

**Solution Manual for Personal Finance 1st Edition Walker 0073530654  
9780073530659**

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This chapter sets the tone for the entire course. It is the exploration of personal values, goals and mission. It is an opportunity for the students to dream big about future goals and possibilities. It is also where students begin to recognize the opportunity cost of their spending habits. A dollar spent on something today cannot be saved or invested or spent later. Throughout the book you will see Financial Fitness boxes with “Stopping Little Leaks” to help students recognize opportunity cost, and to change their spending without changing their lifestyle. Raising the financial consciousness of the students is one of the major goals of this book, and it all begins with chapter one.

Ideas to begin discussion and have students think about this chapter:

- After introducing yourself to the class and going over the learning objectives for the chapter, distribute 3x5 index cards and have the students write their name, major and contact information on the front of the card along with the three things they want to get out of class. This will provide you with what is important to the students. Then go to slide 3 and have the students answer the questions of what they would do if they won \$290 million dollars in the Mega Millions lottery game. This would equal \$182.6 million in cash. Trivia that you could add is that a standard briefcase full of \$100 bills holds \$1 million. So if you were to give the students 183 briefcases full of \$100 bills, what would they do? While the students are completing the cards,

play “If I had a Million Dollars” by the Bare Naked Ladies twice. This will give the students time to complete the cards. Reinforce to the students to dream BIG when thinking of what they would do with \$182.6 million in cash. Then have the students get to know someone new in the class. After five minutes, the students will introduce the person they just met to the class. At 2.5 minutes, tell the students it is time to switch so each person has equal time to find out information on the other. Go around the room and have students introduce the other person to the class, stating their name, major, goals for the class, and what they would do with the cash. The class will then see common goals for the class and lifetime dreams for each of their classmates.

- After a brief introduction of yourself and the class, talk a little about the current economy and mention the housing crises of 2008-09 and the recession. Then ask students what they think are some of the biggest challenges other people have with money and finance. Write their responses on the board so the entire class can review the list. By asking what challenges they see other people having with personal finance, you are not asking them directly what their challenges are, but you will receive similar answers. This will provide you an idea of what your class sees challenges and where you might want to focus the class.
  
- After a brief introduction of yourself and the class, ask the individuals to write down their own definition of “personal financial success.” Go around the room and have people report it back to the entire class. Write the answers on the board so the class can see a variety of answers. Do not judge the answers, because they are all correct answers. Personal financial success is individual and everyone might have different answers. This also provides you with the students’ financial goals and can help you direct the class to help your students reach their goals and achieve financial success.

## ***Problems***

1. If your goal budget was to follow the 90-10 rule, and you were bringing home about \$2,000/month, how would your check be allocated over the course of the year? (LO 1-1)
  - a.  $Annual\ income = \$2,000 \times 12 = \$24,000$   
 $Budgeted\ annual\ spending = 0.90 \times \$24,000 = \$21,600$   
 $Budgeted\ annual\ savings = 0.10 \times \$24,000 = \$2,400$
  
2. For the past year, you made \$58,000. To see if you were following the 80-10-10 rule, what amount and where would you see your income dispersed over the past year? (LO 1-1)
  - a.  $Spending = \$58,000 \times 0.80 = \$46,400$   
 $Savings = \$58,000 \times 0.10 = \$5,800$   
 $Giving = \$58,000 \times 0.10 = \$5,800$
  
3. You are a fresh graduate with a new salary of \$4,700 a month. You estimate you will be paying about 20% towards taxes. How much should you put in your savings each month? (LO 1-1)

a.  $\text{Take-home pay} = \$4,700 \times (1 - 0.20) = \$3,760$   
 $\text{Monthly savings} = \$3,760 \times 0.10 = \$376$

4. You are starting a brand new job with a salary of \$70,000. One-third (33%) will go toward taxes (state, local, federal and Social Security). Following the 90-10 rule, what is the most you should budget for monthly living expenses? (LO 1-1)

a.  $\text{Annual take-home pay} = \$70,000 \times (1 - 0.33) = \$46,900$   
 $\text{Monthly take-home pay} = \$46,900/12 = \$3,908.33$   
 $\text{Maximum monthly living expenses} = \$3,908.33 \times 0.90 = \$3,517.50$

5. You currently follow the 90-10 rule. You decide you want to gradually shift to the 80-10-10 rule over the next 20 years, at a steady rate. What percentage of your income will you be budgeting incrementally each year for giving? (LO 1-1)

a.  $\text{Annual incremental increase in giving} = 10\%/20 \text{ years} = 0.5\% \text{ per year}$

6. If you are able to save \$1,000/month, following the 90-10 rule, what is your annual take-home income? (LO 1-1)

a.  $\text{Monthly income} = \$1,000/0.10 = \$10,000$   
 $\text{Annual income} = \$10,000 \times 12 = \$120,000$

7. You are closing in on retirement. You are concerned you will not have built up enough in savings over the next five years. You currently give \$6,000/year to charity. If you change the allocation of your giving from 10 to 2%, how much will you still be giving each year? (LO 1-1)

a.  $\text{Take-home pay} = \$6,000/0.10 = \$60,000$   
b.  $\text{New giving} = \$60,000 \times 0.02 = \$1,200$

## *You're the Expert*

- 1) Abby is a recent graduate who landed a great engineering job. In the economic downturn, and the pressure to run a lean shop, a number of more experienced veteran staff members have been downsized. As a result, a significant amount of responsibility and hours have fallen to her. She has been successful but it has involved working 12 hours a day for 6-7 days each week for past 3 months with no end in sight. She is fast approaching burn out but to move to another job in the current market would be risky. (LO 1-1, LO 1-2)
- What steps should you recommend to Abby to take to sort out her dilemma?
  - List three pros and cons of two of her options?
  - What would you suggest she do?

*1a) a-She should evaluate value, vision and mission to determine what she wants; b- Look at the occupation handbook to see what related fields are for engineers; c- Talk to her boss; d-Look for another job.*

*1b) PROS: a-Having clear values will help her determine if she made the right career choice; b-The OC might provide other occupations in which she might be interested; c-Talking to her boss to reduce hours; d-Finding another job may be the perfect fit; CONS: a-Her boss may see her as whiner; b-Another job may require moving.*

*1c) Answer will vary from student to student. This question is to encourage critical thinking and evaluation skills.*

- 2) Eric's uncle left him a trust fund that will provide him \$50,000/year for the next 20 years. He is a 28-year-old bachelor making a salary of \$4,200/month, with condo payment, fees and utilities totaling \$1,750/month. Car payment, gas and maintenance average \$600/month. Clothing, eating out and other expenses vary greatly depending on how active his social life is that month. He has managed to steer clear of any credit card debt but has not started putting money into savings towards any long term goals and is living paycheck to paycheck. (LO 1-2)
- With his current windfall, how close is Eric to reaching financial independence?
  - What are two of options Eric has for achieving financial independence?
  - Does Eric have the option to quit his current job?

d. If Eric would quit his job, what would he have to do to maintain financial independence over the long-run?

2a)  $\$4,200 - \$4,166.67 = \$33.33/\text{month}$

2b) *Cut back on spending, save all or part of the \$50,000 to build a retirement nest egg*

2c) *Yes, if he cuts back on spending*

2d) *Cut back on spending; Save and invest some money*

3) Issie is a new high school graduate. She is excited about the field of nursing, loves international travel and people. She thinks the Peace Corps would be a great adventure while she is still single and young. Research the Peace Corps ([www.peacecorp.gov](http://www.peacecorp.gov)) and Doctors Without Borders ([www.doctorswithoutborders.org](http://www.doctorswithoutborders.org)). Step through the process of creating short, interim and long-term goals that will carry Issie through her Independence Life Stage. (LO 1-3)

### ***Running Case Scenario***

In the chapters of the text, the lessons will be visited through the eyes of housemates of 906 East College Street. All residents are either current students or recent graduates. Leigh, Blake and Nicole are siblings. Their parents bought the home, which is close to campus, as an investment when Leigh started at the university her freshman year. The following profiles describe of each of the housemates and their intermediate-term goals. For each housemate identify a SMART short-term goal that supports their success in achieving their intermediate goals.

Possible answers:

Leigh: Start saving 100/month to accumulate over \$6,000 for the trip

Blake: Train one hour per day, six days a week

Nicole: Get a 3.75 GPA freshman year

Karri: Get an internship as a reporter at the local television station within 6 months

Peter: Write a business plan to be completed in three months

Brett: Earn a 4.0 GPA each semester while in medical school

Jen: Meet with career service this month to help figure out a major

Jack: Find a full-time job with benefits within 4 months

## *Slides and Notes*

Slide 1 Money Matters: Values, Vision, Mission and

***For the Love of Money*** by the O'Jays, run 7:11. This is the theme song for the Appr Donald Trump. It is upbeat can be played as students come in.

Slide 2 Learning Objectives

Questions to ask the class:

- How many of you have a budget?
- How many of you have a financial plan?
- How many of you know where you spen penny?
- Is your spending reflective of your value

As a class introduction, have the students what they would do if they were to win t or Mega Millions lottery. Trivia to share: briefcase full of \$100 bills holds \$1 millio students what they would do if you hand briefcases full of \$100 bills. Have student down and this is a start of their goals. As they would do if they didn't have to work of advice: 1) If you are going to dream, d 2) Be careful of what you dream for, it jus true.

As the student write down what they wo \$100 million, play ***If I had a Million Dolla*** Naked Ladies, running time 4:27 minutes.

Slide 3 Step 1: Perception of Financials

To build a financial plan, you first have to your relationship with money. Money ca behavior, attitude and can be very stressf class:

- Has anyone not be repaid after someon borrowed money from them?
- How did it make you feel?
- How do you feel if you don't have enoug
- What would you do if you don't have en
- How would you feel if given \$600?
- What would you do with the extra \$600

Slide 4 Money Relationship Quiz

Have students take the Money Relationsh 1.2 or by taking the quiz in the on-line wo Ask the students:

- Why do you think this quiz is or is not re your relationship with money?
- Why do people have different relationsh money?

People value money and the benefit or b differently. There is no right or wrong wa money, it is as individual as one's persona important thing is that you are happy wit saving, spending, investing and/or giving

Once you understand your relationship with money, you can work on identifying your values. Money is a reflection of your values.

Personal values are those things that are meaningful to you and to which you must be true to live a fulfilled life. If you don't live your values, you live a life of conflict with your values.

There is no judgment on values. They are as you are.

Worksheet 1.2, "Clarifying Values" is used to clarify values. Once students complete it, instruct them to cross off all but 5 of their values. After they do this, have them cross off one more value so they are down to four values. Do this again and yet again so they are down to the one most important to them. Each time they cross off a value, it becomes a harder task.

As a reflection of their values, some people choose voluntary simplicity or a simple lifestyle, reduced consumption, clutter to reduce stress and live in harmony with their values.

Trade-offs or opportunity cost - By being frugal with spending, savings and investing one can make changes that can have a huge impact on their wellbeing.

Voluntary Simplicity video – 2:07 minutes definition of voluntary simplicity, also refer to <http://www.choosingvoluntarysimplicity.com>.

Living the Real Simple Life (ABC Nightline) Living off 1/5 acre and seeking independence four living on \$30,000. <http://urbanhome.com> their site with a blog, etc.

Ask the class what is the definition of “Frugal” Frugal is not being cheap or tight with money but receiving value for every dollar spent is more frugal to buy an expensive item that lasts a lifetime than a cheap item that will break. Being frugal is avoiding waste, to be resourceful in fulfilling needs of goods and services.

Enough is the economic theory of utility that explains economic behavior. According to the doctrine of utilitarianism, society should maximize the utility of individuals aiming for the greatest happiness. With consumption, even when purchasing an additional item that provides fulfillment in fact it could decrease fulfillment. An example of Enough and decreasing utility is the first car you buy provides a lot of utility. It allows you to travel long distances, drive 70 miles per hour or faster in the rain and snow without getting wet or provides a lot of freedom. If you keep buying more cars, it does not provide as much utility. You can only drive one car at a time and your needs are met. Now if you like your second car more than your first car, the utility of the first car decreases. This could be the same for big screen TV’s or game consoles, you do not need two Xboxes.

The answer to personal financial success you want it to be. It can be that one want 40 with \$20 million in investments or it can be that one wants to work their entire life. Personal financial success is just that...personal, and should reflect one's personal values.

Here are three YouTube video clips

Warren Buffett – 3:15 minutes. Good Morning America on investing advice

•**Three things to live by**

- If it is too good to be true it is probably too good to be true
- Always look at how much the other side is making when he is trying to sell
- Stay away from leverage (debt)

•**Bridge like investments** – work well with everything you learn from the past help you solve problems in the future, although they are problems...you learn from every hand you play every deal you make

• Includes advice on **college education** - is a high price...invest in yourself.

- Communication skills are important

Dave Ramsey on How to be Financially Successful – 3 minutes

- Dave has a radio show, TV show, books and a personal finance website
- Personal finance is not rocket science
- Suze Orman, Can you afford your life? 3 minutes about debt.
- Can you afford to live if you get sick?

- Health insurance
- Can you afford to live if you get laid off?
- People first, then money, then things

Slide 11      Making Sen\$e

Slide 12      In the News

Slide 14 Financial Independence

Passive Income: money received from in savings, according to the IRA, non-earned

Slide 15 Reaching Financial Independence Sooner

Two ways to reach financial independence

Ask:

- What are some strategies where you lower your expense line?
  - How big of a lifestyle change would you make these changes?
  - What could you do during this change to lower your expense line?
- What are some strategies where you increase your passive income line?
  - How big of a lifestyle change would you make to increase your passive income (i.e. more)?
  - What could you do during this change to increase your passive income?
- What happens when you want to retire and your passive income does not exceed your expenses?
  - What specific things do you do?

Slide 16      Doing the Math

Slide 17      Financial Literacy

Slide 18      Who to Trust

Bernie Madoff SKY news video clip, 2:11 r  
\$50 billion of assets gone!, Estimated the  
fraud will be \$17 billion. Large institution  
trusted Madoff and lost.

Slide 19 Options to Financial Independence (FI)

Downshifting is reducing your expense line keeping up with the Joneses. It is a strategy to reach your financial independence sooner.

Augmenting your income: A second job could be profitable. Bar tending and waiting tables could be a good second income and a social environment could also augment your income by turning into a business. If you are artistic, could you give art lessons? Could you give musical lessons, coaching lessons or tutoring for a fee?

Dollar cost averaging is investing a fixed dollar amount at regular intervals so one does not have to time the market. One will buy low and high, but through consistent investing and/or savings.

Slide 20 Financial Plan

Slide 21 Personal Finance Life Stages

Dependent Life Stage (Age <16): Have no income.

Independence Life Stage (Age 16–24): Start to become financially responsible and can save for the future.

Early Family Life Stage (Age 25–40): Life begins a full-time job/career, may start accumulating assets to build wealth.

Empty Nest Life Stage (Age 41-65): Life with children and high income.

Retirement Life Stage (Age 66+): Life with income that meets or exceeds expenses.

Slide 22 Step 4: Create a Vision for Your Future

Slide 23 Vision, Mission, and Goals

Slide 24 Vision

Slide 25 Step 5: Money and Mission

Slide 26 Personal Mission Statement

These two websites help one clarify their statement. The mission statements have smithed to have an effective mission stat

Slide 27 Step 6: Goal Setting

Slide 29      Example: Long-Term Goals

Have students look back on their values and write down some long-term goals. Encourage students to dream big, because you never will be the next multi-millionaire or do grow his or her life.

Slide 30      Example: Intermediate Goals

Have students take one of their intermediate goals and put it in the center of the mind map. From there, students can write down what they need in the next 1-5 years to help achieve their goal.

Slide 31 Example: Short-Term Goals

Have students take one of their short-term goals and put it in the center of the mind map. From there, students can write down what they need in the next year to help achieve their long-term goal.

Slide 32 SMART Goals

Now it is time to turn the goals into SMART goals.

**Specific** – The more specific the goals, the more likely you are to achieve them. If you want to travel, specify a destination, you are more likely to achieve your goal. Get travel books and research your destination.

**Measurable** – Not just "I want to save money," but "I want to save \$10 a week." Make sure you can measure your progress toward the goal.

**Attainable** - This is the "gut check" to see if the goal is realistic. Can you accomplish the goal?

**Realistic** – is another "gut check", however, it is credited with saying "If you can dream it, you can do it."

**Time** – a goal is a dream with a deadline. It provides a sense of urgency. If you miss your deadline, do not double up to make up for it, but track your progress toward the goal and readjust your goal.

Slide 34 Money only makes you happy if:

Slide 35 Career and Education Choices

The Bureau of Labor Statistics provides the Occupational Outlook Handbook where you can research any career which provides information on the nature of the work, training, other qualifications, advancement, employment, job outlook, earning, wages, related occupation and statistics. Student can research careers to determine income and suitability for student.

