Hi everyone, Jerry Manor here. Today on SeaComm Money Matters: Financial Terms everyone should know Part 3.

Our first term today is one you're hearing all over the news…

Inflation. Inflation is a general increase in the prices of goods and services. This is usually measured using the consumer price index (CPI). When the general price level rises, your money buys fewer goods and services. Inflation occurs when there is more money for the same amount of real goods and services, which forces an increase in prices. Usually this occurs when policymakers put more money into the economy, through either deficit-financed government spending or other government action. Alternatively, it could occur because of a decline in output of real goods and services. Inflation has a negative connotation, but economists generally think stable, low, and predictable inflation is ideal: the Federal Reserve targets 2 percent per year. However, when it exceeds this estimate as it has the last few years, it can have negative effects on the economy, consumers, and lenders. It takes time for the economy to adjust to a high or unexpected increase in inflation. Prices for consumer goods typically adjust faster than wages and as a result, real incomes fall. The same paycheck can purchase fewer real goods or services and necessities like food, gas, or medication become less affordable.

The next term is Federal Reserve. The Federal Reserve or FED is the central bank of the United States. The Federal Reserve conducts the nation's monetary policy to promote maximum employment, stable prices, and moderate long-term interest rates in the U.S. economy. It attempts to control inflation by using monetary policy to influence interest rates, which in turn affect borrowing costs for businesses and households. The Fed's primary tool for monetary policy is the federal funds rate, which is the interest rate that banks pay to borrow money overnight in the federal funds market. When inflation is high, the Fed raises interest rates to make borrowing more expensive and slow the economy, which can help ease pricing pressures and reduce inflation. Conversely, when inflation is low, the Fed lowers interest rates to stimulate the economy and increase inflation.

The Fed also has other tools of monetary policy, including open market operations, the discount rate, and reserve requirements.

Net Worth

Net worth is the value of an individual or institution's assets minus their liabilities. It's a simple way to measure a person or company's financial standing and can help you understand your debts and plan for the future.

To calculate your net worth, you can use the formula: Assets - Liabilities = Net Worth. Assets include anything that has a tangible value, such as a house, car, bank accounts, insurance policies, and investments. Liabilities include debts like mortgages, credit card balances, student loans, and car loans, as well as obligations like bills and taxes.

You can use a net worth calculator to estimate how your net worth might grow or shrink over time.

As of 2022, the average American net worth was $1,063,700, but it varies by age. For example, the average net worth for those 35 and under was $183,500, while those 65 to 74 had an average of $1,794,600. Average may not be as good an indicator as median because high income households can skew the numbers. As of May 2024, the median net worth of American households was $192,900. This is a more accurate measure than the average net worth of $1.06 million, which gives a sense of the collective wealth in a population. The median net worth is the middle point of a data range, which reduces the impact of outliers and can potentially be a more representative measure of what's typical.

Today’s final term is depreciation. Depreciation is a decrease in the book value of an asset such as a vehicle. Depreciation involves loss of value due to the passage of time and obsolescence. It’s always better to borrow on an appreciating asset such as real estate which normally gains value over time than an asset that depreciates and that’s why you should always try to keep your car loan as short as possible so you don’t end up owing more than it’s worth.

That’s it for today, thanks for listening and have a great weekend.