



Why Budget?

“A budget identifies expected income and expenses including savings ... a guide to help people live within their income.”

— Money Management Standards, Jump\$tart Coalition Benchmarks

Teacher Background

Steps in managing money include identifying the amount of income available and the expenses which need to be covered, and prioritizing short- and long-term goals. Individuals, households, government, businesses, and other organizations all budget with these ideas in mind. Most budgets are developed for a set period of time. A family might develop a monthly household budget; a high school student, a weekly budget based on an allowance. Businesses routinely do quarterly budgets; school districts are mandated to prepare annual budgets. Making a budget for spending and saving can help people reach their goals.

This lesson will focus students on the ins and outs of managing money by learning how to budget. High school students do make decisions each day, although not always consciously, on how to spend or save the income they have. By keeping a simple daily or weekly budget, students become aware of how they might cut an expense and save for something they really want.

Wants and Needs

Students will review the concept of wants and needs or — as they often think of them — basics and luxuries. Many of the spending decisions of teenagers are often made because of pressures to buy and

wear designer or mass appeal brands or to have the latest in personal technology. The economic decisions that young adults make about money are often very personal and reflect what is important to them, as well as goals.

Students will focus in this lesson on how they spend their own income (allowance, gifts, or wages) and be encouraged to keep a personal budget. They will classify and list the categories of expenses that would be included in most family budgets. They will learn to identify the difference between fixed and variable expenses and describe those that could be considered occasional (or periodic) expenses.

TOPIC 2
Budgeting—
Money In and
Money Out

Student Objectives

- Students will be able to define and provide examples of wants and needs.
- Students will be able to develop a list of expenses found in most household budgets.
- Students will be able to categorize expenses in a budget as fixed and variable (or occasional).
- Students will be able to analyze a pie chart showing the categories of household expenditures.

Materials Needed

- Student Handout 4-A, *Household Consumption*
- Student Handout 4-B, *Budgeting Basics*



Connecting With the Internet

- www.chicagofed.org/consumer_information/budgeting_and_saving.cfm
Federal Reserve Bank of Chicago: How to Budget and Save. This website sets out a “game plan” for consumers who need to learn about money management. Using a step-by-step process, the site explains how to establish goals, create a budget, determine your current situation, implement a plan and select a financial institution.
- www.dallasfed.org/ca/wealth/index.cfm
Federal Reserve Bank of Dallas’ “Building Wealth, A Beginner’s Guide to Securing Your Financial Future” — provides personal finance education resources to help young people, adult consumers, families and others plan for building personal wealth. Personal wealth-building strategies discussed include setting financial goals, budgeting, saving and investing, managing debt, and understanding credit reports and credit scores. Available in print and interactive versions. Also available in Spanish.
- www.moneytalks.ucr.edu/english/newsletters/newsletters_home.html
Money Talks Teen Guides. The University of California Cooperative Extension’s Money Talks guides offer guidance about finance and budgeting to young people. Topics include: My Money Personality, Savings Made Simple, Shopping Savvy, Car Costs, and Hunger Attack! Feed Your Appetite — Protect Your Wallet.
- www.peoples.com/KidSeminar/html/Intro/default.htm
Six Steps to Raise Financially Responsible Children. A website maintained by People’s Bank addresses “six steps to raise financially responsible kids.” Step 2, for example, discusses the development of responsible spending habits, spending guidelines, and creating a budget. A sample budget and cash flow tools are included.



Focus Question

Does everyone need to budget to reach goals?

Procedures . . .

1 Ask students to take five minutes to list what they think about when they hear family members or friends say the words *budget* or *budgeting*. Discuss their lists. A sample of student responses could include:

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- *Budgeting* is a mathematical equation — money in should equal money out.
 - Getting out of debt can mean a really tight *budget*.
 - Each September there is a *budget* for school clothes.
 - A dollar saved is a dollar earned — every *budget* must include savings.
 - Every *budget* should include something for charity.
 - Our family *budget* has no money for a vacation this year.
 - Our *budget* got better when mom (or dad) went back to work.
 - The *budget* and income of our family changed after the plant closing.
 - When money is left (a surplus) in a *budget* we get some “extras” (i.e., wants).
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2 Ask students to provide their definition for the word budget (e.g., a plan for how income will be spent and saved). Have a discussion on problems that students might have when they try to keep a budget. Ask students to discuss the types of choices they make when they want to balance their budgets.

Have students describe how much of their personal budgets are for needs and how much for wants. Ask students to provide examples of the needs and wants in their budgets.

3 Discuss the types of budgeting choices students make and how they reach their decisions (e.g., to buy new clothes or save that money for an upgraded cell phone). Ask them to consider their dreams or wishes (goals) and if these influence how they spend or save their incomes. Discuss the opportunity costs of their decisions about spending and saving.

Explain that all households and individuals with incomes make decisions on what to spend and what to save. By having a budget, people can identify those expenses that are fixed and variable and make decisions that will balance their incomes with their expenses. Ask the following:

- a) Why is it important for people to make a budget? (Without a budget, it is easy to spend more money than they can afford.)
- b) What is a budget surplus? (An excess of income over expenditure; in a government budget, it means that there is more tax revenue than spending.)
- c) What is a budget deficit? (An excess of expenditure over income.)

4 Explain that household budget decisions are categorized around expenses, and a good way to begin a budget is to list all the monthly expenses. Ask students to work in pairs and develop a list of all the categories of expenses that an average household with children might have each month. Have students report back on the categories they list. Make a composite list on the board or a flip chart. (This list could be posted and referenced in Lesson 5.) A sample list of expenses could include the following:

food	electricity and gas bills
rent or mortgage payment	gas (auto) or public transportation
medical insurance	movies
telephone and Internet service	credit card debt
child care	water/trash service
car payment	auto insurance
clothing	union dues
	life insurance
	cable service

- 5 Review the complete list and ask students to categorize the expenses on their own lists using **F** for fixed expenses, **V** for variable expenses and **O** for those expenses that are only occasional (also known as periodic expenses). Explain that an occasional expense could be a car tune-up, a veterinarian bill, replacement of storm windows, or a magazine subscription renewal.
- 6 Ask students how many put “savings” as an expense in their budget. Ask why or why not? Remind students that a budget reflects how an income will be both spent and saved. Explain that savings are for emergency situations and also to grow income and wealth for the future.
- 7 Have students analyze the list of variable expenses and determine how it is often possible for people to save money by watching these expenses. Ask students for examples. These savings could include becoming an energy-efficient family to reduce utility bills, eating most meals at home to save food costs, buying clothes only when on sale, walking or using public transportation instead of driving. (Note that it is also possible to save money on some fixed expenses; e.g., mortgages can be refinanced, insurance restructured with lower cost providers and higher deductibles).
- 8 Distribute Student Handout 4-A, *Household Consumption*. Explain that these statistics represent an average for households in the

United States. Ask students to review the information on the pie chart and discuss how it might be useful to a person planning a budget. Ask students to consider factors that could change the percentages for some people (e.g., housing costs in some cities are more expensive than in others; a family member has a chronic illness and high medical expenses).

- 9 Summarize that the first step in managing one’s money is making a budget, whether income is from a paycheck, allowance, or gifts of money. Review the following points made in the lesson:

- Everyone with an income, because of *scarcity* and unlimited wants, must make personal decisions on how money is spent and saved.
- Every decision involves a trade-off — giving up one want in order to satisfy another (e.g., saving for a computer might mean not making an immediate purchase of a videogame).
- Budgeting is an effective way for people to know what they intend to save and spend. Budgeting can keep people from buying more than they can afford.
- Budgets include expenses that are fixed and those that are variable.
- Budgeting decisions are influenced not only by the amount of income and fixed expenses, but by personal goals and values (and outside pressures, too).

- 10 Distribute a copy of Student Handout 4-B, *Budgeting Basics*, to each student. Review the five items on the handout. This assignment can be used to evaluate students’ understanding of the budgeting process.



Extending the Lesson

My Log of Spending

Students keep a one-week inventory of their personal spending. Each day, students write down everything they spend — no matter how small. At the end of the week students can evaluate spending decisions that could easily have been savings decisions (e.g., saving to buy a new laptop computer or MP3 player or putting money aside to spend on renting a limo for the senior prom). They can use the information in this inventory of spending to help develop their own budgets.

Money Talks Teen Guides

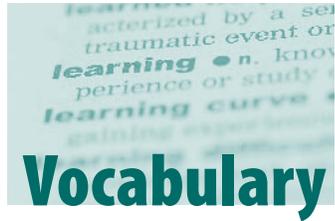
Working in small groups, students research the newsletters on this website and select one topic to report on to the class (www.moneytalks.ucr.edu/english/newsletters/newsletters_home.html).

The Questions of the Day

Students interview family members or adults they know about their budgeting process. Interview questions could include: Do you budget by the week or by the month? What are the biggest expenses in your budget? How does budgeting help you stay out of debt? What do you do if there is a surplus in your budget (i.e., what is the decision-making process)? Do you pay yourself first (by having a savings amount in the budget)?

Media Watch on Government Budgets

Students complete a Media Watch activity and find articles or programs that focus on budgeting at various levels of government (local, state, and federal). Students also research the budget-making process in their school district. What happens at the various levels of government when there is a budget deficit or a budget surplus? (A Media Watch Activity form is in Appendix B.)

**budget**

A budget is both a spending plan and a list of spendable funds.

charitable giving

Providing a gift in the form of money or goods to a public or private nonprofit organization.

deficit

The insufficiency of revenues relative to outlays. Also, the opposite of a surplus.

discretionary spending

Discretionary spending implies the buyer has a choice (for example, purchasing clothing or delaying a proposed purchase). *See also* nondiscretionary spending, below.

needs

Goods and services that an individual must have to survive; e.g., food, clothing, shelter.

nondiscretionary spending

Nondiscretionary spending is for expenses over which one does not have control (e.g., income tax, mortgage payments, insurance). *See* discretionary spending, above.

occasional or periodic expense

Expenditure of money that occurs from time to time, not on a regular basis.

opportunity cost

The cost of passing up the next best alternative when making a decision.

scarcity

The basic economic situation — limited resources and unlimited wants.

surplus

The amount by which revenue exceeds expenditure.

wants

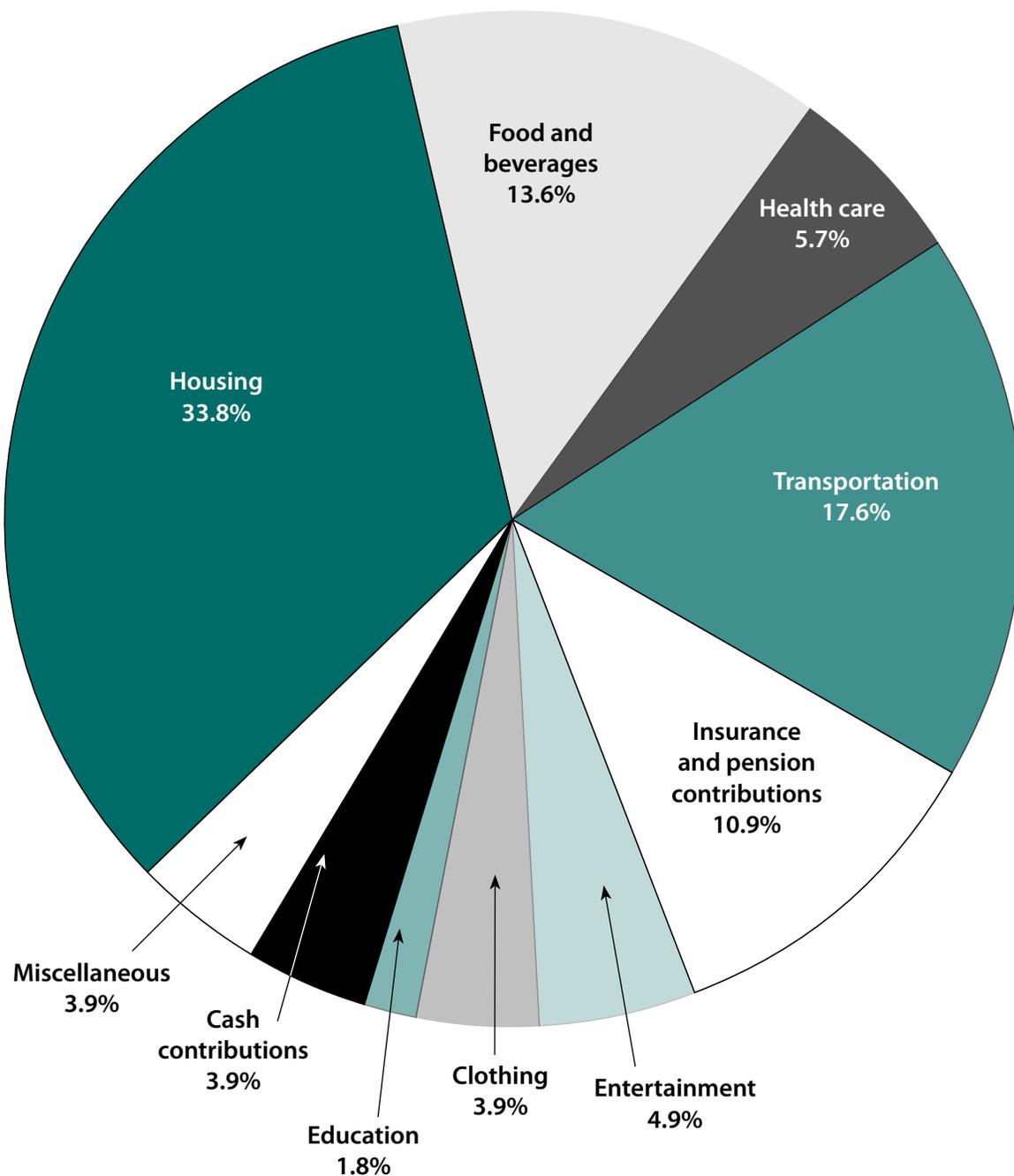
Goods and services that an individual would like to have (e.g., an upgraded computer, a sports car, dance training, etc.).

CONNECTIONS TO THE CONTENT STANDARDS

NCEE Voluntary National Content Standards in Economics:
1, 2 and 11

Jump\$tart Coalition
Personal Financial Management Guidelines:
IIa, IIb, IIc, IIIa, and IVa

Household Consumption



Source: Pie chart based on statistics in *Consumer Expenditures in 2006*, Bureau of Labor Statistics, October 26, 2007: www.bls.gov/news.release/cesan.nr0.htm. More details at <ftp://ftp.bls.gov/pub/special.requests/ce/standard/2006/quintile.txt>.

Budgeting Basics

1. Wants and Needs

Explain the difference between a *want* and a *need*. Provide three examples of each.

2. Is It a Want or a Need?

Provide and explain two or more examples of how a *want* for one person could be considered a *need* for another person.

3. Defining Expenses

Define and provide two examples of:

- Fixed expenses
- Variable expenses
- Occasional or periodic expenses

4. Surplus or Deficit

Define a budget surplus and a budget deficit. Explain how a household budget surplus could provide opportunities to grow wealth.

5. Select a Topic

Write a personal opinion essay on one of these subjects:

- The importance of budgeting for high school students
- Goal setting — How to reach future wishes and dreams
- Budgeting should or should not be a matter for the whole family.
- Charitable giving should or should not be part of every budget.

Wants and Needs

Want or Need?

Defining Expenses

Surplus or Deficit?

Essay Title:

(Use reverse side for essay.)