Decision Making
Basic Economic Principles

- People choose because of limited resources.
- People’s choices involve costs.
- People respond to incentives in predictable ways.
- People create economic systems that influence individual choices and incentives.
- People gain when they trade voluntarily
- People’s choices have consequences that lie in the future.
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
Factors that can Influence a 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.
Common Decision-Making Strategies

**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.
Common Decision-Making Strategies

**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 which you like the best.
Using a T-chart (a type of chart, a graphic organizer in which you list and examine two facets of a topic) to list pros and cons related to decisions can help make the decision making process simple.
Decision-Making Process

Directions: Choose a situation and document each step of the decision-making process.

1. Identify the problem.
2. Gather information and list possible alternatives. What information would be helpful to consider before making the decision?
Directions Continued: Choose a situation and document each step of the decision-making process.

3. Consider consequences of each alternative.

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<tr>
<th>Alternatives</th>
<th>Consequences</th>
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Decision-Making Process

Directions Continued: Choose a situation and document each step of the decision-making process.

4. Select the best course of action.

5. Evaluate the results. Why do you think this is the best decision possible?
SITUATION 1

Fred loves clothes. His favorite activity is to go shopping at the mall and try on new clothes. He looks forward to the day when he has a job so he can buy all the clothes he wants. Next week is Fred’s birthday and he will receive $75.00 for his present. He saw a pair of jeans at the mall that were $72.00; however, he also needs new shirts, new shorts, and some swim trunks for the summer. His $75.00 could purchase all of these things or it could purchase the one pair of designer jeans. All the kids at school wear these jeans. Fred states, “If only I had a pair of these jeans, I would be popular.” What should Fred do?
SITUATION 2

Katie loves clothes. She wishes she could have all the designer clothes she wants. Unfortunately, she can’t; she has two brothers and three sisters, and her parents cannot afford to buy all their children designer clothes. Katie has a few friends that have some designer jeans. Her friends let her borrow the jeans, even though this is against her parents’ wishes. Her parents felt that Katie should not borrow them in case something were to happen to them. In that case, they would need to purchase an outfit to replace the damaged one. One day on the way home from school, Katie tripped and fell on her knees. She tore holes in both knees of the designer jeans she had borrowed from her friend, Julie. Katie was crying, not only because she had injured her knees, but because the new jeans were ruined and they weren’t even hers. What is Katie going to do?
SITUATION 3

Steve is fourteen and has taken piano lessons since he was five. He feels that he misses out on many fun activities because he has to practice everyday after school. He wants to quit piano lessons, but his mother will not allow him to; she says, “If you quit the piano now you’ll be sorry when you get older.” Steve wants to quit anyway. What should Steve do?
Choosing Brand Name Jeans Over No-Name Jeans

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<tr>
<th>Pros</th>
<th>Cons</th>
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<td>Better Fit</td>
<td>Cost More</td>
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<td>Popular people will notice me.</td>
<td>I will look just like everyone else.</td>
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<td>Feel better about myself.</td>
<td>I can only afford one pair.</td>
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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
Economic Influences on Decision-Making

These economic factors may influence personal and financial decisions:

**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 Associated with Decision-Making

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).
Risks Associated with Decision-Making

Risks are associated with every decision. The following are common risks related to personal and financial decision making:

**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

**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

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% a year means an opportunity cost of $40 in lost interest.

Calculations: $1,000 \times 0.04 (4\%) \times 1 \text{ year} = $40

Over 10 years, that $40 a year (saved at 4\%) would have a value of $480 when taking into account compound interest.
Forms of Peer Pressure as it Relates to Purchasing Decisions

- Friends
- Newspapers
- Magazines
- Telephone Directories
- Direct Mail
- Commercials
- Catalogs
- Radio Advertisements
Emotional Factors Related to Peer Pressure

- Gossip
- Acceptance
- Disapproval
- Insecurities
- Boyfriend/Girlfriend
- Sarcasm
- Fear
- Clubs
- Athletics
- Cliques
- Rich/Poor
Marketing, Advertising & Sales Strategies

People who sell products and services are fishing for customers. They lure them in with sales, coupons, and other enticements. Unlike fish, consumers can benefit in this situation – if they know how to take advantage of special purchasing opportunities.
Examples of Marketing, Advertising & Sales Strategies

- Clearance Sales
- Holiday Sales
- Coupons
- Rebates
- Sweepstakes
- Contests
- Sales People

- Attractive Décor
- Background Music
- Items purchased most often are in back of store (bread/milk)
- Most profitable items are given prominent positions.
Learn to Like
(Used to compare emotions of Shania Twain song, Ka-Ching)
Learn to like what doesn't cost much.
Learn to like reading, conversation, and music.
Learn to like plain food, plain service and plain cooking.
Learn to like fields, trees, brooks, hiking, rowing, climbing hills.
Learn to like people, even thought some of them may be different, different from you.
Learn to like work and enjoy the satisfaction of doing your job as well as it can be done.
Learn to like the songs of birds, the companionship of a dog.
Learn to like gardening, puttering around the house, and fixing things.
Learn to like the sunrise and the sunset, the beating of the rain on the roof and windows, and the gentle fall of snow on a winter day.
Learn to keep your wants simple and refuse to be controlled by the likes and dislikes of others.

by Lowell Bennion