



Personal Finance Literacy Exam Study Material

Steps in Career Planning

1. Self-analysis
2. Research
3. Plan of action
4. Re-evaluation

The Importance of Goals

- A **goal** is a desired end toward which efforts are directed. Goals provide a sense of direction and purpose in life.
- There are three types of goals:
 - Short-term goals are one you expect to reach in a few days or weeks.
 - Intermediate goals are those you wish to accomplish in the next few months or years.
 - Long-term goals are those you wish to achieve in five to ten years or longer.

References

- **References** are people who have known you for at least a year and can provide information about your skills, character, and achievements.
 - References should be over age 18 and not related to you.
 - The best types of references include teachers, advisors, current and former employers, counselors, coaches, and adults in business.
 - Be sure to ask permission before listing people on your resume.

Effective Communication at Work

- Success on the job depends on good communication skills.
- Of all the job activities you perform in a day, 80 percent involve communication in one form or another.
- More than half of all job communication involves listening and speaking.
- Many job ads list good communication skills as a must.

Social Security Forms

- Social Security Number
 - Your Social Security number is your permanent work identification number.
- Social Security Card
 - Application for a card
 - Application for a replacement card
- Social Security Statement of Earnings
 - Request for Social Security Statement of Earnings

Altered Workweeks

- A standard workweek is 40 hours
- Many firms have experimented with altered workweeks to get away from the standard eight-hours-a-day, five-days-a-week work schedule.
- Two examples are flextime and the compressed workweek.

Purpose of Taxes

- In a free enterprise system such as ours, the government collects money from citizens and businesses in the form of taxes.
- Income taxes to the government are called **revenue** and are the largest source of government revenue
- The government spends the revenues received according to priorities set by Congress.

Preparing a Budget

- A **budget** is a spending and saving plan based on your expected income and expenses.
 - Expenses + savings = earnings + borrowing
 - The budget must balance.
- A budget helps you plan your spending and saving so that you won't have to borrow money or use credit to meet your daily needs.

Checking Account Basics

- A checking account allows you to write checks to make payments.
 - A **check** is a written order to a bank to pay the amount stated to the person or business named on it.
 - Typically, in order to open a checking account banks require an initial deposit of at least \$50.

How Money Grows

- The amount of money you deposit into a savings account is called the **principal**.
- For the use of your money, the financial institution pays you money called interest.
- **Interest** represents earnings on principal.
 - As principal and interest grow, more interest accumulates.
 - This is known as compound interest, or interest paid on the original principal plus accumulated interest.

Rule of 72

- The **Rule of 72** is a technique for estimating the number of years required to double your money at a given rate of return.
 - Divide the percentage rate of return into 72 to estimate how long it will take to double your money.
 - For example, if an investment is yielding an average of 6 percent, it will take 12 years to double your money ($72 \div 6$).

Valuing Stock

- The **par value** is an assigned dollar value given to each share of stock.
- **Market value** is the price for which the stock is bought and sold in the marketplace.

Return on Bonds

- Earn interest for each day they own the bond.
- Redeem the bond for its face value at maturity.
 - **Bond redemption** occurs when it is paid off at maturity.
 - The issuer of the bond pays back the original amount that was borrowed.
- Sell a bond before maturity.
 - Bonds often appreciate in value, especially when interest rates are dropping.
 - Bondholders may be able to sell the bond before maturity for a price higher than they paid for it which is called selling at a premium.

Evaluating Mutual Funds

- A mutual fund is a professionally managed group of investments bought using a pool of money from many investors.
- Individuals buy shares in the mutual fund.
- The fund managers use this pooled money to buy stocks, bonds, and other securities.
- The kinds of securities they buy depend on the fund's stated investment objectives.

Power of Attorney

- A **power of attorney** is a legal document authorizing someone to act on your behalf.
- The power of attorney may be limited or general in time or in scope.

Making Payments

- Once you have completed a credit purchase, you owe money to the creditor.
- The principal (amount borrowed) plus interest for the time you have the loan is called the balance due.
- The **finance charge** is the total dollar amount of all interest and fees you pay for the use of credit.

Credit Report

- A **credit report** is a written statement of a consumer's credit history, issued by a credit bureau to businesses.
- You can order a copy of your credit report online at the credit bureau's web site or by writing to the bureau.
- When you are denied credit, you can get a free credit report if you ask within 30 days of being denied.

Avoiding Unnecessary Credit Costs

- Accept only the amount of credit that you need.
 - Unused credit can count against you.
 - **Unused credit** is the remaining credit available to you on current accounts.
- Make more than the minimum payment.
- Do not increase spending as income increases.
- Keep your credit accounts to a minimum.
- Pay cash for small purchases.

Credit Management

- Exercising good **credit management** means following an individual plan for using credit wisely.
- It involves recognizing your limits and planning your use of credit.

The Decision-Making Process

- Step 1: Define the problem
- Step 2: Obtain accurate information
- Step 3: Compare choices
- Step 4: Make a decision

Renting a Place to Live

- Most people begin their independent lives as renters.
- **Rent** is the monthly charge to live in an apartment.
- A **landlord** is the owner, or owner's representative, of rental property.
- A person who rents property is called a **tenant** or renter.

Qualifying for a Mortgage

- To qualify for a mortgage, you must complete an extensive loan application.
- The financial institution will check your credit history, employment, and references.
- The lender will judge if you can handle the monthly mortgage payments, which as a general rule, should not exceed 25 to 35 percent of your take-home pay.

Risk Shifting

- **Risk shifting**, also called risk transfer, occurs when you buy insurance to cover financial losses caused by damaging events, such as fire, theft, injury, or death.
- By making premium payments, you shift the risk of major financial loss to the insurance company.

Group Policies

- COBRA
 - The Consolidated Omnibus Budget Reconciliation Act, or **COBRA**, is a law that allows people who leave employment to continue their health insurance under the company plan for a limited period of time (usually 18 months).

Consumer Power

- Consumers are buyers of goods and services.
- Consumers have the ultimate power in a market economy; this is known as consumer sovereignty.
- Consumers determine what is produced and at what price.