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# PERSONAL FINANCE



**Creative Financing**



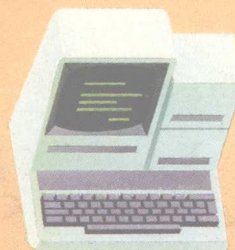
**Condo-Buying Tips**



**Ratio Analysis**



**Index Futures**



**Buying a  
Home Computer**



**Career Changes**



**Financial Math**

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# PERSONAL FINANCE

**R. Malcolm Richards   S. Kerry Cooper   Donald R. Fraser**

Professors of Finance   Texas A&M University

**Scott, Foresman and Company   Glenview, Illinois**  
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*To Our Wives*  
*Sandy*  
*Maryvonne*  
*Lyn*  
*and Children*  
*York, Greg, Ryan, Rachelle, and Stephanie*  
*Chris and Danielle*  
*Eleanor*

**Credits appear on page 617, which is an extension of the copyright page.**

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# Preface

*Personal Finance* provides a framework for examining the key areas of financial decision making that the reader will encounter over a lifetime. This text has been written for a one-semester or a one-quarter introductory course.

Since the last few years have seen a revolution in our financial institutions and their activities, we have made every effort to stress basic conceptual thinking over an aggregation of detail.

- Personal finance under adversity is a theme throughout (for example, how do you pay for a mortgage or buy health insurance for your family when you are unemployed?).
- Emphasis is given to investment decisions (including mutual funds at length, options, and futures).
- Creative financing of a home purchase, buying a home computer, and the pitfalls of buying a condominium are just a few of the many newer topics covered in this text.

The material is presented in such a way that chapters can be covered in almost any order that meets the needs or priorities of individual instructors. While the book is comprehensive, it is suitable for different approaches to the personal finance course.

Part One considers the elements of our external environment that affect personal financial decisions. The American economic system (Chapter 1) affects all aspects of financial planning. The goals we set and the strategies we develop to fulfill these goals are influenced by how our economy works—that is, by the roles played by the consumer, by business, and by government. Taxes (Chapter 2) are discussed early in the book because so many financial decisions have tax repercussions.

The chapters in Part Two are concerned with the management of money. Chapter 3 discusses the initial choice of a career, the decision to change careers, and ways to deal with unemployment. Chapter 4 explains the basics of budgeting. Chapter 5 on financial services and Chapter 6 on credit and borrowing describe how the nature and scope of available financial services have changed in recent years.

The purchase of housing, transportation, and other major items is discussed in Part Three. Chapter 7 considers the rent-versus-buy decision and alternative methods of financing home purchases, including recent innovations in mortgage finance. Chapter 8 gives guidelines for purchasing cars, home computers, furniture, and major appliances.

Part Four analyzes the use of insurance to protect personal assets and provide financial security for a family. Health insurance (Chapter 9) is considered before property and liability insurance (Chapter 10) or life insurance (Chapter 11) because health insurance should be the starting point in planning an insurance program.

Part Five gives the student a solid background in the basics of investments. Chapter 12 exposes students to the nature of security markets and to the spectrum of potential investment avenues. Chapter 13 outlines strategies for developing an investment program. The riskier forms of investment (such as index futures, options, and commodity futures) are considered in Chapter 14. Chapter 15 on managing a small business covers a topic not found in most personal finance texts even though statistics show that large numbers of Americans become involved in their own businesses, that many more are interested in the possibility, and that all of us have some form of interaction with small businesses.

Planning for retirement and death is the subject of Part Six. In recent years, changes in price levels have had significant effects on the value of income and assets over time. Chapter 16 explains how to protect against inflation, Chapter 17 gives guidance in planning for retirement, and Chapter 18 discusses how to plan for the disposition of one's estate.

Because an understanding of the time value of money is important to an understanding of many topics throughout the book, the concepts of present value and compound value as they relate to interest rates are explained in Appendix A. Appendix B discusses the mathematics of ordinary annuities.

Because of the persistently high levels of unemployment in recent years, it is important to analyze how the loss of one's job can affect one's financial situation and financial plans. This theme is emphasized throughout the book.

## LEARNING AIDS

*Personal Finance* has incorporated a number of special features to aid the learning process and to stimulate student interest. Important terms appear in boldface type when they are first introduced in text, and definitions of these terms appear in color in the page margins. All such key terms in any given chapter are listed at the chapter's end. The

glossary at the end of the book gives full definitions of the key terms in the book, along with the numbers of the chapters in which terms are discussed. Boxed examples that draw upon real-world situations are designed to add emphasis or stimulate interest in the chapter material. Many chapters also contain “vignettes,” in which hypothetical characters must make specific personal finance decisions.

Each chapter also contains photographs, cartoons, figures, tables, and samples of documents that students will encounter in their financial dealings. The chapters each begin with a chapter preview and end with a summary, a list of key terms, a set of questions and problems, and a selection of references. Answers to the odd-numbered questions and problems can be found at the end of the book.

## **SUPPLEMENTS**

An instructor’s manual and student workbook are available to supplement the material in the text. The student workbook contains a chapter outline, terminology exercises, objective and essay questions, and personal-application exercises. The instructor’s manual gives solutions to the even-numbered text questions and problems, sample test questions, and answers to the test questions.

# Acknowledgments

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The comments, criticism, and suggestions offered by these people were most helpful. The book is unquestionably better because of their contributions. Any errors or oversights that remain, however, are clearly the responsibility of the authors.

The staff of Scott, Foresman and Company has made invaluable contributions to this project. George Lobell, Mary LaMont, and Trisha Nealon have been particularly instrumental, and their editing has helped transform our copy into a readable text. Their patience with us and their commitment to this project have been very important factors during the production process.

Most of all, we thank our families for their support. The time spent on this project was, for the most part, time taken away from them. Without their patient understanding and encouragement, the project could not have been completed.

R.M.R.  
S.K.C.  
D.R.F.

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