



China Consumer Finance Forum 2009

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What do I believe about people and money?

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• *Consumption is the sole end and purpose of all production and the interest of the producers ought to be attended to, only in so far as it may be necessary for promoting that of the consumer.*

– Adam Smith, *The Wealth of Nations* (1783)

What do we know about
consumers and their satisfaction?

Maslow's Hierarchy of Needs (1943)





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- Households must be informed to make better decisions, within their budgets, in order to fulfill their role in the market – within the time they have available.
- If consumers are not informed, others step into the void.

My Favorite Income (Budget) Hypotheses

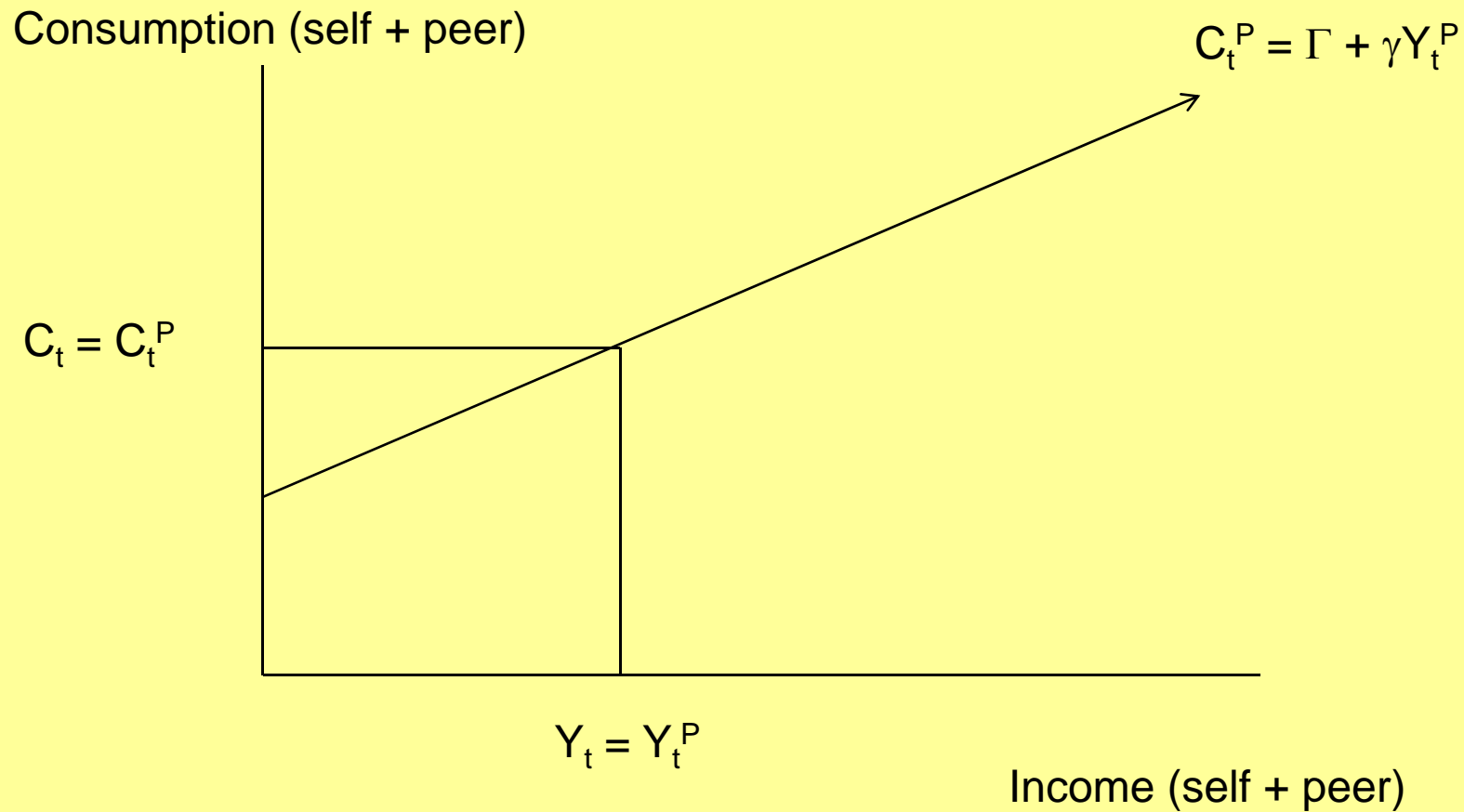
- Relative Income Hypothesis
 - Duesenberry, 1949
- Life-Cycle Income Hypothesis
 - Ando and Modigliani, 1963

Relative Income Hypothesis

- People are not just concerned with absolute levels of consumption but with consumption relative to their peers.
- The status effect:

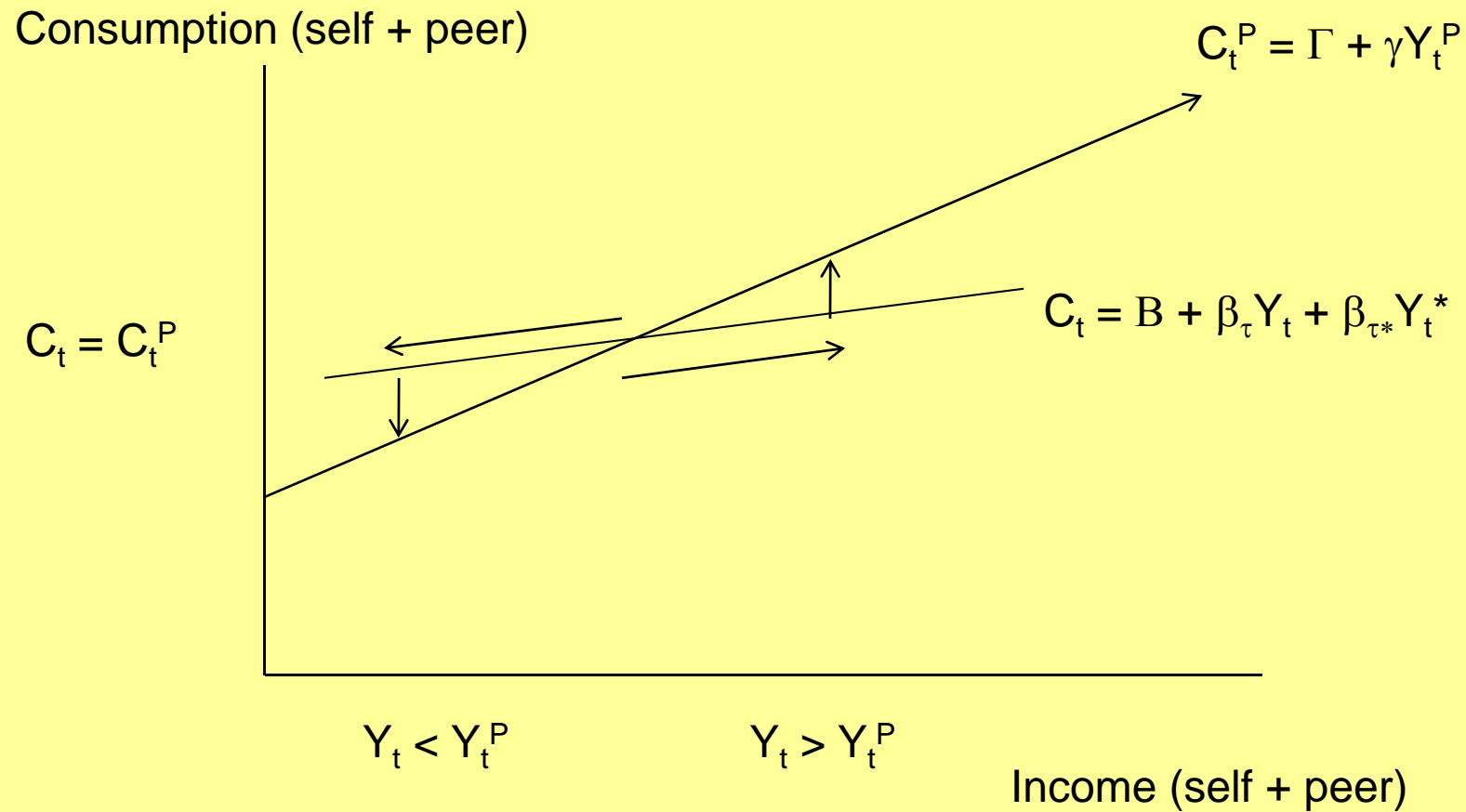
$$U = u(X_1, X_2, (X_1/X_1^{\text{peers}}, X_2/X_2^{\text{peers}}))$$

Consumption is a function of our peer group....

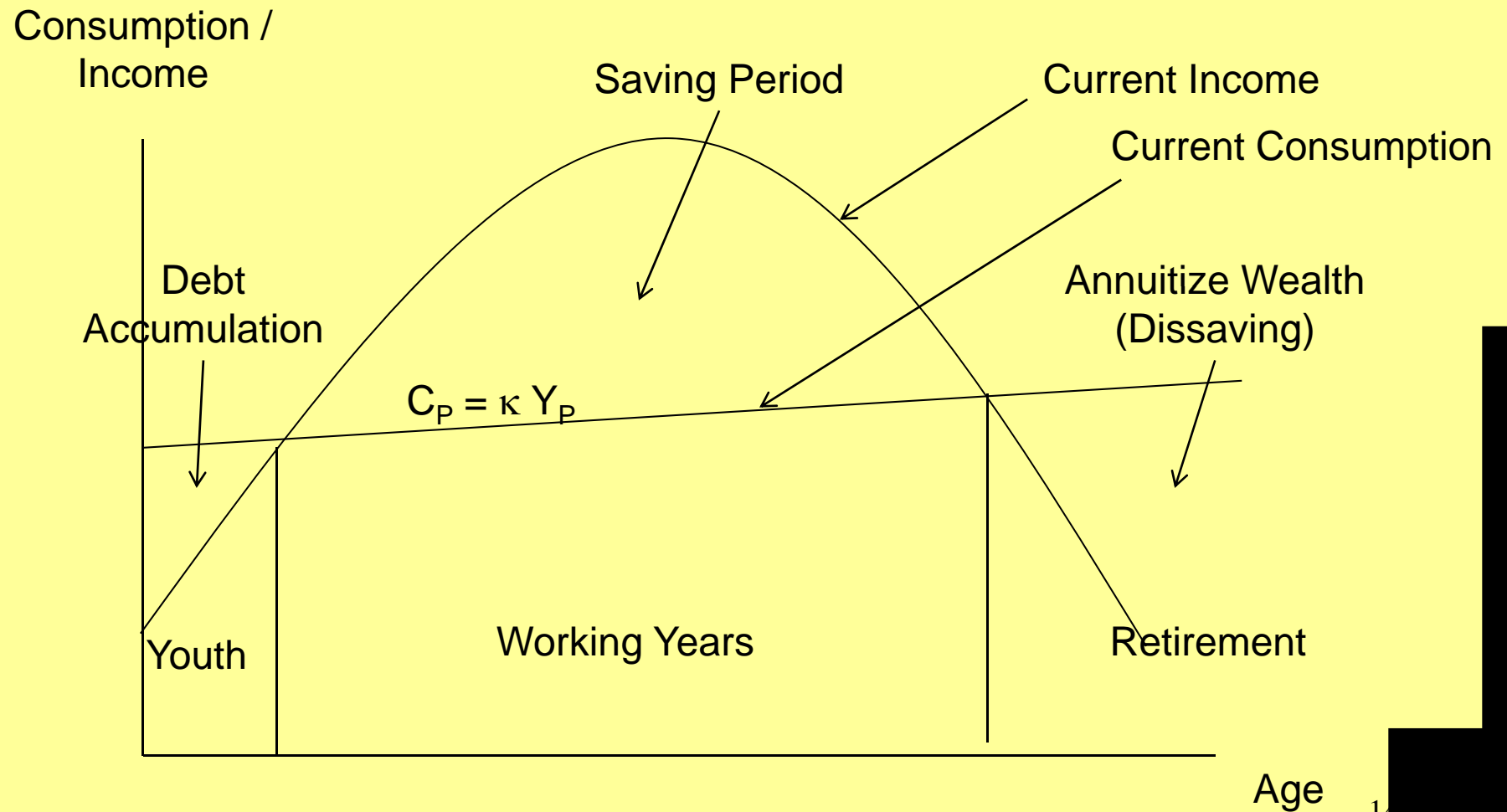


Effect of changes in income

(Ratchet up much faster than we ratchet down!)



Life-Cycle Income Hypothesis



Expressed Mathematically

- $C_P = \kappa Y_P$; Consumption (C_P) a function (κ) of lifetime (permanent) income (Y_P):
- $Y_P = [(A_0 - D_0) + \sum_t (E[Y_t] / (1 + r)^t)] / B(N, r)$
 - $A_0 =$ Current Assets
 - $D_0 =$ Current Debts
 - $\sum_t (E[Y_t] / (1 + r)^t) =$ Present Value of Future Expected returns to human capital
 - $B(N, r) =$ Annuity-Due factor; N years at r

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&

$$Y_P = [(A_0 - D_0) + \sum_t (E[Y_t] / (1 + r)^t)] / B(N, r)$$

Theories of behavior imply:

1. Consumers must understand what truly creates satisfaction (utility) in them and seek it, rather than seeking others.
2. Consumers must know how to manage their non-human capital (A_0 & D_0) and human capital ($E[Y_t]$), as well as understand N and r .

That is a LARGE ORDER!

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- Management of human and non-human capital requires knowledge of:
 - Importance of education and career choice
 - Human behavior
 - Assets
 - Debts
 - Taxes
 - Insurance
 - Family law / estate planning
 - Retirement planning / employee benefits



How Personal Financial Planning
at MIZZOU attempts to answer
this call.....

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- *Financial security for households is the key to personal freedom and economic development.* - PFP at MIZZOU

Undergraduate Degrees

- Personal Financial Planning
 - CFP[®] Board of Standards Registered
- Personal Financial Management Services
 - Accredited Financial Counselor
- CFP[®] Registered, Cooperative Degrees
 - BS in Agricultural Economics / PFP minor
 - BS in Finance / PFP minor

Post-Baccalaureate Options

- CFP[®] Board Registered Masters Degrees
 - Personal Financial Planning
 - Certificate in Personal Financial Planning
 - Five-Year BS/MS option
 - Consumer and Family Economics
- On-line (GPIdea)
 - MS, Personal Financial Planning
 - Certificate in Personal Financial Planning

Additional CFP[®] Registered Graduate Offerings

- PhD, Personal Financial Planning
 - Cooperative with Economics, Finance, and Statistics
- Joint JD / MS with the School of Law

Service / Experiential Education

- **Office for Financial Success**
 - Peer Counseling
 - Campus Workshops
 - *Financial Tip of the Week*
- **Missouri Council on Economic Education**
 - OFS/CEE students in high schools
 - Missouri College Advising Corps
- **Cooperative Extension Adult Education**
- **Financial Social Work**

Research

- Policy oriented research:
 - Improve financial literacy / practices
 - Understand consumer preferences
 - Evaluate market offerings
 - Family financial security
- Make a difference in our world....

From our faculty.....

- **Residence Faculty**

- Robert O. Weagley, PhD, CFP®
- Deanna Sharpe, PhD, CFP®, CRPC®, CRPS®
- Rui Yao, PhD, CFP®
- Tansel Yilmazer, PhD
- Open Position

- **Extension and Outreach Faculty**

- Brenda Procter, MS
- Lucy Schrader, MA
- Andrew Zumwalt, MS

- **Adjunct Faculty:**

- Starla Ivey, PhD

- **Administrative Assistant**

- Voronica Bonaparte

...to your students, faculty, and
others

- We want to say...

Thank You



Thank You

