

# BRINGING FINANCE TO YOUR CLASSROOM

The FinStart logo is located in the top right corner. It features the word "FinStart" in a blue, sans-serif font. The "Fin" is in a darker blue, and "Start" is in a lighter blue. The logo is partially overlaid by a decorative graphic of overlapping hexagons in shades of orange, grey, and purple.

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## A FinStart Newsletter for Teachers Financial Decisions, January 29, 2021

### What?

There are always plenty of current topics that create good excuses to discuss decision-making. For example, US elections in November 2020. The COVID-19 vaccine - should you take it or refuse? In personal finance, we make decisions about which items we'll need to cut from our budget, whether we'll buy basic dental insurance or enhanced, how much debt we're prepared to take on, whether we pay student loan or credit card debt first, and whether it's cheaper to lease a car or borrow money to buy it.

### How and why?

There are many behavioural science and management books that examine decision-making. Our long-standing favourite has been Russo & Schoemaker (full reference on p. 2). They have a simple four-step process to making "good decisions":

1. Determine which criteria you will base your decision on (this is called 'framing' the problem).
2. Gather all the information you'll need to make a sound decision.
3. Make the decision.
4. Evaluate what went right and wrong - to improve your decision-making process.

### So what?

Having to make money-related decisions can be stressful. Russo & Schoemaker's deliberate and mindful approach separates the decision-making 'process' from the 'outcome'. This can improve future decision-making and positively affect mental health.

## Teaching with FinStart

In FinStart, we deal with two kinds of decisions:

- i) Choosing a provider, product, or service.
- ii) Choosing a course of action (like leasing a car versus borrowing money to buy one). On the FinStart website, we started to flag these decisions with the road sign shown above.

The Russo & Shoemaker four-step decision-making process can be used for both types of decision. The case study in this newsletter addresses the first type. It has two parts:

Part 1 of can be used as a warm-up activity - it's about flipping a loaded a coin, rather than personal finance.

Part 2 introduces the Russo & Schoemaker four-point checklist. Students are asked to pretend they are choosing a chequing account using FinStart and map their decision-making process to the four-point checklist.

Chequing accounts are usually the first financial product to which students are introduced and is effective for students as FinStart follows the same template throughout.



*Image by Flaticon*

# FINANCIAL DECISIONS

## Case Study

### Part 1

It's August and Sherri will be moving to her college residence soon. As she cleans out her room, she finds a small box with two coins, one silver and the other bronze. She inspects the coins and flips them a number of times. Excited, she rushes to find her brother Danh, and shares with him this:

"When I flipped the bronze coin 100 times, it landed on heads 70 times. The silver coin landed on heads only 30 times."

She tells Danh he can choose one of the coins and flip it once. Heads - she buys him a movie ticket. Tails - he gets nothing. Danh is intrigued - there's a new movie he really wants to see.

i) Which coin would you advise Danh to choose? Why?

Danh chooses the bronze coin. He flips it - it lands on tails. Danh is disappointed - now he'll need to save money for the movie ticket himself.

Danh is curious what would have happened if he chose the silver coin. He decides to flip it - it lands on heads. Danh is upset about his decision. Sherri wants to help him and suggests that Danh evaluate his decision-making on a scale from 1 (the worst possible decision he could have made under the circumstances) to 10 (the best).

ii) In your opinion, how was Danh's decision-making on a scale from 1 to 10? Explain your answer. Hint: distinguish between how Danh chose between the silver and bronze coins and the outcome of the flip.

Source:

The biased coin example comes from a book by J. Edward Russo and Paul J.H. Schoemaker, *Winning Decisions. Getting it right the first time.*

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### Part 2

"*Winning Decisions*", by Russo & Schoemaker, teaches us 4 things about making any decision - not just financial ones.

1. Determine which criteria you will base your decision on (this is called 'framing' the problem).
2. Gather all the information you'll need to make a sound decision.
3. Make the decision.
4. Evaluate what went right and wrong - to improve your decision-making process.

This framework is very useful when making personal finance decisions. FinStart uses it all the time.

iii) Pretend you're choosing the best chequing account for your needs using FinStart's website - <https://www.finstart.ca/chequing-accounts.html>. Which parts of FinStart's process correspond to Russo & Schoemaker's decision-making steps 1, 2, and 4? Share your findings with a peer and justify your choices.

Hint: You can find items 1 and 2 directly on the page linked above. For item 4, scroll down to the end of the chequing accounts page and click on the relevant buttons under "What's Next?"

# FINANCIAL DECISIONS

## Solutions and additional talking points (in green)

### Part 1

- i) Assuming that Sherri's facts are right (the coins are loaded the way she described it to Danh), the logical decision is to go with the bronze coin as it has a significantly higher chance of landing on heads than the silver coin.

You can see the Russo & Schoemaker four-step process at work. Danh decided not to research the coins - he could have repeated Sherri's experiment, flipping the coins a large number of times and counting the outcomes. This will be discussed in Part 2.

- ii) Danh should give himself a 10 for his decision-making process - he made the best decision possible with the information he had.

As Russo and Schoemaker point out, Danh's assessment should not reflect the outcome of his decision-making process (that the coin landed on tails).

It's true that we are rewarded by the outcomes of the decisions we make, but good outcomes do not necessarily imply that a good decision-making process was used. Similarly, bad outcomes do not necessarily imply that the decision-making process was bad.

**There is uncertainty when making decisions. The only way to be satisfied with the outcome of your decision is to have a good decision-making process.**

### Part 2

- iii) "Key Features" correspond to Russo & Schoemaker Step 1. They help us focus on what's important about choosing a chequing account. They help separate what matters from 'noise', like promotional features or special offers.

For financial products, key features are often a trade-off between a) how much is it going to cost? b) what benefit does it have for me?

Russo & Schoemaker call this stage of decision-making 'framing' - a mental structure that simplifies and guides our understanding of complex problems. Simplification has some disadvantages. Russo & Schoemaker use the analogy of a window frame to warn that framing can limit and distort reality - no window can reveal the entire panorama (360 view) behind it.

"Research Table" corresponds to Step 2. They are FinStart's way to gather and summarize the information needed to make a decision - using key features.

'OPEN' and 'KEEP UP' checklists can help with Step 4. They teach how to set up and use the chequing account in real life - a lot of pesky details. If you understand these details well, you may be able to improve your performance on steps 1 and 2 (frame your decision better and research the products more thoroughly).

'OPEN' checklists (for youth, students, and online banks) will guide you through the steps of opening an account and making sure it's fully operational - including a debit card, online banking, mobile banking, preauthorized payments, overdraft protection, etc. The 'KEEP UP' checklist reminds you to monitor your account and assess whether it continues to meet your needs.



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