



Money, Money, Money

“Financial choices that people make have benefits, costs and future consequences.”

— *Money Management Standards,*
JumpStart Coalition Benchmarks

Teacher Background

The lyrics “Money! Money! Money!” from the old pop song of many decades ago still resonate. Money is said by some to be the “root” of all evil, but playwright George Bernard Shaw describes the *lack* of money as the root of all evil. Money is touted as an element that makes the world go ’round, while “money doesn’t grow on trees” is a common rebuff to a young person asking for an allowance increase.

If Not on Trees

Students in the Personal Finance Program will discover how, if “not on trees,” money can grow, and how to make decisions about earning income, spending, budgeting, saving, borrowing, investing, and protecting one’s assets. Students will obtain the information and tools they need to help them make informed financial decisions today and in the future.

Scarce Resources — Unlimited Wants

In this first lesson students will apply the *law of scarcity* to various everyday situations they will confront in high school. They will analyze alternative choices that have to be made because

time, money, and space are all limited personal resources. They will define the opportunity costs and the incentives of one choice over another and discover that thinking like an “economist” can help them make personal decisions where the benefits outweigh the costs.

Real Life

Throughout this Personal Finance Program students will have many opportunities to apply an economic decision-making model to “real life” situations. The skills and knowledge derived from this program will help equip them to make good economic decisions as they advance along their career and educational paths.

TOPIC 1
Money—
Bringing It
Home

Student Objectives

- Students will be able to explain how scarcity affects the economic choices people make.
- Students will be able to apply the concept of opportunity cost to everyday situations.
- Students will be able to analyze how incentives influence economic choices.

Materials Needed

- Currency and coins
- Handout 1-A, *What Is the Opportunity Cost? Scarcity and Personal Decision Making*
- Handout 1-B, *Money, Money, Money (Choices, Costs, Incentives, and Consequences)*



Connecting With the Internet

- www.chicagofed.org/consumer_information/index.cfm
Federal Reserve Bank of Chicago: Consumer Information. This site is a launch point for materials covering elements of money management.
- www.dallasfed.org/ca/wealth/index.cfm
The Dallas Federal Reserve's online publication, *Building Wealth, A Beginner's Guide to Securing Your Financial Future*, provides a personal finance education resource for schools, nonprofit community organizations, financial services providers, and consumers to help young people, adult consumers, families, and others develop a plan for building personal wealth. Available in PDF and interactive versions. Available in Spanish.
- www.newyorkfed.org/publications/frame1.cfm
Federal Reserve Bank of New York Publications. The Federal Reserve Bank of New York maintains a searchable and topic-indexed Federal Reserve System Publications Catalog.
- www.ny.frb.org/education/highschool.html
The Federal Reserve Bank of New York Education page includes a variety of active financial learning opportunities for high school students:
- www.jumpstartcoalition.org
Jump\$tart Coalition for Personal Financial Literacy. The website includes a database of personal finance resources available from government, business, and nonprofit organizations. Many of the materials are low cost or free of charge. Teachers often use these personal finance teaching materials to support their state's standards in economics, business, math, and family and consumer science. The National Standards in K-12 Personal Finance Education (Third Edition, 2007) is located at www.jumpstart.org/guide.html.

■ www.moneypower.org

Moneypower, the website of the New York Financial Literacy Coalition, promotes financial education for young people. A copy of *Economics, the Enterprise System, and Finance*, the New York State core curriculum for the study of economics is available in pdf format from the Moneypower website.

■ www.ncee.net

National Council on Economic Education. The NCEE is a nonprofit network promoting economic literacy in youth. Its EconEdLink website (www.econedlink.org) is a source of Internet-based, economic lesson materials for K-12 teachers and their students. ECONnections (www.e-connections.org) contains standards-based lesson plans with interactive activities for students.



Focus Question

How do we make choices in a world with limited resources?

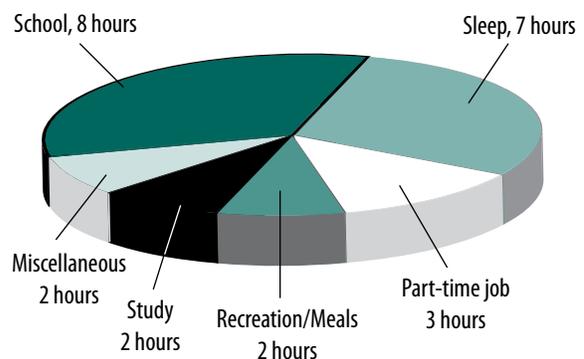
Procedures . . .

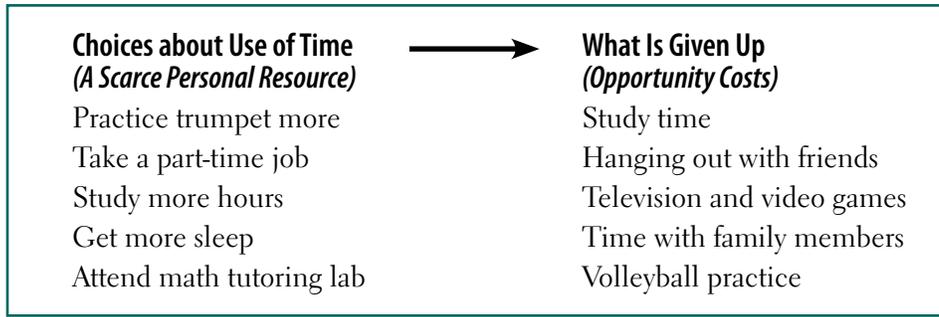
1 Review with students the economic definition of money — anything that serves as a medium of exchange, a store of value, and a unit of measure. Hold up a 20 dollar bill, a few coins, and an item that might have been bartered in colonial times. Review how in a barter economy there were problems associated with finding a person to fulfill one’s needs for goods and services, who would also take what was being offered in the barter. Discuss with students how the money they use facilitates exchange. Spending money is not usually a problem, but, because of scarcity, having enough of it to purchase all the goods and services one wants is.

2 Review *scarcity* — the basic law of economics — with students, stressing that *all resources are limited and therefore, in order to get something, something else must be given up*. One way to illustrate scarcity concretely is to analyze the personal choices students make each day because time is scarce. Draw a large circle (pie chart) on the board to represent the 24 hours in a day. Ask students to consider the major activities that fill a typical 24-hour

day for a high school student. Have students draw their own pie charts. The pie chart on this page illustrates how one high school student might spend a typical school day.

3 Ask students to complete their pie charts with the approximate hours for each activity. Review that the total “pie” represents 24 hours (i.e., 1/2 of the pie chart represents 12 hours; 1/4, 6 hours; 1/8, 3 hours, etc.). Ask students to discuss how they might want to change the way they presently use every 24 hours (e.g., take a part-time job, join the school band, spend more or less time with friends, increase study time, tutor younger students, join a soccer team, get enough sleep).





4 Organize students in small groups and have them compare pie charts and list how they might change their use of the limited hours in a day. Next, they should list what they would have to give up (the opportunity costs of their choices). Have each group report two or three decisions on how they would use their time differently. Remind students that what they will be giving up is the *next best* alternative. Record their responses on the board. A sample student list might include some of the above items.

5 Discuss how, because of scarcity of time, everyone makes decisions every day that involve an opportunity cost — giving up something else. For example, by joining the swim team with its daily practices, a student might not have time to study for tests. Or another student, by doing after-school child care for the family, might have little or no time to enjoy activities with friends.

Ask students to provide examples in their school or community where scarcity of resources has resulted in some major decisions. Examples could include:

- Scarcity of school buildings — Increase in school enrollment has meant classes are now held in the cafeteria and the library (capital resources).
- Scarcity of physics teachers — Not enough teachers to offer advanced physics courses in all the high schools (human resources).
- Scarcity of water — Due to drought, water is rationed and all public swimming pools

are closed until further notice (natural resources).

6 Distribute to small groups of students copies of Student Handout 1-A, *What is the Opportunity Cost? (Scarcity and Personal Decision Making)*. Ask students to read the three scarcity situations (i.e., time, money, and space). Students working in their groups should reach a consensus about the decisions. Conduct a discussion by calling on each group to review their choices and the opportunity cost of each decision. Ask students to discuss the incentives (rewards for a behavior) that influenced their decisions.

Time — Volunteer or SAT prep? Only 24 hours in a day.

- If Rosa attends the Scholastic Aptitude Test (SAT) prep class she gives up an opportunity to do volunteer work. An *incentive* to make this decision is that her SAT scores could improve and help her gain admission to the college of her choice.
 - But if volunteer work is the choice, Rosa will miss added preparation for the SAT exam. An incentive for Rosa could be that many college admission officers also consider extracurricular activities like volunteer work in evaluating applicants. An incentive could also be that Rosa receives great personal satisfaction from volunteering.
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Money — Only \$38 to spend.

- If Shawn uses his money to buy a birthday gift for his cousin, he will not be able to

buy a ticket to attend the championship basketball game. An *incentive* to buy the gift is that Shawn's aunt (the cousin's mother) might help him obtain a summer job.

- If Shawn buys a ticket for the basketball championship game, his opportunity cost is buying a birthday gift for the cousin. His *incentive* for this choice could be fulfilling a goal of seeing "his team" play for the championship.

Space — Only four commencement tickets per graduate.

- If Robin invites his parents and brothers to the graduation, his opportunity cost is not being able to have his grandparents attend. An *incentive* for having his brothers attend could be to show them he made it through high school and earn their respect. This choice could also indicate how much he values his brothers.
- If Robin uses the tickets for his parents and grandparents, his opportunity cost is not having his brothers at the graduation. The *incentive* for providing grandparents tickets could be that they have always shown a special interest in his education and might be helping to fund college.

7 Stress how the analysis they completed for the three scenarios is part of the economic way of thinking — that is, looking at the pluses and minuses (costs and benefits) of the alternatives. In each situation the three students had to make a decision about what is most important to them and consider the incentives of one choice over another. At the end the students (Rosa, Shawn, and Robin) would need to evaluate whether the benefits of their decision outweighed the costs.

8 Explain that the class will have many opportunities to apply the economic way of thinking to a subject that is always of interest — money. Describe that learning about

personal finance is all about money — getting money, spending it, saving, investing, protecting, and growing it. Emphasize how the study of personal finance and knowing how to manage money will help them throughout their lives.

9 Distribute Student Handout I-B, *Money, Money, Money (Choices, Costs, Incentives, and Consequences)*. Discuss the directions. Explain that the consequence of a decision can be good or bad (i.e., positive or negative).

10 Discuss and review from Student Handout I-B a number of the personal money situations that the students described. Have students work in small groups to discuss the situations and present at least one to the whole class. Students should be able to explain the steps on the chart. A sample situation follows:

- *Scarcity* — Limited amount of money to spend
- *Situation* — Alex saved \$600 from part-time jobs he had during the summer.
- *Alternative 1* — Use the \$600 to upgrade his personal computer.
- *Alternative 2* — Use the \$600 for a four-day trip during spring break.
- *Decision* — Alex upgraded his computer.
- *Opportunity Cost* — Alex missed out on a trip with friends during spring break.
- *Incentive* — He will need a better computer for college.
- *Consequence* — (Was it a good decision? Did benefits outweigh costs?) Alex has an upgraded computer that he uses every day and he believes the benefits outweigh the cost. (His trip would have lasted only four days.)

11 Summarize the lesson by calling on students to give examples of the following terms related to the economic way of thinking: scarcity, cost-benefit analysis, incentives, alternatives. Ask students to provide examples of the opportunity cost of one decision they made recently.



Extending the Lesson

Scarcity and the Global Economy

Discuss the economic concept of supply and demand, as it relates to issues in our global economy. Have students find articles in newspapers and other media with examples of scarcity and what happens when goods and services are scarce. For example, when oil becomes scarce in the world, the price of gasoline goes up. What happens to the price of grain and other food products due to scarcity? When there is a shortage of grain due to drought, then the price of products such as cereal and bread rises. The students should share their articles with the class.

Scarcity Log

Students keep a personal scarcity log for a two- or three-day period in which they record situations where they had to make choices because of lack of money, time, or personal resources. When the recording period is over, have students explain how a log and a decision-making chart can help people make better financial decisions.

Students can also review print and online newspapers to identify articles that provide examples of scarcity that their school, school district, or community are facing. They should discuss the scarce resources and identify some of the alternatives that are being considered.

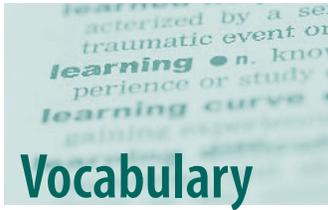
 **Note to Teacher:** The Media Watch Worksheets provided in Appendix B will assist students to gather information and articles for these two extension activities.

CONNECTIONS TO THE CONTENT STANDARDS

NCEE Voluntary National Content Standards in Economics:
1, 2, 4, and 11

JumpStart Coalition
Personal Financial Management Guidelines:
IIa, IIb, and IIIb





cost-benefit analysis

A method to evaluate a situation in advance by comparing the expected costs with the expected positive results. (Costs are not always money but can be the impact on people, the environment, etc.)

incentive

A benefit or cost that influences decision making.

medium of exchange

A function of money that means it will be accepted as payment for goods or services.

money

Anything that serves as a medium of exchange, a store of value, and a unit of measure.

needs

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

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.

store of value

A function of money that provides for the transfer of today's purchasing power to a future time.

trade-off

Giving up one want in order to satisfy another.

unit of measure

A function of money that measures the value of goods and services.

wants

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

What Is the Opportunity Cost?

Scarcity and Personal Decision Making

Directions

Scarcity of time, money, and space means we most often must make choices between alternatives. Each choice involves the opportunity cost of giving up the next best alternative.

Read the three situations below. Write in the decisions you think Rosa, Shawn, and Robin will make and the opportunity costs of their decisions.

SCARCITY	TIME Volunteer work or SAT prep? Only 24 hours in a day. 	MONEY Only \$38 to spend. 	SPACE Only four commencement tickets per graduate. 
ALTERNATIVES	Rosa has to decide how to spend her Saturday afternoons. <i>Alternative 1:</i> Attend SAT prep class. Or <i>Alternative 2:</i> Do volunteer work at a community agency.	Shawn has \$38.00 for the weekend. <i>Alternative 1:</i> Buy his cousin a birthday gift. Or <i>Alternative 2:</i> Buy a ticket for himself to a championship basketball game.	Robin has to decide how to use his four tickets to the June graduation. <i>Alternative 1:</i> Invite both parents and two brothers. Or <i>Alternative 2:</i> Invite both parents and the grandparents who live close by.
DECISIONS			
OPPORTUNITY COSTS			

Money, Money, Money

Choices, Costs, Incentives, and Consequences

Directions

Describe three different personal decisions that you have recently made about money. Complete the chart by describing the situations, two alternatives, the decisions, opportunity costs, incentives, and consequences of each decision.

	MONEY 	MONEY 	MONEY 
SITUATION			
ALTERNATIVES	1	1	1
	2	2	2
DECISIONS			
OPPORTUNITY COSTS			
INCENTIVES			
CONSEQUENCES			

Notes

There are many opportunities throughout this curriculum for students to use a decision-making model and grid. See Appendix A for sample copies.