

Student \_\_\_\_\_

Date \_\_\_\_\_

Class \_\_\_\_\_

Teacher \_\_\_\_\_

# CHAPTER 1 Personal Financial Planning

## Reviewing Key Terms: Complete the Sentence



**DIRECTIONS:** Using terms from the following list, complete the sentences below. Write the letter of the term you have chosen in the space provided.

- |                           |                                |
|---------------------------|--------------------------------|
| A. interest               | F. opportunity cost            |
| B. future value           | G. personal financial planning |
| C. economics              | H. present value               |
| D. inflation              | I. liquidity                   |
| E. Federal Reserve System | J. values                      |

1. The price that is paid for the use of another's money is called \_\_\_\_\_.
2. The study of the decisions that go into making, distributing, and using goods and services is called \_\_\_\_\_.
3. \_\_\_\_\_ is the amount your original deposit will be worth in the future, based on earning a specific interest rate over a specific period of time.
4. The central banking organization of the United States is known as the \_\_\_\_\_.
5. When you give up something when you make one choice instead of another, it is called a(n) \_\_\_\_\_.
6. The ability to easily convert your financial assets into cash without a loss in value is called \_\_\_\_\_.
7. \_\_\_\_\_ is arranging to spend, save, and invest money to live comfortably, have financial security, and achieve goals.
8. \_\_\_\_\_ are the beliefs and principles you consider important, correct, and desirable.
9. \_\_\_\_\_ is the rise in the level of prices for goods and services over time.
10. \_\_\_\_\_ is the amount of money you would need to deposit now in order to have a desired amount in the future.

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## Understanding Key Concepts



**DIRECTIONS:** *On a separate sheet of paper, answer the following questions.*

1. Name two advantages of having a personal financial plan.
2. What role do values play in creating a personal financial plan? Provide two examples of how different values might lead to different financial goals.
3. With which type of investment would the liquidity risk be highest: a baseball card collection, a savings account, or money hidden in a dresser drawer? Explain your answer.
4. After Alison graduates from high school and college, she is planning to go to medical school. She also wants to retire early so that she will have time to travel. Ty has just graduated from high school and wants to see the world. He has decided to postpone his education and career plans because he wants to travel as much as he can before he is 30. List one short-term goal, one intermediate goal, and one long-term goal that you might expect Alison to have. Do the same for Ty.
5. Categorize the following goods as consumable, durable, or intangible: a) tickets to a concert, b) leisure time, c) microwave oven, d) college education, e) gasoline for your car.
6. How might the popularity of a certain brand of clothing affect its price?
7. If the price of renting a video increases yearly based on the rate of inflation, how much would a video that you rented last year for \$3.50 cost this year, if the rate of inflation was 4.3 percent?
8. Janetta has decided to donate half of what she earns to a neighborhood organization that helps the homeless. She is saving the other half to buy a car. What are the opportunity costs of her decision? What role do her values play in making this financial plan?
9. Why does compounding interest benefit someone who is saving money?
10. What are the two main reasons that people invest?

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# CHAPTER 1 Personal Financial Planning

## Activity 1: Attain Your Goals

### SKILLS ACHIEVED

Allocating money, Creative thinking, Decision making, Problem solving, Self-management

**OBJECTIVE:** *Learn to set short-term goals and understand how personal spending and values impact goal setting.*

Writing down your personal financial goals can help you identify potential problems or opportunities that may come along. Write down your short-term financial goals in the space provided, and explain how you will achieve them.

Short-Term Goals	How to Achieve

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## Activity 2: Identify Your Financial Values

### SKILLS ACHIEVED

Allocating money, Creative thinking, Decision making, Problem solving, Self-management

**OBJECTIVE:** Determine how your values impact your financial decisions.

As defined in the chapter, **values** are the beliefs and principles that you consider important, correct, and desirable. When deciding on financial goals, your values play a large part in what path you take. For instance, if your financial goals are to save for college, you might forego Saturday night pizza for a year (approximately \$600) and put that money into a savings account instead. However, if you are simply crazy for pizza, and absolutely have to have it, then you may believe that pizza is a necessity and that the dollars spent on your weekly pies are worth the expense. How do your values impact your financial decisions? The following exercise will help you examine your own financial values.

Read the following scenario and then answer the questions on the next page.

Suppose you received an inheritance of \$200,000 from your Aunt Mildred. There are no restrictions on how you can spend the money, but you must use it for one thing only. How would you spend your inheritance? Some options are listed on the following page.

Rank each option from 1 to 6 with "1" being the most likely way you would use the money and "6" being the least likely way. At the right of each option is a corresponding value. There are no wrong answers.

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Option	Rank	Value
A. Pay for the best college available.		A. Respect for knowledge and education
B. Put the money toward a large house in a fancy neighborhood.		B. Desire for home and personal security
C. Go on the biggest shopping spree of your life.		C. Desire for material possessions
D. Give the money away to charity.		D. Consideration for others and their welfare
E. Put all your money into savings for the future.		E. Concern for financial security
F. Purchase a business to manage.		F. Desire for power and authority

Based on your rankings of each financial option and the corresponding value, answer the questions below and on the following page.

Which value is most important to you? Which is least important? How have experiences at home, at school, and in your community influenced the way you ranked these two values?

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List the items you ranked 1, 2, and 3 (the three you valued the most). Identify how you could make personal financial changes today to someday reach those financial goals.

1.

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3.

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# CHAPTER 1 Personal Financial Planning

## Math-Building Skills: Tracking Income and Expense

**DIRECTIONS:** Once you have identified your short-term goals, keep track of all your income and spending for seven days. Use the form below.

Beginning cash on hand \$ \_\_\_\_\_

Date	Source	INCOME	Amount
		<b>Total Income</b>	
Date	Item	EXPENSES	Amount
		<b>Total Expenses</b>	

*Subtract your total expenses from your total income.*

Ending cash on hand \$ \_\_\_\_\_

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## Finance Online: Exploring Financial Planning



Throughout this workbook, you will discover how the personal financial planning industry is utilizing the Internet to meet your needs.

Developing a personal financial plan is an important part of the strategy to secure your future well-being. As you develop a plan, you will discover how inflation can affect your saving and investing strategy. For this activity, use an Internet search engine to look for the inflation rate for the year you were born.

Keywords Used	Site Names	Web Site Addresses	Information Offered

1. How much was \$100 of today's money worth the year you were born?

\_\_\_\_\_

2. If you are working now, how much would your hourly wage have been worth that year? (If you are not working, use \$6 per hour as an example.)

\_\_\_\_\_

3. How much would the same wage have been worth 25, 50, and 100 years ago?

\_\_\_\_\_

\_\_\_\_\_



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## Your Financial Portfolio Worksheet

### Getting Your Own Wheels

Are you dreaming of buying your own car? Look in your local newspaper for a car you would like to buy. How much will it cost? Suppose you could afford 25 percent of the total price for a down payment. How much money will you need to borrow to pay the complete cost of the car you want? Then calculate how much money you will need for your monthly car payment.

	1 Year	2 Years	3 Years	4 Years
Cost of car	\$ _____	_____	_____	_____
25% down payment	\$ _____	_____	_____	_____
Amount of loan (Cost of car – 25% down payment)	\$ _____	_____	_____	_____
Interest factor	0.08698	0.04522	0.03133	0.02441
Monthly payment (Amount of loan × interest factor)	\$ _____	_____	_____	_____
Total amount paid for car (Monthly payment × number of months)	\$ _____	_____	_____	_____
Amount of interest paid (Total amount paid for car – amount of loan)	\$ _____	_____	_____	_____

Calculate what your monthly payment will be if you paid off your loan in 1, 2, 3, and 4 years.

1. What is the total amount you will pay for your car if you pay it off in 1, 2, 3, or 4 years?
2. How much interest will you pay on your loan if you pay it off in 1, 2, 3, or 4 years?
3. Which payment plan would enable you to pay the least amount of money for your car?
4. Which payment plan would have the lowest monthly payment?

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# CHAPTER 1 Personal Financial Planning

**Software  
Activity  
(Optional)**

## Spreadsheet Application

### Calculating and Analyzing Personal Investment Strategies

**OBJECTIVE:** Illustrate the value of compounding and the importance of long-term saving and investment strategies.

#### Practice Situation

The following data presents two investment strategies. For strategy 1, assume that Beverly contributes \$1,000 annually to her investment account from age 18 through age 24. For strategy 2, Matt contributes \$1,000 annually to his investment account beginning at age 28 through age 65. For each strategy presented, assume that the investment will generate an average rate of return of 10 percent per year. Calculate the future values for both investment strategies at age 65, then answer the questions on the next page.

Strategy 1: Beverly		
Age	Annual Contribution	Year-end Value
18	1,000	
19	1,000	
20	1,000	
21	1,000	
22	1,000	
23	1,000	
24	1,000	
<hr/>		
64	0	
65	0	
<i>Summary Data:</i>		
	Principal Invested	
	Future Value	
	Investment Return	

Strategy 2: Matt		
Age	Annual Contribution	Year-end Value
25	0	
26	0	
27	0	
28	1,000	
29	1,000	
30	1,000	
31	1,000	
<hr/>		
64	1,000	
65	1,000	
<i>Summary Data:</i>		
	Principal Invested	
	Future Value	
	Investment Return	

Continue spreadsheet data from years 25 through 63.

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### Spreadsheet Directions

1. Start your spreadsheet software and open problem SA01.xls. Enter the data into the spreadsheet. For Strategy 1, invest \$1,000 annually from age 18 to age 24. For years 25 through 65, the annual investment equals \$0. In Strategy 2, do not invest anything until age 28. At this point, \$1,000 is invested each year through retirement at age 65.
2. Input the formulas to calculate the following:
  - Year-end values
  - Total principal invested
  - Total future value
  - Return on investment

Note: Format all dollar amounts to Currency, 2 decimals.
3. Perform the calculations, then save your work to a new file labeled SA01\*\*\*.xls. (Replace \*\*\* with your initials.)
4. Print out a copy of your work if your teacher has instructed you to do so.

### Interpreting Results

1. What is the *total investment* for each investment strategy?  
\_\_\_\_\_
2. What are the *future values* associated with each strategy?  
\_\_\_\_\_
3. Which strategy would generate the largest *return on investment* at age 65?  
\_\_\_\_\_

### Drawing Conclusions

1. Based on your calculations, which investor has executed the more favorable investment strategy? Explain.  
\_\_\_\_\_  
\_\_\_\_\_
2. Why is it important for young adults to understand how to save, invest, and use money wisely?  
\_\_\_\_\_  
\_\_\_\_\_

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## SELF-ASSESSMENT QUIZ

**DIRECTIONS:** Circle the letter of the choice that best completes the statement or best answers the question.

1. The trade-off when you make a choice is called (A) cost of choice (B) a financial goal (C) opportunity lost (D) opportunity cost.
2. Future value is (A) the amount to which your original deposit will increase based on a certain interest rate and a certain amount of time (B) the gross national product forecasted over a ten-year period (C) the current interest rate (D) the result of supply and demand.
3. Inflation refers to (A) a balloon payment (B) a general rise in prices of goods and services (C) the rise in the price of a stock (D) the cost of intangible goods.
4. The ability to easily convert your financial resources into cash without loss in value is called (A) inflation (B) compounding (C) liquidity (D) present value.
5. A series of equal deposits is (A) serial deposits (B) an annuity (C) time deposits (D) annual deposits.
6. Present value is (A) the amount spent to provide someone with a gift (B) last year's inflation rate adjusted to today's dollar (C) the amount of money you need to deposit now to attain a desired future amount (D) the current value of a past investment.
7. Time value of money is best described as (A) an increase in an amount of money as a result of interest or dividends earned (B) what one hour of your time is worth in today's dollars (C) the current value of the dollar (D) the amount of work time needed to make up for inflation.
8. Which of the following is not part of the financial planning process? (A) determining your current financial situation (B) developing financial goals (C) acquiring consumable and durable goods on credit (D) identifying and evaluating alternative courses of action.
9. The term used to define the price that is paid for the use of another's money is (A) a price tag (B) money market value (C) interest (D) face value.
10. The amount that your original deposit will be worth on a specific date, based on a specific interest rate over a specific period of time, is called (A) present value (B) increased value (C) future value (D) dollar value.