The first step to becoming wealthy is committing to save money. This simple habit can change your life in the years to come. In fact, it’s the only foolproof way to becoming a millionaire. The best part is, anyone can do it! The earlier you start changing your behavior, the wealthier you can become—it’s as simple as that.

Learning Outcomes

List the Baby Steps:
1. Save $1,000 in an emergency fund (or $500 if you make less than $20,000 per year)
2. Pay off all debt except the house
3. Save three to six months of expenses
4. Invest 15% of your household income into Roth IRAs and pre-tax retirement plans
5. Begin children’s college fund
6. Pay off your home early
7. Build wealth and give

Explain the three basic reasons for saving money:
› Emergencies
› Large purchases
› Wealth building

Identify the benefits of an emergency fund:
› Reduces stress
› Covers unexpected expenses
› Provides a rainy-day umbrella
› Prevents borrowing money in a financial crisis

Calculate the power of compound interest and describe the impact of rate of return:
› Compound interest is earning interest on the interest you’ve previously earned. Over time, this really adds up.
› Rate of return (the interest rate) will also make a difference in how large investments grow over time.

Evaluate emergencies that can happen during college and prepare a plan for them.
The following excerpts are taken from Dave Ramsey's *New York Times* best-selling book *The Total Money Makeover*. With over 17 years of experience counseling people on how to manage their money, Dave Ramsey knows what it takes to get control of your cash. He designed the seven Baby Steps as a way to save for emergencies, get rid of debt, and plan for the future. In the passages below, Dave details the importance of the first baby step—the emergency fund.

**The Baby Steps**

In my first book, *Financial Peace*, there is a chapter entitled “Baby Steps,” the premise of which is that we can do anything financially if we do it one little step at a time. I have developed the Baby Steps over years of counseling one on one, in small group discussions, and by answering questions on our radio show. Tens of thousands have followed this tried-and-true system to achieve their Total Money Makeover. The term "baby steps" comes from the comedy *What About Bob?* starring Bill Murray. Bill plays a crazy guy who drives his psychiatrist crazy. The therapist has written a book called *Baby Steps*. The statement, “You can get anywhere if you simply go one step at a time,” is the framework for the movie. We will use the Baby Steps to walk through our Total Money Makeover.

**Baby Step One: Save $1,000 Cash as a Starter Emergency Fund**

It is going to rain. You need a rainy-day fund. You need an umbrella. *Money* magazine says that 78 percent of us will have a major negative event in a given ten-year period of time. The job is downsized, right-sized, reorganized, or you plain get fired. There’s an unexpected pregnancy: “We weren’t going to have kids yet/another one.” Car blows out. Transmission goes out. You bury a loved one. Grown kids move home again. Life happens, so be ready. This is not a surprise. You need an emergency fund, an old-fashioned Grandma’s rainy-day fund. Sometimes people tell me I should be more positive. Well, I am positive; it is going to rain, so you need a rainy-day fund. Now, obviously, $1,000 isn’t going to catch all these big things, but it will catch the little ones until the emergency fund is fully funded. (If you have a household income under $20,000 per year, use $500 for your beginner fund.)

This emergency fund is not for buying things or for vacation; it is for emergencies only. No cheating. Do you know who Murphy is? Murphy is that guy with all those negative laws, such as, “If it can go wrong, it will.” For years, I have worked with people who felt that Murphy was a member of their families. They have spent so much time with trouble that they think trouble is a first cousin. Interesting enough, when we have had a Total Money Makeover, Murphy leaves. A Total Money Makeover is no guarantee of a trouble-free life, but my observation has been that trouble, Murphy, is not as welcome in homes that have an emergency fund. Saving money for emergencies is Murphy repellent! Being broke all the time seems to attract ol’ Murphy to set up residence.

Whether the emergency is real or just poor planning, the cycle of dependence on credit cards has to be broken. A well-planned budget for anticipated things and an emergency fund for the truly unexpected can end dependence on credit cards.

“Whether the emergency is real or just poor planning, the cycle of dependence on credit cards has to be broken.”

The first major Baby Step to your Total Money Makeover is to begin the emergency fund. A small start is to save $1,000 in cash fast! If you have a household income under $20,000 per year, use $500 for your beginner fund. Those who earn more than $20,000 should get together $1,000 fast! Stop everything and focus.

Since I hate debt so much, people often ask why we don’t start with the debt. I used to do that when I first started teaching and counseling, but I discovered that people would stop their whole Total Money Makeover because of an emergency—they felt guilty that they had to stop debt-reducing to survive. It’s like stopping your whole fitness program because you get a sore knee from a fall when running; you’ll find any excuse will do. The alternator on the car would go out, and that $300 repair ruined the whole plan because the purchase had to go on a credit card since there was no emergency fund. If you use debt after swearing it off, you lose the momentum to keep...
going. It is like eating seven pounds of ice cream on Friday after losing two pounds that week. You feel sick, like a failure.

So start with a little fund to catch the little things before beginning to dump the debt. It is like drinking a light protein shake to fortify your body so you can work out, which enables you to lose weight. The beginner fund will keep life’s little Murphys from turning into new debt while you work off the old debt. If a real emergency happens, you have to handle it with your emergency fund. No more borrowing! You have to break the cycle.

**Hide It**

When you get the $1,000, hide it. You can’t keep the money handy, because it will get spent. If your $1,000 from Baby Step 1 is in the underwear drawer, the pizza man will get it. No, the pizza man isn’t in your underwear drawer, but you will impulse-buy something if the money is easily accessible. You can put it in the bank savings account, but it cannot become overdraft protection. Don’t attach the savings account to your checking to protect you from overdrafting, because then your emergency fund will get spent on impulse. I have had to learn to protect myself from me. We are not putting money in the bank to earn money, but rather to make it hard to get. Since $1,000 at 4 percent earns only $40 per year, you aren’t getting rich here, just finding a safe place to park money.

I know some of you think this step is very simplistic. For some this is an instantaneous step, and for others this is the first time they have ever had enough control over their money to save it. For some readers, this is an easy step. For others, this is the step that will be the spiritual and emotional basis for the entire Total Money Makeover.

Lilly was such a case. A single mom with two kids, she has been divorced for eight years; struggle has been a way of life for some time. Lilly had survival debt, not stupid spoiled-brat debt. She had been ripped off with a super-high-interest car loan, check-advance debt, and lots of credit card debt. She had a take-home pay of only $1,200 per month with two baby birds to feed, along with a host of greedy rip-off lenders. Saving seemed like such a fairy tale to her that she had long ago lost hope of ever being able to save money. When I met her, she had already begun her Total Money Makeover. After hearing me teach the Baby Steps at an event, weeks later she dropped by a book signing to give me an unsolicited report.

As she moved through the book line, I looked up and saw a huge grin. She asked if she could give me a big hug to say thanks. How could I turn that down? As I looked at her, tears began to run down her cheeks as she gleefully told of fighting through a budget, her first ever. She told me of years of struggle. Then she laughed, and everyone in line (now fully engaged) cheered when she said she now has $500 in cash saved. This is the first $500 in her adult life that is earmarked for her emergency fund. This is the first time she has had money between her and Murphy. Her friend Amy, who was with Lilly that day, told me that Lilly is a different person already. Amy said, “Even her face has changed, now that she has peace.” Don’t be confused; it wasn’t $500 that did all that. What caused Lilly’s liberation was her newfound hope. She has hope that she never had before. She has hope because she has a sense of power and control over money. Money has been an enemy her whole life, and now that she has tamed it, money is going to be Lilly’s new lifelong companion.

How about you? Now is the time to decide. Is this theory, or is it real? Am I a simpleton kook, or have I found something that works? 

The Seven Baby Steps
THE STEPS YOU SHOULD TAKE TO REACH FINANCIAL SUCCESS

Even if you are not in debt, these steps will serve as your compass or framework for financial security. You will find the seven Baby Steps explained in detail throughout this course.

1. BABY STEP
   $1,000 in an emergency fund
   (or $500 if your household income is less than $20,000 a year)

2. BABY STEP
   Pay off all debt except the house utilizing the debt snowball

3. BABY STEP
   Three to six months of expenses in savings

4. BABY STEP
   Invest 15% of your household income into Roth IRAs and pre-tax retirement plans

5. BABY STEP
   College funding for your kids

6. BABY STEP
   Pay off your home early

7. BABY STEP
   Build wealth and give!

When you begin implementing these steps for yourself, be sure to follow them in order and complete each one before moving on to the next.
Take The First Step: Baby Step 1

Refer to the graphic on page 16 as Dave begins the chapter by explaining the Seven Baby Steps. Once Dave completes the explanation of the Baby Steps and you see a graphic appear on the left hand side of the screen, you will know the fill-in-the-blank section below has started.

Baby Step 1 is ________ in an emergency fund (or if you make less than $20,000 per year in your household, put ________ in an emergency fund).

__________ must become a priority. Decide to pay ________ first.

Many Americans have a ________ savings rate.

Saving money is about ________ and ________.

Money is ________.

Discussion Questions: Section 1

› What is keeping you from saving? How can you change this?

› Dave explained that money is amoral. Have you ever thought of money as being "good" or "bad"?
section 2

You Should Save Money for Three Basic Reasons:

1. ________________ __________________

2. __________________

3. ________________ __________________

Emergency Fund

______________________________ are going to happen. Count on it.

Baby Step 1, a beginner emergency fund, is ________________
in the bank (or $500 if you make less than $20,000 per year in
your household).

Baby Step 3

Baby Step 3 is a fully funded emergency fund of 3–6 months of expenses.

A great place to keep your emergency fund is in a ________________
_______________ mutual fund from a mutual fund company.
Elroy & Angela: $51,531 in Debt

We want to be financially secure, and we often talk about our dreams of Angela being a stay-at-home mother and adopting children into our family. We assumed that we would be better off financially than our parents because we had more education and we’re on good career tracks. But unfortunately, we still ended up with $51,531 in debt. I (Elroy) am in grad school and Angela works at a local college. I’m scheduled to graduate with my doctorate degree next May, which is a huge accomplishment; I’m the first person in my family to go to college.

Our debt included a personal loan, student loans, car payments, credit cards and store cards. Every month, we always paid more than the minimum payment on our debt, but a dent never seemed to be made. We also lived in a tiny apartment and were frugal livers compared to our peers. To make things worse, we didn’t have savings or an emergency fund. Plus our friends and family members often called on us when an emergency arose or they needed extra cash. What we were doing didn’t seem to work if we ever wanted to move into a home and start our family.

That was until we started the Baby Steps. Since then, we have paid off over $12,000, and our current debt only includes student loans and $4,000 on our car. This is huge to us. We have a plan that works, and we are doing it one baby step at a time.

Your emergency fund is not an insurance. It is insurance.

Do not this fund for purchases.

The emergency fund is your savings priority. Do it quickly.

Purchases

The second thing to save money for is .

Instead of to buy something, pay cash by using the approach.

Discussions Questions: Section 2

› Has Murphy visited you recently? If you had more savings, do you think you’d have fewer emergencies?

› What is the “sinking fund” approach? When have you seen “paying in Benjamins” create a better deal?

“Discipline yourself to do the things you need to do when you need to do them, and the day will come when you will be able to do the things you want to do when you want to do them.”

ZIG ZIGLAR
Famous Businessman and Motivational Speaker
**Compound Interest Is Powerful**

Take a one-time investment of $1,000 and earn 10% on it. Your interest at the end of the year is $100. Add that to your original $1,000, and you have $1,100. At the end of the next year, your $1,100 is compounded at 10% interest, so your return on investment is $110. Add that to the $1,100, and you now have $1,210. Your interest on $1,210 is $121.

So as time passes, the amount you earn from interest grows. That is why it is so important that you start now. You have more time for your interest to snowball and pick up more and more snow!

---

**How to Calculate Compound Interest**

Use this simple formula to figure out the future value of a deposit once compound interest has worked its magic. (When calculating this formula, remember to use the mathematical order of operations.)

\[
FV = PV (1 + \frac{r}{m})^{mt}
\]

- **FV**: the future value
- **PV**: the present value
- **r**: the annual rate of interest as a decimal (5% is expressed as the decimal 0.05)
- **m**: the number of times per year the interest is compounded (monthly, annually, etc.)
- **t**: the number of years you leave it invested

---

**Wealth Building**

The third thing to save money for is ___________ ___________.

___________ is a key ingredient when it comes to wealth building.

Building wealth is a ________________, not a sprint.

__________ ___________ (PACs) withdrawals are a good way to build discipline.

__________ ___________ creates a mathematical explosion.

You must start right ____________.

---

**Discussion Questions: Section 3**

- How is saving an exercise of your character? Of emotion? Of contentment? Is all of this exercising worth it?
- Why don’t more people save for the future? Which reasons can be fixed by having a plan? Which cannot?
# The Story of Ben & Arthur

## The Power of Compound Interest

Both save $2,000 per year at 12%. Ben starts at age 19 and stops at age 26, while Arthur starts at age 27 and stops at age 65.

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<th>ARTHUR INVESTS:</th>
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Ben invested **ONLY $16,000**.

Arthur invested **$78,000** and NEVER CAUGHT UP!

Saving $2,000 a year works out to only $167 per month!
Rate of return, or the __________ rate, is important to consider.

$1,000 One-Time Investment

No withdrawals, age 25–65 (40 years)

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<td>18%</td>
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Where you put your money matters!

$750,378

Discussion Questions: Section 4

› Why do people feel pressured to spend money they don’t have?

› There is an old proverb that says, “Dishonest money dwindles away, but he who gathers money little by little makes it grow.” What does this mean?
Not Everything Is An Emergency

Jon Acuff has plenty of experience making people laugh. With a popular blog and three books under his belt, Jon has a vision to help people learn how to say no when it comes to gaining respect and self-control over their hard-earned cash. The reading below is from his book, Gazelles, Baby Steps And 37 Other Things Dave Ramsey Taught Me About Debt. His funny yet brutally honest take on what qualifies as an emergency will help you put Baby Step 1 into perspective.

When you start working through the Dave Ramsey materials, one of the first things you’ll do is build up your beginner emergency fund. That’s when you put $1,000 in the bank as fast as you can to cover those little emergencies that used to hit your credit cards. It’s a simple step, but this little account is foundational to your long-term success with money.

But something funny happens once you realize you’ve got money in the bank. A lot of people have never had that kind of cash lying around. Even though you know it’s only there for emergencies, even though you might have fought and clawed to pile up that money, your definition of “emergency” may start to get a bit...liberal.

You’ll find yourself dipping into the emergency fund for things that aren’t really emergencies. That’s why we came up with this convenient checklist to help you identify an actual emergency.

10 Ways To Spot An Emergency-Fund-Worthy Emergency

1. If the emergency is that your car won’t run unless you fix it, that’s a real emergency.
2. If the emergency is that your car won’t bling unless you get some shiny rims, that’s not an emergency.
3. If you’ve got an open wound, a femur bone jutting out at a disconcerting angle, or you can’t see straight, that’s a real emergency.
4. If you’ve got skin that could be more bronze, that could glimmer with a deeper shade of awesome if you went to the tanning salon, that’s not an emergency.
5. If there are small, woodland creatures that are able to get into your house because of a gaping hole caused by a tree limb, that’s an emergency.
6. If you feel like the tile on the bottom of the pool could be a deeper shade of coral if you redid it, that’s not an emergency.
7. If the concern is that unless you buy this purse right now, you’ll miss the two-for-one deal the store has running, that’s not an emergency.
8. If the emergency is that you won’t be released from jail until you pay bail, go ahead and dip into that fund. You’ve got an emergency on your hands, my friend.
9. If in describing the emergency, you use the phrase “out of style” to describe the item you want to replace, that’s not an emergency.
10. If the item you want to buy is some sort of clothing for a car or dog, that’s probably not an emergency.

I, unfortunately, was able to write this list based on my own life. I once spent months explaining to my wife the emergency status of my need to buy a new laptop. (It will make me a better writer, the old one doesn’t work well, etc.) When a new version would come out, I would raise the threat level to orange status and let her know our emergency was getting critical. I’d barter with her, “If I get a laptop, you can get ______.” For some reason, she felt like buying two things we didn’t need was twice as dumb as buying just one. Go figure.

A laptop is rarely an emergency. Fishing rods often don’t reach emergency status. Leave the emergency fund alone.
Chapter 1 Key Concepts

› Make savings a priority. Start now!
› Compound interest works over time and the rate of return will make a difference in how large your investment grows. Remember Ben and Arthur.
› An emergency fund is your backup strategy when unexpected financial events happen. Baby Step 1 is $1,000 in your emergency fund (or $500 if you earn less than $20,000 per year in your household).
› Discipline and focused emotion is the key to saving.
› Use the 80/20 rule. Handling money is 80% behavior and only 20% head knowledge. Anyone can learn to save!

Video Section Answers

1. $1,000
2. $500
3. Savings
4. Yourself
5. Negative
6. Emotion
7. Contentment
8. Amoral
9. Emergency Fund
10. Purchases
11. Wealth Building
12. Emergencies
13. $1,000
14. Money Market
15. Investment
16. Touch
17. First
18. Purchases
19. Borrowing
20. Sinking Fund
21. Wealth Building
22. Discipline
23. Marathon
24. Pre-Authorized Checking
25. Compound Interest
26. Now
27. Interest
Jeremy and Student Loan Debt

Jeremy graduated from college two years ago with a degree in communications. He has a good job as a Communications Specialist making $50,000 a year. Because he took a basic financial class during his sophomore year of college, he understands the importance of creating a plan for his money. So he made it a priority to start saving, and he currently has a savings account of $5,000 built up. He’s motivated to continue putting away money for the future. However, he has $6,500 in school loans left to pay. He’s already paid off $8,500 since finishing college. Just like with his savings, he’s being aggressive and paying more than the minimum payments each month. Jeremy plans to be debt-free in 15 months.

1. Should he continue to pay extra on the student loan and get it paid off in his desired time frame? If he does this, he plans to continue contributing to his savings account at the same time.

2. Or, should he stop putting money into savings and put all of his extra cash toward the student loan? If he does this, how much more quickly will he have the student loan paid off?

3. Compare and contrast other options that Jeremy has available to him.

Latisha and New Furniture

Latisha works as a graphic designer and just got a raise of $100 each month. She wants to buy a new television and furniture and thinks this raise is enough to pay for those purchases. Tired of her hand-me-down furniture from her parents and her 10-year-old television that she got from a garage sale, she plans to use her credit card to buy the new things. Currently, she has $500 in her savings account, and she figures that with her raise she can easily do payment plans toward the television and furniture. To make the situation even more tempting, her credit limit still has $1,000 before it is maxed out. She plans to use the card toward the purchases so she can buy everything now.

1. Does her plan sound like a smart one? Why or why not?

2. Create a list of pros and cons that you see about Latisha’s plan to purchase a new television and furniture. Make sure you are able to justify your answer.

3. Are there any other ideas you can think of as a way for her to get the new stuff without spending all of her savings?

4. Is there something better she could do with her $1,000 credit on her credit card?

Jorge and Transportation

Jorge is a junior at a state university. He’s lived in the dorm for two years but is ready to move off campus for his remaining college time. After searching online, he found a house with a room for rent for $400 a month. The only downside is that the house is two miles from campus and Jorge doesn’t have a car, although he’s wanted one for a long time. He decides that moving off campus is the perfect reason to buy a car. Jorge has $3,000 in student loans but doesn’t have to start paying them back until after he graduates in another two years. He decides that he can afford a car payment of $200 a month. Jorge begins to search for a car and finds a good used one for $5,000. He buys the car and moves off campus.

1. Did Jorge make the best decision by moving off campus and buying a car that he pays for with monthly payments?

2. If yes, justify your answer. If no, develop an alternative plan for Jorge.

3. What other options could Jorge have chosen for his living and transportation?
CHAPTER 1

Money in Review

Matching
Match each term to its definition below.

a. Money market mutual fund  e. Amoral
b. $500/$1,000 in an emergency fund  f. Discipline
c. 3–6 months of expenses  g. Compound interest
i. Sinking fund  j. Savings account

1. ___ Saving money for a purchase and letting the interest work for you rather than against you
2. ___ Money is neither good nor bad
3. ___ Completed emergency fund goes here
4. ___ Interest on interest
5. ___ If it can go wrong, it will
6. ___ Baby Step 1
7. ___ Baby Step 3
8. ___ Key to wealth building

True or False
Determine whether these statements are true or false. Change the false statements to read true.

9. T / F : The saving habits of Ben and Arthur help to illustrate the principle of compound interest.

10. T / F : Dave’s 80/20 rule says when it comes to money, 80% is head knowledge and 20% is behavior.

11. T / F : Your income level is the biggest factor in your ability to save money.

12. T / F : Interest payments can go in both directions: from a person to the financial institution and from the financial institution to a person.

13. T / F : The correct order for using your money is pay bills, save, then invest.

Multiple Choice

14. For most families, a fully funded emergency fund will be approximately:
   a. $500
   b. $1,000
   c. $5,000
   d. $8,000 or more

15. Ben and Arthur illustrate which principle of saving?
   a. rule of 72
   b. compound interest
   c. simple interest
   d. none of the above
16 Baby Steps 1 and 3 have to do with:
   a. saving
   b. emergency fund
   c. getting out of debt
   d. all of the above

17 You should save for the following:
   a. emergency fund
   b. purchases
   c. wealth building
   d. all of the above

18 How many Baby Steps are there?
   a. 4
   b. 5
   c. 6
   d. 7

19 Saving is about contentment and:
   a. emotion
   b. greed
   c. having money
   d. pride

20 The following is true about PACs:
   a. stands for Personal Account Coordinator
   b. stands for Pre-Authorized Checking
   c. helps build discipline when saving
   d. both b and c

21 Why do you think many Americans have a negative savings rate? How does this relate to your saving habits?

22 List the Baby Steps. Why do you think Dave skips Baby Step 2 in this lesson?

23 Explain the relationship between having an emergency fund and Murphy’s Law.

24 Calculate the compound interest for each problem below:
   - $1,000 at 6% interest for 3 years
   - $500 at 18% interest for 4 years
   - $1,500 at 12% interest for 2 years

25 What are the three primary savings goals?

26 What changes can you make now in your own life, based on what you saw in the video, and how will they help?

27 Why do you need an emergency fund at your age?

28 Why do you need to have $500 in the bank before paying off debt?

29 How does compound interest differ from simple interest?

30 What was the most important concept you learned from this lesson, and how will you apply it to your life?