
PERSONAL FINANCE

Second Edition



KAPOOR

DLABAY

HUGHES

PERSONAL FINANCE

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Preface

In recent years, significant economic and social developments have influenced the personal financial planning environment. Spending, saving, borrowing, and investing decisions are now frequently affected by the following:

- The changing structure of our economy, along with variable interest rates, consumer prices, and employment opportunities.
- Changes in the patterns of American families, with increases in the number of dual-income, single-parent, one-person, and mixed-generation households.
- Expanded financial services and investment opportunities as a result of deregulation of financial institutions and foreign business.
- Technological advances that have fostered new financial products, delivery systems, and access to information for improved personal financial decision making.

These developments form the basis for the selection and organization of the material contained in this edition of *Personal Finance*.

TEXT THEMES

In an effort to address the changing environment for financial planning, this edition emphasizes the following themes:

- *Decision making and opportunity costs.* Starting in Chapter 1, and continuing throughout the text, the evaluation of alternatives and trade-offs is highlighted.
- *Quantitative analysis of personal financial decisions.* Again starting in Chapter 1, emphasis is placed on the many analytic aspects of assessing financial choices. (See inside front cover for complete list.)
- *Personal financial planning needs for contemporary life situations.* The increasingly numerous single-parent, two-income, and mixed-generation households require a contemporary, flexible approach to financial planning. Moreover, the life situation emphasis in this text recognizes that even traditional households must adapt to such events as marriage, childbirth, career changes, health difficulties, retirement, and the death of household members.

NEW TO THIS EDITION

The second edition of *Personal Finance* has been thoroughly updated; it presents expanded coverage of important personal finance issues, focuses on differing personal lifestyles, and contains many pedagogical features.

To better serve the educational needs of students, the following additions and revisions are offered in this edition of *Personal Finance*:

- A completely revised Chapter 1 emphasizes decision making, opportunity costs, and the economic and social environment of financial planning. The basic explanations of future and present value calculations are presented to stress the financial aspects of opportunity cost and the personal economic trade-offs associated with a financial decision. Chapter 1 also provides an introduction to the financial planning process, the components of financial planning, and the development of a financial plan.
- Chapter 2 continues to address the needs of people in the process of establishing careers, while also emphasizing the needs of people who are interested in changing careers or advancing in their current field. Chapter 2 also includes techniques for assessing a compensation package and for comparing the value of employee benefits.
- New exhibits in Chapter 3 offer clear explanations of the processes involved in creating a personal balance sheet and cash flow statement. Chapter 3 also includes an expanded discussion of the budgeting process and possible budget allocations for different life situations.
- The tax chapter, now Chapter 4, contains five main areas: (1) the relationship of taxes to personal financial planning, (2) income tax fundamentals, (3) the process of completing Form 1040 and Schedule A, (4) tax information sources and the auditing process, and (5) tax planning strategies.
- Chapters 6 and 7 explore the financial and personal opportunity costs of using consumer credit including the debt payments-to-income ratio and debt-to-equity ratio to measure credit capacity. In addition, the appendix to Chapter 7 presents additional methods used to calculate interest by consumer credit providers. The key formulas in Chapters 7, 15, and 17 are summarized in tables at the end of those chapters.
- Because most people rent housing at some point in their lives, Chapter 9 includes expanded coverage of rental options, procedures, and agreements.
- Chapter 11 continues to stress the importance of financial trade-offs in choosing insurance coverages as well as the concept of self-insurance.
- In Chapter 13, rising health care costs, sources of disability insurance, and methods of determining disability income insurance needs are discussed.
- Several methods of determining life insurance needs—the easy method, the Dink (Dual Income No Kids) method, the nonworking spouse method, and the thorough method—are explored in Chapter 14. The chapter continues to expand on the theme of time value of money and the opportunity costs involved in determining the cost of insurance.
- A separate chapter on mutual funds provides expanded coverage of an investment vehicle that is frequently used for portfolio diversification.
- “Financial Planning in Action” features provide formats for the analysis of various decisions in relation to the “Financial Planning Process” flowchart discussed in Chapter 1.
- “Financial Planning Calculations” highlight specific analytical approaches to financial planning decisions.
- The *Personal Financial Planner*, provided at no cost to each student who purchases a book through Richard D. Irwin, is a 70-page planning tool for developing and implementing a comprehensive personal financial plan.

TEXT FEATURES

Everything in the second edition of *Personal Finance* is designed to help instructors be more effective and to help students do better in class. It all starts with learning objectives, which spell out what is expected of the student in each chapter. As students read material, the learning objectives are repeated at each major section. At the end of the chapter, the learning objectives appear again within the summary and next to the Discussion Questions and Problems and Activities sections.

Key Personal Financial Calculations and Decisions

The front inside cover presents a summary of the more than 70 analytic topics covered in the text. The

back inside cover provides an easy reference for locating the text material on a specific personal financial decision.

Chapter Format

Each chapter has been designed to present its content in a clear and motivating manner. The major features of each chapter are

- A chapter overview and a list of the chapter's behavioral learning objectives.
- An opening case that introduces the content of the chapter through a real-world situation. Questions related to this case appear at the end of the chapter.
- Essay and financial analysis features that expand the content of the chapter. These features appear under the headings "Personal Finance Journal," "Financial Planning in Action," and "Financial Planning Calculations."
- A chapter summary that reviews the content for each of the chapter's learning objectives.
- A chapter glossary that defines the key terms in the chapter.
- Discussion questions that are tied to the learning objectives and review the chapter's key ideas and expand its main topic areas.
- Problems and activities that are tied to the learning objectives and provide opportunities to use chapter material in various types of settings.
- Life situation cases that allow students to apply their financial planning skills to real-world situations.
- A list of supplementary readings that expand upon the content of the chapter.

End-of-Part Cases

At the end of Chapters 4, 7, 10, 14, 19, and 21 are comprehensive cases. Each of the situations described in these cases encompasses a number of financial planning concepts and gives students a basis for practicing their decision-making skills.

Appendixes

These end-of-text appendixes supplement the main content: "Using a Financial Planner and Other Financial Planning Information Sources," "The Time Value of Money: Future Value and Present Value

Calculations," "Using a Personal Computer for Personal Financial Planning," and "Consumer Agencies and Organizations." The practical information contained in these appendixes can enhance the personal financial decision-making process.

INSTRUCTIONAL SUPPLEMENTS

The integrated teaching-learning package for *Personal Finance* consists of the following materials:

- *Personal Financial Planner*. This publication, packaged free with every book purchased through Richard D. Irwin, is a 70-page planning tool for developing and implementing a personal financial plan.
- *Student Resource Manual*. This study guide is designed for the review and application of concepts developed in the text. Each chapter of the manual contains a chapter overview, a pretest, self-guided study questions, a post-test, problems, applications, and cases. The manual also includes recent articles on personal financial planning topics from *The Wall Street Journal*; each of these articles is accompanied by study questions.
- *Instructor's Manual with Lecture Guide*. The first section of this publication is the "Course Planning Guide," which offers suggestions for instructional strategies, course projects, supplementary readings, and teaching resources. The "Chapter Teaching Materials" section provides a chapter overview, a list of learning objectives with content summaries, introductory activities, detailed lecture outlines with teaching ideas, concluding activities, ready-to-duplicate quizzes, supplementary lecture materials and activities, and answers to end-of-chapter questions, problems, and cases.
- *Color Transparencies*. Forty ready-to-use color transparencies covering the major content of each text chapter are available. Each of these transparencies has a one-page teaching note that provides the text page reference, points to highlight, discussion questions, and a suggested supplementary exercise. These teaching notes are packaged with the transparency masters.

- *Transparency Masters.* Over 100 ready-to-duplicate transparency masters may be used for class presentations or as handouts for student note-taking.
- *Manual of Tests.* The testing program for *Personal Finance* consists of over 1,400 true-false, multiple-choice, and essay/case questions. These test items are organized by the learning objectives for each chapter. Answers, text page references, and difficulty level are provided.
- *CompuTest 3.* The test items are also available on disks for IBM-compatible and Apple personal computer systems to allow the easy creation of tests based on text chapter, type of question, and difficulty level. *CompuTest 3* makes it possible to combine your own questions with those created by the authors of *Personal Finance*. The system can be used to edit existing questions and create up to 99 versions of each test. It accepts graphics, allows password protection of saved tests and question databases, and is networkable.
- *Teletest.* By far the easiest way to generate an exam is to use Teletest. Teletest is a service that will create a master copy of an exam. All you have to do is call 1-800-331-5094. You can ask for specific questions, by number, on the exam or ask for questions covering various issues at different levels of learning to be randomly selected. You will get your exam within a few days.
- *Personal Finance Software.* Free master disks are available to adopters. The personal computer software (IBM compatible) that accompanies *Personal Finance* consists of two disks. The spreadsheet template disk, designed for use with Lotus 1-2-3®, contains worksheets for handling over 40 financial planning calculations. The self-contained tutorial disk, designed for use with MS-DOS or PC-DOS systems, offers over 30 financial planning routines and two interactive cases. The instructor's manual for *Personal Finance* presents detailed operating instructional activities, sample problems, and application exercises.
- *Personal Finance Videos.* The video supplement to *Personal Finance* offers presentations to enhance the teaching-learning process.

Each video segment is accompanied by a "Viewing Guide" that contains a synopsis of its content, discussion questions, and suggestions for follow-up activities.

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Jack R. Kapoor
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A NOTE TO STUDENTS

Since many fundamentals of successful personal financial management remain constant, we are sure you will find this book a valuable reference for many years. Best wishes for a satisfying and fulfilling personal and financial existence.

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