

Personal Finance

Professor Kate Antonovics
Office: Economics 327
Email: kantonov@ucsd.edu

Topics to be Covered

- Will be determined partly by your interests and knowledge.
- Possible topics
 - Credit Cards
 - Budgeting
 - Tips for saving more and spending less
 - Investment strategies
 - Obtaining adequate insurance
 - Financial aid
 - Taxes
 - Retirement
 - Home ownership
- I'll give you a more detailed outline next week.

3

Who should take this class?

- The material covered in this class is basic.
- This class is intended for people who are just getting started with bank accounts, credit cards, car insurance and investing.
- This class is designed to help you make responsible financial decisions.
- This class is not designed to help you get rich.
- Disclaimer: I'm not a financial planner and I'm not qualified to give you advice about complicated specific personal financial issues.

2

Basics of the Class

- Class web page:
www.econ.ucsd.edu/~kantonov/ec087w07/home.html
- Grades
 - Class participation: 50%
 - Homework assignments: 50%
- Weekly homework
 - Your big project for the quarter will be to develop a budget, track your spending for a month, and figure out what fraction of your total spending falls in different categories.
 - There will also be smaller assignments such as finding out basic information about credit cards, auto insurance and checking accounts.

4

Basic Lessons

- Being financially responsible usually involves dealing with tedious details.
- Reliable information is important.
 - Books
 - Parents
 - Friends
 - Internet
- No right or wrong answer to many questions.
- Bottom line: patience, information and self-awareness.

5

Budgeting

Financial Challenges Facing College Students

Budgeting

- Think about the kind of budget you want to make. If your parents pay all your bills, maybe you just want to track your expenditures. If you pay all your own bills, then maybe a traditional budget (in which you try to spend less than you earn) makes the most sense.
- Think about your approximate monthly income (if any), how much money you have in any checking or savings accounts (if any), how much money your parents have planned to give you (if any) and your approximate monthly expenses.
- Go to www.WSJ.com/BookTools

6

8

Credit Cards

Credit Card Use

1. **Get a credit card while you are in college & use it wisely.**
2. **Pay your bill on time:** Late payments can mean late fees, finance charges, default rates, and poor credit.
3. **Pay your bill in full every month:** If you do not pay your total new balance in full every month, then new purchases are added to your balance and begin accruing interest immediately.
4. **Be careful about how and when you use your credit cards.**
5. **Don't charge what you can't afford**—even if it looks really good on you.

11

The Pros and Cons of Credit Cards

- The majority (90%) of college upperclassmen recognizes and values good credit as an important financial goal.
- However, about a third of upperclassmen (32%) have missed or been late on a credit card payment.
- Small group discussion: What are the pros and cons of credit cards? Write down three pros and three cons.

10

Minimum payments

- Monthly minimum payments
 - The minimum amount you are required to pay on outstanding debt.
 - Usually the greater of a fixed dollar amount and a percentage of total balance.
- If you have a credit card balance of \$2,000 and the minimum amount due is greater of \$20 or 2% of your balance, what will be your minimum monthly payment?

12

Calculating Debt & Making Minimum Payments

- According to the charts on the second page of the handout, if you have a balance of \$2,000 and an interest rate of 16% how long will it take you to pay off your balance if you make the minimum monthly payment every month? How much will you pay in total?
- According to the charts on the second page of the handout, if you have a balance of \$2,000 and an interest rate of 16% how long will it take you to pay off your balance if you make the minimum monthly payment plus \$10 every month? How much will you pay in total?

13

Understanding Credit Card Terms



15

Understanding Credit Card Terms

- The majority of upperclassmen (72%) have not requested a copy of their credit report.
- Just over half of upperclassmen (52%) who feel knowledgeable enough to manage their finances after graduation believe that their spending habits will NOT impact their credit report in the future.

14

Name Your Terms

- | | |
|--------------------------------|--------------------------------------|
| □ Annual Fee | □ Finance Charges |
| □ Annual Percentage Rate (APR) | □ Grace Period |
| □ Balance Transfer | □ Introductory Rate |
| □ Billing Period | □ Late Payment |
| □ Billing Statement | □ Minimum Amount Due/Minimum Payment |
| □ Cash Advance | □ Over-the-Credit-Line Fee |
| □ Credit Line | |
| □ Default Rate | |

16

Sample Credit Card Disclosures

1. What is the Introductory Rate? What does it cover? How long does it last?
2. What is the APR after the Introductory Rate ends?
3. What Late Fee is charged if you don't pay on time?
4. What Overlimit Fee is charged if you exceed your credit limit?
5. What Default or Penalty Rate applies if you fail to make payments on time?

17

Homework

- Compare your credit card to a potentially better one from bankrate.com. If you do not have a credit card, compare two cards from bankrate.com. Write down the following information for both cards:
 - Name of card
 - APR for purchases—and is it fixed (F) or variable (V)
 - Minimum monthly payment
 - Late fee
 - Grace period
- Start tracking your spending (www.WSJ.com/BookTools)
- Consider ordering a copy of your credit report.
- Consider purchasing a book on personal finance.

19

Finding a Good Credit Card

- It's worthwhile to hunt around for a good credit card.
- There's lots of good information on credit cards at:

www.bankrate.com

18