

PERSONAL FINANCIAL PLANNING

LEARNING OBJECTIVES

- + **UNDERSTAND** the micro or individual factors that impact our financial decisions.
- + **RECOGNIZE** the macro or large-scale economic indicators that affect personal finance.
- + **CREATE** a dynamic financial plan specific to your individual needs and goals.
- + **REALIZE** the expertise offered by professional financial planners.



Within **personal finance** are dynamic factors that influence our financial thinking and decision-making. At its core, personal financial planning is guided by individual aspirations, responsibilities, and the broader economic landscape. This chapter delves into the intricacies of personal financial planning, exploring the micro-level factors involving marital status, dependents, health, and career choices, as well as the macro-level factors encompassing economic indicators, financial markets, and currency stability. We also navigate the planning process itself, from setting financial goals and assessing your current situation to making informed choices and continuously adapting your plan as life unfolds.

Financial planning is a dynamic and essential aspect of life, and this chapter aims to equip you with the knowledge and tools you need to navigate your financial journey with confidence and success. Whether you're just starting or looking to fine-tune your existing financial plan, these insights and strategies will empower you to make informed financial decisions and work toward a secure and prosperous future.

Individual or “Micro” Factors That Affect Financial Thinking

Being responsible for others significantly impacts financial planning. Whether it's supporting a spouse, children, or elderly parents, the presence of dependents leaves an indelible mark on our financial path, emphasizing stability and security not just for ourselves but for those we cherish. Career choices further mold financial strategies, with each career carrying unique attributes like income potential and risk factors. Financial planning evolves with life stages, from early adulthood's focus on income and risk-taking to later stages prioritizing asset safeguarding and post-retirement desires. Understanding these individual or “micro” factors is key for effective financial decision-making.

Financial Planning With Dependents: Responsibility and Security

Marital status and dependents play a crucial role in shaping our financial planning, as they determine whether we are responsible not only for ourselves but also for others. Having a spouse or dependents means we have a financial obligation toward them, and this responsibility needs to be taken into account when considering our financial decisions. The duration of this

dependency may vary, such as in the case of children or elderly parents, but it can also be a lifelong commitment to someone we care for deeply (*Figure 1*).



Figure 1: Being responsible for the well-being of others has a significant impact on financial planning.



We strive to provide for the well-being of our dependents. For instance, funding our children’s education becomes a priority, reflecting a desire to enhance their quality of life. In some cases, we may even choose to forego personal fulfillment to ensure the prosperity of our loved ones.

Being responsible for others increases our financial needs, as we must consider the additional expenses associated with supporting them. As such, our attitude toward risk changes, and we become more cautious and inclined toward seeking financial protection. This protective instinct extends beyond our lifetime, with individuals often opting for measures like life insurance policies that name their spouse or dependents as beneficiaries, securing their futures.

As we engage in financial planning, it becomes evident that the presence of dependents has a significant impact on our decisions. Our ability and willingness to take risks may decrease, as we prioritize stability and security for our loved ones. Additionally, long-term planning becomes essential to ensure that our partners and dependents continue to thrive even after we are no longer around.

Incorporating Health Into Financial Planning: Risks and Protection

Your health plays a pivotal role in shaping your financial planning, influencing your income needs and risk tolerance. In personal financial planning, it is vital to consider protection against the risks posed by chronic illness, accidents, long-term disability, and short-term events like pregnancy and childbirth (Figure 2). If your health condition hinders your ability to earn or work and leads to higher expenses, your income requirements may rise. Health-related expenses can strain budgets, necessitating careful financial planning.



Figure 2: Your health and physical limitations may minimize your income and require more careful financial planning.

Consequently, the need to safeguard against potential limitations or increased costs becomes crucial. Your willingness to take financial risks may diminish, impacting your overall financial decision-making. You may tend to opt for safer, less volatile investments. In contrast, good health can lead to higher earning potential and greater risk tolerance.

Career Choices and Financial Planning: Income and Transitions

The career path you choose significantly influences your financial planning, as it dictates the educational requirements, income potential, and characteristics of your occupation or profession. Each career comes with its own set of working hours, pay scales, benefits, risk factors, and opportunities for advancement (Figure 3). As a result, your financial strategies will be shaped by the unique realities of being a postal worker, professional athlete, commissioned sales representative, corporate lawyer, freelance photographer, librarian, building contractor, tax preparer, professor, website designer, or any other profession you pursue.



Figure 3: The career you choose and the potential for advancement will significantly influence your financial planning.



For instance, a career like professional athlete may offer a high income but come with a higher risk of injury and a shorter career span. On the other hand, sales representatives may experience longer-lasting careers but with unpredictable income fluctuations. These career-specific attributes play a pivotal role in determining your financial planning approach.

The early stages of independent financial life typically revolve around earning income through labor. However, over time, you may decide to change career paths, explore additional sources of concurrent income, switch between employment and self-employment, or encounter periods of unemployment and reemployment. Each of these transitions influences personal financial management and planning.

Financial Planning and Stages of Life: Adapting to Change

Financial planning is a dynamic process that evolves throughout different stages of life, driven by changing needs, desires, values, and priorities. Adapting to these shifts is crucial for effective management and anticipation of future financial concerns. While individual circumstances may vary, certain common financial considerations are typical for each stage of adulthood, making life stage analysis an essential aspect of financial planning.

In early adulthood, most individuals have limited responsibilities and few assets, often providing only for themselves. At this stage, the primary focus is on career development and increasing earned income. With minimal financial commitments, the willingness to take risks is typically high, and investments tend to lean toward growth-oriented options.

As individuals progress in their careers, their income and spending increase, along with the desire for an improved lifestyle. Marriage and children add additional financial needs, prompting the acquisition of assets such as a home or retirement account. As responsibilities grow, so does the desire for financial protection. The ability to assume risk may increase due to a growing asset base, but the willingness to do so generally decreases, as dependents and assets require safeguarding against unforeseen circumstances.

Later adulthood signifies a period of spending down, relying less on earned income and more on accumulated wealth from assets and investments. With grown-up children or the passing of elderly parents, expenses tend to decrease. Leisure time becomes more abundant, especially post-retirement. While spending needs may decline without dependents, there may also be a desire to indulge in previously unfulfilled desires.

With a reduced responsibility for dependents, the focus shifts to safeguarding assets, which have now become the primary source of income. Though the ability to assume risk remains high due to accumulated assets, the willingness to take risks typically decreases. Protecting wealth becomes a priority as it sustains one's livelihood. During this stage, financial planning is centered on ensuring a stable and secure future rather than aggressively seeking wealth accumulation.

Understanding the influence of life stages on financial decision-making is essential for effective financial planning. Whether building a family and career, or enjoying the fruits of lifelong efforts, individuals need to adapt their financial strategies accordingly (Figure 4). Being aware of these changing needs and priorities helps individuals make informed decisions at every stage of life.



Figure 4: Financial planning is a dynamic process because of the changes we encounter in life, such as retirement.

KEY TAKEAWAYS

1. Individual or “micro” factors significantly impact financial planning.
2. Marital status and dependents introduce additional responsibilities and financial obligations.
3. Physical health plays a crucial role, as it influences income needs and risk tolerance.
4. Career choices shape financial planning, with different professions offering varying income potential and risks.
5. Effective financial planning requires awareness of life stage influences to make informed decisions that align with changing needs and priorities.



Systemic or “Macro” Factors That Affect Financial Thinking

Economic indicators assess and measure various aspects of an economy’s performance and health. Business cycles and employment rates provide insights into the economy’s health and can indicate potential shifts in economic conditions. Financial markets, such as the labor market, capital market, and credit market, operate in a dynamic economic environment. Short-term fluctuations and uncertainties can disrupt financial plans, especially during critical life stages. Recognizing these “macro” or large-scale economic patterns and factors enables individuals to make informed financial decisions.

GDP and Economic Health: Expansion and Contraction

A thriving economy usually fulfills the needs of its members as economic output increases with population growth and rising expectations. **Gross domestic product (GDP)** measures an economy’s productivity by assessing the total value of goods and services produced. A rising GDP indicates **economic expansion**, while a decline signifies **economic contraction**. A recession occurs when the economy contracts for six months or more, and a prolonged recession is known as a **depression**.

Economic expansion brings about increased employment and consumer spending, fostering a positive feedback loop (Figure 5). Conversely, economic contraction leads to challenges like reduced job opportunities and diminished consumer spending, impacting overall economic stability.



Figure 5: A healthy economy brings about financial growth, including greater income and spending.

The GDP serves as a crucial indicator of economic health and guides policymakers in formulating interventions to promote sustainable growth and manage inflation or deflation risks. Monitoring GDP changes enables individuals and businesses to adjust their financial strategies. During expansions, investing in growth-oriented assets may be prudent, while contractions necessitate cautious financial planning and risk management.

Employment in a Market Economy: Efficiency and Economic Well-Being

In a **market economy**, the production of goods and services serve the needs of its members. It also generates jobs as most individuals participate in the economy by trading their labor for wages, which form their primary source of income. As a result, the economy must create opportunities for earning wages, enabling more people to engage in market transactions actively. However, if the economy fails to provide adequate job opportunities, alternative means such as private or public subsidies, including charity or welfare, must be employed to support those who cannot secure employment.

The **employment rate**, or the participation rate of the labor force, offers insights into an economy’s success in providing opportunities for labor and efficiently utilizing its human resources (Figure 6). A healthy market economy productively employs its labor force, creates employment opportunities, and satisfies consumer needs through its markets.



Figure 6: An economy’s health can be determined by how well it provides employment opportunities for its citizens.



The **unemployment rate** serves as a measure of the economy's limitations, indicating the proportion of people seeking work but who are unable to find jobs due to the economy's inability to accommodate them. While some natural rate of unemployment exists as individuals transition in and out of the workforce due to life circumstances, it should remain consistently low and not hinder the economy's productivity. Persistent unemployment reveals inefficiencies within the economy, as it fails to utilize its productive human resources fully.

The relationship between GDP and unemployment is depicted through different stages of the business cycle, highlighting how unsustainable conditions can arise at both extremes of growth. Rapid growth with excessive labor demand can lead to rising wages and inflation, ultimately affecting consumer consumption and slowing down the economy. On the other hand, insufficient labor demand can cause unemployment, impacting wages and job opportunities, prompting workers to seek employment elsewhere.

Long-term and high unemployment rates leave many individuals without wages, preventing their active participation in the economy. In such cases, the market economy fails to serve the needs of a significant portion of the population, potentially leading to demands for change or upheaval.

Understanding the relationship between employment, unemployment, and economic efficiency is essential for policymakers and individuals alike. Addressing issues related to job creation, wage levels, and labor market dynamics becomes vital in ensuring a productive and inclusive market economy.

Economic Indicators: Predicting Financial Cycles

Apart from GDP growth and unemployment rate, various economic indicators offer valuable insights into an economy's success, growth prospects, and future potential. These indicators include statistics related to housing construction, existing home sales, durable goods orders (e.g., appliances and automobiles), consumer confidence, and producer prices (Figure 7). While all these metrics provide valuable information, GDP growth and unemployment rate remain the most closely monitored as they capture the essence of what an economy aims to achieve: creating diverse opportunities for widespread participation and fulfilling the consumption needs of its citizens.

A robust and thriving economy allows people to trade labor and capital more freely. It presents ample opportunities for earning returns and incomes, thereby

offering diversification and reduced risk. Ideally, everyone would prefer to operate in such a healthy economy consistently. However, economic realities involve **economic cycles**, including times of recession and expansion, and financial planning must account for the potential impact of economic factors on individual financial well-being.



Figure 7: Economies operate in cycles, which can be predicted by indicators such as home sales and consumer confidence.

During a recession, unemployment tends to rise, potentially leading to lower wages or difficulty in anticipating income increases. In some cases, wage income may even be lost altogether. Preparing for such temporary involuntary loss of wage income is crucial. Investing to generate alternative forms of income serves as a hedge against lost wages. However, in a period of economic contraction, the value of capital and its usefulness may decline as well. While certain industries, such as public education and healthcare, may exhibit immunity to economic cycles, overall investment returns may suffer during economic downturns.

Financial planners should consider the potential effects of business cycles on both labor and capital markets. By acknowledging the inevitability of economic cycles and their potential impact, individuals can adopt a proactive approach to diversify income sources and navigate through economic fluctuations more effectively.

Currency Value: Economic Stability and Purchasing Power

Stable currency value stands as a pivotal indicator of a healthy economy and plays a crucial role in financial planning. A currency's value is rooted in its utility as a medium of exchange, reflecting its usefulness in trade based on the economy's production. If an economy produces goods and services that are in high demand, its currency gains value relative to others, making it more useful in trade and indicative of the economy's productivity.



The **purchasing power** of a currency relates to what it can buy (Figure 8). As prices rise, the purchasing power diminishes, leading to a decrease in the currency's value. This situation gives rise to **inflation**, where the currency becomes less useful, and more units are needed to purchase the same goods. On the other hand, **deflation** occurs when the value of a currency increases, leading to falling prices and increased purchasing power. In such a scenario, the same amount of currency buys more goods.



Figure 8: How much people can purchase depends on the value of the economy's currency.

Inflation is commonly measured using the **Consumer Price Index (CPI)**, which tracks nationwide price levels for goods and services typically purchased by an average consumer. Currency instability, be it inflation or deflation, can also impact investment values, as the returned dollars may have a different value than expected due to fluctuations in currency value over time.

Both inflation and deflation present challenges for the economy and financial planning, as changes in currency value influence consumption and investment decisions. Instabilities in currency value can lead to uncertainty, making investment returns harder to predict and increasing risk levels.

Financial planning should account for economic cycles and potential currency instabilities. Planning for the risks associated with economic downturns, possible loss of wage income, and investment value fluctuations becomes essential. At the same time, relying solely on the windfalls of an economic expansion may prove imprudent.

By understanding the significance of stable currency value and its impact on economic stability and financial planning, individuals can make informed decisions to navigate through economic fluctuations effectively and protect their financial well-being.

KEY TAKEAWAYS

1. Systematic or "macro" factors in the economy affect how we plan for our financial future.
2. A thriving economy is characterized by increasing economic output, which is often measured by Gross Domestic Product (GDP).
3. The rate of employment is an indicator of an economy's well-being, with high unemployment signaling an economy's failure to serve the population.
4. Understanding economic indicators and their impact on financial planning enables individuals to navigate economic cycles more effectively and make prudent decisions.
5. Stable currency value is crucial for economic stability, as it reflects the economy's productivity and influences purchasing power.

The Planning Process

Financial planning is a continuous, dynamic process that begins with defining goals and assessing your current situation. Identifying choices, evaluating risks, and making decisions pave the way to take action. The process doesn't end there; it involves regular reassessment and goal redefinition as circumstances change. This iterative approach ensures adaptation to life's fluctuations and evolving economic conditions, allowing individuals to stay on track and make informed adjustments for financial success. A flexible yet steady plan empowers individuals to achieve their aspirations over time.

Setting Financial Goals for a Secure Future

Goals provide direction and purpose. They give a clear sense of what you want to achieve, both in the short term and long term. Without defined goals, your financial life can lack structure and purpose, leading to haphazard decision-making. On the other hand, having well-defined objectives can help you focus your efforts and resources where they matter most.



Financial goals can span different timeframes, including shorter-term (1 to 2 years), intermediate (2 to 10 years), and longer-term goals, which may vary between realistic and aspirational. To ensure effective goals, the **SMART model** suggests they should be Specific, Measurable, Achievable, Relevant, and Time-based:

- Specific goals are clear and well-defined, leaving no room for ambiguity.
- Measurable goals have quantifiable criteria, allowing you to track your progress.
- Achievable goals are realistic and feasible within your financial capacity.
- Relevant goals align with your broader financial aspirations and values.
- Time-based goals have a set deadline, creating a sense of urgency.

One of the primary reasons for setting financial goals is the establishment of a roadmap. Goals act as milestones, allowing you to track your progress and stay motivated. Whether your objectives are related to saving for a vacation, buying a car, or paying off debt, each goal represents a step closer to financial success. The satisfaction of reaching a goal can provide you with the momentum and enthusiasm to tackle the next one.

Goals instill discipline and encourage better financial habits. A common set of financial goals often includes planning for future events, such as building an emergency fund, saving for retirement, and planning for major life events like purchasing a home or funding your children's education. When you have specific targets in mind, you are more likely to save, budget, and invest wisely. For instance, if your goal is to save a certain amount for an emergency fund, you'll be more inclined to cut unnecessary expenses, adhere to a budget, and make consistent contributions. This discipline helps build good financial habits that will benefit you throughout your life.

As life progresses and circumstances change, the dynamic nature of financial planning calls for periodic reassessment and goal adjustments. The ability to adapt the plan while staying focused on long-term objectives increases the odds of achieving financial security and prosperity. With a well thought out strategy to navigate financial challenges, individuals can confidently steer toward a secure and fulfilling future.

Life's complexities and uncertainties necessitate having a well-structured plan to increase the likelihood of achieving goals. Take Alice, for example, freshly graduated and focused on generating income to cover living expenses and student loan debt. In the next decade, she envisions starting a family and aims to buy a house while saving for her children's education. Her

income should cater for these increased expenses while creating a surplus for asset accumulation.

In the long term, Alice dreams of a comfortable retirement and embarking on a sailboat adventure worldwide. To realize these goals, she must accumulate sufficient assets to sustain her retirement income and fund her travels. Understanding the timing, goals, and sources of income is essential in her financial planning (*Figure 9*).

Alice's income will play a pivotal role in achieving her goals, making it crucial for her to comprehend the origins of her income and its contribution to her aspirations. Assessing her current financial situation also becomes vital for laying the groundwork for her future endeavors.



Figure 9: Setting goals provides us a roadmap toward a financially healthy and fulfilling future.

Evaluating Your Financial Position

Assessing your current financial situation involves understanding where you stand, the choices at your disposal, and their alignment with your goals. By organizing your financial information into clear summaries, such as income statements, balance sheets, and cash flow statements, you gain insights into essential aspects of your financial life, including assets, debt, income, and expenses.

Consider Alice's financial situation as an example. She possesses a car worth \$5,000 and a \$250 savings account, while her debts consist of a \$53,000 student loan and a \$2,700 car loan. With an annual disposable income of \$35,720, living expenses of \$25,200 (rent, food, clothing, etc.), and various other expenses including leisure and savings, Alice manages a meager budget surplus of \$400 per year. To achieve her intermediate goal of accumulating assets, Alice needs to either increase her income or decrease expenses to create a more substantial annual surplus (*Figure 10*).



As she continues to reduce her debt, her financial situation will evolve, presenting new choices and opportunities for achieving her dreams. Her car loan is paid off next year, and once her student loans are cleared in about five years, her surplus will significantly increase, paving the way for asset accumulation.

By articulating your current financial situation, you gain valuable insights and identify critical pathways to reaching goals. Analyzing assets, debts, incomes, and expenses within the context of objectives enables you to make informed decisions and prioritize financial actions accordingly. As you begin to understand your financial reality, you identify strengths and can address areas for improvement. As circumstances change, reassessing and re-calibrating the plan becomes essential to stay on course toward financial success and create a secure and prosperous future.



Figure 10: Evaluating your current financial situation gives you insight into where changes need to be made.

Considering Your Financial Options

Making financial decisions involves identifying immediate choices and long-term strategies while being both realistic and imaginative about the current situation. Considerations like family structure, age, career, health, and economic context impact the relative value of choices. Once alternatives are identified, each must be thoroughly evaluated, taking into account costs, benefits, and risks.

In the case of Alice, reducing debt is her current focus, but she contemplates two alternatives to accelerate her goal of accumulating assets: working a second job or taking out a loan to invest in her friend's business. To make a well-informed decision, she must assess the benefits and costs of each option (*Figure 11*).



Figure 11: Financial planning involves making decisions and weighing our options.

A second job could increase her income, but it comes with the cost of reduced personal time and energy for other pursuits. Also, the risk of finding a well-paying second job during an economic slump diminishes its attractiveness. On the other hand, investing in a business presents the allure of a significant win, but it carries the risk of substantial losses that could lead to further debt.

Analyzing the alternatives, including their potential risks and consequences, is essential. Risky, high-reward options, while seemingly enticing at first, lose their allure when considering the potential long-term effects when things don't go as planned. A significant loss could limit future choices and force you to adopt alternatives you initially rejected as too costly.

Accounting for risk as a cost reveals that a seemingly beneficial choice may not be the best one when considering its potential consequences. The decision-making process should incorporate both immediate benefits and the preservation or elimination of future choices. Risk itself is a cost that should not be overlooked in the evaluation.

In financial decision-making, choosing an option with less apparent benefit but lower risk may be wiser. Similarly, selecting an alternative that yields fewer immediate rewards but provides more opportunities in the future can prove advantageous. It is crucial to recognize that risk is a significant cost and that making well-considered choices can have far-reaching implications for financial well-being.

Evaluating costs, benefits, and risks empowers you to make informed financial decisions aligned with your goals and aspirations. By weighing these factors strategically, you can navigate the complexities of your financial journey and create a robust and adaptable financial plan for a secure and prosperous future.



KEY TAKEAWAYS

1. Financial planning requires making choices, setting goals, and adapting to life's uncertainties, necessitating a well-structured plan.
2. Goal-setting provides a clear roadmap for the future and involves defining short-term, intermediate, and long-term objectives.
3. Assessing the current financial situation gives valuable insights and involves understanding assets, debts, incomes, and expenses.
4. Evaluating choices involves considering not only immediate costs and benefits but also the potential risks and long-term consequences.

Financial Planning Professionals

Financial planning professionals, such as accountants, investment advisors, tax advisors, estate planners, and insurance agents, bring expertise, objectivity, and tailored guidance to your financial journey. These professionals have a deep understanding of complex financial matters, investments, tax strategies, and retirement planning, which can help you make informed decisions. They offer an objective perspective, free from emotional biases, ensuring that your financial choices align with your goals. Additionally, financial planners create personalized strategies based on your unique circumstances and aspirations, optimizing your path to financial success while providing peace of mind and confidence in your financial future (Figure 12).



Figure 12: Financial planning professionals provide us with expertise and help us optimize our path.

When choosing an advisor, it is important to consider their training and compensation structure. Financial planning professionals possess different qualifications and expertise in specific areas of financial planning. Certification, including personal financial specialist (PFS) or certified public accountant (CPA), indicates training and experience in their field.

The specific type of advice required, whether comprehensive financial planning or targeted investment advice, can also impact the choice of an advisor. Some advisors offer impartial advice for a fee, while others may have conflicts of interest as they sell financial products or services. Objective advice is unbiased and focuses solely on the client's best interests, while subjective advice may be influenced by personal biases. Depending on the complexity of financial needs, a balance of both objective and subjective perspectives may be beneficial.

Diversifying sources of advice, including seeking input from both professionals and trusted acquaintances, can provide a well-rounded perspective for making informed financial decisions. Organizing financial information and evaluating alternatives will enable individuals to work toward achieving their financial goals more confidently.

References to Professional Organizations

The references that follow provide information for further research on the professionals and organizations that may be useful to personal financial planning:

- American Institute of Certified Public Accountants (AICPA): <http://www.aicpa.org>
- Association of Chartered Certified Accountants (ACCA): <http://www.accaglobal.com>
- Chartered Financial Analyst (CFA) Institute: <http://www.cfainstitute.org>
- Certified Financial Planner (CFP) Board of Standards: <http://www.cfp.net>
- The American College of Financial Services: <http://www.theamericancollege.edu>
- The Association for Financial Counseling and Planning Education (AFCPE): <http://www.afcpe.org>
- The National Association of Estate Planners and Councils (NAEPC): <http://www.naepc.org>
- U.S. Securities and Exchange Commission (SEC): <http://www.sec.gov>
- Internal Revenue Service (IRS), U.S. Treasury Department: <http://www.irs.gov>



KEY TAKEAWAYS

1. Financial advisors include accountants, investment advisors, tax advisors, estate planners, or insurance agents that bring expertise to your plan.
2. You should always understand how your advisor is trained and how that may be related to the kind of advice that you receive.
3. You should diversify your sources of information and advice by using subjective advisors—friends and family—as well as objective, professional advisors.

GLOSSARY DEFINITIONS

Consumer Price Index (CPI)	a measurement of the average change in consumer prices over time
currency value	the relative worth of an economy's monetary unit
deflation	a decrease in the general price level of goods and services leading to greater purchasing power
depression	a prolonged recession
economic contraction	a period of economic decline and contraction
economic cycles	recurring patterns of growth and contraction in economies
economic expansion	a period of rising economic growth and prosperity
economic indicators	statistics used to assess a country's economic performance and trends
employment rate	the participation rate of the labor force in an economy
financial planning professional	a financial expert who helps individuals manage their finances and achieve financial goals
gross-domestic product (GDP)	the measurement of a country's economic output and activity
inflation	an increase in the general price level of goods and services leading to decreased purchasing power
market economy	an economy that relies on supply and demand to determine prices and resource allocation
personal finance	management of individual or household monetary matters, including budgeting, saving, investing, and debt management
purchasing power	the ability of an economy's currency to buy goods and services
recession	an economic contraction of six months or more
SMART model	setting goals based on the criteria of being Specific, Measurable, Achievable, Relevant, and Time-based
unemployment rate	the proportion of people seeking work but who are unable to find jobs

