

Chapter 18: Personal Finance

Lesson 1: Consumerism

- **Consumerism:** the education of buyers about their purchases--attempt to make products safer

- FDA: Food + Drug Administration

- FTC: Federal Trade Commission

- BBB: Better Business Bureau

} look out for consumer
- protect us

Consumer Bill of Rights (1962--JFK)

- Right to safety
- Right to be informed--give us the facts
- Right to choose--competition is important
- Right to be heard
- Right to redress--we can be compensated when harmed or misled
- Right to environmental health
- Right to service--treat consumer w/ respect
- Right to consumer education--training when necessary



Consumer Responsibilities

- Be informed--**comparison shopping**
 - explore **generic goods**
- Handle problems appropriately--use goods and services as they are meant to be used
 - Make use of **warranties** and follow rules of warranty--keep receipts, manuals, etc.
 - Take care of your products--maintain their quality
 - If you expect honest businesses, consumer should be honest as well
 - Is the customer "always right?"
- Avoid **impulse buying**
- Prioritize your wants vs. needs
 - **Disposable income/Discretionary income**
- Think about the **opportunity cost** of your decisions

spare cash

→ negative consequences

IST GOT

If this me
permission,
info

Lesson 2: Budgeting Your Money

Budget:

Credit Basics

- Borrow \$ that you need/want to make purchases
- Common examples: car loans, student loans, home mortgages, credit cards
- Fee is charged for right to borrow \$

Sources of Credit

- Banks, companies, and gov't

Benefits/Drawbacks

- Access to goods/services you can't normally afford
- Can lead to credit "trap"

APR: Annual Percentage Rate

Compounded Interest: when added fee is added to principle balance

APR is YEARLY fee but can be compounded daily, weekly, monthly, or yearly

Multiyear compounding:

$P(1+r)^n$ → unit of time
↓
Principle → APR in decimal form

What you owe
→ 365 → 52 → 12

1. Allen buys a PS3 for \$250 on his credit card. His APR is 15%. How much interest is compounded onto Allen's credit card at the end of the month?

$$\$250(1+.15)^{1/12}$$

$$\$250(1+.0125)^1$$

2. Hannah has a savings account where she has a 4% APR. She has \$1000 in her account. How much will it be worth in 6 months?

3. Caitlin buys a car for \$5,000. She gets a loan from the a bank and pays a 25% APR. Her payments are \$150 per month. After the first month how much money does she owe the bank?

4. Casey has a savings account where he collects a 8% APR. How much will his account be worth if he puts \$2,000 into it after 5 years?

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$$P(1+r)^n$$

5. Tyler buys a set of weights for \$1,100 on his credit card at a 16% APR. He plans to pay \$100 per month on the credit card. After one year, how much will he owe on his credit card?

$$2500(1 + .20)^{1/12} = \$2538.27 - 25 = \$2513.27$$

Lesson 3: Saving Money

What does it mean to "invest" money?



Savings Plans/Options:

- Accounts that are "**liquid**" can be used easily--low interest rates

1. Money Market Account

- Like a savings account; you need LARGE sums of \$
- Liquid like a savings account
- Higher interest rate

2. Certificate of Deposit or Savings Bond

- Time deposit (**maturity** required); like a loan TO a bank
- CDs bought from banks
- Bonds bought from banks, businesses, or gov't

you must wait
full length of
time for full
value

Factors to Consider When You Save

- How much disposable income can you live without?
- What are you saving money for?
- How much interest do you want/need?
- How much money do you expect to make in the future?

Stocks and Bonds

Stock: partial ownership in a company

Share: 1 unit of ownership

Dividend: portion of the company's profits you earn as "owner"

P/E Ratio: Price to Earnings Ratio; amount of \$ you must invest to make \$1

Volume: # of shares bought/sold in 1 day; shows how much people demand a stock

Bull Market:

Bear Market:

Dow Jones Industrial Average:

S&P 500:

Diversification:

Mutual Funds:

Stock Exchange: "store" where someone can buy or sell a stock

1. NYSE: New York Stock Exchange

2. AMEX: American Stock Exchange

3. NASDAQ: electronic stock market

Stock Split: when a company decides to DOUBLE their shares offered by cutting each share in half

$$\$5000 (1 + .15)^{\frac{30}{12}}$$

$$\$5,750.00$$

