

PERSONAL FINANCIAL LITERACY

< RYAN >

Chapter 7 Buying Decisions

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Purchasing Choices

- Avoid impulse buying
- Follow a buying plan

Large purchases should be part of a buying plan.



Buying Plan

- Includes several steps to help you make good buying decisions
 - Evaluate wants and needs
 - Set criteria for the item or service
 - Set a timeline for the purchase
 - Set a spending limit

Buying Plan

- Gather information
 - Comparison-shop
 - Select a payment method
- Make the purchase
- Evaluate the purchase



Sample Buying Plan

Need or Want	Item	Criteria	Timeline	Spending Limit
Washing clothes at home rather than going to a laundromat	Washer and dryer	Washer <ul style="list-style-type: none">• Should be heavy-duty• Should have cycles for different kinds of items Dryer <ul style="list-style-type: none">• Should use electricity• Should have several heat settings	1 year or sooner	\$500

Building Communications Skills

Informal Speaking

- Used to share information and get a response from others
- Can be improved with these steps
 - Express your ideas clearly
 - Speak clearly using standard English and proper grammar
 - Use an appropriate tone and volume level
 - Listen to others and give them time to respond

Sources of Credit

- Service credit
- Bank credit cards
- Store accounts
 - Revolving credit accounts
 - Installment credit plans

INSTALLMENT PAYMENT PLAN	
Initial Balance	\$800.00
Monthly Payment	\$28.92
Total Payments Amount	\$1,041.19
Interest Paid	\$241.19

Sources of Credit

- Charge cards
- Loans
 - Installment loan
 - Single-payment loan
 - Collateral
 - Cosigner
- Lines of credit



Sample Credit Application

CREDIT APPLICATION				PARNELL BANK	
PERSONAL DATA					
<input checked="" type="checkbox"/> Mr. <input type="checkbox"/> Ms. <input type="checkbox"/> Mrs. <input type="checkbox"/> Miss	First Name Raul	Middle B.	Last Name Cadiz		
Home Address 248 Maple Lane	City Monticello	State KY	ZIP Code 42633-0345	How long? 10 years	
Previous Address (If less than 2 years at present address)		City	State	ZIP Code	
Home Telephone 606-555-0134	Business Telephone 606-555-0134	Date of Birth 10/12/75		No. of Dependents 1	
Social Security No. 000-00-0000		E-Mail Address rcadiz48@providername.net			
Are you a U.S. citizen? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	If no, explain status.	Residence Situation <input type="checkbox"/> Own <input checked="" type="checkbox"/> Rent <input type="checkbox"/> Other		Monthly Rent or Mortgage \$ 450.00	
Employment					
Employer Ready-Made Cabinets	Address 452 West Street	City Monticello	State KY	ZIP Code 42633-8741	
How long? 5 years	Occupation Cabinet Finisher	Supervisor's Name Ben Bell		Yearly Gross Pay \$ 20,000.00	
Other Income Amount Source Amount Source \$5,000 per year Summer job/Mowing lawns			Yearly Household Income \$45,000.00		

Sample Credit Application

Other Credit Accounts		
Type or Name <i>Good Deal credit card</i>	Account No. <i>4589258-633</i>	Current Balance \$ <i>450.53</i>
Type or Name <i>Sears store account</i>	Account No. <i>632-569-4319</i>	Current Balance \$ <i>750.23</i>
Type or Name <i>Potter's Hardware store account</i>	Account No. <i>388-23-6</i>	Current Balance \$ <i>145.89</i>
Bank Accounts		
<input checked="" type="checkbox"/> Checking Name of Bank <i>First Bank</i>	City <i>Monticello</i>	Account No. <i>3489541-12</i>
<input checked="" type="checkbox"/> Savings Name of Bank <i>First Bank</i>	City <i>Monticello</i>	Account No. <i>3479542-16</i>
<input type="checkbox"/> Other Name of Bank	City	Account No.
Signature		
I authorize Parnell Bank to check my credit record and verify my employment and references. I have read the information on the reverse side and agree to the credit terms. Under penalties of perjury, I declare the above statements to be true.		
<i>Raul B. Cadiz</i>	Date	<i>May 5, 20--</i>
Applicant's Signature		

Benefits of Credit

- Convenience and rewards
- Increased spending power
- Records
 - Proof of purchase
 - Help with resolving disputes with merchants
- Protection against risks
 - Fraudulent use of credit cards
 - Settlement for damaged goods or disputes

Focus on...

Credit in America

- Credit is easy to get for many people
- Credit can be used for online purchases
- Credit offers and use may pose a security threat
- Credit use should be managed wisely

Success Skills

Managing Projects

- Define the overall objective
- Divide large projects into smaller parts
- Set a completion time for each part
- Identify resources and get approvals
- Monitor progress of the project
- Review the completed project

Credit Costs

- Fixed rates
 - Interest rate is set and does not change each month
 - Can change with written notice
- Variable rates
 - Can change often without prior notice
 - Tend to rise fast when interest rates in general go up

Methods of Computing Interest

- Adjusted balance method

ADJUSTED BALANCE METHOD

Previous Balance		\$500.00
Charges	\$30.00	
	\$50.00	
	<u>\$80.00</u>	
Total Charges		\$160.00
Payment		<u>\$100.00</u>
Adjusted Balance		\$560.00
Interest (18% yearly for 1 month)		\$8.40
[\$560 x 18% x 30/360]		
New Balance (Amount Owed)		<u><u>\$568.40</u></u>

Methods of Computing Interest

- Previous balance method

PREVIOUS BALANCE METHOD

Previous Balance		\$500.00
Interest (18% yearly for 1 month)		\$7.50
		[\$500 x 18% x 30/360]
Charges	\$30.00	
	\$50.00	
	<u>\$80.00</u>	
Total Charges		\$160.00
Payment		<u>\$100.00</u>
New Balance (Amount Owed)		<u><u>\$567.50</u></u>

Methods of Computing Interest

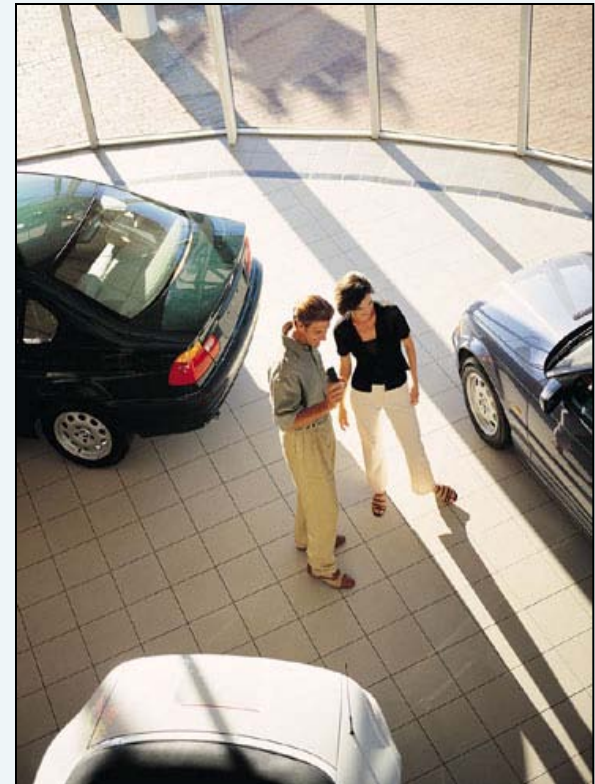
- Average daily balance method

AVERAGE DAILY BALANCE METHOD				
Previous Balance	\$500.00			
Daily Balances	Previous Balance	Charges	Payments	Adjusted Balance
Day 1	\$500.00	\$0.00	\$0.00	\$500.00
Day 2	\$500.00	\$0.00	\$0.00	\$500.00
Day 3	\$500.00	\$0.00	\$0.00	\$500.00
Day 4	\$500.00	\$0.00	\$0.00	\$500.00
Day 5	\$500.00	\$30.00	\$0.00	\$530.00
Day 28	\$560.00	\$0.00	\$0.00	\$560.00
Day 29	\$560.00	\$0.00	\$0.00	\$560.00
Day 30	\$560.00	\$0.00	\$0.00	\$560.00
Average Daily Balance				\$563.67
Interest (18% yearly for 1 month)				\$8.46
[$\$563.67 \times 18\% \times 30/360$]				
New Balance (Amount Owed)				<u><u>\$568.46</u></u>

Methods of Computing Interest

- Minimum payments
- Penalties and fees

Minimum payments can be high on an expensive purchase, such as a car.



Special Rates

- Credit card interest rates are given as annual percentage rates
- Creditors must clearly state the rate of interest on all credit offers
- Low introductory interest rates often last only a few months

Checking Credit Statements

- Compare the charges on the statement with sales receipts and purchase records
- Verify that payments and credits have been recorded
- Note fees charged
- Verify the interest amount and the new balance owed
- Contact the company regarding errors

Technology Corner

Applying for Credit Online

- Consumers can apply for many types of loans online
- Applications require sensitive personal data
- Do not respond to credit offers sent to you online
- Apply only at sites that you know are for a reputable company

Ethics

Credit Card Fraud

- Take steps to help prevent credit card fraud
 - Guard your cards and account numbers
 - Carry only one or two cards at a time
 - Do not lend your cards to others
 - Cut cards and receipts into pieces before discarding them
 - Report lost or stolen cards right away