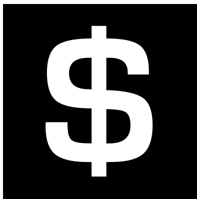
Presentation Slides



Lesson One

Making Decisions

Practical Money Skills

04/09

the decision-making process

The decision-making process

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Identify the problem

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Gather information and list possible alternatives

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Consider consequences of each alternative

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Select the best course of action

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Evaluate the results

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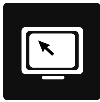


factors that can influence a decision

A. Values

- What is important to your family, others in your culture?

B. Peers

- People you know
- Pressure for positive or negative behaviors

C. Habits

- You are accustomed to doing it this way

D. Feelings (love, anger, frustration, ambivalence, rejection)

- If you do make a certain decision
- If you don't make a certain decision

E. Family

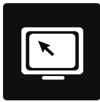
- Your family's preference
- Decisions other family members have made

F. Risks and consequences

- What (or how much) you stand to win
- What (or how much) you stand to lose

G. Age

- Minor
- Adult



common decision-making strategies

spontaneity

Choosing the first option that comes to mind; giving little or no consideration to the consequences of the choice.

compliance

Going along with family, school, work, or peer expectations.

procrastination

Postponing thought and action until options are limited.

agonizing

Accumulating so much information that analyzing the options becomes overwhelming.

intention

Choosing an option that will be both intellectually and emotionally satisfying.

desire

Choosing the option that might achieve the best result, regardless of the risk involved.

avoidance

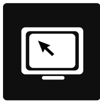
Choosing the option that is most likely to avoid the worst possible result.

security

Choosing the option that will bring some success, offend the fewest people, and pose the least risk.

synthesis

Choosing the option that has a good chance to succeed and which you like the best.



economic influences on decision-making

These economic factors may influence personal and financial decisions:

consumer prices
changes in the buying power of the dollar, inflation

consumer spending
demand for goods and services

gross domestic product (GDP)
total value of goods and services produced within the country

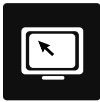
housing starts
the number of new homes being built

interest rates
the cost of borrowing money

money supply
funds available for spending in the economy

stock market index
(such as the Dow Jones averages, Standard & Poor's 500)
indicate general trends in the value of U.S. stocks

unemployment
the number of people without employment who are willing to work



risks associated with decision-making

Risks are associated with every decision. The following are common risks related to personal and financial decision-making:

personal risks

factors that may create a less than desirable situation. Personal risk may be in the form of inconvenience, embarrassment, safety, or health concerns.

inflation risk

rising prices cause lower buying power. Buying an item later may mean a higher price.

interest-rate risk

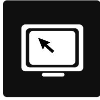
changing interest rates affect your costs (when borrowing) and your benefits (when saving or investing).

income risk

changing jobs or reduced spending by consumers can result in a lower income or loss of one's employment. Career changes or job loss can result in a lower income and reduced buying power.

liquidity risk

certain types of savings (certificates of deposit) and investments (real estate) may be difficult to convert to cash quickly.



opportunity costs and the time value of money

opportunity cost refers to what a person gives up when a decision is made. This cost, also called a trade-off, may involve one or more of your resources (time, money, and effort).

personal opportunity costs may involve time, health, or energy. For example, time spent on studying usually means lost time for leisure or working. However, this trade-off may be appropriate since your learning and grades will likely improve.

financial opportunity costs involve monetary values of decisions made. For example, the purchase of an item with money from your savings means you will no longer obtain interest on those funds.

time value of money can be used to measure financial opportunity costs using interest calculations.

For example: spending $1,000 from a savings account paying 4 percent a year means an opportunity cost of $40 in lost interest.

Calculation: $1,000 x .04 (4 percent) x 1 year = $40
Over 10 years, that $40 a year (saved at 4 percent) would have a value of over $480 when taking into account compound interest.