AP® Business with Personal Finance

COURSE FRAMEWORK

For Use Beginning with the 2026-2027 School Year

AP® Career Kickstart™

AP courses that build professional career skills

What AP® Stands For

Thousands of Advanced Placement teachers have contributed to the principles articulated here. These principles are not new; they are, rather, a reminder of how AP already works in classrooms nationwide. The following principles are designed to ensure that teachers' expertise is respected, required course content is understood, and that students are academically challenged and free to make up their own minds.

1. AP stands for clarity and transparency. Teachers and students deserve clear expectations. The Advanced Placement Program makes public its course frameworks and sample assessments. Confusion about what is permitted in the classroom disrupts teachers and students as they navigate demanding work.

2. AP is an unflinching encounter with evidence. AP courses enable students to develop as independent thinkers and to draw their own conclusions. Evidence and the scientific method are the starting place for conversations in AP courses.

3. AP opposes censorship. AP is animated by a deep respect for the intellectual freedom of teachers and students alike. If a school bans required topics from their AP courses, the AP Program removes the AP designation from that course and its inclusion in the AP Course Ledger provided to colleges and universities. For example, the concepts of evolution are at the heart of college biology, and a course that neglects such concepts does not pass muster as AP Biology.

4. AP opposes indoctrination. AP students are expected to analyze different perspectives from their own, and no points on an AP Exam are awarded for agreement with any specific viewpoint. AP students are not required to feel certain ways about themselves or the course content. AP courses instead develop students' abilities to assess the credibility of sources, draw conclusions, and make up their own minds.

   As the AP English Literature course description states: "AP students are not expected or asked to subscribe to any one specific set of cultural or political values, but are expected to have the maturity to analyze perspectives different from their own and to question the meaning, purpose, or effect of such content within the literary work as a whole."

5. AP courses foster an open-minded approach to the histories and cultures of different peoples. The study of different nationalities, cultures, religions, races, and ethnicities is essential within a variety of academic disciplines. AP courses ground such studies in primary sources so that students can evaluate experiences and evidence for themselves.

6. Every AP student who engages with evidence is listened to and respected. Students are encouraged to evaluate arguments but not one another. AP classrooms respect diversity in backgrounds, experiences, and viewpoints. The perspectives and contributions of the full range of AP students are sought and considered. Respectful debate of ideas is cultivated and protected; personal attacks have no place in AP.

7. AP is a choice for parents and students. Parents and students freely choose to enroll in AP courses. Course descriptions are available online for parents and students to inform their choice. Parents do not define which college-level topics are suitable within AP courses; AP course and exam materials are crafted by committees of professors and other expert educators in each field. AP courses and exams are then further validated by the American Council on Education and studies that confirm the use of AP scores for college credits by thousands of colleges and universities nationwide.

The AP Program encourages educators to review these principles with parents and students so they know what to expect in an AP course. Advanced Placement is always a choice, and it should be an informed one. AP teachers should be given the confidence and clarity that once parents have enrolled their child in an AP course, they have agreed to a classroom experience that embodies these principles.

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Acknowledgements

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About the AP Business with Personal Finance Course

AP Business with Personal Finance is an introductory, college-level business and personal finance course. Students explore the business disciplines of entrepreneurship, marketing, finance, accounting, and management through real-world business application, case studies, and project-based learning. In addition, students learn and apply all the National Standards for Personal Financial Education created by the Council for Economic Education and the Jump$tart Coalition for Personal Financial Literacy.

AP Career Kickstart, a Group of AP Courses

AP courses designed in partnership with colleges to qualify high school students for college credit, and with industry leaders and employers to prepare students with the skills needed for specific careers, are awarded the additional designation of “CK.”

College Course Equivalent

The AP Business with Personal Finance course is designed to be the equivalent of a one-semester college introduction to business course and a one-semester college personal finance course.

Prerequisites

There are no specific course prerequisites for AP Business with Personal Finance. Students should be able to read a college-level textbook and to express themselves clearly in writing. AP Business with Personal Finance is designed to serve as a foundational course that aligns with multiple Programs of Study within Career and Technical Education (CTE) Business Pathways.

Projects

Through the course, students will apply their learning of business concepts to an entrepreneurial project, the Business Canvas Project, which is a modified Business Model Canvas[1]. The project will provide students with the opportunity to engage in work-based learning experiences, performing tasks a business founder performs such as product development, customer research, marketing, and the preparation of financial documents.

The course will culminate with a Financial Advisor Project, in which students will provide financial recommendations to a fictional household based on a financial profile. The recommendation will help the fictional household develop strategies to manage its budget and meet financial goals related to post-secondary education, home-buying, and retirement.

Business Cases

Students will develop and practice business decision-making skills through the analysis and discussion of business cases throughout the course.

[1]The Business Model Canvas was developed by Strategyzer.com in 2005.

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Course Framework

Course Framework Components

Course Units

Unit 1: Businesses, Competition, and New Ideas

Unit 2: Marketing

Unit 3 – Part 1: Personal Saving and Borrowing

Unit 3 – Part 2: Business Finance and Accounting

Unit 4: Management and Strategy

Unit 5: Personal Goals, Budgeting, and Investing

Course Framework Overview

This course framework provides a clear and detailed description of the course requirements necessary for student success. The framework specifies what students must know, be able to do, and understand to qualify for college credit or placement.

The course framework includes two essential components:

- **Course Skills** (p. 4)
  Business Skills, along with Professional and Leadership Skills, are critical to the deep understanding and application of business and personal finance content. Students should develop and use these skills throughout the course, through application to their own Business Canvas Project, the Financial Advisor Project, and in the analysis of business cases.
- **Course Content** (p. 7)
  The course content is organized into units that reflect the key business disciplines of entrepreneurship, marketing, finance, accounting, management, and strategy as well as personal financial literacy.

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Course Skills

Business Skills

Skill Category 1	Skill Category 2
Concept Application 1	*Entrepreneurship* 2
Explain business and personal finance concepts, principles, and strategies, and apply them to scenarios.	Identify a market opportunity, and develop and test a product idea designed to address the opportunity.

SKILLS

1.A Describe business and personal finance concepts, principles, and strategies.

1.B Interpret quantitative and qualitative business and personal financial data, performing calculations as appropriate.

1.C Using business and personal finance concepts and principles, explain how and why businesses and individuals pursue specific goals, strategies, and actions.

2.A Identify a market opportunity (e.g., a customer problem, need, or want) and develop a product idea to address it.

2.B Formulate and test business hypotheses to iterate and improve on a product idea.

2.C Explain the desirability, viability, and/or feasibility of a product idea.

Course Skills

Professional & Leadership Skills

Skill Category 3	Skill Category 4	Skill Category 5
Decision Making 3	*Communication* 4	*Collaboration* 5
Describe opportunities or problems, and recommend courses of action to address them.	Create authentic communications appropriate for a specific audience and purpose.	Work collaboratively with and lead others to accomplish a goal or task.

SKILLS

3.A Describe internal, market, and external factors that affect a business or individual, and explain how and why they create opportunities and/or problems.

3.B Explain how potential courses of action could capitalize on an opportunity or solve a problem for a business or individual.

3.C Establish decision-making criteria and use them to systematically evaluate different courses of action a business or individual may take.

3.D Recommend a decisive course of action for a business or individual, and support the recommendation with persuasive reasoning and evidence.

4.A Present business and personal financial data (e.g., data visualizations and financial statements) in accurate, precise, and accessible formats targeted for a specific audience and purpose.

4.B Create authentic business communications (e.g., surveys, business canvases, and pitches) that are targeted for a specific audience and purpose.

5.A Develop clear, shared team objectives related to a business task or project consistent with a vision, mission, and/or goals.

5.B Define clear roles and responsibilities for members of a team working to accomplish a business task or project.

5.C Develop and implement effective strategies to motivate individuals and teams to achieve goals related to a business task or project.

5.D Follow through on agreed-upon deliverables as a part of a team working to accomplish a business task or project.

Course at a Glance

Unit 1	Businesses, Competition, and New Ideas
1.1	What Is a Business?
1.2	Markets and Competitive Advantage
1.3	PESTEL Factors and the Business Environment
1.4	How Do Business Ideas Originate?
1.5	Vision
1.6	Business Ethics
1.7	Organization, Roles, and Responsibilities
1.8	Supply Chains

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2.2	Consumer Behavior
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3.1	Saving for Future Purchases
3.2	Borrowing, Credit, and Debt

Unit 3 – Part 2: Business Finance and Accounting	
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3.6	The Income Statement
3.7	The Balance Sheet and Net Worth
3.8	The Cash Flow Statement
3.9	Ethics and Financial Reporting

Unit 4	Management and Strategy
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4.2	Evaluating Performance Using KPIs
4.3	Strategy and Decision Making
4.4	Strategic Frameworks: Porter's Five Forces and SWOT Analysis

Unit 5	Personal Goals, Budgeting, and Investing
5.1	Taxes, Net Income, and Budgeting
5.2	Managing Personal Risk
5.3	Saving and Investing for Education, Housing, and Retirement Goals

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UNIT 1

Businesses, Competition, and New Ideas

TOPIC 1.1
What Is a Business?

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
1.1.A Identify ways businesses address customers' problems, needs, and wants.	**1.1.A.1** A *business* is an organization or entity that produces and distributes products, inclusive of goods and/or services. A business can be any size—based on geographic reach, number of employees, or revenues—and serve customers face-to-face or virtually. **1.1.A.2** A *customer* is an individual or business that purchases a good or service. A *consumer* is an individual who uses a good or service, whether or not they are the buyer. **1.1.A.3** Businesses identify customer problems, needs, and wants (market opportunities) and develop goods and services to address them, which achieves *problem-solution fit*. Businesses cannot satisfy all potential customers; they must select which problems, needs, and wants they will focus on and which customers to serve.
1.1.B Distinguish between value creation and value capture.	**1.1.B.1** *Value* is the worth or benefit of a product to customers. **1.1.B.2** Value creation occurs when businesses provide a product that responds to customers' problems, needs, and wants. **1.1.B.3** Value capture occurs when businesses are able to charge customers a higher price for a product than it cost to produce.

TOPIC 1.2

Markets and Competitive Advantage

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
1.2.A Explain how sellers and buyers interact in a market, establishing a market price.	**1.2.A.1** Businesses operate within markets, which can be local, regional, or global. A *market* is any physical or virtual space where businesses (the sellers) interact with their customers (the buyers). **1.2.A.2** The voluntary exchange of goods and services within markets generates revenue for sellers and creates value for buyers who obtain products they need or want. **1.2.A.3** Sellers seek to charge higher prices to gain profit, while buyers attempt to pay lower prices to achieve savings. **1.2.A.4** In a competitive market, the interaction of sellers seeking higher prices and buyers seeking lower prices tends to establish a prevailing market price for a good or service. **X EXCLUSION STATEMENT**—*Drawing and manipulating graphs to analyze supply and demand in markets is beyond the scope of the AP Business with Personal Finance Exam but can usefully be introduced to prepare students for AP Economics.*
1.2.B Develop or evaluate a business's plan to achieve competitive advantage in a market.	**1.2.B.1** *Competitive advantage* is the ability to outperform rivals (other businesses) in the same market, leading to increased market share and potentially to increased profits. **1.2.B.2** Markets vary in competitiveness based on the number of rival businesses and product offerings, the degree to which businesses create *differentiated products* (products with distinguishing features), and the extent to which rival businesses are able to offer identical or similar products at a lower price. **1.2.B.3** The competitiveness of a given market determines the strategies a business will use to seek competitive advantage. **1.2.B.4** Markets for many agricultural goods or other commodities tend to be highly competitive. Businesses in these markets may seek competitive advantage by producing as efficiently as possible in order to charge the lowest price possible. **1.2.B.5** In competitive markets with differentiated rival products, businesses may seek competitive advantage by demonstrating to customers how their products are superior to rival products. Businesses may do this by developing higher-quality products, unique product features, better customer service, lower prices, or more effective marketing.

LEARNING OBJECTIVE

1.2.B

Develop or evaluate a business's plan to achieve competitive advantage in a market.

ESSENTIAL KNOWLEDGE

1.2.B.6

Businesses in competitive markets may seek competitive advantage by working to create or strengthen barriers to entry, which are obstacles that make it difficult for new firms to compete. *Barriers to entry* may include intellectual property rights (e.g., patents), regulations to limit rivals, limited access to resource suppliers, high startup costs, and low prices (made possible by operating at a large scale).

1.2.B.7

A market without competition, in which only one business operates and produces a unique good or service, is a *monopoly*. A business that has the advantage of not having to compete for customers may seek to protect this position by maintaining barriers to entry.

TOPIC 1.3

PESTEL Factors and the Business Environment

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
1.3.A Describe the PESTEL factors that shape markets.	**1.3.A.1** *PESTEL* factors are the political, economic, social, technological, environmental, and legal factors that shape the business landscape and impact the types of business that are viable in a market.
	1.3.A.2 Political factors are policies and political dynamics that affect market activity such as trade policy, taxes and subsidies, mandates, bans, and political stability.
	1.3.A.3 Economic factors are aspects of the economy that affect market activity such as economic stability, levels of household income, inflation, unemployment, and interest rates.
	1.3.A.4 Social factors are trends in society and culture that affect consumers, and therefore market activity, such as consumer demographics, cultural norms, lifestyle trends, and the population growth rate.
	1.3.A.5 Technological factors are any features of a market related to the availability of technology for market activity such as internet access, automation of production processes, and the rate of technological innovation.
	1.3.A.6 Environmental factors are any external environmental conditions that promote or limit market activity such as geography, access to renewable and nonrenewable resources, waste management policies, and consumer environmental perspectives.
	1.3.A.7 Legal factors are any specific laws, rules, or regulations that impact market activity such as employment laws, consumer protection laws, health and safety laws, environmental regulations, intellectual property protection, and antitrust laws.
1.3.B Explain how PESTEL factors influence business viability and career opportunities in a market.	**1.3.B.1** Political factors influence business viability because the overall political system and specific policies incentivize some business activities while disincentivizing others. Subsidies and mandates are used to support specific business activities, while bans are used to limit specific business activities. Taxes are collected to fund governments and may also have the effect of limiting specific business activities.
	1.3.B.2 Economic factors influence business viability because the overall stability and performance of the economy influence the levels and types of spending by consumers, businesses, and government. Most businesses are more likely to thrive in a strong, stable economy, but some businesses thrive by meeting customer needs in a weak or unstable economy.

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
1.3.B Explain how PESTEL factors influence business viability and career opportunities in a market.	1.3.B.3 Social factors influence business viability because meeting consumer needs and wants is vital to achieving viability for consumer-oriented businesses, and these needs and wants are influenced by consumer demographics, cultural norms, and trends. 1.3.B.4 Technological factors influence business viability because systems for production, distribution, and communication with customers are dependent on available technologies. 1.3.B.5 Environmental factors influence business viability because climate, access to resources, and the occurrence of natural disasters may constrain businesses' abilities to produce and distribute goods and services. In addition, customers' environmental perspectives may influence purchasing decisions. 1.3.B.6 Legal factors influence business viability because they affect operating costs and the legality of some operations. 1.3.B.7 Career opportunities in a market can be determined by the types of businesses that are viable, based on how PESTEL factors impact the location. 1.3.B.8 Changes in PESTEL factors may alter the business landscape and job availability within an existing market; for example, some employees face layoffs during economic downturns.
1.3.C Apply the PESTEL framework to evaluate the attractiveness and potential risks of a market.	1.3.C.1 Businesses evaluate market opportunities using the PESTEL framework, which involves identifying the relevant PESTEL factors and assessing how each relevant factor impacts the attractiveness and potential risks of the market, specific to their product or business idea. 1.3.C.2 A business is more likely to enter a market where PESTEL factors align with its business model, considering resources and production processes as well as potential customers. For example, a tech business is more likely to locate in a market with relatively inexpensive access to high-speed internet and electricity, while a farm-to-table restaurant is more likely to locate in a market with customers who prioritize locally grown food. 1.3.C.3 Changes in PESTEL factors may impact the viability of a business in an existing market because of their influence on customer needs, wants, and ability to buy a product; available production and distribution systems; and access to resources.

TOPIC 1.4

How Do Business Ideas Originate?

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
1.4.A Describe strategies entrepreneurs and businesses use to generate new product ideas.	**1.4.A.1** An *entrepreneur* is an individual who develops a new business and assumes the risks and potential rewards. **1.4.A.2** Entrepreneurs and existing businesses generate new product ideas using a variety of strategies, such as observing, interviewing, and surveying potential customers to identify needs; investing in market and technical research to identify market gaps; and developing new capabilities through experimentation.
1.4.B Describe the risk involved in bringing a new product to market and the reasons entrepreneurs and existing businesses are willing to incur the risk.	**1.4.B.1** Bringing a new product to market incurs risk because it requires financial, physical, and human resources, which have costs, and there is no guarantee that a new product will generate enough revenue to cover the costs or earn profits. **1.4.B.2** An entrepreneur or existing business may be incentivized to bear the risk of bringing a new product to market by the potential to earn future profits, the satisfaction of solving a problem, or the ability to pursue a passion.
1.4.C Apply an entrepreneurial design-thinking process to the generation and validation of a new business or product idea.	**1.4.C.1** An entrepreneurial design-thinking process begins with observing, interviewing, and/or surveying potential customers to identify and validate a problem, need, or want. At this stage, validation means gathering evidence that the problem, need, or want exists, can be clearly defined, and is experienced by multiple potential customers. **1.4.C.2** After an entrepreneur or existing business has identified and validated a problem, need, or want, the entrepreneur or existing business will develop a potential solution (product idea), which may involve brainstorming, sketching, and prototyping. **1.4.C.3** After an initial product idea is developed, the entrepreneur or existing business will validate the idea by gathering initial feedback on a *minimum viable product* (MVP) from potential customers. The MVP is the simplest version of the product idea, with only core features, and may be a sketch, a description, or a model.

TOPIC 1.5
Vision

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
1.5.A Explain how core values and core competencies shape business and individual decision making.	**1.5.A.1** *Core values* are defining beliefs and principles that guide an individual's or business's actions. Examples of core values may include creativity, excellence, transparency, empathy, and reliability. **1.5.A.2** Businesses communicate core values to align employees to a shared purpose and guide decision makers to choose courses of action consistent with the business's beliefs and principles. **1.5.A.3** *Core competencies* are an individual's or business's capabilities, skills, and expertise that contribute to their ability to outperform rivals and achieve competitive advantage. Examples of core competencies may include innovation, customer service, communication, ethical behavior, and efficiency. **1.5.A.4** Businesses consider their core competencies when making decisions about which opportunities to pursue and how best to allocate resources to meet customer needs. **1.5.A.5** Individuals consider their core values and core competencies when making decisions about which educational, career, and job opportunities to pursue.
1.5.B Develop or evaluate a vision statement and/or mission statement based on a business's goals and values.	**1.5.B.1** A *vision statement* provides a concise description of a business's core values and aspirations. **1.5.B.2** A *mission statement* provides a description of what a business does and how the business will achieve its long-term goals. **1.5.B.3** Vision statements and mission statements communicate long-term goals and core values to internal audiences to guide decision making and provide a shared sense of purpose. These statements also inform potential customers and investors of the business's goals and values.

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
1.5.C Describe the goals of businesses, social enterprises, and nonprofit organizations.	**1.5.C.1** Businesses seek to achieve and increase profits, fulfill their stated missions and goals, and remain competitive and viable in the long term. Businesses can improve profits by increasing revenues and/or by decreasing costs. **1.5.C.2** Some businesses seek to generate profit while also achieving social objectives; these businesses are designated social enterprises. The impact on societal challenges may be achieved through a business's products, operations, or financial model. **1.5.C.3** Nonprofit organizations serve the public good rather than generating profit for their owners. Any surplus funds (i.e., revenues in excess of costs) must be reinvested in the organization by law. Nonprofits often rely on grant funding and donations as part of their revenue.

TOPIC 1.6
Business Ethics

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
1.6.A Explain how and why businesses encourage ethical behavior.	**1.6.A.1** Unethical behavior, such as falsifying or concealing information, misusing company property, and causing harm to employees or customers, can occur at all levels of business; incentive structures can influence individuals' choices to gain benefits for themselves unethically. **1.6.A.2** Businesses can encourage ethical behavior by implementing codes of conduct, training employees to follow ethical guidelines, imposing internal repercussions for ethical transgressions, and modeling ethical behavior. **1.6.A.3** Ethical business practices can also attract both customers and employees and contribute to brand loyalty. A business's response to unethical behavior or an ethical dilemma may affect customer and employee relationships, public perception of the business, and profitability.
1.6.B Explain how business leaders respond to ethical dilemmas.	**1.6.B.1** Ethical dilemmas in business exist when a core value, such as transparency, fairness, and empathy, conflicts with other core values or with business goals or practices. **1.6.B.2** Business leaders facing ethical dilemmas often consider the impact of potential responses on various internal and external stakeholders, as well as the impact on reputation and company culture. i. Internal stakeholders are individuals or groups in a business who have a direct involvement in its operations, decisions, and outcomes. Owners, managers, and employees are examples of internal stakeholders. ii. External stakeholders are individuals or groups that are not directly employed by or involved in an organization but have a vested interest in its decisions and outcomes. Customers, government agencies, and community members may be considered external stakeholders. **1.6.B.3** To respond to an ethical dilemma, business leaders often evaluate the benefits and costs of potential responses for each stakeholder group and choose the course of action that results in the greatest total benefit or the least total harm. Alternatively, business leaders may choose a course of action that is most consistent with the business's vision and/or goals.

TOPIC 1.7

Organization, Roles, and Responsibilities

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
1.7.A Describe the major types of business organization and their relative advantages and disadvantages.	**1.7.A.1** The major types of business organization are sole proprietorship, partnership, limited liability company (LLC), and corporation. **1.7.A.2** A business owner can retain control over decision making and profits by organizing their business as a sole proprietorship, partnership, or LLC; however, they may be limited in their ability to grow the business because these types of businesses have less access to funding. **1.7.A.3** Sole proprietors and partners are personally liable for all business debts and obligations; however, they can avoid personal liability for business debts by organizing as LLCs. **1.7.A.4** Business owners cede control over decision making to shareholders and an elected board of directors when a business becomes a corporation; corporations typically have greater access to funding and more ability to grow than other types of business, and the company rather than individual owners controls profits and is liable for business debts.
1.7.B Define the roles and responsibilities of sole proprietors and partners.	**1.7.B.1** Sole proprietors have primary responsibility for all aspects of their businesses and may play multiple roles, including chief executive officer (CEO), marketer, product developer, financial manager, and operations manager. **1.7.B.2** Partners have primary responsibility for all aspects of their business and play multiple roles, which are typically divided according to each partner's strengths and interests.
1.7.C Explain how and why large businesses organize responsibilities into a structure that includes leadership and management of specialized departments as well as outsourcing.	**1.7.C.1** As a business grows in size and complexity, managing all aspects of it requires more employees with specific skills, which leads many businesses to organize roles and responsibilities into specialized departments (or teams). **1.7.C.2** Many large businesses employ executive leaders (e.g., CEOs) who are responsible for the overall vision, operations, strategy, and performance of the business as well as managers who lead the specialized departments and report to the executive leaders. In a corporation, the executive leaders report to the board of directors and shareholders.

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
1.7.C Explain how and why large businesses organize responsibilities into a structure that includes leadership and management of specialized departments as well as outsourcing.	**1.7.C.3** Specialized departments are responsible for functional areas of business and develop expertise in these areas, which improves a business's ability to meet customer needs and wants efficiently and effectively. **1.7.C.4** Businesses may outsource functions to other businesses when doing so is likely to increase efficiency or reduce costs. For example, a business may outsource functions when it lacks employees with specific skills or when existing labor costs are high.
1.7.D Describe the roles, responsibilities, and purposes of specialized departments in a business.	**1.7.D.1** Sales and marketing departments conduct market research, develop sales strategies, manage brands, and build customer relationships to attract and retain customers. **1.7.D.2** Research and development departments innovate around new and existing goods, services, and processes to better meet customers' needs and wants. **1.7.D.3** Operations departments manage the technical process of manufacturing goods or developing services to get the business's products to customers. **1.7.D.4** Accounting departments track expenditures and earnings and prepare financial statements to monitor the financial health of a business. **1.7.D.5** Finance departments secure and manage the use of funds and use financial data to recommend strategies for improving a business's performance. **1.7.D.6** Human resources departments recruit, train, and oversee the evaluation of employees to ensure that a business has a workforce with the knowledge, skills, and abilities to produce and provide the product, market to customers, make sales, and manage finances.

TOPIC 1.8

Supply Chains

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
1.8.A Describe factors businesses consider when developing a production process.	**1.8.A.1** Businesses establish processes for producing and distributing their goods and/or services. Some businesses that produce goods choose *artisan processes*, which require skilled labor and attention to detail, while others choose *mass-production processes*, which typically require technology, assembly lines, and machinery to produce a larger quantity of goods. **1.8.A.2** Businesses consider customer priorities, such as quality, price, and customization, as well as the business's core competencies and the competitive landscape when developing production processes.
1.8.B Develop or describe a supply chain plan for a product.	**1.8.B.1** Businesses connect all of the individuals and businesses involved at each stage of the production and distribution process—from acquiring raw materials to final customer delivery—through *supply chains*, which may be local, regional, or global. Supply chains for goods differ from supply chains for services. **1.8.B.2** In the supply chain for a good, raw materials and component parts (e.g., computer chips) are acquired and transported to manufacturing facilities, where they are made into finished goods by a combination of workers and equipment. Goods may then be transported to a storage facility, such as a warehouse, before going to a distribution center or retail store for distribution to customers. **1.8.B.3** In the supply chain for a service, businesses acquire the employees, resources, and delivery systems needed to provide the service to customers either in person or virtually. **1.8.B.4** Businesses consider cost, quality, efficiency, convenience, and risk when choosing suppliers. Risks such as natural disasters, political instability, resource shortages, production errors, and supplier reputation may delay product delivery or increase costs, threatening competitive advantage and profits.
1.8.C Explain how a business's competitive advantage strategy influences supply chain decisions.	**1.8.C.1** Businesses seeking competitive advantage through low prices typically use mass production and build supply chains focused on reducing costs, for example, through the use of cheaper resources and more efficient production processes. Some businesses *scale* their operations—building new, higher-capacity, and/or more efficient supply chains designed to achieve revenue increases that are greater than cost increases. **1.8.C.2** Businesses seeking competitive advantage through the provision of high-quality goods and services, whether through artisan or mass-production processes, build supply chains that use high-quality resources and production methods.

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
1.8.C Explain how a business's competitive advantage strategy influences supply chain decisions.	1.8.C.3 Businesses seeking competitive advantage through barriers to entry build supply chains that include exclusive or restrictive agreements with suppliers or distributors; for example, agreements that prevent a supplier from selling component parts to rivals or prevent a retailer from distributing rival products.

AP BUSINESS WITH PERSONAL FINANCE

UNIT 2

Marketing

TOPIC 2.1
Marketing to Customers

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
2.1.A Explain why and how marketers collect customer data.	**2.1.A.1** *Marketing* is all of the activities businesses undertake to identify customers' problems, needs, and wants as well as to promote, sell, and deliver products. **2.1.A.2** Customer data helps marketers determine which customers a business should serve, which products to produce, and how to market products effectively and profitably. **2.1.A.3** Marketers collect a wide variety of data pertaining to customers. This data includes demographic and psychographic characteristics. i. Demographic characteristics are measurable qualities used to describe a population, such as age, sex, race, ethnicity, income, and location. ii. Psychographic characteristics are cognitive and behavioral factors within a population including individuals' interests, activities, values, and lifestyles. **2.1.A.4** Businesses collect customer data using a variety of digital tools, including subscriber lists, online accounts, click-tracking software, tracking apps, and social media monitoring, as well as through traditional research tools, such as surveys and interviews. Businesses also buy customer data from other businesses.
2.1.B Use market segmentation to identify target customers and develop a customer profile.	**2.1.B.1** Market segmentation is a way to aggregate potential customers into groups, called *market segments*, based on shared demographic and psychographic characteristics. Market segmentation helps businesses better understand the needs and wants of different groups within a market and how their products might address these needs and wants. **2.1.B.2** Businesses use market segmentation to identify *target customers*—those buyers most likely to purchase a specific product because of their wants, needs, and preferences. **2.1.B.3** A business may create customer profiles to personify its target customers. A *customer profile* is a fictional description of a specific sample customer, incorporating demographic and psychographic data as well as the individual's wants, needs, and preferences. **2.1.B.4** Identifying target customers and developing customer profiles helps businesses design products and marketing elements (e.g., branding, pricing, and advertising) that appeal to the targeted customer population, which is typically more effective and less costly than appealing to a wide audience.

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
2.1.C Describe the purpose of building customer relationships and develop a plan to build customer relationships.	**2.1.C.1** Businesses use a variety of tactics to build strong customer relationships, including personalized service, rewards programs for frequent buyers, and customer feedback opportunities (e.g., satisfaction surveys). Social media and the internet make it easier for businesses to employ these tactics. **2.1.C.2** Strong customer relationships can reduce customer acquisition cost, potentially increasing profits, because satisfied customers may refer new customers. Customer acquisition cost is calculated by dividing the total marketing, advertising, and sales costs associated with acquiring customers by the total number of customers. **2.1.C.3** Strong customer relationships can increase the lifetime value of each unique customer, potentially increasing profits, because satisfied customers have more brand loyalty and make repeat purchases. The lifetime value of a customer is the estimated amount of money that the customer will spend on the business's products over time.
2.1.D Explain how the collection and use of customer data may make customers vulnerable to privacy infringement, identity theft, and fraud and create risks for businesses.	**2.1.D.1** Collecting, compiling, and storing customer data such as consumers' online searches, purchases of goods and services, credit card numbers, social media posts, and geographic location may violate consumers' privacy, particularly when consumers are unaware that their data is being collected or uninformed about how it may be used. **2.1.D.2** Customer data that is not properly secured may make individual consumers or businesses vulnerable to data breaches, fraud, and identity theft. **2.1.D.3** Businesses that collect, compile, store, and use customer data must balance the benefits of using this data against the potential risks to the business, including loss of customers, violation of core values, and harm to the business's reputation.

TOPIC 2.2
Consumer Behavior

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
2.2.A Explain why and how consumers make buying decisions.	**2.2.A.1** Consumers buy goods and services to meet basic needs and wants. When rival goods that meet the same needs and wants are available, consumer decisions regarding which products to buy are influenced by prices, differentiated product features, availability, and advertising. **2.2.A.2** Consumers make some buying decisions, especially consequential ones like a home purchase, using a rational process of systematically evaluating alternative products, but many smaller buying decisions, such as buying a coffee on the way to work, are habitual or routine. A rational decision-making process helps consumers identify products that best address their needs and wants but also incurs costs, including time spent gathering information. **2.2.A.3** Personal factors, such as age, sex, education, income level, budget, occupation, and lifestyle, shape buying decisions by influencing what a consumer needs and wants and what they can afford. **2.2.A.4** Psychological factors, such as values and beliefs, perceptions, learning (associations developed through prior experience), and individual motivations, shape consumer buying decisions by influencing their attitudes toward products and their willingness to buy. **2.2.A.5** Social and cultural factors, such as peers, family, social status, cultural norms, and media, shape consumer buying decisions by influencing what is acceptable, desirable, or appropriate to buy. **2.2.A.6** Situational influences, such as store design (noise, lighting, and organization), timing, and product availability, influence consumer buying decisions by creating temporary conditions that can encourage or discourage buying.
2.2.B Describe the impact of legal and technological factors on consumer purchasing patterns.	**2.2.B.1** A *purchasing pattern* is a consumer's typical routine for making purchases, including timing, frequency, and quantity of purchases. Factors such as where an individual lives and works, their income level, and the purchasing patterns of their family and friends help determine their purchasing patterns. **2.2.B.2** Laws influence consumer purchasing patterns when they regulate what consumers can buy and when and where they can buy specific items. Consumer protection laws, for example, are designed to help individuals avoid fraudulent products and/or products that may be unsafe for them. These legal factors can give rise to substitute products, as consumers find new ways to address their needs and wants when existing products are more difficult to obtain.

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
2.2.B Describe the impact of legal and technological factors on consumer purchasing patterns.	**2.2.B.3** Technology and innovation make new products accessible, which influences consumer purchasing patterns. For example, the internet in the 1990s and the advent of smartphones in the 2010s both facilitated new ways of shopping, finding information, and accessing entertainment, which changed how customers met their needs and wants.
2.2.C Evaluate sales tactics that draw upon Cialdini's principles of influence, and develop a sales tactic.	**2.2.C.1** The principles of influence, developed by psychologist Robert Cialdini, are psychological factors that cause people to comply with a request. Marketers use tactics based on these principles to motivate consumers to buy products. **2.2.C.2** Cialdini's scarcity principle states that the rarer an item seems, the more people tend to want it. Marketers apply this principle to motivate consumers by using phrases such as "limited-time offer" or "only one left at this price" to create a sense of urgency. **2.2.C.3** Cialdini's authority principle states that individuals tend to obey or follow authority figures. Marketers apply this principle to motivate consumers by using expert spokespeople, such as doctors, to endorse products or by emphasizing the credentials of service providers. **2.2.C.4** Cialdini's consensus principle states that individuals tend to follow social-group norms. Marketers apply this principle to motivate consumers by promoting positive customer feedback to create a sense that most consumers like a product. **2.2.C.5** Cialdini's liking principle states that individuals are more likely to be influenced by people they like or relate to. Marketers apply this principle to motivate consumers by featuring people who look and act like the target customer in advertising and by building personal rapport with consumers. **2.2.C.6** Cialdini's reciprocity principle states that individuals feel obligated to reciprocate when given something of value. Marketers apply this principle to motivate consumers by offering free trials, samples, and gifts, which can make the recipient feel compelled to buy something in return. **2.2.C.7** Cialdini's consistency principle states that individuals tend to repeat behavior that aligns with their self-image. Marketers apply this principle to motivate consumers by appealing to their identity; for example, by promoting a product as something health-conscious consumers buy. **2.2.C.8** Cialdini's unity principle states that when individuals perceive that they are part of a group, they are more likely to be influenced by the group. Marketers apply this principle to motivate consumers by building a sense of community among target customers; for example, by asking them to join an exclusive online group or inviting them to cocreate products.

TOPIC 2.3
Market Research

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
2.3.A Explain why businesses conduct market research.	**2.3.A.1** Market research is the process of collecting detailed information about markets, products, and customer behavior to guide marketing decisions. **2.3.A.2** Market researchers collect both quantitative and qualitative data. i. Quantitative data is numerical data that can be measured and analyzed and answers questions such as *how many*, *how much*, and *how often*. ii. Qualitative data is descriptive, non-numerical data that is collected in words and images and answers questions such as *why* and *how*. **2.3.A.3** Businesses developing new products use market research to evaluate the desirability, feasibility, and viability of a product before committing significant resources to bring the product to market. i. A product is desirable when it creates value for consumers by achieving problem-solution fit. ii. A product is feasible when a business has the capacity to produce and provide it within the constraints of available resources, technology, expertise, and time. iii. A product is viable when it has the potential to be profitable in a market. **2.3.A.4** Businesses with existing products use market research to better understand customers' changing needs and wants, identify opportunities for product innovation, and develop strategies to retain or grow market share.
2.3.B Conduct and interpret secondary-source research to assess a market opportunity.	**2.3.B.1** Businesses use both secondary-source research and primary-source research to learn about customers, competitors, and the market landscape, including the PESTEL factors influencing market opportunities. **2.3.B.2** Secondary-source research involves gathering quantitative and/or qualitative information from a variety of external sources, including government, commercial, and academic publications and databases. These sources often contain detailed information on a variety of topics including market size (in dollars and in total customers), market trends, market segments, and factors that influence customer decisions, which can inform a business's understanding of the potential viability of its product. **2.3.B.3** Businesses typically interpret secondary-source research findings, including detailed information about rival businesses, to assess the market landscape for a product idea because it is more cost-effective than conducting extensive primary-source research.

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
2.3.C Conduct and interpret primary-source research to test a business hypothesis related to target customers and/or customer preferences.	**2.3.C.1** Businesses typically test hypotheses related to their target customers and customer preferences by conducting and interpreting primary-source research, including surveys, A/B testing, focus groups, interviews, experiments, and/or observations.
	2.3.C.2 A business hypothesis states an assumption related to a customer, product, or market. Businesses typically test the validity of their assumptions (hypotheses) before committing to a course of action.
	2.3.C.3 When conducting primary-source research, businesses may choose the research method or combination of methods based on the types of data the business needs to test its hypotheses.
	2.3.C.4 Businesses may use surveys when they need a large amount of quantitative data that reflects the views of a population in order to test a hypothesis.
	2.3.C.5 Businesses may use focus groups and one-on-one interviews when they need in-depth, qualitative data from a small number of individuals, such as highly engaged customers or potential customers, in order to test a hypothesis. These methods allow for follow-up questions and discussions that elicit detailed explanations.
	2.3.C.6 Businesses may use experiments and observations when they need data on customer behavior, rather than opinions, in order to test a hypothesis. These methods allow researchers to gather information about how customers behave in either a controlled environment (in an experiment) or a natural environment (in an observation).
	2.3.C.7 Businesses may use A/B testing (a type of experiment) when they need to measure authentic customer responses to two viable alternatives in order to test a hypothesis. This method allows researchers to gather information about specific customer preferences in a real-world environment.
	2.3.C.8 Businesses should take care to implement hypothesis testing in ways that reduce the risk of skewed data—both by designing research studies with sufficiently large and appropriately populated samples to reflect the population being studied and by asking unbiased questions that use neutral phrasing to avoid influencing the way respondents answer.
	2.3.C.9 Despite the use of market research to inform decisions, businesses are not always able to accurately predict customer and market responses. Businesses often must innovate and respond to problems and opportunities using limited, unclear, or contradictory data.

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
2.3.D Develop and interpret data visualizations that reflect market research findings.	**2.3.D.1** Businesses may use a variety of data visualization tools to identify and communicate patterns, trends, and insights. Data visualizations such as bar charts, stacked bar charts, line graphs, and pie charts make it easier for stakeholders to understand complex information and make evidence-based decisions. **2.3.D.2** Businesses select the data visualization tool that best illustrates the pattern, trend, or insight they want to communicate. **2.3.D.3** Bar charts are often used to illustrate comparisons between individual data points, such as several years of sales data for a specific business or annual revenue for different businesses in a market. **2.3.D.4** Stacked bar charts are often used to illustrate comparisons between data and its subcategories. For example, a single stacked bar chart may show how total sales per year have changed as well as how sales for distinct product lines have changed over the same time period. **2.3.D.5** Line graphs are often used to illustrate trends over time, such as number of customers by year. **2.3.D.6** Pie charts are often used to illustrate part-to-whole relationships, such as the percentage of market share held by each business in a market.

TOPIC 2.4
Product

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
2.4.A Describe the six typical stages of product development, and develop an MVP and value proposition.	**2.4.A.1** Product development is the process of creating or improving a product through research and iteration. Product development typically includes six stages: ideation, validation, design, messaging, production, and launch.
	2.4.A.2 The ideation stage focuses on generating ideas for new or improved products through market research, technical research and development (R&D), and brainstorming.
	2.4.A.3 The validation stage focuses on testing product ideas with potential customers. Marketers may use an MVP (minimum viable product) to assess whether a product can achieve *product-market fit*, which occurs if customer demand is sufficient to generate profit.
	2.4.A.4 The design stage focuses on sourcing materials, creating prototypes, and estimating production and delivery costs. Developers determine key product features, such as functionality (how the product works), the user experience, and basic attributes like size, color, and quality. Businesses gather feedback on prototypes to understand who is likely to buy the product and how they respond to specific features.
	2.4.A.5 The messaging stage focuses on creating a product's overall marketing strategy. Businesses develop a *value proposition* to explain who the product intends to serve, what problem or need it intends to address, and how it is superior to alternatives, based on market research insights. Businesses also develop *product-positioning strategies* to influence how potential customers perceive a product relative to rivals.
	2.4.A.6 The production stage focuses on building the product, incorporating feedback received during the design stage. Businesses determine the production process and supply chain and attempt to match production levels with customer demand.
	2.4.A.7 The launch stage focuses on taking orders and distributing a final product to customers. Businesses begin marketing the product to the target segment.
2.4.B Develop and evaluate branding for a business or product.	**2.4.B.1** Branding is the process of developing an identity, or brand, for a business or product, which is used to distinguish it from competitors, raise customer awareness, and generate loyalty.
	2.4.B.2 Businesses typically consider their vision and/or the value proposition for a product when developing a brand identity to ensure that the brand appeals to the target customer. For example, a business that includes quick delivery in its value proposition may develop a brand identity that conveys a sense of movement or urgency.

LEARNING OBJECTIVE

2.4.B

Develop and evaluate branding for a business or product.

ESSENTIAL KNOWLEDGE

2.4.B.3

A brand identity can be conveyed through a name, idea, term, symbol, design, or combination of these elements, which businesses often seek to protect by trademarking.

2.4.B.4

In addition to marketing products under brand names, business may sell generic products because some customers prioritize cost savings, which are associated with generic goods, over branding.

2.4.C

Explain how businesses adapt their marketing strategies to address competitive challenges throughout the product life cycle.

2.4.C.1

The *product life cycle* is a series of stages that a product passes through, from introduction (the culmination of the product development stages) to decline, dictated by changes in customer demand over time.

2.4.C.2

At each stage of the product life cycle, businesses adapt the focus of their marketing strategies to address competitive challenges and attempt to grow or retain market share.

2.4.C.3

During the introduction stage of the product life cycle, a business launches a new product and sales volume and revenue are typically low; marketing strategy focuses on tactics to raise brand awareness to generate initial customer demand.

2.4.C.4

A product enters the growth stage when sales volume and revenue grow at an increasing rate and production typically increases. Competitors often enter the market and, consequently, marketing strategy focuses on tactics to differentiate the product from rival products, improve product quality, promote the brand, and advertise to promote growth.

2.4.C.5

A product enters the maturity stage when sales volume and revenue flatten, and the business seeks to retain existing market share by building brand loyalty in a saturated market. Marketing strategy during the maturity stage focuses on continued product differentiation, lower prices, and innovation.

2.4.C.6

A product enters the decline stage when sales volume and revenue fall as customers turn to rival products or innovative substitutes. Marketing strategy during the decline stage involves cutting costs or focusing on product redesign to remain viable. Products may be discontinued at this stage.

TOPIC 2.5
Price

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
2.5.A Develop and evaluate a pricing strategy.	**2.5.A.1** A *pricing strategy* is a way of determining how much to charge for a product; setting the right price is critical to a business's viability because of the role price plays in attracting and retaining customers and generating revenue and profit. **2.5.A.2** Businesses consider the per-unit cost of producing and distributing a good or service when setting the price. Although a low price may help a business gain market share, a product is not profitable if the price is equal to or lower than per-unit cost. **2.5.A.3** Businesses that use *value-based pricing* set a price based on the perceived value or worth of the product to the customer. Businesses that produce highly differentiated or uniquely valuable products are more likely to use value-based pricing. **2.5.A.4** Businesses that use *competitive pricing* set the product's price based on the prices of rival products, often called price matching. If a business believes that its product is sufficiently differentiated, it may charge a premium over what competitors offer. If a business believes its product lacks differentiated features, it may set a price at or below those of competitors to gain market share at the expense of per-unit profit. **2.5.A.5** Businesses that use *cost-based pricing* set the product's price to achieve the desired per-unit profit (price minus per-unit cost) rather than considering factors such as perceived customer value or the price of rival goods. Businesses with clearly defined per-unit costs that can be communicated to customers, such as construction contractors, are more likely to use cost-based pricing. **2.5.A.6** Businesses that use *penetration pricing* set a low price (possibly below per-unit cost) with the intention of increasing the price later in an effort to attract price-sensitive customers away from competitors and grow market share quickly.
2.5.B Evaluate how market conditions affect a business's pricing power.	**2.5.B.1** Businesses that operate in highly competitive markets with little product differentiation have little *pricing power* (the ability to raise prices without risking market share), which may force them to keep prices as low as possible. Businesses that operate in less-competitive markets or sell highly differentiated products have more pricing power and can implement more profitable pricing strategies. **2.5.B.2** Businesses whose customers are highly responsive to price changes have little pricing power because a price increase may reduce revenue if customers buy significantly less of the product. While a price cut may increase product sales, sales may not increase sufficiently to compensate for the lower price, also resulting in lower revenue and profits.

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
2.5.B Evaluate how market conditions affect a business's pricing power.	**2.5.B.3** Businesses measure customer responsiveness to price changes and how price changes will impact sales and revenue by measuring price elasticity of demand. Businesses that face more elastic (responsive) demand are limited in their ability to raise prices compared to businesses that face more inelastic (less-responsive) demand. **EXCLUSION STATEMENT—***Calculating price elasticity of demand is beyond the scope of the AP Business with Personal Finance Exam but can usefully be introduced to prepare students for AP Economics.*
2.5.C Describe legal constraints that limit pricing power.	**2.5.C.1** Colluding with competitors to set an agreed-upon price (typically used to set one higher than the competitive market price) is illegal in many countries, including the U.S. **2.5.C.2** Price gouging—the practice of raising the price of a product with increased demand due to a crisis—is illegal in many U.S. states and in many countries. **2.5.C.3** Price discrimination—the practice of charging different prices to different customer segments for the same product—is illegal when done on the basis of race, nationality, sex, or another protected status.

TOPIC 2.6
Place and Channels

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
2.6.A Describe the types of marketing channels available to businesses.	**2.6.A.1** *Place* is used to describe where and how customers access products; for example, whether products are available in retail stores, in company-owned stores, through club memberships, and/or online. **2.6.A.2** Place is determined by a business's marketing channels (also called distribution channels), which are the final stage of a supply chain. A *marketing channel* consists of all of the individuals and businesses required to deliver a finished product to the final customer. **2.6.A.3** Businesses that sell consumer products use business-to-consumer (B2C) marketing channels, such as websites and retail stores. Businesses that sell business products use business-to-business (B2B) channels, such as industrial distributors. **2.6.A.4** Businesses distribute products through either direct channels, which connect them directly to their customers with no intermediaries, or indirect channels, which include intermediaries such as wholesalers and retailers. **2.6.A.5** Specific distribution channels are legally required for some products, such as prescription medications and products that pose health or safety risks.
2.6.B Select and evaluate potential marketing channels for a product.	**2.6.B.1** Businesses select from a variety of direct and indirect marketing channels by comparing the costs and potential profitability of each channel, the customer experience in each channel, and the ability of each channel to deliver the product to the target customers. **2.6.B.2** Businesses may select direct channels, such as websites or company-owned retail stores, because these channels enable a business to maintain more control over pricing and the customer experience. These channels may be more costly to establish and more limited in reach, and the business may need to acquire expertise in sales and distribution. **2.6.B.3** Businesses may select indirect channels when they expect the expertise and networks offered by distribution partners to reduce costs and provide access to more customers. In some cases, these channels are difficult for businesses to access because distributors and retail space may already be dominated by rivals.

TOPIC 2.7
Promotion and Marketing Communications

LEARNING OBJECTIVE

2.7.A
Develop or evaluate a marketing campaign.

ESSENTIAL KNOWLEDGE

2.7.A.1
A *marketing campaign* refers to a coordinated effort to promote a product to potential customers using all or some of the marketing tools in the promotional mix.

2.7.A.2
The promotional mix consists of five tools used to communicate with customers: media advertising, personal selling, sales promotion, direct marketing, and public relations. These tools are used to communicate messages that differentiate products, build brand loyalty, and increase sales and revenue.

2.7.A.3
Businesses strategically use different tools to address how customers make buying decisions for specific products. A customer making a consequential purchase may require detailed, personalized interaction to make a decision, while a customer making a more routine purchase may be satisfied by messages and information conveyed by mass media or direct-marketing materials.

2.7.A.4
Businesses may select media advertising (e.g., TV, radio, newspapers, and billboards) when they want to reach a large number of customers with the same message, such as a commercial or advertisement, at the same time.

2.7.A.5
Businesses may select personal selling when they want to provide detailed product information or a demonstration to a potential customer. Personal selling may include a sales pitch—a short presentation that conveys the product's value proposition—to complete a sale.

2.7.A.6
Businesses may select sales promotions (e.g., discounts and coupons) when they want to encourage more rapid customer decision making or to reduce unsold inventory.

2.7.A.7
Businesses may select direct marketing (e.g., flyers and brochures) when they want to reach many potential customers with a targeted message.

2.7.A.8
Businesses may select public relations (e.g., press releases and media interviews that result in media coverage) when they want to create a favorable public image rather than advance a specific sale.

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
2.7.B Explain how digital marketing tools have changed business interactions with customers.	**2.7.B.1** Digital marketing is the use of the internet and digital technology tools, such as websites, email, social media, and mobile apps, to connect with and serve customers. In the early 21st century, businesses shifted marketing resources away from traditional advertising such as newspaper, magazine, radio, and TV ads, toward digital tools and platforms. **2.7.B.2** Digital marketing tools enable businesses to reach potential customers, whether global audiences or targeted customer segments, with greater personalization and at lower cost than traditional tools. **2.7.B.3** Digital marketing tools enable businesses to collect a large volume of information—known as *big data*—about how customers respond to marketing communication and which factors make them more likely to buy. Some traditional tools, such as personal selling, permitted this type of data collection on a small scale, but other traditional tools, such as TV ads and billboards, did not.

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AP BUSINESS WITH PERSONAL FINANCE

UNIT 3

Part 1: Personal Saving and Borrowing

TOPIC 3.1
Saving for Future Purchases

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
3.1.A Describe reasons consumers save, and identify barriers to saving.	**3.1.A.1** Consumers typically earn income by working for an organization such as a business, nonprofit, or government entity and spend income to buy products that address their problems, needs, and wants. Some individuals receive income from other sources, such as self-employment, rental properties, government programs, investments, or retirement accounts. **3.1.A.2** Consumers often save a portion of their income for significant future purchases, such as a car, a home, or college tuition. Individuals also save to prepare for future emergencies, such as job loss or illness, and to have a source of income in retirement. **3.1.A.3** Saving creates a personal asset and may earn interest, which can be a source of current or future income. Interest payments are determined by the interest rate, the amount of savings, the type of savings vehicle, and conditions in the economy. **3.1.A.4** Consumers may be incentivized to save through programs such as automated savings plans (which allocate a set amount of income to savings during each pay period), retirement savings plans (which allow individuals to save on taxes when they save for retirement), and health savings accounts (which allow individuals to save on taxes when they allocate money for health-related expenses). **3.1.A.5** Consumers may face barriers that make saving difficult; for example, inconsistent income or recurring expenses that exceed income. Psychological forces such as instant gratification, lifestyle inflation, and impulse buying also make saving difficult.
3.1.B Explain how PESTEL factors can impact the value of savings and incentives to save.	**3.1.B.1** Economic factors influence saving because the overall stability and performance of the economy affects individuals' incomes and the cost of living. Either loss of income in a weak economy or increased cost of living in a strong economy may make saving more difficult because individuals may have less available income after paying necessary expenses. **3.1.B.2** Inflation—an increase in the prices of goods and services—is an economic factor that erodes the purchasing power of savings because money will buy fewer goods and services in the future. The expected loss of purchasing power can disincentivize savings. **3.1.B.3** Political factors influence saving because government tax policies may incentivize savings, for example, by allowing individuals to not pay income taxes on a portion of income that they place in designated accounts for retirement, health care, childcare, or other purposes. **3.1.B.4** Legal factors influence saving because government agencies regulate financial institutions, such as commercial banks and credit unions, to improve consumer protection and the financial stability of these institutions.

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
3.1.C Develop or evaluate a savings plan.	**3.1.C.1** Consumers decide how much of their income to save based on their personal and financial goals as well as their current income and expenses; individuals are likely to save more if they have defined goals and face fewer barriers. **3.1.C.2** Consumers decide how and where to keep their savings based on how much they are saving, their goals, their available time frame, the impact of PESTEL factors, and their evaluation of the benefits and costs of various savings vehicles offered by financial institutions such as banks and credit unions. These vehicles include savings accounts, money market accounts, and certificates of deposit. **3.1.C.3** Consumers consider interest rates, fees, minimum deposit requirements, and potential risk as well as location, convenience, and reputation when selecting a financial institution and type of account. Individuals choosing a savings vehicle often face tradeoffs, such as higher minimum balances or other requirements for accounts that pay higher interest. **3.1.C.4** A savings account is a deposit account at a financial institution that typically pays interest and is insured by the federal government up to a maximum amount ($250,000 as of 2024), which means the consumer does not lose their deposit if the bank goes out of business. Depositors may pay monthly fees on savings accounts. The minimum deposit required to open an account, the interest rate, and the fees to maintain the account differ by institution. **3.1.C.5** A money market account is similar to a savings account and is also federally insured. Compared to a savings account, a money market account may require a larger minimum deposit, charge higher monthly fees, pay higher interest rates, and provide easier access to cash; these features differ by institution. **3.1.C.6** A certificate of deposit (CD) is similar to a savings account and is also federally insured. A CD typically pays a higher rate of interest than a savings account or money market account, but depositors are restricted from withdrawing their funds for a set period of time—usually one month to five years. A CD typically requires a larger minimum deposit but no monthly fee; these features differ by institution. **3.1.C.7** Some individuals store savings in vehicles such as mobile payment accounts, which make the money easy to spend, or cryptocurrency accounts, which users hope will gain value as an asset. Unless offered by insured financial institutions, these vehicles are not federally insured and typically do not pay interest.

TOPIC 3.2

Borrowing, Credit, and Debt

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
3.2.A Describe reasons consumers borrow money and the funding sources available to them.	**3.2.A.1** Consumers typically borrow money because they want to spend money on goods or services that exceed their current income and accumulated savings, such as a car, a house, or college tuition. Consumers may also borrow money to address an emergency, to maintain savings while purchasing goods and services, or because of convenience.
	3.2.A.2 Borrowing creates a personal liability or debt, and consumers must repay borrowed money (loans) with interest. The interest rate charged and the repayment terms vary based on the lender, the type of loan, the amount of money borrowed, and the borrower's credit history. Loans used to buy items that can serve as collateral, such as cars and houses, are secured loans and typically have lower interest rates than general consumer loans, which are unsecured.
	3.2.A.3 Financial institutions such as commercial banks and credit unions make loans to consumers and to businesses, nonprofits, and government entities based on the deposits received from individual savers, businesses, and other entities.
	3.2.A.4 Credit card companies, retail stores, mortgage lenders, and alternative financial services, such as payday loans, check-cashing services, and instant tax refunds, also lend money to consumers.
	3.2.A.5 Consumer protection laws require lenders to communicate credit terms clearly and explicitly to borrowers; these laws also govern debt collection tactics and prohibit discriminatory lending practices.
3.2.B Explain how a lender evaluates the creditworthiness of a potential borrower.	**3.2.B.1** Lenders face the risk that a borrower will default—meaning that the borrower will not repay the loan—so they typically prefer lending to individuals who pose less risk, for example, consumers with low existing debt, high income and savings, and a history of repaying loans on time. Lenders willing to make loans to higher-risk individuals, including alternative financial services, typically charge higher interest rates.
	3.2.B.2 Lenders collect information about a potential borrower's income, savings, and existing debt as well as credit reports detailing their past use of credit to determine the consumer's creditworthiness.
	3.2.B.3 Credit reports are created by credit bureaus (also called credit reporting agencies), which collect information each time a consumer interacts with a financial institution; for example, opening a savings account, securing a bank loan, applying for a credit card, or making a payment.
	3.2.B.4 A credit report includes a credit score reflecting the consumer's past use of credit. These reports can be shared with potential lenders, potential employers, potential landlords, insurance companies, and government agencies.

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
3.2.C Recommend a strategy to manage a consumer's existing debt and/or use of credit.	**3.2.C.1** High levels of debt can harm a consumer's financial condition because payments on loans reduce the amount of income available to save or use for other expenses. Larger debts and/or higher interest rates require higher monthly payments. **3.2.C.2** Borrowers may face difficulty repaying loans for a variety of reasons, including loss of income or monthly payments that exceed the consumer's ability to pay. **3.2.C.3** Borrowers can manage the impact of debt on their finances by maintaining a high credit score, seeking better terms on loans, and repaying high-interest-rate loans (e.g., credit card debt) as quickly as possible. **3.2.C.4** Strategies to improve an individual's credit score include paying bills on time, paying off existing debt, and minimizing use of credit cards. **3.2.C.5** Borrowers can obtain better terms on loans, including lower interest rates and lower fees, by comparing the terms offered by different lenders and by making down payments on major purchases like a home or car. A down payment requires using some income or saved money to pay part of the cost of the purchase. **3.2.C.6** Individuals who face negative consequences from unmanageable debt, such as property seizures, may be able to seek debt management assistance. In some cases, borrowers may seek bankruptcy—a legal process that eliminates some debts and helps the borrower set up a repayment plan for other debts.

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AP BUSINESS WITH PERSONAL FINANCE

UNIT 3

Part 2: Business Finance and Accounting

TOPIC 3.3

Accounting and Financial Management

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
3.3.A Explain why businesses and consumers track and evaluate financial data.	**3.3.A.1** Businesses engage in a variety of financial transactions such as buying resources, receiving payment from customers, distributing profits to owners, and saving and borrowing funds. These transactions affect the business's assets, liabilities, and *owners' equity*, which is the value of the business to its owners. **3.3.A.2** Consumers engage in a variety of financial transactions, such as receiving income, buying goods and services, saving, and borrowing, that affect their assets, liabilities, and net worth. **3.3.A.3** Businesses record all financial transactions and use this data to prepare reports and financial statements that summarize the business's financial performance. Financial statements are used to monitor the business's financial health, guide decision making, provide accurate information to shareholders, investors, and lenders, and ensure compliance with laws and reporting regulations. **3.3.A.4** Generally accepted accounting principles (GAAP) require corporations that sell ownership shares to the public to consistently disclose all positive and negative financial information for each reporting period, typically quarterly (every three months) or annually. **3.3.A.5** Consumers are not usually required to record or report financial transactions; however, having an organized system, such as a budget, for tracking financial transactions helps consumers monitor their finances and make decisions aligned to their financial goals.
3.3.B Describe the roles of accounting and finance departments in the preparation, reporting, and use of financial information.	**3.3.B.1** Accounting departments identify and record all financial transactions during a time period and prepare financial statements. **3.3.B.2** Managerial accountants provide financial information and analysis to managers and other internal stakeholders for the purpose of business planning and decision making. **3.3.B.3** Financial accountants provide financial information and analysis primarily to external stakeholders—specifically shareholders, investors, and lenders. **3.3.B.4** Finance departments are responsible for analyzing the financial data compiled by accounting departments and recommending strategies for maintaining or improving a business's financial performance. **3.3.B.5** Consumers may hire financial advisors and/or accountants to help with financial planning and decision making as well as tax preparation.

TOPIC 3.4

Business Expenses

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
3.4.A Determine startup costs associated with launching a new business or product.	**3.4.A.1** Startup costs are the one-time expenditures associated with launching a new business or product as well as initial expenses incurred while establishing the business. **3.4.A.2** One-time expenditures include legal fees, incorporation and licensing fees, and in some cases equipment purchases. **3.4.A.3** A business's initial expenses include occupancy expense, research and development, marketing, insurance, and the costs associated with production or acquisition of initial inventories. All of these expenses become ongoing once the business begins operation.
3.4.B Describe expenses associated with operating a business.	**3.4.B.1** Businesses classify their recurring costs as either direct or indirect. Direct costs are tied to the production or delivery of specific goods or services. Indirect costs, also called *operating expenses*, are the costs associated with running the business. **3.4.B.2** Recurring costs can also be fixed or variable. *Fixed expenses* do not change with production or service levels, while *variable expenses* will increase as production/service levels increase. **3.4.B.3** Businesses that produce goods incur direct costs called the *cost of goods sold (COGS)*. COGS typically includes the cost of raw materials, production supplies, production-related wages and benefits, and the cost to operate manufacturing facilities. The components of COGS can be either fixed or variable; rent for a factory is fixed, while raw materials costs are variable. **3.4.B.4** For businesses that provide services, the direct costs are called *cost of sales* and include direct labor expenses, travel costs, and any materials associated with delivering the service. **3.4.B.5** Businesses face recurring indirect costs, called *operating expenses*. These costs, which are typically fixed, include occupancy expenses, salaries and benefits for office and sales staff, marketing and advertising costs, supplies, utilities, maintenance, and insurance. **3.4.B.6** Businesses (and consumers) buy insurance to protect against financial losses from accidents, injuries, or property damage. Some types of insurance are required—for example, workers compensation insurance—but many are optional. Businesses (and consumers) vary in their willingness to accept risk and/or pay for insurance to minimize risk.

TOPIC 3.5

Financial Capital

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
3.5.A Explain why businesses seek external financial capital.	**3.5.A.1** Many entrepreneurs initially rely on bootstrapping (i.e., using personal savings), personal bank loans, and/or personal credit to fund startup costs. **3.5.A.2** Entrepreneurs evaluate their need for external *financial capital* (cash) by comparing their personal funds to their business's initial needs and by calculating how many goods or services they would need to sell in a period to break even (cover all costs for the period). **3.5.A.3** Entrepreneurs seek external financial capital if they lack the funds required to pay startup costs and operating costs for a sufficient period of time to break even. **3.5.A.4** Established businesses seek external financial capital for a variety of reasons, including financing new product development, replacing fixed assets, and increasing sales volume and revenue. **3.5.A.5** New and established businesses often seek external financial capital to manage cash flow because revenue collection can be irregular, while expenses must nonetheless always be paid.
3.5.B Determine potential sources of financial capital for a business.	**3.5.B.1** Most sources of financial capital are classified as loans or equity financing. i. *Business loans* are similar to personal loans and must be repaid with interest. Interest on loans is a business expense, and higher interest rates and/or larger loans increase the cost of borrowing for businesses. ii. *Equity financing* is a type of business funding that requires issuing ownership shares and ceding some control over decisions and a portion of future profits to investors, who become part owners. **3.5.B.2** New businesses, typically those in operation for less than two years, often borrow money from the owners' friends and family or use equity financing by issuing (selling) ownership shares to others, including friends and family or outside investors. **3.5.B.3** Established businesses, typically those in operation for at least two years with proven revenue and capacity to repay, can obtain funds through business bank loans. **3.5.B.4** Businesses organized as corporations can obtain funds by issuing bonds or shares of stock. A bond represents a loan from an investor to a business. Stock is an ownership share in the business and can be sold privately or publicly.

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
3.5.C Describe potential benefits and risks to lenders and investors who provide financial capital to businesses.	**3.5.C.1** In exchange for the financial capital they provide to businesses, lenders and investors obtain financial assets – loans (including bonds) or shares of stock. These assets can be resold in a secondary market. **3.5.C.2** Lenders receive income from interest payments on loans. A bond pays interest to the bond holder. When an individual consumer buys a corporate bond in the secondary market, they become a lender to the business. **3.5.C.3** Investors may receive income from *dividends*, which represent their share of a business's profits; however, some corporations reinvest earnings into the business and do not pay dividends. When an individual consumer buys a share of stock in the secondary market, they become an investor (shareholder) in the business. **3.5.C.4** If an investor sells an asset at a higher price than they paid for it, they achieve a *capital gain*. The prices of financial assets such as bonds and stocks change in response to business performance, investor demand, and PESTEL forces. **3.5.C.5** The annual *rate of return* on an investment is determined by dividing the total dollars gained (the sum of income and any capital gain) by the price of the asset. **3.5.C.6** Lenders and investors risk financial loss if a business performs poorly. Lenders risk losses if the business is unable to make interest payments or repay loans. Investors risk lost income (dividends) and decreased stock value if the business's profits decline, and they may lose their entire financial stake if a business shuts down. **3.5.C.7** Lenders and investors vary in their *risk tolerance*, which is their willingness to take financial risks. Some consumers and institutional lenders and investors have a high risk tolerance and will provide financial capital to fund risky or unproven ideas, while others are more cautious. Lenders and investors expect a higher rate of return when they invest in riskier assets.
3.5.D Develop and evaluate a pitch to prospective lenders or investors.	**3.5.D.1** Lenders and investors often require businesses to provide a business plan that includes their value proposition, market research, marketing strategy, and financial projections to justify a specific funding request, rate of return, and level of risk. A business owner typically develops a polished pitch summarizing this key information to persuade potential lenders and investors to provide their business with capital. **3.5.D.2** When evaluating a funding request from an established business, lenders and investors rely on the business's financial reports and projections as well as external industry data to estimate the economic valuation of the business. A valuation provides prospective investors with an estimate of what an ownership share is worth and helps lenders assess the business's capacity to repay a loan.

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
3.5.D Develop and evaluate a pitch to prospective lenders or investors.	**3.5.D.3** A funding request is more likely to be successful when the business provides evidence of product-market fit and a basis for its financial projections. Lenders and investors typically prefer funding projects with lower risk and higher projected returns. **3.5.D.4** In evaluating a request for financial capital, lenders and investors may also consider the qualifications of the business's leadership team and whether the business's value proposition and mission align with the funders' goals.

TOPIC 3.6

The Income Statement

LEARNING OBJECTIVE

3.6.A

Determine and describe components of a business income statement.

ESSENTIAL KNOWLEDGE

3.6.A.1

An *income statement*, also referred to as a *statement of profit and loss*, is a financial statement that compares a business's total revenue to its total costs over a time period to determine the business's net profit or loss. An income statement typically provides multiple periods (e.g., years, quarters, or months) of data for comparison purposes.

3.6.A.2

An income statement organizes income and cost information into three major categories: revenue, cost of goods sold (COGS), and operating expenses. Income statements also identify interest, taxes, and nonrecurring expenses.

3.6.A.3

For income statement purposes, *revenue* is the income generated by a business's core activities, such as sales of goods and services.

3.6.A.4

Gross profit describes the profit earned after deducting only the direct costs of production; it is calculated by subtracting COGS from revenue.

3.6.A.5

Operating expenses are the indirect costs a business incurs and are typically organized as selling expenses (e.g., advertising costs and salespeople's salaries) and general and administrative expenses (e.g., office salaries, rent on office space, and insurance). Research and development spending is also included in operating expenses.

3.6.A.6

Operating profit is the profit earned after deducting COGS and operating expenses and represents the business's net income before interest and taxes; it is calculated by subtracting operating expenses from gross profit.

3.6.A.7

Interest expense is the cost of borrowing money through loans (including bonds). *Pretax income* is calculated by subtracting interest expense from operating profit.

3.6.A.8

If pretax income is positive, businesses must pay taxes on that income; any tax expense is included on the income statement.

3.6.A.9

Net profit, or income after taxes, is the final dollar amount reported on a typical income statement. It is calculated by subtracting taxes from pretax income. Net profit is known as the bottom line and represents the profit or income earned by the business's owners at the end of a given period.

EXCLUSION STATEMENT—*Adjustments to gross sales for the purpose of calculating net sales, the composition of cost of goods sold, nonoperational sources of income and expenses (except interest), and below-the-bottom-line income statement items are beyond the scope of the AP Business with Personal Finance Exam.*

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
3.6.B Evaluate the financial performance of a business using income statement information.	**3.6.B.1** Income statement information is used by internal and external stakeholders to monitor trends in revenues and costs, evaluate profitability, and inform decisions related to improving future profitability. **3.6.B.2** *Gross profit margin*, which is calculated as gross profit divided by total revenue, is used to evaluate how successfully a business is setting prices and managing its direct costs. **3.6.B.3** *Operating profit margin*, which is calculated as operating profit divided by total revenue, is used to evaluate how successfully a business is marketing and selling its product(s), administering the activities of the business, and controlling operating expenses. **3.6.B.4** *Net profit margin*, which is calculated as net profit divided by total revenue, is used to evaluate overall profitability. Net profit margin describes the percentage of revenue that flows to owners as income. **3.6.B.5** Gross profit margin, operating profit margin, and net profit margin are typically benchmarked against projections, past performance, and performance by competitors as a means of determining whether the business's financial performance is meeting expectations. **3.6.B.6** Businesses use the percentage change equation to determine the rate of change for any data point. For example, a business evaluating financial performance may calculate the rate of change in its income, cost, profit, or profit margin. Percentage change = [(Current Value – Initial Value) / Initial Value] x 100.
3.6.C Explain why and how businesses and consumers predict and plan for future income and expenses.	**3.6.C.1** Businesses and consumers face financial uncertainty because incomes and expenses fluctuate in response to changing needs and wants, competitive pressure within markets, and PESTEL forces. Thoughtful planning can help both businesses and consumers meet financial goals. **3.6.C.2** Businesses develop projected income statements and/or budgets to plan for revenues, costs, and resulting profit/loss for a period (e.g., a month, a quarter, or a year). Projected income statements and budgets describe estimates of all expenses involved in running the business and predicted revenues, given projected production and sales levels. **3.6.C.3** Projected income statements and budgets help businesses plan for expected costs, identify funding needs, and maintain enough cash to meet current obligations. **3.6.C.4** Consumers use budgets to plan saving and spending allocations based on expected income. A consumer budget describes expected net pay (income after taxes and other deductions) for a period, typically a month or a year, and all planned savings and expenses including debt payments. **3.6.C.5** Budgets help consumers identify spending patterns and assess whether they are meeting their financial goals, including managing debt, saving for future expenses, and donating to charitable organizations whose missions they support.

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
3.6.D Develop an income statement or projected income statement for a business.	**3.6.D.1** Businesses use current financial data tracking revenues, expenses, and taxes to develop income statements. **3.6.D.2** Businesses predict future revenues and expenses (and estimated taxes) to develop projected income statements. **3.6.D.3** Future revenues are estimated based on planned pricing strategies and market research about customer demand and industry trends. **3.6.D.4** Future COGS and operating expenses are estimated based on planned production processes, the cost of supply chain components, and other projected expenses, such as occupancy expenses, marketing expenses, office and sales salaries, and planned research and development.

TOPIC 3.7
The Balance Sheet and Net Worth

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
3.7.A Determine and describe components of a business balance sheet.	**3.7.A.1** A *balance sheet* is a financial statement that compares a business's assets to its liabilities and owners' equity—the net worth of the business to its owners at a specific point in time. According to the *balance sheet equation* (also called the *fundamental accounting equation*), assets equal liabilities plus owners' equity. **3.7.A.2** The assets listed on a balance sheet include every item of value owned by a business, grouped according to liquidity into current assets, long-term assets, and intangible assets. i. Liquidity refers to the ease with which an asset can be converted into cash. ii. Current assets, including cash, short-term investments, accounts receivable (money owed to a business by customers), and inventory, are considered highly liquid and are used to fund the day-to-day operations of businesses. iii. Long-term assets, including fixed assets and long-term investments, are considered less liquid. Fixed assets such as production plants are used to run business operations. iv. Intangible assets, such as patents, brand names, and trademarks, are not physical items but have value because they represent potential revenue. **3.7.A.3** The liabilities listed on a balance sheet represent debts or obligations owed by a business, grouped into current and long-term liabilities, in order of when payment is due. i. Current liabilities include accounts payable (money owed to a business's suppliers), short-term debt, current payments on long-term debt, and accrued (unpaid) operating expenses. These liabilities must be paid within one year. ii. Long-term liabilities, such as mortgages, bank loans, and long-term bonds, represent obligations to pay beyond one year. **3.7.A.4** Owners' equity—the net worth of a business—is the difference between assets and liabilities. Owners' equity is often comprised of stock and retained earnings, which are the business's cumulative profits not paid out as dividends. **3.7.A.5** A balance sheet typically provides a snapshot of comparable data (e.g., the end of a quarter) from a previous year or multiple years for purposes of comparison.
3.7.B Interpret the information in a business's balance sheet.	**3.7.B.1** Internal stakeholders, such as business managers and owners, as well as external stakeholders, such as lenders and investors, use balance sheets to evaluate the financial condition of a business at a point in time (e.g., the end of a year or quarter). **3.7.B.2** A balance sheet indicates whether a business has a positive net worth, whether it has sufficient *working capital* to fund day-to-day operations (current assets meet or exceed current liabilities), and whether its debt level is comparable to similar businesses.

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
3.7.B Interpret the information in a business's balance sheet.	**3.7.B.3** Business owners may shut down a business or pursue bankruptcy if the business cannot access sufficient current assets to fund operations. Bankruptcy is a legal process through which a business can liquidate assets, eliminate or repay debts, and either shut down or reorganize the business under legal supervision.
3.7.C Describe the purpose of determining personal net worth.	**3.7.C.1** Personal net worth is typically calculated for a household, which may include more than one individual. Net worth is determined by adding all of the household's assets, including savings and investments, property, and personal possessions, and subtracting all liabilities. **3.7.C.2** Lenders may require information about a consumer's household net worth as part of the loan application process. **3.7.C.3** Consumers and financial planners consider net worth when determining whether individuals have sufficient savings to retire.

TOPIC 3.8
The Cash Flow Statement

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
3.8.A Determine and describe components of a business's cash flow statement.	**3.8.A.1** A *cash flow statement* is a financial statement used by businesses to show how cash inflows and outflows impact a business's cash balance over the course of a financial reporting period. **3.8.A.2** Businesses closely monitor cash balances to ensure there is sufficient cash available to pay recurring expenses (e.g., payroll and rent), repay lenders, and manage unforeseen expenses. **3.8.A.3** Cash inflows increase a business's cash balance and typically include payments from customers, interest or dividends earned on investment assets, proceeds received from the sales of a business's assets, and/or infusions of financial capital, such as money raised by taking out a new loan. **3.8.A.4** Cash outflows decrease a business's cash balance and typically include payments to employees and suppliers, interest expense paid on existing loans, taxes paid to the government, money spent to purchase assets, money spent on debt repayment, and dividends. **3.8.A.5** A business's cash flow may be positive or negative at the end of a period.
3.8.B Explain how a business's stakeholders use cash flow statement information.	**3.8.B.1** The cash flow statement is used to assess a business's ability to meet its financial obligations, including its ability to pay its employees, suppliers, creditors, and shareholders. **3.8.B.2** Negative cash flow may signal that a business is unable to pay its current expenses, which could lead to shut down or bankruptcy even if net income is positive. In such a situation, the business may need to raise more funds, collect accounts receivable faster, or obtain better terms from suppliers and lenders to continue operating.

TOPIC 3.9

Ethics and Financial Reporting

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
3.9.A Explain why an individual or a business might be incentivized to engage in unethical financial management and reporting practices.	**3.9.A.1** Unethical practices in finance include misuse of funds, tax evasion, embezzlement, bribery, lack of transparency, and fraud, which can include falsifying information on financial statements. **3.9.A.2** Access to large sums of a business's cash creates a situation where individuals may seek to embezzle, misuse funds, or falsify information for personal gain. **3.9.A.3** A business or its financial managers may be able to influence stock prices, secure better terms on loans, or avoid taxes by portraying its financial situation to stakeholders and to the government as better or worse than it really is.
3.9.B Explain how laws and professional codes of conduct encourage ethical behavior by accounting and financial managers.	**3.9.B.1** Misusing funds, tax evasion, embezzlement, bribery, and fraud are illegal in most countries, but laws and punishments vary from country to country. **3.9.B.2** Under U.S. law, publicly held corporations are required to submit financial records annually for auditing by independent accounting firms. Financial market regulations are designed to ensure that investors have access to accurate information and are protected from fraud. **3.9.B.3** Professional organizations for accountants and financial managers maintain professional ethics codes for their members. Such codes emphasize honesty, integrity, transparency, objectivity, and confidentiality. **3.9.B.4** Many businesses develop internal mechanisms, such as codes of conduct, audit requirements, and cash-handling processes, to prevent unethical behavior.

AP BUSINESS WITH PERSONAL FINANCE

UNIT 4

Management and Strategy

TOPIC 4.1
Management and Leadership

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
4.1.A Describe the function of management.	**4.1.A.1** *Management* is the process of planning, organizing, leading, and evaluating a business's employment of human, financial, and physical resources to meet the business's goals and objectives. **4.1.A.2** Management includes the decisions, actions, and leadership of managers at all levels of a business, from executive leaders to supervisors. **4.1.A.3** Managers who lead specialized departments in a business are responsible for coordinating the activities of employees to ensure that their work is aligned to the business's vision and mission.
4.1.B Identify and demonstrate effective leadership and business communication skills.	**4.1.B.1** Leadership and communication skills are valued in business because leaders and managers need to collaborate and communicate effectively with a wide variety of stakeholders, including supervisors, colleagues, employees, lenders, investors, customers, and the public. **4.1.B.2** Key leadership skills include the ability to articulate the business's vision and mission, build productive teams, negotiate conflicts, and motivate people. Motivated employees are more productive, more likely to stay, and more likely to build strong positive relationships with customers, coworkers, and teams, all of which contribute to business performance. **4.1.B.3** Key communication skills for leaders, managers, and employees include expressing ideas clearly, communicating persuasively, listening empathetically, and correctly interpreting and responding to feedback.
4.1.C Explain why businesses need to hire and develop employees with a variety of core competencies.	**4.1.C.1** Business leaders and managers hire employees to do the day-to-day work of a business; for example, producing and providing products, marketing to customers, making sales, and managing finances. **4.1.C.2** Businesses need employees with a variety of core competencies, experiences, and backgrounds because of the different types of tasks to be done, although some tasks may be outsourced, especially if they are outside the business's core competencies and/or operating activities. **4.1.C.3** Hiring and/or developing skilled employees is essential to business viability because employees who lack skills or adequate training may create flawed products or provide poor service, which can cause the business to lose customers, brand reputation, and revenue. Some skills or attributes may be rare or require extensive training. **4.1.C.4** Employee training may include postsecondary education, apprentice programs, on-the-job training, online training, and continuing education.

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
4.1.D Explain how businesses compensate, motivate, and seek to retain high-quality employees.	**4.1.D.1** Businesses hire some employees to work full time, while others are hired as part-time, temporary, or contract employees. **4.1.D.2** Employees may be paid using a variety of compensation schemes such as hourly wage, annual salary, commission, piece rate pay, or profit sharing. The type of compensation depends on the industry, the employee role, legal guidelines (e.g., minimum wage), and the degree to which businesses must outbid rivals to secure high-quality employees. **4.1.D.3** Employers generally determine compensation by evaluating factors like education, skills, and productivity. **4.1.D.4** Employee compensation may include benefits such as contributions to health insurance, retirement savings plans, health savings plans, disability insurance, educational reimbursement programs, and paid time off. **4.1.D.5** Many businesses use incentives, like raises, promotions, or bonuses, to motivate and retain employees because it is typically more cost-effective to keep high-quality employees than to recruit and train new ones. Businesses may also seek to motivate and retain employees by providing them autonomy, flexible work hours or locations, recognition and rewards, flexible scheduling, and a positive workplace culture.

TOPIC 4.2
Evaluating Performance Using KPIs

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
4.2.A Describe key performance indicators (KPIs) used to evaluate business performance.	**4.2.A.1** A *key performance indicator (KPI)* is a data point used to measure a business's performance, including progress toward short- and long-term goals and the effectiveness of strategy. **4.2.A.2** Managers select KPIs that relate to their stated mission and goals, profitability, and their ability to remain competitive and viable in the long term. KPIs vary based on the characteristics of the business and the industry in which it operates.
4.2.B Develop or interpret financial and nonfinancial KPIs to monitor a business's financial health and progress toward goals.	**4.2.B.1** Businesses monitor financial health using a variety of KPIs, such as revenue, gross profit, gross profit margin, operating profit, operating profit margin, COGS, operating expenses, and cash flow. **4.2.B.2** Businesses measure progress toward marketing and sales goals using a variety of KPIs, such as customer acquisition cost, customer lifetime value, customer satisfaction ratings, customer retention data, total sales, and market share. **4.2.B.3** Businesses measure progress toward operations goals using a variety of KPIs, such as per-unit cost, delivery cost, order accuracy, and percentage of deliveries received on time.
4.2.C Explain how businesses use benchmarks.	**4.2.C.1** A *benchmark* is a reference point used to compare data to a standard. Businesses may base benchmarks on internal historical data or external industry standards. **4.2.C.2** Businesses compare KPI data to selected benchmarks to assess performance against a known standard.

TOPIC 4.3

Strategy and Decision Making

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
4.3.A Explain how and why businesses develop and use strategy to achieve goals.	**4.3.A.1** A strategy is a plan or approach to achieving a goal. *Business strategy* describes how a business will achieve one or more goals, such as achieving competitive advantage, fulfilling the business's mission, increasing revenues, reducing costs, or increasing profits. Businesses pursue differing strategies based on their unique capabilities, their competitive landscape, and their industry.
	4.3.A.2 Businesses typically identify, gather, and track specific data to define a strategy, evaluate the effectiveness of the strategy, and modify the strategy. This data often includes information about a business's financial performance, customers, competitors, or broader trends in the business's market.
	4.3.A.3 Defining a clear strategy facilitates the mobilization and alignment of resources to meet an articulated goal or address a challenge, thus increasing the likelihood of success.
	4.3.A.4 Businesses use strategy to guide decision making and the development of tactics, which are actions or approaches intended to advance the strategy.
4.3.B Apply a deliberative process to make a business decision.	**4.3.B.1** Managers often use deliberative processes to make major decisions. A deliberative process includes defining the problem to address or decision to be made, developing alternatives (or options), establishing decision-making criteria, and evaluating alternative courses of action to decide on the best approach, which may be referred to as the PACED model.
	4.3.B.2 Decision-making criteria include key costs and benefits to be considered, including both quantifiable costs and benefits (e.g., impact on production costs, total sales, and profits) and intangible costs and benefits (e.g., impact on reputation, mission, and core values).
	4.3.B.3 Decision-making criteria typically include financial considerations such as which option provides the greatest return on investment (ROI), which is a measure of the additional profit generated by an investment divided by the cost of the investment. Criteria may also include market considerations (e.g., the implications of each option in terms of competitiveness), operational considerations (e.g., the impact of each option on supply chain risk), and organizational considerations (e.g., the impact of each option on employees).
	4.3.B.4 Managers use strategic frameworks to evaluate alternative courses of action. Strategic frameworks allow businesses to systematically evaluate relevant internal and external variables of an option against long-term goals and strategy.
	4.3.B.5 Managers sometimes must prioritize conflicting criteria with limited or imperfect data, resulting in imperfect decision making.

TOPIC 4.4

Strategic Frameworks: Porter's Five Forces and SWOT Analysis

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
4.4.A Describe Michael Porter's Five Forces strategic framework.	**4.4.A.1** Michael Porter's Five Forces is a framework used to evaluate the competitive intensity, attractiveness, and potential profitability of a competitive environment. A business may use this framework when making a decision such as which new market to enter or which pricing strategy to adopt. **4.4.A.2** The five forces that shape competition are existing competitive rivalry, threat of new entrants, threat of substitute products, customer power, and supplier power. Each force describes how power held by a participant group (e.g., customers or suppliers) may threaten a business's ability to compete successfully in the environment. **4.4.A.3** Competitive rivalry describes the competitive intensity among existing businesses in the market, determined by the number of rival businesses, the degree of product differentiation, and the extent to which businesses have pricing power. Competitive rivalry is typically understood as the strongest determinant of competition in an environment. **4.4.A.4** Threat of new entrants describes the ease of entry into the competitive environment, which is determined by barriers to entry. **4.4.A.5** Threat of substitute products describes the availability of substitute goods and services, which are products that can meet the same customer needs but are not direct competitors. **4.4.A.6** Customer power describes the buyers' power to drive prices lower, which is shaped by the number of customers, customer acquisition costs, and customers' switching costs. Switching costs are the monetary and psychological costs a customer incurs as a result of changing the product or brand they buy. **4.4.A.7** Supplier power describes the ability of resource providers to raise input costs—the prices they charge for raw materials and component parts. The competitiveness of the resource market determines how much power suppliers have to raise their prices.
4.4.B Apply Porter's Five Forces to evaluate the competitiveness of a market.	**4.4.B.1** An environment is less attractive to a business when the competitive forces are strong, reducing potential profitability. An environment is more attractive to a business when the competitive forces are weak, increasing potential profitability. **4.4.B.2** Businesses evaluate the threat posed by competitive rivalry by identifying the number of direct competitors and the degree to which their product offerings are differentiated. This threat is strong if there are many direct competitors with equivalent products and businesses have little pricing power.

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
4.4.B Apply Porter's Five Forces to evaluate the competitiveness of a market.	4.4.B.3 Businesses evaluate the threat of new entrants by assessing barriers to entry and determining how easy or difficult it is for new businesses to compete. This threat is strong if barriers to entry are low and new businesses can easily enter and capture market share. 4.4.B.4 Businesses evaluate the threat posed by substitute products by determining how easily customers can meet their needs with alternative goods and services. This threat is strong if customers possess access to a variety of alternative products that can meet their needs, particularly if those products are less expensive, easier to access, or higher quality. 4.4.B.5 Businesses evaluate the threat posed by customer power by assessing the number and significance of customers, customer acquisition costs, and customers' switching costs. This threat is strong if there are few customers, each customer represents a large share of sales, acquisition costs are high, and switching costs are low. 4.4.B.6 Businesses evaluate the threat posed by supplier power by assessing the number of potential resource providers and the cost of switching resource providers, as these factors affect the ability of suppliers to increase a business's input costs. This threat is strong if there are few resource providers to choose from and the cost to switch to a new provider is high.
4.4.C Describe SWOT analysis factors used to evaluate business viability.	4.4.C.1 *SWOT analysis* is a framework used to evaluate internal and external factors that influence a business's ability to accomplish its goals and remain competitive. 4.4.C.2 The four factors included in SWOT analysis are strengths, weaknesses, opportunities, and threats. 4.4.C.3 Strengths are internal advantages, such as core competencies, brand recognition, intellectual property, product quality, ample funds, skilled employees, and supply chain efficiency. 4.4.C.4 Weaknesses are internal disadvantages, such as missing core competencies, low brand recognition, product flaws, limited funds, inability to staff skilled employees, poor customer service, outdated technology, and supply chain risks. 4.4.C.5 Opportunities are external factors beyond a business's control that may contribute to a business's success, such as market growth, reduced competition, technology advancements, and favorable changes in government regulation. 4.4.C.6 Threats are external factors beyond a business's control that may negatively impact the business, such as rising input costs, natural disasters, unfavorable changes in government regulation, and disruptive innovation that fundamentally changes the way customers meet their needs.

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
4.4.D Apply SWOT analysis to assess a business's internal capabilities and external opportunities and threats.	**4.4.D.1** SWOT analysis evaluates a business's internal capabilities, such as financial, physical, and human resources, as well as intangible assets, such as brand recognition, reputation, and intellectual property. These internal capabilities may be assessed in relation to rivals, industry benchmarks, past performance, and external factors to determine whether they constitute a strength or weakness. **4.4.D.2** SWOT analysis evaluates external factors—including potential market size, customer preferences, PESTEL (political, economic, social, technological, environmental, and legal) factors, and Porter's Five Forces—to determine whether they create a favorable climate for the business. **4.4.D.3** Businesses use the results of SWOT analysis to make strategic decisions about how to build on strengths, address weaknesses, capitalize on opportunities, and respond to threats.

AP BUSINESS WITH PERSONAL FINANCE

UNIT 5

Personal Goals, Budgeting, and Investing

TOPIC 5.1

Taxes, Net Income, and Budgeting

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
5.1.A Identify types of taxes paid by individuals.	**5.1.A.1** Individuals pay taxes to federal, state, and local governments, including income taxes, capital gains taxes, specific payroll taxes, property taxes, and sales taxes. The types of taxes and amount of taxes paid varies by state. **5.1.A.2** Income taxes are the percentage of income that individuals pay to the government. For employees, a portion of each paycheck is typically withheld and paid to the government directly by the employer. Individuals or households file an annual income tax return to pay the remainder or, in the case of overpayment, receive a refund. Self-employed individuals are responsible for submitting their income taxes to the government. **5.1.A.3** Capital gains taxes are paid when an individual receives a capital gain. Capital gains taxes are submitted with an individual's or household's income tax return but paid at a different (typically lower) tax rate than income tax. **5.1.A.4** Certain payroll taxes fund specific government insurance programs and are also withheld from employee paychecks. In the U.S., these programs include Social Security, Medicare, Medicaid, and unemployment benefits. Employers are responsible for paying half of these taxes; self-employed individuals and contract workers must pay the full amount themselves. **5.1.A.5** Property taxes are based on the value of an individual's property, including houses, land, and cars. Property tax bills may be paid annually, semi-annually, or monthly. **5.1.A.6** Sales taxes are based on the sales price of an item and are typically collected by the business selling the item. The business, such as a retail store, submits sales tax payments to the government.
5.1.B Explain why individuals and households pay different amounts of federal income tax in the U.S.	**5.1.B.1** The amount of income tax paid by an individual or household varies based on the individual's or household's income level, as well as tax deductions and tax credits. **5.1.B.2** The U.S. federal income tax (and some state income tax) is progressive, meaning that individuals and households earning higher incomes pay higher tax rates. **5.1.B.3** Individuals and households may qualify for specific tax deductions, which reduce their taxable income and thus the taxes owed. Tax deductions may include interest on a home mortgage, contributions to retirement accounts, the value of charitable donations, the amount paid in state and local taxes, and some medical expenses.

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
5.1.B Explain why individuals and households pay different amounts of federal income tax in the U.S.	**5.1.B.4** Individuals and households may qualify for specific tax credits, which directly reduce the amount of taxes owed. Tax credits may include a child tax credit, a child or dependent care tax credit, an education tax credit, or credits for specific purchases.
5.1.C Determine and describe components of an individual's pay stub.	**5.1.C.1** An individual's pay stub includes gross income (pay), mandatory and voluntary deductions, and net income (pay). **5.1.C.2** Gross income is the total amount of income earned during a pay period. Gross income is determined by an annual salary (divided into pay periods), hours worked during a pay period, a specific contracted amount, or another compensation scheme. **5.1.C.3** Mandatory deductions from gross income are required by federal, state, and/or local laws and must be withheld by an employer. These deductions typically include income taxes and specific payroll taxes. **5.1.C.4** Voluntary deductions from gross income include any money the individual has set aside for employer-sponsored benefits such as health insurance, health and/or dependent care savings plans, life insurance plans, retirement savings, and union dues. **5.1.C.5** Some deductions are pretax deductions, which means the income allocated to these items is not included as part of taxable income. Pretax deductions can be an incentive to save because they reduce an individual's tax liability. **5.1.C.6** Net income or net pay is the amount of money an individual receives from an employer (as a paycheck) after all deductions are removed and may differ significantly from gross income.

TOPIC 5.2
Managing Personal Risk

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
5.2.A Identify types of insurable risks individuals face.	**5.2.A.1** Individuals face a variety of personal financial and physical risks; for example, the risk of a car accident that causes expensive damage or an illness that limits a person's ability to work. **5.2.A.2** Insurable risks are risks that involve a potential loss due to chance, such as an accident or weather event. In order to be considered insurable, a risk must also be quantifiable and statistically predictable, which means that an insurer can estimate the cost and likelihood of a potential loss. **5.2.A.3** Personal risk is an insurable risk involving the health and well-being of the insured individual, such as injury from an accident or suffering due to illness. **5.2.A.4** Property risk is an insurable risk involving property loss, such as damage to the insured individual's home or car. **5.2.A.5** Liability risk is an insurable risk involving another entity's or individual's property or personal health, such as damage to a parked car or a pedestrian caused by reckless driving.
5.2.B Describe types of insurance individuals use to protect themselves from financial loss.	**5.2.B.1** Individuals can purchase different types of insurance, such as health insurance, auto insurance, homeowner's insurance, renter's insurance, and life insurance, to protect themselves from financial loss due to insurable risks. **5.2.B.2** Insurance buyers pay an annual, semi-annual, or monthly premium for an insurance policy with a desired amount of coverage, and they can file a claim for reimbursement in the event of a financial loss. **5.2.B.3** Health insurance reimburses policy owners for medically necessary health care and in some cases preventive care. Health insurance may be provided as an employee benefit where the employer pays some or all of the premiums. **5.2.B.4** Auto, homeowner's, and renter's insurance policy holders can file claims for reimbursement for financial losses to personal property, as well as the cost of legal liability for any damage they cause to other people or property. **5.2.B.5** Life insurance provides funds to designated beneficiaries in the event of the insured person's death and is often intended to replace lost income, pay end-of-life expenses, and/or fund dependents' future financial needs. **5.2.B.6** Extended warranties and service contracts on expensive purchases such as cars or appliances may serve as a type of insurance.

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
5.2.C Recommend appropriate insurance coverage based on an individual's or household's risk tolerance and needs.	**5.2.C.1** The amount and type of insurance coverage an individual or household needs depend on a variety of factors, including legal requirements, risk tolerance, and number of dependents. **5.2.C.2** Some types of insurance are required; legal requirements vary between states (and nations). Most U.S. states require auto liability insurance, and lenders who provide home mortgages require homeowners to buy property insurance. **5.2.C.3** Individuals are typically able to decide how much insurance to purchase and how much risk to bear themselves. Individuals with low risk tolerance may purchase more comprehensive insurance with higher premiums to avoid unanticipated costs later, while individuals with higher risk tolerance may purchase less comprehensive insurance or insurance with higher deductibles, knowing that they may face higher out-of-pocket costs in the event of an emergency. **5.2.C.4** Individuals with dependents may require more insurance, such as family health insurance, insurance on multiple vehicles, and more life insurance to provide for dependents' future financial needs. **5.2.C.5** Individuals can reduce insurance premiums by reducing risky behavior; for example, by maintaining a good driving record (auto insurance) or by not smoking (life insurance). **5.2.C.6** Misrepresentation and falsified claims by individuals are considered insurance fraud, which is a crime. Misrepresentation of policies and benefits by insurance sellers is also insurance fraud.

TOPIC 5.3
Saving and Investing for Education, Housing, and Retirement Goals

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
5.3.A Explain how financial planning supports an individual's ability to achieve goals related to postsecondary education, housing, and retirement.	**5.3.A.1** Long-term individual or household financial goals often include paying for postsecondary education (either for oneself or for a dependent), buying a home, and/or saving for retirement. **5.3.A.2** Postsecondary education decisions, such as where to attend school and what to study, depend on individual career goals and available funding. Postsecondary education is typically financed by a combination of savings, student loans, scholarships, grants, and work-study programs. Federal student loans may have lower interest rates and more favorable repayment terms than private student loans and may be government subsidized. **5.3.A.3** Housing decisions, such as where to live and whether to rent or buy a home, depend on individual preferences and available funding. Home purchases are typically financed by a combination of savings (a down payment) and borrowing, which requires qualifying for a mortgage loan. Monthly mortgage payments vary depending on the size of the loan, the repayment period, and the interest rate, which may be fixed or adjustable. **5.3.A.4** Retirement decisions, such as when to retire and where to live in retirement, depend on individual preferences, personal health and well-being, and available funding. Retirement income typically comes from a combination of Social Security (in the U.S.), employer-sponsored retirement plans, personal investments, and continued earnings. **5.3.A.5** Families with combined finances (e.g., two-income married couples) can reduce potential financial strife by discussing and sharing long-term financial goals. **5.3.A.6** Some types of financial technology, such as automated savings plans or payroll deduction for retirement accounts, can overcome barriers that make saving difficult.
5.3.B Describe factors that impact an individual's or household's return on financial assets.	**5.3.B.1** Individuals or households saving toward long-term financial goals may choose to hold their funds in a variety of financial assets including savings vehicles (e.g., savings accounts and CDs), individual stocks and bonds, and/or mutual funds that invest pooled money in stocks and/or bonds. **5.3.B.2** Individuals who begin saving and/or investing at a young age and hold financial assets for a long time are able to realize greater returns, due to compounding, than individuals who wait until later in life to begin saving and/or investing.

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
5.3.B Describe factors that impact an individual's or household's return on financial assets.	**5.3.B.3** Financial assets vary with regard to potential risk (of losses) and expected returns. Some assets are low risk because they are government insured or provide guaranteed income. These assets typically have lower expected returns. Other assets, such as individual stocks, are higher risk because the value of the asset depends on the success of the business, but these assets are expected to provide higher returns. **5.3.B.4** Individuals may face costs associated with buying, selling, and holding financial assets, including transaction fees, management fees, and fees for professional advice, which decrease return on investment. Individuals cannot purchase stocks or bonds without a broker, so many investors choose discount brokerage firms that charge lower fees and provide less investment advice than full-service firms. **5.3.B.5** Taxes on investment returns, such as interest, dividends, and capital gains, decrease the return on investment. Investors often consider tax implications, including whether taxes must be paid and if so at what rate, when choosing financial assets. **5.3.B.6** Inflation decreases the real return on an investment because inflation reduces the purchasing power of money over time. Investors typically consider both nominal (unadjusted) and inflation-adjusted returns when choosing financial assets. **5.3.B.7** Common behavioral biases, such as overconfidence or loss aversion, may cause investors to make decisions that adversely impact their return on investment. Overconfidence may cause investors to take unnecessary risks, while loss aversion may cause investors to sell financial assets prematurely at a loss.
5.3.C Recommend a saving and investment plan based on the postsecondary education, housing, and retirement goals, time horizon, and risk tolerance of an individual or household.	**5.3.C.1** Individuals or households pursuing long-term financial goals must decide how to allocate their funds among different financial assets. Typical considerations include how much funding is required, how much an individual or household can save each pay period, the investing time horizon, risk tolerance, and the expected rate of return from each type of asset. **5.3.C.2** Individuals or households with a longer time horizon are more likely to invest in financial assets with higher risk and higher expected return because they are able to wait for assets to regain value after a downturn. Individuals or households with a shorter time horizon are more likely to invest in safer financial assets because they may need to liquidate a financial asset during a downturn, which could result in losses or lower than expected returns. **5.3.C.3** Individuals or households with low risk tolerance typically use safer financial assets, such as federally insured savings accounts and CDs, and receive a lower rate of return, while those with higher risk tolerance are more likely to invest in financial assets such as stocks and mutual funds. **5.3.C.4** Individuals and households may seek advice from financial professionals to help evaluate their saving and investment options. Individuals and households seeking professional investment advice typically consider licensing, certifications, education, experience, and cost when selecting an advisor.

LEARNING OBJECTIVE	ESSENTIAL KNOWLEDGE
5.3.C Recommend a saving and investment plan based on the postsecondary education, housing, and retirement goals, time horizon, and risk tolerance of an individual or household.	**5.3.C.5** Financial advisors often suggest a diversification strategy, which means allocating funds to a variety of financial assets with different levels of risk and expected rates of return. Diversification allows investors to seek higher long-term returns without taking on excessive risk.
	5.3.C.6 Individuals and households often compare the performance of their financial assets against a benchmark, such as a stock or bond index.