Name_____Per_____

Decision Making in Finance: Future Value of an Investment
VI.A.1 You Have to Get Money to Make Money

1. Kafi is considering three job offers in educational publishing.

- One is a full-time position as an editor that pays a salary of $37,500 per year.
- Another is a full-time position as an e-Learning designer that pays an hourly wage of $26.50. The job assumes five 8-hour days per week.
- The final offer is for a sales representative that pays a 5% commission. Sales representatives typically sell an average of $100,000 per month in textbooks.

Record the income information for the editor, designer, and sales representative in Row 1 of Job Summary Table 1 at the end of this activity sheet.

2. Estimate the gross *annual* income for each job offer. Record your estimate in Row 3 of Job Summary Table 1. Use Row 2 for any calculations that are needed to determine the income.

3. Estimate the gross *monthly* income for each job offer. For the purposes of his comparison, Kafi assumes that each job pays monthly. Record your estimate in Row 5 of Job Summary Table 1. Use Row 4 for any calculations that are needed to determine the income.

4. Based on the gross monthly income, which job do you recommend Kafi take? Why?

5. Determine the after-tax income for each job offer. Use the following information:

- The U.S. government deducts Social Security (6.2%) and Medicare (1.45%).
- Kafi will deduct 15% of gross income to cover federal income tax.
- Kafi does not live in a state with state income tax.

Record your estimate in Row 7 of Job Summary Table 1. Use Row 6 for any calculations that are needed to determine the income.

6. Kafi determines that he needs at least $3,000 per month in after-tax income to cover his monthly expenses. Based on this budget estimate, are there any jobs that Kafi should not take? Why?

Another consideration in comparing jobs is the benefits each provides, such as health insurance, retirement plan, vacation time, and sick leave.

- The editor position includes two weeks of paid vacation and five paid sick days per year, paid health insurance, life insurance costing $35 per month, and a fully paid retirement plan.
- The designer position includes five paid vacation days and three paid sick days per year, paid health insurance, life insurance costing $35 per month, and a retirement plan that costs 3% of after-tax income.
- The sales position has no paid vacation or sick days, paid health insurance, paid life insurance, and a retirement plan costing $400 per month.

7. Estimate the *monthly cost* that will be deducted from Kafi's pay for benefits. Use the following information:

- Kafi plans on taking two weeks (10 days) for vacation per year.
- In the past, Kafi averaged three sick days per year.
- Kafi plans to purchase life insurance and save for his retirement.

Record your estimate in Job Summary Table 1 in Rows 8 through 12.

8. Estimate the monthly take-home income in Row 13 of Job Summary Table 1.

COMPLETE JOB SUMMARY TABLE 1 BEFORE CONTINUING

9. Based on the completed Job Summary Table 1, which job do you recommend that Kafi take? Explain your recommendation based on the net income.

10. Are there any factors that could affect the accuracy of the estimated net incomes? If *yes*, does this change your recommendation? Explain your reasoning.

11. Are there any other factors that Kafi should consider when deciding which job to take? If *yes*, does this change your recommendation? Explain your reasoning.

Job Summary Table 1

Row No.	Job:	Editor	Designer	Sales Representative
1	Income information			
2	*Process*			
3	Gross annual income			
4	*Process*			
5	Gross monthly income			
6	*Process*			
7	After-tax monthly income			
8	*Process:* *Vacation* *(use gross income)*			
9	*Process:* *Sick leave* *(use gross income)*			
10	*Process:* *Health insurance*			
11	*Process:* *Life insurance*			
12	*Process:* *Retirement plan*			
13	Monthly take-home income			