FINANCIAL LITERACY

LESSON 9-25 ▲ BUDGETING

**LEARNING GOALS/OUTCOMES**

* Identify various sources of income.
* Identify common types of expenses.
* Create a hypothetical one-year budget to manage personal income and expenses.

**MATERIALS NEEDED**

* **Student Handouts:**
* Budget Worksheet
* Journal Page
* **OPTIONAL: Information about local wages, as well as local averages for utilities, apartment rents, and home prices**

**CLASSROOM ACTIVITIES**

1. **Students discuss how to budget for a school event.** Divide students into groups of three or four. Tell them to imagine that they are in charge of organizing an end-of-year party for the freshman class. Your student government will provide $5.00 for each freshman to help pay for the party. If they want more money, they will have to earn it. Ask each group to quickly calculate what level of income $5.00/student will give them. Then ask them to list the types of expenses they might have for their party: food, music, decorations, lighting, maybe even costs to rent a location for the party.
2. **Students share their plans for a school event.** Ask for one or two of the groups to share their ideas for a freshman class party. List the types of expenses they have brainstormed and ask them if they think their total income of $5.00/student will cover their expenses. If not, ask them if they have come up with any ideas to earn more money. Discuss what they would need to do if they were planning a real party. How would they keep track of their income and expenses? Write students’ ideas on the board, and get them to focus on the idea that they would need to find a way to keep track of both their income and expenses as they plan the party. That is called a budget.
3. **Students identify various sources of income.** Have students remain in their small groups. Tell them that a budget is simply a plan for managing your money. People who plan to manage their money are less likely to have money problems. Provide each student with a Budget Worksheet. Review the first page with the whole class.   
   After reviewing the different income sources, ask student teams to imagine they are the collective brain of a person who has retired from work and has no salary. However, this person has planned well and has enough income to live the life they choose. Ask student teams to invent the story of how this person has managed to sustain a good income after leaving work, using some of the other income sources. Have a spokesperson for each student team tell their person’s success story.
4. **Students identify common types of expenses.** Ask students to return to their seats. Have them imagine that they are adults, either living on their own or with family (not their parents, but rather with a partner and children). Review the various types of expenses presented on the second page. Ask students to identify whether each expense is a want or a need. Encourage students to see that different lifestyles can cause a want for one person to be a need for another. A car is a want for people in big cities who can take the bus. It becomes a need for a person who cannot get to work without it.
5. **Students create a hypothetical one-year budget to manage personal income and expenses.** Have students work individually to estimate how much money they think they could earn as an adult and what their expenses in each category would be. If you wish, help them with the expenses by sharing information about current local averages for utilities, rent, etc., or have them use the ranges that are suggested on the handout. After students have had time to work, ask students to compare their estimates to those of one other student.
6. **Students reflect on what budgeting might mean for their lives.** Ask students to write responses to the following questions on a Journal Page.

* How capable am I at deferred gratification? Does that affect my budgeting skills?
* What are the benefits of a high school student creating a personal budget?
* What can a person do in high school to support their financial situation later in life?

**STUDENT PRODUCTS**

* **Completed *Budget Worksheet***
* **Completed *Journal Page*** on personal budgeting skills and their value.

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LESSON 9-25 STUDENT HANDOUT

BUDGET WORKSHEET

**WHAT IS A BUDGET?**

Paragraph body. A budget is a plan… a plan for how you will use your money. A budget predicts how much money you will have. And it helps you plan how you will spend that money. Budgets can be created for an individual, a family, a business, an event, or a country. But a budget always shows the same things: how much money is available, and how that money will be spent.

**WHY CREATE A BUDGET?**

There are many reasons to create a budget. Here are a few of them:

* To plan for the future. If you want to buy a car, rent your own apartment, or go to college, you need to plan carefully for how you will spend your money. You might even choose to save money for unforeseen expenses, and a budget will help you do that.
* To make choices about what to do or what to buy. If you’re like most people, you probably want more than you can afford. What should you do? A budget can help you decide.
* To avoid spending more than you earn. It’s a lot easier to spend money than it is to earn it! And it’s very easy to spend more than you earn and end up owing a credit card company a lot of money. A budget can help you limit your spending.

**HOW DO YOU CREATE A BUDGET?**

It’s easy to create a budget. You can work on a spreadsheet program or on paper. All you need to do is list two types of things:

* your income (the money you have available to spend); and
* your expenses (the money you plan to spend).

Income Sources

* Salary: income paid to a person for work or services provided
* Bank Savings: income from money saved over time
* Bank Interest: income from the interest paid for saving money with a bank
* Investments: dividends from stock holdings, or sale of shares purchased
* Retirement (401K or IRA): income from a retirement savings plan
* Scholarships/Grants: income provided to support college students
* Loans: income from money borrowed
* Entrepreneurship: income from a home business, inventions, garage sales, etc.
* Gifts: Income from one person giving money to another

Budgets usually divide income and expenses into different categories. For instance, you could show how much you plan to spend on food, how much on your car, how much on clothes, and how much on rent. If you want to save money toward a big purchase (such as a car) you could list “savings” in your budget.

A budget will then show whether you have a surplus (more income than expenses) or a deficit (more expenses than income). You can then figure out what to do about that.

**SAMPLE BUDGET**

What would it cost to live as an adult? What if you had two children to support? Make a sample budget to find out. The numbers you list will be estimates for now, but will give you a chance to see the types of expenses you will have someday. Share this list with your family and discuss your current budget.

**INCOME: How much will you earn?**

What will your income be each month if you work 40 hours per week, 4 weeks per month:

If you earn $8/hour, if you earn $15/hour, if you earn $20/hour, or if you earn $30/hour, or more…

In \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ career, I estimate I will earn $\_\_\_\_\_/hour. That will give me a

total monthly income of (hourly x40x4): $ . Assuming 28% goes to

income taxes, my monthly take home pay will be: $\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

**EXPENSES: How much will you spend?**

*Note that your monthly expenses will be different depending on the choices you make.*

Rent (or home mortgage payments): ($350-$3,000+ depending on size, location) $

Utilities (water, electricity, heat): ($200+ depending on climate) $

Phone/Internet/Cable: ($35-$200 depending on service level) $

Furniture, home maintenance: ($0-$500+ depending on home, purchases) $

Food: ($150+ per person depending on spending) $

Medical insurance (for all people): (2% or more of your monthly income) $

Child Care (if you have children): (up to $1,000+ per child depending on age) $

Car payments, insurance, gas: ($5,000 car = $100/month, more car, more $) $

($100/month insurance, $100/month – gas)

Clothing (yourself and children): (will depend on what you spend) $

Entertainment (eating out, going out): (will depend on what you spend) $

Retirement savings: (experts recommend 10% of earnings): $

Charitable contributions: (how much will you give to others?) $

**TOTAL EXPENSES: $**

**SURPLUS OR DEFICIT: $**

**(Income minus expenses)**

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JOURNAL PAGE

**DATE:**

**Lesson 9-25 | *BUDGETING***

***Q1:*** How capable am I at deferred gratification? Does that affect my budgeting skills?

***Q2:*** What are the benefits of a high school student creating a personal budget?

**Q3:** What can a person do in high school to support their financial situation later in life?

***Answers:***