

CHAPTER 1

Figure 1.2

Financial Goals and Activities for Various Life Situations

Life Situation	Financial Goals and Activities
Young single adult	<ul style="list-style-type: none"> Become financially independent. Obtain career training. Develop a savings plan. Carefully manage your use of credit.
Young couple with no children	<ul style="list-style-type: none"> Create an effective financial record-keeping system. Implement a budget. Carefully manage your use of credit. Develop a savings and investment program.
Couple with young children	<ul style="list-style-type: none"> Purchase a home. Obtain adequate health and life insurance. Start a college fund. Make a will and name a guardian for your children.
Single parent with young children	<ul style="list-style-type: none"> Obtain adequate health, life, and disability insurance. Make a will and name a guardian for your children. Establish an emergency fund.
Middle-aged, single adult	<ul style="list-style-type: none"> Contribute to a tax-deferred retirement plan. Evaluate and select appropriate investments. Accumulate an adequate emergency fund. Review will and estate plans.
Older couple with no children at home	<ul style="list-style-type: none"> Plan retirement housing, living expenses, and activities. Obtain health insurance for retirement. Review will and estate plans.

CHANGING TIMES

As you get older, your financial needs and goals will change. *What are some goals you may have ten years from now that you don't have today?*

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Figure 1.3

Economic Conditions and Financial Planning

Economic Condition	What It Measures	How It Influences Financial Planning
Consumer prices	The value of a dollar; changes in inflation	If consumer prices increase faster than wages, the value of the dollar decreases—a dollar buys less than it did before. Consumers tend to buy fewer goods and services. Lenders charge higher interest rates.
Consumer spending	Demand for goods and services by individuals and households	Increased consumer spending usually creates more jobs and higher wages. Reduced consumer spending causes unemployment to increase.
Interest rates	Cost of money, cost of credit when you borrow, and the return on your money when you save or invest	Higher interest rates make borrowing money more expensive and make saving more attractive. When interest rates increase, consumer prices tend to increase.
Money supply	The dollars available for spending in our economy	The Federal Reserve System sometimes adjusts interest rates in order to increase or decrease the amount of money circulating in the economy. If the Fed lowers interest rates, the money supply increases. If the Fed raises interest rates, the money supply decreases.
Unemployment	The number of people without jobs who are willing and able to work	Low unemployment increases consumer spending. High unemployment reduces consumer spending.
Gross domestic product (GDP)	Total dollar value of all the goods and services produced in a country in one year	The GDP provides an indication of how well people are living in a country.

ECONOMIC CONDITIONS

Economic conditions you can't control will affect your financial planning. ***Choose a condition listed above, and explain how it affects your life today.***

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Go Figure...

ANNUAL INTEREST

Example: You deposited \$1,000 in a savings account. The bank is paying you 5% annual interest. How much interest will you earn if you keep your money in the bank for one year?

Formula: $\text{Principal} \times \text{Annual Interest Rate} = \text{Interest Earned for One Year}$

Solution: $\$1,000 \times 5\% = \50
You will earn \$50 in interest.

Go Figure...

THE FUTURE VALUE OF A SINGLE DEPOSIT

Example: You deposited \$1,000 in a savings account that pays you 5% annual interest. You earned \$50 in interest after the first year. How much interest would you earn if you kept your money in the bank for two years?

Formula: $(\text{Principal} + \text{Previously Earned Interest}) \times \text{Annual Interest Rate} = \text{Interest Earned for the Second Year}$

Solution: $(\$1,000 + \$50) \times 5\% = \$52.50$
You will earn \$52.50 in interest. You would add this earned interest to your previous amount ($\$1,050 + \$52.50 = \$1,102.50$). The future value of your original \$1,000 deposit would be \$1,102.50 after two years.

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Figure 1.4

Future and Present Value Tables

A. Future Value of a Single Deposit

Year	Annual Interest Rate				
	5%	6%	7%	8%	9%
5	1.276	1.338	1.403	1.469	1.539
6	1.340	1.419	1.501	1.587	1.677
7	1.407	1.504	1.606	1.714	1.828
8	1.477	1.594	1.718	1.851	1.993
9	1.551	1.689	1.838	1.999	2.172
10	1.629	1.791	1.967	2.159	2.367

B. Future Value of a Series of Equal Annual Deposits

Year	Annual Interest Rate				
	5%	6%	7%	8%	9%
5	5.526	5.637	5.751	5.867	5.985
6	6.802	6.975	7.153	7.336	7.523
7	8.142	8.394	8.654	8.923	9.200
8	9.549	9.897	10.260	10.637	11.028
9	11.027	11.491	11.978	12.488	13.021
10	12.578	13.181	13.816	14.487	15.193

C. Present Value of a Single Deposit

Year	Annual Interest Rate				
	5%	6%	7%	8%	9%
5	0.784	0.747	0.713	0.681	0.650
6	0.746	0.705	0.666	0.630	0.596
7	0.711	0.665	0.623	0.583	0.547
8	0.677	0.627	0.582	0.540	0.502
9	0.645	0.592	0.544	0.500	0.460
10	0.614	0.558	0.508	0.463	0.422

D. Present Value of a Series of Equal Annual Deposits

Year	Annual Interest Rate				
	5%	6%	7%	8%	9%
5	4.329	4.212	4.100	3.993	3.890
6	5.076	4.917	4.767	4.623	4.486
7	5.786	5.582	5.389	5.206	5.033
8	6.463	6.210	5.971	5.747	5.535
9	7.108	6.802	6.515	6.247	5.995
10	7.722	7.360	7.024	6.710	6.418

TIME IS MONEY

Future value tables can save you time and reduce errors when computing interest over a long period of time. Present value tables can help you figure out how much you need to deposit now in order to have a certain amount of money in the future. *How much money would you have if you save \$2,000 a year for 10 years at 9% interest?*

Your Financial Portfolio

Getting Your Own Wheels

Are you dreaming of buying your own car? Olivia Johnson is. So far she's saved \$3,000. Olivia has her eye on a used car that costs \$9,000. Olivia figures she can afford a monthly car payment of no more than \$200. Using the interest-rate table below, Olivia calculates the monthly payment needed to repay her car loan by multiplying the amount of the loan by the interest factor. She wants to pay off her loan in three years.

Olivia's Loan Story

Cost of car	\$9,000.00
Less the down payment	<u>- 3,000.00</u>
Amount of loan	\$6,000.00
Multiply loan amount by interest factor (0.03133) for 36 months	
\$6,000 × 0.03133 =	\$187.98

Interest Rate of 8%

Months	Interest Factor
12 (one year)	0.08698
24 (two years)	0.04522
36 (three years)	0.03133
48 (four years)	0.02441

Olivia will pay \$187.98 a month if she decides to borrow \$6,000 for three years.

Calculate Now decide what your dream car is. Look in your local newspaper for a car you would like to buy. How much will it cost? Suppose you can afford 25 percent of the total price for a down payment. How much money will you need to borrow to pay the complete cost of the car you want? In your workbook or on a separate sheet of paper, calculate how much money you'll need for your monthly car payment. Calculate what your monthly payment will be if you paid off your loan in 1, 2, 3, or 4 years. (1) What is the total amount you will pay for your car if you pay it off in 1, 2, 3, or 4 years? (2) How much interest will you pay on your loan? (3) Which payment plan would enable you to pay the least amount of money for your car? (4) Which payment plan would have the lowest payments?