



Living Smarter

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An Introduction:
**BEING FINANCIALLY
RESPONSIBLE**

Living Smarter



FINANCIAL NEEDS VERSUS WANTS

To understand the difference between needs and wants

It really helps to understand the difference between needs and wants.

Needs

A need is defined as something you must have for survival.

Needs are the things that we truly can't be without such as: food, water and a place to live.

Wants

Wants are things that you would like to have, but they are not necessary and you could do without them.

If you don't have a want, you still would survive.

It may seem obvious, but it is amazing how frequently people mix up these two concepts. You probably understand that water is a need and an iced coffee is a want. Or, maybe iced coffee is a need while you stay up late studying, but a gourmet coffee, such as a Vanilla Caramel Latte from the local upscale café, is definitely a want.

Think About It.

Can you make your own iced coffee, instead of purchasing it? And if you do buy an iced coffee at the local café, do you have to upgrade to the Tiramisu Latte or the Iced Caramel Macchiato?

When creating a spending plan and trying to live within limited funds, it is helpful to really keep in mind what is a need and what is a want.

What is a need and what is a want?

The answer is very subjective, as everyone's financial and personal situations are different. One person may need a car to get to work, while another has access to public transportation. One person may need a cell phone with unlimited talk and text so they can be reachable at all times; while someone else can get by with a plan that has fewer minutes and a limited amount of texting per month, and costs much less.

TO DETERMINE YOUR OWN NEEDS AND WANTS, TAKE A LOOK AT YOUR LIFE AND YOUR GOALS.

If your goal is to save money, maybe it is time to let go of some of your wants and try getting by with your needs.

Shoes are a need. But do you really have to spend \$299 for a pair of shoes or would you be willing to buy and wear a generic brand of shoes in order to save money? You may be able to manage with less-expensive shoes that still look and feel good but are a fraction of the price of designer shoes.

What factors help you to decide if something is a need or a want?

What should an individual do if his needs exceed his income?

Do you think your views on spending differ from others your age? How and why?

So how can you spend your money responsibly?

SAVVY OR SMART SPENDING IS USING THE MONEY THAT YOU HAVE AND EVALUATING ALL OPTIONS BEFORE MAKING A PURCHASE.

Let's discuss the following scenario:

You have exactly \$30 and you can either purchase a new article of clothing or you can go out with your friends for lunch. Having a new piece of clothing can boost self confidence and make a person feel good. Going out with friends, laughing and talking over a grilled vegetable quesadilla and a cookies-and-cream milkshake is a memory maker. What would you do in this situation? Is it a difficult decision to make? What are the pluses and minuses of both situations?

Whenever we have to make a spending decision, choosing one option over the other, it is called an OPPORTUNITY COST.

Is it a difficult decision to make? What are the pros and cons of both situations? Most of us have limited funds so using the concept of opportunity cost simply means prioritizing our individual wants in order to guide us in making wise financial decisions. The opportunity cost decision segues into living with the consequences of the decision that was made. An opportunity cost is not just related to financial decisions but also to lifestyle choices. Big house or little home? Non-descript or brand name article of clothing? These decisions may affect where you live, who you associate with and who you are trying to impress.

Just something to think about.

CONSPICUOUS CONSUMPTION

Have you ever heard of the concept called conspicuous consumption?

This term has actually been around since the late 1800s, and has been credited to an American economist named Thorstein Veblen, who coined the phrase in his 1889 book, *The Theory of the Leisure Class*. According to Veblen, the main cause of conspicuous consumption is the desire for peer recognition and higher social status.

The dictionary definition of **conspicuous consumption** is the *“expenditure on or consumption of luxuries on a lavish scale in an attempt to enhance one’s prestige.”*

Practically speaking, what does this mean?

In simple terms, conspicuous consumption is a means to show an individual’s social status by displaying goods and services to others. A product is bought not for its usefulness, but to show others that the purchaser is wealthy. These products are social signals that they are sending to their peers, neighbors and coworkers.

Inherent in the idea of conspicuous consumption is the concept of “Veblen goods.”

Veblen goods are typically high-quality, very expensive products, with a strong brand identity, that are marketed as “exclusive.”

Veblen goods include designer jewelry, luxury cars and yachts and mega-mansion homes.

These goods are targeted to very wealthy individuals and convey an appearance message of extreme financial success. For example, Veblen goods include car brands such as Bentley Motors, Rolls Royce, Lamborghini, Ferrari, McLaren and Porsche.

Interestingly enough, Veblen goods actually run counter to the basic rules of supply and demand. If the price of a Veblen good increases, this actually enhances its demand. The opposite is also true. If the price of a Veblen good decreases, the demand for the product actually goes down.

We may not be able to relate to Veblen goods; however, we can probably relate to conspicuous consumption in our community. These may include “over the top” weddings with custom party favors for each guest, exorbitantly priced floral arrangements on each table, custom-made children’s gowns with hand-sewn beading or costly liquors that flow endlessly throughout the entire event.

Designer clothes, which are usually sold exclusively at upscale, posh boutiques, may be an example of conspicuous consumption. Conspicuous consumption purchases may include items such as: a Moncler Hermine Jacket, Rolex watch, Ferragamo loafers, Burberry shoes, Ray Ban sunglasses or gold cufflinks.

What Is Minimalism?

Let’s discuss one more topic, the concept of minimalism. Most individuals hear the word minimalism and think of the words bare or basic: An empty living room with a single couch or a bedroom with one bed and nothing else. But is this really what minimalism is? **Minimalism is all about living with less** – fewer clothes and shoes in your closet, less bric-a-brac in the house, less “stuff” in your life overall.

“Minimalism is all about living with less”

HOW DOES MINIMALISM TRANSLATE INTO FINANCES?

MINIMALISM INCLUDES SETTING UP A BUDGET SYSTEM THAT SIMPLIFIES FINANCES. THIS INCLUDES **CUTTING OUT WHAT YOU DON'T VALUE**, WHAT DOESN'T HAVE A PURPOSE IN YOUR LIFE, AND **PRIORITIZING YOUR FINANCIAL VALUES**.

MINIMALISM INCLUDES FEWER FINANCIAL BURDENS, SUCH AS DEBT AND UNNECESSARY EXPENSES.

It's possible to confuse monetary minimalism with being stingy or cheap. The concepts are very different, however.

A person who lives simply and economically can be called frugal. Frugal or thrifty behaviors have positive connotations.

An individual who is frugal or thrifty is very careful how they spend their money.

ON THE OTHER HAND, **A MISER OR A STINGY PERSON HAS MONEY BUT DOES NOT WANT TO PART WITH IT**. THIS CAN TRANSLATE INTO SUCH BEHAVIORS AS PURCHASING DENTED CANS OF VEGETABLES AT DISCOUNT GROCERY STORES, BUYING DAY-OLD BREAD AND BUYING EXPIRED FOOD PRODUCTS. THESE INDIVIDUALS ARE UNWILLING TO GIVE TO OTHERS OR TO SPEND ON THEMSELVES. BEING A MISER OR BEING STINGY NOT ONLY EMPHASIZES SAVING BUT SAVING TO EXCESS. MISERLY OR STINGY BEHAVIORS HAVE A NEGATIVE CONNOTATION.

As we wrap up this unit, remember that perceptions and actions regarding money change over time. After this lesson, consider whether your thought processes have changed as you have been thinking about needs and wants.

Scenario Two

Sara's mother's birthday is coming up in a week and so is her best friend's birthday. Sara has \$15 cash. Sara's six friends are going out to a local eatery to celebrate the friend's birthday. If Sara goes with her friends, she won't have any money left over to purchase a gift for her mother. If Sara buys her mother a birthday present, she will be unable to go out and have a good time with her friends. What should Sara do? What would you do? Any suggestions for Sara so that she can give her mother a present and go out with her friends?

Scenario Three

Donny is in a quandary. He borrowed \$50 from Ben to pay for a variety of expenses last week. Donny knows that he owes Ben the money, but...Donny's friends are going out to eat on Thursday night after a game of pick-up basketball. Should Donny pay back Ben right away or after studying well the entire week should he go out with his friends for dinner after a fun time playing basketball? Can he do both? What do you think is the right thing to do?

Exercise

\$1,000 WINDFALL

IF YOU WERE GIVEN \$1,000 IN CASH TODAY, RIGHT NOW, WHAT WOULD YOU SPEND YOUR NEW-FOUND MONEY ON? LIST SOME OF THE THINGS THAT YOU WOULD DO WITH THE MONEY. THEN CATEGORIZE THEM AS EITHER NEEDS OR WANTS. HAVE YOU SPENT YOUR MONEY RESPONSIBLY?

You Have \$1,000 to spend...

NEEDS

WANTS

Exercise

CONSPICUOUS CONSUMPTION AND VEBLER GOODS

Write down your thoughts about conspicuous consumption and Veblen goods. Is conspicuous consumption something to aspire to? Why do you think conspicuous consumption may have negative connotations? Can conspicuous consumption and the attainment of Veblen goods be both positive and negative? Use examples of conspicuous consumption and Veblen goods, which may include brand name clothes, luxurious cars, costly trips and opulent hotels.



Exercise

REFLECT AND REVIEW

1. What is a need? Give an example of a need.

2. What is a want? Give an example of something you want.

3. What is savvy spending?

4. What is opportunity cost?

5. In your own words, what is conspicuous consumption?

6. What is minimalism? Are you minimalistic in any area of your life? If so, which ones?

7. What is the difference between being frugal and being miserly?

8. If you had to give five pieces of advice regarding spending habits to a classmate or younger sibling, what would you say?
