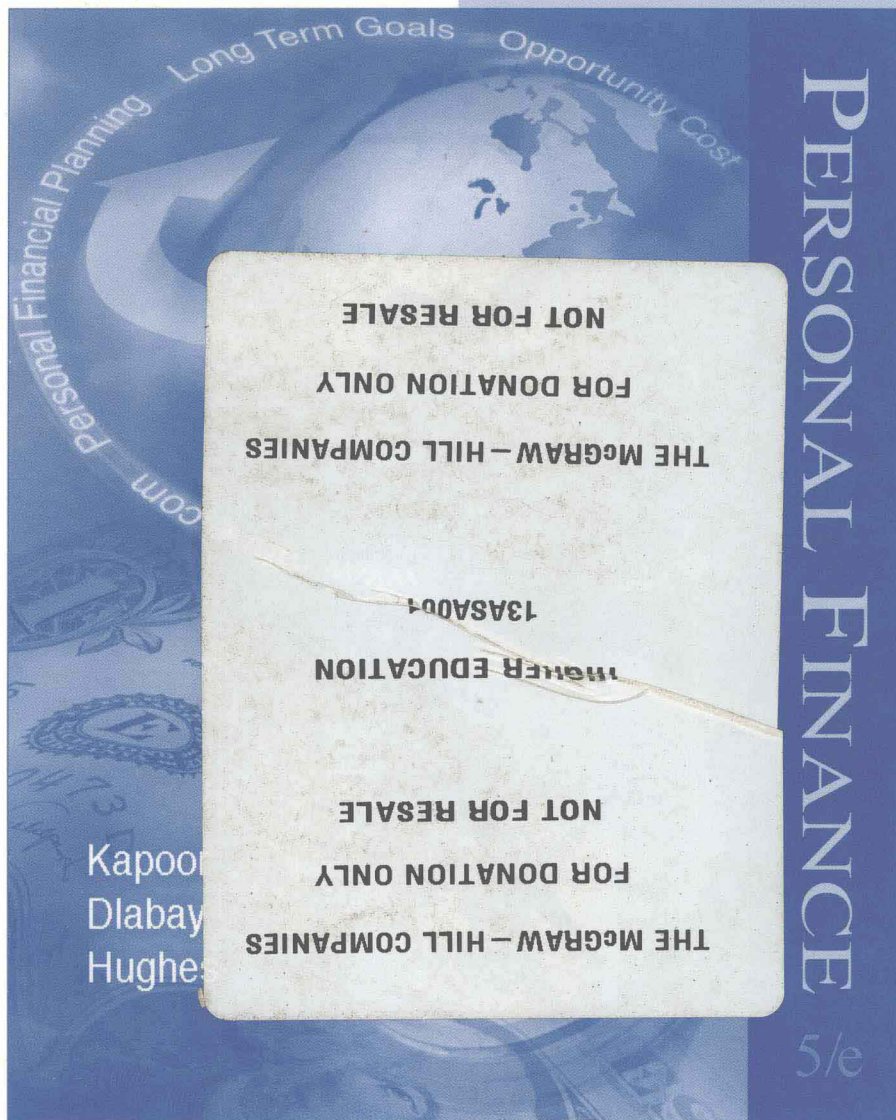


Telecourse Student Guide



Dollar\$ & Sense

Personal Finance

... for the 21st Century

Telecourse Student Guide for

Dollar\$ & Sense

Personal Finance

...for the 21st Century

Rod Davis



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PREFACE

To the Student

Welcome to *Dollar\$ & Sense: Personal Finance for the 21st Century*, a telecourse in personal finance. By enrolling in this telecourse, you have made an important commitment to improve your ability to manage your finances and to reevaluate your attitude toward money. Congratulations. That's a good first step toward achieving financial independence. Whatever motivated you to take this action, whether it was because you are currently buried under a mountain of bills or you just want to know how to invest your fortune intelligently, you have made a wise choice. This course will take you from the basics of personal finance to the sophisticated areas of investing and estate planning. It will provide you with the information you need to manage your money effectively. It will help you achieve financial security.

You should understand that money is not the solution to all of life's problems. However, if you can take control of at least that part of your life, you will be free to pursue solutions to other personal problems or to attain other personal goals. Financial planning does not mean simply turning your problems over to someone else. You will, of course, be encouraged to seek professional advice and counseling. However, you are the one who is ultimately responsible for your own finances. You must understand what kind of financial plan works best for you. You are the only one who really knows how your finances emotionally affect you. Financial freedom comes from first accepting responsibility for taking control. This course, in and of itself, will not solve your financial problems. However, it will give you the information you need to make sound financial choices and to deal head on with money problems.

Whether you are planning a career in business and finance, taking this telecourse as part of an academic course for college credit, or taking it just for pleasure, we believe that you will find *Dollar\$ & Sense* interesting, entertaining, enriching, and inspiring. *Dollar\$ & Sense* brings you the latest information on the various matters that affect your personal finances. The material in this course is designed to be pragmatic, not pedantic. It is designed to provide you with usable information about your finances.

Everyone has financial needs. Rich or poor, young or old, male or female—everyone has to make financial decisions. These decisions will have both positive and negative consequences. The terminology that this course will use for the negative consequences of these decisions is opportunity costs. Financial planning is basically how to decide the best course of action for you to gather financial assets, to protect them, and to use them wisely. The most important lesson in financial planning is simply to avoid common mistakes. This course is designed to help you do that by advising you about frequent problem areas in dealing with money.

This course is laid out in six units that are organized progressively according to your normal financial activities. It will provide a framework for the study and planning of your personal financial decisions. The eight components of financial planning are: *obtaining, planning, saving, borrowing, spending, managing risk, investing, and retirement and estate planning.*

Unit 1 of this course, "Planning Your Personal Finances," will cover *obtaining* and *planning* activities. Lessons 1 and 2 will introduce you to the basic concepts of financial planning, why you need a financial plan, and how the economy affects it. Lesson 3 will help you evaluate your career strategy. Lessons 4 and 5 will present a wealth of information on money management and tax strategies.

Unit 2, "Managing Your Personal Finances," will cover the *saving* and *borrowing* components of personal financial planning. Lesson 6 will inform you about banks and other financial institutions and the wide variety of services they offer. Lessons 7 through 9 will discuss the various aspects of borrowing, emphasizing the need to maintain control of your credit-buying habits. These lessons will also cover how to handle credit problems, the inevitable result of the overuse or misuse of credit. Lesson 10 will deal with the legal aspects of credit, including declaring bankruptcy.

Unit 3, "Making Your Purchasing Decisions," presents information on *spending*. Lessons 11 through 13 will teach you to be a wise consumer by developing smart spending habits. These lessons will also help you understand the problems with which you will be confronted when making a major purchase, such as a computer, an automobile, or even a house.

Unit 4, "Protecting Your Resources," will cover the area of *managing risk*. Lessons 14 through 17 will primarily emphasize the importance of insurance. They will teach you about the need for insurance protection for your financial resources. The topics of personal risk, home, auto, business, health care, and life insurance will be discussed.

Unit 5, "Investing Your Personal Resources," will present information on the various investment choices you have available. The fundamentals of *investing* will be presented in Lesson 18. Specific investment options will then be covered in Lessons 19 through 22: stocks, bonds, mutual funds, and real estate and other investments.

Finally Unit 6, "Controlling Your Financial Future," will deal with the components of *retirement and estate planning*. Lesson 23 covers how to live well off your financial plan when you retire. Lesson 24 will show you how you can benefit your heirs with proper estate planning. Lesson 25 will present information of frauds and scams. The most frequent target of these types of deceptive practices is the elderly. Lesson 26 will summarize this course and will challenge you to put into practice what you have learned.

Course Goals

Approaching the topic of personal finance from a variety of perspectives, the designers, academic advisors, and producers of this telecourse have defined several unifying themes of *Dollar\$ & Sense: Personal Finance for the 21st Century*.

By the end of the course, we want you to understand that:

1. The financial decisions you make will have far-reaching effects on your life and the lives of your family and loved ones.
2. If you want to meet specific financial goals, you must first have a financial plan that takes into account your own needs and the needs of others affected by your plan.
3. Staying focused on your personal financial plan is necessary for successfully meeting your goals.
4. Differences over purchasing decisions and managing finances cause more stress on personal relationships than any other single factor.
5. Making sure that those close to you are financially secure is one of the most loving things you can do for them.
6. Investing is vital for meeting your future plans and your plans for your family or those close to you.
7. Proper estate planning will leave a legacy for your survivors.
8. Single or married, young or old, by choice or by circumstance, you will find that your personal financial decision affect your day-to-day life.
9. You can empower yourself to take control of your financial destiny.

Course Components

Video Programs

The 26 half-hour video programs for *Dollar\$ & Sense: Personal Finance for the 21st Century* offer insights into key concepts and principles in personal finance through a focus on human experiences. Each program is complete and does not rely on a prior knowledge of personal finance issues. The programs are entertaining and educationally sound, helping the student advance toward achieving the stated instructional objectives of the telecourse while maintaining the interest of the average viewer.

Textbook

The textbook for this telecourse is *Personal Finance*, fifth edition, by Jack R. Kapoor, Les R. Dlabay, and Robert J. Hughes (Irwin/McGraw-Hill, 1999). The content of this text parallels the content of the video programs, and the book and its accompanying *Personal Financial Planner* workbook are referenced in learning objectives and assignments in this guide. Together, these print components will aid students in preparing a personal financial plan.

Telecourse Student Guide

This telecourse student guide, which serves as a critical bridge between the textbook and the video components of the telecourse, contains carefully designed instructions for course success. Following these instructions will keep you centered on the road to course completion. Each lesson in this guide has the following components:

Overview:

Summarizes critical information and identifies important terminology.

Learning Objectives:

Alert students to exactly what will be expected of them and what information they should acquire from the lesson.

Viewing Notes:

Offer background information that supplements material presented in the video programs and textbook.

Review Activities:

Include exercises that help students review and reinforce their understanding of important terms and concepts.

Self-Test:

Allows students to test their understanding of the material in the lesson through a series of brief objective questions.

Using What You've Learned:

Offers suggestions for further study that incorporate exercises from the *Personal Financial Planner* workbook as well as valuable sources of information to be found on the Internet.

The end of this student guide contains an answer key section. This section provides solutions to questions from the Viewing Notes and problems presented in the Review Activities and Self-Test.

How to Take a Telecourse

For full instructional impact, use all components of the telecourse together. They are carefully designed to complement each other and present the same ideas in a variety of ways to support different learning styles and maximize learning.

Because telecourse students tend to be busy people who want to fit course study into their own personal schedules, it is important to plan in advance how to schedule viewing, reading, and study time. Keeping a calendar of important dates helps focus on course responsibilities and serves as a reminder of target times.

It is helpful to read the text and complete the assignments in the student guide at about the same time that you watch the video programs every week. Most students find that reading the overview section in the student guide prior to watching the video helps them focus on specific ideas and alerts them to important concepts. Keeping the learning objectives nearby is a good

reminder of important issues. Remember that all of these pieces function together as indispensable tools to facilitate learning.

The following suggestions about how to study and how to complete a telecourse have been compiled from students who have been successful.

1. Buy both the text and the telecourse student guide or arrange to share copies with a friend. Do not try to get through this course without these books.
2. Watch each video program. If you have a VCR, tape the programs for later review.
3. Keep up with your work for this course every week. Set aside viewing, reading, and study time each week and stick to your schedule.
4. Get in touch with the faculty member who is in charge of *Dollar\$ & Sense: Personal Finance for the 21st Century* at your college or university. The instructor can answer any questions you have about the material covered in the course.

Acknowledgments

Producing the telecourse *Dollar\$ & Sense: Personal Finance for the 21st Century* was a complex team effort by many skilled individuals. Several of the individuals responsible for the creation of this telecourse are listed on the copyright page of this book. In addition to those people, appreciation is expressed for the contributions of the following people:

Members of the Telecourse Advisory Committee:

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Laurie R. Harer Melby
Co-Executive Producers

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Chase is a leading provider of financial solutions to individuals and small businesses, large corporations and government entities. With over \$350 billion in assets, Chase has relationships with more than 30 million consumers coast to coast. As one of the nation's largest providers of consumer credit and financial services, Chase believes that most Americans want to know more about how to manage their finances, whether it's how to clean up a poor credit history, save money on a modest income, or build assets for retirement. Because financial education can lead to financial security, Chase is sponsoring this financial education series.

Chase's relationship with its local communities is far reaching, with a special focus on community development and educational initiatives including:

- #1 bank lender for affordable housing development, small business, and mortgage lending in the New York region
- recipient of the Small Business Administration's Pacesetter Award for its volume of lending to minority- and women-owned businesses
- innovative and creative philanthropic programs, such as Racial Harmony Awards, Welfare-to-Work grants, Recoverable grants program, and Faith-based Initiatives
- broad range of employee volunteer programs around the world, including the Chase Weekend of Global Days of Service.

Chase has long recognized the critical role of education in America and the responsibility of the private sector to support the educational system. Chase understands that schools face many obstacles in fulfilling their charge in a highly complex society. Chase supports education through grants, technical assistance, employee volunteers in the schools, and through numerous programs designed to enrich the educational experience of students. Some of those programs include:

The Lincoln-Douglas Debates

Since 1983, Chase has sponsored the Lincoln-Douglas Debates, which engage 93 New York City high schools in a competitive learning event. Chase has contributed more than \$2.25 million in prizes to help defray college costs, and summer jobs have been provided for all high school finalists. In 1992, the Chase New Jersey Lincoln-Douglas Debates program was launched. In 1998, 35 high schools from around the state participated.

Chase Active Learning

Chase Active Learning is a multi-year initiative to support curricular, instructional, and assessment strategies that involve students in constructing their own knowledge through hands-on activities. Through the Chase Active Learning approach, thousands of middle school students and educators have been reached, with support totaling \$2.2 million to projects in eleven cities nationwide, including Los Angeles, Miami, Houston, and New York City. Chase Active Learning was selected by the Council for Aid to Education to receive the 1997 Leaders for Change Award.

Join-A-School

Chase has several longstanding partnerships with individual schools, in New York, Long Island, Houston, at the elementary, middle, and high school levels. These partnerships have improved morale, provided staff development, increased student retention, and enabled students to pursue educational and personal goals far beyond their earlier dreams. Partnership initiatives include summer employment for students, discretionary grants for principals and mini-grants for teachers, an Outward Bound course for at-risk high school students, a college scholarship for the student who makes the greatest turnaround during high school, special training programs for faculty, mentoring and tutoring relationships. Chase has provided more than \$1.7 million in support of these initiatives over the past 10 years.

Chase can be reached on the Web at www.chase.com.

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Unit I

Planning Your Personal Finances



Lesson 1

Your Personal Financial Plan



Lesson 2

Basic Economic Principles



Lesson 3

Personal Career Strategies



Lesson 4

Money Management Strategies



Lesson 5

Planning Your Tax Strategy



Your Personal Financial Plan

1

Assignments

For the most effective study of this lesson, complete the assignments in the sequence listed below.

Before viewing the video program:

- Read the “Overview” and the “Learning Objectives” for this lesson. Use the Learning Objectives to guide your reading, viewing, and thinking.
- Read Chapter 1, pages 4–14, in the *Personal Finance* textbook, Fifth Edition.
- Refer to the Glossary at the end of the chapter if you need help understanding unfamiliar words or terms.
- Read the “Viewing Notes” for this lesson, paying careful attention to the questions at the end.

View the “Your Personal Financial Plan” video program

After viewing the video program:

- Briefly note your answers to the questions at the end of the “Viewing Notes.”
- Review all reading assignments for this lesson, especially pages 4–14 of the textbook.
- Write brief answers to questions 1 and 2 in the “Review Questions” at the end of Chapter 1 of the textbook to be certain you understand the text material.
- Complete the “Review Activities” in this guide to reinforce your understanding of important terms and concepts. Check your answers with the “Answer Key” at the back of this book and review when necessary.
- Take the “Self-Test” in this guide to measure your achievement of the Learning Objectives. Check your answers with the “Answer Key” and review when necessary.
- Complete the “Using What You’ve Learned” activities and any other activities and projects assigned by your instructor.

Overview

Whether you want to or not, you are going to have to manage money. We live in a material world, and money is the measure of that materialism. Everyone has a predisposed attitude toward money. We may think that if we were rich, we wouldn't have any problems. Unfortunately, that's not true.

Although a shortage of money certainly creates problems, a glut of it often does the same thing. For most people, money is an extremely emotional topic. If you can develop and maintain a balanced viewpoint toward money, you will have a good start toward working on other personal problems and personal goals.

Your personal financial plan is first of all personal. Your plan has to be your own. Your plan must be individualized to meet your needs. There is not a universal "one-size-fits-all" (or even most) financial plan. Everyone's financial needs, emotional makeup, and personal goals are unique. No one else can formulate and initiate a plan for you—that's your job. Too often we make decisions without thinking them through or considering the future. We just cope from day to day. This telecourse should change that. It will give you the information and the tools you need to make the most of your money. With this information, you can get your money working for you the way you want it to.

Learning Objectives

When you have completed all assignments for this lesson, you should be able to:

1. List the six steps in the financial planning process.
2. Distinguish among short-term, intermediate-term, and long-term financial goals and provide an example of each.
3. Develop your personal financial goals.
4. List three elements that affect personal financial decisions and give at least one example of each.
5. List the four factors involved in developing useful financial goals.
6. Demonstrate an understanding of the time value of money by using the time value of money tables to perform present value and future value calculations through repeated applications.
7. Identify the eight major financial planning components that provide the framework to achieve financial success.
8. Explain why ethics are so important in financial decision making, and why they are often compromised.

Viewing Notes

As you view the video, pay particular attention to the topics discussed in these notes.

If you are in an average U.S. household, the current projection is that over your lifetime you will earn (and spend) more than \$2 million (\$2,000,000). What you do with that money will probably be completely different from what your friends, neighbors, or other members of your family do with it. Your lifestyle, your attitude toward money, and your knowledge of personal finances will determine whether you can live comfortably on your earnings or whether you will just get by. The specific advantages of a personal financial plan are increased effectiveness in utilizing your resources, better control of your financial affairs, improved personal relationships resulting from better communication about financial decisions, and a sense of freedom from financial worries.

To accomplish all this you need to be aware of the six steps in the financial planning process. Step 1: Determine your current financial situation. Make yourself aware of the current balances in your financial accounts, and pay more attention to how much and why you spend. Evaluate your potential earning power, so you can make realistic plans. Step 2: Begin developing financial goals. Step 3: Identify alternative courses of action. It is easy to get stuck in a rut, believing that you do not have any other choices than the ones you have already made. If you are pleased with your current situation, there may be no reason to change. If you are unhappy with your current economic condition, consider other possibilities; you do not have to remain in an unsatisfactory situation. Step 4: Evaluate these alternatives. Step 5: Create and implement your financial plan. Once you have determined your goals, figure out the best way to achieve them. Step 6: Reevaluate and revise your financial plan. Every plan must be dynamic, ready to change as your life's circumstances change.

One of the first concepts you should become aware of as you begin your financial journey is the time value of money. This principle says that if money is properly invested, it will grow at a compounded rate of return. This growth is necessary because money not properly invested will lose purchasing power. In other words, most things will cost more in the future than they do today. This increase in prices over time is called inflation, and inflation is the single biggest risk to your money. For example, if prices increase by 3 percent every year, the cost of an item will double every 24 years. That is inflation. A sound financial plan should help you develop investments that will enable you to achieve your financial goals. Your money needs to grow at a faster rate than inflation. It is important to offset the declining purchasing power of your money.

Other types of financial risk include interest rate risk. This is the risk that if you invest for a fixed rate of interest, the value of your investment will drop if interest rates rise before your investment matures, or pays back your original principal. Income risk is the potential for losing your current source of