

Lesson 2

Budget to Save: Developing a Budget

Lesson Description

In the weeks prior to the start of the unit, students track their expenditures during a two-week period. In class, students create a group presentation about personal and financial goals. Individually, students identify four personal goals and describe the related financial goals. With financial goals in mind, students work in pairs to complete a budget analysis for a fictitious high school senior who needs to save money for prom. The lesson concludes with a personal budget development activity that uses the information on expenditures that was collected during the two-week data gathering period.

National Standards in K–12 Personal Finance Education (www.jumpstart.org)

Financial Responsibility and Decisionmaking

Standard 4: Make financial decisions by systematically considering alternatives and consequences.

Planning and Money Management

Standard 1: Develop a plan for spending and saving.

Standard 6: Develop a personal financial plan.

Instructional Objectives

Students will:

- Analyze personal goals to determine related and necessary financial goals.
- Devise personal goals for a variety of time frames and develop related financial goals.
- Gather data and use it to analyze personal spending.
- Develop a budget that allows personal saving.

Time Required

- Two weeks of data collection outside of class (time frame for data collection can be modified as appropriate)
- One to two 50-minute class periods

Materials Required

- Class set of *Building Wealth* books
- Copies of classroom visuals
 - *Visual 1: Personal Goals*
 - *Visual 2: Financial Personality Types*
 - *Visual 3: Sam's New Budget*
- Copies of the following handouts for each student
 - *Handout 1: Tracking Your Expenses*
 - *Handout 2: Where Am I Going? A Goal-Setting Exercise*
 - *Handout 3: Sam's Budget*
 - *Handout 4: Budget Worksheet*
- Flip chart paper and markers for eight groups

Procedure

Remember: Two weeks prior to the classroom portion of the lesson, distribute a copy of *Handout 1: Tracking Your Expenses*. Review the instructions with students. Teachers could consider an intermediate check for progress at the midpoint of the period.

Building Wealth – A Beginner’s Guide to Securing Your Financial Future, pages 4–9, and the **Budget to Save** section of the *Building Wealth* CD-ROM contain information and visuals related to this lesson.

1. Introduce goal setting by asking students to brainstorm steps that would be required to achieve an academic goal, such as an A in economics for the semester. Record student responses on the board. Suggested answers might include:
 - Reading the textbook every night
 - Forming a study group
 - Attending tutorials
 - Reduce extracurricular commitments
 - Answering end-of-chapter questions in the textbook
 - Setting aside time to study before examsTell students that, in order to achieve goals, a person has to devise a plan, and that those plans often have a financial or monetary component.
2. Display *Visual 1: Personal Goals*. Divide the class into eight small groups. Assign each group one of the personal goals listed on the visual and have students use flip chart paper and a marker to make a poster that contains the following information:
 - Brief description of the goal
 - Time frame for achieving the goal
 - Financial resources required to achieve the goal (For example, the purchase of a car could require savings for a down payment and sufficient income for monthly payments and gas.)Have each group present the information to the class. Some assumptions will be necessary. Presentations should focus on the relationship of personal goals and financial goals.
3. Distribute a copy of *Handout 2: Where Am I Going? A Goal-Setting Exercise* to each student. Review the instructions on the handout and answer questions. Ask students to complete the handout independently.
4. Have students share responses from the goal-setting exercise with the class. As students describe goals, reinforce the following ideas:
 - To achieve most personal goals, a person must develop a plan
 - The plan usually includes financial goals, such as saving moneyAlternative: Rather than using the handout, students could be asked to make a poster with four sections labeled with the four time frames from the handout. Each section would contain a picture or visual representation of a personal goal and a statement of the related financial goal.

5. Display *Visual 2: Financial Personality Types*. Have two different students read the information about Betty and Lynne. Ask students to think about these characters and the way they approach financial goals.
- Does Lynne seem to have a goal or a plan? What is the result?
She does not seem to have a goal or a plan. She lives paycheck to paycheck and is getting into debt. She does not own many assets.
 - What is Betty's goal?
She wants to pay for her son's college education.
 - What steps is Betty taking to achieve her goal?
She is tracking her expenses, saving every month, starting a mutual fund.
 - Ask students to think about their friends. Do they know “planners”? Do they know “impulsives” or “strugglers”? How would they characterize themselves?
Answers will vary.

Tell students that planners like Betty use a budget worksheet to plan their income and expenditures. An effective budget allows a person to save money to meet personal and financial goals.

Note: These characters are animated in brief vignettes on the *Building Wealth* CD-ROM in the **Budget to Save: Financial Goals** section. Refer to the descriptions of the financial personality types on page 5 in the *Building Wealth* book for additional information.

6. Ask students to read pages 4–9 in the *Building Wealth* book. Students should look for information related to the process of developing a budget to save.
7. Divide students into pairs and distribute the handout entitled *Handout 3: Sam's Budget*. Have students work together to complete the activity using the directions on the handout.
8. Ask students to share ideas of ways to reduce Sam's expenditures. *Visual 3: Sam's New Budget* provides some suggestions for budget modifications. In the discussion of Sam's budget, reinforce these basic economic concepts.
- **Wants and needs**—Sam needs to eat lunch, but he wants to eat out with his friends.
 - **Marginal decisionmaking**—the incremental process of making choices using cost-benefit analysis. One author draws a helpful distinction between “how much” decisions and “either–or” decisions.¹ In Sam's case, his decision is not a choice of either not eating lunch or not eating out. His choice is “how much” he should eat at restaurants rather than bringing a lunch from home. If budgeting decisions are cast as all or nothing, the process is not likely to succeed. However, a marginal approach of “how much” can a person sacrifice is less threatening. This type of marginal analysis is the heart of economic decisionmaking.
 - **Marginal cost / marginal benefit analysis**—considering the additional costs incurred and the benefits gained from a particular choice. The marginal benefit of eating out or soda from a vending machine is lower than the marginal cost of sacrificing part of his savings goal. Also, the marginal benefit of achieving a financial goal (like the limousine) is higher than the marginal cost of the forgone consumption. In his budgeting process, Sam decided that the marginal satisfaction (or utility) of his current expenditures was not as high as the marginal satisfaction (or utility) of his ability to achieve his financial goals.

¹*Microeconomics*, by Paul Krugman and Robin Wells, New York: Worth Publishers, 2005, p. 165.

9. Have students review their personal expense tracking sheet and name types of expenses from the two-week data collection periods. Write student responses on the board. Ask students to suggest spending categories, such as entertainment, meals and transportation, which could be used to group similar expenses. Students should use these categories and others as appropriate to categorize their own personal expenses in the fourth column of the expense tracking sheet.

Closure

10. Review the major concepts of the lesson using the following questions:

- What is marginal decisionmaking?
It involves making “how much” decisions, not “either–or” decisions. It is an incremental process in which some costs are incurred or some current benefit is sacrificed to gain some other benefit. It is not all or nothing.
- What is the difference between needs and wants?
A need is something necessary for a person’s survival. Often needs are centered on food, clothing, shelter, transportation, etc. A want is something that is desirable but not necessary.
- How is the budget sheet from this lesson related to the balance sheet from the previous lesson?
As a person begins to save, those savings can be saved or invested. The savings account or financial assets increase the total assets on the balance sheet, resulting in higher net worth.
- How do personal goals relate to financial goals?
Financial goals describe the resources needed to pay for personal goals. If someone sets the goal of buying a new car, the accompanying financial goal might be saving the amount of the down payment.
- How do financial goals create incentives for budgeting?
Goals clarify the benefit that can be realized in the future if sacrifices are made in the present.

Assessment

11. Distribute *Handout 4: Budget Worksheet*. Ask students to develop a personal budget using the instructions on the handout. Challenge students to consider ways to revise their budget to reduce expenses and increase income to allow them to save. Remind students of the following points:
- Financial goals for the future require delayed gratification. Current spending patterns must be changed to allow saving to meet future goals.
 - Distinguish between needs and wants.
 - Use marginal analysis. Don’t concentrate on either–or decisions. Focus on how much.
 - Frame decisions on the marginal satisfaction (or utility) that will be gained.
 - Consider the marginal costs and marginal benefits of budgeting decisions.

To evaluate student work on their personal budget, consider the following criteria:

- Did the student describe reasonable goals that are appropriate for the time period indicated? Are the related financial goals relevant and thorough?
- Did the student accurately track all expenditures? Was the record-keeping complete and thorough?
- Did the student effectively categorize personal expenditures to develop a clear budget? Are the categories appropriate for the student’s individual budget and useful for the process of revision for savings?
- Did the student analyze personal spending in a realistic way to create a savings goal?

Alternative Activity

The West Virginia Office of the State Treasurer has a downloadable lesson plan called “The Budget Game.” The activity allows students to make choices about housing, insurance, recreation and other budget categories within the constraints of a household budget. It provides an excellent way to reinforce the ideas of want vs. needs and marginal decisionmaking that were introduced in the discussion of Sam’s budget (see #10 above). It can be found at: <http://www.wvsto.com/Financial+Education/Teachers+and+Youth.htm>

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Visual 1: Personal Goals

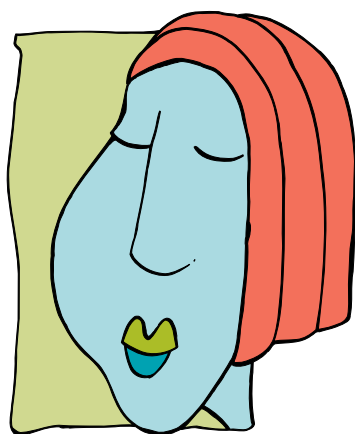
1. Buy a new car
2. Go to college
3. Buy a used car
4. Go to the senior prom
5. Rent an apartment
6. Take a trip
7. Buy a house
8. Buy a new HDTV

Each group should:

- Describe the assigned goal.
- Anticipate the time frame required to achieve the assigned goal.
- List the financial resources (savings and income) that will be required to achieve the assigned goal.

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Visual 2: Financial Personality Types



Betty

Hi, I'm Betty. I'm a single parent. I have to budget in order to live on my income. I have a little notebook that I use to track where every dime goes. Saving is very important to me. When my son was born, I started investing every month in a mutual fund for his college education. I am proud to say that I control my future. I bought my own home and have provided for my son, and I've never bounced a check. You must have common sense regarding money!

Hi, I'm Lynne. I guess you could call me a struggler, or maybe an impulsive, or maybe a little of both. I've got a good job, make good money and enjoy a pretty comfortable life. But I will admit my bank statement tells a different story. I don't have any savings or investments, don't own any property and haven't really planned for retirement. Plus, I've got a lot of credit card debt and, now that I think about it, I'm basically living from paycheck to paycheck.



Lynne

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Visual 3: Sam's New Budget

Sources of Income	Current Income	Income Changes	New Income
<i>Part-time job (20 hours per week at \$6/hr)</i>	\$240		\$240
<i>Lunch money from parents (\$20 per week)</i>	40		40
<i>Total Income</i>	\$280		\$280

Spending Categories	Current Expenses	Spending Changes	New Expenses
<i>Eating out at lunch (\$6 per day for 10 days)</i>	60	<i>Take lunch 3 days per week</i>	24
<i>Movie night with friends (once a week)</i>	40	<i>Every other week</i>	20
<i>Dinner with friends (twice in 2 weeks)</i>	25	<i>Eat out once</i>	10
<i>Football games and snacks</i>	10		10
<i>Music purchases (CDs or downloads)</i>	20	<i>Reduce purchases</i>	10
<i>New clothing</i>	50	<i>Only one item</i>	25
<i>Gas</i>	70		70
<i>Soft drink from vending machine (\$1 each)</i>	10	<i>Only one</i>	1
<i>Total Expenses</i>	\$280		\$170

	Current Savings		New Savings
<i>Available to Save (Income – Expenses)</i>	<i>None</i>		\$110

Remember, this is one way for Sam to make choices that will allow him to save. It is not the only way!

Name: _____ Date: _____



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Handout 2: Where Am I Going? A Goal-Setting Exercise

To build wealth, you must establish goals. Think about your life for the time periods listed below. Write down your age at that point in the future. Think about your life at that age. Will you be in school or will you have a job? Will you be single or married? Will you have children? Where will you live? How will you pay for the lifestyle that you picture?

For each time frame, set one personal goal. Then set a financial goal that will allow you to meet the personal goal. For example, if you want to buy a car in five years, how much will you need to save for the down payment? In preparing your goals:

- Be realistic.
- Establish time frames.
- Be flexible; goals can change.

In six months ...

Personal goal ... _____

Financial goal ... _____

In one year ...

I will be _____ years old.

Personal goal ... _____

Financial goal ... _____

In five years ...

I will be _____ years old.

Personal goal ... _____

Financial goal ... _____

In ten years ...

I will be _____ years old.

Personal goal ... _____

Financial goal ... _____

Name: _____ Date: _____

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Handout 3: Sam’s Budget

Sam is a high school senior. He has a job, and he gets some money from his parents. He would like to start saving money so that he can take a limousine to prom and have more spending money next year at college, but right now, he is spending all his income. The tables below show his income and expenses for two weeks. Sam does not have time to work any more hours and his parents are not going to give him any more money.

Can you help Sam find ways to cut his expenses? He has decided that he needs to save at least \$100 every two weeks to achieve his goals.

Sources of Income	Current Income	Income Changes	New Income
<i>Part-time job (20 hours per week at \$6/hr)*</i>	\$240		\$240
<i>Lunch money from parents (\$20 per week)</i>	40		40
<i>Total Income</i>	\$280		\$280

Spending Categories	Current Expenses	Spending Changes	New Expenses
<i>Eating out at lunch (\$6 per day for 10 days)</i>	60		
<i>Movie night with friends (once a week)</i>	40		
<i>Dinner with friends (twice in 2 weeks)</i>	20		
<i>Football games and snacks</i>	10		
<i>Music purchases (CDs or downloads)</i>	20		
<i>New clothing (two \$25 items)</i>	45		
<i>Gas</i>	70		
<i>Soft drink from vending machine (\$1 each)</i>	10		
<i>Total Expenses</i>	\$280		

	Current Savings		New Savings
<i>Available to Save (Income – Expenses)</i>	None		

*NOTE: Remember that if employees earn above a certain income, employers are required to withhold a portion of that income to be paid to the Internal Revenue Service for income tax.

Name: _____ Date: _____

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Handout 4: Budget Worksheet

- Document the sources and amounts of income that allowed you to make purchases while tracking your expenditures.
- Use the record of your expenses and the categories you developed on Handout 1: Tracking Your Expenses sheet to complete the spending section of this worksheet. Remember to use general spending categories like “eating out” or “entertainment” to group expenses.
- Look for ways to increase income and decrease expenses so that you begin to save or increase your savings. Keep in mind your financial goals. Is there something you have been buying that you could live without? If you increase your savings, what could you do in the future?
- Remember, keep your budget realistic. Include everything. Make your plan one you can live with week after week.

Sources of Income	Current Income	Income Changes	New Budget
<i>Total Income</i>			

Spending Categories	Current Expenses	Spending Changes	New Budget
<i>Total Expenses</i>			

	Current Savings		New Savings
<i>Available to Save (Income – Expenses)</i>			