

CHAPTER

# 5

## Reading for Meaning

Examine the photograph shown here and the list of key terms. What clues do they convey about the chapter topics you will study?

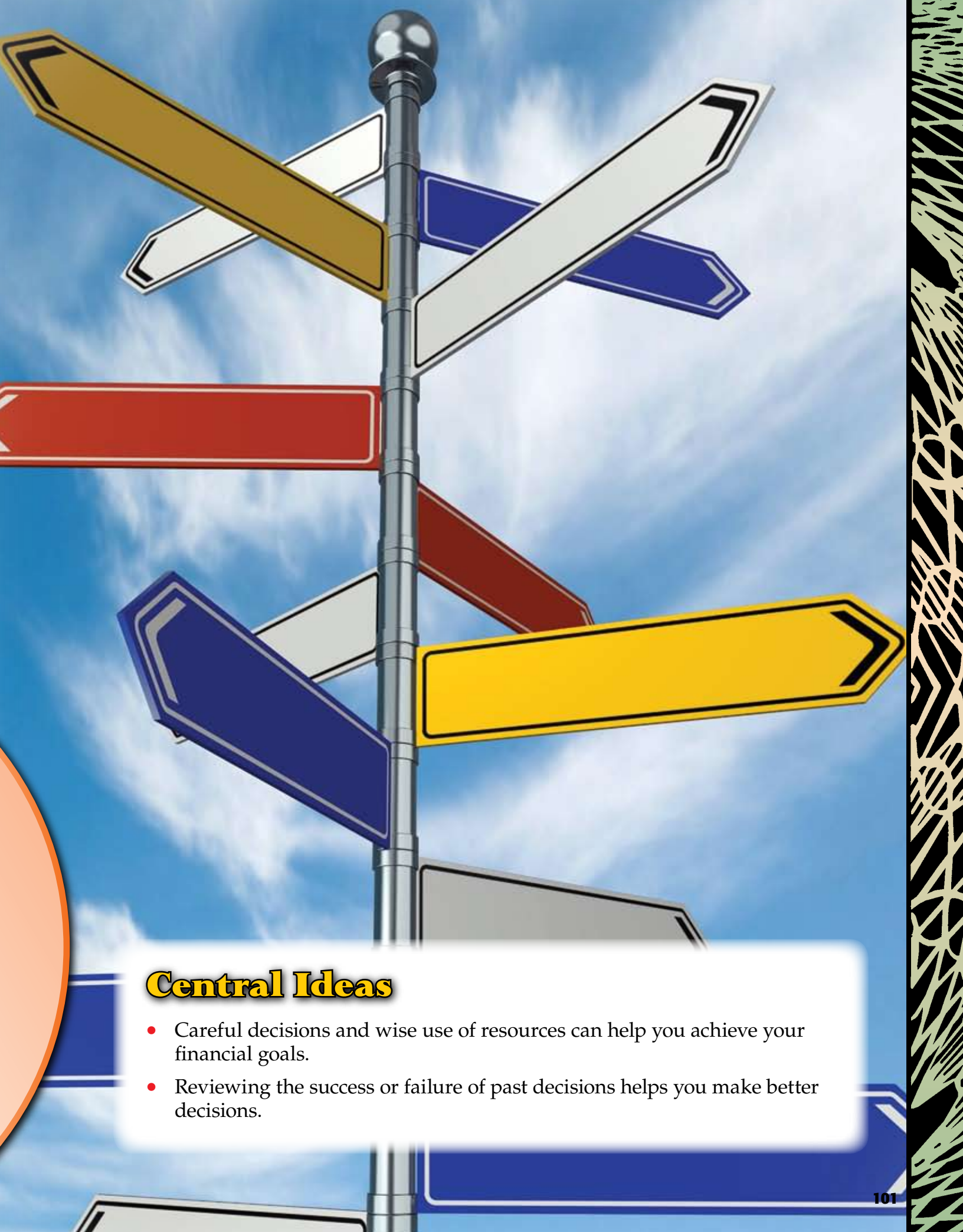
# Making Smart Decisions

management  
values  
value system  
ethic  
goal  
priority  
standard  
cost-benefit  
principle  
marginal benefit  
marginal cost  
decision-making  
process

## CHAPTER OBJECTIVES

After studying this chapter, you will be able to

- **explain** how needs, wants, values, goals, and standards serve as guides to consumer decisions.
- **identify** personal goals to guide your decisions.
- **prioritize** your goals.
- **identify** the resources available to you.
- **plan** the use of resources available to you.
- **use** the decision-making process.
- **apply** management principles to help you achieve important goals.



## Central Ideas

- Careful decisions and wise use of resources can help you achieve your financial goals.
- Reviewing the success or failure of past decisions helps you make better decisions.



## Managers

Managers perform a broad range of duties. They coordinate and direct the many support services that allow organizations to operate efficiently. Specific duties vary in degree of responsibility and authority.

**Y**ou are the manager of your life. Many factors depend on how well you do your job. For example, by managing your time, you accomplish more of what you want to do, 5-1. By managing your financial resources, you control the dollars that pass through your hands.

**Management** is the process of organizing and using resources to achieve predetermined objectives. It involves identifying resources, setting goals, making decisions, solving problems, and evaluating results. Developing good management skills can help you achieve all the goals you set for yourself.

## The Personal Side of Consumer Choices

Some people always seem to know what they want and where they are going. They seem to know what is important and what is not worth serious attention. This sense of direction and purpose is often a key factor separating the people who achieve what they want from those who do not. Developing this sense of direction and purpose requires a clear understanding of personal needs, wants, values, goals, and standards.

## Importance of Needs and Wants

As discussed in chapter 1, *needs* are those items you must have to survive. Examples include your basic physical needs for food, clothing, and shelter. Psychological needs include feelings of safety, security, love, acceptance, approval, and success.

*Wants*, on the other hand, are items you would like to have. They are not essential for life. For instance, you may want to buy a new cell phone or a completely new wardrobe. However, you can survive without achieving these wants.

## Importance of Values

**Values** are a person's beliefs about what is important and desirable. They influence the way you live and think as well as your decisions, actions, and behavior. Values differ among people. Some of the important values for many people are a loving family, loyal friends, good health, a meaningful career, financial security, and inner peace. Do you support these values?

### 5-1

When you determine how to spend your time, you are managing your life.

Which other values are important to you?

Values govern and direct your life even if you are unaware of them. Identifying and choosing your values will give you a sense of control.





## Case Study: Making Decisions

### What Do You Value?

As long as Reyna can remember, her family has been short of money. Her only spending money is what she earns from babysitting. Most of her clothes come from her older sister. She believes that having money is just about the most important thing in life. She intends to have plenty of it when she grows older and tries to be part of the “rich crowd” at school. Reyna thinks people who have money are really better than others.

Terrence has little respect for money because his family has always had plenty. He expects to attend one of the better universities in the country after high school graduation. His grades are good, and his family can afford any college he chooses. He doesn't really want to go, but he knows it will be easier than fighting his family about it. He believes there are more important things in life than money, but doesn't know where to search for them.

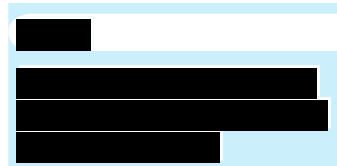
Carlos is 25 and works in a service station. He wants to marry Angelique, but Angelique's father says she is accustomed to having what she wants. He wonders if Carlos is ready for the financial responsibilities of marriage and supporting a family. Carlos wonders if he should find a better-paying job, or if he would be happier with someone who has values more similar to his own.

### Case Review

1. What is most important to Reyna? to Terrence? to Carlos?
2. In what ways do you think Reyna, Terrence, and Carlos might change their views about money in the future?
3. How do their views differ from your own? To what extent do you agree with each of them?

Some people need to make a list of everything important to them before they know what their values are. When you give the list some thought, you will probably find that your family, friends, education, and life experiences all influence your list of values. As you meet new people and have new experiences, what is important to you may change. As life unfolds, your values may change, too. Some become more important and others less so.

As you continually make different decisions, you eventually create a *value system*. A **value system** guides your behavior and provides a sense of direction in your life. For example, good school performance may score



high in your value system. If so, you will try to participate in class, complete your homework, and prepare for exams. If loyalty to friends is high in your system, you will help your friends when they need you. If popularity ranks higher than loyalty, you may find it difficult to stand by an unpopular person or cause.

## Importance of Ethics

A closely related concept is ethical behavior. An **ethic** is a moral principle or belief that directs a person's actions. Ethics often conform to accepted standards of right and wrong. Ethical behavior involves honesty, fairness, reliability, respect, courage, tolerance, civility, and compassion. These and other qualities make people's lives with each other peaceful and safe.

Ethical behavior is expected from businesses and government, as well as from individuals. The opposite of ethical behavior is *unethical behavior*. Unethical behavior is usually considered wrong and may even be illegal. Unethical behavior includes stealing office supplies from an employer, surfing the Internet on company time, and returning used merchandise to a store. Other examples include a business that releases toxic waste into the environment and government officials who use their office for financial gain.

## Importance of Goals

A **goal** is an objective you want to attain. Usually goals are closely related to values. For example, if health and fitness rank high on your list of values, you may set goals to establish a personal fitness program, avoid drugs, and eat nutritious foods. If you rank education high, some type of career preparation program would become an important goal. This goal might motivate you to begin a savings program to pay for advancing your education. You might also commit extra hours to homework in preparation for further schooling.

# Linking to... History

## Crisis of Ethics

Unethical behavior played a large role in the financial crisis of 2008/09. Some consumers lied about their income so they could qualify for large mortgage loans. Eager to make money from loans, some financial institutions encouraged consumers to take on too much debt. Other business people

sold investments that were riskier and worth less than investors were led to believe. Many corporate leaders collected large salaries while their companies went bankrupt or received taxpayer money to stay in business.

Much of this behavior could be described as unethical. It was driven by the desire for financial gain at the expense of others.

You can set goals for almost anything in life, and there are different types of goals. You may set “to be” goals, “to do” goals, and “to have” goals.

## “To Be” Goals

These goals are related to personality and character. You might want to be smart, popular, entertaining, reliable, laid-back, or competitive. This group of goals also includes career choices. You may want to be a teacher, an airline pilot, a scientist, or an artist, 5-2.

## “To Do” Goals

These goals cover the endless list of things you might want to accomplish. You may want to learn to play the piano or speak a foreign language. You may decide to go to college, travel, or get a job as soon as possible. You may want to see a particular movie or make the basketball team. Perhaps your goal is to clean out your closet and organize your life. These are all “to do” goals.

## “To Have” Goals

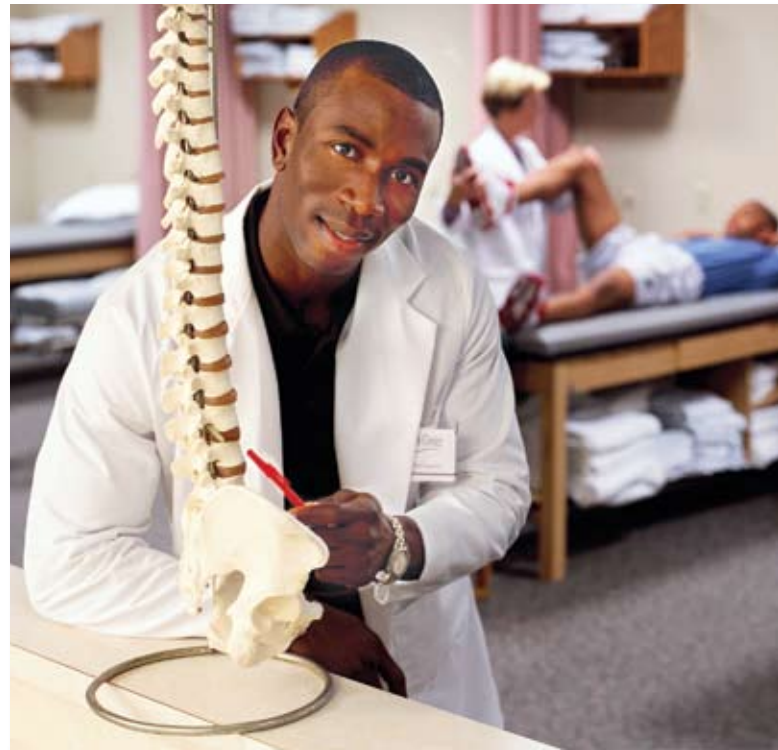
These goals are easy to identify and continually change. You may want a new watch, a car, your own phone, a personal media player, or concert tickets. These goals include the endless list of routine purchases such as socks and toothpaste. These goals also include higher-priced items for which you need to plan and save.

## Timing of Goals

Financial goals can also be classified by their time schedules. *Short-term goals* are those that you want to reach within the next weeks or months, but within a year. For instance, saving enough money to buy a new coat may take several months. *Medium-term goals* are those that may take one to three years to achieve. These may include buying a new bike or musical instrument. *Long-term goals*, such as completing school, starting a career, getting married, or buying a house, may take several years to achieve.

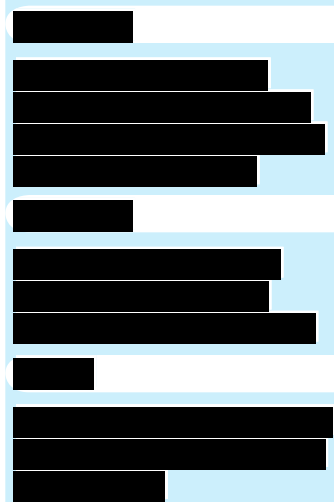
## Evaluating Goals

No one has enough resources to reach all of his or her goals at one time. You can get the most from your resources by planning how and when to use them. You will gain more control over your life and achieve the goals most important to you.



### 5-2

Career choices, such as becoming a health care professional, are “to be” goals.



It is helpful to not only identify your goals, but to also rank them in order of importance. This helps you direct your time, energy, and money to the goals that are most important to you. As you set and rank your goals, ask yourself the following key questions:

***Is the goal realistic and possible?*** Getting all As is a realistic goal for some, not for others. Buying a car in two years is possible for some, but not everyone. The important thing is not to let the impossible stand in the way of the possible. Make an effort to set realistic goals for yourself. What are some possible goals? Which are most important to you?

***Can you break the goal into smaller goals?*** Many goals, especially medium- and long-term goals, can be challenging. You can tackle them by breaking them down into smaller, more-achievable goals. For example, saving \$500 for summer camp may sound impossible. There are only five months until the money is due. However, you can focus on the smaller goal of saving \$100 each month or even \$25 each week. You will be even more motivated if you reward yourself for each milestone achieved.

***Can progress toward the goal be measured?*** Progress toward a goal should be measurable in dollars, grades, hours, points, or something else. Otherwise, you cannot judge your progress. For example, if your goal is to get an A or B in a class this semester, you can measure your progress weekly by tracking your grades for homework, quizzes, and exams. If your goal is to buy something, such as a laptop computer, you measure progress by the number of dollars you save. Seeing progress motivates you to continue working hard.

***What will the goal cost in time, money, and effort?*** After thinking it through, you may decide that some objectives are not worth what it takes to achieve them. For example, if you want to start a new business, a careful look at the time and the risks involved might change your mind.

***Will you still want the goal by the time you are able to reach it?*** For instance, a high school senior may want a scooter for getting to and from school. If it requires a year or more of savings, the need may vanish by the time the money is available. The need for a car may become more important.

It pays to set worthwhile, realistic goals. Attaining them can give you a sense of satisfaction and accomplishment. On the other hand, working toward unrealistic goals can cause frustration. Aiming at the impossible can prevent you from reaching what is possible.

## Interdependent and Conflicting Goals

People generally have several goals at one time. Goals may be *interdependent*. This means you have to achieve one goal in order to reach another. For instance, you need to finish high school before going to college. You need to complete training before starting a career. You need to complete driver education before getting a driver's license.

Goals sometimes conflict with one another. For example, Alfonso has \$800. He wants to buy a used car and take a one-week trip with his friends. He does not have enough money for both. Alfonso must decide which of these *conflicting* goals he values more.

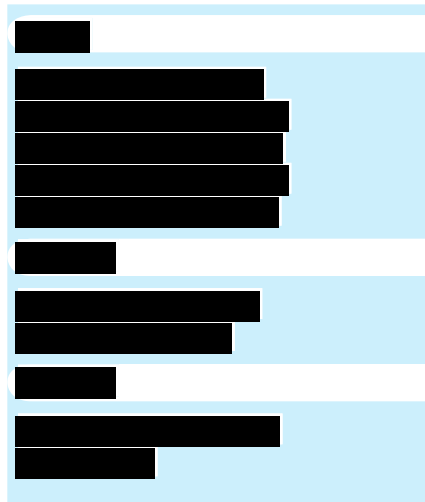
Judy also has conflicting goals. She wants to be on the girl’s basketball team, which practices each day after school. At the same time, she wants to keep her part-time job after school. Judy cannot reach both her goals. She must decide which is more important to her.

Life is full of conflicting goals and difficult choices. When your goals conflict, your priorities and values will help you choose wisely.

## Establishing Priorities

A **priority** is a goal or value that is given more importance than other goals and values. To *prioritize* is the process of ranking several items in their order of importance. It is helpful to identify what is important to you and rank each item from most to least important. This helps you direct your time, energy, and money to whatever you most want to achieve—your priorities.

Whenever you decide one thing is more important than another, you are making a priority judgment. If you think it is important to enjoy your work, you may choose a job you like over a higher-paying job that does not appeal to you. When you think about your own priorities, what would you put at the top of your list?



### Case Study: Making Decisions

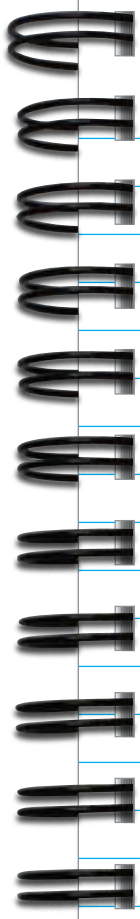
#### A Matter of Priorities

Maurice wants the male lead in the school play. The problem is that rehearsal is held for two hours every weekday afternoon for the next three months. If he gets the lead, he must quit his after-school job at a service station. If he quits now, the station manager probably wouldn't hire him for full-time summer work. Maurice desperately needs the income to help his family pay medical bills.

Since he is a senior, this is Maurice's last chance to be in a high school production. The best actors in the spring play are sometimes chosen for Summer Theater. This often leads to a career in drama, which Maurice has always wanted.

#### Case Review

1. What is the trade-off if Maurice decides to keep his job?
2. What is the opportunity cost if he decides in favor of the play?
3. What other alternatives might Maurice have?
4. How would you resolve Maurice's goal conflict if this were your decision?





Some values and goals are related to money and financial matters. These can have a major impact on the choices you make in the marketplace and in your personal life. The case studies about Reyna, Terrence, and Carlos present three different viewpoints about the importance of money. Reading them may help you understand how values, goals, and priorities affect behavior and financial choices.



## Quality Control Technicians

Quality control technicians ensure that manufactured products or services adhere to a defined set of standards. They follow plans or procedures to improve production or service.

## Standards of Quality and Excellence

A **standard** is an established measure of quantity, value, or quality. The word *standard* is used in many different ways. Electrical products must meet certain safety standards before they receive a seal of approval. People who want to work in professions such as law and medicine must meet certain skills and knowledge standards before they can enter those professions.

Individuals develop their own personal standard of living. This living standard is expressed by the “to be,” “to do,” and “to have” goals that each achieves.

You set standards for the way you want to live, what you want to do, and the goods and services you want to buy. These standards depend on your values and goals. They often vary from situation to situation. For instance, if a big, perfect picture is a top priority when you buy a television, you may only settle for the best. Your standards for a TV would be high. However, suppose you just want a small TV that fits the corner of a work space. Your standards would call for something smaller and less pricey.

What degree of quality do you seek as you work toward your goals? Do you strive for As and Bs in school, or are you satisfied with Cs? See 5-3.

Do you practice a piece of music until you can play it without any mistakes, or are you satisfied playing it reasonably well? The answers to these questions can reveal some of your standards. Having a clear understanding of your standards, priorities, and goals will help you make wise financial decisions.



### 5-3

If your goal is to graduate from college, then you may set high standards for the grades you achieve now.

## Identifying Resources

Resources are tools you can use to reach goals. As discussed in chapter 1, there are two types of resources—human and nonhuman. *Human resources* are those resources you have within yourself. They include energy, knowledge, experience, skills, talents, motivation, imagination, and determination. Other people and their skills are also human resources.

*Nonhuman resources* are external, such as money, time, and equipment. It is easy to overlook some of these. People often do not see their possessions as resources or as a means to achieving goals. Consider the resource value of a computer, camera, car, time, and other things available for your use.

Do not overlook public resources such as libraries, parks, recreational facilities, schools, and public transportation. Very often you can use public services to bring you closer to the goals you wish to achieve. For instance, can you think of ways to reach a specific goal by using a local library? the park district? public transportation?

Everyone has different amounts and types of resources. To be a good manager, you need to identify all the resources available to you. As you consider how to use your resources, keep the following tips in mind:

**Resources are scarce.** The amount of available time, energy, money, land, and other resources is limited. By planning, you can make the most of them.

**Resources are manageable.** You can manage resources to meet specific goals. For example, saving money or using credit lets you buy costly items you cannot purchase with a single paycheck. Planning your errands to follow direct routes and avoid backtracking saves time and fuel. Reading a book when you are on a bus or in a waiting room makes idle time productive.

**Resources are related to one another.** You can often combine several resources to reach a specific goal. For example, you might use both savings and credit to buy a big-ticket item, such as a car. In addition, one resource may be needed to produce or make use of another. You could use your talent and skills to get a job and earn money. Finally, you can use one resource to make up for the lack of another. For example, if you have plenty of time and little money, you can check several stores for the best values before buying.

Practicing good resource management will help you reach your goals. The following are some questions to consider:

- Which of your resources are plentiful and which are scarce?
- Can you combine several resources for more effective use of each?
- How can you use your human resources to make up for what you are missing?

## Making Financial Decisions

Every day you make countless decisions—big, small, important, and unimportant. Some are so routine that you hardly use any thought at all. Think about today. Before you left home, you decided when to get up, what to wear, what to eat, when to leave home, and how to get to school.

Every day people face big and little problems. They make promises and cannot keep them. They are supposed to be in two places at the same time. They run out of money before payday. Instead of thinking and planning, they relied on one of the following:

- **Acting out of habit.** Do you automatically get your favorite foods for lunch every day? Do you sit with the same group for lunch? Do you shop in a few favorite stores?
- **Acting on impulse.** Have you bought a pair of shoes on sale, even if they did not really fit? Did you ever go to a movie you did not care to see just because your friends were going?



- *Failing to act.* Have you settled for unemployment by not applying for summer jobs until they were all taken? Have you earned a poor grade by not studying for an exam? Have you been broke when you needed money because you failed to save?

You have probably used all these ways at one time or another. For some choices, these methods work just fine. However, the financial decisions in your life carry lasting consequences. Given their importance, these decisions call for systematic choices.

## Cost-Benefit Principle

Economics gives you tools to make wise choices. One of the most basic of these tools is the **cost-benefit principle**, or *cost-benefit analysis*. Cost-benefit analysis is a method of weighing the costs against the benefits of an action. It shows that you should take an action or make a purchase only if the benefits are at least as great as the costs.

For example, if you want to take a vacation in another state, you may need to decide whether to drive or fly to your destination. Suppose you determine that flying costs \$350 more than driving. However, it also saves you eight hours of driving time. You would ask yourself: Is the benefit of saving eight hours worth the cost of \$350? The choice depends on the value you place on time saved and on how much money you can comfortably spend. The choice will be different for different people.

This principle applies to economic decisions of individual consumers, businesses, and governments. Is the benefit worth the cost?

## Marginal Analysis

*Marginal analysis* is a powerful decision-making tool. It takes into account the added benefit, versus the added cost, of one more unit of a product. The change in total benefit of using one additional unit is the **marginal benefit**. The change in total cost of using one more unit is the **marginal cost**.

For example, suppose you are hungry and buy a slice of pizza. It tastes so good, you buy another and another. Will the second piece bring as much satisfaction as the first piece? Probably not, because you are less hungry. The third piece will be even less satisfying. Eventually you stop eating. You would probably be willing to pay more for that first piece than for the second, more for the second than for the third.

Eventually you stop eating because you get little or no benefit since your stomach is full. The marginal benefit of using each additional unit of something tends to decrease as the quantity used increases. This is called the *law of diminishing marginal utility*. The law applies to thrill rides, ice cream, movie tickets, and many other experiences and purchases.

## A Commonsense Rule

Even before applying laws of economics to help make financial decisions, one rule is obvious. People should not spend more than they can

# ECONOMICS in ACTION

## Marginal Analysis

Marginal analysis can help business owners use their resources in the best way possible. For example, suppose five workers in a toy factory produce 100 large, stuffed teddy bears per day. Each worker makes 20 teddy bears apiece. They sew the toy's arms, legs, torso, and head separately. Then they stuff the parts and sew them together. The sewing room has five heavy-duty machines.

The plant manager hires two more workers, but does not buy new machinery. She reasons that time used to stuff the pieces can be done away from the sewing machines. This should leave some machines free for the new workers to sew more teddy bears. The seven workers handle

the new work arrangement well and produce 20 teddy bears apiece or 140 daily.

This success inspires the manager to add one more worker, but she doesn't get the results she expects. The number of teddy bears produced daily is only 152, not the 160 she expected. Workers average only 19 teddy bears apiece. They must stand in line to use equipment, which slows them down. The manager realizes that increasing total production by only 12 teddy bears daily does not cover the cost of the eighth worker.

By using marginal analysis, businesses can determine the right number of workers needed to maximize their profits.

afford. In other words, the key to financial well-being is spending less than you earn. An expression for this behavior is *living within your means*. It is the only way to have financial peace of mind.

Financially mature individuals realize they cannot afford everything they want. Consequently, they establish priorities and plan carefully. They make sure their needs are covered before wants are satisfied. If there are family responsibilities, the needs of the family generally come before the wants of individual family members.

Financially responsible people know they are accountable for their financial future. They develop a clear understanding of their financial situation before making decisions that involve current or future money matters.

## Systematic Decision Making

When deciding important matters, a systematic or rational *decision-making process* can help you arrive at the best course of action. This **decision-making process** is a method of choosing a course of action after evaluating information and weighing the costs and benefits of alternative actions and their consequences. It involves five steps, 5-4.

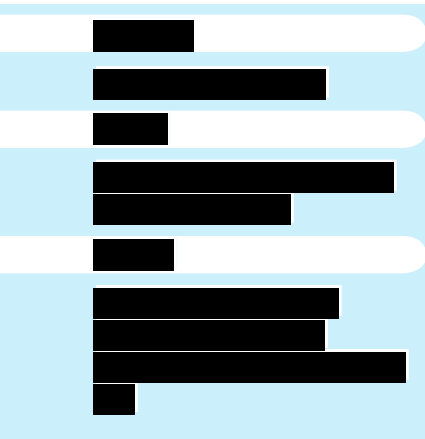
### Steps in the Decision-Making Process

Step	Keyword	Approach
1	Problem	Define the problem or challenge.
2	Alternative	Explore alternatives.
3	Choose	Choose the best alternatives.
4	Act	Act on the decision.
5	Evaluate	Evaluate the decision.

#### 5-4

The five steps of the decision-making process can help you solve problems effectively.



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1. **Define the problem to be solved or the issue to be decided.** You need a clear idea of the challenge before you can find the best solution. What is the problem? Perhaps you never have time to exercise. Identifying this problem can lead you to set an achievable goal, such as finding an hour each day for exercise.
  2. **Explore all alternatives.** Analyze possible solutions to your problem. If you need to find an hour to exercise, identify and cut back on time killers. Can you free up an hour by limiting your Internet surfing and TV watching? Can you rearrange your schedule to gain time? Is there an after-school activity you can drop, or can you combine some of your activities?
  3. **Choose the best alternative.** After considering all alternatives, decide on which best fits your situation. It may be one alternative or some combination.
  4. **Act on your decision.** You must carry out your plans. For example, if you decide to rearrange your schedule, write a plan for the new routine. Make every effort to follow it for a few days to see how it works. You may need to make some adjustments. If you decide to limit phone time, it may help to tell friends when you are taking calls and when you are not available. Find reminders and aids to help you stick to your new schedule.
  5. **Evaluate your solution or decision.** Evaluation is an ongoing process. As you carry out your plan, evaluate your progress toward your intended goal. Is the plan of action working? How can you improve it? The evaluation process can help you stay on track and make future decisions.

## Managing Resources to Reach Goals

Whether you run a big corporation, an average household, or your own personal affairs, you need management skills to get things done. Management skills put you in control. You make the decisions. You carry them out. You benefit from the right choices and occasionally suffer from the mistakes.

You have seen that decision making is an important part of management. However, management involves more than making decisions and solving problems. Management is a three-part process: planning, acting, and evaluating.

### The Planning Phase

A job well planned is a job half done. This familiar saying points out the importance of the planning phase of management. Whether you want to reach a career goal or decide what clothes to wear, some forethought or planning helps. Deciding what to wear to school may involve very little conscious planning. Choosing what to wear to a wedding or a job interview takes more thought. Building an appropriate wardrobe for your lifestyle can be a major planning challenge.

The planning phase of management involves identifying goals, obstacles, and resources.

- Start with your goals. What do you want to get or achieve?
- Next, consider the obstacles. What stands between you and your goals? What must you overcome?
- Then list your resources. What can you use to overcome the obstacles and reach your goals? Include personal resources, such as energy, creativity, determination, special skills, and talents.

Two management plans are shown in 5-5. Listed under each goal are the obstacles and resources related to it. Try putting together a similar plan for achieving something you want such as a summer job, a racing bike, or a part in a school play.

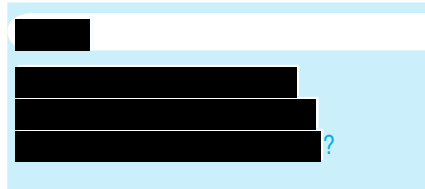
## The Action Phase

Planning is of little value without action. The action phase of management involves putting your resources to work to overcome the obstacles that stand between you and your goals. Success in this phase depends on two key characteristics—determination and flexibility.



### Customer Service Representatives

Customer service representatives interact with customers to provide information. They respond to inquiries about products and service, and handle and resolve complaints.



Achieving Goals by Overcoming Obstacles		
Goal	Obstacles	Available Resources
<i>To complete an English assignment on time</i>	time limitations lack of interest in the topic difficulty getting started tough grading by the English teacher	two free hours after school each day the public library reference room knowledge of the topic and where to go for information detailed instructions from the English teacher writing and computer skills a computer determination to finish on time and get a good grade
<i>To become president of the student body</i>	the popularity of the other candidates difficulty in contacting all the voters limited time before the election lack of organization among the supporters	knowledge of the job and its demands experience in student government organizational skills public speaking skills reputation for leadership energy and enthusiasm for planning and running the campaign knowledge of what the voters want broad support from both student body and faculty friends who are willing to help run the campaign use of school computers and graphics programs the desire to win

### 5-5

Listing your goals, obstacles, and resources give you perspective on what you can accomplish.

**Determination** helps you stay focused on the final goal and stick with the project to the end. Determination is especially necessary when something happens to change your plans. For instance, when working on a tough math assignment, you may feel like giving up. With determination, you keep working until the problem is solved.

**Flexibility** helps you adjust to new and unexpected situations. It helps you find ways to revise and improve your plans.

Imagine that you have two goals for the weekend: earn money for a camping trip and write a book report. You have a babysitting job on Saturday and plan to spend Sunday afternoon on the book report. When you are called to babysit for much longer than expected, you revise your plans. You write the report while babysitting when the children are asleep. This frees up time for something else on Sunday. Flexibility can work to your advantage in all kinds of situations.

## The Evaluation Phase

Evaluation is a continuous function. Through evaluation, you assess your progress as you go through all stages of the management process. Evaluation also improves your management skills for future projects. Ongoing evaluation can help you develop better ways of using resources to reach goals. Consider what worked and what did not in your planning. How can you do better next time? See 5-6 on the process of evaluation.

The Process of Evaluation		
Evaluating Plans	Evaluating Actions	Evaluating Results
What are the goals? What obstacles stand in the way? What resources are needed? Are the needed resources available? Are the goals realistic, given the obstacles and resources? Are the goals worth the effort and resources required to attain them?	Is the plan working? Is there steady progress toward the goals? Are resources being used to their best advantage? Are top priority goals getting top priority attention? Is there room for improvement in the original plans? What adjustments can be made? Have new or unexpected developments created the need to change the original plans? What changes are needed?	Were the goals achieved? Was achieving the goals worth the effort and resources used? Are results satisfactory? What key factors contributed to reaching or failing to reach the goals? What were the weaknesses in the plans and actions? What were the strengths? How can future plans be improved?

### 5-6

Evaluation is an important part of effective management.



Making smart decisions will help you successfully manage your finances.





## Chapter Summary

Knowing yourself may be the most important requirement when it comes to making intelligent choices. Competent consumers base decisions on personal needs and wants—on the values, ethics, and goals that are most important to them. Goals for spending and well-established priorities can guide you to choices that give lasting satisfaction.

Management involves using resources (what you have) to reach goals (what you want). It starts with identifying available resources. There are two types of resources—human and nonhuman. Resources are limited, manageable, and related to each other. The process of management also requires making decisions and solving problems.

Economic decision-making tools include cost-benefit analysis and marginal analysis. Perhaps a more important tool is commonsense. It reminds you to live within your means so you can enjoy financial well-being now and in the future.

When aiming at specific goals, a systematic decision-making process helps consumers make intelligent choices. It is a five-step process. Making the best use of resources in management is a three-step process. It calls for planning, acting, and evaluating.

### Review

1. Name and describe the three types of goals that differ by the amount of time it takes to reach them. Give an example of each.
2. How are standards related to values and goals?
3. How does the cost-benefit principle apply to decision making?
4. Give an example of why marginal benefit and marginal cost should be considered in decision making by consumers. Do the same for producers.
5. List the five steps of the decision-making process.
6. What three factors should be identified in the planning phase of management?
7. What two key characteristics determine success in the action phase of management?
8. What are the two purposes of evaluation in management?

### Critical Thinking

9. Why are values and goals different for different people? Why and how are values and goals likely to change throughout your life?
10. Why is it important to establish priorities to guide your consumer and life choices?

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11. Why do a person's standards vary from one situation to another?
12. What are your most important and valuable human and nonhuman resources?
13. Apply the decision-making process to an important decision or short-term goal you are facing. Describe the decision, list the alternatives, choose the best alternative, act on the choice, and evaluate the results. Discuss how this process could help you with key decisions and problems in your future.

### Academic Connections

14. **Social studies.** Discuss how the decision-making process might help in establishing local, state, and federal government policies.
15. **Writing.** Write a paper in which you list several of your goals. Then identify each as a "to be," "to do," or "to have" goal and explain your reasoning.
16. **Speech.** Role-play examples of decisions people make
  - A. just to please someone else
  - B. on the spur of the moment
  - C. by failing to act

### MATH CHALLENGE

17. College can be a huge expense. Many college students receive grants, scholarships, and loans that help reduce costs. However, for this exercise, assume that you and your parents will be paying the entire cost.

A number of Web sites offer online calculators that provide estimates of college costs. Use one of these sites to figure out how much you will need for college. (One example is the College Board's site at [www.collegeboard.com/student/pay/index.html](http://www.collegeboard.com/student/pay/index.html). Click on the financial calculator for college costs.) Determine how much you will need to save per month.

### Tech \$mart

18. When you picture yourself as an adult, what standard of living would you like? How much money will you have to earn to achieve this lifestyle? The Jump\$tart Coalition for Personal Financial Literacy developed an online questionnaire to help you answer this question. Go to [www.jumpstart.org/realitycheck](http://www.jumpstart.org/realitycheck). Answer a series of questions about your future lifestyle choices. Then let the online calculator tell you how much income you would need to achieve this standard of living.

The site also gives examples of occupations that earn the required amount of income. How much income would your standard of living require? What are a few of the occupations you might choose to earn this income?

