Money Smart Students
Celebrating National Financial Literacy Month and Money Smart Week

Decision-Making 101

What will you do after school today? Play a game with friends? Search for a part time job? A bigger decision: What to do after school, as in after graduation? Focus on your first full-time job or aim for a bigger paycheck by attending a 2-year, 4-year or tech school?

Costs and benefits
First, think about the problem the decision presents—do I want to use my time having fun, or would I prefer to use my time earning money to spend now or save for college? Then, consider all choices. Next, think about what you hope to gain from your decision. Your best decision gives you the most gain. After you compare costs and benefits, you are ready to make a decision.

Decisions often can be narrowed to two choices, for example, job search vs. a game app. Both have benefits (you would like a steady paycheck, as well as a fun game) and costs (earning income and playing games both consume your free time, so you can’t do both). Focusing on the costs and benefits of your most favorable choices can help you decide.

For example, Coach Ford has 14 people at tryouts but only 10 uniforms. It’s an agonizing process, but four athletes must be cut.

Opportunity cost
Decision-makers must look at tradeoffs—costs and benefits—before making a choice. The most valuable choice you must give up when making a decision is called the opportunity cost.

Listen to this podcast: stlouisfed.org/opp-cost.

For Coach Ford, the problem, choices and outcomes are clear. She wants the strongest team but is limited to 10 players. Evaluating the costs and benefits of players 10 and 11 directs a decision in favor of player 10. The opportunity cost of the decision is the loss of the next best choice: player 11.

Making a good decision can be as simple as comparing the benefits (advantages) and costs (disadvantages), discarding less favorable options and pursuing only the one that gives you the most gain. Comparing benefits and costs is not easy—a paying job provides money for every hour you work, but every hour you work is time away from school, games and friends.

Money Smart Students Preparation: Find news articles about difficult decisions by searching for those words in the ePost or on stltoday.com. Add “Cardinals” to the mix for stories with a Cardinal flavor.

Money Smart Students Extension: Recall challenging personal choices with an identifiable opportunity cost. Only the highest-valued alternative given up is an opportunity cost; other unused choices are merely alternatives.

Money Smart Students Tip: Get help answering the question: “What do you want to do for a living?” at www.mynextmove.org/. The site hosts key info for thousands of careers and jobs, including salaries and required education, skills, and technical abilities.

Money Smart Students Trivia: Good news! U.S. employers plan to hire 11 percent more new college graduates this year than last, according to the National Association of Colleges and Employers.

NEXT WEEK: Alternative Financing