

Personal Financial Literacy

Chapter 2

Key Terms and Vocabulary

Asset

Budgeting

Credit management

Equity

Finance

Income

Interest

Liability

Liquidity

Money management

Net worth

Payment terms

Personal financial plan

Real estate

Risk

What Do You Know?

myFinLitlab



- (a) What are the components of a financial plan?
- (a) Define budget planning.
(b) What elements must be assessed in budget planning?
- (a) How is your net worth calculated?
(b) Why is knowing your net worth important?
- (a) What factors influence income?
(b) Why is an accurate estimate of expenses important in budget planning?
(c) How do tax laws affect the budgeting process?
- (a) What is liquidity?
(b) What two factors are considered in managing liquidity?
(c) How are they used?
- (a) What factors determine how much you can borrow?
(b) Can you rely on a lender to lend you the appropriate amount of money? Explain.
- (a) What is the purpose of insurance?
(b) Explain how owning a car or house exposes you to financial risk.
- (a) What is the primary objective of investing?
(b) Why would you not invest all the money you have available?
- (a) How do your financial goals fit into your financial plan?
(b) Why should goals be realistic?
- (a) Why is it important to communicate your financial plans?