Chapter 28: Managing Personal Finances

I-Summary: This chapter discusses personal finances. Personal financial planning involves identifying your financial goals and developing a plan for achieving them. There are six steps to personal financial planning: determine your financial situation, develop your financial goals, identify possible courses of action, evaluate your alternatives, implement a financial plan of action, and review and revise your plan. There are risks associated with financial decisions and they must be considered carefully to reach your financial goals. A budget is a tool for personal financial planning. A budget estimates your income, expenses, and the amount you save. To create a budget, you need to set your financial goals, estimate your income, budget for fixed expenses and variable expenses, allow for unexpected expenses and savings, record what you have received and spent, and review your budget on a regular basis.

I-Quiz

Quiz yourself to check your understanding. For each question, you will hear four answer choices. After you hear all four answer choices, choose your answer during the pause. Then you will hear the correct answer. Let’s begin.

Question 1

Which risk affects the cost of borrowing or the money you earn when you save or invest?

a. inflation risk
b. interest rate risk
c. liquidity risk
d. income risk

Question 2

Which term refers to the tradeoff when you make one financial choice instead of another?

a. inflation cost
b. interest rate risk
c. liquidity risk

d. opportunity cost

Question 3

Which term refers to the actual amount of money you earn or receive during a given period of time?

a. income

b. gross pay

c. net pay

d. deductions

Question 4

Which term refers to a plan for using your income to best meet your wants and needs?

a. gross pay

b. net pay

c. budget

d. opportunity cost

Question 5

What is a deficit?

a. expenses that occur regularly

b. extra money that can be spent or saved

c. when more money is earned than spent

d. when more money is spent than is earned

Answer Key

1. The correct answer is B, interest rate risk. Interests rates rise and fall which may impact your financial plans.

2. The correct answer is D, opportunity cost. The opportunity cost, or the decision to forgo an opportunity, should be offset by a larger gain because of the other choice.

3. The correct answer is A, income. Income can include take-home pay and income from investments.

4. The correct answer is C, a budget. A budget includes a record of your expected income, your planned expenses, and your planned savings over a period of time.

5. The correct answer is D, when more money is spent than earned. A deficit is a budget variance that negatively impacts your budget.