

FM30 - Ch. 2 Notes - Financial Decision Making

Renting, Leasing, Buying, Credit, and Key Financial Terms

What Is Financial Decision Making?

Financial decision making is the process of choosing how to use money wisely to meet needs, wants, and long-term goals. Strong financial decisions require understanding **options**, _____, **risks**, and **future** _____. In this unit, we focus on housing and transportation choices (renting, leasing, buying) and how _____ and related financial concepts affect those decisions.

Renting

Renting means paying to use a home or property owned by someone else.

- **Advantages:** Low upfront cost, _____, fewer repair responsibilities.
- **Disadvantages:** No _____, no equity built, rent payments never end.
- **Financial Impact:** Rent is paid from **disposable income** and does not create an _____.

Leasing

Leasing is a long-term _____ agreement, most often used for vehicles.

- **Advantages:** Lower monthly _____, access to newer models, predictable costs.
- **Disadvantages:** No ownership, mileage limits, _____ for damage.
- **Financial Impact:** Leasing provides use but no asset or _____ at the end.

Buying

Buying means _____ an item or property outright or using credit.

- **Advantages:** Ownership, ability to build equity, potential _____.

- **Disadvantages:** Large _____ costs, long-term commitment, maintenance responsibility.
- **Financial Impact:** A purchased item is usually an _____ that may appreciate or depreciate over time.

Credit

Credit allows a person to _____ money and repay it later, usually with interest.

- **Examples:** Credit cards, car loans, _____, lines of credit.
- **Benefits:** Enables large purchases, helps build _____ history.
- **Risks:** Interest costs, _____ accumulation, financial stress if misused.

Important Financial Terms

- **Asset:** Something of value that you _____ (home, vehicle, savings).
- **Equity:** The _____ of an asset you truly own (asset value minus debt).
- **Collateral:** An asset _____ to secure a loan (e.g., a house for a mortgage).
- **Line of Credit:** A _____ loan that allows borrowing up to a set limit, with interest charged only on what is used.
- **Bank of Canada Prime Rate:** The benchmark _____ rate that influences borrowing costs across Canada.
- **Appreciation:** An increase in _____ over time (e.g., real estate).
- **Depreciation:** A _____ in value over time (e.g., vehicles).
- **Disposable Income:** Money left _____ taxes and essential expenses are paid.

Smart Financial Decision Making

- Consider **total** _____, not just monthly payments.
- Understand how interest and prime rate changes affect _____.
- Balance flexibility, ownership, and _____ -term financial health.