

A Case Study in Personal Finance

Alex Meisami

Judd Leighton School of Business and Economics
Indiana University South Bend

Abstract

This paper is aimed to first help students learn more about the structure of their paycheck. They study in detail how different types of deductions and taxes affect their net wages. More specifically, students learn how tax deductible retirement contributions impact their effective tax rate, having in mind that the effective tax rate is negatively affected by the amount they contribute to their retirement plan. Students are expected to learn how federal and typical state income taxes are calculated based on gross income and exemptions. More importantly, by doing a case study, they effectively learn to distinguish marginal versus effective tax rate and the impact of retirement contributions on the latter.