

# PERSONAL FINANCE

KAPOOR

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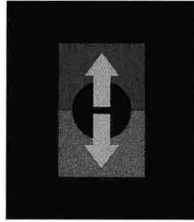
*Changing World*

*Changing needs*

*Changing choices*



Fourth Edition



# PERSONAL FINANCE

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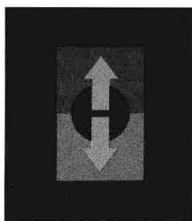
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*.... To my parents, Ram and Sheila Kapoor; my wife, Theresa; and  
my children, Karen, Kathryn, and Dave*

*To my mother, Mary Dlabay, and the memory of my father Les; my wife, Linda; and  
my children, Carissa and Kyle*

*To my mother, Barbara Y. Hughes; and my wife, Peggy*



## PREFACE

Each day, technological developments and an expanding global economy influence personal financial decisions. This atmosphere of change makes it crucial that all spending, saving, borrowing, and investing decisions be wise, informed choices. *Personal Finance*, Fourth Edition, continues to provide the informational and decision-making tools needed for planning and implementing a successful personal financial plan.

### TEXT THEMES

As in previous editions, the key elements of financial planning are addressed in the main themes of the text. These themes include:

- *Decision making and opportunity costs.* The steps of the decision-making process form the basis of chapter 1 and are emphasized throughout the text. This step-by-step approach helps students to identify and evaluate choices as well as to understand the consequences of their decisions in terms of opportunity costs.
- *Quantitative analysis in financial planning.* Commonly used formulas and mathematical functions are presented in text discussion and examples. These numeric analysis techniques are further highlighted in the Financial Planning Calculations boxes, which provide additional examples and information for students. The Key Formulas feature (at the end of selected chapters) serves as a summary of the important quantitative concepts, and provides another worked example for each formula. Finally, student comprehension of the quantitative aspects of financial planning is assessed with the Financial Planning Problems at the end of each chapter.
- *Personal financial planning for varied life situations.* The financial needs of single-parent, two-

income, mixed-generation, and other types of households are addressed throughout the text. The different financial pressures and considerations that come into play in these situations are illustrated in text examples, the Financial Planning for Life's Situations boxes, and the Life Situation Cases at the end of each chapter. These examples and cases highlight the effect of events such as marriage, divorce, childbirth, career changes, health difficulties, retirement, and death of household members on financial planning activities.

- *Emphasis on applications.* The Financial Planning in Action boxes have been newly revised to provide students with a “real-world” situation in which to test their comprehension. In addition, special emphasis on applications has been included in the end-of-chapter Application Exercises and Projects, which involve the use of decision-making, analytical, and writing skills.

### NEW TO THIS EDITION

In this edition of PERSONAL FINANCE, many additions and revisions are offered to better serve both students and instructors.

#### Revised and Updated Chapter Content

Chapter 1 is reorganized based on the steps of the financial planning process. This process is the basis for the content of this chapter and serves as a foundation for all other units of study.

An increased emphasis on technology includes discussion in Chapter 2 of on-line computer services to research career opportunities and to apply for employment. Expanded discussion of electronic tax filing and tax saving suggestions for various life situations are presented in Chapter 4. In addition, Chapter 5 includes



updated coverage of the costs and benefits of electronic banking services, and Reference B has been expanded to include the use of on-line services for researching and implementing personal financial planning activities.

Discussion of co-branded credit cards and expanded coverage of debit cards are in the consumer credit unit, along with increased emphasis on the warning signs of credit problems. New coverage about the costs and potential traps associated with leasing a motor vehicle can be found in Chapter 10.

In the insurance unit, updated coverage of health care costs and long-term care insurance are presented in Chapter 13, and a discussion of accelerated benefit life insurance clauses has been added to Chapter 14.

Portfolio diversification, derivatives, and five additional categories of mutual funds have been added to the investment chapters. In this same unit, expanded coverage of research reports for evaluating stocks and bonds is presented.

In the retirement and estate planning chapters, discussions of reverse annuity mortgages, spouse benefits from Social Security, and six additional types of trusts have been added.

## Modifications and Innovations in Pedagogy

A new Opening Case for every chapter emphasizes contemporary personal finance concerns and decision making in a changing economic and social environment.

A Continuous Case, with segments at the end of each part (chapters 4, 7, 10, 14, 19, and 21), provides students with an ongoing situation analysis. This continuous case helps students integrate past learning with new knowledge as they move through the course.

To give students the opportunity for practical applications of text concepts, at least one Financial Planning in Action feature is included in each chapter. These features have been revised from the previous edition to make them more interactive for students. Critical thinking exercises and writing activities have been added to the Application Exercises and Projects at the end of each chapter. Questions requiring critical thought have been circled for easy identification. In addition, new end-of-chapter Review Questions will help students assess the major ideas of the chapter.

This edition includes an updated art program with enhanced visual presentations of major text concepts, procedures, and financial documents. For example, a visual overview of the main elements of home buying is presented in chapter 9.

## TEXT FEATURES

The elements in *Personal Finance* are designed to help instructors and students work together to create an effective learning environment.

### Chapter Format

To present content in a clear and motivating manner, each chapter starts with an opening case and related discussion questions. This feature introduces the chapter content with a real-world situation.

The integrated Learning Objectives are presented at the start of each chapter. These objectives are highlighted again at the start of the appropriate major section. The learning objectives appear again in the end-of-chapter summary, which reviews key points for each objective. The learning objectives are also used to organize the end-of-chapter questions, problems, and exercises, as well as materials in the Instructor's Manual, Student Resource Manual, and the Test Bank.

Key terms appear in bold type and are highlighted in the margin. The end-of-chapter glossary repeats these key terms and includes a text page reference after the definition of each term.

Essay, activity, and financial analysis features enhance the chapter content. These boxes, found throughout each chapter, have the headings Financial Planning for Life's Situations, Financial Planning in Action, and Financial Planning Calculations. This last feature includes more than 90 mathematical applications relevant to personal financial situations.

The Concept Check at the end of each major section provides questions to help students assess their knowledge of the main ideas covered in that section.

The end-of-chapter evaluation materials begin with Review Questions designed to assess student retention of major chapter concepts. The Financial Planning Problems that follow require the application of key chapter material and formulas in analytic situations. The Application Exercises and Projects section provides a variety of personal decision-making, analytical, and writing activities for students. Finally, students can test their understanding and decision-making abilities in two Life Situation Cases. Together, these end-of-chapter materials allow students to assess their own understanding at various levels of application and analysis.

### Continuous Case

The six-part continuous case, which appears at the end of each text part, allows students to apply course con-

cepts in an evolving life situation. This feature encourages students to acknowledge and evaluate changing personal and family situations and then respond to the resulting shift in needs, resources, and priorities.

## References

These end-of-text references provide extensive additional materials to supplement information and ideas found in the text. These references include: A—"Using a Financial Planner and Other Financial Planning Information Sources;" B—"On-Line Computer Services and Software for Personal Financial Planning;" C—"The Time Value of Money: Future Value and Present Value Computations;" D—"Using Electronic Calculators for Financial Decisions;" and E—"Consumer Agencies and Organizations." The information in these references will enhance the student's ability to make informed personal financial decisions.

## Supplements

The comprehensive teaching-learning package for *Personal Finance* provides several items for both students and instructors.

### Student Supplements

The *Personal Financial Planner*, free with every book purchased from Richard D. Irwin, consists of over 60 worksheets for creating and implementing a personal financial plan. The *Personal Financial Planner* worksheets are highlighted with the coverage of related material in the textbook using a marginal notation. The new edition of the *Personal Financial Planner* has been reorganized by topic area with visual tabs for ease of use when developing and implementing a personal financial plan. Teaching suggestions for using the *Personal Financial Planner* have been added to the *Instructor's Manual*.

The *Personal Finance Software* consists of a new Windows-based computerized version of the *Personal Financial Planner* and a revised DOS program with over 35 financial tools for handling personal finance calculations.

The *Student Resource and Readings Manual* allows students to review and apply text concepts. Each chapter contains a chapter overview, a pretest, self-guided study questions, a post-test, problems, applications, cases, and recent articles from *The Wall Street Journal*. Together these exercises reinforce important

text concepts and offer students additional opportunities to use their critical thinking and writing skills.

The *Personal Finance Casebook* features numerous supplementary cases for applying text concepts along with suggestions for analyzing cases.

### Instructor Supplements

The *Instructor's Manual* includes a "Course Planning Guide" with instructional strategies, course projects, and supplementary resource lists. The "Chapter Teaching Materials" section of the *Instructor's Manual* provides a chapter overview, the chapter objectives with summaries, introductory activities, and detailed lecture outlines with teaching suggestions. This section also includes concluding activities, ready-to-duplicate quizzes, supplementary lecture materials and activities, and answers to concept checks, end-of-chapter questions, problems, and cases.

The *Instructor's Manual Disk* offers lecture outlines, teaching suggestions, supplementary lectures, and chapter quizzes in computerized format.

The *Transparency Acetate* package consists of 50 ready-to-use transparency acetates which highlight the major concepts of each chapter.

The *Transparency Masters with Teaching Notes* supplement contains nearly 200 ready-to-duplicate transparency masters which may be used to create transparencies or handouts for student notetaking. This supplement also has teaching notes and page references for each of the 50 transparency acetates, discussion questions, points to highlight, and suggested supplementary exercises.

The *Test Bank* consists of over 1,500 true-false, multiple choice, and essay questions. These test items are organized by the learning objectives for each chapter. This manual also includes answers, text page references, and an indication of difficulty level.

*Computest 4* offers the test items for *Personal Finance* on computer disk. This program makes it possible to create tests based on chapter, type of questions, and difficulty level. Computest 4 allows instructors to combine their own questions with test items created by the authors of *Personal Finance*. This system can be used to edit existing questions and create numerous different versions of each test. The program accepts graphics, allows password protection of saved tests, and may be used on a computer network.

Irwin's *Teletest* service provides instructors with a personalized master copy of an exam. By calling 1-800-242-7468, you can have a test created with

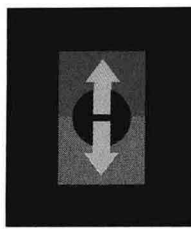
specific questions, or with questions selected at random for various difficulty levels.

The *Personal Finance Videos* enhance the teaching-learning process. Each video program has a “Viewing Guide” with a synopsis of the content, discussion questions, and suggestions for follow-up activities.

The *Spanish-English Glossary* to accompany *Personal Finance* includes a Spanish translation of all key terms and definitions from the text.

**Jack R. Kapoor**  
**Les R. Dlabay**  
**Robert J. Hughes**





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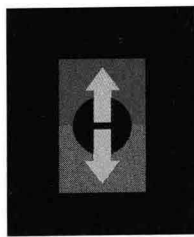
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**Robert J. Hughes**



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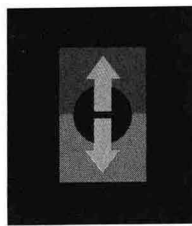
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