PERSONAL FINANCE

Seventh Edition

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DEDICATION

This text is dedicated to *Best Friends Animal Society* in Kanab, Utah, for its commitment to, compassion for, and care of more than 1,500 animals, many of which were previously homeless. Best Friends has established an ambitious campaign to save all healthy dogs and cats in the United States by 2025 (prevent healthy cats and dogs from being euthanized due to excessive population).

Most of the royalties the author receives from this edition of the text will be invested in a fund that will ultimately be donated to Best Friends Animal Society and other humane societies. In the last several years, this fund donated more than $400,000 to Best Friends to support a new healthcare facility for Best Friends, sponsor a Public Broadcasting Service (PBS) documentary on the efforts of Best Friends to help animal societies, and to save misplaced dogs during Hurricane Harvey in Houston during 2017. This fund has also donated more than $100,000 to other animal care societies, including Friends of Greyhounds (Sunrise, FL), Florida Humane Society (Pompano Beach, FL), Greyhound Pets of America in Central Florida (Melbourne, FL), Tri-County Humane Society (Boca Raton, FL), and Doris Day Animal League (Washington, DC).

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PREFACE

New to the Seventh Edition

All chapters have been updated to present complete and current coverage at the time of publication. The key changes in the Seventh Edition of *Personal Finance* include the following:

- The Stephanie Spratt running examples throughout all chapters account for present economic conditions and the most recent tax law changes.
- The Sampsons case has been revised to ensure consistency throughout the text, and incorporates the most recent tax law changes.
- The Brad Brooks case has been revised to ensure consistency throughout the text, and incorporates the most recent tax law changes.
- The Building Your Own Financial Plan feature includes new applications and templates that enable students to easily create their own financial plan.
- Chapter 1, "Overview of a Financial Plan," contains more information about how to select a college (or graduate school), a major, and an occupation. It also provides updated salary information about occupations and explains how to implement a financial plan to accomplish financial goals.
- Chapter 4, "Using Tax Concepts for Planning," has been completely rewritten to account for the new tax law changes. This chapter is written in very simple terms, and offers clear guidance for students to estimate their own taxes if they take the standard deduction.
- Chapter 5, "Banking and Interest Rates," contains more discussion on the online payment process for paying bills.
- Chapter 6, "Managing Your Money," uses lower interest rates to reflect current conditions.
- Chapter 7, "Assessing and Selecting Your Credit," contains more discussion of improving your credit score, and prevention of identity theft.
- Chapter 8, "Managing Your Credit," contains more discussion of credit cards.
- Chapter 9, "Personal Loans," contains more discussion of loan consolidations and student loans.
- Chapter 10, "Purchasing and Financing a Home," illustrates how the recent tax law changes have reduced the potential tax benefits of owning a home.
- Chapter 17, "Investing in Mutual Funds," includes much more information about exchange-traded funds (ETFs) because of their popularity.
- Chapter 19, "Retirement Planning," contains updated information on all the different retirement plans that are available because many of the rules, such as the maximum allowable contribution per year, have changed.

Solving Teaching and Learning Challenges

Ask yourself these financial questions:

- Should you buy a new car or lease a car?
- How much can you borrow?
- Which bank offers the best services to satisfy your needs?
- How can you avoid identity theft?
- Under what conditions should you use a credit card or a debit card?
- Do you have enough insurance?
- Will you be able to retire while still young?

This textbook allows you to address these and other related financial dilemmas. It also guides you to create a financial plan for yourself. This textbook gives you the opportunity to develop the skills that can improve your financial position over time. To do this, it incorporates Internet-based resources along with many examples, problems, and ongoing case studies, all of which focus on providing students with hands-on practice applying financial concepts.

The quantitative side of financial planning intimidates many students. This book simplifies the mathematics of personal finance by explaining the underlying logic. Formulas and calculations are explained in the text and then illustrated in examples. Examples that can be solved using a financial calculator are depicted with a calculator illustration. Students are referred to Web sites with online calculators whenever pertinent. The Financial Planning Problems provide students with ample opportunity to practice applying math-based concepts.

The key components of a financial plan are introduced in Chapter 1. The balance of the text is organized into the following seven parts, which are keyed to the financial plan components introduced in Chapter 1, concluding with the synthesis of those components into a comprehensive financial plan in Chapter 21:

1. *Tools for Financial Planning* covers budgeting and tax planning.
2. *Managing Your Liquidity* covers banking, credit, and money management.
3. *Personal Financing* covers financing large purchases.
4. *Protecting Your Wealth* covers insurance planning.
5. *Personal Investing* covers a variety of investments and investing strategy.
6. *Retirement and Estate Planning* covers plans, strategies, and tax considerations related to retirement and estate planning.
7. *Synthesis of Financial Planning* covers the integration of the components into a comprehensive personal financial plan.

Chapter 1 Overview of a Financial Plan

PART 1 TOOLS FOR FINANCIAL PLANNING

Chapter 2 Planning with Personal Financial Statements
Chapter 3 Applying Time Value Concepts
Chapter 4 Using Tax Concepts for Planning

PART 2 MANAGING YOUR LIQUIDITY

Chapter 5 Banking and Interest Rates
Chapter 6 Managing Your Money
Chapter 7 Assessing and Securing Your Credit
Chapter 8 Managing Your Credit

PART 3 PERSONAL FINANCING

Chapter 9 Personal Loans
Chapter 10 Purchasing and Financing a Home

PART 4 PROTECTING YOUR WEALTH

Chapter 11 Auto and Homeowner's Insurance
Chapter 12 Health and Disability Insurance
Chapter 13 Life Insurance

PART 5 PERSONAL INVESTING

Chapter 14 Investing Fundamentals
Chapter 15 Investing in Stocks
Chapter 16 Investing in Bonds
Chapter 17 Investing in Mutual Funds
Chapter 18 Asset Allocation

PART 6 RETIREMENT AND ESTATE PLANNING

Chapter 19 Retirement Planning
Chapter 20 Estate Planning

PART 7 SYNTHESIS OF FINANCIAL PLANNING

Chapter 21 Integrating the Components of a Financial Plan

To improve student results, we recommend pairing the text content with MyLab Finance, which is the teaching and learning platform that empowers you to reach every student. By combining trusted author content with digital tools and a flexible platform, MyLab personalizes the learning experience and will help your students learn and retain key course concepts while developing skills that future employers are seeking in their candidates. From Dynamic Study Modules to Financial Planning Spreadsheets, MyLab Finance helps you teach your course, your way. Learn more at www.pearson.com/mylab/finance.

The main solutions that this textbook and MyLab offers are as follows.

Building Your Own Financial Plan

The seventh edition of *Personal Finance* integrates the Building Your Own Financial Plan feature along with the case studies in each chapter, to help students create their own personalized plans for financial success.

Students learn by doing. After each chapter, they are prompted to apply the key concepts in order to make their own financial planning decisions. At the end of the course, students will have completed a financial plan that they can use beyond the school term.

BUILDING YOUR OWN FINANCIAL PLAN: Chapter 1 MyLab Finance

At the end of every chapter, you will be guided to apply specific chapter concepts in order to build your financial plan. Some of the concepts will allow you to assess your present financial status. Other concepts that might not be applicable to your present status will focus on your future financial status. By the end of the school term, you will have a complete financial plan that should serve as a useful guide for your future financial decisions.

Decision Making

Personal Finance's interactive approach incorporates Internet-based resources along with examples, problems, and ongoing case studies that help students make informed financial planning decisions.

FREE APPS for Personal Finance

Managing Your Budget in Real Time

Application:

The Mint Money Manager, Budget, and Personal Finance app (by Mint.com) sends you reminders about future bills that are due and helps you schedule the payment of your future bills. This allows you to ensure that you manage your cash outflows more effectively.

To Find It:

Search for the "Mint" app on your mobile device.

Free Apps for Personal Finance highlights useful apps students can download to their smartphones for free that apply to some of the key concepts covered in the chapter.

Financial Planning **ONLINE**

Go to:
www.irs.gov

To get:
Information about tax rates, tax forms, guidelines, and deadlines.

Financial Planning Online in every chapter highlights Internet resources for more information on a chapter topic. Each includes an Internet address and a description of what the Web site provides.

FINANCIAL PLANNING PROBLEMS

All Financial Planning Problems are available in MyLab Finance *at www.pearson.com/mylab/finance. A financial calculator is recommended for Problems 4, 9, 11, 12, 13, 15 and 16. The financial tables can be used to answer Problems 1, 2, 3, 5, 6, 7, 9, 10, and 13.*

1. **Future Value.** Kyle has $1,000 in cash received for high school graduation gifts from various relatives. He wants to invest it in a certificate of deposit (CD) so that he will have a down payment on a car when he graduates from college in five years. His bank will pay 1.5% per year, compounded annually, for the five-year CD. How much

account that averages a 5% annual return, what amount will be in the account in twenty years? How much will she have if the account earns 8% a year?

3. **Future Value.** Luis wants to know how much he will have available to spend on his trip to Belize in three years if he deposits $3,000 today at an annual interest rate of 2%.

Financial Planning Problems require students to demonstrate knowledge of mathematical concepts by performing computations to make well-informed personal finance decisions. All Financial Planning Problems are available in MyLab Finance.

FINANCIAL PLANNING ONLINE EXERCISES

1. Go to the Web site www.consumer.gov, and go to the section on credit, loans, and debt.
   a. What are some ways that you can build your credit history?
   b. What type of information is contained in your credit report?
   c. What are some advantages of having "good credit"?
2. Review the information at www.ftc.gov about free credit reports.
   a. What is the only authorized source for free credit reports under federal law?
   b. How can you request a free credit report?
   c. Why should you review your credit report?

Financial Planning Online Exercises show students how to obtain, critically evaluate, and use Internet-based resources in making personal finance decisions.

EXAMPLE

Stephanie Spratt has $2,000 available to allocate to money market investments. She knows that she will need $400 to cover several small bills in the next week and may also need $600 in a month or so to pay for repairs on her car engine. She does not expect to need the other funds for at least one month. Her financial institution offers the following annualized yields on various money market instruments:

	Annualized Yield (%)
Checking account	0
Savings deposit	1.2
MMDA ($2,500 minimum balance)	2.0

A running example of a recent college graduate and new entrant into the workforce helps students apply concepts to real-life situations. Students are commonly faced with dilemmas similar to those Stephanie faces, such as how to control recreational spending or whether to buy or lease a car.

THE SAMPSONS—A CONTINUING CASE: Chapter 3

MyLab Finance

Dave and Sharon Sampson recently established a plan to save $300 per month (or $3,600 per year) for their children's education. Their oldest child is six years old and will begin college in twelve years. They will invest the $300 in a savings account that they expect will earn interest of about 2% per year over the next twelve years. The Sampsons wonder how much additional money they would accumulate if they could earn 5% per year on the savings account instead of 2%. They also wonder how their savings would accumulate if they could save $400 per month (or $4,800 per year) instead of $300 per month.

Build a financial plan for a family! As the parents of two children, Dave and Sharon Sampson face common financial dilemmas, having made few plans regarding their financial future and being eager to start saving toward a new car, their children's college education, and their retirement. Students apply chapter concepts to counsel the Sampsons on the accompanying online worksheets.

BRAD BROOKS—A Continuing Case: Part 1 MyLab Finance

Your friend Brad Brooks has no control of personal finances. Single and 30 years old, he has a good job at a technology company. His monthly disposable income is $4,000. Brad recently moved from his apartment where the rent was $1,400 per month to an expensive condo. His typical monthly expenses are as follows:

Rent at condo	$2,000
Car payment (balance on car loan $10,000; market value of car $15,000)	500
Utilities (gas, electric, Internet)	200
Smartphone	200

At the end of each part, students are prompted to **build a financial plan for their friend Brad Brooks** using the accompanying online worksheets. Brad has expensive tastes and a soaring credit card balance, and he needs their assistance to improve his financial condition.

Chapter 21 synthesizes all parts of the text to highlight the interrelationships among the components of a financial plan and presents a completed plan for Stephanie Spratt. It also contains a *Certified Financial Planner Exercise* that challenges students to offer advice on how financial planning should be adjusted in response to a change in economic conditions.

Learning Tools

chapter 5

Banking and Interest Rates

When Shawna arrived on campus for her first year of college, she relied on an automated teller machine (ATM) to obtain cash for the many little necessities of college life (food, movies, and more food). It was only on a weekend trip back home, where she reviewed her latest bank statement, that Shawna became aware of a problem. Her bank statement showed thirty-nine separate charges for ATM fees. She had been charged $1.00 for each trip to an "out-of-network" ATM not owned by her bank. There was another $1.50 fee charged by the bank that owned the ATM, so each ATM visit created two charges. In addition, Shawna discovered that she had made five balance inquiries on "out-of-network" ATMs, and her bank charged $0.50 for each of them. Altogether, for her seventeen visits to the ATM, Shawna had accrued $42.50 in ATM fees and $2.50 in inquiry fees for a total of $45.00. Shocked at this discovery, Shawna found a bank that offered a mob would enable her to easily find no-fee ATMS. The mobile account balance at any time, so she will always be aware i

This chapter explains how to use a financial institution to m bank is an essential component of liquidity, whether you ar earning account or need a loan. You may choose a commer online bank. In each case it is important to know how well

WavebreakmediaMicro/Fotolia

Chapter Introductions
The opening of each chapter provides an interest-grabbing scenario that previews the chapter's content.

Learning Objectives
Corresponding to the main headings in each chapter, the list of learning objectives guides students through the material.

The objectives of this chapter are to:

- Provide a background on money management
- Describe the most popular money market investments
- Identify the risk associated with money market investments
- Explain how to manage the risk of your money market investments
- Explain how money management fits within your financial plan

EXAMPLE

While at the mall today, Lisa saw a pair of Italian shoes that she liked. The shoes were priced at $300 and were not on sale. Lisa did not have any cash with her, so she used her credit card to pay for the shoes. Lisa did not need the shoes but decided to buy them because she did not see anything else at the mall that she wanted. Before purchasing the shoes, Lisa used her smartphone and determined that she could purchase the same shoes online for $100 less, but she would have to wait several days for them to be delivered, and she wanted them now. Lisa was also aware that the shoe store periodically has 40% off sales, and she could likely buy the shoes at the sale price if she would be willing to wait. Lisa's purchase decision was primarily influenced by her desire for immediate satisfaction. She knew that she could have waited until the shoes were on sale, but she went to the mall intending to purchase something today. Lisa's purchase decision was especially easy because she used credit instead of cash. Thus, she was able to make the purchase and still has all her cash that she can use for other future purchases.

personal balance sheet
A summary of your assets (what you own), your liabilities (what you owe), and your net worth (assets minus liabilities).

liquid assets
Financial assets that can be easily sold without a loss in value.

household assets
Items normally owned by a household, such as a home, car, and furniture.

Marginal Glossary
Throughout the text, key terms and their definitions appear in the text margin where they are first introduced.

Explanation by Example
Practical examples applying concepts in realistic scenarios throughout chapters help cement student understanding.

PSYCHOLOGY of Personal Finance

Personal Consumption Behavior Most people's consumption behavior is affected by their income. For example, a two-income household tends to spend more money when both income earners are working full-time. Yet, people's consumption behavior varies substantially. At one extreme are people who spend their entire paycheck within a few days of receiving it, regardless of the size of the paycheck. Although this behavior is understandable for people who have low incomes, it is also a common practice for some people who have very large incomes. At the other extreme are "big savers" who minimize their spending and focus on saving for the future.

Psychology of Personal Finance
Personal finance behavior is influenced by psychology. For example, some spending decisions are made on impulse due to the desire for immediate satisfaction.

ECONOMIC IMPACT

How Your Future Financial Position Is Tied to the Economy Economic conditions affect the types of jobs that are available to you and the salary offered by each type of job. They also affect the price you pay for services such as rent, the value of assets (such as a home) that you own, and the return that you can earn on your investments.

Economic Impact
The Economic Impact logo identifies text that emphasizes how economic conditions can affect personal finance.

SUMMARY

Types of Financial Institutions. Depository institutions (commercial banks, savings institutions, and credit unions) accept deposits and provide loans. Nondepository institutions include insurance companies (which provide insurance), securities firms (which provide brokerage and other services), and investment companies (which offer mutual funds). Financial conglomerates offer a wide variety of these financial services so that

Summary
To aid in student study, the chapter summary presents the chapter's key points in paragraph form.

Activities and Assessments

REVIEW QUESTIONS

All Review Questions are available in MyLab Finance *at www.pearson.com/mylab/finance.*

1. **Time Value of Money.** What is the time value of money? How is it related to opportunity costs?
2. **Importance of the Time Value of Money.** List one reason why the time value of money is an important concept.

Review Questions
Test knowledge of material by comparing and contrasting concepts, interpreting financial quotations, and understanding how financial data can be used to make personal finance decisions. All Review Questions are available in MyLab Finance.

Ethical Dilemmas
Real-life ethical situations are presented along with questions to encourage students' critical thinking about ethics.

Ethical Dilemma. Jill just finished reconciling her account balance and discovered the bank made a $567 error in her favor. She double-checked her numbers and is certain the bank made an error, and the difference is not a miscalculation on her part. Jill knows the amount is miniscule to the bank's overall value but it would help her make a payment that is due this month. Should she just let the bank find the error and use the money until that time? Or, should she report it now?

WEB SEARCH EXERCISE

You can develop your personal finance skills by conducting an Internet search for related articles. Find a recent online article about personal finance that reinforces one or more concepts covered in this chapter. If your class has an online component, your professor may ask you to post your summary of the article there and provide a link to the article so that other students can access it. If your class is live, your professor may ask you to summarize your application of the article in class. Your professor may assign specific students to complete this assignment or may allow any student to do the assignment on a volunteer basis.

Web Search Exercises
This exercise directs students to conduct an online search for real-world events related to the key content of each chapter.

VIDEO EXERCISE: Investing in Money Markets

Go to one of the Web sites that contain video clips (such as www.youtube.com), and view some video clips about investing in money market securities. You can use search phrases such as "investing in money markets." Select one video clip on this topic that you would recommend for the other students in your class.

1. Provide the Web link for the video clip.
2. What do you think is the main point of this video clip?
3. How might you change your investment in money market securities after watching this video clip?

Video Exercises
This activity has students find a video on an important finance topic discussed in the chapter.

Psychology of Personal Finance Questions

At the end of every chapter is a section on the Psychology of Personal Finance that tests students' understanding of how psychological forces such as desire for immediate satisfaction can influence personal finance decisions.

PSYCHOLOGY OF PERSONAL FINANCE: Using Your Credit Cards

For many people, less pain is associated with using a credit card to make purchases than with using cash, even if the payments are the same. The use of the credit card almost feels like there is no payment, but the use of cash means that there is less cash available for other purchases. Therefore, spending decisions are made more carefully when using cash.

1. Describe your opinion on this topic. Do you feel less pain when using a credit card? Are your spending decisions made more carefully when you use cash as opposed to credit cards?
2. Read one practical article about how psychology affects the use of credit cards. You can easily retrieve possible articles by doing an online search using the terms "psychology" and "using credit cards." Summarize the main points of the article.

Financial Literacy POST-TEST

The following test will help you determine how much you learned about personal finance. It contains basic questions on material you learned from the text that can determine your ability to make proper financial planning decisions.

After taking the test, grade your performance based on the answers provided at the end of the test.

1. The ________ specifies the financial decisions that result from your personal financial planning.
   a. personal financial plan
   b. personal budget
   c. personal finance objective
   d. none of the above
2. When constructing a budget, it is helpful to use a personal cash flow statement, which measures a person's ________ and ________.
   a. cash inflows; cash outflows
   b. assets; expenses
   c. assets; liabilities
   d. none of the above
3. The time value of money implies that a dollar received today is worth ________ a dollar received tomorrow.
   a. more than
   b. the same as
   c. less than
   d. none of the above
4. Which of the following will not affect the amount of taxes you pay? (Assume that you itemize for tax purposes.)
   a. Purchasing a home that will be financed with a mortgage
   b. Contributing a portion of your salary to your retirement account
   c. Taking a third job to enhance your wealth
   d. All of the above will affect the amount of taxes you pay.
5. ________ are not a type of depository institution.
   a. Credit unions
   b. Savings institutions
   c. Commercial banks
   d. Securities firms
6. Individuals with short-term funds would probably not invest them in ________.
   a. CDs
   b. NOW accounts
   c. corporate bonds
   d. checking accounts
7. Credit cards that allow consumers to borrow up to a specified maximum amount are examples of ________.
   a. installment credit
   b. collateral-based credit
   c. noninstallment credit
   d. revolving open-end credit
8. When applying for a credit card, you will probably not be asked for information regarding ________.
   a. your cash inflows and outflows
   b. your capital
   c. your credit history
   d. your criminal record
9. When applying for a loan, borrowers will probably need to provide information regarding their ________.
   a. personal balance sheet
   b. assets
   c. personal cash flow statement
   d. Borrowers probably need to provide information regarding all of the above.
10. The ________ the cost of a home, the ________ the insurance.
    a. higher; higher
    b. higher; lower
    c. lower; higher
    d. none of the above

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Financial Literacy Tests

A Financial Literacy Pre-Test is included just before Chapter 1. Answers are provided so that students can grade their performance. This test allows students to discover how much they do not know about personal finance and motivates them to develop their skills. A Financial Literacy Post-Test is provided immediately following Chapter 21. This test lets students discover how much they have learned after finishing the course. Answers are supplied so that students can easily assess their performance.

Appendix B PROJECTS

The following pages include projects for you to complete relating to specific aspects of personal finance.

- Assessing Your Credit
- Career Planning Project
- Leasing an Apartment
- Stock Market Project

Assessing Your Credit

Answer the following questions based on how you use your credit card, or how you think you would use a credit card:

1. **Credit Spending.** How much do you spend per month on your credit card?
2. **Number of Credit Cards.** Do you have many credit cards? Are all of them necessary? Do you spend more money than you would normally as a result of having extra credit cards?
3. **Credit versus Cash.** Would you make the most of your purchases if you used cash instead of a credit card? Do you feel like purchases have no cost when you use a credit card instead of cash?
4. **Pay Off Part or All of Balance.** What is your normal strategy when you receive a credit card bill? Do you only pay the minimum amount required? Do you typically pay off your entire balance on a monthly basis? If you do not pay off the entire balance, is it because you cannot afford to pay it off, or because you would prefer to have extra cash on hand? If you have a positive balance, how do you plan to pay off that balance? Pay all of it off next month? Or pay only the minimum amount required next month?
5. **Credit Limit.** Consider the limit on the amount you can spend using your credit cards. Does the limit restrict your spending? Would you benefit if the limit were increased? Or reduced?
6. **Obtaining Your Credit Report.** Go to www.annualcreditreport.com to obtain your free credit report. If you recently obtained your report, just review that report rather than obtaining a new one. Notice the types of companies that requested information on your credit. Is your credit report accurate? If not, you can write to the credit bureau to have the wrong information corrected, as explained in the text.
7. **Assessing Your Credit Report.** Are you satisfied with your existing credit rating? If not, what steps do you plan to take to improve your credit rating? For example, could you reduce some debt in the future? See Chapter 7 for more ideas on improving your credit rating.

Career Planning Project

Personal financial planning involves how you budget your money, manage your liquidity, finance purchases, protect your assets, invest your money, and plan your retirement and estate. All these activities are focused on your money. A related task is career planning, which determines the amount of money that you can earn over time. Furthermore, your career determines your quality of life. Most people think about their ideal career (such as rock star, professional athlete, movie star), but do not spend enough time planning a realistic career. This project allows you learn about possible career opportunities in which you might have an interest. Your instructor may offer you additional details regarding the deadline date and length of the project.

Projects

Several projects are available in Appendix B.

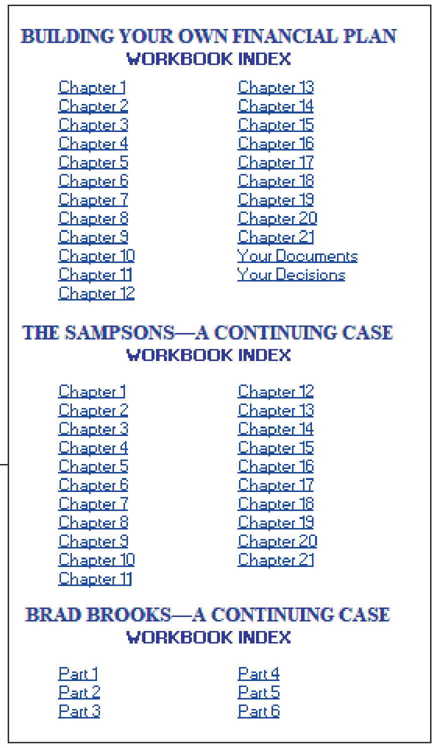
- *Assessing Your Credit* prompts students to evaluate their credit card balance and credit limit. It also guides students to obtain their credit score and to consider whether they should implement a strategy to pay down their existing credit balance.
- *Career Planning Project* allows students to research a particular career that they plan to pursue and report on their research.
- *Leasing an Apartment* allows students to assess the cost and potential benefits of leasing a particular apartment that they have identified.
- *Stock Market Project* allows students to simulate the investing process, monitor a particular stock, and analyze how stock values respond to economic conditions.

Financial Planning Workbook

The financial planning workbook, which requires students to take decisions based on their learning, is fully integrated into the text. At the end of each chapter, the student is prompted to complete the Building Your Own Financial Plan exercises and the Sampson family continuing case. At the end of each part, the student is prompted to complete the Brad Brooks continuing case. Students should use the worksheets in MyLab Finance where Excel software can be applied to facilitate the process.

Additional software features include the following:

- Calculation-based templates allow students to easily forecast their future salary, forecast their future savings, determine their income tax liability, and estimate their monthly payments on a mortgage.
- Enhanced graphics, such as pie charts and bar graphs that are generated based on user input, aid students in visualizing their cash outflows and asset allocation.



Developing Employability Skills

This textbook enhances the employability skills of students in the following ways:

- It provides a background on all the major personal finance functions, which is essential for employment in financial services fields such as banking or insurance, where personal customer service is crucial.
- It enables students to develop their own personal financial plan, which is a necessary skill in order to pursue employment as a financial advisor.
- The financial planning exercises and cases give students experience in critical thinking, and solving dilemmas, which is necessary for many occupations.
- The personal budgeting and financial planning skills that students attain can be applied to many occupations in the business world, because businesses must manage liquidity and financing in order to accommodate their spending plans.

This table identifies which features and end-of-chapter materials will help students to develop their employability skills:

	Communication	Critical Thinking	Collaboration	Knowledge Application and Analysis	Business Ethics and Social Responsibility	Information Technology and Computing Skills	Data Literacy
Building Your Own Financial Plan	✓	✓		✓		✓	✓
Financial Planning Problems	✓	✓		✓		✓	✓
Financial Planning Online Exercises		✓		✓		✓	✓
Example: Stephanie Spratt		✓		✓			✓

	Communication	Critical Thinking	Collaboration	Knowledge Application and Analysis	Business Ethics and Social Responsibility	Information Technology and Computing Skills	Data Literacy
Case: The Sampsons	✓	✓	✓	✓	✓	✓	✓
Case: Brad Brooks	✓	✓	✓	✓	✓	✓	✓
Ethical Dilemmas		✓		✓	✓		✓
Web Search Exercise		✓		✓		✓	✓
Video Exercise		✓		✓		✓	✓
Projects (Appendix B)	✓	✓	✓	✓			✓

Instructor Teaching Resources

The following array of supplementary materials is available to help busy instructors teach more effectively and to allow busy students to learn more efficiently.

Supplements available to instructors at *www.pearsonhighered.com/madura*	**Features of the Supplement**
Instructor's Manual authored by Mike Casey	• Chapter-by-chapter summaries • Examples and activities not in the main book • Teaching tips • Solutions to all questions and problems in the book
Test Bank authored by Alan Wolk	Over 2,000 multiple-choice, true/false, and short-answer questions with these annotations: • Difficulty level (1 for straight recall, 2 for some analysis, 3 for complex analysis) • Topic (the term or concept the question supports) • AACSB learning standard (Written and Oral Communication; Ethical Understanding and Reasoning; Analytical Thinking; Information Technology; Interpersonal Relations and Teamwork; Diverse and Multicultural Work; Reflective Thinking; Application of Knowledge)
Computerized TestGen	TestGen allows instructors to: • Customize, save, and generate classroom tests • Edit, add, or delete questions from the Test Item Files • Analyze test results • Organize a database of tests and student results
PowerPoints authored by Mike Casey	Slides includes graphs, tables, and equations in the textbook. PowerPoints meet accessibility standards for students with disabilities. Features include, but not limited to: • Keyboard and Screen Reader access • Alternative text for images • High color contrast between background and foreground colors

List of Reviewers

Pearson sought the advice of many excellent reviewers, all of whom strongly influenced the organization, substance, and approach of this book. The following individuals provided extremely useful evaluations:

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Financial Literacy PRE-TEST

The following test will help you determine how much you already know about personal finance. It contains basic questions that can determine your ability to make proper financial planning decisions. This text explains the concepts identified in the test that are essential to make financial planning decisions. It also covers more analytical concepts that can allow you to develop an effective financial plan.

After taking the test, grade your performance based on the answers provided at the end of the test.

1. If you give something up as a result of making a decision, you are incurring a(n) ________.
   a. liquidity problem
   b. net cost
   c. opportunity cost
   d. none of the above
2. ________ sell shares to individuals and invest the proceeds in investment instruments such as bonds or stocks.
   a. Financial plans
   b. Budget plans
   c. Mutual funds
   d. none of the above
3. When finding the present value of a future value or the present value of an annuity, the ________ the interest rate, the ________ the present value.
   a. higher; higher
   b. lower; lower
   c. higher; lower
   d. none of the above
4. ________ reduce taxable income if the taxpayer does not itemize.
   a. The standard deduction
   b. Dividends
   c. Capital gains
   d. none of the above
5. When the Federal Reserve wishes to ________ interest rates, it ________ the amount of funds at commercial banks.
   a. reduce; reduces
   b. increase; increases
   c. reduce; increases
   d. Answers (a) and (b) are correct.
6. A ________ offered by a depository institution specifies a minimum amount that must be invested, a maturity date on which the deposit matures, and an annualized interest rate.
   a. NOW account
   b. money market deposit account
   c. certificate of deposit
   d. savings account
7. In all cases of identity theft, you should notify the ________.
   a. FTC
   b. U.S. Postal Service
   c. FBI
   d. Secret Service
8. The ________ quoted on credit represents the simple interest rate charged after including any fees imposed by the creditor.
   a. annual percentage rate (APR)
   b. money market rate (MMR)
   c. effective annual rate (EAR)
   d. debit card rate (DCR)

9. Which of the following is not a disadvantage of leasing?
   a. You may have to purchase more car insurance than you already have.
   b. You must worry about finding a buyer for the car at the end of the lease period.
   c. You have no equity investment in the car.
   d. You may be charged if you drive more than a maximum number of miles specified in the original lease agreement.
10. When purchasing a home, which of the following costs will you not incur?
   a. Closing costs
   b. Loan application fee
   c. Real estate broker's commission
   d. Down payment
11. A deductible of $500 requires ________.
   a. you to pay the first $500 in damages
   b. the party at fault to pay the first $500 in damages
   c. the insurance company to pay the first $500 in damages
   d. none of the above
12. ________ is not a source of disability income insurance.
   a. Insurance from Social Security
   b. Employer disability insurance
   c. Insurance from worker's compensation
   d. All of the above are sources of disability income insurance.
13. For a given life insurance policy with specific benefits, the insurance premium is ________ related to one's age.
   a. rarely
   b. never
   c. positively
   d. inversely
14. ________ is not a common investment mistake made by individuals.
   a. Making decisions based on unrealistic goals
   b. Borrowing to invest
   c. Taking risks to recover losses from previous investments
   d. All of the above are common investment mistakes made by individuals.
15. When investors purchase stock on margin, they
   a. are buying stock in the over-the-counter market.
   b. are using a buy-stop order.
   c. are borrowing money from the brokerage firm to fund part of the purchase.
   d. are lending money to the brokerage firm.
16. The ________ a bond provides credit.
   a. shareholder of
   b. investor in
   c. issuer of
   d. none of the above
17. Which of the following is not a motive for investing in mutual funds?
   a. The expertise of the portfolio managers who decide how to invest the money you provide
   b. Mutual funds are designed to meet specific investment goals
   c. Investing in a broadly diversified portfolio with a small initial investment
   d. All of the above are motives for investing in mutual funds.
18. The price at which an option can be exercised is the ________.
   a. premium
   b. put add-on
   c. call price
   d. exercise price
19. Individuals subject to a ________ income tax rate enjoy the greatest tax benefits as a result of using a retirement plan.
   a. middle
   b. high
   c. zero
   d. low
20. The executor of a will is also referred to as the ________.
   a. grantor
   b. guardian
   c. personal representative
   d. trustee

Answers

1. C	11. A
2. C	12. D
3. C	13. C
4. A	14. D
5. C	15. C
6. C	16. B
7. A	17. D
8. A	18. D
9. B	19. B
10. C	20. C