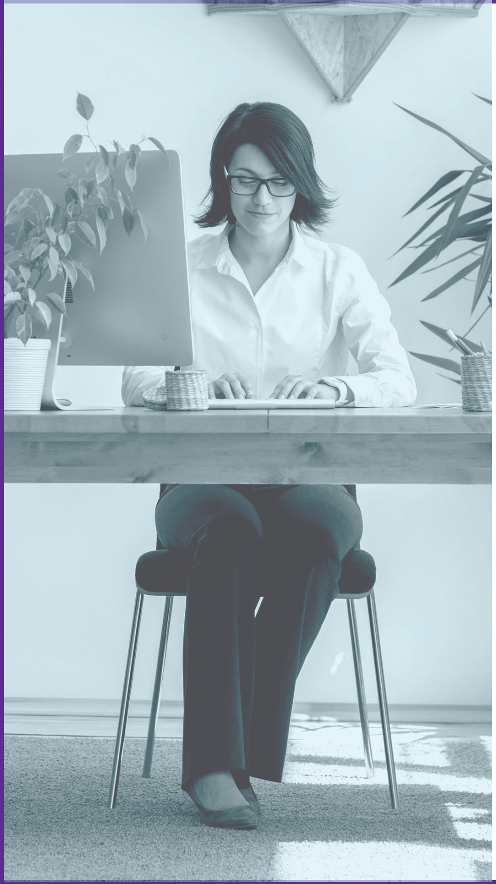
EQUAL HOUSING LENDER

Member FDIC

# LESSON ONE: MAKING DECISIONS

Financial Literacy Program




First Bank

*make life better*

# The Decision-Making Process

IDENTIFY THE PROBLEM

GATHER INFORMATION AND LIST POSSIBLE ALTERNATIVES

CONSIDER CONSEQUENCES OF EACH ALTERNATIVE

SELECT THE BEST COURSE OF ACTION

EVALUATE THE RESULTS

### A.VALUES

What is important to your family, others in your culture?

### B. PEERS

Pressure for positive or negative behaviors.

### C. HABITS

You are accustomed to doing it this way.

### D. FEELINGS (LOVE, ANGER)

If you do make a certain decision?

### E. FAMILY

Decisions other family members have made.

### F. RISK AND CONSEQUENCES

What (or how much) you stand to win or lose?

# Factors that can influence a decision

# COMMON DECISION-MAKING STRATEGIES

## SPONTANEITY

Choosing the first option that comes to mind; giving little or no consideration to the consequences of the choice.

## COMPLIANCE

Going along with family, school, work, or peer expectations.

## PROCRASTINATION

Postponing thought and action until options are limited.

## AGONIZING

Accumulating so much information that analyzing the options becomes overwhelming.

# COMMON DECISION-MAKING STRATEGIES

## INTENTION

Choosing an option that will be both intellectually and emotionally satisfying.

## SYNTHESIS

Choosing the option that has a good chance to succeed and that you like the best.

## SECURITY

Choosing the option that will bring some success, offend the fewest people, and pose the least risk.

## DESIRE

Choosing the option that might achieve the best result, regardless of the risk involved.

## AVOIDANCE

Choosing the option that is most likely to avoid the worst possible result.



# RISKS ASSOCIATED WITH DECISION-MAKING

## PERSONAL RISKS

Factors that may create a less-than-desirable situation. Personal risk may come in the form of inconvenience, embarrassment, safety.

## INFLATION RISK

Rising prices cause lower buying power. Buying an item later may mean a higher price.

## INTEREST-RATE RISK

Changing interest rates affect your costs (when borrowing) and your benefits (when saving or investing).

# RISKS ASSOCIATED WITH DECISION-MAKING

## INCOME RISK

Changing careers or reduced spending by consumers can result in a lower income or loss of one's employment. Career changes or job loss can result in a lower income and reduced buying power.

## LIQUIDITY RISK

Certain types of savings (certificates of deposit) and investments (real estate) may be difficult to convert to cash quickly.

# Opportunity costs and the time value of money

**Opportunity cost** refers to what a person gives up when a decision is made. This cost, also called a trade-off, may involve one or more of your resources (time, money, and effort).

**Personal opportunity costs** may involve time, health, or energy. For example, time spent on studying usually means lost time for leisure or working. However, this trade-off may be appropriate since your learning and grades will likely improve.

**Financial opportunity costs** involve monetary values of decisions made. For example, the purchase of an item with money from your savings means you will no longer obtain interest on those funds.

**Time value of money** can be used to measure financial opportunity costs using interest calculations.

> **For example:** spending $1,000 from a savings account paying 4 percent a year means an opportunity cost of $40 in lost interest.
>
> **Calculation:** $1,000 x .04 (4 percent) x 1 year = $40
> Over 10 years, that $40 a year (saved at 4 percent) would have a value of over $480 when taking into account compound interest.