Lesson 3.2: Learning to Manage Your Money

Lesson Author

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Standards and Benchmarks

See page 4.

Lesson Description

In this lesson, students learn about the vocabulary and tradeoffs associated with budgeting. First, students watch a video about Budgeting 101. Then, students recommend ways to adjust a budget to meet a particular savings goal. Finally, students adjust a budget to account for lost income. To obtain an answer key for the assessment in this lesson, create an account on FederalReserveEducation.org.

Concepts

Fixed expenses
Gross income
Net income
Periodic expenses
Variable expenses

Objectives

Students will be able to:

- differentiate between fixed, variable, and periodic expenses.
- explain why trade-offs occur when constructing a budget.
- analyze how a budget will help individuals achieve their goals.

Compelling Question

How can a budget help me achieve my financial goals?

Time Required

45 minutes

Materials

- Handout 3.2.1: Budgeting 101 Video Questions, one copy for each student

- Handout 3.2.2: Typical Budget Categories, one copy for each student
- Handout 3.2.3: Charlotte's budget, one copy for each student
- Handout 3.2.4: Assessment, one copy for each student
- Video: Budgeting 101, https://www.youtube.com/watch?v=2ONGaT7YD80

Procedure

1. Ask students:

    a. Why do people have budgets? (*Answers will vary, but students should mention that a budget helps people plan for the future, achieve their goals, and make sound financial decisions*.)

    b. How do people create budgets? (*Answers will vary, but students should mention identifying the amount of income earned monthly and listing the amount of money that is spent each month in various categories*.)

2. Distribute Handout 3.2.1: Budgeting 101 Video Questions to each student. Explain to students that they should answer the questions on the handout as they watch a video about budgeting.

3. Show students the video, Budgeting 101: A Roadmap to Financial Success, found here: https://www.youtube.com/watch?v=2ONGaT7YD80

    NOTE: You can also find this video assignment on FederalReserveEducation.org and assign it in your learning management system here: https://www.federalreserveeducation.org/teaching-resources/personal-finance/spending-budgeting/budgeting-101?q=budgeting

4. Review the answers to Handout 3.2.1 using Answer Key 3.2.

5. Distribute Handout 3.2.2: Typical Budget Categories to each student. Tell students that the percentages shown are suggested. Everyone's budget is different. They might have different categories or different percentages devoted to each category depending on their goals and values.

    NOTE: You can discuss the idea of discretionary expenses with students. Examples include: gifts, charity, entertainment, recreation, coffee/ drinks, magazines, books, computer games and software, pet supplies, toys, small appliances, club dues, etc.

6. Discuss the following:

    a. What would you do if food or transportation costs suddenly rose above the percentages in your budget? (*Answers will vary but students should understand that they would have to make cuts in other expenses or even eliminate some categories like recreation and entertainment until costs in regular expenses adjust.*)

b. What would happen to your budget if you were spending 45 percent of your monthly net income on housing? (*Answers will vary. Students should discuss what trade-offs they would have to make so that the budget would be balanced.*)

c. Why could creating a budget be a difficult process to carry out and maintain? (*Answers will vary. Budgeting can be difficult because of all of the factors that come into play in the process and that a budget cannot remain the same over time. Budgeting takes monitoring and adjusting as life circumstances and events occur.*)

7. Distribute Handout 3.2.3: Charlotte's Budget to each student. Tell students they will be helping Charlotte to adjust her budget so that she can save money for a down payment for a house. Have students work in pairs to adjust the budget and answer the questions.

8. After students have finished, discuss the adjustments that were made to Charlotte's budget as a class and review the answers to Handout 3.2.3. (*Suggested answers can be found in Answer Key 3.2.*)

Closure

9. Review the important points of the lesson by asking students:

   a. What categories of your budget can't you adjust month to month? (*Fixed expenses cannot be adjusted.*) What are some examples of fixed expenses in a budget? *(loans for automobiles, property taxes, etc.)*

   b. What categories of your budget can you adjust month to month? (*Variable or flexible expenses can be adjusted.*) What are some examples of variable expenses in a budget? (*food, clothing, savings, etc.*)

   c. How can budgeting help individuals meet their financial goals? (*Budgeting helps individuals to keep track of their income and expenses so that they can make responsible financial choices*).

   d. Why do tradeoffs occur when constructing a budget? (*With a set amount of income, spending more in one category necessitates spending less in another category.*)

Assessment

10. Distribute a copy of Handout 3.2.4: Assessment to each student. Instruct the students to read the scenario and make adjustments to Terry and Ann's budget and answer the questions. Point out that the goal is for Terry and Ann to not go over their monthly net income. (*See Answer Key 3.2 for detailed grading guidance.*)

Standards and Benchmarks

National Standards for Personal Financial Education

Standard 2: Spending

A budget is a plan for allocating a person's spendable income to necessary and desired goods and services. When there is sufficient money in their budget, people may decide to give money to others, save, or invest to achieve future goals. People can often improve their financial wellbeing by making well-informed spending decisions, which includes critical evaluation of price, quality, product information, and method of payment. Individual spending decisions may be influenced by financial constraints, personal preferences, unique needs, peers, and advertising.

Benchmarks: Grade 12

1. A budget helps people achieve their financial goals by allocating income to necessary and desired spending, saving, and philanthropy.
9. Having an organized system for keeping track of spending, saving, and investing makes it easier to make financial decisions.

Handout 3.2.1: Budgeting 101 Video Questions (page 1 of 2)

After watching the video, answer the following questions:

1. What is the primary purpose of creating a budget?

    a. To track only your savings
    b. To plan for managing income, spending, and saving
    c. To avoid paying taxes
    d. To increase your gross income

2. What is net income?

    a. Income before taxes and deductions
    b. Total expenses in a month
    c. Income after taxes and deductions
    d. Money earned from investments

3. Which of the following is considered a fixed expense?

    a. Monthly rent
    b. Grocery bills
    c. Entertainment costs
    d. Gasoline expenses

4. What are variable expenses?

    a. Expenses that occur once a year
    b. Expenses that are the same every month
    c. Expenses that change in amount and frequency
    d. Expenses that are optional

5. How can you estimate variable expenses to make them more predictable?

    a. Ignore them in your budget
    b. Use credit cards for all purchases
    c. Track spending over time to find an average
    d. Only spend cash

6. What are periodic expenses?

    a. Daily coffee purchases
    b. Monthly subscription services
    c. Bi-annual car insurance premiums
    d. Weekly grocery shopping

Handout 3.2.1: Budgeting 101 Video Questions (page 2 of 2)

7. Why is it important to include savings in your budget?

    a. To ensure you can afford luxury items
    b. To prepare for unexpected expenses and future goals
    c. To increase your taxable income
    d. To spend more on entertainment

8. What did Alex do to prepare for his semi-annual car insurance payment?

    a. Ignored it until the bill arrived
    b. Took out a loan to pay it
    c. Saved a portion each month
    d. Canceled his insurance

9. What is a key benefit Alex experienced after creating a budget?

    a. Increased his gross income
    b. Felt more in control and less stressed about finances
    c. Spent more on hobbies without concern
    d. Eliminated all expenses

Source: Budgeting 101: A Roadmap to Financial Success, Federal Reserve Education

Handout 3.2.2: Typical Budget Categories

A budget is a plan for spending, saving, and giving that tracks all your income.

Net pay= gross income minus taxes and deductions

Fixed Expenses	
Housing (rent or mortgage)	30%
Savings (pay yourself first)	5%
Car Payments/ Auto Insurance	12%
Taxes (property)	10%
Loans/credit (No more total debt than 20% of yearly net)	
And monthly bills no more than 10% of monthly net	
Variable (regular)	
Other housing costs (utilities, furnishings, insurance, maintenance)	8%
Food (includes dining out; prices change so food costs can be as high as 15%)	7%
Clothing	10%
Gasoline, repair, and maintenance (prices change so this has to be adjusted)	8%
Variable (Discretionary)	
Entertainment, recreation, personal care, movies, magazines, hobbies, vacations, gifts, electronics, pets, etc.	10%
Total:	**100%**

Handout 3.2.3: Charlotte's Budget (page 1 of 2)

Charlotte is currently renting a one-bedroom apartment and is unhappy with her yearly rent increases. She would ideally like to move into a small house within the next two years and needs to save approximately $15,000 for a down payment. Help her adjust her budget so that she can meet her savings goal. She does not want to use all of her savings for the down payment.

	Monthly Budget Before $	Monthly Budget After $
Monthly net income	$4,983	$4,983
Housing	1,660	
Automobile insurance	195	
Cell phone	55	
Gym membership	140	
Savings withheld	550	
Retirement withheld	475	
Total fixed expenses	$3,075	
Groceries	350	
Meals	420	
Utilities	195	
Automobile fuel	120	
Clothing	75	
Entertainment	285	
Personal care	50	
Medical care	60	
Vacation	250	
Miscellaneous	75	
Total variable expenses	$1,880	
Renter's insurance (every twelve months)	111	
Automobile registration (every twelve months)	85	
Ad-free music subscription (every twelve months)	140	
Total yearly periodic expenses	$336	

Handout 3.2.3: Charlotte's Budget (page 2 of 2)

1. How did you adjust Charlotte's budget?

2. Why did you make those adjustments?

3. What would happen to Charlotte's budget if she needed a new car? What categories would be affected? How would that impact her current budget?

Handout 3.2.4: Assessment

Terry and Ann are a married couple with no children. Their combined gross income is $60,000 per year (Terry earns $40,000; Ann earns $20,000). Column B shows their budget based on a yearly gross income of $60,000/year (after tax net income of $43,200, $3,600 a month). Unfortunately, Ann had an accident. She is unable to work for the next three months. They will only have Terry's income which is a yearly gross income of $40,000 (after tax net of $28,800, $2,400 a month). Column C shows the adjustment they have made using the recommended percentages shown in Column A. Total expenses in the adjusted budget are $2,920. This exceeds their monthly income of $2,400. Use Column D to make adjustments so their total monthly income does not exceed $2,400.

	A Suggested Monthly Budget %	B Monthly Budget $	C Adjusted Monthly Budget after Loss of Ann's Income $	D Adjusted Budget $2,400 Monthly Income $
***Taxes**	10	360	360	
Savings/Investments	5	180	160	
***Housing (Rent, mortgage)**	30	1,080	1,080	
Other housing costs Utilities, Insurance, Maintenance	8	288	192	
Food/Groceries	7	252	168	
Transportation/Auto Insurance	12	432	288	
Healthcare/Life and Health Insurance	8	288	192	
Clothing/Cleaning	10	360	240	
Misc. Entertainment, Gifts, Vacation, etc.	10	360	240	
Totals	100	$3,600	($2,920)	

a. Explain what trade-offs you had to make in your adjusted budget for Terry and Ann.

b. What strategies might Terry and Ann use to be better prepared if another crisis occurs?