

**GLENCOE**

# PERSONAL FINANCE

[persfinance05.glencoe.com](http://persfinance05.glencoe.com)

- Self-learning guides
- Up-to-date career tips
- Real-world case studies



**Building the Future of Business**

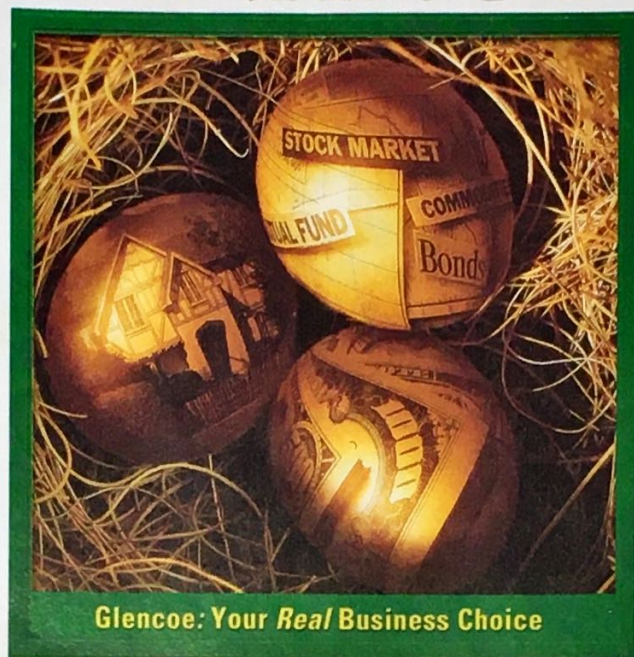
In Partnership with

**STANDARD  
& POOR'S**



**Glencoe**

# PERSONAL FINANCE



## **Jack R. Kapoor**

Professor of Business and Economics  
Business and Services Division  
College of DuPage  
Glen Ellyn, Illinois

## **Les R. Dlabay**

Professor of Business  
Department of Economics and Business  
Lake Forest College  
Lake Forest, Illinois

## **Robert J. Hughes**

Professor of Business  
Dallas County Community Colleges  
Dallas, Texas



New York, New York   Columbus, Ohio   Chicago, Illinois   Peoria, Illinois   Woodland Hills, California



# Table of Contents

## UNIT 1 PLANNING PERSONAL FINANCES

2

### Chapter 1 Personal Financial Planning

4

**Section 1.1** ■ Decisions and Goals in Personal Finance .....5

**Section 1.2** ■ Opportunity Costs and Financial Strategies .....20

**Go Figure** *Annual Interest* .....22

**Go Figure** *The Future Value of a Single Deposit* .....22

Academic Connection *Language Arts* .....14

Careers in Finance *Personal Banker* .....10

Common Cents *Pay Yourself First* .....11

International Finance *Finland* .....18

Savvy Saver *Financial Tips That Work* .....13

STANDARD Standard & Poor's **Case Study** .....12

&POOR'S Standard & Poor's **Q & A** .....4

What's Your Financial ID? *Your Spending Profile* .....6

Your Financial Portfolio *Getting Your Own Wheels* .....26

**Chapter 1 Assessment** .....28



### Chapter 2 Financial Aspects of Career Planning

30

**Section 2.1** ■ Decisions in Planning Your Career .....31

**Section 2.2** ■ Obtaining Employment and Developing a Career .....42

Academic Connection *Health* .....37

Careers in Finance *Cashier* .....50

Common Cents *Career Center* .....39

International Finance *Belize* .....34

Savvy Saver *Where to Find Money for College* .....51

STANDARD Standard & Poor's **Case Study** .....40

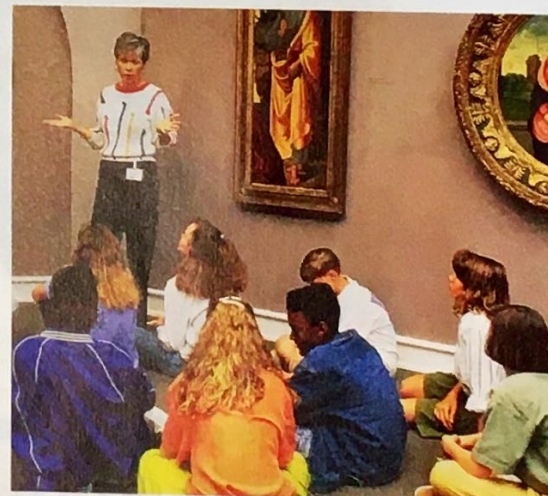
&POOR'S Standard & Poor's **Q & A** .....30

What's Your Financial ID? *Find Your Personality*

*Traits* .....32

Your Financial Portfolio *Applying for a Job* .....54

**Chapter 2 Assessment** .....56





## Chapter 3 Money Management Strategy

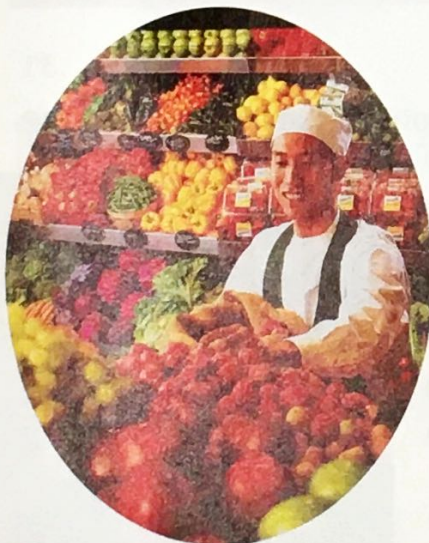
58

<b>Section 3.1</b> ■ Organizing Your Personal Financial Records .....	59
<b>Section 3.2</b> ■ Personal Financial Statements .....	66
<b>Go Figure</b> <i>Net Worth</i> .....	68
<b>Go Figure</b> <i>Net Cash Flow</i> .....	72
<b>Section 3.3</b> ■ Budgeting to Achieve Your Financial Goals .....	75
Academic Connection <i>Science</i> .....	76
Careers in Finance <i>Financial Software Designer</i> .....	70
Common Cents <i>Pay or Save?</i> .....	83
International Finance <i>Israel</i> .....	82
Savvy Saver <i>Have Fun for Less</i> .....	79
<u>STANDARD</u> Standard & Poor's <b>Case Study</b> .....	78
<u>&amp;POOR'S</u> Standard & Poor's <b>Q&amp;A</b> .....	58
What's Your Financial ID? <i>Money Management Quiz</i> .....	60
Your Financial Portfolio <i>What's Your Net Worth?</i> .....	84
<b>Chapter 3 Assessment</b> .....	86



## Chapter 4 Consumer Purchasing Strategies and Legal Protection

88



<b>Section 4.1</b> ■ Consumer Purchasing .....	89
<b>Go Figure</b> <i>Unit Pricing</i> .....	101
<b>Section 4.2</b> ■ Resolving Consumer Complaints ..	105
Academic Connection <i>Language Arts</i> .....	109
Careers in Finance <i>Retail Sales Associate</i> .....	110
Common Cents <i>Impulse Buying</i> .....	102
International Finance <i>Canada</i> .....	107
Savvy Saver <i>Shopping for Clothes</i> .....	95
<u>STANDARD</u> Standard & Poor's <b>Case Study</b> .....	103
<u>&amp;POOR'S</u> Standard & Poor's <b>Q&amp;A</b> .....	88
What's Your Financial ID? <i>Are You a Smart Shopper?</i> ..	96
Your Financial Portfolio <i>Your Budget</i> .....	112

## Chapter 4 Assessment ..... 114

### **UNIT 1** **Get a Financial Life!** *Career Planning and Decision Making* ..116



# UNIT 2 BANKING AND CREDIT

118

## Chapter 5 Banking

120

<b>Section 5.1</b> ■	Selecting Financial Services and Institutions	121
<b>Section 5.2</b> ■	Savings Plans and Payment Methods	133
<b>Go Figure</b>	<i>Interest Compounded Monthly</i>	138
<b>Go Figure</b>	<i>Rate of Return</i>	139
Academic Connection	<i>Math</i>	142
Careers in Finance	<i>Bank Teller</i>	124
Common Cents	<i>Money Toss</i>	147
International Finance	<i>Switzerland</i>	141
Savvy Saver	<i>Bank On It—Finding the Best Savings Account</i>	143
<u>STANDARD</u>	Standard & Poor's <b>Case Study</b>	136
<u>&amp;POOR'S</u>	Standard & Poor's <b>Q&amp;A</b>	120
What's Your Financial ID?	<i>Basic Banking Quiz</i>	123
Your Financial Portfolio	<i>Comparison Shopping for Banking Services</i>	148
<b>Chapter 5 Assessment</b>		<b>150</b>



## Chapter 6 Consumer Credit

152

<b>Section 6.1</b> ■	What Is Consumer Credit?	153
<b>Section 6.2</b> ■	Measuring the Cost of Credit and Obtaining Credit	164
<b>Go Figure</b>	<i>The Debt Payments-to-Income Ratio</i>	165
<b>Go Figure</b>	<i>Simple Interest on a Loan</i>	169
<b>Section 6.3</b> ■	Protecting Your Credit	180
<b>Section 6.4</b> ■	Managing Your Debts	187
Academic Connection	<i>History</i>	172
Careers in Finance	<i>Credit Counselor</i>	162
Common Cents	<i>One Is Enough</i>	191
International Finance	<i>Panama</i>	177
Savvy Saver	<i>Develop a Good Credit Rating</i>	189
<u>STANDARD</u>	Standard & Poor's <b>Case Study</b>	170
<u>&amp;POOR'S</u>	Standard & Poor's <b>Q&amp;A</b>	152
What's Your Financial ID?	<i>Your Credit IQ</i>	156
Your Financial Portfolio	<i>Credit Cards: Getting the Best Deal</i>	192
<b>Chapter 6 Assessment</b>		<b>194</b>







<b>Section 7.1</b> ■ Evaluating Housing Alternatives	197
<b>Section 7.2</b> ■ Renting Your Residence	203
<b>Section 7.3</b> ■ The Home Buying Process	210
Academic Connection <i>Art</i>	218
Careers in Finance <i>Real Estate Agent</i>	201
Common Cents <i>On Your Own</i>	223
International Finance <i>Egypt</i>	221
Savvy Saver <i>Furnishing Your First Apartment</i>	213
<u>STANDARD</u> Standard & Poor's <b>Case Study</b>	215
<u>&amp;POOR'S</u> Standard & Poor's <b>Q&amp;A</b>	196
What's Your Financial ID? <i>Where Would You Like to Live?</i>	199
Your Financial Portfolio <i>Renting Versus Buying Your Place of Residence</i>	227

## Chapter 7 Assessment 230

### UNIT 2 Get a Financial Life! Home Ownership 232

## UNIT 3 INVESTING YOUR FINANCIAL RESOURCES 234

# Chapter 8 The Fundamentals of Investing 236

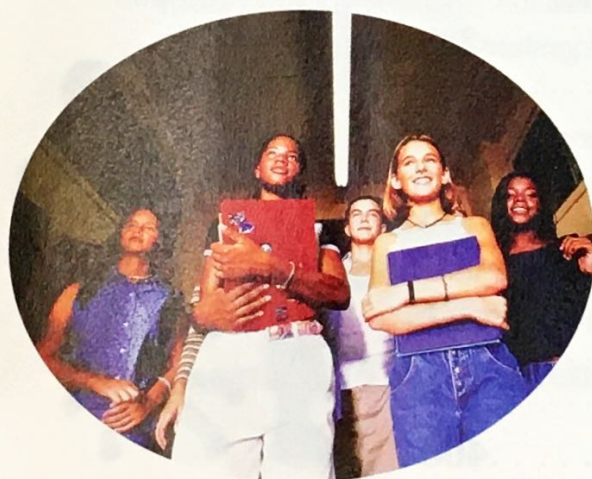
<b>Section 8.1</b> ■ Preparing for an Investment Program	237
<b>Go Figure</b> <i>Inflation Rate and Investments</i>	246
<b>Go Figure</b> <i>A Bond's Market Price When Interest Rates Go Up</i>	247
<b>Go Figure</b> <i>A Bond's Market Price When Interest Rates Go Down</i>	247
<b>Section 8.2</b> ■ An Overview of Investment Alternatives	251
<b>Section 8.3</b> ■ Reducing Investment Risk and Obtaining Investment Information	259
Academic Connection <i>Language Arts</i>	262
Careers in Finance <i>Personal Property Appraiser</i>	255
Common Cents <i>A Dollar a Day</i>	263
International Finance <i>Liechtenstein</i>	243
Savvy Saver <i>Giving Is Fun Too</i>	253
<u>STANDARD</u> Standard & Poor's <b>Case Study</b>	256
<u>&amp;POOR'S</u> Standard & Poor's <b>Q&amp;A</b>	236
What's Your Financial ID? <i>Are You a Risk Taker?</i>	240
Your Financial Portfolio <i>Avoiding Future Shock</i>	266
<b>Chapter 8 Assessment</b>	268





**Section 9.1** ■ Common Stock and Preferred Stock . . . 271**Section 9.2** ■ Evaluation of a Stock Issue . . . 278**Go Figure** *Current Yield of a Stock Investment* . . . 287**Go Figure** *Total Return* . . . 288**Go Figure** *Earnings per Share* . . . 289**Go Figure** *Price-Earnings Ratio* . . . 289**Section 9.3** ■ Buying and Selling Stocks . . . 292Academic Connection *Economics* . . . 298Careers in Finance *Account Executive (Stockbroker)* . . . 290Common Cents *Listen Up* . . . 299International Finance *Mexico* . . . 280Savvy Saver *Stock Up—Research Before You Buy Stock* . . . 297STANDARD Standard & Poor's **Case Study** . . . 283&POOR'S Standard & Poor's **Q&A** . . . 270What's Your Financial ID? *The Truth About Stocks* . . . 272Your Financial Portfolio *Investing in Stock* . . . 300**Chapter 9 Assessment** . . . 302

## Chapter 10 Bonds and Mutual Funds

**Section 10.1** ■ Corporate Bonds . . . 305**Go Figure** *A Bond's Annual Interest* . . . 306**Go Figure** *Approximate Market Value of a Bond* . . . 312**Section 10.2** ■ Government Bonds and Securities . . . 315**Section 10.3** ■ The Investor's Decision to Buy or Sell Bonds . . . 320**Go Figure** *Current Yield of a Bond Investment* . . . 325**Section 10.4** ■ Mutual Funds . . . 327**Go Figure** *Net Asset Value* . . . 329**Section 10.5** ■ The Investor's Decision to Buy or Sell Mutual Funds . . . 336Academic Connection *Math* . . . 333Careers in Finance *Certified Financial Planner* . . . 330Common Cents *Savings Mind-Set* . . . 310International Finance *Nepal* . . . 318Savvy Saver *Save Gasoline—and Money* . . . 316STANDARD Standard & Poor's **Case Study** . . . 324&POOR'S Standard & Poor's **Q&A** . . . 304



What's Your Financial ID? <i>What's Your Investing IQ?</i> .....	309
Your Financial Portfolio <i>Evaluating Mutual Funds</i> .....	345
<b>Chapter 10 Assessment</b> .....	<b>348</b>

## Chapter 11 Real Estate and Other Investment Alternatives 350



<b>Section 11.1</b> ■ Investing in Real Estate .....	351
<b>Section 11.2</b> ■ Investing in Precious Metals, Gems, and Collectibles .....	362
Academic Connection <i>Science</i> .....	365
Careers in Finance <i>Commercial Property Manager</i> .....	359
Common Cents <i>Gift Giving</i> .....	360
International Finance <i>South Africa</i> .....	367
Savvy Saver <i>Wedding Bells with Smaller Bills</i> .....	355
<u>STANDARD</u> Standard & Poor's <b>Case Study</b> .....	356
<u>&amp;POOR'S</u> Standard & Poor's <b>Q&amp;A</b> .....	350

What's Your Financial ID? <i>All That Glitters</i> .....	354
Your Financial Portfolio <i>Collecting Treasures</i> .....	370

## Chapter 11 Assessment 372

### **UNIT 3** Get a Financial Life! *Investment Strategies* 374

## **UNIT 4** PROTECTING YOUR FINANCES 376

### Chapter 12 Planning Your Tax Strategy 378

<b>Section 12.1</b> ■ The Fundamentals of Income Taxes .....	379
<b>Section 12.2</b> ■ Preparing Your Income Tax Return .....	390
<b>Section 12.3</b> ■ Tax Assistance and Tax Strategies .....	403
Academic Connection <i>Law</i> .....	382
Careers in Finance <i>Tax Preparer</i> .....	388
Common Cents <i>Layaway Works</i> .....	405
International Finance <i>France</i> .....	383
Savvy Saver <i>Reasons to Join Your Company's 401(k) Plan</i> .....	393
<u>STANDARD</u> Standard & Poor's <b>Case Study</b> .....	392
<u>&amp;POOR'S</u> Standard & Poor's <b>Q&amp;A</b> .....	378
What's Your Financial ID? <i>Test Your Tax Facts</i> .....	380
Your Financial Portfolio <i>Take It EZ</i> .....	406
<b>Chapter 12 Assessment</b> .....	<b>408</b>







<b>Section 13.1</b> ■ Insurance and Risk Management	411
<b>Section 13.2</b> ■ Principles of Home and Property Insurance	420
<b>Section 13.3</b> ■ Motor Vehicle Insurance	431
Academic Connection <i>Language Arts</i>	426
Careers in Finance <i>Insurance Claims Adjuster</i>	429
Common Cents <i>Student Discounts</i>	425
International Finance <i>Vietnam</i>	424
Savvy Saver <i>Vehicle Insurance Tips</i>	417
<u>STANDARD</u> Standard & Poor's <b>Case Study</b>	436
<u>&amp;POOR'S</u> Standard & Poor's <b>Q&amp;A</b>	410
What's Your Financial ID? <i>Motor Vehicle Insurance Quiz</i>	412
Your Financial Portfolio <i>Motor Vehicle Insurance—How Much Will It Cost?</i>	438

## Chapter 13 Assessment 440

# Chapter 14 Health, Disability, and Life Insurance

<b>Section 14.1</b> ■ Health Insurance and Financial Planning	443
<b>Section 14.2</b> ■ Private Health Care Plans and Government Health Care Programs	454
<b>Section 14.3</b> ■ Disability Income Insurance	461
<b>Section 14.4</b> ■ Life Insurance	465
Academic Connection <i>Speech</i>	450
Careers in Finance <i>Insurance Agent</i>	458
Common Cents <i>Fitness Fun</i>	449
International Finance <i>Pitcairn Island</i>	448
Savvy Saver <i>Kick the Smoking Habit—and Save</i>	456
<u>STANDARD</u> Standard & Poor's <b>Case Study</b>	470
<u>&amp;POOR'S</u> Standard & Poor's <b>Q&amp;A</b>	442
What's Your Financial ID? <i>Insurance Facts and Fiction</i>	444
Your Financial Portfolio <i>Comparing Life Insurance</i>	472
<b>Chapter 14 Assessment</b>	474







<b>Section 15.1</b>	■ The Basics of Retirement Planning . . . . .	477
<b>Section 15.2</b>	■ Planning Your Retirement Income . . . . .	486
<b>Section 15.3</b>	■ Estate Planning . . . . .	499
<b>Section 15.4</b>	■ Taxes and Estate Planning . . . . .	512
	Academic Connection <i>Technology</i> . . . . .	489
	Careers in Finance <i>Estate Planning Attorney</i> . . . . .	483
	Common Cents <i>Be a Volunteer</i> . . . . .	507
	International Finance <i>Brazil</i> . . . . .	491

Savvy Saver <i>Making the Most of Your Company's 401(k) Plan</i> . . . . .	495
<b>STANDARD &amp; POOR'S</b> Standard & Poor's <b>Case Study</b> . . . . .	494
<b>STANDARD &amp; POOR'S</b> Standard & Poor's <b>Q&amp;A</b> . . . . .	476
What's Your Financial ID? <i>What's Your Personality?</i> . . . . .	478
Your Financial Portfolio <i>Saving for Retirement</i> . . . . .	514

## Chapter 15 Assessment . . . . .516

### **UNIT 4** Get a Financial Life! *Planning for Retirement* . . . . .518

Appendix: Math Skills Builder . . . . .	520
Glossary . . . . .	552
Index A . . . . .	561
Index B . . . . .	575



## Focus on Features

High-interest features in each chapter enhance your understanding and increase your involvement with real-world situations.

### What's Your Financial ID?

#### FIND YOUR PERSONALITY TRAITS

Learning more about your own personality will help you choose a career. Read the characteristics below that describe people's personalities. On a separate piece of paper write down the five traits that best describe you, then answer the question that follows.

##### Personality Traits

outgoing	ambitious	patient
studious	kind	thoughtful
neat	strong	intelligent
quiet	trustworthy	respectful
playful	warm	happy
energetic	persistent	spontaneous
serious	organized	worried
easygoing	rebellious	sensitive
caring	stubborn	sociable
loyal	responsible	creative
confident	fair	talkative
cheerful	calm	inquisitive
dependable	brave	funny
generous	helpful	athletic
shy	imaginative	competitive

Keeping in mind the five traits that best describe your personality, what kind of work do you think would suit you? For example, if you're persistent, outgoing, and assertive, you might work in sales. If you're inquisitive and creative, you might enjoy a career in writing. List the jobs or careers that you think fit best with your personality.



**What's Your Financial ID?** resembles a quick financial assessment quiz you might find in a magazine. It helps you evaluate and define your financial sense or personality.

#### INTERNATIONAL FINANCE

#### Switzerland

For anyone opening a bank account in Switzerland, the likely question is: Which bank? It's said that the country has more banks than dentists. Once the hub of European trade routes, Switzerland has been a major banking center since the 16th century. Swiss neutrality during wartime and the expertise of its bankers attract customers from all over the world. Depositors also like the banks' secrecy. Customers can ask to be identified by number only. At one time individuals could stash huge fortunes, no questions asked. In 1991 total secrecy became impossible; now banks must report anything suspicious about a deposit's origin to the authorities.

Geographic area	15,941 sq. mi.
Population	7,319,000
Capital	Bern (pop. 122,700)
Language	German, French, Italian, Romansch, English
Currency	Swiss franc
Gross domestic product (GDP)	\$231 billion
Per capita GDP	\$31,700
Economy	Industry: machinery, chemicals, watches, banking. Agriculture: grains, fruits, vegetables, meat. Exports: machinery, chemicals, metals, watches.

##### Thinking Critically

**Apply** If you were planning to open a savings account in one of your hometown banks, what services would prompt you to choose one bank over another?

For more information on Switzerland, visit [persfinance05.glencoe.com](http://persfinance05.glencoe.com) or your local library.



Switzerland is a major banking center.

## Academic Connection



### MATH

Ask a local bank for the interest

rates, fees, annual percent-age yield (APY), and com-pounding method for the following:

- Regular savings account
- Two types of certificates of deposit (CDs)
- Money market account
- U.S. Savings Bonds

Determine the rate of return if you saved \$5,000 for one, two, and three years. Be sure to apply the com-pounding method that the bank offers on the various savings plans. Based on your figures, which plan would you select?

## Academic Connection

connects finance with other fields of study, such as art, language arts, history or social science, law, science, health, and other subjects. This inter-disciplinary approach helps you observe how business and personal finance apply and relate to a variety of pursuits.

**International Finance** spotlights an interesting financial or business aspect of another country. You will learn about the global marketplace and other cultures, as well as be challenged with a critical thinking question.