



Chapter 4-Financial Decisions and Planning

Section 4-1-Resources and Choices

Needs and Wants

- Needs-things you must have for survival, including food, clothing, shelter and medical care.
 - There are other needs that go beyond the basic needs that people want to fulfill for a comfortable lifestyle.
- Wants-things you desire for reason beyond survival and basic comfort.
 - Luxury items-very costly items that fulfill emotional wants rather than physical needs

Resources Limit Choices

- **Financial Resources:** Money or other items of value that people can use to acquire goods and services.
 - Resources are limited
 - Wants and needs are unlimited and growing
 - Most people don't have enough resources to meet all their wants and needs, so they must make choices
 - **Discretionary income:** the money a person has left to spend after needs are met

Cash Flow

- **Personal Cash Flow Statement:** This lists your cash inflows and cash outflows
- Helps determine if you have a negative or positive cash flow.
 - **Cash Inflow:** Income received from a job, investments or other sources
 - When cash inflow is more than cash outflow you have a positive cash flow
 - **Cash Outflow:** Expenses or items you must spend money on
 - Example: loan payments, electric bills
 - When cash outflow is more than cash inflow you have a negative cash flow

Personal Net Worth Statement

- Shows a person's net worth based on his or her assets and liabilities
 - **Assets**-money and items of value that you own
 - Examples: checking and savings accounts, bonds, car, house
 - **Appreciating asset**: is an asset that grows
 - Example: house
 - **Depreciating asset**: is an asset that loses value over time
 - Example: car
 - **Liabilities**-debts that you owe
 - Examples: credit card debt, car loan, student loans, house loan
 - **Net worth**-the difference between your assets and your liabilities

Making good financial choices

- Buying decisions play an important part of managing your money
- **Tradeoff**: giving up one option in exchange for another you think is more important
- **Opportunity cost**: the value of your next best option-what you are giving up
 - Value can be measured in dollars, time, convenience, enjoyment

Decision-making process

- Steps to determine the need for a product or service:
 - **Define the need:** determine what need will be filled or problem resolved by buying the item or service.
 - **List options for meeting the need:** How can you meet this need, do you need new or used, can you borrow, can you substitute something else
 - **Compare the options you have identified:** List the advantages and disadvantages of each one
 - **Make a decision:** Based on research and evaluation of the information you have gathered, choose the option that is best for you.
 - **Take action** based on your decision
 - **Reevaluate your choice:** did the service or product meet your needs

Financial Strategies

- Financial choices today will affect your finances tomorrow
 - Choices should be forward-looking (towards the future)
 - Consider the opportunity cost
 - If unsure of a choice, keep asking questions or doing research until you know enough to make a good decision
 - Don't make snap decisions (buyer's remorse)
 - Spend less than your income each month
 - Be realistic about deciding which wants you can fill
 - Read financial agreements
 - Learn from mistakes that others have made