Lesson One
Making Decisions
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

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>spontaneity</strong></td>
<td>Choosing the first option that comes to mind; giving little or no consideration to the consequences of the choice.</td>
</tr>
<tr>
<td><strong>compliance</strong></td>
<td>Going along with family, school, work, or peer expectations.</td>
</tr>
<tr>
<td><strong>procrastination</strong></td>
<td>Postponing thought and action until options are limited.</td>
</tr>
<tr>
<td><strong>agonizing</strong></td>
<td>Accumulating so much information that analyzing the options becomes overwhelming.</td>
</tr>
<tr>
<td><strong>intention</strong></td>
<td>Choosing an option that will be both intellectually and emotionally satisfying.</td>
</tr>
<tr>
<td><strong>desire</strong></td>
<td>Choosing the option that might achieve the best result, regardless of the risk involved.</td>
</tr>
<tr>
<td><strong>avoidance</strong></td>
<td>Choosing the option that is most likely to avoid the worst possible result.</td>
</tr>
<tr>
<td><strong>security</strong></td>
<td>Choosing the option that will bring some success, offend the fewest people, and pose the least risk.</td>
</tr>
<tr>
<td><strong>synthesis</strong></td>
<td>Choosing the option that has a good chance to succeed and which you like the best.</td>
</tr>
</tbody>
</table>
economic influences on decision-making

These economic factors may influence personal and financial decisions:

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

**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 be 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 jobs 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 costs and the time value of money**

**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 \times 0.04 \times 1 \text{ 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.