Lesson One
Making Decisions
the decision-making process

The decision-making process

- Identify the problem

- Gather information and list possible alternatives

- Consider consequences of each alternative

- Select the best course of action

- Evaluate the results
factors that can influence a decision

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

B. Peers
- People you know
- Pressure for positive or negative behaviors

C. Habits
- You are accustomed to doing it this way

D. Feelings (love, anger, frustration, ambivalence, rejection)
- If you do make a certain decision
- If you don't make a certain decision

E. Family
- Your family's preference
- Decisions other family members have made

F. Risks and consequences
- What (or how much) you stand to win
- What (or how much) you stand to lose

G. Age
- Minor
- Adult
common decision-making strategies

**spontaneity**
Choosing the first option that comes to mind; giving little or no consideration to the consequences of the choice.

**compliance**
Going along with family, school, work, or peer expectations.

**procrastination**
Postponing thought and action until options are limited.

**agonizing**
Accumulating so much information that analyzing the options becomes overwhelming.

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

**desire**
Choosing the option that might achieve the best result, regardless of the risk involved.

**avoidance**
Choosing the option that is most likely to avoid the worst possible result.

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

**synthesis**
Choosing the option that has a good chance to succeed and that you like the best.
These economic factors may influence personal and financial decisions:

**consumer prices**
changes in the buying power of the dollar, inflation/deflation

**consumer spending**
demand for goods and services

**gross domestic product (GDP)**
total value of goods and services produced within the country

**housing starts**
the number of new homes being built

**interest rates**
the cost of borrowing money

**money supply**
funds available for spending in the economy

**stock market index**
(such as the Dow Jones averages, Standard & Poor’s 500)
indicate general trends in the value of U.S. stocks

**unemployment**
the number of people without employment who are willing to work
Risks are associated with every decision. The following are common risks related to personal and financial decision-making:

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

**inflation risk**
rising prices cause lower buying power. Buying an item later may mean a higher price.

**interest-rate risk**
changing interest rates affect your costs (when borrowing) and your benefits (when saving or investing).

**income risk**
changing careers or reduced spending by consumers can result in a lower income or loss of one's employment. Career changes or job loss can result in a lower income and reduced buying power.

**liquidity risk**
certain types of savings (certificates of deposit) and investments (real estate) may be difficult to convert to cash quickly.
opportunity cost refers to what a person gives up when a decision is made. This cost, also called a trade-off, may involve one or more of your resources (time, money, and effort).

personal opportunity costs may involve time, health, or energy. For example, time spent on studying usually means lost time for leisure or working. However, this trade-off may be appropriate since your learning and grades will likely improve.

financial opportunity costs involve monetary values of decisions made. For example, the purchase of an item with money from your savings means you will no longer obtain interest on those funds.

time value of money can be used to measure financial opportunity costs using interest calculations.

For example: spending $1,000 from a savings account paying 4 percent a year means an opportunity cost of $40 in lost interest.

Calculation: $1,000 x .04 (4 percent) x 1 year = $40
Over 10 years, that $40 a year (saved at 4 percent) would have a value of over $480 when taking into account compound interest.