

2.1: Introduction

Money, says the proverb, makes money. When you have got a little, it is often easy to get more. The great difficulty is to get that little. - Adam Smith, The Wealth of Nations Adam Smith, *The Wealth of Nations* (New York: The Modern Library, 2000), Book I, Chapter ix. Originally published in 1776.

Personal finance addresses the “great difficulty” of getting a little money. It is about learning to manage income and wealth to satisfy desires in life or to create more income and more wealth. It is about creating productive **assets** and about protecting existing and expected value in those assets. In other words, personal finance is about learning how to get what you want and how to protect what you’ve got.

There is no trick to managing personal finances. Making good financial decisions is largely a matter of understanding how the economy works, how money flows through it, and how people make financial decisions. The better your understanding, the better your ability to plan, take advantage of opportunities, and avoid disappointments. Life can never be planned entirely, of course, and the best-laid plans do go awry, but anticipating risks and protecting against them can minimize exposure to the inevitable mistakes and “the hazards and vicissitudes” Franklin D. Roosevelt, remarks when signing the Social Security Act, August 14, 1935. Retrieved from the Social Security Administration archives, <http://www.socialsecurity.gov/history/fdrstmts.html#signing> (accessed November 23, 2009). of life.

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