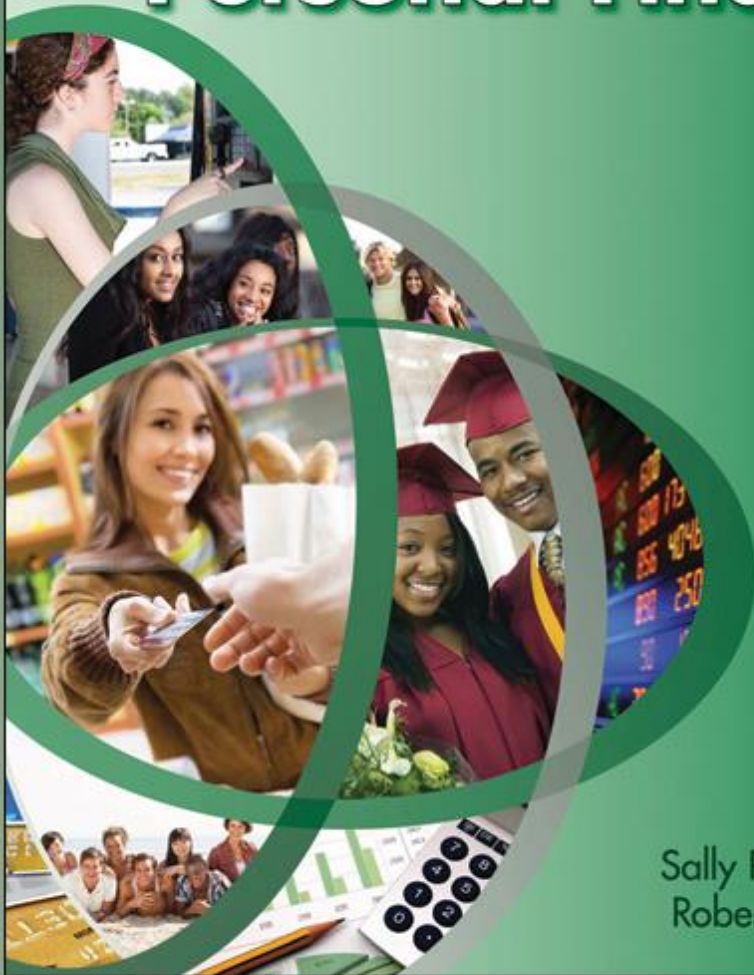


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Foundations of Personal Finance

Ninth Edition



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PowerPoint Presentations for

Foundations of Personal Finance

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Chapter 20

Consumers in the Economy

Section 20.1

CONSUMER BEHAVIORS

Objectives

- Identify how economic activities determine your financial well-being and the state of the overall economy.
- Discover which factors affect a nation's standard of living.

Terms

- prosperity
- investment
- asset
- standard of living
- GDP per capita
- labor productivity

Economic Activities of Consumers

- Earning a living
- Spending
- Saving
- Borrowing
- Buying insurance
- Investing for the future
- Paying taxes

Earning a Living

- A market economy permits you to choose the work you wish to do and the level of education and training you want to attain
- Job performance helps determine how far and fast you will advance
- Hard work and the ability to work well with others are important qualities

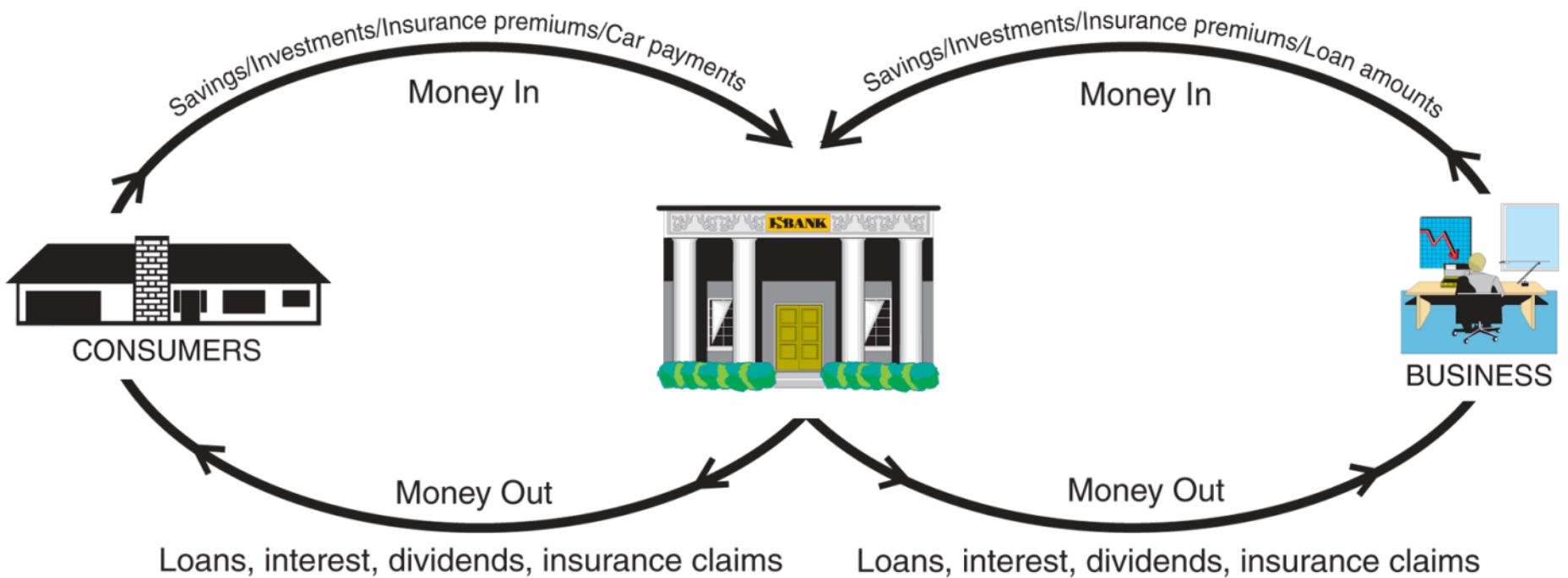
Spending

- **Prosperity** is a time period of growth and financial well-being, marked by:
 - High employment
 - Job security, and
 - Overall stability
- Consumers tend to be optimistic and spend more in times of prosperity

Saving

- Anything that improves a person's financial position is considered savings
 - Cash value of life insurance
 - Home improvements
 - Durable goods such as furniture, appliances, and cars

Saving (Continued)



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Borrowing

- Consumer credit is using a credit card or a charge account, or taking out a cash loan
- Borrowing increases the amount of money in circulation
- Borrowing increases consumer demand in the marketplace
- Credit lets you buy now and pay later even though you generally pay a fee for using credit and you are spending future income

Buying Insurance

- Insurance offers protection against certain financial losses, and it spreads financial risk
- Social and government insurance programs include Social Security, Medicare, Medicaid, unemployment insurance, and workers' compensation
- Insurance companies invest insurance premiums in business enterprises

Investing for the Future

- The purpose of investing is to make more money than you invest
- An **investment** is an asset you buy that can increase your wealth over time it also has the risk of loss
- An **asset** is an item of value you own, such as cash, stocks, bonds, real estate, and personal possessions

Paying Taxes

- Income tax
- Sales tax
- Property tax
- Estate tax

Standard of Living

- **Standard of living** is the degree to which one has the ability to obtain the goods and services one needs and wants
- If your income rises faster than prices, your standard of living will rise as more goods and services will be available to you
- The national standard of living is the level of prosperity in the country

Gross Domestic Product (GDP) Per Capita

- **GDP per capita** is the market value of final goods and services per person
- GDP per capita is equal to the national GDP divided by the number of people in the country
- A rising GDP per capita means the standard of living is rising, a falling number indicates falling incomes, and a lower standard of living

Labor Productivity

- **Labor productivity** is the value of the goods and services a worker creates in a given time
- High productivity indicates a healthy economy

Did You Know?

- Your earning activities, plus those of all others in the job market, make a huge impact on the economy
- The state of the economy also affects your earning potential

Review 20.1

- What is an asset you buy that can increase your wealth over time, but it also has the risk of loss?
 - An investment
- What is the market value of final goods and services per person?
 - GDP per capita

Section 20.2

ECONOMIC CHALLENGES

Objectives

- Give examples of consumer economic challenges that can arise from free market characteristics.
- Outline consumer economic problems that result from consumer mistakes.

Terms

- high-pressure selling
- deceptive advertising
- conflict of interest
- impulse buying
- overspending

In Your Opinion

Does free choice guarantee satisfaction?

Questionable Selling Methods

- **High-pressure selling** is an attempt to convince a buyer to make a quick decision
- **Deceptive advertising** is information that purposely misleads a consumer through dishonest claims

Did You Know?

You can contact the local Better Business Bureau, the chamber of commerce, or the nearest office of the Federal Trade Commission to report practices that may be illegal or unethical.

Conflict of Interest

- **Conflict of interest** is a situation in which a buyer and seller have competing interests
 - Buyers want the item that best fit their needs at the lowest possible price
 - Sellers want to make a profit

In Your Opinion

What types of purchases require planning?

Consumer Mistakes

- Lack of planning causes problems when consumers fail to plan ahead; they lack direction for their spending
 - They do not set goals or build savings, and it becomes difficult to control the use of credit
 - Consumers who do not plan often have trouble paying routine monthly bills and buying groceries

Discussion

Can you give an example of a time when failing to investigate thoroughly prior to a purchase led to disappointment and wasted money?

Consumer Mistakes (Continued)

- **Impulse buying** is when you buy things without thinking about your needs and goals or the consequences of spending
- **Overspending** is spending more money than you can afford to spend; this happens most often using credit cards
- Poor communication can be costly; ask questions to best determine your options

Review 20.2

- What is it called when information purposely misleads a consumer through dishonest claims?
 - Deceptive advertising
- What is it called when you buy things without thinking about your needs and goals or the consequences of spending?
 - Impulse buying