

CHAPTER 2

Teaching Young Children



“Mommy, I know money doesn’t grow on trees—it comes from the bank machine!”

Guidelines for Children 5 to 8 Years Old

Kids become familiar with money at a very early age because they see us use it daily. In most families, teaching kids about money begins when they start asking about it and when they start asking for things! This usually begins to happen around the time a child starts pre-school or elementary school. For instance, your kid may see the toys, books, and clothing that other kids have and begin asking for specific items or even brands. Or your child may simply express curiosity about money; the way it looks, the different colours on our paper bills and the different sizes and shapes of the coins we use.

“ At about age 5 to 7 they ask for things. We teach them that nothing comes for free. ”

Earn

What Is Money?

Bills and coins

At this age, you can let your kids handle money and start to develop an understanding of Canadian currency; show them the different coins and bills and talk to them about what they're worth. You can point out the different images on the “heads” and “tails” sides



of the coins and discuss how each of them is a very special and important image of Canada: the beaver, the moose, the loon and the polar bear, to name a few. Point out the different dates on each coin and see if your kids can find a coin from the year they were born. You can also tell your kids that our coins are made by the Royal Canadian Mint (www.mint.ca) and discuss what metal the coins are made of (nickel for nickels, dimes and quarters; bronze for loonies; and nickel and bronze for toonies). In addition to everyday coins, show them special coins like 50 cent pieces and silver dollars or commemorative coins like the Terry Fox loonie or the poppy quarter.

There are lots of facts about money that your kids may find interesting at this age and as they get older. They may be surprised to learn that although our bills look like “paper” money, they are actually made out of 100% cotton—just like their t-shirts—but much stronger! Our colourful bills are printed by the Bank of Canada and have special markings and security features on them to prevent people from making counterfeit or fake money. Discussing who appears on the bills (and coins) can also be a history, not just a math, lesson! You can check out the Bank of Canada website for money matters that might intrigue your kids: (www.bankofcanada.ca/en/banknotes/index.html). And if your kids are really interested in money, you may want to visit the currency museum website, especially the resources in the Learning Centre at www.currencymuseum.ca.

THINGS TO DO

Games with coins

Help your kid to sort a jar of coins into different piles.

- Show her a nickel and explain that a nickel is worth five cents.
- Ask your kid to pick up an additional nickel and exchange it for one dime and explain that a dime is worth ten cents and that it is worth twice as much as a nickel.
- Give your kid a quarter, explaining that it is worth 25 cents and more valuable than a nickel or dime.

As she gets older, the games can become a bit more challenging:

- Ask her what combination of nickels and dimes she'd have to give in exchange for a quarter.
- Move on to the loonie and the toonie, which are especially appealing to her because of their size, shape and colour (and their relative value).
- Describe the loonie as being worth 100 cents or one dollar and challenge your kid to find different combinations of nickels, dimes or quarters that would add up to one loonie.
- Ask if she can guess what the toonie is worth, based on the sound of its name!

Generally, young children are able to count to 10 and have a basic knowledge of numbers and quantities. To teach them what money is worth, you can make it fun by playing games.

Barter

Your kids may be curious about why we use money to buy things. They may ask you how bills and coins became the way to pay for things. If your kids are at the upper end of the age range, you may want to start by explaining that money replaced the barter system. Centuries ago, it was much harder for people to get what they needed. Instead of using coins and currency, all they had to offer as payment was goods or services in exchange for whatever the other person had. This is called barter. For example, if you were a grape grower, you could exchange your grapes for the potato farmer's potatoes. Or you could hire workers to help you with the harvest and pay them in grapes. But because grapes were all you had to exchange, if you needed a chicken and the chicken farmer didn't want or need grapes, you would not be able to get any chicken. As a result, most societies realized that they needed something that everyone agreed had value and could be used to pay for things—money.

In the earliest days, money was made out of whatever was rare or highly desired, like beads, whale teeth, feathers and even huge stone discs carved out of limestone! Slowly, almost every country switched to a much more convenient system of bills and coins backed by the government.

Foreign currencies

Your kids may be interested in currency from other countries because it looks so different from Canadian money. For example, you may want to show your child an American \$1 or \$5 bill. Unlike our bills, American bills are all the same green colour and as a result they're a little harder to tell apart. Also, coins from foreign countries can be interesting to young kids, especially ones that have holes in the centre and ones that are made from different materials and feel different than our coins.

FAMILY DISCUSSION

Foreign currency

Explain to your kids that when you travel to another country, you cannot use your Canadian money. You have to exchange Canadian money for the local currency. Not all countries use dollars—some use yen or euros. And just because another country's bill says \$1, it doesn't mean that it's worth the same as our \$1 coin! We may have to pay more than \$1, say \$1.20, to buy a single unit of another currency.

The value of a dollar

Every parent says they want their kids to know and appreciate the value of a dollar. But young kids are not very worldly, so it's harder for them to appreciate what things cost. The challenge is to explain relative value by using examples they can relate to, like toys or food. You can show them that one apple costs one loonie but **one** ice cream cone costs **two** loonies, so an ice cream cone is worth twice as much (or is twice as expensive) as an apple. If a toy that they want costs \$20, you can show them that you'd have to pay for it with **twenty** loonies which means it's worth twenty times more than an apple and ten times more than an ice cream cone. We will discuss more opportunities to teach young kids the value of a dollar later in this chapter under "Teachable Moments".

“ We started with coins. What does a quarter buy? Four quarters equals one dollar; what does one dollar buy? You can teach what things cost that way and go on to percents and interest and return on investment. ”

Where Does Money Come From? (No, the Answer Is Not the ATM Machine!)

“ When I tell my 7-year-old daughter that I don't have any more money for toys or candy, she tells me to go to the ATM machine! ”

Funny, but it also reminds us that young kids may not always understand where money comes from. They may think it actually does grow on trees or comes from a magic machine that spits out bills. They are probably too young to appreciate what making a living is all about, and how hard you have to work to earn money. But they can understand that when you leave in the morning, you are going to work, doing whatever it is you do, in order to make money for the family.

You can explain to them that the money you make gets deposited into your bank account, which is connected to the bank machine. The

FAMILY DISCUSSION

Jobs

- Ask your kids to name some other jobs they see people do, e.g., teacher, dentist, eye doctor, garbage collector, mailman.
- Ask them what kind of education they might need to do that job. Discuss the connection between education, jobs/careers and making money.

money you withdraw pays for food, clothes, the car—all the things at home that they can see and touch. It also pays for some things they can't see, like the mortgage on the house or rent on the apartment where you live, heat and air conditioning, electricity and the Internet! You can also explain that you are able to buy them things they want, like toys or candy, in addition to things they need, and what the difference is. They are not too young to be grateful for what they have and to know that there are others who are less fortunate.



**“Mommy, I know money doesn’t grow on trees
—it comes from the bank machine!”**

“ My son understands that you need to work to earn money to live. He is aware of the fact that his mom and dad work in order to buy him his favourite food or toy. He often says to me that he wants to work on his computer to make money, because he sees his mom and dad working on their computers. It is never too early to start. He even pretends to use a plastic card as his credit card! ”

Because young kids love pushing the buttons of the ATM machine, take them with you next time you make a deposit or a withdrawal. Tell them to think of the ATM machine as a giant piggy bank; you can put money in or take money out. But if you don't make any money, you have nothing to deposit and the bank card is useless because there is no money to withdraw. You may also consider showing your child your online bank statement; the money you deposit is added to your account and the money you withdraw is deducted. When you punch in your PIN, explain that this secret code makes sure that only you can deposit or withdraw money to and from your account and that it must be guarded carefully.

Birthday and Tooth Fairy Money

There are special occasions when young kids “earn” or receive money. Your kids may get money from the “tooth fairy” when they lose their baby teeth, and/or money from friends and family on their birthdays or on significant holidays like Christmas or Chanukah. These are important opportunities to

introduce them to the concept that when you **Earn** money, you have money choices: **Save, Spend, Share** and **Invest**. It's important to choose well, because once the money is spent, it's no longer available for other things.

“ My son was saving up to buy Silly Bandz, those rubber bracelets in the shape of different animals that were the hottest fad. All the kids were collecting and trading them. When he finally had enough money, he ran to the store, bought the Silly Bandz, piled them on his wrist and ran over to his friend's house to trade. But his friend, and all the other kids, had already moved on to the next fad and were no longer interested in Silly Bandz. Suddenly, neither was my son. He no longer had any money but he learned two important lessons: when it's gone, it's gone, and don't fall for every fad! ”

Allowance: Payment for Chores, a Money Management Tool, or Both?

Allowance has become a controversial topic among parents and financial experts. But it never used to be. When I was growing up, you got an allowance for doing some basic chores around the house. If you didn't do them, your parents held back on your allowance. Back then, no one thought of allowance as a money management tool. Parents didn't consider that by withholding their kid's allowance, they were depriving them of the opportunity to learn how to manage money when the stakes were low.

Some parents firmly believe that their kids need to “earn” their allowance, either by doing household chores or perhaps by getting good grades (more on that in Chapter 3). They believe that this establishes a connection between putting forth an effort and earning money. Others believe just as strongly that their kids should help out around the house without getting paid because it is their responsibility as a member of the family to contribute. They believe that paying them sends the wrong message: that they should expect compensation for everything they do. There is no right or wrong answer. As always, you have to do what works for your child and your family.

FAMILY DISCUSSION *Allowance*

What is your philosophy about allowance?

1. Payment for chores
2. Payment for good grades
3. A money management tool
4. All of the above

When do I start and how much do I give?

For young kids, one rule of thumb is to base their allowance on their age. A 5-year-old would get \$5 a week and a 7-year-old would get \$7. It's simple and makes sense to kids. Another strategy is to estimate what your child reasonably spends in a week (say \$3 on treats) and then add a little more for savings, sharing and investing. You also have to decide what's affordable for your family. Pay allowance on a regular basis so that it feels like a steady income your kids can rely on.

Limitations or laissez-faire?

Because of their age and level of maturity, young children need more guidance when it comes to money choices than older children. Although they may already be consumers, at this age they do not have a realistic attitude about money. As the Marshmallow Test in Chapter 1 taught us, some have not yet developed self-discipline and impulse control. They need training and they respond well to a parent or teacher who is willing to teach financial concepts in a fun way.

Save

In Chapter 1 we talked about the importance of delayed gratification, setting goals and saving. Saving is basically deferred spending. When it comes to saving, almost any toy or item your child wants can become a goal. The next time your child asks for a certain toy or game, suggest that he use his allowance to save for it. Once enough money has been saved up, take him to the store to make the big purchase!

“ I was once at a toy store and there was a woman ahead of me in line with her young son. He had his little toys on the counter and was counting out his money to pay for them. But he came up short—by only \$2. I could see how disappointed he was and I was tempted to just hand him a toonie. But then I looked over at his mother and I could see that she was standing her ground—that she was trying to teach him something. He chose one toy and put it back. He didn't have the money to pay for it and this was the lesson his mother was trying to teach him. ”

Although the woman taught her son a valuable lesson, you have to be careful not to discourage your kids from reaching their goals, especially if it's their first attempt at saving. One way to effectively encourage your kids towards a goal is to offer to match their savings. If your child agrees to save \$5 towards a \$10 toy, you can offer to match their savings with an additional \$5.

Multi-Slotted Piggy Banks

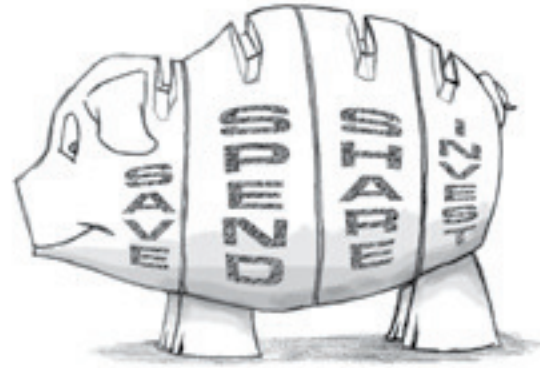
Piggy banks are an old-fashioned way to teach young kids to save, and are still popular today.

But piggy banks have come a long way—we now have multi-slotted piggy banks. They have a built-in feature to help young kids make smart and deliberate money choices: separate slots and compartments for save, spend, share and invest! (See www.msgen.com/assembled/money_savvy_pig.html.)

Using their allowance, birthday or tooth fairy money, your child can decide how much to allocate to each category. Remember to give them their allowance in different denominations to make it easier for them to make the allocations.

“ I like the kind of piggy bank that you can't open, that you literally have to break open with a hammer when it gets full. Otherwise, if you can open it, it's too tempting to borrow or steal from your savings and the next thing you know the piggy bank is empty! ”

“ We started with a piggy bank (actually an empty hot chocolate container which the kids decorated themselves) and once they had accumulated \$50 we moved that money to a bank account. ”



FAMILY DISCUSSION *Piggy banks*

What kind of piggy bank would work for your kid?

1. A piggy bank that can be opened
2. A multi-slotted piggy bank
3. A vault—“My kid has no willpower!”

Spend

Teachable Moments

Since young kids are often with you when they are out in the world, opportunities abound to teach them about money. You don't have to set aside extra time. These opportunities will occur organically in your everyday lives. Think of them as “teachable moments”.

You have a lot of influence over your kids at this age. Although they are also influenced by siblings, peers and the media, they place the most confidence in what you, their parents, say. And as parents, you know what's appropriate for your own kids, so take advantage of situations as they arise to teach them to make smart choices.

At the grocery or corner store

Every transaction at the store is a chance to teach your kids about money. When the storekeeper gives you your total, ask your child to help you count out the money you owe. Then have her pay for the items and count the change she gets back, making sure it's the right amount. Teach her to get a receipt, in case a mistake is made and you have to return something.

At the mall

You've already explained how the ATM works. Next time you're at the mall and you use your debit card to buy something, show your kids that it's the same card you use to deposit and withdraw money at the ATM. Explain that using a bank card in a store means that the cost of whatever you buy comes out of your bank account right away. Show them



“May I have a receipt please?”

that you punch in the same secret code at the store as at the ATM machine. Remind them that the secret code means that only you can buy things and pay for them with the money in your account.

At the restaurant

Next time you take your kids out to dinner and you pay using your credit card, take the time to teach them what a credit card is and how it works. Explain to them that unlike paying with cash or your debit card, when you pay with your credit card the money does not come out of your bank account right away. Instead, you are allowed to pay later, when the credit card bill is due.

Planning a birthday party

Children's birthdays provide opportunities to teach valuable money lessons, as we will see here and under "Share" below. Involving your kids in planning their birthday parties can introduce them to the idea of budgeting in a fun way.

For Emma Taylor's 8th birthday, she really wanted to have a movie party. The latest Harry Potter movie had just come out and she and all her friends couldn't wait to see it. She spoke to her parents about the idea and they said yes, as long as Emma agreed to help plan it. Michelle and Robert realized that planning the party could be a teachable moment. They sat down with Emma to talk about all the different costs: the cost of a child's movie ticket, the cost of a few adult movie tickets (for the chaperones), the cost of snacks like popcorn, candy and drinks, and the cost of an ice cream cake for the party after.

Emma had a great idea that would save money and paper: use e-vites. Her parents loved that! They discussed an overall budget for the party and Robert explained to Emma that the more

FAMILY DISCUSSION

Credit cards

- Show your kids your credit card statement so they can see the amounts and entries on the statement.
- Point out the purchases that were made for them, or dinners you ate together in restaurants.
- Show them how all of the credit card purchases add up to one big amount that you have to pay with money in your bank account.
- Explain that if you don't have the money in your bank account, you will be charged interest, which means that the amount you owe keeps getting bigger.

FAMILY DISCUSSION

Teachable moments

What other teachable moments can you find in your daily lives?

kids she invited, the more the party would cost. So Emma thought really hard and invited only her close friends, in order to keep the cost of the party within her budget.

Board games

Board games, and especially games that teach money lessons, are popular.

In the Taylor house they love playing games like Monopoly, where the object of the game is to become the wealthiest player through buying, renting and selling property. They also like playing the game of Life. This game simulates a person's travels through his or her life, from college to retirement, with jobs, marriages and possibly children along the way.

Share

Get a Gift/Give a Gift

Birthday parties are a really big deal for young kids. It's something they look forward to all year—having fun with their friends, eating cake and getting presents!

On Emma Taylor's 7th birthday, Robert and Michelle let her invite all the kids in her class to her party, but they really didn't think Emma needed 20 gifts. They felt that her birthday could be an opportunity to teach her about sharing. So Michelle decided that they would ask half of the guests to make a donation in honour of Emma's birthday instead of buying a gift. She let Emma choose the charity and Emma chose Birthday Angels. (Birthday Angels organizes birthday parties for children at risk, some of whom have never had a birthday party in their lives.)

The remaining guests pooled their money and bought Emma one very special gift that had been on Emma's birthday "wish list". Emma was really excited to receive the gift she had been wanting for so long, but she was also really happy that some of her gifts went to helping other

FAMILY DISCUSSION *Charity*

Is donating birthday gifts to charity something your family would do?

1. No, my son would want all the gifts
2. Yes, half going to charity and half to my child feels right
3. Yes, but we would ask that all gifts be donated to charity

kids celebrate and enjoy their birthdays. The Taylors were thrilled that Emma wanted to share her birthday with other kids. They were also happy for Emma to have a tangible example of delayed gratification: the special birthday gift that had been on her “wish list” all year.

Donating Change for a Charity—It Adds Up!

The Taylor family loved going to Tim Hortons. And not just for the coffee and Timbits®, but also for the opportunities it presented for teachable moments. Michelle would always ask Emma to count out the money they owed as well as the change she received. Michelle remembers one trip to Tim's, where they went through their usual routine of Emma paying and getting their change, but this time Emma asked her mom if she could throw the coins in the charity box beside the cash register, because she noticed that they were raising money to send kids to camp. She loved going to camp and wanted other kids to have that experience too. Emma started to think about all of the customers that came in and out of that one Tim's, every hour, all day long. And she started to think about how if everyone donated just a little bit of change, even 25 cents each, it could really add up.

FAMILY DISCUSSION

Making a difference

- Do you agree that we can all make a difference?
- What type of charity would your child be interested in supporting?

Invest

Encouraging Entrepreneurship—Beyond the “Lemonade Stand”

Emma Taylor was always very enterprising, even as a young kid. When all the other little kids on her street set up lemonade stands, Emma decided she wanted to do something just a little bit different. She had always enjoyed art at school and even took an extra-curricular art program at a local art school. She was quite prolific—all the different pieces she had created were really starting to accumulate. So Emma decided to create an art gallery in her parents' living room to showcase her art. She invited all of her friends, their parents, her family and neighbours to view and buy pieces of her art. She priced each piece



based on the amount of time it took her to create them, and what she thought people would pay for them. She sent out e-vites and bought some refreshments to serve during the show.

The show was a big success! Many “art patrons” bought pieces of Emma’s art, and with each sale Emma recorded the name of the piece and the amount it sold for in a notebook. She also made sure to give each customer a receipt. At the end of the show, Emma added up all the sales she had recorded in her notebook to determine her gross sales. Then she deducted the cost of the refreshments she had served.

Emma turned a nice profit! She paid herself first by allocating some to savings, set aside some proceeds for donating and spending, and invested the rest—on more art supplies for her growing business!

KEY POINTS

- Kids are curious. They spend a lot of time just trying to figure out how the world works. If they’re old enough to ask questions about money, then they’re old enough to deserve a good answer.
- You don’t have to schedule a family conference to have great conversations with your kid about money. The opportunity will present itself countless times in your everyday life. The trick is to recognize those “teachable moments” and to take advantage of them.
- Teaching kids about money can be fun for them and for you. Capitalize on this fun factor when you talk to your kid about money—education can have a big element of entertainment at this age.

