

PERSONAL FINANCIAL MANAGEMENT

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Family Expense Record
and
Budget Control

Individual
Retirement
Accounts



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PERSONAL FINANCIAL MANAGEMENT



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To the Instructor

Although *Personal Financial Management* adopts a decidedly modern approach to personal financial planning and management, we have made clarity of presentation our foremost objective in writing this book. We want the reader to come away from the book with a full understanding of the major points and analytical procedures we present. Such topics as budgeting, tax computation, leasing versus purchasing, auto ownership costs, insurance settlement procedures, and bond valuation are covered in a fairly sophisticated and detailed manner, but one that the willing student can easily follow. We also go into present-value analysis, but we are very careful to take the student with us.

The content of the text is influenced somewhat by the authors' philosophy of teaching. We know today's students can be turned on by good, up-to-date material supported by concrete applications from the real world. We also consider it important to present relevant examples involving a variety of life-styles. We use abundant illustrative situations dealing with single parents, college students, unmarried professionals, and two-wage-earner families, as well as the classic one-wage-earner/one-homemaker family.

Organization of the Text

We have followed a lifetime planning orientation in organizing the text. Part One starts with how to establish personal goals and objectives, which leads into career planning, budgeting, and tax planning. In the next two parts, we explore the processes of using financial services and purchasing housing and consumer durables. Once assets are acquired, they must be protected through insurance and redeployed through investments, so these are the next two major topics discussed in Parts Four and Five. In the final section of the book, Part Six, we introduce the student to the importance of retirement and estate planning, emphasizing that these issues cannot be separated from the topics presented earlier.

Notable Content Features

Personal Financial Management reflects the most recent changes affecting financial planning. An entire chapter is devoted to the effect of the Tax Reform Act

of 1986 on tax planning. Furthermore, the effects of this legislation are developed in our coverage of investments, retirement planning, the establishment of trusts, and many other areas. Also, the use of personal computers is described in some detail in the appendix to Chapter 7, and specific computer applications or programs are suggested at the ends of many of the chapters. The changes in the structures of financial institutions and the products they offer are also highlighted, since the services that banks or savings-and-loans provide today are so dissimilar to what they offered only a decade ago. In the same way, the text takes full account of changes in risk management tools and investment products.

Pedagogical Features

To make the book eminently teachable, the six parts of the text are introduced by brief **preview essays** on what will be discussed in each part, and each chapter is preceded by a list of **learning objectives**. The **questions** at the ends of chapters closely relate to these objectives. In addition, there are **two cases at the end of each chapter** that help to reinforce the learning process. Throughout the text we also provide reference materials and stress the importance of additional **sources of information** from the government and the private sector that are potentially helpful to the reader. We want students to be able to put their hands on the right material for making decisions, rather than merely to memorize facts.

Ancillary Materials

One of our major objectives was to develop a comprehensive support package for the students and instructors using the textbook. The supplements include:

- **Instructor's Manual** by the authors. Answers to the end-of-chapter questions and cases are provided, along with learning objectives and teaching strategies.
- **Test Bank** by Cherie Mazer. This test-item file consists of 400 objective questions, with answers, and 100 case problems with full solutions.
- **HarperTest**. The test bank questions will be available in a computerized format for use with IBM and Apple personal computers.
- **Study Guide** by Gayle M. Ross of Copiah-Lincoln Junior College. Each chapter includes learning objectives, a chapter outline in which blanks are to be filled in by the student to complete the outline sentences, objective self-test questions (including true-false, multiple-choice, and matching), and case problems. All answers are given in the guide.
- **Student Practice Set** by Gayle M. Ross. Using this unique study aid, the student handles the finances of the mythical Johnson family. Fifteen assignments cover such areas as a personal balance sheet, monthly budgets, checkbook entries and reconciliation, figuring loan payments, and even the purchase of common stock. The Practice Set contains all the necessary blank forms to complete the assignments. Full solutions are provided in a separate instructor's manual.

- **Transparency Masters.** A separate section at the back of the instructor's manual contains over 50 transparency masters of (1) key text figures and tables and (2) answers to the end-of-chapter case problems.
- **Computer Software.** Available through Harper & Row is a program from Sierra On-Line, a California software firm, entitled "Smart Money™: The Comprehensive Financial Manager." This menu-driven program constructs budgets, records expenditures, balances checking and credit card statements, calculates declining balances for loans and annuities, and with the addition of a printer, prints balance sheets, budget reports, and even graphs. It is available in IBM and Apple versions, and can be ordered through your Harper & Row sales representative. Demonstration disks are free of charge.

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We wish to express our special thanks to John Greenman and Mary Lou Mosher of Harper & Row for the high level of professionalism they brought to the project. Finally, we are particularly grateful to our families for their patience and support throughout the development of this text.

Stanley B. Block
John W. Peavy III
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To the Student

Did you know that if as a working person you put \$2000 a year (tax-free) into a retirement account, and if you do this from the time you are 20 to the time you are 70 and the money grows at 10 percent, you will have accumulated \$2,323,817? Did you know that many millionaires virtually escape estate taxes because of careful tax planning? Did you know that you might pay an 8 percent commission to buy a mutual fund (investment fund) if you do not know what you are doing, but you will pay nothing if you are knowledgeable?

Unlike a course in chemistry, history, or even accounting, the material in this text covers real problems and the solutions to those problems. The issues discussed are not trivial, and understanding the proper approaches to financial questions requires some work. But the potential payoff goes beyond a good grade in the course to the acquisition of skills that you can draw on over a lifetime.

Here is another example of an important thing to know: Virtually every bank, savings and loan, insurance company, stockbroker, car dealer, or real estate agent charges an average price for each service performed. They, in turn, depend on those customers who are not cost conscious or knowledgeable to subsidize those who are. To the extent that you are paying more for your checking services than necessary or accepting less than the market rate for your savings dollars, you are providing funds for a smarter, more discerning customer. This course in personal financial management forces you to come to grips with many issues such as these.

You will study many exciting areas of finance in this book. The nature of U.S. financial markets has changed more in the last five years than in almost any time in our history. For example, there has been a massive deregulation of financial institutions (such as banks and savings and loans), and they compete not only for customers but also for their own continued existence. Recently the stock market has had some of its largest daily movements, both up and down, in decades. We are also in an era of internationalization. Did you know that the biggest stock exchange in the world is no longer on Wall Street in New York, but

in Tokyo? Did you know that the Tax Reform Act of 1986 has made many conventional investments obsolete?

In short, while you are getting your academic credits for this course, you will also be getting useful information that can lead to future financial success.



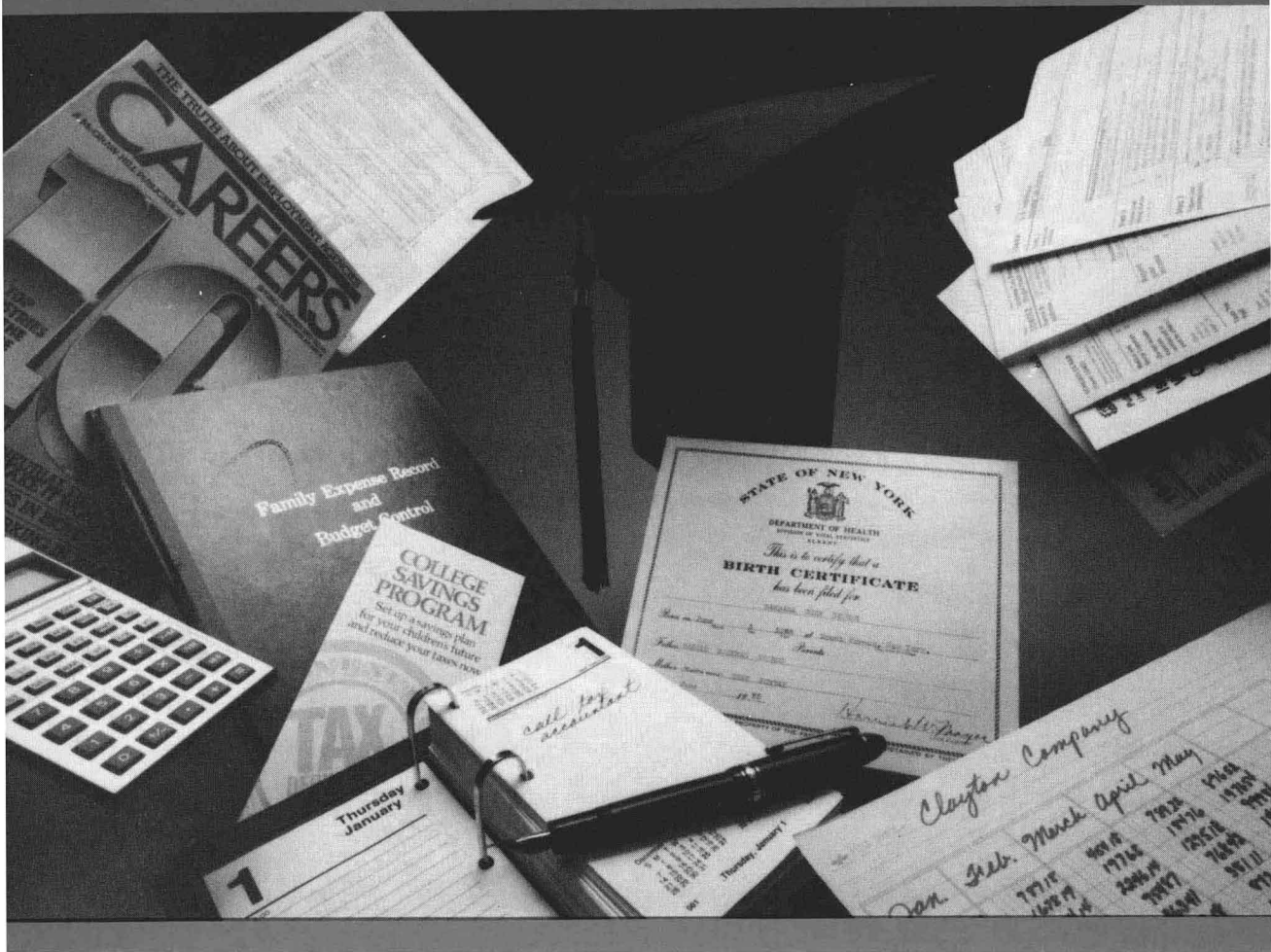
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PERSONAL FINANCIAL MANAGEMENT



Financial planning and management are inescapable; the only real issue is whether you perform these functions well. You must select a career path, pay your bills, file tax returns, select a place to live, determine a mode of transportation, protect against unforeseen losses,

and invest excess funds. The question is, do you want to try to control the key financial factors in your environment or be a victim of circumstance?

Of course, a *desire* to do well in managing your financial affairs is not enough. You must also have sufficient knowledge so that you can make and implement your plans.

In Chapter 1, we discuss the first key step in financial

planning: to establish the goals and objectives that are important to you (and to your family unit if you are married). The worst mistake you can make is to imitate somebody else's goals or objectives. You must assess what is right for you and then proceed down that path. A very important consideration is the career you wish to follow, and a number of helpful suggestions and information



Contents

To the Instructor xi
To the Student xv
About the Authors xvii

***Part One* THE ENVIRONMENT FOR FINANCIAL DECISION MAKING 1**

1 Planning for the Future 3

THE SETTING OF GOALS 4
THE CHANGING ENVIRONMENT FOR FINANCIAL PLANNING 7
YOUR CAREER AND PLANNING FOR THE FUTURE 11
ADVICE ON PERSONAL FINANCIAL PLANNING 19
WHAT YOU WILL LEARN FROM THIS BOOK 23
Summary / Key Terms / Selected Readings /
Questions 23

2 Developing Budgets and Financial Statements 27

KNOWLEDGE ABOUT YOURSELF 28
PERSONAL BALANCE SHEET 28
DEVELOPING THE BUDGET 33
ESTABLISHING BUDGETARY CONTROLS 42
THE BUDGETARY PROCESS AND ALTERNATIVE LIFE-STYLES 44
SMART SPENDING 45
COMPUTER SUPPORT FOR FINANCIAL PLANS 45
FINANCIAL PLANS DEVELOPED BY FINANCIAL SERVICE FIRMS 49
Summary / Key Terms / Selected Readings /
Questions / Case Problems 49

3 Preparing for Personal Income Taxes 54

THE TAX REFORM ACT OF 1986 55
BASIC PRINCIPLES OF TAX COMPUTATION 59

BRINGING THE PROCESS TOGETHER 71
MINIMIZING TAXES UNDER THE TAX REFORM ACT OF 1986 75
HELP IN PREPARING YOUR TAX RETURN 76
OTHER FORMS OF TAXATION 79
Summary / Key Terms / Selected Readings /
Questions / Case Problems 79
APPENDIX 3A COMPUTING THE TAX BURDEN FOR UPPER
INCOME LEVELS 87
APPENDIX 3B IRS PHONE NUMBERS BY STATE 89

**Part Two THE ENVIRONMENT FOR
FINANCIAL SERVICES 93**

4 Using Commercial Bank Services 95

ESTABLISHING CHECKING ACCOUNTS 96
SPECIAL CHARGES 109
SPECIAL SERVICES 115
SAVINGS ACCOUNTS 120
DIFFERENT TYPES OF LOANS 126
Summary / Key Terms / Selected Readings /
Questions / Case Problems 129

5 Establishing Consumer Credit 136

REASONS FOR BORROWING 138
BASIC TYPES AND SOURCES OF CONSUMER CREDIT 139
CONSUMER CREDIT LEGISLATION 148
THE EFFECTIVE COST OF CREDIT 153
APPLYING FOR CREDIT 158
Summary / Key Terms / Selected Readings /
Questions / Case Problems 162
APPENDIX 5A FINANCE CHARGES ON MONTHLY
INSTALLMENT LOANS (Simple Interest
Method) 168

Part Three PLANNING FOR MAJOR EXPENDITURES 171

6 The Housing Decision 173

CONSIDERATIONS INVOLVED IN RENTING 174
SELECTING A HOUSE 176
YOUR FIRST HOME 190
ALTERNATIVE HOUSING FORMS 191
FINANCING YOUR HOME 195
SELLING YOUR HOME 201
Summary / Key Terms / Selected Readings /
Questions / Case Problems 204

7 Purchasing Consumer Durables 208

THE PLANNING PROCESS 209
DETERMINING HOW MUCH TO SPEND ON AN AUTOMOBILE 210
FINANCING AN AUTOMOBILE 216
LEASING AN AUTOMOBILE 220
COSTS OF OWNING AND OPERATING AN AUTOMOBILE 222
BUYING A USED CAR 228
SELLING YOUR CAR 230
BUYING FURNITURE AND APPLIANCES 231
Summary / Key Terms / Selected Readings /
Questions / Case Problems 236

APPENDIX 7A PURCHASING A PERSONAL
COMPUTER 241

***Part Four* PROTECTING YOUR PERSONAL AND PROPERTY RESOURCES 259**

8 Property and Liability Insurance 261

INSURANCE PROTECTION 262
AUTOMOBILE INSURANCE 263
INSURING YOUR HOME 271
THE UMBRELLA LIABILITY POLICY 275
FACTORS AFFECTING COST AND COVERAGE 278
FINDING COVERAGE 280
IF YOU HAVE A CLAIM 282
Summary / Key Terms / Selected Readings /
Questions / Case Problems 283

APPENDIX 8A INSURANCE REGULATORS, THEIR
ADDRESSES, AND THEIR TELEPHONE
NUMBERS 288

9 Financing Health Care and Disability 291

DISABILITY INCOME INSURANCE 293
MEDICAL EXPENSE INSURANCE 296
IMPORTANT MEDICAL EXPENSE POLICIES 300
OTHER IMPORTANT MEDICAL EXPENSE INSURANCE CONCEPTS 305
OTHER HEALTH CARE DELIVERY ALTERNATIVES 310
MEDICARE 317
BUYING HEALTH INSURANCE 318
Summary / Key Terms / Selected Readings /
Questions / Case Problems 320

10 Life Insurance 325

WHY HAVE LIFE INSURANCE? 325
TYPES OF LIFE INSURANCE POLICIES 328

PACKAGE POLICIES	337
LIFE ANNUITIES	339
MAJOR TYPES OF LIFE INSURANCE COMPANIES	341
IMPORTANT LIFE INSURANCE POLICY PROVISIONS	341
SOME POPULAR LIFE INSURANCE POLICY RIDERS	344
HOW LIFE INSURANCE IS SOLD	348
Summary / Key Terms / Selected Readings /	
Questions / Case Problems	349

***Part Five* MANAGING YOUR INVESTMENT ASSETS 357**

11 Investment Strategy and Fixed-Income Securities 359

OVERALL STRATEGY	359
ECONOMIC ENVIRONMENT FOR INVESTMENTS	361
TAILORING INVESTMENTS TO YOUR NEEDS	362
RISK AND RETURN	365
FIXED-INCOME INVESTMENTS	367
U.S. GOVERNMENT BONDS	379
MUNICIPAL BONDS	381
CORPORATE BONDS	382
Summary / Key Terms / Selected Readings /	
Questions / Case Problems	386
APPENDIX 11A PREFERRED STOCK AS AN ALTERNATIVE TO	
DEBT	394

12 Investing in Common Stocks 396

KEY CHARACTERISTICS OF COMMON STOCK	397
MAJOR MARKETS FOR STOCK TRADING	403
MAKING AN INVESTMENT DECISION	406
CLASSIFYING STOCKS FOR INVESTMENTS	413
SPECIAL SITUATIONS	417
SELECTING A BROKER FOR YOUR ACCOUNT	418
MARKET AVERAGES	425
BRINGING INDIVIDUAL STOCKS TOGETHER—THE PORTFOLIO	428
Summary / Key Terms / Selected Readings /	
Questions / Case Problems	428

13 Investing Through Mutual Funds 435

ADVANTAGES AND DRAWBACKS	436
OPEN-END VERSUS CLOSED-END FUNDS	437
LOAD VERSUS NO-LOAD FUNDS	443
SPECIAL FEATURES OFFERED BY MUTUAL FUNDS	449