

Book Review

Economics for Life: Real-World Financial Literacy by Donald T. Fargo.
North Broad Press, 2023, 333 pp.

The author begins off with admission to information bias based on his personal and over 3 decades of professional experiences followed by a disclaimer to time sensitive out-dated materials, such as the current stock prices. The latter is dealt with links to real-time websites that enables inquisitive readers to explore the relevant changes since its publication. Despite the typical continual discord between the Demand side and Supply side economists, this book is grounded on sound economic theory, claims the author. All sixteen chapters are almost evenly distributed with the exception to topics relating to personal debt, home ownership, investing basics and economic policy interventions which are undoubtedly key areas typical to economic management.

In Chapter 1 starts off with one of the most concerning, hence attention driven discussion on how to land one's first big work appointment. According to the author, while it may take several attempts to arrive at a dream job, the key to achieving real contentment is to match one's character strengths to the desired line of work. He recommends (and links) Dr. Seligman's VIA Survey of twenty-four measures to help readers to better understand the career path that corresponds with their best traits and stands to offer the highest job satisfaction. In the quest to finding the dream job, he refers to the wisdom in the four simple steps laid down by Christen in *What Colour is Your Parachute* by Christen. The author concludes with some powerful advice for active job seekers.

Chapter 2 discusses on how to flourish in our job, beginning with creating first impressions and common advantageous behaviour at work including being mindful, observant and attentive to the organizational culture as valuable information is normally disseminated in informal ways at office. The author relates the success in adapting to one's overall wellbeing in the long-term. He does this in reference to Bernanke's Economics of Happiness, Easterlin Paradox, Hedonic Adaptation and Authentic Happiness. The latter bridging savings as an essential to wellbeing. The importance of Behavioural Economics is discussed in detail in the following chapter, explaining the interfering roles of information

biases, asymmetry, assumptions and rules of thumb in rational decision making. The author clarifies that information literacy improves uncertainties leading to better economic outcomes. Historic stock market performance is used to demonstrate the effect of a lack and or misinformation.

With the bases covered, the author proceeds into the discourse of money in Chapter 4 with a standard definition and a brief look at barter system. Next, he builds the case for fiat money, the distinct types, and its function in managing money supply through the banking system. The use of real (US) data to explain monetary theories, calculate and differentiate nominal to real GDP, wages enable the novices to connect key macroeconomic variables such as inflation, unemployment, and international trade to changes in money circulation. The author then shares evidence on how easily we are becoming addicted to money, regardless of the increasingly contradicting findings on the relationship between purchasing power and life satisfaction.

In a brief preview to the importance of analysing our current financial situation regularly, the author makes mention of the noticeable generational shift in landscape when it comes to long-term commitments in the forms of student loans and home ownership mainly attributed to lower income and fewer assets in general. The fact he insists remains in the pay differential caused by education level, whereby the gap significantly larger between high school leaver and a college graduate. However other factors come into play in deciding if a debt financed study is a positive return investment. Given exclusive chapters devoted to these financial decisions with major implications, Chapter 5 concludes with the ten principles of financial freedom.

Next, budgets and savings at micro and macro levels are discussed in detail, gradually comparing China (second largest economy after the U.S) to the OECD countries in terms of the high national savings rate. The former's success is accredited by the three distinct phases the former underwent transitioning from a centrally planned to the present-day market economy. Evidently, statewide support system and cultural disposition influence savings as much as motivation. Lower levels savings create a vicious cycle of lower productivity, wages, consumption, investment, and economic growth. The author provides a common rule to smart saving prior to a guideline to preparing a personal cashflow statement that he maintains is more likely to be effective than a budget given to its complicated and monotonous nature as diets.

In the subsequent chapters, four prevalent types of loans are discussed in depth. Using the circular flow model, readers are presented with examples on how banks as financial intermediaries, but also private entities navigate the economy by redistributing funds to various groups of borrowers for a price best known as interest rate. Given the important role of credit scores when applying loans, there is an interesting insertion of a list of myths based on the Do's and Don'ts of Credit Scores by Gallegos (2019). To name a few common though often perceived as true are that regular credit score enquiries and shopping around for better loans is bad. Another is assuming closing high interest old accounts is good. Not necessarily. Apparently, credit rating agencies purchase periodic data from financial institutions which they offer to other lender groups for a fee, suggesting the tendency of scores to change overtime depending on early settlements, new commitments and any material adjustments of the borrowers' financial condition. The author presents a range of ways to minimize user cost including source of borrowing, repayment period, hidden charges, etc.

The shortest chapter is devoted to introducing and applying the concept of time value of money using simple formulas, the author demonstrates how savings and borrowings enable intemporal consumption, and why investing sooner rather than later makes considerable difference return. Chapter 11 leads with the recent financial innovation, followed by discussion of the different types of financial institutions and their respective core businesses. Everything from deciding to rent or buy, calculating affordability to difficulties faced by first-time home purchasers is clarified in the next chapter. Ideas on finding real estate agents, available mortgages, pre-qualification, estimating down payment, transaction costs and monthly instalments, refinancing together with tax implications are further discussed in the context of the American economy. Fittingly, the 2006 home mortgage crisis that led to the U.S economy to depression by 2009 is referred to in explaining the critical relationship between the banking sector and the economy. Subsequently, an equally important economic aspect in personal risk management is explained. The concept of insurance in its broadest sense and the various needs to protect oneself from possible losses in either wealth or income stream due mainly unforeseen adverse circumstances is carefully outlined enhancing readers appreciation towards the relevance of health and disability policies.

The author dedicates the lengthiest topic on Investing fundamentals to Chapter 13 whereby the notion of passive income and risk-reward relationship are described prior to exploring the benefits of maintaining a diversified investment portfolio that preferably matches one's risk appetite or liquidity preference. Using historical data from the U.S capital markets (stocks and bonds), several investment options are made available for comparison. In addition, alternatives in the commodity (grains, livestock), collectibles (art pieces), derivatives (options) markets and real estate investment trusts are further explained reminding potential investors to be open to all income generating opportunities. The work of Statman (2000) is cited in reference to mental mistakes committed by active investors in the form of framing, overconfidence, loss aversion and faulty benchmarking. Naturally, the discussion extends to everything there is to mutual funds investment. From what it is, the broad categories to key terms such as a diversified portfolio, load vs no load and open-end funds. Fargo differentiates for profit mutual funds with the non-profit funds, listing the three largest of the former in the US in comparison with Teachers Insurance and Annuities Association (TIAA) and College Retirement Equities Fund (CREF) as examples of the latter.

An area receiving much deserved attention, retirement savings rolls in next. Underlying objectives being to become debt-free while maintaining a certain lifestyle, readers are exposed to a variety of savings methods common in the U.S aimed at building a modest stream of income for post-employment. Brief discussions of the social security system, 401k and IRAs (Individual Retirement Account) sheds light on the differing tax treatments of each pension plans. Using historical data and simple calculations, Fargo shows how decisions today can make a significant impact sooner in terms of contributions and benefits.

Given the theme of this book, the last part is rightfully reserved to the implications of government policy interventions on our economic lives. Within less than twenty pages (excluding the diagrams and infographics), one can conceptualize key macroeconomic variables such as the gross domestic product, unemployment rate, and inflation often perceived by most as purely advanced economic jargons. Two fundamental models including the business cycle and the circular flow are discussed in relations to the effect of tax policy on disposable and national income levels. Without going into the technicalities of money measures (M1, M2, M3), Quantity Theory of

Money and Philips Curve, the author is successful in relating to the relevance of the modern monetary policy to the general public. Reference is made to a working paper for the titled, A Skeptic's Guide to Modern Monetary Theory by a Harvard Professor, G. Mankiw in 2020. The book is concluded by mainly two points; the allocative role of the government, particularly during the CoVID-19 pandemic and international trade remaining an extremely complex cost-benefit analysis system for any economy.

Dr Shafinah Begum Abdul Rahim

Senior Lecturer

Department of Accounting, Finance and Economics

Sunway Business School