

***Personal Finance 2nd edition Bajtelsmit Solutions
Manual***

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CHAPTER 1 Instructor Manual and Solutions

The Financial Planning Process

LEARNING OBJECTIVES

LO 1.1 Describe the personal financial planning process, and explain how the elements of a comprehensive financial plan fit together.

LO 1.2 Describe how individual characteristics and economic factors influence personal financial planning.

LO 1.3 Create a prioritized list of short-term and long-term personal financial goals.

LO 1.4 Know when and how to find qualified financial planning professionals.

LO 1.5 Consider opportunity costs and marginal effects in making personal finance decisions.

SUGGESTED COURSE PLAN

The first chapter can typically be covered easily in one week out of a typical 15-16 week semester. A suggested course plan for a class that meets twice per week:

Class Period	Topic and Reading Assignment (by Learning Objective)	Suggested WileyPLUS Pre-Class Assignments	WileyPLUS Resources to Use in Class	Personal Financial Planner Assignment	WileyPLUS Homework Assignment
1	Ch 1 The Financial Planning Process Read LO1.1 PFP Process, LO1.2 Factors Affecting PFP	Register in WileyPLUS	DP 1.1 Percentage Change Reflection Question 1: Effects of Inflation	Money Attitudes (PFP 1.1)	Interactive: Financial Literacy Quiz
2	Ch 1 Financial Decision-making Strategies Read LO1.3 Setting Goals LO1.4 Financial Professional LO 1.5 Decision-making	Discussion 1.2: Impact of Inflation	Interactive: Decision-making Style Reflection Question 2: Decision-making style	Goal Setting (PFP 1.3 and PFP 1.4)	Chapter 1 Homework: R:2-3,6; P:1-2,11 Adaptive Practice Ch 1

File-based assignments for each of the Personal Financial Planning Worksheets have been set up in WileyPLUS so that you can easily assign these.

CHAPTER OUTLINE AND SUMMARY

LO 1.1 Describe the personal financial planning process, and explain how the elements of a comprehensive financial plan fit together.

WHAT IS PERSONAL FINANCIAL PLANNING?

- I. WHY STUDY PERSONAL FINANCIAL PLANNING?
 - A. What Are the Benefits of Personal Financial Planning?
 - B. Why Do People Avoid Financial Planning?
 - C. What Problems Can Be Caused by Poor Financial Planning?
- II. THE PERSONAL FINANCIAL PLANNING PROCESS
 - A. Step 1: Organize Your Financial Information and Set Short-Term and Long-Term Goals
 - B. Step 2: Analyze Your Current Financial Status
 - C. Step 3: Identify and Evaluate Alternative Strategies for Achieving Your Goals
 - D. Step 4: Implement Your Financial Plan
 - E. Step 5: Monitor Your Progress and Revise Your Plan as Needed
- III. ELEMENTS OF A COMPREHENSIVE FINANCIAL PLAN

LO 1.2 Describe how individual characteristics and economic factors influence personal financial planning.

FACTORS THAT INFLUENCE FINANCIAL PLANNING

- I. INDIVIDUAL CHARACTERISTICS AND YOUR FINANCIAL PLAN
 - A. Life Cycle Factors
 - B. Demographic Characteristics
 - C. Values and Attitudes
- II. ECONOMIC FACTORS AND YOUR FINANCIAL PLAN
 - A. Inflation
 - B. Interest Rates
 - C. The Economy and the Job Market
 - D. Political Unrest and Global Issues

LO 1.3 Create a prioritized list of short-term and long-term personal financial goals.

SETTING SHORT-TERM AND LONG-TERM FINANCIAL GOALS

- I. WHY GOALS ARE IMPORTANT
- II. THE GOAL-SETTING PROCESS

LO 1.4 Know when and how to find qualified financial planning professionals.

SELECTING QUALIFIED FINANCIAL PLANNING PROFESSIONALS

- I. WHEN DO YOU NEED A FINANCIAL PLANNER?
- II. FACTORS TO CONSIDER IN CHOOSING A FINANCIAL PLANNER
- III. HOW ARE PLANNERS PAID?

LO 1.5 Consider opportunity costs and marginal effects in making personal finance decisions.

MAKING EFFECTIVE DECISIONS

- I. MAKE REASONABLE ASSUMPTIONS
- II. APPLY MARGINAL REASONING
- III. CONSIDER OPPORTUNITY COSTS
- IV. USE SENSITIVITY ANALYSIS
- V. DECISION-MAKING STYLES

TEACHING SUGGESTIONS

1. Ask students to take the Personal Financial Literacy quiz (Interactive Figure 1.1) before the first class or during the first week. Although you will not see their scores or count their actual grades on the quiz, it can be a helpful baseline for students and can also help to preview topics that will be covered in the course. Have a discussion in class about what components of the course they think will be most helpful to them. You may want them to retake that same quiz at the end of the course to compare results.
2. Most personal finance instructors ask students to develop a personal financial plan during the semester. The first class is an appropriate time to explain this assignment and to direct the students to the related resources included in WileyPlus Learning Space.
3. Ask students to complete Excel Worksheet 1.1 Money Attitudes Questionnaire and, if possible, to have family members or roommates complete it as well. Follow-up class discussion can center on how differences in attitudes can make joint financial decisions more difficult.
4. Many students take a personal finance class because they have a financial problem they would like to work on, such as overspending or credit card debt. Ask each student to list three short-term personal finance goals that they would like to achieve in the coming year and three long-term goals they would like to achieve in the next five years. Break the class into small groups and have them compare their lists. As a class, compile a list of the most common short-term goals coming out of the small groups. Discuss which is/are more important and why.
5. Illustrate the impact of inflation by comparing the cost of tuition at your university for the current year to that in previous years. If you do not have this information, you can use the average tuition costs available at trends.collegeboard.org. This example is a good way to illustrate the concept of percentage change and annualized percentage change.
6. Use Interactive Figure 1.4 Socioeconomic Differences in Risk Aversion in class, asking students to vote by show of hands on each of the questions. Use this to open up a discussion about why people have different attitudes and risk aversion and how that might affect their personal finances in the future.
7. Ask students to complete Interactive Figure 1.6 Decision-Making Styles. This could be the springboard for a discussion related to good and bad personal finance habits and the influence that personality traits can have on financial outcomes.

CONCEPT REVIEW QUESTIONS

1. **Allen has just graduated from college and is considering the purchase of a new or used car. Describe how Allen can use the personal financial planning process in making this purchase.**

Answer: When making a decision about buying a new or used car, Allen should know his future financial goals and how he will fund them based on his current financial position. If his car payments are too high or he is laid off unexpectedly, he will not be able to meet his basic needs nor achieve his longer-term goals. He needs to make only those financial choices that are consistent with his financial plan and will not place undue stress or burden on him.

Sec 1.1; LO 1.1; BT: C; Difficulty: E; TOT: 2 min; AACSB: Reflective Thinking

2. **For each component of a comprehensive financial plan, identify a decision that must be made.**

Answer: Establish a firm foundation: What financial goals are most appropriate for you given your personal needs and preferences? Securing basic needs: Should you borrow or pay from savings for acquiring certain assets, such as a car, television, furniture? Wealth building and protection: How should you diversify your investments to minimize the risk of losing your entire investment nest egg?

Sec 1.1; LO 1.1; BT: C; Difficulty: E; TOT: 3 min; AACSB:

3. **Why is it important to establish a firm foundation and secure your basic needs before beginning to invest?**

Answer: Before you can begin investing, you need to establish the necessary foundations by learning about the personal financial planning process, evaluating your current financial situation, and securing your basic needs such as transportations, housing, an emergency fund and insurance. Once your basic needs are taken care of, you can determine what you have available to apply to long-term goals.

Sec 1.1; LO 1.1; BT: C; Difficulty: E; TOT: 2 min; AACSB: Reflective Thinking

4. **Under what circumstances might the Federal Reserve take action to increase short-term interest rates?**

Answer: The Federal Reserve is likely to raise interest rates if the economy is growing at a fast pace, employment is at a high level, and there is an increased risk that inflation will increase. The increased rates will slow business and household spending, which will, in turn, slow economic growth and price inflation.

Sec 1.2; LO 1.2; BT: C; Difficulty: M; TOT: 2 min; AACSB:

5. **What are the steps in the goal-setting process?**

Answer:

- (1) Make a wish list
- (2) Prioritize your list
- (3) Break large goals into subgoals
- (4) Reevaluate regularly

Sec 1.3; LO 1.3; BT: K; Difficulty: E; TOT: 2 min; AACSB:

6. **What factors should you consider in selecting a financial planning professional?**

Answer: A financial planner should be selected based on their knowledge, education, professional certifications, experience, client base, fee structure, reputation, and ethical approach to financial planning.

Sec 1.4; LO 1.4; BT: C; Difficulty: M; TOT: 2 min; AACSB:

7. What are the advantages of using a fee-only planner compared with a commission-based planner?

Answer: A fee-only planner is more likely to make recommendations that are in the best interest of their clients and not based on the commission they would receive from the sale of a product.

Sec 1.4; LO 1.4; BT: C; Difficulty: M; TOT: 2 min; AACSB:

8. Kenny and Ellen were married during their senior year in college. They planned and saved \$3,000 for a honeymoon trip to Europe after graduation. They both have offers for jobs that begin in July. Two months before graduation, they discover that Ellen is pregnant. How might this change in life circumstances affect their current financial plan? If you were in their situation, would you change your honeymoon plans? Why or why not?

Answer: Unexpected events require adjusting both short-term and long-term goals, especially when an event such as childbirth is around the corner. Kenny and Ellen will have to plan for prenatal medical expenses and child necessities when the child is born. These can be expensive. Furthermore, one of the parents may have to stay home to take care of the child. This will affect their family income and ability to spend and save. All of these things will force Kenny and Ellen to think about how their lifestyle will change and how they should spend \$3,000 that they have saved. They need to plan how they will modify and adjust their lives and goals to meet the new responsibility. Given that Kenny and Ellen will have new and unplanned expenses and their financial priorities will change, altering their honeymoon plans is a good idea. The couple will need the money, as Ellen may not be able to start her new job due to her pregnancy. The couple might consider a cheaper alternative honeymoon trip closer to home.

Sec 1.2; LO 1.2; BT: C; Difficulty: M; TOT: 3 min; AACSB: Reflective Thinking

9. Identify three areas of your personal financial plan that you expect will change when you graduate from college. For each area, give a specific example.

Answer: After graduation, your goals will change, and you will place more emphasis on reaching life's milestones in terms of acquiring assets and funding future needs. As an example, retirement planning will become necessary. As a result of new employment, your financial condition will also change, offering new opportunities to spend and acquire things that have been out of reach so far. This will require that you prioritize your spending—deciding, for instance, how much to spend on taking vacations, buying a car, and paying down student loans. Last, you will need to determine how to implement financial strategies to attain your financial goals. For example, one of your major decisions will require choosing between buying a home versus renting one.

Sec 1.2; LO 1.2; BT: C; Difficulty: M; TOT: 3 min; AACSB: Reflective Thinking

10. How does your attitude toward risk affect your financial decisions?

Answer: Attitude toward risk depends on age, wealth, income, experience, and natural tendencies. A person with a low tolerance for risk will seek safer investments and attain returns consistent with that risk. Someone with higher tolerance for risk may make riskier investments, such as in stocks, in the hope of earning higher returns. However, while stocks can provide higher returns in the long run, there is no guarantee that they will do so in the short-run. Thus, investors with low tolerance for risk will have to spend less and save more if they want to achieve a higher standard of living in the future.

11. Give two examples of how general economic conditions can have a beneficial or adverse impact on your personal finances.

Answer: When the economy is booming, it creates jobs, and employment rises. Furthermore, people's incomes rise, and they can spend as well as save more. When the economy goes through a downturn, layoffs increase, and some people lose their jobs. This requires them to dip into savings to meet expenses and to find new work, which may pay less. They will need to reassess their financial goals and spending habits to conform to their new circumstances.

Sec 1.2; LO 1.2; BT: Ap; Difficulty: E; TOT: 3 min; AACSB:

12. For a college student who is single, what are two areas of financial planning that will be particularly important?

Answer: Young singles should first focus on establishing a firm foundation and securing basic needs. They need to develop short-term and long-term financial goals, create a budget, and make well-thought-out cash and credit decisions, which may include student loan obligations.

Sec 1.2; LO 1.2; BT: Ap; Difficulty: E; TOT: 3 min; AACSB: Reflective Thinking

13. For a young married couple with two children under the age of 5, what are two areas of financial planning that will be particularly important?

Answer: Young families need to establish a firm foundation, secure basic needs, and establish a plan to build a protect wealth. It is of particular importance that they have a plan in place to take care of the family's needs in the event of death or disability. It is also a good time to begin a savings plan for their children's college education and their own retirement.

Sec 1.2; LO 1.2; BT: Ap; Difficulty: E; TOT: 3 min; AACSB: Reflective Thinking

14. For a double-income couple with children in college, what are two areas of financial planning that will be particularly important?

Answer: This is the stage where they should be taking steps to build and protect wealth. Now that they are almost done with funding college education expenses, they will need to focus on their own retirement plans and estate planning.

Sec 1.2; LO 1.2; BT: Ap; Difficulty: E; TOT: 3 min; AACSB: Reflective Thinking

15. For a recently retired couple, what are two areas of financial planning that will be particularly important?

Answer: During retirement, estate planning and cash management are the most important components of planning. The couple wants to ensure that their wealth will last throughout their retirement, and they need to be prepared for future medical and long-term care costs.

Sec 1.2; LO 1.2; BT: Ap; Difficulty: E; TOT: 3 min; AACSB: Reflective Thinking

APPLICATION PROBLEM SOLUTIONS

1. Your school just announced a tuition increase of 20 percent for next year. The annual tuition will increase from \$8,000 to \$9,600. If you expect that your other college-related expenses will increase with inflation from \$10,000 to \$10,400, what is the expected percentage increase in your total college costs for next year?

- A. 11%
- B. 20%
- C. 4%
- D. 16%

Answer: 11.11%

Solution: Your total costs last year were \$18,000. Next year, your costs will be \$9,600 + \$10,400 = \$20,000. Use Equation 1.1 to calculate the percentage change.

$$\text{Percentage Change} = \frac{\text{New Value}}{\text{Old Value}} - 1$$

$$\text{Percentage Change} = \frac{(\$9,600 + \$10,400)}{\$18,000} - 1 = 0.1111 \text{ or } 11.11\%$$

Sec 1.2; LO 1.2; BT: Ap; Difficulty: M; TOT: 2 min; AACSB: Analytic

2. If your expenses total \$20,000 in Year 1 and you expect the inflation rate to be 3 percent, how much more will you have to spend to buy the same goods and services in Year 2, assuming that all your expenses increase at the same rate as inflation?

- A. \$600
- B. \$300
- C. \$1,200
- D. \$0

Answer: \$600.00

Solution: Additional Expense = Inflation Rate * Current Expenses. The additional cost will be 3% x \$20,000 = \$600, bringing the total cost for Year 2 to \$20,600.

Sec 1.2; LO 1.2; BT: Ap; Difficulty: M; TOT: 2 min; AACSB: Analytic

3. If the Consumer Price Index rose from 250 to 255 in one year, what was the approximate annual inflation rate?

- A. 2%
- B. 3%
- C. 4%
- D. 5%

Answer: 2%

Solution: Use Equation 1.1 to calculate the percentage change.

$$\text{Percentage Change} = \frac{\text{New Value}}{\text{Old Value}} - 1$$

To find the inflation rate divide the more recent CPI by the previous CPI, subtract 1 and convert the answer into a percentage.

$$\text{Percentage Change} = \frac{255}{250} - 1 = 1.02 - 1 = .02 \text{ or } 2\%$$

Sec 1.2; LO 1.2; BT: Ap; Difficulty: M; TOT: 2 min; AACSB: Analytic

- 4. Your starting salary in Year 1 is \$30,000. If you receive a raise of \$5,000 for Year 2, what is the percentage change in your salary?**

Answer: 16.7%

Solution: Use Equation 1.1 to calculate the percentage change in your salary.

$$\text{Percentage Change} = \frac{\text{New Value}}{\text{Old Value}} - 1$$

$$\text{Percentage Change} = \frac{35,000}{30,000} - 1 = 0.167 \text{ or } 16.7\%$$

Sec 1.2; LO 1.2; BT: Ap; Difficulty: M; TOT: 2 min; AACSB: Analytic

- 5. Use the inflation calculator in Excel Worksheet 1.2 to find out what a \$20,000 annual salary in 1983 would have been worth in 2019 dollars.**

Answer: A \$20,000 salary in 1983 would be the equivalent of \$51,182 in 2019.

Sec 1.2; LO 1.2; BT: Ap; Difficulty: E; TOT: 2 min; AACSB: Analytic

- 6. Use the inflation calculator in Excel Worksheet 1.2 to find out what a movie ticket that cost 25 cents in 1970 would have cost in 2019 dollars. Have movie ticket prices increased at a faster or slower rate than other prices?**

Answer: A ticket that cost \$0.25 in 1970 would cost \$1.66 in 2019 dollars. Movie tickets in 2019 averaged several times that cost, so they have increased in price at a faster rate than other goods and services.

Sec 1.2; LO 1.2; BT: Ap; Difficulty: E; TOT: 2 min; AACSB: Analytic

- 7. The original Volkswagen Beetle sold for \$2,000 in 1970. Assuming that a new Beetle cost \$20,000 in 2012, did the price increase more or less than inflation? Use the inflation calculator in Excel Worksheet 1.2 to see what the inflation-adjusted price would have been in 2012.**

Answer: The price increased more than inflation, because \$2,000 in 1970 would be the equivalent of \$11,982 in 2012.

Sec 1.2; LO 1.2; BT: Ap; Difficulty: M; TOT: 2 min; AACSB: Analytic

- 8. Janelle has asked her friend Danny to drive her to the airport, which is a 60-mile, two-hour round trip, so that she can save the \$20 cost of the shuttle bus. Danny will have to miss his personal finance class in order to take her there. If Janelle is willing to pay Danny for this service, should Danny charge her more or less than the cost of the shuttle bus, taking into account his opportunity cost in addition to the price of gas?**

Answer: Danny should account for the opportunity cost of missing class. While missing class is difficult to quantify, Danny should account for his time and the cost of attendance. Hence, he will need to charge Janelle more than the shuttle bus ticket (\$20) that she is hoping to avoid buying.

Sec 1.5; LO 1.5; BT: Ap; Difficulty: M; TOT: 3 min; AACSB: Analytic

- 9. Jamal would like to buy a car one year from now. He anticipates making a down payment of \$1,200 and borrowing the remaining \$10,000. Show how he can break this larger goal into several specific, smaller sub-goals. Be sure to include an estimate of his required monthly allocation of funds to this goal.**

Answer: Jamal needs to save up for the down payment. If he saves \$100 per month, he will have the \$1,200 by the time he buys the car. He needs to research loan choices and decide on a lender. He also needs to research his choices of the vehicle to buy. If he decides to finance the car, he will need to include the future monthly payments in his budget.

Sec 1.3; LO 1.3; BT: Ap; Difficulty: M; TOT: 3 min; AACSB: Analytic

- 10. You have a friend who just graduated from college with a liberal arts major. He has a new job as a financial planner at a local brokerage firm. You are thinking of hiring a professional to help with your financial planning needs. Would your friend be a good choice? Why or why not?**

Answer: Your friend may or may not be a good choice to select for your financial planner. It is important to consider his education, certifications, experience, reputation, and fees. If your friend just graduated, it's likely that he doesn't have much experience yet.

Sec 1.4; LO 1.4; BT: Ap; Difficulty: M; TOT: 3 min; AACSB: Reflective Thinking

- 11. Your employer has just given you a 4 percent annual raise. You learn the following two pieces of information: (1) the average raise in the United States for your profession was 3 percent this year, and (2) prices of goods and services, as measured by the national inflation rate, increased 5 percent since last year. Explain how your raise relates to these two pieces of information.**

Answer: There are two ways to view your raise against the national averages. Compared with your profession, you received a higher raise than the national average. But because inflation averaged 5 percent, this means that in real terms you have taken a 1 percent pay cut, because your money won't buy as much even with the raise as it would have the year before.

Sec 1.2; LO 1.2; BT: Ap; Difficulty: M; TOT: 3 min; AACSB: Reflective Thinking

- 12. Your friend tells you that her only financial goal is to become a millionaire. In what ways does this goal violate the requirements for SMART Goals (Specific, Measurable, Attainable, Realistic, and Time-specific)?**

Answer: This goal is specific and measurable, but may not be attainable, realistic, or time-specific. If she wants to attain this goal, she needs to develop a plan with a set of sub-goals that can lead her to achieve her bigger goal. For example, if she determines that she needs to invest a certain amount each year between now and a certain future date, and she has a plan for being able to do that, her goal might be both realistic and attainable.

Sec 1.3; LO 1.3; BT: Ap; Difficulty: M; TOT: 2 min; AACSB: Reflective Thinking

- 13. Fernando owes \$10,000 on a credit card that charges 18 percent interest. Use Table 1.4 to determine the monthly payment Fernando will have to make in order to pay back the debt within 4 years. If Fernando doubled the payment, would he be able to pay off his debt in 2 years? Why or Why not?**

Solution: Table 1.4 shows that Fernando would need to pay \$294 per month for 48 months in order to pay off \$10,000 worth of debt at 18 percent interest. To pay off this balance in two years, his payment would need to be \$499, so he would be able to pay it off in less than two years with a monthly payment of \$588.

Sec 1.3; LO 1.3; BT: Ap; Difficulty: E; TOT: 2 min; AACSB:

CASE APPLICATION SOLUTIONS

1. Miranda is a single mother of two, struggling to make ends meet. Her salary of \$40,000, after taxes and child-care expenses, doesn't go very far. Miranda is a careful budgeter, and she has been setting aside \$40 per month for Christmas presents for her kids. By October, she is proud to have \$400 in her savings account. And then disaster strikes. Her car breaks down, and the mechanic tells her the cost of fixing it will be \$350. What are Miranda's options? What are some ways that Miranda might lessen the impact of financial emergencies in the future?

Answer: Miranda will probably have to use her holiday savings account to cover the cost of fixing the car. She will need to cut back on her holiday spending plans, or put some of the expenses on a credit card. If she uses credit, she will have to budget for repayment of the credit over the next several months. Miranda needs an emergency fund of at least three to five months take-home pay. To build a fund, she will need to reexamine her budget to cut expenses and allow more savings.

Sec 1.1; LO 1.1; BT: Ap; Difficulty: E; TOT: 3 min; AACSB:

2. Sanjay is currently employed as an engineer at a major technology firm and earns \$50,000 a year. He thinks that an MBA will increase his chances of being promoted to a management position. He is trying to decide whether to enroll in a part-time evening MBA program that will take two years or in a one-year full-time MBA program.

A. Identify the factors that Sanjay should consider in making this decision.

Answer: The part-time program will take longer to complete, but Sanjay will continue to receive salary, because he can continue working throughout the program. The full-time program will take less time to complete, and he may get a promotion earlier. However, the job market for MBAs could change, and Sanjay also has to consider the loss of his salary for one year.

Sec 1.5; LO 1.5; BT: C; Difficulty: M; TOT: 2 min; AACSB:

B. What are the opportunity costs that Sanjay needs to consider?

Answer: Sanjay needs to consider the following opportunity costs: costs of tuition, fees, and books for the program he chooses; the delay in possible promotion if he selects the two-year program; and the foregone salary while he is in school. He also needs to consider the time and effort that will be required to complete the MBA part-time while continuing to work full time. This may take away from his personal and family time.

Sec 1.5; LO 1.5; BT: C; Difficulty: M; TOT: 2 min; AACSB:

C. Does Sanjay need any additional information to make an effective decision? If so, what information?

Answer: To make a more effective decision, Sanjay needs to have reliable information on salaries and career opportunities for people in his field who have MBAs compared with those who do not. He also needs to investigate expected economic conditions over the next two years. If economic conditions deteriorate at the end of one year, he may not be able to find a job quickly, and his opportunity cost will increase. This assumes that tuition, books, and fees are the same under both alternatives.

Sec 1.5; LO 1.5; BT: C; Difficulty: M; TOT: 2 min; AACSB: Reflective Thinking

D. How can marginal reasoning be applied to this analysis?

Answer: Marginal reasoning considers only the change associated with a decision as opposed to the entire cost of the decision. Since Sanjay has decided to get an MBA, the only relevant components are the differences between doing it full time or doing it part time. By saving one year out of a two-year program, Sanjay will be able to earn a higher salary quicker. One year's salary differential will partially offset the loss of two years' salary, which is an opportunity cost.

Sec 1.5; LO 1.5; BT: C; Difficulty: M; TOT: 2 min; AACSB: Reflective Thinking

- 3. Lucy and Desi are expecting their first child. Although they had previously developed a prioritized list of personal financial goals, they expect that their new family circumstances will necessitate some changes.**

A. Identify three goals that they are likely to add to their original list.

Answer: The goals they would likely add to their original list are: reevaluate the current financial plan in light of their growing family, start saving for the necessary costs of raising a child, and set up an education fund for the baby.

Sec 1.2; LO 1.2; BT: Ap; Difficulty: E; TOT: 2 min; AACSB:

B. How might their priorities change after the birth of their child?

Answer: They will need to reallocate their budget to be able to pay the additional child-related costs, which could include childcare, additional health insurance and out-of-pocket medical costs, clothing, and funding of future educational expenses.

Sec 1.1; LO 1.1; BT: Ap; Difficulty: E; TOT: 2 min; AACSB: