

LESSON
4

Other Types of Income

Introduce students to different ways to earn income, like interest, commissions, and renting property to others.

OBJECTIVES

Students will:

- identify interest-earning activities, including letting banks borrow their money, owning shares of stock, and renting out property to other people
- solve problems involving multiplication of fractions

TIME

40 minutes

MATERIALS

- Pencils and paper
- Be a Money Master activity sheet
- Interest Income family activity sheet

ADDITIONAL RESOURCES

- Savings and Checking Guide (Sections 1 and 3), [Elementary School Instructor Guide](#)
- Lessons 2 (What Banks Do) and 6 (Saving and Me) [Elementary School Toolkit](#)

STANDARDS

- Common Core State Standards Math, 4.MD.A.2, 5.NBT.A.3, 5.NF.B.6
- Council for Economic Education: Earning Income 4, 5
- Jump\$tart Financial Literacy Standards: Employment and Income Standard 2c

DIRECTIONS

1. Ask students what they know about how people earn money. Review some of the main ways people make money from jobs: salary, wages, commission, and tips. Point out that there are other methods people use to get income. Ask students if any of them have ever received a cash **gift**. Ask what occasions the gifts were for. Explain that gifts are a type of income, but that we can't depend on them to provide enough cash to buy the things we want and need.
2. Explain that some savings accounts at banks provide sources of income. People put money in these accounts to save for things they want to buy in the future, to have funds available in case of surprise expenses, and to earn **interest** income. Provide a simple example of how interest income is calculated (by converting the percentage to a decimal or fraction, and multiplying it by the income in the account). If an account pays 3% interest and a person has \$100 in the account, the person would earn \$3 in interest income ($.03 \times \100 or $3/100 \times \$100 = \3). Point out that interest income is based on the amount of money in the account.
3. Mention that another type of income comes from owning stocks, which are shares that people purchase in a company. If the company is profitable, the company will distribute dividends, or money, to people who own the stock. This type of income is called **dividend** income. Dividend income is based on the amount of stock a person owns. Give an example of a company that pays a dividend of \$1.12 per share. If someone owns 50 shares of the company, they would receive \$56 ($50 \times \1.12) in dividend income. It's important to point out that buying stocks is considered riskier than earning interest income as explained in step 2. The value of a savings account is often insured by a government-related organization like the FDIC, but the share price of a stock is not insured. Stock prices can go up or down, and owners can lose as well as make money. In worst-case scenarios, prices can drop to zero if the company has serious financial difficulties.
4. Note that individuals and companies can also earn **rental** income. A person or business that owns property can allow others to use the property in exchange for a fee, called rent. In an apartment building, for example, the renter pays to live in an apartment. For the renter, that payment is an expense. For the owner of the building, the amount the renter pays is income.
5. Hand out the Be a Money Master activity sheet and ask students to complete it individually or in pairs. Review activity answers as a class.
6. Hand out the Interest Income family activity sheet. Ask students to take it home and complete it with their parents.



(Lesson continued on next page.)



Other Types of Income

ANSWER KEY FOR STUDENT ACTIVITY SHEET

1. \$15 ($\$600 \times .025$ or $\$600 \times 25/1,000$)
2. \$15.80 ($12 \times \$0.57 + 8 \times \1.12)
3. \$11,400 ($12 \times \950)
4. \$390 ($6 \times \65)

EXTENSION

Ask students to work individually or in small groups to research different publicly traded companies (including companies they may be familiar with), and find out what industry they're part of, what products they make, and how much the companies pay in dividends. (The websites of many large investment/brokerage companies and a number of search engines offer stock research resources online to help with this research.) Ask students which companies they'd purchase stock in, and present their choices and why to the class.

ASSESSMENT QUESTIONS

Ask your students to answer the following questions on a separate piece of paper:

1. If you have extra money and your needs are taken care of, why might it be a good idea to put some of it into a savings account instead of spending it all on things that are nice to have?

Key point: Putting money in a savings account can earn interest, which will result in even higher income in the future.

2. What is the difference between interest and dividend income?

Key point: Banks pay interest on savings account deposits, while companies pay dividends to their share owners. Also, stock prices can go up or down and there's no guarantee that an investor won't lose money. The value of deposits in insured accounts is guaranteed.

NAME _____

Be a Money Master

Siblings Jules and Jordan have a babysitting business and save their income in different accounts. Read the situations below and answer the questions.



1 Jules has placed **\$600** babysitting income in a savings account with an interest rate of **2.5%**, which can also be written as **25/1,000** or **.025**.

If none of the money is taken out of the account, how much interest income will the \$600 earn in the coming year?

2 Jordan is responsible but a little more daring than Jules. Their family has opened an investment account, and Jordan has used the babysitting earnings to buy stock: **12 shares** of a healthy snack company and **8 shares** of a music streaming company. The snack company pays dividends of **\$.57 a share** annually and the streaming company pays **\$1.12**.

How much dividend income will Jordan receive in the coming year?

3 Jules and Jordan's family live in a two-story row home in their town. They rent the upstairs apartment to another family. The renters pay **\$950** in rent per month.

How much rental income will Jules and Jordan's family earn in a year?

4 Jules and Jordan live in an area where there are many tourists. They decide to rent out their bikes through a local company, and will make \$65 a month from May through October. **How much total rental income will Jules and Jordan each make?**

Interest Income

Dear Parents,

Your child has been learning about income: from jobs, savings accounts, stock dividends, and rental income. Help your child practice skills by reading the following story and then calculating interest income in the questions that follow.

Jules and Jordan's grandparents are retiring and need to make the most of their income. Their grandfather received \$10,000 from his employer when he retired to cover the amount of unused vacation time he had accumulated. Jules and Jordan researched savings alternatives and found the two options listed to the right.

A savings account at their bank that pays 2% (1/50) interest per year. Withdrawals can be made to the account at any time.

A certificate of deposit account that pays 4% (1/25) interest per year. Money put into this account must stay there for four years and cannot be taken out without a penalty.

Calculate the Income: Savings Account

How much interest income would the grandparents receive each year if they invested the entire \$10,000 in the savings account? (To get the answer, multiply the amount by the interest rate.)

Calculate the Income: Certificate of Deposit

If the grandparents invested the entire \$10,000 in the certificate of deposit, how much interest income would they receive each year? What are the advantages and disadvantages of the certificate of deposit over the savings account?

Ingresos por intereses

Estimados padres:

Su hijo(a) ha estado aprendiendo acerca de los ingresos que provienen de empleos, cuentas de ahorros, dividendos de acciones e ingresos por arrendamiento. Ayude a su hijo(a) a practicar habilidades al leer la siguiente historia y luego calculen los ingresos por intereses en las preguntas que siguen.

Los abuelos de Jules y Jordan se van a jubilar y necesitan sacar el máximo provecho de sus ingresos. Su abuelo recibió \$10,000 de su empleador cuando se jubiló. Esto cubría el monto por vacaciones que no se tomó y que había acumulado. Jules y Jordan investigaron sobre alternativas de ahorros y encontraron las dos opciones que aparecen a la derecha.

Una **cuenta de ahorros** en su banco que paga el **2% (1/50) de interés** por año. Se pueden hacer retiros de la cuenta en cualquier momento.

Un **certificado de cuenta de depósito** que paga el **4% (1/25) de interés** por año. El dinero que se ponga en esta cuenta debe permanecer allí durante cuatro años y no puede retirarse sin una penalidad.

Calculen los ingresos: Cuenta de Ahorros

¿Cuánto ingreso por intereses deberían recibir los abuelos cada año si invirtieran el total de los \$10,000 en la cuenta de ahorros? (Para obtener la respuesta, multipliquen el monto por la tasa de interés).

Calculen los ingresos: Certificado de Depósito

Si los abuelos invirtieran el total de los \$10,000 en el certificado de depósito, ¿cuánto ingreso por intereses recibirían cada año? ¿Cuáles son las ventajas y desventajas del certificado de depósito comparado con la cuenta de ahorros?