

# PACED- Decision-Making Process

To be a good saver, it's important to make wise decisions about money. How should you do that? If the decision is simple, use a simple process. For instance, if you need to purchase a text book for class, and only one store sells it, the decision is simple. However, if the decision is difficult, you will need to take a different approach. A decision is considered difficult if there are many alternatives, or if there is uncertainty, complexity, or a significant consequence.

Tough decisions have:

- many alternatives;
- complexity, with many factors;
- uncertainty since many factors are unknown;
- significant consequences with considerable impact.

The best way to make a difficult decision is to use an effective process. The decision-making model that is recommended for making financial decisions is called PACED – Problem, Alternatives, **Criteria**, Evaluate, Decision. PACED includes the following steps:



The PACED model helps you make smarter decisions by helping you judge or evaluate alternatives. After defining the problem, you'll list possible alternatives or solutions. Then you'll select criteria. Criteria are simply standards to help you judge the alternatives. Then, you'll evaluate the alternatives, using a grid to help complete this step. Here's an example:

	Criteria			
		Criteria 1	Criteria 2	Criteria 3
Alternatives	Alternative 1			
	Alternative 2			
	Alternative 3			
	Alternative 4			

After using the grid to evaluate the alternatives, you will make a decision. Let's take a look at an example of how to use the PACED decision-making process.

### Example:

Karen's washing machine broke down. She called a repair person. The repair person told her it would cost \$300 to make repairs. A new, basic washing machine would cost \$400.

Step 1: Define the problem – Karen needs to decide if she should fix the washing machine or buy a new machine.

Step 2: List the alternatives:

1. Buy new, basic washing machine.

2. Buy a new, front-loading washing machine.
3. Buy a used washing machine.
4. Pay the repair man to fix the washing machine.

Step 3: Select the criteria:

1. cost;
2. time (how long the machine will last).

Karen could have selected other criteria, such as the amount of energy it uses or the size of the washing machine. The criteria you select are influenced by what is important to you.

Step 4: Evaluate the alternatives. Collect information and enter the information into a grid. In this case, Karen needed to look in the local paper for used washing machines, and she needed to shop for prices. She had to figure out how long washing machines usually last by looking at consumer Web sites, and she researched what type of warranties different machines had. She found a used washing machine that was one year old. The original warranty could be transferred to her so that it would be under warranty for four more years.

	Criteria		
Alternatives		Cost	Time
	new, basic machine	\$415	5 years
	new, front-loading machine	\$623 (saves on electricity)	8 years
	used washing machine	\$200	4 years

	repair current machine	\$300	?
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Step 5: Make the decision. Karen decides to buy the used washing machine. Using the PACED decision-making process helped Karen make a wise decision. If she had not used the process, she may have quickly paid the repair person \$300 and possibly had more repairs again soon.

Here is a chance to practice these five steps. Let's look at another example.

### **Example:**

Andrew is going back to college for his second year. He needs to decide if he should continue to live in the dorm, move into an apartment with some friends, or move in with his Aunt Patricia. Some important information to consider in the decision:

- Dorm rent is \$400.
- Apartment rent is \$550, other costs are \$90, and the school is three miles away.
- Aunt Patricia charges \$0 for rent. She is thirty miles from campus.
- Andrew's car is not fuel efficient. Travel to and from an apartment will cost him about \$60 per month in gas. Commuting from Aunt Patricia's will cost about \$250 per month.

Using the information above, help Andrew decide by completing the following activity. To get started, click "Step 1: Define the Problem." After you type your response, click "View Example" to compare your answer.

# Feedback

**Click to continue**

For many financial decisions, there will not be one obvious choice. For others, the decision may not be so clear. In any of these situations, when you use a decision-making process, you are thinking more carefully about your decision. The process helps you analyze what is best for you.