Personal financial plan - part ii

Finance

Personal Financial Plan Personal financial planning involves the development and implementation of a comprehensive plan that can help people achieve specific financial goals. Personal financial planning can never be done without considering economic variables like tax policies, regulations, and other economic policies. Apart from the role of economics in developing financial plans, the use of credit is also of prime importance. This paper describes the role of economics and credit in personal financial planning.

Keywords: economics, financial plan, government

Personal Financial Plan

Introduction

Gitman, Joehnk, and Billingsley (2010) define Personal financial planning as nothing more than the development and implementation of a comprehensive plan to help individuals achieve specific financial goals. Personal financial planning requires economics since economic variables like regulations, economic policies, and taxation has to be considered. In addition the use of credit is of prime importance in financial planning. This paper describes the role of economics and credit in personal financial planning.

The Role of Economics in Personal Financial Plan

Classic economists assert that people know and understand what is in their best interest and they act and make decisions on this knowledge (Gitman, Joehnk, & Billingsley, 2010). For people to take advantage of this knowledge in their financial plan, they need to understand the most important aspects of economics like taxation, regulation, and markets among others. According to Gitman, Joehnk, and Billingsley (2010), federal tax forms the largest part of tax a citizen pays. Tax planning as an economic variable thus becomes an important part of personal financial planning.

Advantages and Disadvantages of Credit and Its Use in Personal Financial Planning

Credit refers to the trust that allows one person to avail resources to another person whereby an immediate reimbursement is not required (Edwards, 2004). The major advantages of credit are that it allows a person to acquire resources immediately and repay it comfortably within an extended period of time. The main disadvantage of credit is that the debtor will have to pay more than the amount he borrowed in the long run. Additionally, credit is reliant on the creditworthiness of the borrower; this makes it uncertain to receive.

The Role of Government in Personal Finance

The government plays a major role in determine the economic stability of a nation. The government ensures stability and growth through guiding the pace of economic activity. The government also comes with policies relating to price stability, full employment, redistribution of income and the balance of payments stability (Edwards, 2004). The government also levies taxes and determines the amount of taxes the people will pay. These factors like federal tax, full employment, and redistribution of income which are manipulated by the government affect the amount of funds that a person can use in their personal financial planning.

Role of Government Assistance in Personal Financial Planning

The government provides assistance in financial planning by helping the citizens understands the major differences between investment planning and financial planning. Most people confuse these two concepts and end up making huge mistakes. These huge mistakes results in people having unfavorable financial positions in the last quarter of their lives. The type of assistance the government can offer apart from reducing federal tax is advising on better personal financial planning.

Impact of Tax System on Personal Finance

According to Edwards (2004), federal income tax forms the largest tax that citizens pay in the United States. A usual American family pays in excess of one-third of its income in taxes specifically; Social Security tax, federal income tax, sales and property tax, and other state and local income tax. The tax system makes it important for persons to consider tax planning an important part of their personal financial planning.

The basic economic data that is useful in making decisions in relation to the personal financial plan include federal tax, currency exchange rates, prices, supply and demand, and market structures. This information will be useful in determining how much a person can save in his personal financial plan so that no one faces a crisis in their last quarter of life.

Use and Cost of Credit

Credit is used to facilitate the movements of financial capacity depending on creditworthiness or reputation of the lender (Edwards, 2004). Credit also facilitates transactions that involve transfer of property, money immediately on a promise to pay at a future date.

The cost of credit is often the additional amount that is over and above the amount that has been borrowed. This cost includes interest arrangements together with other additional charges. Credit can be obtained from banks, commercial service providers, investment outlets, and real estates. The major disadvantage of these sources is that the return value can be too much than the lender anticipated. The major types of credit that can be used in developing the budget include, bank credits, commerce credits, investment, international, public and real estate credits.

In conclusion, personal financial planning is strongly influenced by economics and credit. The government determines factors like the amount of taxation and economic growth and stability whereas credit determines the availability of capital for vital duties.

References

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