



Financial Literacy with Mr. 401(k)  
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Making & Spending  
Money

# Class 7: Making Money II: Exploring Passive & Portfolio Income



# Important Financial Terms Recap



## How money flows:

 **Income**

Making Money

*Earned, passive, or portfolio*

—

 **Expenses**

Spending Money

*Needs, wants, and taxes*

=

 **Profit (or Loss)**

What's left over after spending

*Positive = profit | Negative = loss*

## What you're worth:

 **Assets**

The Stuff You Own

*Cash, investments, property*

—

 **Liabilities**

The Stuff You Owe

*Loans, debts, bills due*

=

 **Equity (Net Worth)**

Your true financial position

*The goal: grow this number over time*

# Income Recap & Today's Focus



## Earned Income

Money made from your work. Often known as compensation, salary, or wages.

**COVERED IN CLASS 6**



## Passive Income

Money made from the stuff you own, which are assets.

**TODAY'S FOCUS**



## Portfolio Income

Also known as Capital Gains. Money made from appreciation in the value of the stuff you own, which are assets.

**TODAY'S FOCUS**



# *Class Discussion*

*Which type of income: earned, passive, or portfolio, do you think is the most important for achieving financial freedom? Why?*

# What Is Interest?

*Think of it like renting money*



## Interest

Interest is the price of renting money. Just like you pay rent to use someone's apartment, you pay interest to use someone's money. And just like a landlord collects rent for letting someone live in their property, you collect interest when you let others use your money.



### When You Lend (or Save)

*Others pay **YOU** rent to use **YOUR** money*

You deposit \$500 in a savings account. The bank uses your money to make loans. The bank pays you interest as “rent” for using your money.

**You make money just by letting your savings sit there**



### When You Borrow

***YOU** pay others rent to use **THEIR** money*

You borrow \$1,000 to buy a car. The lender charges you interest as “rent” for using their money. You pay back the \$1,000 plus interest.

**Borrowing always costs more than the amount you receive.**

# Some Forms of Passive Income

*Money that works for you, without you clocking in for work*



## Dividends

A company shares some of its profits with people who own its stock.

**Example:** You own 10 shares of a company. It pays \$2 per share → you get \$20.



## Interest

Someone pays you "rent" for using your money (savings, bonds, CDs).

**Example:** You keep \$500 in savings. The bank pays you interest for letting them use it.



## Rents

Someone pays you to use property or stuff you own.

**Example:** Your family rents out a spare room or parks a car on Turo.



## Royalties

Someone pays you to use something you created.

**Example:** An artist gets paid every time their song streams on Spotify.

# Receiving Interest on Bank Savings



## Interest = Renting Money



**Remember:** interest is the price of renting money. When you deposit money in a savings account, you're lending the bank your money, and the bank pays you rent for it.

## How Is It Calculated?



It's a % of the amount you save (the **principal**). That % is the **interest rate**.

$$\text{Interest} = \text{Principal} \times \text{Interest Rate}$$

## Why Do Banks Pay You?



Banks use your deposits to make loans to other people. Banks charge borrowers more interest than they pay depositors. That difference is a way that banks make money.

## See It in Action



**Coming up:** we'll open a pretend savings account to see exactly how interest adds up over time.

# Practical Application

A student has some money from gifts and weekend jobs. The student opens a savings account at two different banks

The student deposits **\$300 at Bank 'A'** and **\$500 at Bank 'B.'** Bank 'A' and Bank 'B' pay different interest rates

**Bank 'A'**

**1%**

**Annual Interest Rate**

**Bank 'B'**

**2%**

**Annual Interest Rate**

Let's quickly calculate how much interest the student expects to earn after one year. What's 1% of \$300? What's 2% of \$500? Now Add Them.

# Practical Application



## The Scenario

A student deposits **\$2,000** into a **Bank of America Savings Account**. Review the rate sheet handout. It shows the **Annual Percentage Yield (APY)**, which is how much the bank pays you per year.

## Your Task

In your Money Journals, use the formula from our last slide to figure out:

1. What APY applies to a \$2,000 deposit?
2. How much interest does the student receive in one year?
3. Do you think that a lot or a little? Why?

## From Your Handout

*Bank of America — Savings Account APY*

Account Balance	APY
Less than \$2,500	<b>0.01%</b>
\$2,500 and over	<b>0.01%</b>

**Hint:** Interest = Principal × Interest Rate

$$\$2,000 \times \underline{\quad} \% = ???$$

# What Is a Stock?



## Stock

A stock is a small piece of ownership in a company. When you buy a stock, you become a part-owner—called a shareholder—of that company.

### Own a Piece

If you buy stock in Apple, you own a tiny fraction of the entire company: its products, buildings, and profits.

### Stock Price

The price of a stock goes up or down based on how many people want to buy or sell it, and how well the company is doing.

### Global Connections

When something big happens in the world, like wars, it can affect companies everywhere (and their stock prices).



*Class Discussion*

*What does this  
company do?*

*Coca-Cola*<sup>®</sup>



# Dividend Payout Example



## The Scenario

A student invests in the **Coca-Cola Company**, buying **10 shares** at **\$75 per share**.

Coca-Cola pays its shareholders an annual dividend of **\$2.06 per share**. That means each year, the student receives **\$20.60 in dividends**, just for owning the stock. This is passive income.

**This is passive income — money made without extra work.**

## The Result

**Investment:** 10 shares × \$75 = \$750  
**Annual Dividend:** 10 shares × \$2.06 = \$20.60

Annual Passive Income

**\$20.60**

**Coca-Cola**®

# What Is the Dividend Yield?



## Why It Matters

**Dividend yield** tells you what percentage of the stock price comes back to you as dividends each year.

It helps you compare different investments to see which one pays you more for your money.

## The Formula

**Dividend Yield** = Dividend ÷ Share Price

**Dividend Yield** = \$2.06 ÷ \$75 = **2.75%**

## Coca-Cola Dividend Yield

The iconic Coca-Cola logo, featuring the brand name in its signature red script font with a white outline and a registered trademark symbol (®) at the end.

# 2.75%

For every \$100 invested in Coca-Cola, you get \$2.75 back each year in dividends.

# Practical Application



The Coca-Cola Company had a great year!

The company decides to increase its annual dividend from \$2.06 per share to \$2.70 per share.

In your Money Journals, calculate the new dividend “yield” for the Coca-Cola Company at \$75 per share.

$$\textit{Dividend Yield} = \textit{Dividend} \div \textit{Share Price}$$

# Practical Application



Investors are very happy with the news about Coca-Cola's dividend increase to \$2.70 per share!

Soon after the news was announced, Coca-Cola's stock price increases from \$75 per share to \$80 per share.

In your Money Journals, calculate the new dividend "yield" for the Coca-Cola Company at an \$80 price per share.

$$\textit{Dividend Yield} = \textit{Dividend} \div \textit{Share Price}$$



## *Class Discussion*

*What happened to the dividend yield when the stock price increased?*

# Portfolio Income Example



## The Scenario

After a few years, the student decides to sell the Coca-Cola stock. The stock has gone up from **\$75 to \$95 per share**.

## Portfolio Income Analysis

**What the student paid**  $10 \times \$75 = \$750$   
(cost basis)

**What the student received**  $10 \times \$95 = \$950$   
(proceeds)

**Portfolio Income**  $\$950 - \$750 = \$200$   
(Capital Gain)

## The Result

The Coca-Cola logo, featuring the brand name in its signature red script font with a registered trademark symbol.

**\$200**  
Capital Gain

This is different from dividends. Portfolio income comes from **selling or closing an investment at a profit**.

# What is a Capital Gain?



## Why it matters

A capital gain tells you how much money you made from your investment from selling or closing an investment at a higher value than your cost.

## The Formula

**Capital Gain** = Proceeds – Cost Basis

**Capital Gain** = \$950 – \$750 = \$200

**Proceeds** = the money you received  
**Cost Basis** = your investment cost

## Coca-Cola Capital Gain

The iconic Coca-Cola logo, featuring the brand name in its signature red script font with a white outline and a registered trademark symbol (®) at the end.

**\$200**

The student bought 10 shares at \$75 and sold them at \$95. That \$20 increase per share × 10 shares = \$200 in portfolio income.



## *Class Discussion*

*Might portfolio  
income proceeds  
be less than a  
person's cost  
basis? Why or  
why not?*

# Portfolio Loss or Capital Loss



## What is a Capital Loss?

- A capital loss occurs when you sell or close an investment for less than your cost basis.

## Why Did the Console Lose Value?

- Obsolescence due to use and age.
- Newer versions of gaming consoles make older versions less desirable.
- Limited demand for older gaming systems.

## What Can We Learn?

- Some items, like electronics, lose value quickly. This is called depreciation.
- Unlike other assets (e.g., stocks or real estate), not all purchases appreciate or hold their value over time.



## Gaming Console

A teenager saves \$500 to purchase a video game console. After a few years, the teenager sells the video game console for \$100. The teenager had a capital loss of...

**\$400**

# Examples of the 3 Types of Income

*One business, three ways to make money*



Money made from  
your work

## Earned Income



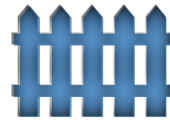
A teenager charges \$15 per hour for yard care services. After working 40 hours for different households:

$$\text{\$15/hr} \times 40 \text{ hrs} =$$

**\\$600**

Money made from  
the stuff you own

## Passive Income



The teenager starts a yard care business. It brings in \$2,000 in revenue and costs \$1,800 in expenses. The profit distributed to the teenager:

$$\text{\$2,000} - \text{\$1,800} =$$

**\\$200**

Money made from closing  
investments at a profit

## Portfolio Income



After finishing high school, the teenager sells the yard care business. It was started with \$1,000 and sold for \$1,500:

$$\text{\$1,500} - \text{\$1,000} =$$

**\\$500**

# Connecting the Dots

All Three Income Types Working Together



## Let's Discuss

Now that you know all three income types, which combination would you want in your life? Why? How could the earned income from babysitting or yard work eventually lead to passive or portfolio income?

Step 1



### Earn It

Work a job to make money  
(*earned income*)



Step 2



### Own It

Use earnings to buy assets  
that pay you (*passive  
income*)



Step 3



### Grow It

Sell appreciated assets for  
profit (*portfolio income*)

# What's Next: From Income to Planning

Now that you understand how you make money, here's where the course is headed



## Expenses (Class 8)

Where does your money go? We'll learn the difference between needs and wants, & why tracking spending matters.

*Income – Expenses = What you keep*



## Taxes (Class 9)

Remember Jordan's pay stub? We'll dig deeper into where those deductions go and why taxes exist.

*Gross pay – Taxes – Deductions = Net pay*



## Budgeting (Class 10)

Putting it all together: how to divide your income between spending, saving, and investing — on purpose.

*A budget is your money's game plan*



## Saving & the Unexpected

Even small amounts saved regularly add up. Having savings means you're prepared when life throws surprises.

*Saving is a habit, not a one-time event*



# Three Key Takeaways

1. Understanding the three types of income can help you think strategically about: earned, passive, and portfolio.
2. Passive income is money you receive from the stuff you own, like savings interest or stock dividends, without needing to work for it regularly.
3. Portfolio income or capital gains is money you make when the value of the stuff you own increases, like selling stocks or other investments for more than their cost.



## Where to Learn More

- Article: [19 Passive Income Ideas For Students](#) by Blair Bedford at Clever Girl Finance
- Article: [15 Passive Income Ideas to Build Wealth](#) by Ramsey Solutions
- Book: [Investing Made Easy for Young Adults](#) by Dakota A. McQueen

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