

Economics-Based Personal Finance

Contact Information:
rpuelz@smu.edu + azs@bu.edu

Robert Puelz + Aaron Stevens

Southern Methodist University and Boston University

Introduction

Personal finance education in the 2020s is ready for innovation. What is personal finance? The answer to the question is difficult for individuals and families because websites, books, and advisor guidance are normally numbered with “rule of thumb” responses untethered from a core body of knowledge. “Whether to save,” “how to invest,” “how to pay off a student loan,” etc., are very important personal finance questions, but how these types of questions are resolved within a broader economic foundation is important. Without an economic foundation, there cannot be a durable structure for consistent decision-making.

Nobel Laureates and their students built the life-cycle model with economic principles. This model can now be linked to actual practice through an elegant and advanced life-cycle model software, **MaxiFi Planner**, to analyze a nearly unlimited number of key financial planning questions.

Economics-Based Personal Finance introduces the basic life-cycle model and why the life-cycle model should be *the model* used in a financial literacy course, a personal finance course, a CFP program and a first course in advisory wealth management. The fundamental set of tools offered in the book are integrated with institutional details about the economic value of the individual and household, the tax structure, Social Security benefits and other important financial details. Knowledge is assembled to support the premise that an optimal and sustainable living standard ought to be the objective of any personal financial planning question.

Case Studies

The book is driven by proven case studies that help students learn personal finance fundamentals. Case studies explore specific questions and produce first-year and lifetime financial plans while integrating all the real-world details. Taxes, Social Security benefits, investment returns, inflation, etc., take a student’s classroom experience to the street. In fact, by the end of a term students will be constructing financial plans for actual households based on the life-cycle model foundation.

Introductory Case Studies

1. The young single
2. The married couple
3. A married couple with children
4. A household with a preference for an emergency fund

Four Key Life Decisions Case Studies

1. Investing in yourself: the value of human capital on living standard
2. Evaluating whether more education produces a higher living standard
3. How geographic choice affects living standard outcomes
4. How to pay off a student loan to create the highest living standard result

Today’s Important Topics Case Studies

Each is analyzed with the objective to maximize the living standard of the household while embodying real-world factors such as taxation, inflation and investment risk and return.

1. Is an IRA or Roth IRA the better long-term savings choice?
2. How risky is your living standard given your chosen investment portfolio?
3. When to retire if you want to retire?
4. When to file for Social Security retirement benefits?
5. How much life insurance do you need?

What’s in it for the Faculty?

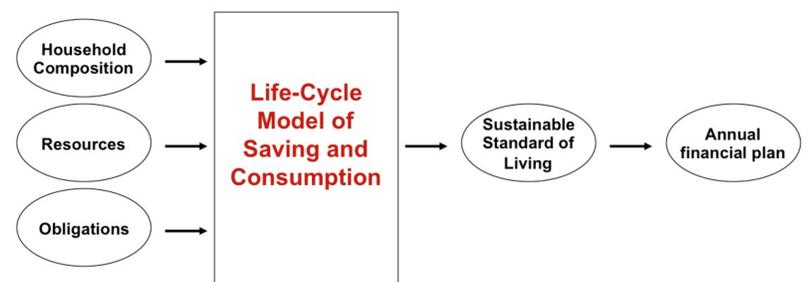
We help you help your students. Instructors are given **MaxiFi Planner Pro** and students receive **MaxiFi Planner Premium** for their course. In addition, instructors are provided a “**21st century Instructor’s manual**,” that includes a package of assignments for the instructor to use as they see fit. We have found great advantages in turning the classroom sideways and the assignments will help the instructor turn the classroom into a collaborative playground for thought, learning and reward.



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How this Book is Different

Outside the ivory tower, most personal finance advice, whether from trade books, textbooks, television talk show pundits, or professional personal financial advisors – is scatter shot, detached from a body of knowledge. Our approach is to join a series of common personal finance problems, peel away the conflicts of interest, and offer a holistic solution to financial well-being that has the best chance of optimizing the happiness rendered by one’s present financial condition and prospects. *Internal consistency in personal finance decision-making* is critical for the best financial decisions.



Every choice one makes about education, career, geographic location, housing, family, and investments entails economic benefits and costs. A decision one makes today about education or employment alters one’s life path, and therefore one’s standard of living. This book is a single source solution to the challenge that students face when learning about personal finance. The utility of **MaxiFi**, developed by Boston University economist, Laurence Kotlikoff, helps answer any critical personal finance question with a standardized decision methodology built around optimizing the standard of living.

Contents of the Book

Economics-Based Personal Finance is a core principles book suitable for college students with no previous background in economics or finance. The book begins with the academic background to the life-cycle model framework and why it is important, while introducing financial terms and nomenclature relevant to a household’s personal economy. A discussion about human capital, for most young adults their largest asset, ensues. Chapter 3 makes the life-cycle model real by introducing students to different types of households and different types of questions. Students are introduced to a financial planning tool set, **MaxiFi**, that facilitates a practical environment because MaxiFi embodies household taxation, investment choices, inflation, Social Security benefits and other unique characteristics of household members. Chapter 4 explores four key life decisions through case studies. Investments are given a practical twist in chapters 5 and 6 and how much risk to living standard is linked to the future performance of a household’s investment portfolio. Chapter 7 presents risk and insurance principles and how to select an insurer. Whether a household needs life insurance is addressed by a life-cycle case. Chapter 8 focuses on retirement planning from 401(k)s to individual retirement accounts and case studies related to the “when to retire” question and “when to file for Social Security retirement benefits” question are presented. **Send us a note** and we will provide you with an electronic desk copy.

Chapter 1: Introduction to Life-Cycle Economics

Chapter 2: The Life-Cycle Model

Chapter 3: Making the Life-Cycle Model Real

Chapter 4: Four Key Life Decisions

Chapter 5: Investments

Chapter 6: Investing in Stocks: The Truth

Chapter 7: Risk, Risk Management and Insurance

Chapter 8: Planning for Retirement

References

Friedman, Milton. “The permanent income hypothesis.” A theory of the consumption function. Princeton University Press, 1957. 20-37.

Modigliani, Franco, and Richard Brumberg. “Utility analysis and the consumption function: An interpretation of cross-section data.” Franco Modigliani 1.1 (1954): 388-436.