

Chapter 3 – Money Management Strategy

I-Summary

This chapter teaches that trade-offs and opportunity costs are part of every financial decision you make. Once you buy something, the money is no longer available for other uses.

In addition, keeping your financial documents organized is an important tool in planning and measuring your financial progress, handling routine money matters, knowing how much money you have, and making effective financial decisions.

You can organize your documents in home files, a safe-deposit box, or on your home computer.

A personal balance sheet can help you determine your net worth and help you manage your money. It can also keep track of cash you receive and spend.

To create a personal balance sheet, list the value of all your assets and liabilities. On your personal cash flow statement, record your income and subtract your expenses from your income. This will determine your net cash flow.

To create a budget, follow these seven steps:

1. Set financial goals.
2. Estimate your income.
3. Budget for unexpected expenses and savings.
4. Budget for fixed expenses.
5. Budget for variable expenses.
6. Record what you spend.
7. Review your spending and saving patterns.

Remember that the key to a sound financial future is savings. Your savings also enable you to handle unexpected emergencies.

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I-Quiz

1. What are your debts called?
 - A. bills
 - B. negative assets
 - C. liabilities
2. What is the extra money that you can spend or save, depending on your financial goals and values?
 - A. discretionary income
 - B. cash flow
 - C. regular expense
3. What type of expense does not change from month to month?
 - A. stable expense
 - B. fixed expense
 - C. regular expense
4. What should you do first to achieve effective money management?
 - A. Plan your next purchase.
 - B. Open a bank account.
 - C. Organize your financial documents.
5. What happens to your net worth when you pay off debts?
 - A. It decreases.
 - B. It increases.
 - C. It stabilizes.

Answer Key

1. C
2. A
3. B
4. C
5. B