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# Action

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Morrow, Alice Mills/Families and financial



### Quick Facts

- Over the years, the earnings of individuals have increased markedly, but at the same time prices also have increased.
- The consumer price index tells the average changes in retail prices of goods and services purchased by urban wage earners and clerical workers.
- How well a family or individual is living is affected not only by earnings and prices, but also by the needs of the family.
- Families who are feeling financial pressures have three alternatives: buy less and have less, increase management skills, increase resources.
- Most families under financial pressures utilize all three of these alternatives.
- Increasing managerial skills may enable a family to make better use of money.

Where does the money go? Why does the month last longer than the money? How can a family make ends meet?

These are familiar questions. Many families are feeling financial pressures. To explain why families are feeling financial pressures one must look at earnings and prices and needs.

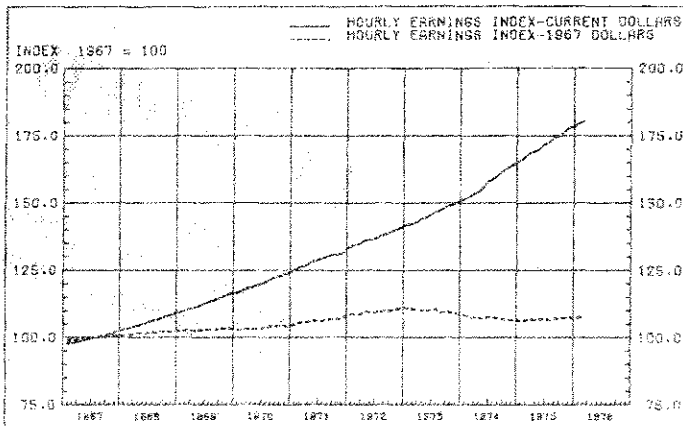
### Earnings and Prices

Over the years, the earnings of individuals have increased markedly. At the same time earnings have increased, prices also have increased. Earnings related to prices are called real earnings.

Real earnings (also called earnings in constant dollars) are calculated by adjusting current dollar earnings to reflect changes in the consumer price index.

Table 1 shows earnings in current dollars and earnings in 1967 dollars.

Table 1: Private nonfarm average earnings seasonally adjusted.



Source: U.S. Department of Labor, Bureau of Labor Statistics.

## Families and financial pressures

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no. 9.105

While the average individual's earnings have increased significantly between 1967 and 1976, the buying power of the money has increased only slightly.

An individual can compare changes in his or her own income to changes in prices.

Changes in prices can be determined from the consumer price index. The consumer price index tells the average changes in retail prices of goods and services purchased by urban wage earners and clerical workers. (For more information on the consumer price index, see Service in Action sheet 8.702.)

Table 2 shows changes in the Denver index and the United States index.

Table 2: The consumer price index of the Denver metropolitan area and the United States index.

GROUPS	DENVER INDEX						U.S. INDEX							
	April 1974		April 1975		April 1976		April 1974		April 1975		April 1976			
	1967=100	1967=100	1967=100	1967=100	1967=100	1967=100	1967=100	1967=100	1967=100	1967=100	1967=100	1967=100		
ALL ITEMS	142.8	153.7	165.8	167.9	177.8	5.2	1.4	144.0	156.6	166.7	168.2	-16.8	-5.1	-0.5
Food	187.7	166.9	174.0	172.6	172.1	-5.1	-1.1	155.6	171.2	163.8	159.2	-13.0	-4.7	-0.6
Housing	142.3	171.1	175.4	181.7	217.7	+6.0	+1.2	146.0	164.1	173.2	174.9	+9.3	+6.7	+1.0
Apparel & Jewelry	135.5	141.1	149.0	154.3	159.0	+6.5	+3.4	133.6	141.3	142.3	145.7	+7.1	+3.1	+1.7
Transportation	126.7	141.3	146.8	157.0	161.1	+6.1	+7.1	124.4	136.2	156.1	161.2	+20.0	+10.5	+2.0
Medical & Recreation	120.2	147.5	151.3	158.0	162.5	+5.6	+7.0	126.5	137.1	156.5	161.4	+12.4	+6.1	+1.8

Source: Denver metropolitan area consumer price index, University of Denver, Vol. 13, No. 2.

These percentage comparisons and index numbers are not measures of whether prices are higher or lower in Denver than in the United States on the average. Rather they reflect changes in price levels.

Changes in income can be calculated as follows:

$$\frac{(\text{later income period}) - (\text{earlier income period})}{\text{earlier income period}} \times 100 = \text{percentage change}$$

Example:

If a person was earning \$11,000 in April of 1974 and \$13,300 in April of 1976 the percentage change is calculated as follows:

$$\frac{13,300 - 11,000}{11,000} = \frac{2,300}{11,000} = .209 \times 100 = 20.9\%$$

In this example the 1976 income was 20.9 per cent higher than the 1974 income. At the same time, Table 2 shows that in Denver 1976 prices were 17.8 per cent higher than 1974 prices. Thus, this person with a \$2,300 increase in income has had a 3.1 per cent increase in buying power. Stated another way, the income in current dollars has increased 20.9 per cent and the income in constant dollars has increased 3.1 per cent.

### Needs

How well a family or individual is living is affected not only by earnings and prices, but also by the needs of the family. As the number of people in a family increase and as children grow older, the needs of the family increase.

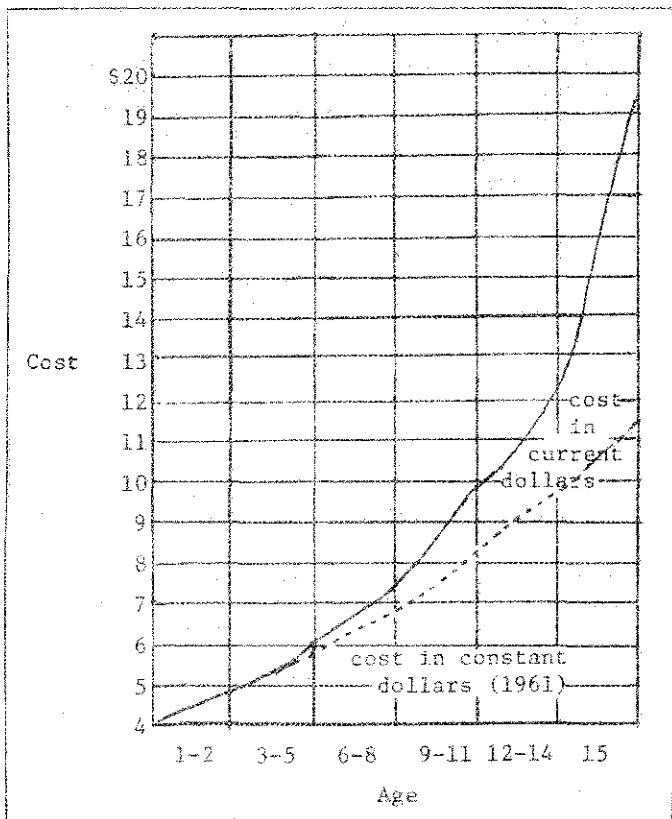
1/ Alice Mills Morrow, CSU associate professor, home management (10/1/76)

Table 3 shows what happens to the cost of food during a child's life. This example shows the cost of feeding a male child from age one in 1961 to age 15 in 1975.

The estimated monthly cost of feeding this boy changed from \$4.70 at age one to \$19.60 at age 15 or 317 per cent. Slightly less than one-half of the increase was due to increased food consumption. A little more than one-half of the increase was due to higher food prices.

Families who have increasing needs at a time when prices are increasing will have financial pressures even though earnings may increase substantially.

**Table 3: Estimated monthly cost of food at home for a male child from age one in 1961 to age 15 in 1975 (moderate level).**



Source: Compiled by A. M. Morrow from data from Family Economics Review, Consumer and Food Economics Institute, U.S. Department of Agriculture.

## How Families Can Lessen Financial Pressures

Families who are feeling financial pressures have three possible alternatives: 1) buy less and have less; 2) increase management skills in order to be able to buy more on the same amount of money; and 3) increase resources by increasing family income, producing goods and services at home and/or using more community services.

Most families under financial pressures utilize all three of these alternatives. A family needs to study itself and determine the alternative(s) which seem most appropriate.

### Buy Less and Have Less

Many families consider buying less and having less or "doing without" as an undesirable alternative. However, many families may have to do this. Some may find that doing without does not necessarily decrease the quality of life. Some

would argue that doing without some things may actually increase the quality of life.

A family needs to analyze the goods and services it purchases and see which seem to increase the quality of life and which do not. A family that is going to stop buying particular goods and services should stop buying those goods and services which mean the least to the family.

### Increase Managerial Skills

Some people seem to make a dollar go further than others. Increasing managerial skills may enable the family to make better use of money and thereby decrease financial pressures.

The following steps lead to better money management:

- set goals and place a priority on these goals;
- estimate income—if earnings are irregular or fluctuate, base the estimate on previous income records;
- estimate expenses—past records may be helpful;
- set up a spending plan;
- develop good buying habits to help carry out the plan;
- rework the plan until a satisfactory plan is developed.

### Increase Resources

Some families increase resources by adding to the number of family members earning money. An increasing number of families have both the husband and wife in the work force. More teenagers are working at parttime jobs. A person also may increase earnings by learning new skills and thereby increasing wages.

Another way to enlarge resources is through home production. In the past few years there has been an increase in the number of households doing such things as making clothes, raising vegetables, and preserving food. The family that is planning to increase home production may have to learn skills and purchase equipment. If the family's interest in home production is to have more goods available, the family needs to compare the cost and quality of home production and the cost and quality of purchasing the goods.

Families also increase the goods and services available through barter. It is not known how much barter goes on, but it is known that families do swap goods and services.

Community services are another way of increasing the family's resources. Community services include such things as public facilities, libraries and parks. Community services also are those things that are part of a condominium or apartment complex such as swimming pools and recreation rooms. The family may be able to make more use of such facilities and thereby eliminate some other expenditure.

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