

Economics & Personal Finance: You Really Shouldn't Do One Without the Other

Virginia Financial Literacy Summit
October 17, 2007
Richmond, VA

The Case for Integrating Economics & Personal Finance

- One provides necessary skills
- One provides explanation and justification
- Both provide knowledge needed to make personal decisions

Jumpstart areas of focus

- Income
- Money Management
- Saving and Investment
- Spending and Credit

Income

- Gain from Trade
- Specialization and Trade
- Markets-Price/Quantity Determination
- Role of Money
- Role of Resources in Determining Income
- Role of Incentives
- Role of Economic Institutions
- Macroeconomy

Money Management

- Scarcity
- Marginal Cost/Benefit
- Allocation of Goods & Services
- Role of Money
- Role of Government
- Role of Incentives
- Macroeconomy

Saving and Investment

- Role of Economic Institutions
- Role of Incentives
- Marginal Cost/Benefit
- Role of Money
- Role of Interest Rates
- Role of Government
- Macroeconomy

Spending and Credit

- Role of Institutions
- Role of Incentives
- Marginal Cost/Benefit
- Markets-Price and Quantity Determination
- Role of Money
- Role of Interest Rates
- Role of Government
- Macroeconomy

Using a Real Life Example

- Sub-prime
 - And I don't mean a really good sandwich



The sub-prime issue

- Why discuss in a personal finance course?
 - The sub-prime situation impacted on all benchmarks
 - Income
 - Money Management
 - Saving & Investing
 - Spending & Credit
 - Economic concepts common across themes
 - Role of Money
 - Macroeconomy
 - Role of Incentives
 - Without proper education "This Could Happen to You!"

The sub-prime issue



- Why include economics?
- What does economic literacy bring to the discussion?

Sub-prime and Income

- Sub-prime was an issue because
 - Budget (Real income)
 - What can you afford with your income?
 - How is credit used with income?
 - Planning for the future (Macroeconomy)
 - What does the future hold?
 - Should I or shouldn't I (Role of Incentives)
 - Price is a signaling mechanism

Sub-prime and Money Management

- Sub-prime was an issue because
 - Housing in the budget (Real income)
 - Rent vs. own (Incentives)
 - Planning for the future (Macroeconomy)
 - Is or isn't housing an investment?
 - The "business cycle" and the future

Sub-prime and Saving/Investing

- Sub-prime was an issue because
 - Housing as an investment (Role of incentives)
 - Building equity (Real income)
 - Down payment (avoided?)
 - Risk/reward and owning assets (transferring risk?)

Sub-prime and Spending/Credit

- Sub-prime was an issue because
 - Homes bought on credit (Real income)
 - Understanding
 - Abusing
 - Understanding financial markets (Macroeconomy)
 - Risk/reward (Role of incentives)

Lack of time

- The reverse is valid
- Discussing economics needs to be brought into real terms to be relevant to many, if not most, students
 - The sub-prime issue can be used to illustrate all the economic concepts mentioned above
 - Placed into the context of
 - Income, money management, saving/investing, spending/credit
 - Helps the student remember the concept
 - Makes it relevant to student learning (This is how it affects people like me.)
 - Shows them how to apply the theories/concepts they've learned

Resources

- The Powell Center for Economic Literacy
 - www.powellcenter.org
- MV=PQ (Economic education blog)
 - www.valuingeconomics.blogspot.org