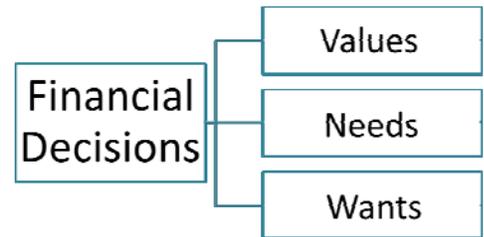


Financial Decisions

Advanced Level

Have you ever thought about what contributes to the financial decisions you make? Maybe, for example, you had to make a choice between purchasing a pair of designer sunglasses and buying ones that were “knock-offs” but looked exactly like the designer pair. The price of the knock-offs was probably a fraction of the price of the designer glasses. You probably considered several different factors in deciding which pair to buy. Did you consider how much money you had available? How about the options you would have with the money saved if you bought the cheaper, non-designer pair? Did you consider how you looked in one pair compared to the other? Your personal values and perceived needs and wants all influence your final purchase.



Values

A **value** is a fundamental belief or practice about what is desirable, worthwhile, and important to an individual. Values are the standards, morals, ethics and beliefs by which you live your life and form the basis for all decision-making. For example, most people value things like family, friends, good health, having a successful and/or satisfying career, financial security, honesty and helping others.

What do you value? Ask yourself, “What makes me feel happy, comfortable, satisfied or good about myself?” Your resulting list will help you determine what is desirable, worthwhile and important in your life. Your list will therefore exemplify what you value. And, your list of values will be unique to you. Life’s experiences and influences help determine your personal values. Understanding the uniqueness of one’s values will help you understand why someone else’s personal decisions may be different than your own.

A person’s individual values may be influenced by:

- Family
- Friends and peers
- Teachers
- Culture (often influenced by where you live)
- Religious affiliations
- Media, such as television and social networking

What are two of your values?

1.

2.

Values play a large role in all decisions you make, including your financial decisions. Values help you to determine your personal goals. Achieving these goals may involve the use of money. So, the first step in deciding how to manage your money is to determine what you want your life to look like, both in the present and over the long term.

Needs and Wants

“**Needs**” refers to goods or services that are required for survival. They include both physiological and biological **requirements for maintaining life**. A few examples of needs might include having enough food and water to maintain your health, clothing and shelter to remain comfortable in the climate in which you live, and basic health care. On the other hand, “**wants**,” reflect our vast desire for goods and services that can increase our quality of life but **are not absolutely necessary for our survival**.

Meeting a need in the most basic of ways may be

necessary but not particularly satisfying. Satisfying our

wants makes life more enjoyable for us. Food is considered a **need**, but a chocolate chip sundae is considered a **want**.

Clothing is considered a **need**, but those designer jeans you’ve had your eye on are a **want**. Shelter is considered a

need, but a house with a pool on beachfront property is a **want**. Being aware that there are many ways to meet your basic needs, some of which cost more than others, can help you to determine how to spend your money.

What are three items you have used today?

- 1.
- 2.
- 3.

Circle the items that are a **need**.

Trade-offs and Opportunity Costs

There are many ways to satisfy our needs and wants. But, none of us has sufficient income or time to buy and do all of the things that we might enjoy in a day, a month or a lifetime. As a result, spending decisions inevitably involve trade-offs. We make choices. With each choice there is a **trade-off** because in choosing one thing, we give up another. The **opportunity cost** of a decision is the value of the next best alternative that must be forgone as a result of the decision.

Opportunity cost is one of the most powerful concepts in learning to manage your money. Opportunity cost is unique to individuals and based on a person’s own values and goals. When you recognize that spending more on designer clothes leaves less of your money available for rent on an apartment, or gas for your car, you are ready to make informed choices based upon what is most important to you.

Trade-Off

Giving up one thing for another



Opportunity Cost

The value of the next best alternative that must be forgone as a result of a decision

There are many ways to satisfy our needs and wants. Because all of us face limits on time and income, spending decisions inevitably involve trade-offs. An understanding of the opportunity cost of any choice provides direction for spending decisions. It will help you to make decisions that lead to the life you want to live and therefore create high well-being.