

## 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](http://www.jumpstart.org))

*Financial Responsibility and Decision-making*

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 50-minute class period

### Materials Required

- ❑ SmartBoard (optional) *If using a computer and projector please click when procedure says touch*
- ❑ Interactive PDF file
- ❑ Copies of Handout 1: Tracking Your Expenses
- ❑ Copies of Handout 2: Where Am I Going? A Goal-Setting Exercise
- ❑ Copies of Handout 3: Budget Worksheet

### Warning

The first time you teach the lesson, save a master copy to your computer or a flash drive. If you do not, you will not be able to save notes from each class. Before each class, reload the master copy of the notebook file to be certain that all of the elements on each page are ready for use.

### 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.

1. **Display Slide 1.** Tell students that the topic of the lesson is budgeting, saving and financial goal setting.
2. **Display Slide 2.** Review the instructional objectives for the lesson.
3. **Display Slide 3.** 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. Use the text box or interactive pen tool. Answers will vary, but might include:
  - Set aside time for studying.
  - Turn in all your homework.
  - Take notes in class.
  - Go to class every day.

Explain that their plans for getting an "A" should be specific and action-oriented.

- Specific: Ambiguous plans are not only harder to follow; they are more likely to fail.
- Action-oriented: When a plan focuses on actions, it is focused on what can be controlled. If a plan instead focuses on outcomes, it does not necessarily allow the planner to be in control of the success of the plan.

4. **Display Slide 4.** Use the information below and the keywords on the slide to introduce SMART Goals. SMART is the acronym used to help set high-quality goals. Use each of the words and the examples provided to demonstrate the difference between goals that meet each of the requirements and goals that do not.

- Goal: I want to lose 10 pounds in two months.
- Explain how 10 pounds is both specific and measurable.
- Explain that it is attainable and realistic, at a rate of 1.25 pounds per week, to lose 10 pounds in two months.
- Explain that by setting a timetable of two months, the goal remains timely.

Have students rewrite the following goal, adding the necessary details to make it SMART. Answers will vary; two possible answers are given below.

- Goal: I want to do better in school.
  - I want to increase the time I study by 30 minutes a week for the next four weeks.
  - I want to go to tutoring with my teacher twice a week from now until the next test.

5. **Display Slides 5–7.** Using the information about the six items on these three slides, have students write goals to accomplish the up-front and ongoing cost for each purchase.

- Buy a car
- Pay for college<sup>1</sup>
- Rent an apartment
- Go on vacation
- Purchase a television
- Buy a new cell phone

<sup>1</sup> This is only an example of the costs of paying for one semester of college. For information about other ways to help students pay for college, visit <http://studentaid.ed.gov/PORTALSWebApp/students/english/index.jsp>.

Answers will vary but could include:

- Buy a car
  - Save \$250 per month for 10 months to pay for a used car.
  - Spend \$10 less eating out and going to the movies, and \$30 less shopping each week to afford gas and insurance.
- Pay for college
  - Save \$3,600 before I go to school to pay my first semester's tuition.
  - Keep a part-time job during the semester that allows me to have a \$250 monthly surplus to pay for the ongoing cost of a meal plan.
- Rent an apartment
  - Save \$500 in the next three months for the deposit on an apartment.
  - Pick up two more shifts per week at work to increase income enough to cover the \$500 monthly rent and utility bills.
- Go on vacation
  - Save \$500 in the next two months to pay for a plane ticket.
  - Skip going out to dinner with friends after sporting events, saving at least \$15 per week for the next seven months to afford the hotel.
  - Buy \$50 less in clothes for the next seven months to afford food and souvenirs.
- Buy a television
  - Save \$100 a month for the next five months to buy the TV.
  - Run a budget surplus of \$40 per month to afford cable.
- Buy a new smartphone
  - Save \$50 per month for six months to afford the new phone.
  - Work one extra shift per month to afford a \$30 increase in the phone bill.

- 6. Display Slides 8–11.** Distribute Handout 2. Have your students set personal goals and the corresponding financial goals for each time frame.

Ask four students to come to the whiteboard and share one of their goals in the corresponding box. Discuss the financial goals, reiterating the SMART parts of them.

- 7. Display Slide 12.** Have students read and discuss Sonya's story from page 5 of *Building Wealth* or from the *Building Wealth* tablet guide page 11.

- 8. Display Slide 13.** Have students read Gabby's story from page 5 of *Building Wealth* or from the *Building Wealth* tablet guide page 12. Lead a discussion about what makes Sonya and Gabby different.

- For some people, budgeting and saving comes easily; for others, it does not.
- Not paying attention to finances increases the likelihood that a person will experience Gabby's struggles.
- To be like Sonya, a person must approach budgeting intentionally.

- 9. Display Slide 14.** Use the interactive on the slide and the information below to discuss how budgets allow a person to accurately track income and expenses and set and meet financial goals.

Touch the car and phone to display information about how budgets help people track expenses.

- Budgets track and categorize expenses.
- Budgets allow prioritization of spending into needs and wants.

Touch the credit card and bill to display information about how budgets help people spend less than they make.

- Budgets allow people to track income and expenses.
- Budgets allow people to set goals for spending on various goods and services to ensure they do not exceed their total income.

Touch the stock and bond to display information about how people use their money to help meet their financial goals.

- Budgets allow people to set goals for savings.
- Using savings; budgets facilitate investment to increase the return on money.

**10. Display Slide 15.** Use the interactive on the slide and the information below to explain what a person needs to develop a budget.

Touch the calculator to display information about how to calculate monthly income.

- Do not include money that is not always available (birthday, holidays).
- Net income (after taxes, insurance and automatic deductions) gives an accurate picture of how much money a person can spend each month.

Touch the credit card and money to display information about tracking daily spending.

- Expenses can be tracked in a notebook, ledger or using online or phone apps.
- Using information gathered over a period of months will help you understand what you spend money on consistently.
- Be as accurate as possible; do not estimate \$30 in gas when you really spend \$33.45.

Touch the bills to display information about tracking monthly expenditures.

- Some monthly expenditures are always the same, like car payments, and others vary, like utility bills.
- When constructing a budget, be careful of averaging variable bills. This could lead to a shortfall when the bills are higher than the average.

**11. Display Slide 16.** Use the information below and the visuals on the slide to explain Sam's monthly budget.

- Explain that Sam needs to save \$100 per month.
- Ask for student suggestions on how Sam could save money.
- Don't write specific numbers on this slide; just get students thinking about changes Sam could make and then move to Slide 12 to discuss the economic concepts that should guide their decisions.

**12. Display Slide 17.** Use the interactive on the slide and the information below to demonstrate how the economic concepts of needs/wants, marginal benefit/cost analysis and marginal decision-making influence budgetary decisions.

Click on the education, travel and television to display information about needs and wants.

- Remind students that we all have needs and wants and we cannot necessarily meet all of either.
- Dividing expenditures into needs and wants is the first step in prioritizing spending cuts when they are necessary.

Click on the scale to display information about marginal cost/benefit analysis.

- Consider the additional costs incurred and benefits received from a specific choice.
- Is the marginal satisfaction of current consumption higher than the marginal satisfaction of the future goal?

Click the thinking man to display information about marginal decision-making.

- Create a distinction between “how much” and “either/or” decisions.
- The decision does not need to be *whether* Sam should eat at restaurants; the decision to be made is how often Sam should eat at restaurants.
- In budgeting, “how much” decisions are sometime easier to make than “either/or” decisions.

**13. Display Slide 18.** Using the budget on the slide and the information below, instruct students to use the economic decision making skills from Slide 17 to make and justify “how much” decisions about Sam’s consumption of each good or service listed. A sample outcome of Sam’s budget is below.

<b>Assets</b>	<b>Current income</b>	<b>Income changes</b>	<b>New income</b>
Part-time job (net pay)	\$ 580	\$	\$ 580
Lunch money from parents	80		80
<b>Total income</b>	\$ 660	\$	\$ 660
<b>Spending categories</b>	<b>Current expenses</b>	<b>Spending changes</b>	<b>New expenses</b>
Eating out at lunch (\$6 per school day)	\$ 120	\$	\$ 120
Movie night with friends (once a week)	80	-\$40 every other week	40
Dinner with friends (once a week)	50	-\$25 every other week	25
Football games and snacks	20		20
Car insurance	140		140
New clothing	90	-\$30	60
Gas	140		140
Soft drink from vending machine (per school day)	20	-\$10 every other day	10
<b>Total expenses</b>	\$ 660	\$	\$ 555
	<b>Current savings</b>		<b>New savings</b>
<b>Available to save</b> (Income – Expenses)	\$ None	\$	\$ 105

After working through Sam’s budget as a class, distribute Handout 3. Have students complete their own budget, using the expenses they gathered, and a proposed modified budget to facilitate meeting a financial goal.

## Closure

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

- 1.** What is marginal decision-making?  
*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.*
- 2.** 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.*
- 3.** 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.*
- 4.** 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.*
- 5.** 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.*



Name \_\_\_\_\_ Date \_\_\_\_\_

## 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 10 years ...**

I will be \_\_\_\_\_ years old.

Personal goal ... \_\_\_\_\_

Financial goal ... \_\_\_\_\_

Name \_\_\_\_\_

Date \_\_\_\_\_

### Handout 3: 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 income
<b>Total income</b>			
Spending categories	Current expenses	Spending changes	New expenses
<b>Total expenses</b>			
	Current savings		New savings
<b>Available to save</b> (Income – Expenses)			