Focus on Personal Finance 2024 Release 1st edition Kapoor Solutions Manual

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Kapoor, Focus on Personal Finance

Chapter 01 Solutions

(*Note:* Some of these problems require the use of an online calculator, app, financial calculator, or spreadsheet software.)

1. Using the Rule of 72, approximate the following amounts: (LO1.1)
    a. If the value of land in an area is increasing 6% a year, how long will it take for property values to double?

    About 12 years (72/6)

    b. If you earn 10% on your investments, how long will it take for your money to double?

    About 7.2 years (72/10)

    c. At an annual interest rate of 5%, how long will it take for your savings to double?

    About 14.4 years (72/5)

2. In 2022, selected automobiles had an average cost of $16,000. The average cost of those same automobiles is now $20,000. What was the rate of increase for these automobiles between the two time periods? (LO1.1)

    ($20,000 – $16,000)/$16,000 = 0.25 (25%)

3. A family spends $62,000 a year for living expenses. If prices increase 4% a year for the next 3 years, what amount will the family need for their living expenses after 3 years? (LO1.1)

    $69,741.57

4. Edie Morgan plans to buy a house for $280,000. If the real estate in Edie's area is expected to increase in value 2% each year, what will its approximate value be 7 years from now? (LO1.2)

    $321,632

5. What would be the yearly earnings for a person with $6,000 in savings at an annual interest rate of 1.8%? (LO1.3)

    $6,000 × 0.018 = $108

6. Using an online calculator, app, financial calculator, or spreadsheet software, calculate the following: (LO1.3)
    a. The future value of $650 six years from now at 6%.

    $922

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b. The future value of $1,200 saved each year for 10 years at 7%.

$16,579.74

c. The amount a person would have to deposit today (present value) at a 5% interest rate to have $1,000 five years from now.

$784

d. The amount a person would have to deposit today to be able to take out $500 a year for 10 years from an account earning 8%.

$3,355

7. If you desire to have $26,000 for a down payment for a house in 5 years, what amount would you need to deposit today? Assume that your money will earn 5%. (LO1.3)

$20,371.68

8. Pedro Montez is planning to go to graduate school in a program of study that will take 3 years. He wants to have $8,000 available each year for various school and living expenses. If he earns 3% on his money, how much must he deposit at the start of his studies to be able to withdraw $8,000 a year for 3 years? (LO1.3)

$22,628.89

9. Carla Lopez deposits $2,800 a year into her retirement account. If these funds have average earnings of 7% over the 40 years until her retirement, what will be the value of her retirement account? (LO1.3)

$558,978

10. If a person spends $10 a week on coffee (assume $500 a year), what would be the future value of that amount over 10 years if the funds were deposited in an account earning 3%? (LO1.3)

$5,732

11. A financial company that advertises on television will pay you $60,000 now for annual payments of $10,000 that you are expected to receive for a legal settlement over the next 10 years. If you estimate the time value of money at 10%, would you accept this offer? (LO1.3)

The present value of the annual payment is $61,445.67.
The $60,000 being offered now is less than the present value of the future flow.

12. Adele Lee plans to set aside $4,200 a year for the next 7 years, earning 4%. What would be the future value of this savings amount? (LO1.3)

$33,173

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13. If you borrow $8,000 with a 5% interest rate to be repaid in five equal payments at the end of the next 5 years, what would be the amount of each payment? (*Note:* Use an online calculator, app, financial calculator, or spreadsheet software.) (LO1.3)

    $1,848

(*Note:* Some of these problems require the use of the time value of money tables in the Chapter 1 Appendix, a financial calculator, or spreadsheet software.)

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Chapter 1

Personal Financial Planning in Action

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OVERVIEW OF THE CHAPTER

This chapter provides the foundation for Focus on Personal Finance and the study of financial planning. The chapter starts with a discussion of social and economic factors that make up the financial planning environment. Next, the main components of financial planning (obtaining, planning, saving, borrowing, spending, managing risk, investing, and retirement and estate planning) are discussed. This is followed by guidelines for creating personal financial goals. Then, the opportunity costs, or trade-offs, of decisions are considered in relation to personal and financial resources. This is followed by coverage. Finally, an overview of the financial planning process along with strategies for creating and using a financial plan are introduced.

1.1 Making Financial Decisions

LO: Identify personal and economic influences on financial literacy and personal financial decisions.

Financial decisions are affected by a person's life situation (income, age, household size, and health), personal values, and economic factors (prices, interest rates, and employment opportunities). The major elements of financial planning are obtaining, planning, saving, borrowing, spending, managing risk, investing, and retirement and estate planning.

1.2 Developing and Achieving Financial Goals

LO: Create personal financial goals.

Financial goals should take a S-M-A-R-T approach with goals that are: Specific, Measurable, Action-oriented, Realistic, and Time-based.

1.3 Opportunity Costs and the Time Value of Money

LO: Calculate time value of money situations to analyze personal financial decisions.

Every decision involves a trade-off with things given up. Personal opportunity costs include time, effort, and health. Financial opportunity costs are based on the time value of money. Future value and present value calculations enable you to measure the increased value (or lost interest) that results from a saving, investing, borrowing, or purchasing decision.

1.4 A Plan for Personal Financial Planning

LO: Develop and implement a plan for making personal financial and career decisions.

Personal financial planning involves the following process: (1) determine your current financial situation; (2) develop financial goals; (3) identify alternative

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courses of action; (4) evaluate alternatives; (5) create and implement a financial action plan; and (6) review and revise the financial plan.

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TEACHING RESOURCES

Section	Title
1.1: Making Financial Decisions	Apps for Personal Financial Planning
	Financial Literacy Survey
	Life Events That Require Financial Planning
	Inflation Calculator
	Interest Rates and Personal Finance
	Money Personality Types
	Money Script
	Life Values Quiz
	Lifestyle Inflation
	Financial Health Survey Results
	Financial Literacy for Children
1.2: Developing and Achieving Financial Goals	Smart Financial Goals
	Goal-Setting Guidelines
	Money Habits of Different Generations
	Financial Goals for Young Adults
	Non-Financial Goals
1.3: Opportunity Costs and the Time Value of Money	Opportunity Costs
	TVM Calculator
	Time Value of Money Real-Life Example
	Why Does Time Value of Money Matters?
1.4: A Plan for Personal Financial Planning	Building Wealth in Your 20s and 30s
	Wise Personal Financial Actions
	Investment Risk Tolerance Assessment

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	Choosing a Financial Advisor
	Personal Financial Planning Apps
	Personal Financial Satisfaction Survey
	Your Financial Well-Being Score
	Creating a Personal Financial Plan
	Successful Financial Planning Actions
	Personal Finance Hacks
	Where to Keep Emergency Fund
	Financial Regrets
	Money Mistakes of Young Couples
	FinTech
	Career Choice and Financial Planning

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1.1 Making Financial Decisions

Pages: 2–8
PowerPoint Slides: 1–12

Interactive Resources:
Discussion Question:
What is the main benefit of wise financial planning?

Answer: While student answers will vary, most students will address issues related to avoiding difficulties, reducing debt, and increasing long-term security.

Assignment: Have students use online research and information from friends and relatives to compare current prices with those of 5 or 10 years ago.

Classroom Resources:

Have students talk about the benefits of financial planning apps.
Apps for Personal Financial Planning

Have students take this financial literacy assessment to determine their current level of knowledge.
Financial Literacy Survey

Have students discuss actions that might be taken when encountering various life events.
Life Events That Require Financial Planning

Ask students to compare prices for various items today with prices in the past.
Inflation Calculator

Have student suggest possible actions when interest rates are rising and falling.
Interest Rates and Personal Finance

Have students identify their money personality type, and also talk to others about their money type.
Money Personality Types

Have students talk to family members or others to learn about their personal money attitudes and financial behaviors.
Money Script

What actions would you suggest to avoid lifestyle inflation?
Life Values Quiz

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What actions would you recommend to businesses, government, and community organizations based on the findings in this study?
Financial Health Survey Results

Describe actions to teach wise personal finance to younger people.
Financial Literacy for Children

Connect Resources:
End of Chapter Problems (Static & Algorithmic)
Test Bank Problems (Static & Algorithmic)

Videos with assignable questions:
The Financial System

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Section 1.1 Key Concepts:

Your Life Situation and Financial Planning

- Personal financial planning is the process of managing your money to achieve personal economic satisfaction.
- A **financial plan** is a formalized report that summarizes your current financial situation, analyzes your financial needs, and recommends a direction for your financial activities.
- Financial activities may be organized on the basis of spending, saving, investing, and borrowing decisions.
- The financial planning environment is affected by life situation, personal values, and economic factors.
  - The personal factors include your age, income, size of household, and your attitudes and beliefs. Your life situation is affected by various personal events.
  - Values are personal beliefs and ideas that a person considers correct, desirable, and important.

Financial Planning in Our Economy

- Economic conditions (supply and demand, prices, and interest rates) and economic institutions (business, labor, and government) also affect personal finance.
- **Economics** is the study of how wealth is created and distributed.
- The Federal Reserve System, referred to as **The Fed**, is our central banking system. It influences the money supply by borrowing funds, changing interest rates, and buying or selling government securities.
- The spending by Americans for foreign goods and services and the investment in our country by foreign companies affect the interest rates and prices in our society.
- The main cause of inflation is an increase in demand without a comparable increase in supply. Inflation is most harmful to people who live on fixed incomes.
- Consumer prices, consumer spending, interest rates, and other economic factors affect the financial planning environment.

Note: *Exhibit 1-1* provides an overview of life factors that affect financial decisions as well as common goals and activities.

Inflation

- **Inflation** is a rise in the general level of prices. In times of inflation, the buying power of the dollar decreases.
- The **rule of 72** can be used to determine how fast prices will double; divide 72 by the current inflation rate. For example, with inflation of 6%, prices will double in 12 years (72/6 = 12).

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Note: *Exhibit 1-2* provides an overview of the participants and components of the financial system in which personal financial decisions are made.

Note: The *CAUTION!* offers a warning about how bad money habits typically begin.

Interest Rates

- **Interest rates** represent the cost of money. Like everything else, money has a price. The forces of supply and demand influence interest rates. As the amount saved and invested by consumers increases the supply of money, interests rates tend to decrease.
- But as consumer, business, government, and foreign borrowing increase, the demand for money, interest rates also tend to increase.

Financial Planning Activities

- The eight major components of personal financial planning are:
  1. obtaining financial resources (Chapter 1)
  2. planning for current living expenses and future financial security (Chapters 2, 3)
  3. saving for emergencies, unexpected bills, replacement of major items, and special purchases (Chapters 2, 4)
  4. borrowing in a responsible manner (Chapter 5)
  5. spending to meet daily living needs (Chapters 6, 7)
  6. managing risk through insurance decisions (Chapters 8, 9, 10)
  7. investing for long-term financial security (Chapters 11, 12, 13)
  8. retirement and estate planning (Chapter 14)

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Practice Quiz 1-1

1. How do personal and economic factors affect the operation of the financial system and personal financial decisions?

   Personal factors, such as income, household size, age, and personal value, and economic factors including global business activities, inflation, and interest rates, will influence a person's daily spending activities and long-term financial decisions through the amount of income available, buying needs, and selection of investments.

2. For each of the following situations, indicate if the person would tend to "suffer" or tend to "benefit" from inflation.

A person with money in a savings account.	Suffer
A person who is borrowing money.	Benefit
A person who is lending money.	Suffer
A person receiving a fixed income amount.	Suffer

3. What are the advantages of effective personal financial planning?

   Answers will vary.
   The advantages include a secure retirement, peace of mind, among other things.

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1.2 Developing and Achieving Financial Goals

Pages: 9–10
PowerPoint Slides: 13–15

Interactive Resources:
Discussion Question:
Why do Americans seem to have more money problems than people in other countries?

Answer: Common answers will be: Poor financial planning, weak money management, and the pervasiveness of advertising.

Assignment: Have students conduct a survey to determine the factors that influence store choice and place of purchase among consumers.

Classroom Resources:

Ask students to discuss some of their current and future financial goals.
Smart Financial Goals

What suggestions do students have for setting personal financial goals?
Goal-Setting Guidelines

Based on the data, suggest actions various groups might take for improved personal money management.
Money Habits of Different Generations

What advice in this video do you believe is most valuable for your personal situation?
Financial Goals for Young Adults

Have students list free and low-cost activities that can enhance personal and career development.
Non-Financial Goals

Connect Resources:
End of Chapter Problems (Static & Algorithmic)
Test Bank Problems (Static & Algorithmic)

Videos with assignable questions:
Goal-Setting Guidelines

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Section 1.2 Key Concepts:

- Many Americans have money problems due to:
  - poor planning
  - weak financial habits
  - extensive number of marketplace influences in the form of advertising, selling efforts, and product availability

Types of Financial Goals

- *Short-term goals* are those to be achieved within the next year or so, such as saving for an annual vacation or paying off small debts.
- *Intermediate goals* have a time frame of 2 to 5 years.
- *Long-term goals* involve financial plans that may be more than 5 years off, such as retirement and college savings.
- *Consumable-product goals* usually occur on a periodic basis involving items used up relatively quickly, such as food, clothing, or entertainment spending.
- *Durable-product goals* usually involve infrequent, expensive items, such as appliances, motor vehicles, and sporting equipment. Most durable goals consist of tangible items. In contrast, however, many people overlook *intangible goals*. These goals may relate to personal relationships, health, education, and leisure. Goal setting for these life circumstances is also necessary for a person's overall well-being.

Goal-Setting Guidelines

- Financial goals should take a SMART approach, in that they should be:
  S—*specific,* know exactly what your goals are.
  M—*measurable* by a specific amount.
  A—*action-oriented,* providing the basis for the personal financial activities.
  R—*realistic,* involving goals based on your income and life situation.
  T—*time-based,* indicating a time frame for achieving the goal.

Note: The *Money Minute Focus* provides advice on how to become financially disciplined.

Note: The *Financial Literacy Focus* feature provides a guide to creating financial goals and evaluating your current financial activities for achieving goals.

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Practice Quiz 1-2

1. What are some examples of long-term goals?

   Long-term goals are financial objectives more than just a few years off (usually more than 5 years), such as retirement savings, money for children's college education, or other long-term savings goals.

2. What are the main characteristics of useful financial goals?

Useful financial goals should be: (1) specific, (2) measurable, (3) action-oriented, (4) realistic, and (5) time-based.

3. Match the following common goals to the life situation of the people listed.

A. Pay off student loans	C	A young couple without children
B. Start a college savings fund	D	An older person living alone
C. Increase retirement contributions	A	A person who just completed college
D. Finance long-term care	B	A single mother with a preschool female offspring

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1.3 Opportunity Costs and the Time Value of Money

Pages: 11–14
PowerPoint Slides: 16–27

Interactive Resources:
Discussion Question:
Ask students what they think are possible drawbacks associated with not considering opportunity costs and time value of money when making financial decisions?

Answer: If the trade-offs that occur with every decision are overlooked, a person may make choices that have unexpected consequences. For example, a failure to consider the time needed for studies when working full time and going to school can result in poor grades and wasted tuition money.

Classroom Resources:

Have students list various personal and financial opportunity costs in their lives.
Opportunity Costs

Have students calculate the present value and future value for various personal financial decisions.
TVM Calculator

Have students describe situations when they might use time value of money calculations.
Time Value of Money Real-Life Example

Have students discuss the benefits of time value of money calculations.
Why Does Time Value of Money Matters?

Connect Resources:
End of Chapter Problems (Static & Algorithmic)
Test Bank Problems (Static & Algorithmic)

Videos with assignable questions:
- *Future Value—Single Amount*
- *Future Value—Annuity*
- *Present Value—Single Amount*
- *Present Value—Annuity*

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Interactive Application-Based Activity (Mini-Simulation):

Basics and the Time Value of Money

In this activity, you will play the role of Jamie Lee's mother. Jamie Lee, 23, has recently decided to switch from attending college part-time to full-time in order to pursue her business degree and aims to graduate within the next 3 years. Help Jamie Lee with making smart personal financial decisions.

Activity Type: Role-Playing
Time on Task: 10–15 min
Difficulty Level: Easy
Bloom's Level: Analyzing

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Section 1.3 Key Concepts:

- In every financial decision, you will sacrifice something in order to obtain something else that you consider desirable. Opportunity costs may be viewed in terms of both personal and financial resources.

Personal Opportunity Costs

- The most common personal opportunity cost is time.
- Time spent studying, working, or shopping cannot be used for other activities.

Financial Opportunity Costs

- Like time, money allocated for one purpose cannot be used for another.
- The *time value of money* refers to the increase of an amount of money as a result of interest earned.

Interest Calculations

- Computation of interest is based on:
  - the amount of the savings
  - the annual interest rate
  - the length of time the money remains deposited.

Future Value

- *Future value*, also referred to as *compounding*, is the amount to which current savings will increase based on a certain interest rate and a certain time period. Future value calculations may be used for both a single amount and equal deposits. (See the calculation table in the book.)

Note: The *Chapter 1 Appendix* provides expanded coverage of future value and present value calculations.

Present Value

- *Present value*, also referred to as *discounting*, is the current value for a future sum based on a certain interest rate and a certain time period. Present value calculations may also be used for both a single amount and a series of amounts. (See the calculation table in the book.)

Note: The *Money Minute Focus* explains how starting to invest earlier compares to starting later in life.

Note: The *Go Figure!* feature provides two detailed examples for time value of money applications.

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Practice Quiz 1-3

1. What are some examples of personal opportunity costs?

   Personal opportunity costs include time used for one activity that cannot be used for other activities. Other personal opportunity costs relate to health, for example, poor eating habits, lack of sleep, or avoiding exercise.

2. What does time value of money measure?

   Time value of money calculations (future value and present value) are used to compute interest earned and the value of a sum of money at a later date.

3. Use a financial calculator, app, or online calculator to calculate the following:

a.	The future value of $100 at 7% in 10 years	$100 × 1.967 = $196.70
b.	The future value of $100 a year for 6 years earning 6%	$100 × 6.975 = $697.50
c.	The present value of $500 received in 8 years with an interest rate of 8%.	$500 × 0.54 = $270

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1.4 A Plan for Personal Financial Planning

Pages: 15–22
PowerPoint Slides: 28–34

Interactive Resources:
Discussion Questions:
What factors in an economy might affect the level of interest rates?

Answer: While inflation is the main factor that affects the level of interest rates, other influences include company risk and political uncertainty.

Ask students to describe risks that they think they may encounter when making financial decisions over the next few years.

Answer: Students might mention inflation, income uncertainty, higher interest rates, changing family situations, and poor money management decisions.

Discuss the boxed examples in the book for each step of the Financial Planning Process and have students answer the questions associated with the example. Encourage them to answer the questions associated with the "Example From Your Life" element.

Classroom Resources:

Are these suggestions realistic for most young people?
Building Wealth in Your 20s and 30s

Have students talk about the suggestions they are currently using.
Wise Personal Financial Actions

Have students report and comment on their results of this assessment.
Investment Risk Tolerance Assessment

Have students create a list of questions to ask when selecting a financial advisor.
Choosing a Financial Advisor

Have students talk about the benefits of financial planning apps.
Personal Financial Planning Apps

Based on this survey instrument, what factors affect your personal financial satisfaction?
Personal Financial Satisfaction Survey

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Have students take this assessment and develop a personal plan for their financial planning activities.
Your Financial Well-Being Score

What actions are commonly overlooked when doing financial planning?
Creating a Personal Financial Plan

Which actions in the article would be most beneficial to your personal situation?
Successful Financial Planning Actions

Ask students how they would decide if a personal hack will be of value.
Personal Finance Hacks

What factors might a person consider when selecting a savings instrument for storing money for emergencies?
Where to Keep Emergency Fund

What factors might create situations that result in a financial regret?
Financial Regrets

Have students talk to others for information on money actions that have been successful in their relationships.
Money Mistakes of Young Couples

What financial literacy and money management activities be improved with FinTech? Describe concerns that might be associated with expanded used of FinTech.
FinTech

Have students describe the relationship between careers and personal finance.
Career Choice and Financial Planning

Connect Resources:
End of Chapter Problems (Static & Algorithmic)
Test Bank Problems (Static & Algorithmic)

Videos with assignable questions:
Personal Financial Planning Process

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Section 1.4 Key Concepts:
The financial planning process can be viewed as a six-step procedure that can be adapted to any life situation:

1. Determine Your Current Financial Situation
2. Develop Your Financial Goals
3. Identify Alternative Course of Action
4. Evaluate Your Alternatives
5. Create and Implement Your Financial Action Plan
6. Review and Revise Your Action Plan

Note: The graphic at the top of *Section 1.4* provides a visual framework of the three areas to which income will be allocated.

Step 1. Determine Your Current Financial Situation
- Determine your current financial situation with regard to income, savings, living expenses, and debts.

Note: *Exhibit 1-3* shows the financial planning process cycle.

Step 2. Develop Your Financial Goals
- Analyze your financial values and goals to set a course for action.

Note: The *Money Minute Focus* points out common financial planning mistakes according to financial advisers.

Step 3. Identify Alternative Courses of Action
- Various alternatives associated with financial decision making are usually based on deciding to:
  - *Continue the same course of action*; for example, you may determine that the amount saved each month is still appropriate.
  - *Expand the current situation*; you may choose to save a greater amount each month.
  - *Change the current situation*; you may decide to buy U.S. savings bonds instead of using a regular savings account.
  - *Take a new course of action*; you conclude to use your monthly saving budget to pay off credit card debts.

Creativity in decision making is vital to making effective choices. The more alternatives that are considered, the more likely a person or household will make wise financial choices.

Note: The *FinTech Focus* explains financial technology and provides examples of recent innovations.

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Step 4. Evaluate Your Alternatives

Consequences of Choices

- Every decision closes off alternatives. The *opportunity cost* is what a person gives up by making a choice. This cost, commonly referred to as the trade-off of a decision, sometimes cannot be measured in dollars.
- Decision making will be an ongoing part of your personal and financial existence. Thus, you will need to consider the lost opportunities that result from your decisions.

Evaluating Risk

- Uncertainty is a part of every decision. In many financial decisions, identifying and evaluating risk is a difficult task. The best way to consider risk in such decisions is to gather information based on your experiences and those of others and refer to the research of financial planning sources.

Financial Planning Information Sources

- Relevant information is required at each stage of the financial planning process.
- Common sources available to help with financial decisions include:
  1. online sources and apps
  2. financial institutions
  3. media sources
  4. financial specialists

Step 5. Create and Implement Your Financial Action Plan

- Develop a plan of action to achieve your goals.

Note: *Exhibit 1-4* presents an overview of a financial plan which includes examples of goals, short-term activities, and long-term strategies.

Note: The *Financial Literacy Focus* contrasts two paths for financial security.

Step 6. Review and Revise Your Plan

- Decision making is a circular, ongoing process in which current decisions influence future choices.

Note: The *Digital Financial Literacy With… Kiplinger's* discusses how to improve your digital financial literacy.

Career Choice and Financial Planning

- The average person changes jobs seven times during a lifetime.
- The lifework you select is a key to your financial well-being and personal satisfaction.

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- Like other decisions, career choice and professional development alternatives have risks and opportunity costs.
- The steps of the financial planning process can provide an approach to career planning, advancement, and career change.

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Practice Quiz 1-4

1. What actions might a person take to identify alternatives when making a financial decision?

   A person might: (1) continue the same course of action; (2) expand the current situation; (3) change the current situation; or (4) take a new course of action.

2. Why are career planning activities considered to be personal financial decisions?

   Like other decisions, career choice and professional development alternatives have risks and opportunity costs. Career choices require periodic evaluation of trade-offs related to personal, social, and economic factors. Changing personal and social factors will require you to continually assess your work situation. The steps of the financial planning process can provide an approach to career planning, advancement, and career change.

3. For the following situations, identify the type of risk being described.

PERSONAL	not getting proper rest and exercise
LIQUIDITY	not being able to obtain cash from a certificate of deposit before the maturity date
INTEREST RATE	taking out a variable rate loan when rates are expected to rise
INCOME	training for a career field with low potential demand in the future

4. For the following sources of personal finance information, list a specific website, organization, or person whom you might contact in the future.

   Student answers will vary.

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Concluding Activities

- Discuss “Your Personal Finance Dashboard” and possible financial planning actions.
- Point out the chapter summary and key terms in the text margin.
- Assign and discuss selected End of Chapter Problems, In Real Life: Personal Finance, and Continuing Case.
- Discuss “Your Personal Financial Plan” worksheets.
- Use the Chapter Quiz in the Instructor’s Manual.

CHAPTER 1 QUIZ ANSWERS

True/False	*Multiple Choice*
1. T	6. B
2. F	7. C
3. T	8. D
4. T	9. A
5. F	10. B

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Name _____ Date _____

CHAPTER 1 QUIZ

TRUE/FALSE

_____1. A major purpose of personal financial planning is future economic security.
_____2. Personal financial planning starts by creating a plan of action.
_____3. Inflation reduces the buying power of a dollar.
_____4. Savings and investment programs are the main method for achieving financial goals.
_____5. A financial plan is a list of a family's spending for the next month.

MULTIPLE CHOICE

_____6. Opportunity cost refers to _____
a. your personal values.
b. trade-offs when a decision is made.
c. current economic conditions.
d. commonly accepted financial goals.

_____7. The final step in the financial planning process is to _____
a. create a financial plan of action.
b. develop financial goals.
c. review and revise your actions.
d. implement your financial plan.

_____8. Economics refers to _____
a. setting personal financial goals.
b. planning future financial security.
c. changes in prices due to supply and demand.
d. the study of wealth.

_____9. Career planning is the part of the _____ component of financial planning.
a. obtaining
b. sharing
c. saving
d. planning

_____10. Financial strategies refer to _____
a. the process of predicting your future financial situation.
b. courses of action to achieve financial goals.
c. resources an individual has available for investing.
d. ideas or principles that are considered correct, desirable, or important.

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Supplemental Activity 1

Financial Planning Through the Your Life

People in their 20s–30s should . . .

- Start saving regularly and invest for the long haul for retirement, children's education, or a down payment on a house.
- Make contributions to tax-deductible retirement plans.
- Create a diversified portfolio of common stock.
- Have adequate health and property insurance; however, consider going without life insurance if they have no dependents.

People in their 40s–50s should . . .

- Maximize contributions to tax-advantaged retirement plans.
- Plan for adequate funds for children's college education.
- Use stocks and stock funds for the largest share of long-term investments.
- Review life, health, and home insurance for adequate coverage.

People 50-plus should . . .

- Not feel they have to preserve all their wealth for others.
- Be careful about retiring too young and not have adequate funds for what may be 30 more years.
- Maintain earnings potential with a part-time job after retirement.
- Not put all funds in fixed-income securities such as bank accounts and bonds.
- consider a long-term care insurance policy.

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Supplemental Activity 2

The Certified Financial Planner Board of Standards conducted a survey of financial planning practitioners to identify common mistakes of their clients. Below are the 11 most common responses. Guess their correct order, ranking them highest to lowest.

___ Believe that financial planning is primarily tax planning.
___ Make a financial decision without understanding its effect on other financial issues.
___ Confuse financial planning with investing.
___ Don't set measurable financial goals.
___ Think that financial planning is only for the wealthy.
___ Expect unrealistic return on investments.
___ Neglect to reevaluate their financial plan periodically.
___ Think that financial planning is the same as retirement planning.
___ Think that using a financial planner means losing control of their decisions.
___ Wait until they have a money crisis to begin financial planning.
___ Think that financial planning is something you can do when you get older.

Answers:

The correct order is:
1. Don't set measurable financial goals.
2. Make a financial decision without understanding its effect on other financial issues.
3. Confuse financial planning with investing.
4. Neglect to reevaluate their financial plan periodically.
5. Think that financial planning is only for the wealthy.
6. Think that financial planning is something you can do when you get older.
7. Think that financial planning is the same as retirement planning.
8. Wait until they have a money crisis to begin financial planning.
9. Expect unrealistic return on investments.
10. Think that using a financial planner means losing control of their decisions.
11. Believe that financial planning is primarily tax planning.

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PROBLEMS

(Note: Time Value of Money (TVM) Problem solutions include TVM tables (included in Connect as well as inputs for use with an online calculator, app, financial calculator, or spreadsheet software.)

1. Using the rule of 72, approximate the following amounts. (LO 1.1)

a. If the value of land in an area is increasing 6% a year, how long will it take for property values to double?

About 12 years (72/6)

b. If you earn 10% on your investments, how long will it take for your money to double?

About 7.2 years (72/10)

c. At an annual interest rate of 5%, how long will it take for your savings to double?

About 14.4 years (72/5)

2. In 2022, selected automobiles had an average cost of $16,000. The average cost of those same automobiles is now $20,000. What was the rate of increase for these automobiles between the two time periods? (LO 1.1)

($20,000 − $16,000)/$16,000 = 0.25 (25%)

a. The future value of $450 six years from now at 6 percent.
b. The future value of $800 saved each year for 10 years at 8 percent.
c. The amount a person would have to deposit today (present value) at a 6 percent interest rate to have $1,000 four years from now.
d. The amount a person would have to deposit today to be able to take out $500 a year for 10 years from an account earning 7 percent.

3. A family spends $62,000 a year for living expenses. If prices increase by 4% a year for the next 3 years, what amount will the family need for their living expenses after 3 years? (LO 1.1)

TVM Table: (FV-Lump Sum) $62,000 x 1.125 = $69,750

TVM Inputs:
The future value is solved by:

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$FV = PV(1 + r)^n$

$FV = \$62,000(1 + 0.04)^3$

$FV = \$69,741.57$

Using Excel:

FV = FV(rate,nper,pmt,pv)

FV = FV(0.04,3,0,-62000)

FV = $69,741.57

Using a financial calculator:

FV = 0 PMT, 3 N, 4 I/Y, -62000 PV, CPT FV $69,741.57

4. Edie Morgan plans to buy a house for $280,000. If the real estate in his area is expected to increase in value by 2% each year, what will its approximate value be 7 years from now? (LO 1.1)

TVM Table: (FV-Lump Sum) $280,000 × 1.149 = $321,720

TVM Inputs:
The future value is solved by:

$FV = PV(1 + r)^n$

$FV = \$280,000(1 + 0.02)^7$

$FV = \$321,631.99$

Using Excel:

FV = FV(rate,nper,pmt,pv)

FV = FV(0.02,7,0,-280000)

FV = $321,631.99

Using a financial calculator:

FV = 0 PMT, 7 N, 2 I/Y, -280000 PV, CPT FV $321,631.99

5. What would be the yearly earnings for a person with $6,000 in savings at an annual interest rate of 1.8%? (LO 1.3)

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$6,000 × 0.018 = $108

6. Using an online calculator, app, or financial calculator, or spreadsheet software calculate the following. (LO 1.3)

a. The future value of $650 six years from now at 6%.

TVM Table: (FV-Lump Sum) $650 x 1.419 = $922.35

TVM Inputs:
The future value is solved by:

$FV = PV(1 + r)^n$

$FV = \$650(1 + 0.06)^6$

FV = $922.04

Using Excel:

FV = FV(rate,nper,pmt,pv)

FV = FV(0.06,6,0,-650)

FV = $922.04

Using a financial calculator:

FV = 0 PMT, 6 N, 6 I/Y, -650 PV, CPT FV $922.04

b. The future value of $1,200 saved each year for 10 years at 7%.

TVM Table: (FV-Annuity) $1,200 x 13.816 = $16,579.20

TVM Inputs:
The future value is solved by:

$FV = PMT[(1 + r)^n - 1] \div r$

$FV = \$1,200[(1 + 0.07)^{10} - 1] \div 0.07$

FV = $16,579.74

Using Excel:

FV = FV(rate,nper,pmt,pv)

FV = FV(0.07,10,-1200,0)

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FV = $16,579.74

Using a financial calculator:

FV = -1200 PMT, 10 N, 7 I/Y, 0 PV, CPT FV $16,579.74

c. The amount a person would have to deposit today (present value) at a 5% interest rate to have $1,000 five years from now.

TVM Table: (PV-Lump Sum) $1,000 x .784 = $784

TVM Inputs:
The present value is solved by:

$PV = FV \div (1 + r)^n$

$PV = \$1,000 \div (1 + 0.05)^5$

PV = $783.53

Using Excel:

PV = PV(rate,nper,pmt,fv)

PV = PV(0.05,5,0,-1000)

PV = $783.53

Using a financial calculator:

PV = 0 PMT, 5 N, 5 I/Y, -1000 FV, CPT PV $783.53

d. The amount a person would have to deposit today to be able to take out $500 a year for 10 years from an account earning 8%.

TVM Table: (PV-Annuity) $500 x 6.710 = $3,355

TVM Inputs:
The present value is solved by:

$PV = PMT[1 - 1 \div (1 + r)^n] \div r$

$PV = \$500[1 - 1 \div (1 + 0.08)^{10}] \div 0.08$

PV = $3,355.04

Using Excel:

PV = PV(rate,nper,pmt,fv)

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PV = PV(0.08,10,-500,0)

PV = $3,355.04
Using a financial calculator:

PV = -500 PMT, 10 N, 8 I/Y, 0 FV, CPT PV $3,355.04

7. If you desire to have $26,000 for a down payment for a house in 5 years, what amount would you need to deposit today? Assume that your money will earn 5%. (LO 1.3)

TVM Table: (PV-Lump Sum) $26,000 x .784 = $20,384

TVM Inputs:
The present value is solved by:

$PV = FV \div (1 + r)^n$

$PV = \$26,000 \div (1 + 0.05)^5$

PV = $20,371.68

Using Excel:

PV = PV(rate,nper,pmt,fv)

PV = PV(0.05,5,0,-26000)

PV = $20,371.68

Using a financial calculator:

PV = 0 PMT, 5 N, 5 I/Y, -26000 FV, CPT PV $20,371.68

8. Pedro Montez is planning to go to graduate school in a program of study that will take 3 years. Pete wants to have $8,000 available each year for various school and living expenses. If he earns 3% on his money, how much must he deposit at the start of his studies to be able to withdraw $8,000 a year for 3 years? (LO 1.3)

TVM Table: (PV-Annuity) $8,000 x 2.829 = $22,632

TVM Inputs:
The present value is solved by:

$PV = PMT[1 - 1 \div (1 + r)^n] \div r$

$PV = \$8000[1 - 1 \div (1 + 0.03)^3] \div 0.03$

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PV = $22,628.89

Using Excel:

PV = PV(rate,nper,pmt,fv)

PV = PV(0.03,3,-8000,0)

PV = $22,628.89

Using a financial calculator:

PV = -8000 PMT, 3 N, 3 I/Y, 0 FV, CPT PV $22,628.89

9. Carla Lopez deposits $2,800 a year into her retirement account. If these funds have an average earning of 7% over the 40 years until her retirement, what will be the value of her retirement account? (LO 1.3)

TVM Table: (FV-Annuity) $2,800 × 199.640 = $558,992

TVM Inputs:
The future value is solved by:

$FV = PMT[(1 + r)^n - 1] \div r$

$FV = \$2,800[(1 + 0.07)^{40} - 1] \div 0.07$

FV = $558,978.32

Using Excel:

FV = FV(rate,nper,pmt,pv)

FV = FV(0.07,40,-2800,0)

FV = $558,978.32

Using a financial calculator:

FV = -2800 PMT, 40 N, 7 I/Y, 0 PV, CPT FV $558,978.32

10. If a person spends $10 a week on coffee (assume $500 a year), what would be the future value of that amount over 10 years if the funds were deposited in an account earning 3%? (LO 1.3)

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TVM Table: (FV-Annuity) $500 × 11.464 = $5,732

TVM Inputs:
The future value is solved by:

$FV = PMT[(1 + r)^n - 1] \div r$

$FV = \$500[(1 + 0.03)^{10} - 1] \div 0.03$

FV = $5,731.94

Using Excel:

FV = FV(rate,nper,pmt,pv)

FV = FV(0.03,10,-500,0)

FV = $5,731.94

Using a financial calculator:

FV = -500 PMT, 10 N, 3 I/Y, 0 PV, CPT FV $5,731.94

11. A financial company that advertises on television will pay you $60,000 now for annual payments of $10,000 that you are expected to receive for a legal settlement over the next 10 years. If you estimate the time value of money at 10%, would you accept this offer? (LO 1.3)

TVM Table: (PV-Annuity) : $10,000 × 6.145 = $61,450
The $60,000 being offered now is less than the present value of the future flow.

TVM Inputs:
The present value is solved by:

$PV = PMT[1 - 1 \div (1 + r)^n] \div r$

$PV = \$10000[1 - 1 \div (1 + 0.10)^{10}] \div 0.10$

PV = $61,445.67

Using Excel:

PV = PV(rate,nper,pmt,fv)

PV = PV(0.10,10,-10000,0)

PV = $61,445.67

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Using a financial calculator:

PV = -10000 PMT, 10 N, 10 I/Y, 0 FV, CPT PV $61,445.67

12. Adele Lee plans to set aside $4,200 a year for the next 7 years, earning 4%. What would be the future value of this savings amount? (LO 1.3)

TVM Table: (FV-Annuity) $4,200 x 7.898 = $33,171.60

TVM Inputs:
The future value is solved by:

$FV = PMT[(1 + r)^n - 1] \div r$

$FV = \$4200[(1 + 0.04)^7 - 1] \div 0.04$

FV = $33,172.84

Using Excel:

FV = FV(rate,nper,pmt,pv)

FV = FV(0.04,7,-4200,0)

FV = $33,172.84

Using a financial calculator:

FV = -4200 PMT, 7 N, 4 I/Y, 0 PV, CPT FV = $33,172.84

13. If you borrow $8,000 with a 5% interest rate to be repaid in five equal payments at the end of the next 5 years, what would be the amount of each payment? (Note: Use a financial calculator.) (LO 1.3)

TVM Table: (Annuity-Payment) $8,000/4.329 = $1,848

TVM Inputs:
The payment amount is solved by:

$PMT = PV \times r \div [1 - 1 \div (1 + r)^n]$

$PMT = \$8,000 \times 0.05 \div [1 - 1 \div (1 + 0.05)^5]$

PMT = $1,847.80

Using Excel:
PMT = PMT(rate,nper,pv,fv)
PMT = PMT(0.05,5,-8000,0)

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PMT = $1,847.80

Using a financial calculator:
PMT = -8000 PV, 5 N, 5 I/Y, 0 FV, CPT PMT $1,847.80

My Financial Portfolio

MY FINANCIAL PORTFOLIO

Creating S-M-A-R-T goals.
Competency . . .
Develop personal financial goals.

Action Research . . .
Based on the S-M-A-R-T goal format discussed in this chapter, create three personal finance goals for your life or for someone else. Also refer to Your Personal Financial Plan Sheet 2 at the end of Chapter 1. Talk with several people about their financial goals. What are common goals for various personal situations? How have might employment situations affect financial decisions? Also, ask about potential risks involved with making financial decisions. What actions might be taken to investigate and reduce these risks?

Outcome . . .
Create three S-M-A-R-T goals: (1) one for SAVING; (2) one for SPENDING; and (3) one for SHARING, such as donating money, time, or skills to a charity or nonprofit. For each goal, develop an action plan (with three to five steps) presented in a visual format (flowchart, video, photo essay, PowerPoint presentation, or other visual format).

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In Real Life: A Financial Case

1. In each situation, what are the main financial planning issues that need to be addressed?

Situation 1: Fran and Ed must balance their current living expenses with increasing college costs, covering long-term care facility living expenses for Fran's mother, and saving for retirement.

Situation 2: Patrick needs to consider his spending activities in relation to the money he has available in his emergency fund, while also taking actions related to finding employment.

Situation 3: Nina must decide whether to spend or save these funds, and how. She should consider various alternatives for both short-term and long-term financial decisions.

2. What additional information would you like to have before recommending actions in each situation?

Student answers will vary. Some possible answers include:

Situation 1: Information for this situation might include: Fran and Ed's current ability to contribute to both a college savings fund and deposits to their retirement account; mortgage and other debts; potential for reducing current living expenses and increasing current income.

Situation 2: Knowing the additional training background and job skills of Patrick, along with information about his network of contacts and employment opportunities in the area, would be of value to guide his next actions.

Situation 3: Information about Nina's debts, current spending needs, and long-term financial goals would be of value to guide her decision. Also, using time value of money calculations to determine the future value of various savings and investment decisions as well as using present value calculations to determine amounts that should be saved to achieve various financial goals might be considered.

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3. Based on the information provided and your analysis of the situations, recommend actions related to (a) SMART goals, (b) spending, and (c) saving, for the Blakes, Patrick, and Nina.

Student answers will vary. However, suggested answers are likely to include:

Situation 1: The Blakes need to continue to set aside funds for the education of their children and make deposits to their retirement fund. The family may also consider actions for reducing current living expenses and increasing household income.

Situation 2: Patrick might be in contact with his professional and personal network of contacts to obtain information about employment opportunities. He might also take actions to reduce unnecessary spending and consider part-time employment. Also doing volunteer work and community service during this time could expand his resume and increase his network of career contacts.

Situation 3: As noted in the case, possible actions might relate to paying off credit card bills, saving a down payment on a house, making a deposit to a tax-deferred retirement account, obtaining additional career training, and making charitable contributions. Student choices will vary; be sure students give specific reasons for actions they propose.

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Ongoing Case

1. Using *Your Personal Plan Sheet #2,* what are Jamie Lee's short-term financial goals? How do they compare to her intermediate financial goals?

As stated in the text, financial goals should take the SMART approach: **S**pecific, **M**easurable, **A**ction-oriented, **R**ealistic, and **T**ime-based.

Jamie Lee's Short-Term Financial Goals include:	Jamie Lee's Intermediate Financial Goals include:
Depositing $1,800 per year in her savings account	Saving $9,000 needed to open a cupcake café within the next 5 years
Paying $50 per month toward her credit card balance in order to eliminate the balance	

2. Assess Jamie Lee's current financial situation. Using the *SMART* approach, what recommendations would you make for her to achieve her long-term goals?

Student responses will vary, but may include:
Jamie Lee will save an additional $20 per month in her savings account to reduce the student loan debt amount.

Jamie Lee will remain living with a roommate and sharing expenses for the next 5 years.

3. Name two opportunity costs that would be considered in Jamie Lee's situation?

Student responses will vary, but may include various answers that will demonstrate what Jamie Lee may sacrifice to obtain something else:

- Jamie Lee will remain living with a roommate to save money and not be able to consider a place of her own.
- Jamie Lee will not have free time to spend with friends while balancing a part-time job and full-time college courses.

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4. Jamie Lee needs to save a total of $9,000 to start her cupcake café venture. She is presently depositing $1,800 a year in a regular savings account earning 2% interest. How much will she have accumulated 5 years from now in this regular savings account, assuming she will be leaving her Emergency Fund savings account balance untouched?

Jamie is depositing $1,800 per year for 5 years in her "special" savings account that is earning a constant 2% interest per year. She will need to find out what is the future value of a series of deposits in order to know if she has the $9,000 down payment needed.

Using the table found in Exhibit 1-B: *Future Value of an Annuity* on page 41, the calculations are as follows:
$1,800 × 5.204 = **$9,367.20**

Yes. Jamie Lee will have enough saved in 5 years to have the $9,000 down payment needed to open her cupcake café.

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