Unit 1 Australia and the global economy

Managing financial risks and rewards

This man is practising an extreme balancing sport known as highlining. Managing your finances can be like walking on a tightrope – both exciting and risky at the same time.

Sometimes, we can spend or borrow too much money or make risky investment decisions in the hope that we will secure our financial future. Other times, we can be tricked by scammers who set traps to steal our money or encourage us to invest in bad business opportunities.

Thankfully, people can protect themselves from financial risk. Knowing how to save and invest properly can provide financial rewards that will keep you balanced and safe on that tightrope. Knowledge of scammers who try to throw you off balance can also protect you from a financial fall.

Source 1 Managing your finances can be a challenging balancing act.

chapter 12

12A

How can I save more and spend less?

1 Do you save more money than you spend, or is it often the other way around? Are your family and friends like you? Why do you think people are different in this way?

2 If you bought a car, would you expect to eventually sell it at a higher price? Why or why not? What factors do you think might affect the sale price?

12B

What strategies can be used to increase financial rewards?

1 Some people lose money on their investments. Would you be willing to trade greater risk for the chance of higher returns on your investment?

2 Why do you think people invest in real estate? What risks could be associated with buying property as an investment?

12C

How can individuals safeguard against financial risk?

1 Have you, or someone you know, ever lost money because of a financial scam?

2 What things can you do to protect yourself against not having enough money in the future?

12.1 Saving

Put simply, **saving** means putting money aside to spend at a later date. Some of us are better savers than others. Compete the quick quiz (Source 1) to find out if you have what it takes to be a good saver.

Quick quiz: Are you a good saver?	Yes (✓)	No (✗)
1 Have you ever saved to buy something you really wanted but couldn't afford straight away?		
2 Before you spend money on something, do you ask yourself whether you really need it or not?		
3 Have you thought about doing extra work like babysitting, walking dogs, or delivering papers to earn some extra cash?		
4 Have you considered ways your family could save money on things such as energy bills, food or clothing?		

If you answered 'yes' to any of these questions, chances are you already know something about saving and are a reasonably good saver.

There are two simple ways to increase the amount of money you can save:

1 **Earn** more – you may have a casual job, so it is likely you will be able to save some of the money you earn, even if it is just a small amount. You could also earn more through investing your money (see page 42).

2 **Spend** less – give yourself a 'financial check-up' by monitoring what you spend your money on. Identify areas where you might be wasting money and hold off buying items you can easily live without.

Source 1 Answer these questions to find out if you are a good saver.

case**study**

Is it really a bargain?

If you love going to sales, those bargains paid for by credit card might be quite expensive, especially if you cannot quickly pay your credit debt. Recent Reserve Bank figures show that Australians owed $51.07 billion on credit cards. Credit card holders are wise to pay the balance on their credit card each month to avoid paying interest. It's advisable to reduce spending if monthly repayments cannot be made.

Even if you pay the minimum monthly credit card repayment you will most likely be paying a considerable amount in interest. The MoneySmart website has a credit card calculator that allows you to calculate how much interest you would pay if you only pay the minimum monthly repayments. Based on an 18-per-cent interest rate it would take 33 years to pay a $5000 credit card debt off. The interest you would repay on this debt would be $12 181.

Financial commentator Paul Clitheroe comments that getting into debt is more about spending too much. He says, 'I often encounter the view that money problems would be solved if we earned a bigger income. Experience has taught me this isn't always a magic cure. We have a tendency to increase spending as our income rises.'

Source 2 Getting into debt can become hard to beat. It's like a cat chasing its tail, running around in circles and never quite getting anywhere.

Source 3 Many people save in case of an emergency. Having money ready in case of an emergency for car repairs, medical expenses or the prospect of losing a job can ease the burden. Other reasons for saving include education, holidays, large purchases such as a family home, or retirement.

case**study**

Where is the best place to keep my life savings?

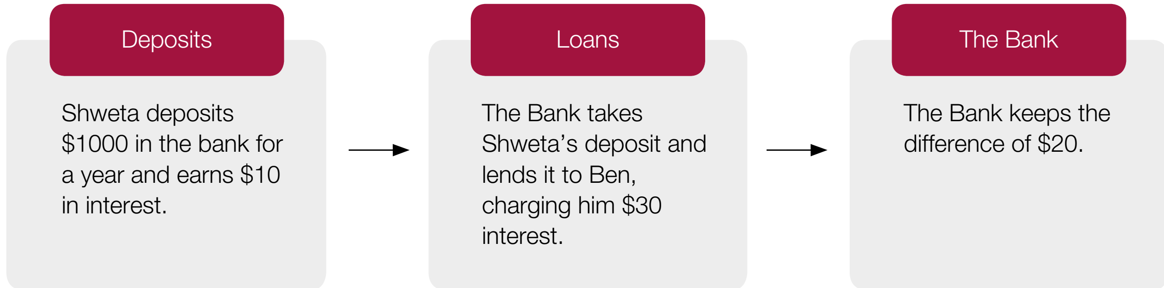
Some people keep their savings at home in what they consider to be a safe place – perhaps under the mattress or even buried in the backyard. One Californian couple recently reaped the rewards of this practice when they came across some rusty cans containing gold coins worth ten million dollars. The cans were buried under an old tree on their property.

Those who keep their money at home, however, risk losing it. A Chinese couple recently found their four year-old son had ripped up their savings for a house **deposit**. Their little boy was regularly in the habit of ripping up books – a habit they thought was harmless until he destroyed their life savings.

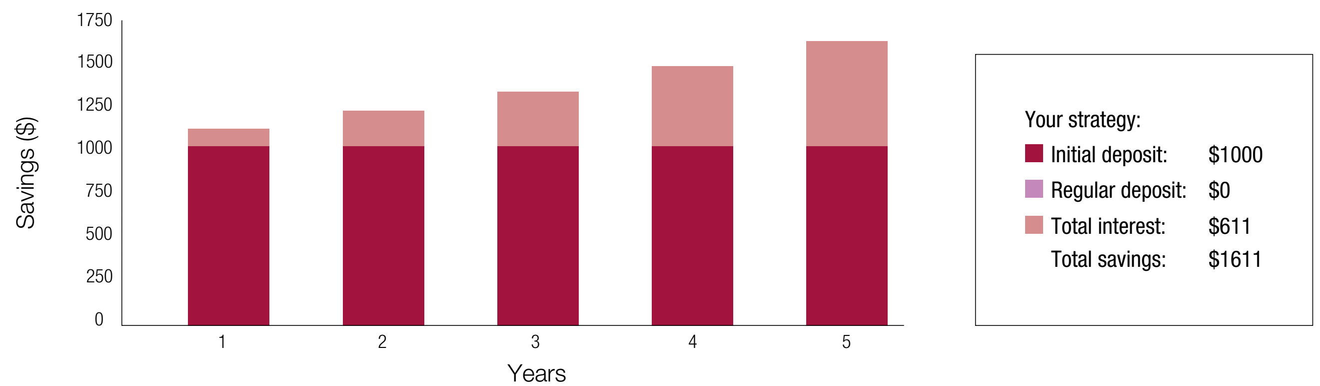
In another alarming incident in Tel Aviv, Israel, a daughter surprised her mother with a new mattress, only to find out her mother's life savings was hidden in the old one she had thrown away!

It's not advisable to keep savings at home for another reason – it will be earning no **interest**. Money kept at home will also lose value over time because of rising prices. For example, the same basket of items valued at $4000 in 2009 would cost $4612.58 in 2015, because prices on average rose by 2.6% per annum over this period. Theft or fire could also destroy savings kept at home.

Source 4 A couple in California found rusty cans buried in their backyard that contained gold coins worth millions of dollars.



Source 5 Banks, credit unions and building societies make money from taking deposits and then loaning these deposits and charging interest.



Source 6 This diagram was created using the compound interest calculator on the MoneySmart website. A five-year investment of $1000 using compound interest will earn an extra $611.

Setting savings goals

Saving regularly can be easier if you set a savings goal. This is how to go about it:

1 Identify what you would really like to have in the future and how much it will cost.
2 Identify the amount of money you can put aside per week or month.
3 Identify how long it will take you to reach your goal.

For example, if your goal is to go on a holiday costing $2000 and you can save $100 per month, it will take you one year and eight months to reach your saving goal.

Earning interest

Saving is not enough on its own. When we put aside money for future use we must decide where we are going to put it, so that it earns additional money. This is called **investing**. Putting money in the bank, for example, will most likely mean the bank will pay an additional sum of money, called interest. The amount of interest you earn depends on the amount deposited, how long the deposit is left in the bank, the current interest rate and what type of interest is being paid.

Interest is often calculated **per annum**, or year. This is how to calculate **simple interest**:

- Take the amount deposited (called the **principal**), multiply by interest rate, then multiply by length
- of time (e.g. number of years).
- For example, if you deposit $1000 in an account at 10 per cent for two years it would be worth $1200.

Compound interest is interest added to the principal. This amount is then used to calculate interest. For example, if compound interest is calculated on a deposit of $1000 for two years at 10 per cent, $100 interest would be earned in the first year. Then, in the second year, the interest rate would be calculated on $1100, giving a total of $1210. Source 6 shows the compounding interest over a five-year period using the MoneySmart website compounding interest calculator. Which would you rather – simple or compound interest?

Good and bad debt

Sometimes it is not possible or convenient to wait until savings grow. Debt occurs when money is owed to another party (the lender) and must be paid back (by the borrower) within a certain timeframe with interest. Generally debt can be considered to be 'good debt' if the money borrowed is used to purchase something that will provide income or increase in value. For example, a loan to pay for university tuition fees might generally be considered 'good debt' as it increases a person's ability to secure a job and earn a higher income. A loan taken to purchase a house could also be 'good debt' if the value of the property increases over time.

Debt is usually considered to be 'bad' if it is used to purchase something that will decrease in value over time and/or will not earn an income. A car loan may be considered to be 'bad debt' as a car is likely to lose value (depreciate) over time.

Before taking out any loan careful consideration must be given to whether the borrower has the ability to comfortably make future repayments.

Check your learning 12.1

Remember and understand

1 Draw a flow diagram illustrating how a savings goal is set.
2 What are the two ways of increasing money available for saving?
3 You deposit $5000 in the bank at an interest rate of ten per cent per annum for two years. Calculate the:
   a simple interest
   b compound interest.
4 What determines the amount of interest earned from a bank deposit?
5 List at least four reasons people might want to save money.

Apply and analyse

6 Why do you think some people keep their savings hidden at home?
7 Explain how keeping large amounts of savings at home may in fact reduce what can be purchased with that money in the future.

Source 7 Some people are able to spend less and save more when they don't have a credit card.

Evaluate and create

8 Brainstorm ways you and your family could save money using the following table as a guide. Some ideas have been added to help you get started.
9 Go to the MoneySmart website and read about the simple ways to save money. Decide which of these suggestions may be helpful for you and your family, and add them to your table.

Transport	Food	Clothes	Entertainment	Credit cards	Phone
Walk to school	Shop at discount supermarket	Visit the opportunity shop	Go to the beach	Pay the credit card off each month	Check your mobile phone plan to see whether you are getting the best deal.

10 What do the following sayings mean? Write a short paragraph on each, explaining whether you think the saying is relevant to you and your spending habits.
   a 'A penny saved is a penny earned.'
   b 'Beware of little expenses. A small leak will sink a great ship.'
11 Identify an item you would like to buy, such as a new phone, and explain why it might be better to save up for it, rather than just borrowing the money to purchase it immediately.

12A rich task

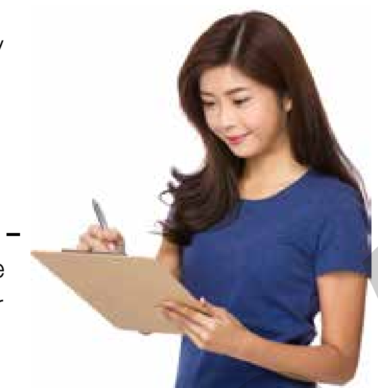
Am I spending too much?

Reducing your spending is one simple way to increase your savings. Australians are a nation of spenders and our credit card **debt** is growing. The average debt per credit card holder in Australia is around $3200.

Many people end up paying large amounts of interest on borrowed money. **Borrowing** money is convenient but it must be managed so that regular repayments can be made even when interest rates rise.

We all need to spend to ensure we have basic items such as food, clothing and shelter but we are probably all guilty of spending more than we really need to at times. When you are next shopping, ask yourself whether you really need – or just want – the items you are thinking of buying. Here are reasons some people spend:

1 **Marketing and advertising –** Clever marketing convinces us we need a range of different items.
2 **Keeping up with the Joneses –** It's human nature to want to have what others have.
3 **Social power and prestige –** Cars, clothes, holidays and houses can all contribute to our social and economic status in society.
4 **Credit availability –** Some people buy more because they have access to credit and don't think about the fact they will have to pay later (often with interest).
5 **Impulse buying –** Some people see something they love and make a quick purchase without really thinking about whether they can afford it.
6 **The pursuit of happiness –** Some people think that the more they buy, the happier they will be.



skill**drill**

Conducting a survey and presenting the results

We use surveys to explore people's opinions, ideas and activities. By analysing the results, we can gain valuable insights into personal and social behaviour. The key to finding useful information from a survey is asking the right questions.

Try to ask closed questions (yes/no questions or questions that provide a limited selection of options to choose from) as much as possible. Closed questions in surveys are commonly multiple-choice and ask people to choose their reply from a set of answers that you provide. Open questions (questions that don't give options to select from but encourages an individual's own thoughts to be expressed) are sometimes important too, but because you may receive a huge range of replies you may not be able to use the data so easily.

Follow these steps to design a survey and present the results.

Step 1 Decide on the focus of your study.

Step 2 When you have decided what your study will be about, work out what information you are interested in finding out. For example, your study might be about Internet shopping, and you may want information on how often people shop online.

Step 3 Decide what people you will survey. You will need to talk to at least 10 people to get data you can report on. Make sure that you have enough forms for all of the people you intend to survey. The more people you survey, the more useful and reliable your results will be.

Step 4 Write a series of closed questions about your study. A closed question might look like this:

How often do you use the Internet at home for shopping?

At least once a day ____

At least once a week ____

At least once a month ____

No Internet at home ____

Step 5 Once you have your questions written, go over them to ensure that they are all focused on the subject of your study and are geared to find out the information you want. Make sure they are clearly worded and cannot be misinterpreted by people completing the survey. Ask a friend to read over your questions if you are uncertain.

Step 6 Conduct your survey. Ask the questions and fill in the forms yourself, or you can get your participants to fill them in. Make sure the responses have been entered correctly and that you have accurate records.

Step 7 Once you have completed your surveys it is time to put the results together into a form you can use – this is called data analysis. This is often best done in a table like the one shown in Source 1.

How often do use the Internet at home for shopping?	Number	Percentage (%)
At least once a day	14	58.3
At least once a week	7	29.1
At least once a month	1	4.2
No Internet at home	2	8.4
Total	24	100

Source 1 Data can be presented in a visual format like a table so the researcher can access information quickly and easily.

Step 8 Present your survey results in a way that make them easy to understand. Rather than a lot of numbers and writing, use graphs. Make sure you clearly label each graph with the question you asked. Below each graph write a short summary of the results.

Apply the skill

1 Design and complete a survey about the ways in which people in your class and members of your family shop on the Internet. Include a minimum of 10 questions. Survey a minimum of five classmates and five family members (or other people you know outside of class). You might want to include questions like:

Do you shop online?

Yes

No

If yes, how many hours a week would you spend browsing online stores?

0–2 hours

2–6 hours

6–10 hours

10 hours or more

2 Once you have completed the survey analyse the results and present them in table and graph formats.

Source 2 Reserve Bank figures released in 2015 showed that Australians owed $51.07 billion on credit cards compared to $49.9 billion at the same time the previous year.

Extend your understanding

1 Compare your findings with those of a classmate. Write a report based on both sets of results, explaining how often and in what ways you used the internet for shopping purposes.

2 Present the results of your study to the class. Use your table or graph from the previous question as a visual aid, and talk through the most popular websites that people used, as well as the differences or similarities between the ways your family members and classmates used the Internet.

12.2 Investing

Investing is the process of putting money into a business or commercial venture (like **property**, or **shares**) with the expectation of making a **profit**. Put simply, investing is a way of making your money work for you. Investing can be a good way to help you increase your personal financial rewards.

Setting personal investment goals

Thinking ahead is essential when setting personal goals such as buying a car or house, or saving for retirement. You need to think about the things you would like to purchase in the future and when you would like to make these purchases.

Assessing your risk profile

Investing money means taking a **risk**. Taking an **investment risk** means there is a possibility of losing money. Some investments are riskier than others. Putting your money in an Australian deposit-taking institution such as a bank is generally considered low risk. Investing in the **sharemarket** or in property is considered to carry a higher risk. Higher investment risks often come with the potential to earn higher rewards, but there is also the risk for higher losses.

Source 2 Investing can help to achieve personal goals

Source 1 Some of us are bigger risk takers than others. If a high-risk investment is causing a person to worry and lose sleep, a lower-risk investment is advisable.

Each individual has to decide the level of financial risk they are willing to take (see Source 1).

Another factor when considering risk is the timeframe of your personal investment goal. If you have 25 years to wait for your investment return you may decide to take a higher risk, understanding that there may be some short-term losses. However, over a more substantial timeframe, your investment is expected to grow. For example, the price of a property may have fallen in the short-term, but over a longer period the price may increase as the property market improves.

Investment options

Source 3 outlines the many investment options available. Investors should consider how volatile, or subject to change, the investment is likely to be. They should also consider the likely money that can be made from the investment – sometimes called 'return on investment'. Investors should also consider how readily they need access to their money. For example, money in the bank can be converted to cash more quickly than money invested in a property, which may take months to sell.

Many people would prefer that decisions about investments are made by a professional, and some may choose to invest in a managed fund. Money from investors is pooled together and an investment manager decides where the money will be invested. This provides the investor with the opportunity to invest in a wider variety of options, such as **equities**, property and fixed-interest investments. Managed funds help spread the financial risk – the loss suffered from one poor investment may be countered by other investments in the fund that have performed well.

There is much to gain and much to lose when investing money. Many people enlist the services of a **financial planner** to help them establish and achieve their investment goals.

Interest-earning investments

There are many types of interest-earning investments. Term deposits are a common form of interest-earning investment where money is invested for a fixed term at a fixed rate of interest. Bonds are another interest-earning investment, where money is lent to the government or a company at an agreed interest rate for a certain amount of time.

Property

Property is an investment where a house, unit, factory, building or land is purchased with the aim of that property increasing in value. The property may be rented out, raising additional money.

Equities

Equities are shares, sometimes called stocks. A share is a unit of ownership in a company. Share investors become part-owners of the company and hope the value of their shares will rise. If the company makes a profit it may also make a payment, called a dividend, to the shareholders. BHP Billiton is an example of a company that the general public can buy shares in.

Superannuation

Superannuation is a method of saving for retirement. Employers contribute to their employees' super funds, and personal contributions can also be made to a super fund. For most people, superannuation is taxed at a lower rate than other non-super investments.

Source 3 There are many different investment options to choose from.

case**study**

Are you interested in making money from investing?

Warren Buffett is an American investor and businessman who is consistently ranked amongst the world's wealthiest people. Buffett is also a **philanthropist** who has pledged 99 per cent of his wealth to charity.

At a young age, Buffett loved the world of business. In high school, he made money from activities such as selling newspapers, golf balls and stamps. Buffett started investing when he was 11 years old, buying three shares at $38, only to see them fall to $25 a short time after. However, he waited till the same shares reached $40 and then sold them. Buffett learned that sometimes it is better to have patience and wait – he later saw these stocks climb to $200 a share.

Here are some of Buffett's words of wisdom on investing in the sharemarket.

Earnings

'If the business does well, the stock eventually follows'.

Having the right tools

'You should have a knowledge of how business operates and the language of business (accounting), some enthusiasm for the subject, and qualities of temperament which may be more important than IQ points. These will enable you to think independently and to avoid various forms of mass hysteria that infect the investment markets from time to time.'

Only buy securities that you understand

'Investment must be rational; if you can't understand it, don't do it.'

Source 5 Warren Buffett

Source 4 Investing in the sharemarket can be nerve-racking!

Check your learning 12.2

Remember and understand

1 Finish the following sentence:
Investments with the potential to grow dramatically also mean there is potential to _______ a significant amount of money.

2 What are the two monetary benefits that can be gained from:
  a buying a property
  b buying shares?

3 What is the purpose of superannuation as an investment?

Apply and analyse

4 Assess whether the following investors are risk-tolerant or not.
  a Janette has $100 000 to invest but the thought of losing any of it means she can't even sleep at night.
  b Julian wants to make a reasonable amount of money from his investments and is not overly concerned if his investments lose value in the short term.
  c Chris has $20 000 put aside to go overseas. He decides to invest the money for a year, but cannot bear to think his investment could lose money, which might mean he would have to cancel his trip.

5 Why do you think it is important to have a basic understanding of a company you decide to buy shares in?

6 According to Warren Buffett, what personal characteristics do you need to be an effective sharemarket investor?

Evaluate and create

7 Make a list of goals you may have, then group them into the age brackets listed in the table below. Identify the time in your life you will most likely need to start saving and investing to reach these goals. For example, if you are a teenager and want a car, it is best to start saving straight away. If your goal is to buy a house, you might delay starting saving for this until you are in your early 20s.

8 Check the latest interest rates for term deposits on one of the bank websites. Take one of your short-term goals and use the savings goals calculator on the MoneySmart website to find out how long it will take to reach your goal if you invest in an interest-earning investment.

9 Read each of the following quotes and explain the point the author is making
  a 'In the long run, it's not just how much money you make that will determine your future prosperity. It's how much of that money you put to work by saving it and investing it.' Peter Lynch
  b 'If investing is entertaining, if you're having fun, you're probably not making any money. Good investing is boring.' George Soros
  c 'Behind every stock is a company. Find out what it's doing.' Peter Lynch
  d 'If you don't study any companies, you have the same success buying stocks as you do in a poker game if you bet without looking at your cards.' Peter Lynch

Age	Goal	Short-term/medium-term/long-term goal	Approximate cost	Time to start saving
16–20 years				
21–30 years				
31–40 years				
41–60 years				

12B rich task

Playing the sharemarket

The sharemarket is like any other market where goods are bought and sold at a certain price. In a sharemarket, shares are bought and sold – this is called trading. A share is a unit of ownership in a publicly listed company. Myer, David Jones, Harvey Norman and Telstra are public companies you might know.

The **Australian Securities Exchange** (ASX) operates the sharemarket. It approves companies that wish to be on its trading list and ensures they abide by trading rules. You can become a shareholder in a company through purchasing shares from a stockbroker. A stockbroker can buy and sell shares through ASX on your behalf for a fee. This is called brokerage.

Share investors hope that their shares increase in value. The company may also pay a dividend, a payment made if the company makes a profit.

There is risk associated with investing in the sharemarket. Shares purchased may decrease in value, and will make a loss.

Playing a hypothetical share investment game can provide valuable knowledge before you take risks with real money. John Forsyth recently won the ASX Schools Sharemarket Game and makes the following comments.

> Over the past few months I have taken part in the ASX Sharemarket Game…I started with $50 000 like everyone else in Australia, and over the course of 10 weeks I watched my portfolio grow to nearly $61 000 dollars. With the money, I thought it would be best to buy fewer types of shares, but of greater amounts… I put roughly $12 500 on each share, and with the left over money I purchased two other shares. I only made a few trades throughout the entire game; I knew I would benefit from this, because if I was to constantly change my shares around there would not be any real growth. My main investment strategy was to wait and watch; patience was probably my main strategy to be honest. So overall, the three keys to my game were: not to trade often, to spend all the money I was given and to be patient.
>
> Game 2 winner 2013: John Forsyth, Year 11, Mercedes College, South Australia

skill**drill**

Using a game to understand the sharemarket

Playing games in **economics** is fun, and it can also be a great way to learn about how the sharemarket works.

In this activity, you will be playing a hypothetical sharemarket game. It is important to understand that there is a lot to learn about the sharemarket. Don't be disheartened if, like Warren Buffett, your shares lose value soon after you buy them!

In this game, you will select a **portfolio** of shares in up to five companies and calculate their value over the next five weeks. You will have $50 000 to 'spend'. Remember that this is a learning exercise so you will be guessing which stocks to choose at this stage. Before you play this game on paper you will need to

Step 1 Go to the ASX website using the link on your obook and choose company information from the price and research tab. View the complete list of stocks, by clicking on the 'View all companies' link below the 'Search by code or company' search bar.

Step 2 Scroll though the list and investigate a company you recognise or have heard about. Each company will have a three letter code (hyperlinked) so click on that code to take you to more specific information about that company.

Step 3 Use the menu bar on the left to find out more information about your chosen company. In particular, look at the price history for the last five days. The last price is the price the share sold for at the end of that trading day. Also check the chart showing the share price history for the company you have chosen. Remember that even if the chart shows the share price is performing well, it may decrease tomorrow!

Source 1 Myer and Harvey Norman are both public companies you can buy shares in.

Step 4 You can 'buy' shares to the value of $50 000 by completing the table below, and hold them till the end of the game. Choose up to five companies to invest in. You may spread 'your' $50 000 over these five companies, or choose to invest in just one.

Step 5 Each week, fill in the table, again using the last price the shares sold for. Complete the total value of the portfolio into the table below.

Apply the skill

1. After holding your share portfolio for five weeks did you make or lose money?
2. What did you learn about the risk involved in buying shares?
3. What could you do to make a more educated guess about companies to invest in?
4. If you had actually bought these shares what is the fee you would have been charged called?

Company	Code (unique abbreviation that identifies the company)	Last share price	Number of shares purchased	Value of shares in each company (share price X number of shares
		$		$
		$		$
		$		$
		$		$
		$		$
			Total value of portfolio (add all values in the last column)	$

Total value of portfolio at *Week 1* Date ____	Total value of portfolio at *Week 2* Date ____	Total value of portfolio at *Week 3* Date ____	Total value of portfolio at *Week 4* Date ____	Total value of portfolio at *Week 5* Date ____

Extend your understanding

1. Ask your teacher to set up an account on the ASX website, playing the Sharemarket Game online (follow the link in your obook) where you can actually trade shares online for a period of ten weeks. You can choose from 200 stocks, play in teams or individually, and see how you would do in real market conditions, without actually risking any real money.

12.3 Minimising financial risk – avoiding scams

Scams are traps to dishonestly take a person's money. There are many different types of scams that you should avoid. Putting down the phone or not opening an email from an unknown source – and definitely not clicking on a link – can be the best course of action you could take to avoid being scammed out of your money.

Scams that target your emotions

Scams that set out to personally target you with the ultimate aim of taking your money have become more common in recent years. Here are just some of the personal scams that are currently in operation:

- Charity scams – the scammer poses as a genuine charity and takes advantage of the giver's generosity.
- Psychic and clairvoyant scams – the victim may be told that they will be in some sort of trouble in future. To avoid this, they inevitably have to pay money for something like a lucky charm. In some cases the victim is threatened with a curse if they don't pay a fee to the scammer.
- Romance scams – the scammer takes advantage of someone looking for romance.

Investment and online account scams

There are a range of investment scams that offer the investor a 'rare' opportunity to make money very quickly. These operators may make an unsolicited phone call, or send an email. Some investment scammers promise huge tax reductions.

Paying for goods and doing banking online can be convenient, but consumers need to be aware of scams such as:

- phishing emails that pretend to be sent on behalf of your bank asking for account details
- phone calls from a scammer informing you there is a problem with your account, asking you to provide your account details or passwords
- the copying of information from the magnetic strip of an ATM or credit card so that a 'clone' of your card can be produced and used illegally.

Avoid being scammed!

Every one of us might be fooled at some stage in our lives, but there are ways to reduce the risk of being involved in a scam (see Source 1).

If you are party to a scam you should report it to the appropriate authority. For example, if the scam involves someone gaining access to your online bank account you should contact your bank immediately. You can also report a scam to SCAMwatch, which is run by the **Australian Competition and Consumer Commission** (ACCC).

Be suspicious	Even if you have a trusting nature, be aware that others (particularly those that you don't know well) may not be honest in their dealings with you.
Be cautious	Don't give strangers your money, credit card or bank account details. Keep your credit and ATM cards in a safe place.
Be patient	Don't be pressured into doing something quickly. If you are interested in a deal get a second independent opinion on what is being offered.
Be alert	Check bank and credit card statements for any unexplained transactions.
Be wise	Understand that there is little chance of getting rich quickly from a business scheme.

Source 1 Some golden rules to help you avoid being scammed

case**study**

How would you feel if your online romance was a scam?

Nigerian online dating scams have become notorious in recent years. In one such case, a 51-year-old woman from Perth lost thousands of dollars. The Perth woman (who does not wish to be identified) developed an online relationship in 2013, with a man who called himself Gary. He was, however, a Nigerian scammer who had stolen a photograph from a website and set up a fictitious profile on the RSVP dating site.

Shortly after meeting online, Gary quickly declared his love for the woman and asked her to send him money because he was in financial crisis. The woman sent three payments, and then Gary asked the woman for her bank details so he could transfer some money into her account. This is when the victim realised she was probably part of a fraud and contacted police. The police actually caught the scammer by matching fingerprints found on a document he had sent, to a person who was known to the Nigerian police. 'Gary' has been charged with obtaining money under false pretences.

Many victims of romance scams never see their money again, but the woman in this case was able to recall some of the repayments from the bank, once she learned Gary was a conman.

Source 2 If someone you've met online through a dating site asks you to give them money it could be a scam.

Check your learning 12.3

Remember and understand

1 What is a scam?

2 Why is it important to know about the types of scams that exist today?

3 Describe a scam you know about, or research one online, and outline what happened in the scam.

Apply and analyse

4 In the following examples, identify what consumers can do to protect themselves.

  a You open the door and a young man is standing there with a donation tin. When you ask for his identification, he says he didn't bring it with him.

  b You receive an email from your bank asking you to confirm your account details with them.

  c Someone you met on a dating site, but haven't met in person yet, asks you for a loan.

  d You go to the ATM and never cover the keypad whilst entering your PIN. You check your credit card statement and find there are many transactions you know nothing about.

  e You receive a call from a well-spoken young man who lets you in on a secret deal to make money from shares.

Evaluate and create

5 How wise are you when it comes to scams? Take the online scam quiz at the Consumer Affairs Victoria website. Write a paragraph outlining your results. Is there anything you could do to improve your safety against being scammed?

12.4 Minimising financial risk – using your bank account wisely

In order to protect yourself against unnecessary risk when it comes to banking, there are a number of strategies you should be aware of. Two of the most important include keeping your personal information secure and protecting yourself against unnecessary bank fees.

Keeping your personal information safe

Your **Personal Identification Number** (PIN) allows you to withdraw and deposit money into your bank account. Your PIN and other passwords (such as your Internet bank password) should be kept safe at all times.

Minimising banking fees

Most of us have an everyday **transaction account** which is really an account used to pay bills and withdraw money for spending. Many people have a separate **savings account** linked to their transaction account so that they receive a higher interest rate on their savings.

Some banks and other financial institutions offer transaction accounts that do not charge a fee for allowing you to use their banking facilities (called account keeping fees). Banks may also provide the customer with a free monthly statement listing all banking transactions.

casestudy

What would you do if money was stolen from your bank account?

Criminals with knowledge of the latest technology steal millions of dollars each year through 'skimming.' 'Skimming' involves copying card details while also video recording people as they enter their PIN into an ATM. These video recording devices have become more sophisticated as they are able to record a person entering their PIN from a variety of angles now. Once retrieved this information is used to create a copy of the card to withdraw or spend the victim's money.

Many people are in the habit of covering their hand when entering their PIN but it is also advisable to use a newspaper or purse to ensure the keyboard is completely blocked out.

To combat skimming, many new ATMs now have what is called 'jitter' technology so that the ATM card vibrates as it enters the existing machine, making it impossible to capture card details. If, however, you are a victim of skimming, the banks will cover the loss, provided you have not contributed to the loss by disclosing your PIN, for example, or accidentally leaving your card in an ATM.

1 **Don't** tell anyone your PIN.

2 **Don't** write your PIN on your card.

3 **Don't** keep your recorded PIN with your card.

4 **Don't** use your birthdate or part of your name as your PIN.

5 Check bank statements for unauthorised transactions.

6 Cover your hand over the keyboard when entering your PIN.

7 A financial institution should not need to ask you for your PIN.

8 When using Internet banking remember to log out.

Source 1 Your PIN is the key to your money so make sure it is safe. If you think that someone knows your PIN or your card is lost or stolen you should contact your bank immediately.

It is advisable to check the banking fees charged before setting up an everyday transaction account with a bank or other type of financial institution. Consider switching to another account or bank if you already have an account but are being charged too much. Banking fees to check include:

- **EFTPOS (Electronic Funds Transfer at Point of Sale) fees –** when purchasing goods using EFTPOS, money is transferred electronically from your account to pay for the goods. A fee may be charged for this.
- **ATM fees –** when withdrawing money from an ATM, banks may often charge a fee for this service. Try to avoid using another bank's ATM or you may be charged a higher fee.
- **Phone and Internet banking fees –** banks often charge customers fees for transferring money or checking balances via phone or Internet banking services. Check the fees associated with your online bank account.
- **Exception fees –** exception fees are charged if there are insufficient funds in an account to cover a transaction. For example, you may have a monthly direct debit set up from from your account and if there are insufficient funds to pay the bill, an exception fee may be charged.

It is important to understand that a bank is a business and it therefore charges fees for its banking services. If banking fees increase it is easy just to ignore it, but these small fees add up and some can be avoided. Check your bank statements next time to see how much you are actually paying the banks in fees.

Source 2 Almost six million EFTPOS transactions are made each day in Australia. Many customers find this a convenient and safe way to shop. Getting 'cash out' while making an EFTPOS transaction is one way of avoiding a separate ATM fee.

Check your learning 12.4

Remember and understand

1 Why should savings be kept in a separate savings account linked to an everyday transaction account?

2 As an account holder, are you responsible for money lost as a result of 'skimming'?

3 What is the latest technology is being used to combat 'skimming'?

4 In your own words, define what exception fees are.

5 What does EFTPOS stand for? How many EFTPOS transactions are made in Australia everyday?

Apply and analyse

6 Why do banks charge fees on accounts and credit cards?

7 In the scenario below, identify at least five faults in the way Debra uses her ATM card:

Debra receives her new ATM card and leaves her old ATM card in her wallet as well. She quickly writes her PIN on the new card so she doesn't forget it when withdrawing money. She never covers the keypad when entering her PIN at the ATM. She withdraws money and puts her card back in her wallet with the cash, but throws the transaction record in the bin. She receives a phone call from the bank telling her there is something wrong with her card and provides her PIN to the caller in order to 'solve' the problem.

Evaluate and create

8 Access the MoneySmart website using the link on your obook. Read the information on credit cards.

a Write a list of the fees associated with most credit cards.

b Explain why it is crucial to keep up to date with credit card repayments.

c Write a paragraph detailing why you think you should get a new credit card. What factors might influence your choice of credit card?

12.5 Minimising financial risk – knowing your consumer rights

It's important that you know your rights when you go shopping so that you receive the goods and services you have paid for (see Source 1).

A consumer who purchases a good with a major problem is entitled to have the good repaired, replaced or refunded. A problem is considered to be 'major' if:

- The problem, if known, would have prevented the consumer from buying the item.
- The good is unsafe or was significantly different from its sample or description.
- The product did not do what the business claimed it could or what the consumer asked for, and can't easily be fixed.

A consumer who purchases a service with a major problem (for example a car service) is also entitled to a repair, replacement or refund in the following circumstances:

- The problem if known would have prevented the consumer from buying the service. For example, the car mechanic was not qualified and this wasn't disclosed.
- The service performed is substantially unfit for its common purpose and cannot be fixed within a reasonable time. For example, the car was drivable but now the engine won't even turn on.
- The service does not meet the specific purpose you asked for and cannot easily be fixed within a reasonable time. For example, the car was spray-painted instead of serviced.
- The service creates an unsafe situation.

Displaying a sign that says that refunds are not given in any circumstances is against the law. It is also against the law for a business to tell the consumer it is their policy not to give refunds. Another common misconception is that when returning an item that has a major problem, it must be returned in its original packaging.

Consumers who have a complaint should first contact the business that provided the good or service. If the problem is still not resolved, consumers might contact their state or territory consumer protection agency.

The consumer is treated honestly and fairly
- False, misleading or deceptive claims cannot be made about a product or service.
- Products advertised must be supplied.
- The consumer must not be harassed or coerced (threatened in any way).

The consumer receives quality goods and services
- The product is safe to use, durable, free from defects, acceptable in appearance and finish and matches the description.
- The product is fit for the purpose for which it was made.
- Services are delivered with care and skill.
- Guarantees made must be honoured.

The consumer is given accurate information
- The consumer is entitled to a receipt upon request.
- If more than one price is displayed the consumer is entitled to the lowest priced item.
- The consumer is entitled to see the total price of the item.

Source 1 The Australian consumer law protects all consumers

Your rights when buying online

If purchasing goods online from an Australian business, the Australian Consumer Law still applies. The same protections may not apply, though, when purchasing goods online from a business overseas.

Buying online can be tricky as you can only view a photograph of the item and may not adequately be able to assess its quality. If you are buying clothes or shoes there is no opportunity to try the clothes on so you must make sure that you are able to return the items if they do not fit. There is also the added danger that you will purchase the item but never receive it, or that you will be sent a faulty or worthless item. Some scammers also set up websites offering cheap items for the sole purpose of stealing your credit card details. Source 2 provides some tips on how you can minimise the risk involved when you shop online.

Source 2 Tips for consumers who shop online

Check your learning 12.5

Remember and understand

1 Are all consumers in Australia subject to the same consumer laws?
2 If two prices for a product are displayed, at which price is the consumer entitled to buy the product – the lower or higher price?
3 If there is a sign warning the consumer to choose wisely because no refunds are given, is the consumer entitled to a refund if there is a major problem with the item?
4 What can the consumer do if they have purchased a good with a major problem?

Apply and analyse

5 Explain why the consumer would be entitled to a repair, replacement or refund in the following circumstances.
   a Mary buys an electric mixer and sparks fly from the mixer as soon as she uses it.
   b Philippa has long hair she wears in a ponytail. She asks her hairdresser to trim her hair. The hairdresser cuts the ponytail off, leaving Philippa with short hair.
   c Jason purchases a clock but it does not keep correct time.
   d Joanna purchases a hairdryer that breaks down after a week.
   e Georgia asks for the gold buckle on her black shoes to be replaced only to find the gold buckle has been replaced with an orange buckle.
   f Ed unwraps his new tracksuit only to find there is a small hole in the fabric.

Evaluate and create

6 Have you or someone you know ever purchased a good or service with a major problem? If so, explain the situation and what was done to resolve the issue.
7 Pick a product you would like to buy online.
   a Find out what the return policy is on the item.
   b Jot down as much information as you can about the seller.
   c How can you tell whether the private information you provide online is going to be secure?
   d Explain why buying online from an overseas business can be riskier than dealing with an Australian business online.

12C rich task

A major financial decision – buying a car

Now that you've learnt about minimising financial risk, it's time to put what you have learnt into practise. Buying a car is a major purchase so it is important to do some research so you make the right decision. Here is a guide to help you get started.

Choosing the right car at the right price

After you have determined whether you are going to buy a new or used car there's some extensive research to do, both online and on foot, to ensure you purchase the car that is right for you.

Don't be afraid to ask for a discount. Car dealers often match the deal another car dealer makes in order to get the sale. If you do make a decision in haste, or are pressured into buying a car, you can change your mind provided the car is purchased from a licensed motor car trader and you notify the dealer in writing. A cooling-off period of three clear business days commences when a contract to purchase the car has been signed.

Additional costs and charges

Be aware of additional costs associated with buying a car. You may not be aware of the following charges.

- Goods and services tax will be charged at a rate of 10 per cent.
- Stamp duty is another form of tax that must be paid (the cost of this varies from state to state).
- Registration fees must also be paid when a vehicle is first registered and then annually from that date.
- New vehicles may also incur a dealer delivery fee to cover the trader's costs of preparing and delivering the vehicle. If the car is a luxury vehicle a luxury car tax will be imposed.
- If buying a used car a registration transfer fee will be charged to transfer registration to a new owner.

Warranties

All new cars come with manufacturer's warranty providing some protection should faults or defects occur. Used cars sold by a licensed motor car dealer also have a statutory warranty if they are less than 10 years old and have travelled less than 160 000 kilometres. The consumer should check the terms of the warranty to ensure they know how long the car is under warranty for.

Taking out a loan

Check the interest rate and how much interest you will have paid on the loan after you have repaid it. Shop around for the best loan deal rather than just accepting a loan deal the car dealer may offer you.

Insurance

Comprehensive car insurance protects you against car fire, theft, accident and damage to your car and damage to other cars and property. Third party property insurance gives you less cover, protecting you only against damage caused to other cars and property. The amount of car insurance you pay will vary depending on the car make and model chosen.

Service and repairs

Whether you buy a new or used car you need to maintain a car in good condition to avoid breakdowns and more extensive repairs. New cars may come with capped pricing schemes so that you know the cost of maintaining your car upfront, but it is important to check and compare the servicing schemes being offered.

Fuel efficiency

Consider buying a car that does not need as much fuel so you save on fuel costs, while reducing greenhouse gas emissions and air pollution.

Source 1 Australia is a nation of car users with approximately 7 out of 10 Australians aged 18 years and over travelling to work or full-time study by car – either as a passenger or driver.

skill**drill**

Conducting a cost–benefit analysis

A cost–benefit analysis identifies all the strengths and weaknesses of taking a particular course of action. Analysing costs and benefits may be useful in business to determine whether the project is likely to be profitable. It may also help a business decide which of several projects should be undertaken.

Step 1 Identify the costs and benefits of a particular project or purchase. Costs should take into account initial outlay, as well as interest paid over time. The analysis also should take into consideration the possibility of a successful project/purchase, but also the costs if the project/purchase is not successful. It should also consider the timeframe involved to reap any benefits.

Step 2 Attempt to put a value on those costs and benefits. Factors such as inflation and interest rates need to be considered. A program such as Excel's cost–benefit analysis template could help you with this.

Step 3 Assess whether the costs outweigh the benefits.

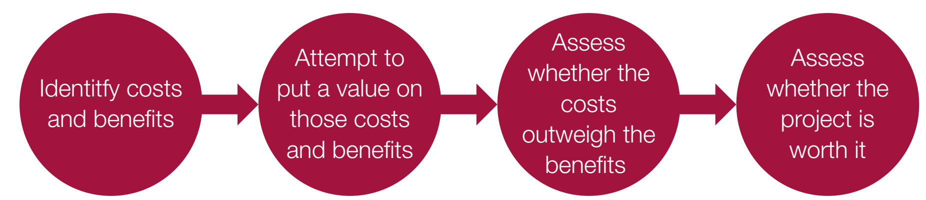
Step 4 Taking this information into account, assess whether the project or purchase is worth the investment.

Apply the skill

1 Conduct a cost–benefit analysis of buying a particular car. You have up to $55 000 to spend over a five-year period. This includes the initial cost of the car and its running costs. Refer to the RACV's *Car owning and operating costs guide* on their website. A link to this is available on your obook. Choose at least *three* cars you would like to purchase within this price range. The guide itemises the cost for buying and running a selection of cars over a five-year period (driving 15 000 km per year).

2 Identify costs and benefits and put a value on these benefits. Complete the following table in Source 3, listing the weekly and annual cost over five years according to the RACV guide. Use the Internet to find more information on the benefits of the three cars of your choice.

3 Assess whether the costs outweigh the benefits. Make a decision about which car would be the best buy for you and explain the reasons for your choice. Take into consideration costs and personal benefits you think the car would bring you.



Source 2 Steps in cost–benefit analysis

Car	Costs	Benefits
e.g. Ford Focus Ambiente 5D Hatchback 1.6L 6 SP	Weekly costs $ Annual cost over five-year period $	e.g. Bluetooth® hands-free phone, air-conditioning, rear parking sensors
Car 1		
Car 2		
Car 3		

Source 3 Cost–benefit analysis table

Extend your understanding

1 Undertake a cost–benefit analysis of taking out a $15 000 loan to buy a car as opposed to using public transport, such as the train.