



Section 1: An Introduction to Personal Finance



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Today Agenda

- ▶ Basic of personal finance
- ▶ Financial planning process
- ▶ Time value of money
- ▶ Financial aspects of career planning

Financial Planning

Section objectives

1. Analyze the process for making personal financial decisions
2. Develop personal financial goals
3. Assess personal and economic factors that influence personal financial planning
4. Calculate time value of money situations associated with personal financial decisions
5. Identify strategies for achieving personal financial goals for different life situations

What is personal finance?

- ▶ Personal finance is the study of personal and family resources considered important in achieving financial success
- ▶ Personal financial planning is the process of managing your money to achieve personal economic satisfaction. There are several advantages of personal financial planning.

The Financial Planning Process



An Illustration: Mr. KS

Step	Process	Recommended action
I	Determine current financial situation	
II	Develop financial goals	
III	Identify alternative courses of actions	
IV	Evaluate alternatives	
V	Create and implement your financial action plan	
VI	Review and revise your financial plan	

Step 1: Determine your current financial situation

- ▶ Evaluate income, savings, living expenses, and debts
- ▶ Prepare a list of current asset and debt balances and amount spent for various items
- ▶ Match financial goals to current income and potential earning power

Step 2: Develop your financial goals

- ▶ Identify feelings about money and the reasons for those feelings
- ▶ Determine the source of your feelings about money
- ▶ Determine the effects of the economy on your goals and priorities
- ▶ Make sure that your goals are your own and are specific to your situation

Step 3: Identify alternative courses of action

- ▶ Possible courses of action can be:
 - ▶ Continue the same course of action
 - ▶ Expand the current situation
 - ▶ Change the current situation
 - ▶ Take a new course of action
- ▶ Creativity in decision making is vital to effective choices
- ▶ “Do nothing” can be a dangerous alternative

Step 4: Evaluate your alternatives

▶ CONSEQUENCES OF CHOICES

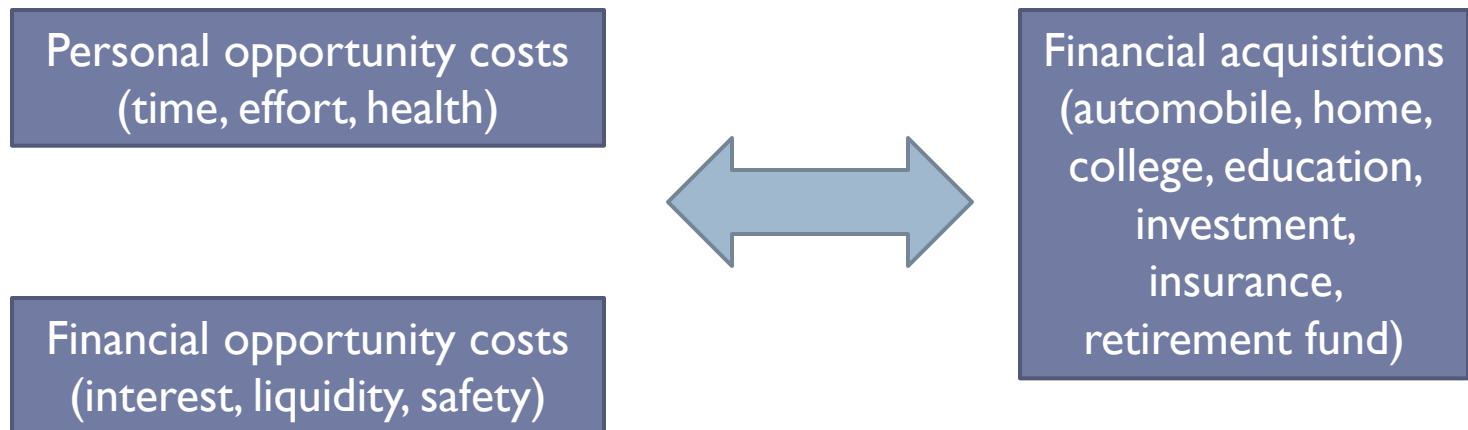
- ▶ **Opportunity cost** - What you give up when you make a choice
- ▶ The cost or **trade-off** of a decision cannot always be measured in dollars. Sometimes the cost is your time

▶ EVALUATING RISK

- ▶ Uncertainty is a part of every decision.

Benefits VS Costs

- ▶ Opportunity costs and financial results evaluated when making decisions.



Step 5: Create and implement your financial plan

- ▶ Develop an action plan that identifies ways to achieve financial goals
- ▶ Possible action plans can be increasing savings, reducing spending, or making provisions for taxes
- ▶ To implement action plans you may need assistance from others

Step 6: Review and revise your plan

- ▶ Financial planning decisions need to be assessed regularly
- ▶ Complete review should be done at least once a year
- ▶ More frequent reviews may be required for changing personal, social, and economic factors
- ▶ Regular reviews of decision-making process can help in making priority adjustments to achieve financial goals

Developing Personal Financial Goals

- ▶ **TYPES OF FINANCIAL GOALS** can be:

- ▶ **TIMING OF GOALS**
 - ▶ Short-term, intermediate and long-term goals
 - ▶ Long term goals should be planned in coordination with short-term and intermediate goals

Developing Personal Financial Goals (2)

GOAL-SETTING GUIDELINES

- ▶ Goals should be:
 - ▶ **S**
 - ▶ **M**
 - ▶ **A**
 - ▶ **R**
 - ▶ **T**



Where are we in the business cycle?

- ▶ Business cycles can be depicted as a wavelike pattern of rising and falling economic activity; the phases of the business cycle includes expansion, peak, contraction (which may turn into recession), and trough.
- ▶ How can we identify the difference between expansion and recession phase?

Influences on Personal Financial Planning

LIFE SITUATION AND PERSONAL VALUES

- ▶ ***Adult life cycle*** stage
- ▶ Marital status, household size, and employment
- ▶ Major events
 - ▶ Graduation, marriage, career change, children, retirement, etc
- ▶ Values influence spending and saving decisions

ECONOMIC CONDITIONS



Changing Economic Conditions

Economic variables	Description
Consumer prices	The value of the dollar changes in inflation
Consumer spending	The demand for goods and services by individual and households
Interest rates	The cost of money; cost of credit when you borrow; return on your money when you save or invest
Money supply	The dollars available for spending in our economy
Unemployment	The number of individuals without employment who are willing and able to work
Housing starts	Number of new homes being built

Changing Economic Conditions (2)

Economic variables	Description
GDP	Total value of goods and services produced in a country
Trade balance	Difference between a country's exports and imports
Market indexes	The relative value of stocks as represented by the index such as SET indexes

The Future Direction of the Economy

- ▶ An individual needs to consider both current and future economic conditions when he or she make financial decisions.
- ▶ What are good indicators of tracking the future direction of the economy?

An illustration

- ▶ What would you draw a conclusion from these economic indicators?

Economic variables	Current rate	Next year forecasts
GDP growth	3.5%	4.5%
Inflation rate	2.5%	3.2%
Stock market index	1415	1550
Unemployment rate	6%	4%

- ▶ Current economic condition?
- ▶ Future direction of the economy?

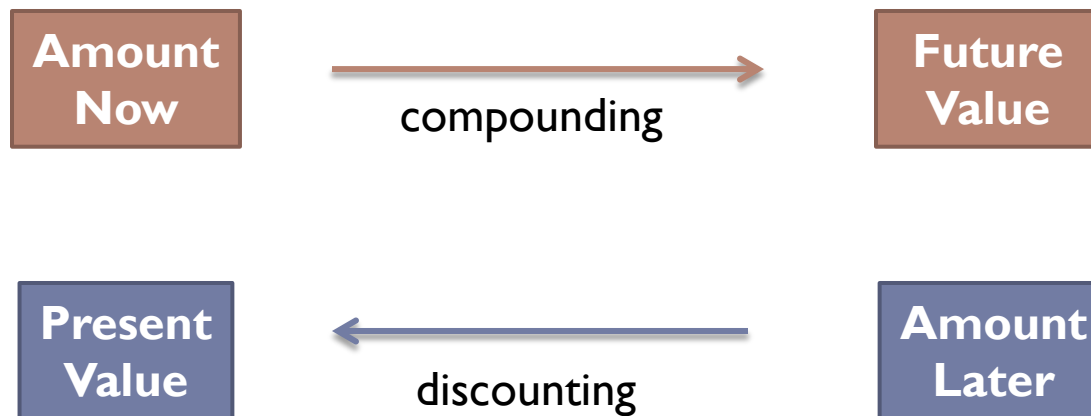
Inflation affects our income and consumption directly

- ▶ When prices are rising, an individual's income must rise at the same rate to maintain its purchasing power.
- ▶ Two types of income
 - ▶ Real income reflects the actual purchasing power of the money you have as measured in constant dollars.
 - ▶ Nominal income has not been adjusted for inflation and decreasing purchasing power.
- ▶ Example: Is your purchasing power increasing?

'12 annual income	'13 annual income	Inflation rate
250,000	275,000	4%

Time value of money

- ▶ A dollar in your pocket today is worth more than a dollar received three years from now.
- ▶ Basic concept: “increases in an amount of money as a result of interest earned”



How simple interest is computed

- ▶ Simple interest = amount in savings x annual interest rate x time period equals the interest
- ▶ An illustration:

$$\$100 \times 6\% \times 1 \text{ year} = 6$$

In one year, you will have \$106 (100 + 6)

How compounded interest is computed

- ▶ Compounding serves as the basis of all time value of money considerations.
- ▶ Because of compounded interest, money grows much faster when the income from an investment is left in the account.
- ▶ An illustration: \$1000 invested at 8% for 4 years, annually compounded

Year 0	Year 1	Year 2	Year 3	Year 4
	\$1000	\$1080		
	\$80			
\$1000	\$1080			

Type of compounded interests

▶ Annually compounded

▶ Semi-annually compounded

▶ Quarterly compounded

▶ Monthly compounded

▶ Which type of compounded interest will you choose?

Time value of money calculation methods

Method	Process/Results
Formula calculation	$PV(1 + i)^n = FV$
Time value of money tables	\$10,000 × Future value of \$1, 5%, 10 yrs
Financial Calculator	Amount -10,000 PV Time periods 10 N Interest rate 5 I Result FV \$16,288.95

Financial Aspects of Career Planning

Section objectives

1. Describe activities associated with career planning and advancement
2. Evaluate factors that influence employment opportunities
3. Implement employment search strategies
4. Assess financial and legal concerns related to obtaining employment
5. Analyze techniques available for career growth and advancement

Career Choice Factors

- ▶ Career selection requires planning
- ▶ The average person changes jobs more than seven times over a lifetime
- ▶ **Job** is an employment position obtained mainly to earn money
- ▶ **Career** is a commitment to a profession that requires continued training

Career Choice Factors (2)

TRADE-OFFS OF CAREER DECISIONS

- ▶ Career choices alternatives have risks and opportunity costs
- ▶ Career choices require periodic evaluation of trade-offs related to personal, social, and economic factors

Career Choice Factors (3)

CAREER TRAINING AND SKILL DEVELOPMENT

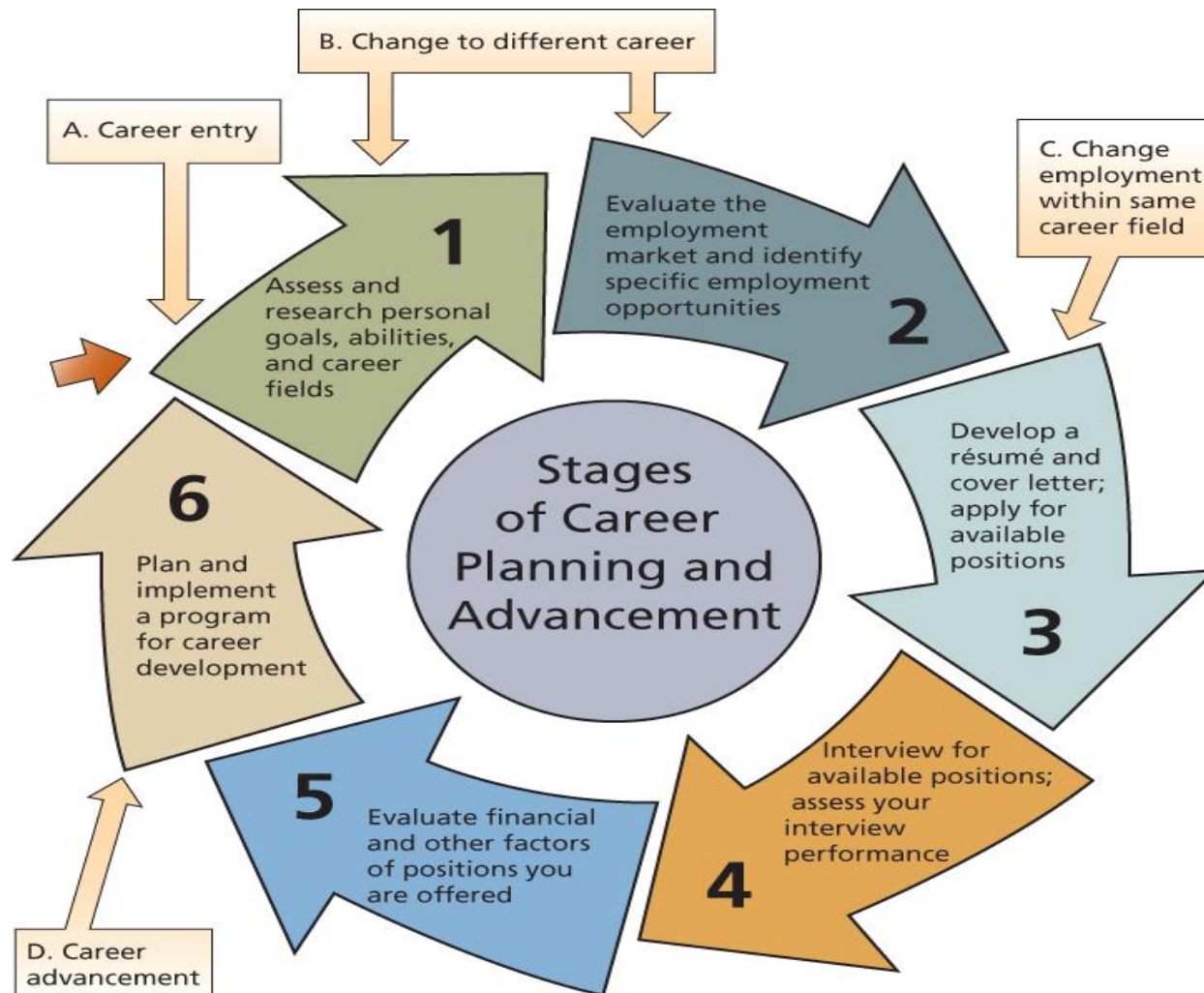
- ▶ Level of formal training affects financial success
- ▶ Training may be viewed in two main categories:
 1. ***Technical Skills***
 2. ***General Skills***

Career Choice Factors (4)

PERSONAL FACTORS

- ▶ Aptitudes
- ▶ Interests inventories
- ▶ Your personality
- ▶ Do you perform best in low-pressure or high-pressure working environments?
- ▶ Personal SWOT analysis

Stages of Career Planning and Advancement



Career Opportunities: Now VS Future



CAREER OPPORTUNITIES ARE BASED ON...

Social Influences

- Demographic trends
- Geographic trends

Economic Conditions

- Interest rates
- Inflation
- Consumer demand

Industry Trends

- Foreign competition
- Changing uses of technology

Employment search strategies

OBTAINING EMPLOYMENT EXPERIENCE

Part-time employment	develop contacts
Volunteer work	develop organizational skills
Internships	experience helps obtain employment
Campus projects	obtain career skills

Employment search strategies (2)

- ▶ **Networking** is the process of making and using contacts to obtain and update career information
- ▶ The main sources of networking include:
 - ▶ Community Organizations
 - ▶ Professional Organizations
 - ▶ Business Contacts
- ▶ Effective networking means:
 - ▶ Preparing a 30-second summary of abilities
 - ▶ Volunteering for committees and events of professional organizations
 - ▶ Asking questions to get others to talk about themselves and their experiences

Employment search strategies (3)

IDENTIFYING JOB OPPORTUNITIES

- ▶ Job advertisements
- ▶ Career fairs
- ▶ Employment agencies
- ▶ Job creation
- ▶ Visit organizations
- ▶ Telephone and business directories
- ▶ Web search
- ▶ Talk with alumni in your field

Financial and legal aspects of employment

THE WORK ENVIRONMENT

- Corporate culture
- Company policies and procedures

FACTORS AFFECTING SALARY

- Education, training, company size, and salaries for comparable positions

*****Research the job and the company before accepting an employment position**

Financial and legal aspects of employment (2)

▶ EVALUATING EMPLOYEE BENEFITS

- ▶ Nonsalary benefits include: child care, leaves of absence, and elder care
- ▶ Cafeteria-style benefits allow workers benefit credits that they can choose to meet their needs
- ▶ Flexible spending and medical savings accounts
- ▶ Compare job offer benefits based on market value or future value
- ▶ Know your employment rights

Stages of career development

Stage	Characteristics	Concerns
Preentry and career exploration stage	<ul style="list-style-type: none">• Assess personal interests and set career goals.• Obtain necessary training.• Gain initial employment.	<ul style="list-style-type: none">• Matching interests and abilities to employment.• Dealing with shock of unfulfilled expectations.
Establishment and professional growth stage	<ul style="list-style-type: none">• Gain in experience, effectiveness, and respect of colleagues.• Concentrate on an area of specialization.	<ul style="list-style-type: none">• Developing career contacts.• Avoiding overinvolvement and career burnout.
Advancement and midcareer adjustment stage	<ul style="list-style-type: none">• Continue to obtain experience and knowledge to win promotions.• Seek new challenges and expanded responsibility.	<ul style="list-style-type: none">• Finding continued satisfaction.• Maintaining sensitivity toward colleagues and subordinates.
Late-career and preretirement stage	<ul style="list-style-type: none">• Make financial and personal plans for retirement.• Assist in training successor.	<ul style="list-style-type: none">• Determining the extent of professional involvement after retirement.• Planning involvement in community activities.

Long-term career development

- ▶ A career can be for a lifetime
- ▶ Skills and attitudes that can lead to a fulfilling work life:
 - ▶ Communicate well with others
 - ▶ Flexible and open to new ideas
 - ▶ Develop efficient work habits
 - ▶ Use lists, goal setting, and time management techniques
 - ▶ Anticipate problems and areas for actions
 - ▶ Creativity and a willingness to assist others

Long-Term Career Development

(cont'd)

TRAINING OPPORTUNITIES

- ▶ Continue to learn about new technology and the global economy
- ▶ Formal methods for expanding knowledge:
 - ▶ company programs, seminars, and college courses
- ▶ Informal methods:
 - ▶ reading and discussions with colleagues
 - ▶ meetings with employees from other companies

Long-term career development (2)

CAREER PATHS AND ADVANCEMENT

- ▶ Career choices must be evaluated in light of changing values, goals, and economic conditions
- ▶ A **mentor** is an experienced employee who serves as a teacher and counselor for a less experienced person
 - ▶ Mentors are attracted to those who show initiative
 - ▶ Mentors should be receptive to assisting others, and help in both technical and social areas of their careers

Long-term career development (3)

CHANGING CAREERS

- ▶ About 10 million career moves occur each year
- ▶ Changing jobs can be more difficult than selecting the first job
- ▶ Carefully assess the financial and personal costs and benefits of changing careers
- ▶ Determine whether a career change will serve your needs and goals

How to prepare for a job interview

- ▶ Prepare for the interview by getting information about your prospective employer
 - ◆ Library resources such as annual reports or recent articles
 - ◆ Internet searches of company and industry information
 - ◆ Observations during company visits
- ▶ Prepare questions to ask about your interests, the organization, policies, and benefits
- ▶ Practice interview skills

Class Assignment I

Write a resume



Develop a resume

- ▶ Personal data section: Name, contact
- ▶ Career objective section
- ▶ Education section
- ▶ Experience section
- ▶ Related information section: Skills, awards
- ▶ References section