

# Financial Decision Making

- Student Notes

*Directions:*

Fill in the blanks.

## 1. Decision Making

- Functions to select a future course of action from a number of alternatives
- In regards to finances may:
  - enable goals to be reached through deciding to be frugal
  - \_\_\_\_\_ goals from being reached through deciding to be wasteful of resources
- \_\_\_\_\_: not being wasteful; to be sparing or carefully save

## 2. Finance

- \_\_\_\_\_ the ways in which people and organizations raise, allocate and use monetary resources
- May involve taking risks and making decisions in order to manage and control assets
- Should always be \_\_\_\_\_ with reality, responsibility and restraint

## 3. Reality

- Is \_\_\_\_\_ the facts in a situation and weighing them when making a decision
- Should be considered in the following:
  - planning
  - \_\_\_\_\_ resources
  - goal-setting

## 4. Planning

- Allows for goals to be \_\_\_\_\_
- Involves \_\_\_\_\_ your goal and the steps you will take to achieve it
- Includes being realistic when setting a time period and amount of resources you will need

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## 5. Limited Financial Resources

- May be due to debt, low income, poor budgeting or many other factors
- Can be managed with proper budgeting and \_\_\_\_\_ of funds
- May effect a person's \_\_\_\_\_ decisions

## 6. Goals

- Are clear, \_\_\_\_\_ things you plan to accomplish
- Are set up in order to plan how one will obtain a want or need
- May affect a person's financial expenses by \_\_\_\_\_ their spending before or extending their spending after their goal has been accomplished

## 7. Goals

- Should meet the following criteria when being set up in order to ensure planning and success:
  - specific
  - \_\_\_\_\_
  - attainable
  - realistic
  - \_\_\_\_\_-bound

## 8. A SMART Goal

- Can be seen in the following example:
  - Specific – purchase a \_\_\_\_\_
  - Measurable – how much money has been and can be saved
  - Attainable – can it be afforded
  - Realistic – is it \_\_\_\_\_ possible
  - Time-bound – one wants to be a home-owner in three years

## 9. Responsibility

- Involves being accountable for one's actions and regarding all options when making a decision
- Should be used when considering the following:
  - \_\_\_\_\_ costs
  - delayed \_\_\_\_\_
  - scarcity

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## 10. Opportunity Cost

- Is the cost of an item in terms of other opportunities which were given up
- Involves \_\_\_\_\_ all options and determining which will yield the most benefits
- Produces “\_\_\_\_\_ costs” or “hidden losses” because the options not taken cannot be measured
  - if a person wants to buy a CD and a movie but can only afford one, the opportunity cost is whichever one is not purchased and the amount of entertainment it would have brought

## 11. Delayed Payments

- Allow for an item to be paid for over a set amount of time
- Are often paired with a \_\_\_\_\_ payment charge
  - often introduced to the consumer through such promotions as “No interest and no payments for 12 months.\*” (the asterisk at the end signifies the conditions which apply)
  - conditions usually state if the item is not paid for in the allotted time period, interest from those months will be charged
- May cause people to think they can \_\_\_\_\_ to purchase an item when they really cannot
- Often cause an item to cost more in the long run than it would initially

## 12. Scarcity

- Is the problem of society having \_\_\_\_\_ wants and needs while possessing limited resources
  - oil is a commodity which is used internationally for various purposes, yet there is only a limited supply found in the world
- Causes the price of objects to increase when there is less and decrease when there is more
- Results in \_\_\_\_\_ and decisions made between items, weighing the upside and downside of each
- Tradeoff: an exchange of one thing for another, especially giving up one benefit or advantage for another which is more desirable

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## 13. Needs vs. Wants

- Needs are the items necessary for \_\_\_\_\_ living
  - includes food and housing
- Wants are the items which are not necessary, only desired
  - such as \_\_\_\_\_ and CDs
- Needs always come before wants and should be budgeted accordingly

## 14. Charity

- Is defined as \_\_\_\_\_ acts or donations to those in need
- Affects financial decisions
  - one may decide to \_\_\_\_\_ money to others rather than spend it on one's self
- Usually increases after a natural disaster or tragedy affecting a large number of lives

## 15. Civic Consciousness

- Is the awareness of one's \_\_\_\_\_ environment and the impact personal decisions can have on it
- Goes along with the belief in helping one's own economy
- Can occur locally within a city or state, or on a global scale
  - some Americans believe in only buying domestic brand cars in order to support the United States' economy

## 16. Restraint

- Is the ability to hold back on one's actions
- Should be used in the following:
  - \_\_\_\_\_ buying
  - peer \_\_\_\_\_

## 17. Impulse Buying

- Is an \_\_\_\_\_, spontaneous purchase
- Disrupts the decision making process by switching from a rational plan of purchase to an irrational moment of self gratification
  - the most common form of impulse buying is the unplanned candy or magazine purchased while checking out at the register
- Appeals to the \_\_\_\_\_ side of the consumer

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## 18. Peer Pressure

- Is also known as the “\_\_\_\_\_ effect”
  - describes the act of a popular trend gaining even more popularity
- Describes the social pressure exerted by a group to take a certain action
- May result in decisions made solely based on \_\_\_\_\_ influence

## 19. Personal Values & Other Factors

- Following factors may influence financial decisions:
  - work \_\_\_\_\_
  - cultural influences
  - social influences
  - \_\_\_\_\_ influences

## 20. Work Ethic

- Is a set of values based on the moral virtues of hard work and \_\_\_\_\_
- Is \_\_\_\_\_ into positive and negative work ethics
  - someone who shows up, completes their work on time and always has a positive attitude exemplifies a good work ethic and will be more respected and trusted than someone who is consistently late and does not complete their work
- Is reflective in finances because those with a positive work ethic usually make smarter financial decisions than those with a negative work ethic

## 21. Cultural Influence

- Includes different religions and the set of laws by which they are governed
  - Christians often give a \_\_\_\_\_ to a church
  - Islam forbids lending with \_\_\_\_\_
- Is evident geographically, as Americans make different financial decisions than individuals in other countries
- Tithe: to give or pay a tax, usually of ten percent

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## 22. Social Influence

- Involves the people around you \_\_\_\_\_ pressure upon you to influence your decisions
- Includes celebrities endorsing products
- Can alter \_\_\_\_\_ decisions based on whether or not the crowd is purchasing something

## 23. Emotional Influence

- Alters your mood and motives, which may completely change the intent of your \_\_\_\_\_
- Can come in the form of \_\_\_\_\_ who are playing toward your emotions
- Has very strong control over you which is why experts suggest not shopping while either overly depressed or excited

## 24. Positive Financial Habits

- Include the following:
  - set goals and save for them
  - develop a monthly budget and stick to it
  - pay \_\_\_\_\_ on time
  - keep accurate and organized \_\_\_\_\_

## 25. Negative Financial Habits

- Include the following:
  - making payments \_\_\_\_\_
  - purchasing items you want rather than need
  - charging purchases instead of paying with cash or debit card
  - not saving for an \_\_\_\_\_