

# Building **Wealth**

In the Classroom

Lesson 2

## **Budget to Save**—Developing a Budget



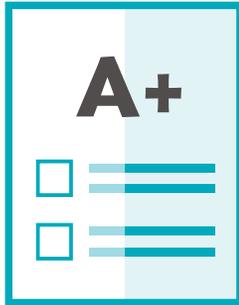
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# Instructional objectives

Students will:

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



# How to Earn an “A”

*Using SMART goals to succeed*

# First, let's brainstorm

Achieving a goal requires identifying steps.

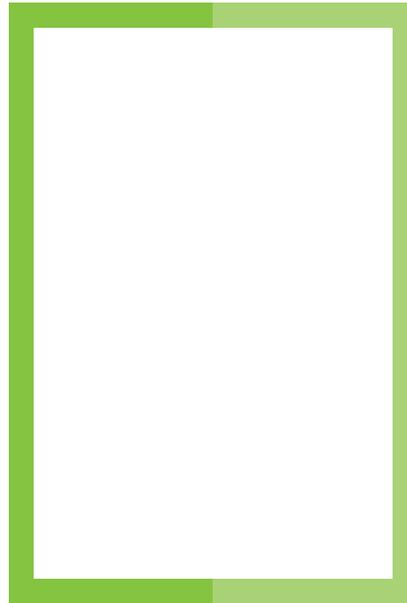
List the steps you need to take to earn an “A” in class.



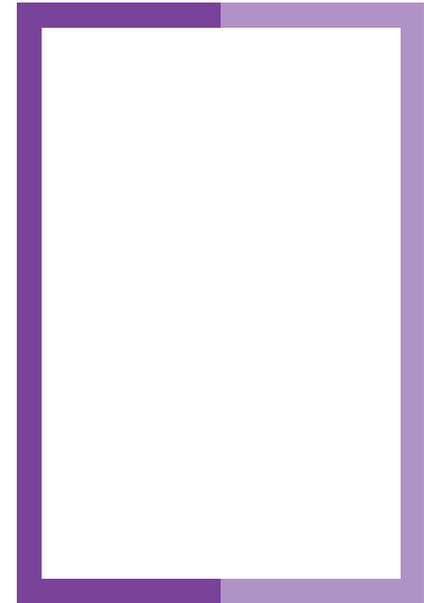
# Next, let's sort our steps

Now that you've listed your steps, you need to categorize them as specific or general.

**Specific**



**General**



# What are SMART goals?

**Specific**

**Measurable**

**Attainable**

**Relevant**

**Timely**

# Does this example of a goal statement meet the SMART criteria?

I would like to work out 3 days a week for 30 minutes a day for the next 2 months.

- Specific**
- Measurable**
- Attainable**
- Relevant**
- Timely**

## Your turn

Use your brainstorm responses to create a **SMART** goal for how you can earn an “A” in class.

# Let's rewrite this goal into a SMART goal

**Specific**

**Measurable**

**Attainable**

**Relevant**

**Timely**

I want to do better at completing all my homework.





## Try it on your own

Write a SMART goal for each example



### **New cellphone**

Phone: \$600

Cellphone plan: \$50/month



### **Community college**

Tuition: \$4,000/year

Books: \$600/year

Bus pass: \$50/month



## Try it on your own

Write a SMART goal for each example



### **Student competition trip**

Plane ticket: \$500

Hotel: \$400

Food and souvenirs: \$300



### **New computer**

Computer: \$1,200

Internet: \$75/month

2-year warranty: \$100



# Ready, Set, GOAL

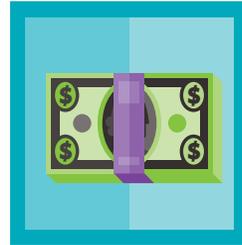
*A goal-setting exercise*

# Two types of goals



## Personal goals

*Example: Buy a car in 1 year*

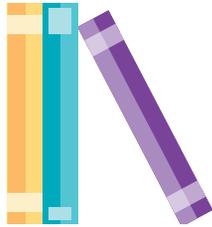


## Financial goals

*Example: Save for the down payment on a car*

**For each time frame, set one personal and one financial goal.**

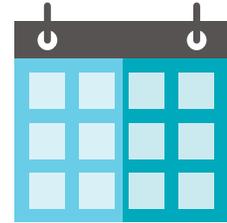
*Use assessment 1 to record your answers.*



**End of semester**



**End of summer**



**1 year**



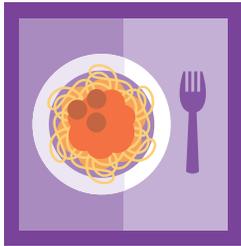
# Making Decisions

*Evaluating what is important*

Before we create a budget, we must first understand ***needs and wants*** and ***marginal decision-making***.

# Needs and wants

Categorizing expenses into needs and wants is the first step in prioritizing spending decisions. Scarcity prohibits consumers from meeting all of their needs and wants, so people must make choices.



## Needs

*Things we need to survive*



## Wants

*Things we could live without*

# Marginal decision-making

The second step is marginal decision-making, when you consider additional costs incurred and benefits gained from choices.



## **Marginal costs**

*Costs include both monetary and opportunity costs (what you give up to get something).*

## **Marginal benefits**

*Benefits include achieving a financial goal and the satisfaction received from consumption.*

***Marginal decision-making*** is the heart of economic decision-making and includes:

- The process of using marginal cost/benefit analysis.
- Decisions on “how much?” instead of “either/or.”
- Choices that are not always yes/no but require analysis of spending habits and an understanding of your personal benefits vs. costs.



# Creating a Budget

*How can you meet your goals?*

# Exploring budgets

An important part of budgeting is identifying needs and wants, and marginal costs and benefits.

## **Needs**

Things we need to survive

## **Wants**

Things we could live without

## **Marginal decision-making**

An incremental process in which costs are incurred and/or some current benefit is sacrificed

**Look at the handout 3  
scenarios and record what you  
think is a need or a want.**

# Marginal decision-making



Karthik spends \$5–\$10 a day for coffee. What could Karthik change to save more?

# Completing your consumption log

- Enter all of your consumption expenses for the past week or two.
- Identify each item as a need or want.
- Identify 3 items you consume that could be adjusted or modified if you changed your savings goal or had a change in income.

**Why is a budget  
important?**

A **budget** is an action plan to help you meet your financial goals.

A **budget** can help you:

- Understand where your money goes.
- Identify your needs and wants.
- Meet your savings goals.

To develop a **budget**, you need to:

- Create goals.
- Track expenses.
- Categorize needs and wants.

**Let's look at Riley's monthly budget and help him meet his savings goal.**

# Riley

17, High School Student

Riley currently spends all of his income from his part-time job as a server.

He would like to save \$100 a month.

What changes could Riley make to his budget?

*Use handout 4 to record your answers.*

## Riley's Monthly Budget

Assets	Current income
Part-time job	\$ 580
Lunch money from parents	80
<b>Total income</b>	<b>\$ 660</b>
Liabilities	Current expenses
<i>*Assumes 20 school days in a month</i>	
*Eating out at lunch (\$6 per school day)	\$ 120
Movie night with friends (\$20 per week)	80
Dinner with friends (\$12.50 per week)	50
Football games and snacks	20
Car insurance	140
New clothing	90
Gas	60
*Soft drink from vending machine (\$1 per school day)	20
<b>Total expenses</b>	<b>\$ 660</b>
	Current savings
Available to save (income - expenses)	\$ 0

How did you change  
Riley's budget?

### Riley's New Monthly Budget

<b>Assets</b>	<b>Current income</b>	<b>Income changes</b>	<b>New income</b>
Part-time job	\$ 580		\$
Lunch money from parents	80		
<b>Total income</b>	\$ 660		\$
<b>Liabilities</b>	<b>Current expenses</b>	<b>Spending changes</b>	<b>New expenses</b>
*Eating out at lunch (\$6 per school day)	\$ 120		\$
Movie night with friends (\$20 per week)	80		
Dinner with friends (\$12.50 per week)	50		
Football games and snacks	20		
Car insurance	140		
New clothing	90		
Gas	60		
*Soft drink from vending machine (\$1 per school day)	20		
<b>Total expenses</b>	\$ 660		\$
	<b>Current savings</b>		<b>New savings</b>
Available to save (income - expenses)	\$ 0		\$

## Summarize learning objectives

**Marginal decision-making** involves making “how much,” not “either/or,” decisions.

**Needs** are things we need to survive.

**Wants** are things we could live without.

## Summarize learning objectives

Setting **SMART** goals is an important part of financial planning.

Creating a **budget** is a way to help meet our financial goals.

# Building **Wealth**

In the Classroom

**Up Next:** Lesson 3

**Budget to Save**—Put It in the Bank



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## Building Wealth

*A Beginner's Guide to Securing Your Financial Future*

*Building Wealth* is a personal finance education resource that presents an overview of wealth-building strategies for **consumers**, **community leaders**, **teachers** and **students**.

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### For Consumers

I want to learn how to build wealth for myself and my family.

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### For Community Leaders

I lead a group of adults interested in improving our personal finance skills.

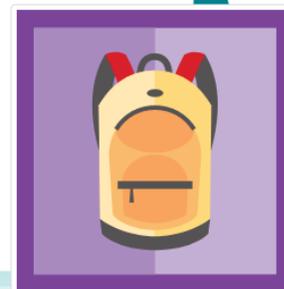
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### For Teachers

I teach financial education to high school or college students.

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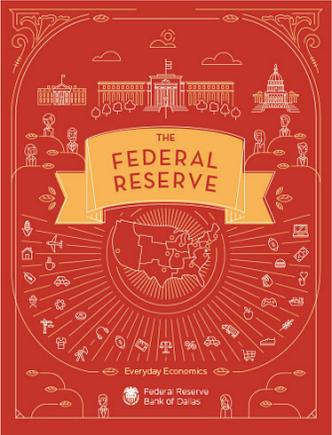
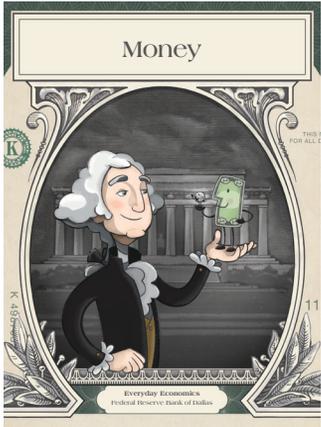
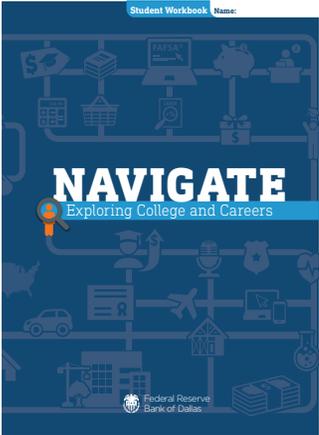
### For Students

I am a student and want to learn how to create personal wealth and meet my financial goals.

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