

# Presentation Slides



## Lesson One

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# Making Decisions



# the decision-making process

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## The decision-making process

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## Identify the problem

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## Gather information and list possible alternatives

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## Consider consequences of each alternative

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## Select the best course of action

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## Evaluate the results

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# factors that can influence a decision

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## **A. Values**

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

## **B. Peers**

- People you know
- Pressure for positive or negative behaviors

## **C. Habits**

- You are accustomed to doing it this way

## **D. Feelings (love, anger, frustration, ambivalence, rejection)**

- If you do make a certain decision
- If you don't make a certain decision

## **E. Family**

- Your family's preference
- Decisions other family members have made

## **F. Risks and consequences**

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

## **G. Age**

- Minor
- Adult



# common decision-making strategies

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## **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.

## **intention**

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

## **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.

## **security**

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

## **synthesis**

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



# economic influences on decision-making

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These economic factors may influence personal and financial decisions:

**consumer prices**

changes in the buying power of the dollar, inflation/deflation

**consumer spending**

demand for goods and services

**gross domestic product (GDP)**

total value of goods and services produced within the country

**housing starts**

the number of new homes being built

**interest rates**

the cost of borrowing money

**money supply**

funds available for spending in the economy

**stock market index**

(such as the Dow Jones averages, Standard & Poor's 500)

indicate general trends in the value of U.S. stocks

**unemployment**

the number of people without employment who are willing to work



# risks associated with decision-making

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Risks are associated with every decision. The following are common risks related to personal and financial decision-making:

## **personal risks**

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

## **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).

## **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

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**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:**  $\$1,000 \times .04$  (4 percent)  $\times 1$  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.