GE1202 Managing Your Personal Finance

Week 2 Tutorial
Introduction to Personal Finance Management

Question 1 True/False

Explain whether the statements are true or false.

a. Personal financial planning is a process that should be carried out on a regular five–yearly basis.

- The whole financial planning process should be revisited on regular basis.
- Or when personal or economic circumstances change

False

Question 1 True/False

b. It is far more important for older people to engage with personal financial planning, than younger people.

- Personal financial planning is important to people who have financial goals but limited financial resources.
- Both young people and older people face the same situation.
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False

Question 1 True/False

c. If inflation is measured at 3% per annum and a savings account is paying interest at 3% per annum, the purchasing power of the savings made will remain unchanged.

% △ Real value = % △ Nominal value − Inflation%

0% 3% 3%

True

Question 1 True/False

d. Career planning is not a part of financial planning. False

- Eight major personal financial planning areas
  - Obtaining — the receipt of income and other financial resources
  - Planning — actions to determine future financial directions
  - Saving — set aside funds for expected and unexpected expenses
  - Borrowing — appropriate use of short-and-long-term credit plans
  - Spending — analysis of purchasing decisions for wise money use
  - Managing Risk — insurance and other methods to reduce financial uncertainty
  - Investing — accumulation of funds for long-term financial security
  - Retirement and Estate Planning — efforts to provide for post-career years and transfer of assets

Question 1 True/False

e. Once you have set your financial goals, you should try to achieve them by all means.

False

- Financial goals should take a **SMART** approach
- If the goal is unrealistic, it is very unlikely for you to achieve it
- Six–step financial planning process

Question 2 Calculation

Your friend is now working in an insurance company. He is prompting an investment project of his company to you:

"Our company is now offering a plan, which is a very good project. You just need to pay $3000 at the end of each month from January 2017 for ten years. Then you can get back HK$1million on 31st December 2046."

Question 2 Calculation

Assume that the market interest rate is 6%p.a. and is stable during the period, will you consider the project?

- PV of your investment

$$PV = \$3000 \times \frac{1 - \frac{1}{(1+0.5\%)^{120}}}{0.5\%} = \$270{,}220$$

- PV of the return

$$PV = \frac{\$1M}{(1+0.5\%)^{360}} = \$166{,}042$$

NO!!!