2. Which jobs require the most education?
3. Which jobs will probably pay the highest salaries?
4. Jobs in logging, mining, and fishing are not listed in this group.

Why do you think the number of jobs in those fields is not growing? Look at the list of exports on page 201 and you'll see that lumber products and fish are major exports, but machines have replaced many jobs in these industries.



JOB	NEW OPENINGS EACH YEAR
Salespersons	5,500
Cashiers	4,000
Teachers (high school and elementary)	3,000
Waiters and Waitresses	2,700
Managers and Executives	2,500
General Office Clerks	2,500
Food Preparation Workers	1,900
Supervisors/Managers	1,700
Child Care Workers	1,600
Registered Nurses	1,300
Information Clerks	1,300
Computer Engineers	1,300
Systems Analysts (data processing)	1,300

A Great Job

What do workers want from a job?

- ✓ Steady work without layoffs
- ✓ Fair wages
- ✓ Health insurance
- ✓ Paid sick days, vacations, and holidays
- ✓ Safety in the workplace
- ✓ Appreciation for good work

What do employers want from workers? They want employees who are:

- ✓ On time
- ✓ Willing to work
- ✓ Careful
- ✓ Trained to do the job
- ✓ Able to get along with other workers
- ✓ Able to keep customers satisfied

The Global Market

Ever since the early days when sea otter furs were taken by ship to Chinese markets, Washington’s location on the Pacific Rim has been a big advantage in overseas trade. The value of Washington **exports** is higher than any other state. One in every four state jobs depends on international trade.

International trade has always been an important feature of the economy. In earlier times, furs, lumber, canned salmon, wheat, and fruit were exported to distant markets. During the end of the twentieth century, a global market became a reality. Every **commodity**, product, and service is now produced and sold around the world. Computers and the Internet have linked the entire globe in a web of information, trade, and finance.

While trade with Canada has increased because of the Canadian-American Free Trade Agreement, most of the new business has been with Asia, especially Taiwan, China,

and Japan.

Boeing airplanes still lead Washington’s exports, but computer software, electronics, medicines, aluminum, frozen french fries, and wines are added to the traditional exports of lumber, wheat, fruit, and fish. More than half of the region’s wheat crop is exported, with most going into Asian countries.

However, the global market can be brutal. Washington’s Red Delicious apples once commanded a high price overseas. Then newer, tastier varieties such as Fuji, Braeburn, and Gala became more popular. Furthermore, labor costs in Chile and China were much lower. Apples from these countries could be sold at a lower price than apples grown in Washington.

China is now the world’s leading apple producer. This competition has hurt Chelan and Okanogan Counties, where orchard owners are planting more popular apples. Many growers are planting sweet cherries instead of apples.

A commodity is any useful thing that is bought or sold. Products of agriculture, mining, or manufacturing are commodities.

Washington Exports

Major Trading Partners *(in order of total value)*

Japan
United Kingdom
Canada
Germany
South Korea
China
Netherlands
Taiwan
Spain
France
Sweden
Turkey
Saudi Arabia
Australia

Top Exports *(in order of total sales)*

Aircraft/Spacecraft/Parts
Computers/Industrial machinery
Electric machinery/Sound/TV
Cerals
Medical/Surgical equipment/Photo
Oil seeds/Grain/Fruit
Wood (logs, boards, plywood, chips)
Paper
Fish/Crustaceans
Mineral Fuel/Oil
Fruit/Nuts/Citrus fruit
Inorganic chemicals
Prepared vegetables/Fruit/Nuts
Vehicles and parts (cars/tractors)
Meat
Aluminum and articles
Toys/Games/Sports equipment
Plastics

(from Office of Trade and Economic Development, 2001)

1. Which three countries receive the most goods from Washington?
2. What are the top three exported products from Washington?
3. How many times do plant products appear on the list?
4. How many times do products made of metal appear on the list?
5. Which products are probably the most hightech?

ENTREPRENEURS

An **entrepreneur** is a person who has a business idea, finds enough capital (money) to start the business and keep it running, organizes the business, hires employees, and takes the risk of entering the market. On this page are some of Washington's creative and hard-working entrepreneurs. Do you recognize any of them?

Debbie Mumm

Debbie Mumm is a Spokane artist who draws designs used on T-shirts, cookie jars, dishes, calendars, rubber stamps, and fabric. She started by selling books of her own

quilt designs. Her company, called Mumm's the Word, employs forty people in Spokane. Over \$90 million of her products sold in 2000.

As a young girl, Debbie enjoyed art. She learned drawing, painting, cartooning, and calligraphy. After high school, she studied art at college. Debbie's advice to entrepreneurs: "Start small, find a niche, and promote yourself."



DEBBIE MUMM Success

A typical business leadership manual doesn't say anything about the CEO buying movie tickets for the employees, springing for a monthly all-staff lunch out, or inviting the whole crew home for eggnog and homemade cookies. Debbie Mumm isn't your typical CEO.

The CEO and Creative Director at Mumm's The Words regularly puts tubs of licorice in the break room, keeps employee morale high on her priority list, and has been known to strap on a guitar during a Christmas caroling night. In return, the highly talented workforce gives Debbie and the company The Word that have secured atop the world's quilt and design market.

Her story could be lifted from a textbook for success. Start small, find a niche, and promote yourself. Study the market and connect with everyone from the manufacturer to the consumer. Then, throw in all the things Debbie

does best—creating wonderful designs, following each design from concept to final production, and making sure each product fits her vision and high standards of quality.

This formula has worked well for Debbie all of her life, beginning with her childhood when she remembers putting all of her creative energy into a small handmade village which she carefully unpacked each Christmas and set in the same spot in her family's Seattle home. As the years went by, she added accessories to this holiday display, like a tiny sleigh pulled by even smaller reindeer.

"I've always enjoyed art—I love making things and working with my hands," she said.

**"I've always enjoyed art—
I love making things and working with my hands."**

Her parents, Richard and Ardis Kvale, encouraged Debbie's creativity, and they praised her early efforts at drawing, cartooning, painting, and calligraphy.



Eddie Bauer

Eddie Bauer began selling sporting goods in Seattle in the 1920s. At first, he sold mostly tennis and golf equipment, but his business really grew when he began including fishing tackle and hunting gear. Bauer enjoyed sports and used his experience to help customers choose the best equipment.

In this photograph, taken outside his store in downtown Seattle, Eddie Bauer shows off his fishing tackle and a catch of steelhead trout. Later, he included outdoor clothing, opened other stores, and became a national success.



Armen Tertsgagian and Mark Balaban

Aplets and Cotlets are candy that were created in 1918 by two young men. Armen Tertsgagian and Mark Balaban had both emigrated from Armenia. They met each other in Seattle and decided to start a business. First they tried a yogurt factory, but few people had heard of yogurt then.

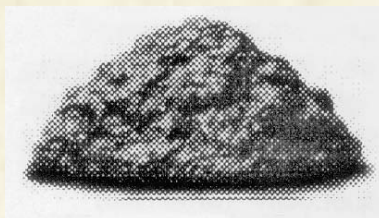
The men moved to Cashmere, where they bought an apple orchard. Fresh apples were not selling for good prices at the time, so they dried apples to sell. Their company, called Northwest Evaporating, was a good idea because it supplied dried apples to soldiers fighting in World War I.



The men finally decided to use surplus apples to make *rabat locoum*, a popular candy they had enjoyed as children. They called the candy Aplets. Then they created Cotlets from apricots. Today Aplets and Cotlets are sold around the world.

Harry Brown and J.C. Haley

In 1914, when World War I was beginning in Europe, two young men in Tacoma got an idea for a candy bar they named the Mount Tacoma Bar. They sold the mounds of chocolate in boxes printed with Mount Tacoma on the front. Then Seattle residents began calling the mountain Mount Rainier instead of Mount Tacoma. So in 1923, the men changed the name of their candy bar to just plain Mountain Bar. Machines can now make 592 Mountain Bars per minute, complete with a cherry in the middle!



They're only ugly until you taste them!

Brown and Haley continued experimenting with different recipes until they came up with a log-shaped candy bar coated with chocolate and almonds. They called it Almond Roca.

Gary Larson

Gary Larson is a world-famous cartoonist. He was born in Tacoma and now lives in Seattle. His clever comics, known as "The Far Side," have been published in more than seventeen languages in 2000 newspapers worldwide. Thirty-one million copies of his books have been sold. His animal cartoons are printed on calendars, mugs, and T-shirts. Larson is now retired, but his cartoons live on.

Where did Gary Larson get his ideas? As a child, he loved to draw, but did not study art. He was a science student at Washington State University when he began publishing cartoons.

Larson's offbeat humor has made him wealthy, and it also earned him the honor of having a species of biting lice and a butterfly named after him!



Bill Gates

Bill Gates is probably Washington's most famous citizen. His father was a Seattle attorney, and his mother was a schoolteacher. He started programming computers when he was thirteen years old.

In college, Bill met other young men who shared his interest in computers. They created software for home computers and started a company called Microsoft. Windows became an important part of their programs. The company has made Bill Gates the world's wealthiest man.

Finally, the company had such an impact on the Windows computer software that a federal anti-monopoly lawsuit accused the company of being a monopoly. A **monopoly** is when a company has exclusive ownership or rights to a certain kind of business.

Bill and Melinda Gates and their children live in the Puget Sound area. The Gates family are **philanthropists**—wealthy people who give money to others. The Gates Foundation gives millions to support health and learning in poor countries. It also gives college scholarships and develops housing for homeless families.

The Mighty Dollar

Today, we have a free enterprise economy, but it wasn't always so. American Indians used the barter system to exchange items they had for ones they wanted. People living on the coast gathered small shells and traded strings of them to people living on the plateau for food, skins, moccasins, or tools.

Chinese immigrants worked long hours with smelly salmon for very little pay. They often sent part of their money back home to their families.

When fur traders arrived, they wanted to buy furs, not shells, so furs became valuable. A beaver skin, called a plew, was used like money. Metal pots and tools, guns, horses, and even slaves were worth a cer-

times did not trust its worth. The federal government printed paper money and made coins that could be used across the country and around the world. In an effort to get people to trust the value of paper money, an equal value of gold or silver was held in a safe place, but this is not true today.

WHAT DO YOU THINK?

Why did people want to use paper money or coins instead of bartering for goods? How do we trade our time and goods for what we want today? What makes our paper money and coins valuable?

A Dollar Saved

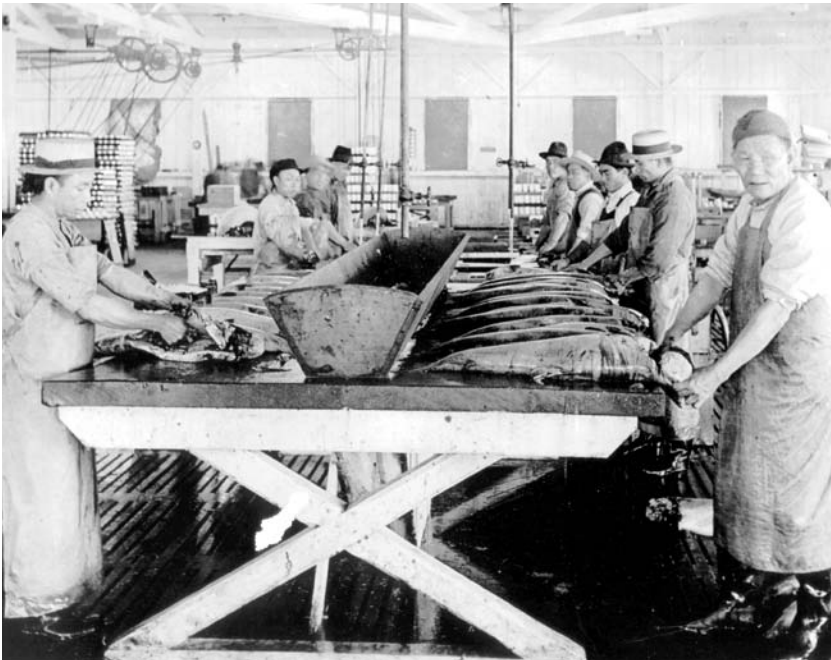
Saving money is as important as earning it. In the early days, people saved money in fruit jars, under the mattress, or in a hole out in the yard. Today, banks are convenient and safe places to keep savings. Bank savings up to \$100,000 are insured by the federal government. That means if the bank fails, the federal



government will give you back your savings.

Cash, Checks, Cards

Today, personal checks, backed up by money deposited in a bank or credit union, are an easy way to pay for things. **Debit cards** can also be used to subtract money from your bank account as you make purchases. **Credit cards**, on the other hand, are a way to postpone paying for things you buy. They add up charges that you pay off in



tain number of plews.

Traders sometimes used Spanish coins. Later, after gold was discovered in the West, a pinch of gold was called one measure and was used to buy things. Once towns were established, banks printed paper money called bank notes. The holder of a note could come in and exchange it for silver or gold, or use it as money to buy things. The notes were not always reliable, however, because banks sometimes closed or failed to honor the notes.

After a time, state governments printed money, but people in other states some-



monthly payments. Credit card companies charge for the service of lending you money by adding interest to each month's bill.

Interest

Banks pay you a small amount of money, called interest, on the money you put into a savings account. You can also buy a certificate of deposit, called a CD, that will earn interest at a higher rate than a savings account. If you purchase a CD, however, you agree to keep the money in the bank for a certain number of months or years—usually at least five years. Some banks also pay interest on money in a checking account.

When you put money into a savings account, a CD, or a checking account, the money doesn't just stay there with your name on it. The bank uses your money to make loans to other people. Those people pay interest on the money they borrow. They pay a lot higher rate of interest than the bank is paying you on your savings. This is one way banks make money to stay in business.

Why Save?

You can use your savings as a down payment for expensive items. Automobiles, for instance, can be purchased by making monthly payments. If you save enough money to pay half the cost of a car before you buy it, you will only have to borrow enough money for the other half of the cost. You will save thousands of dollars in interest.

Inflation

It doesn't take a financial expert to realize that the prices of many things have gone up over the years. Inflation is the rate at which prices for everything, from a loaf of bread to a new car, increase over time.

For most of this century, the rate of inflation has averaged about 3% per year. There are some exceptions, thank goodness.

Electronic items such as calculators, VCRs, CD players, and laptop computers have gone way down in price because the manufacturers learned better ways to make them.

The Stock Market

To guard against inflation, people who are serious about seeing their money grow often invest in the stock market. There are no guarantees in any one year, and you may actually lose all your money, but people who invest over many years have received

To decrease the amount of interest you pay, borrow less, get the lowest interest rate you can, and pay off the loan as fast as you can.

Compound Interest

When credit card companies or banks loan money, they charge **compound interest**. It adds up much faster than interest that is figured as a percent of the total only once. How does compound interest work?

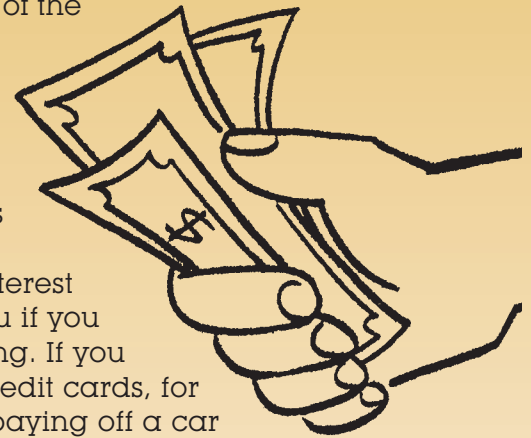
If you are being paid compound interest, every time an interest payment is added to your account—once a day or once a month—it stays there, making the total higher. The next time interest is figured, you get a percentage of the higher amount.

Compound interest grows rapidly if the percentage of interest is high enough and if it is added often.

Compound interest works against you if you are the one paying. If you owe money on credit cards, for instance, or are paying off a car loan, you are paying compound interest. By law, banks have to tell you how much total interest you will end up paying on a loan.

Credit cards, however, just keep compounding interest until the loan is paid. The less you pay each month, the longer you are paying interest on the total balance. If you take a long time to repay the loan, you could end up paying more in interest than you borrowed in the first place.

There are many computer programs that can help you figure compound interest, or you can ask a bank for a schedule that lists payments and interest rates.



“If you will live today like most people won’t, you can live in the future like most people can’t.”

How does this saying apply to saving, avoiding debt, and investing?



Even young workers should start thinking of ways to save and avoid paying interest on credit purchases. *Photo by John Ivanko*

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ACTIVITY

Save or Spend?

Save for larger items. Abby earns money babysitting and mowing lawns. She spends her money quickly on CDs, fast food, and jewelry. Abby’s friend Sarah also earns money. She works at a hamburger stand after school. She spends half of her money on clothes and activities with friends, and puts the other half in the bank. She is saving for a car.

Save to avoid paying interest. When Sarah first started saving at the bank, she was very disappointed in the low amount of interest her money earned. She was earning about 2.6% interest, but inflation, at 3%, was eating that up. Sarah’s parents, however, encouraged her to keep saving. They showed her how much money she would save by not having to borrow money for the car.

Interest Earned and Paid

YOU EARN

Savings Accounts at a Bank	2% to 2.6%
CD Certificates at a Bank	4% to 5%

YOU PAY

Credit Cards	13% to 21%
Bank or Credit Union Loans	9% to 13%

How Does It Grow?

Savings Account Starting with \$1,000 at 2.6% Interest
(Multiply times 5 if you need \$5000 in five years)

	Ending Balance
1 year	\$1,026.25
2 years	\$1,053.20
3 years	\$1,080.85
4 years	\$1,109.23
5 years	\$1,138.35

Debt of \$5,000 at 18% Interest

Length of Loan	Interest Paid	Principal Paid
1 year	\$845.89	\$677.75
2 years	\$713.31	\$810.33
3 years	\$554.80	\$968.84
4 years	\$365.28	\$1,158.36
5 years	\$138.66	\$1,384.72
Total paid:	\$2,617.94	\$5,000.00

Be wise! Beware of credit cards that have very low interest rates for a few months. When the rate goes up, you probably won’t even notice. And, if you are a day late in making a payment, you will pay a large late fee—often as much as \$30 or more.

Borrowing carefully is justified in some cases. Very few people can save enough for all their college tuition or a new home. But study debt and interest to make wise decisions. If you do borrow, pay off the debt as quickly as you can. Making double and triple payments can save you thousands of dollars.

CHAPTER 12 REVIEW

1. Give three examples of goods. Give three examples of services that people do to earn money.
2. Describe the free enterprise system.
3. Describe the three ways to form a business—proprietorship, partnership, and corporation.
4. When there is a lot of something, the price usually goes _____. When there is not much of something people want, the price usually goes _____. This is called _____.
5. The lowest wage an employer can pay an employee per hour is called the _____ wage.
6. Name two of Washington's largest employers.
7. Name two Washington entrepreneurs and the companies they started or the products they sell.
8. List three of Washington's industries and what they produce. Example: the logging industry produces paper, boards, plywood, etc.
9. In a global market, what three foreign countries do the most trade with Washington?
10. List five of Washington's top exports.
11. Which three occupations will probably need the most workers by 2006?
12. List five occupations that will probably earn the highest salaries.
13. What system did early American Indians use to exchange what they had for what they wanted? What do we use today to get what we want?
14. What is the difference between a debit card and a credit card?
15. What does the FDIC do for people who save money in a bank?
16. What kind of interest works against you if you borrow money?
17. How can you decrease the amount of interest you pay?
18. What are the advantages of saving money?

GEOGRAPHY TIE-IN

Only two of Washington's largest companies are outside the Puget Sound region. (See the list on page 199.) Why do you think this is so? Use what you have learned about Washington's major population center (to supply labor and education), the availability of water (rivers and sea-ports), location on the Pacific Rim, and natural resources to draw conclusions about why companies do business in the Puget Sound region.

