FINANCIAL LITERACY

LESSON 6-15 ▲ INCOME, SAVINGS AND SPENDING

**LEARNING GOALS/OUTCOMES**

* Identify multiple sources of money.
* Rate different uses of money as ‘need to have’ or ‘want to have’.
* Outline several benefits of saving money.
* Identify and examine several influences on how money is spent.

**MATERIALS NEEDED**

* **Student Handouts:**
* Money Management
* The Benefits of Saving Money
* What Would You Do?
* **Blank paper and writing utensil**

**CLASSROOM ACTIVITIES**

1. **Students indicate their knowledge of money and how it works.** Read the following statements and have students reply after each statement with a ‘Fist to Five’ gesture - holding up a closed fist (no understanding), one finger (very little understanding), and a range up to five fingers (I understand it completely and can easily explain it to someone else).
* I know several ways a person can earn income to make a living.
* I feel comfortable explaining how a savings account works.
* I understand how money in a savings account accumulates interest.
* I can define compound interest.
* I know the difference between wanting something and needing something.
* I can identify 10 different sources of money.
* I can give three reasons why people save money.

Tell students that learning how to earn, save, and spend money is a very important life skill. In today’s lesson, they will get their first look at how money works in our society.

1. **Students identify multiple sources of money**. Tell students that, once upon a time, the world did not have any money. People made their own food, built their own homes, created their own clothing, hammered out their own hunting gear and cooking pots, and made their own gifts for others. If they wanted something that someone else had, they ‘bartered’ – traded something they had too much of (eg. potatoes) for something they wanted more of (eg. corn). Ask students why someone ever invented money. Encourage students to understand that sometimes corn owners have enough potatoes. As our culture advanced, people’s needs could not always be met with bartering. By enabling the potato seller to get money for his crop, he/she could use that money to buy anything from anybody. Money gave flexibility to people – enabling them to purchase whatever they needed to live.

Tell students that money has progressed a lot since the days of using it to obtain ‘needs’. Nowadays, money is regarded as a tool for giving people choices for things they ‘want’ and ‘need’.

Ask students if they know where a person can get money nowadays. Tell students a source of money is part of a person’s ‘income’. Lead the class in a general brainstorming session about different sources of income. They should identify things like a salary, overtime pay, a bonus or gift, interest on savings, investments, selling things (eg. garage sale), community services (eg. bottle return), government support (eg. welfare), scholarships, loans, insurance claims, pensions, profit sharing, and gaming (eg. lottery ticket). Record brainstormed ideas on the board. Tell students to record the list of income sources on their blank sheet of paper.

Encourage students to recognize that income is available from a variety of sources. Families use many of these sources to keep themselves alive and healthy. Students will use a combination of those sources to pay for their post-secondary education.

1. **Students differentiate between ‘wants’ and ‘needs’**. Ask students to explain the difference between “Needing to Have” something and “Wanting to Have” something. For example: “I *need* to have food for dinner, but I *want* to have a touch screen cell phone.” Help students to see that a need is something you require to live. A want is something that is not necessary but would be great to have.

Ask students to categorize listed items on the worksheet into the most appropriate column. Allow students to work in pairs as they place items into each column on the table. The last question on this handout asks students to add five additional items of their choice into each column. After the students have had time to complete the tables, the teacher will ask a few students to share their additional items from each column with the class and include the rationale for placement.

1. **Students assess the influence on how money is spent.** Tell students there are five key influences on how money is spent. Write them on the board – The Cost of Living, Emergencies, Tradition, Change, and Advertising. Put students into five groups and assign one of these topics to each group. Their task is to define the influence and explain how it shapes the way we spend our money. After a few minutes of discussion, have groups summarize their conclusions. Encourage students to produce responses similar to the following.
* **The Cost of Living** is the first influence on how we spend our money. The first payments go to our mortgage/rent, car payments, food, clothing, and other ‘needs’.
* **Emergencies** can influence how money is spent. Sometimes people need to purchase something requiring a large sum of money that wasn’t planned.
* **Tradition** can consume a lot of a person’s income. If you always travel to a certain spot, always spend a lot on birthdays, always bring gifts when you visit a home, or always buy lottery tickets, these traditions can use up a lot of your available funds.
* **Change** drives people to spend more**.** The latest fashion, video gaming systems, cell phones, iPods, and music players make the ones you have seem out-of-date.
* **Advertising** can also influence what we think we need or want. Ads can make one brand seem more important, one item more popular, and/or one product more irresistible.
1. **Students ask questions about the value of saving money**. Distribute a copy of *The Benefits of Saving Money* to each student. Ask each student to read the page. After they finish reading, quiz students on their comprehension, using the following questions.
* How does saving money help when you want to buy something? Why not borrow?
* How does saving money help when an emergency happens?
* Why would people save money to use when they are much older – at retirement age?
* What is interest and how does it encourage a person to save money?
* What is compounding interest and how does it encourage a person to save money?
1. **Students debate the value of spending vs saving**. Tell students the following scenario, “*You have $5,000 in a savings account that is earning approximately $16.00 in interest a month.”* Divide the class into two groups. Give the handout, *What Would You Do?*, to one person in one group and assign them Situation #1, and do the same for Situation #2 in the other group. Explain that they must reach ‘consensus’ (everyone agrees) on their response. Additionally, they will present their solution to the other half of the class. There is a possibility that each large group might not come to a full consensus. The power of this lesson is in the student’s discussion and persuasion about whether to save or spend the money.
2. **Students reflect on what they learned about money.** Repeat the ‘Fist to Five’ introductory activity by asking students to show what they know for the following statements.
* I know several ways a person can earn income to make a living.
* I feel comfortable explaining how a savings account works.
* I understand how money in a savings account accumulates interest.
* I can define compound interest.
* I know the difference between wanting something and needing something.
* I can identify 10 different sources of money.
* I can give three reasons why people save money.

**STUDENT PRODUCTS**

* **Completed *What Would You Do?* Handout**

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LESSON 6-15 STUDENT HANDOUT

 THE BENEFITS OF SAVING MONEY

**Why do people save money? There are several reasons:**

* Sometimes people save their income so that they can buy something that is very expensive, such as a college education. Adults may save money for their own child’s college expenses or a new car or vacation. If people don’t have the money right away – and they don’t want to borrow the money so they won’t have to pay interest – they might save money a little at a time until they can afford what they want.
* Some people save their income in case they need it for an emergency. Let’s say you own a fancy bicycle. It might be a good idea to have some money saved so that if your bicycle breaks, you can afford to have it repaired. Adults might save money for home and car repairs or to have an income in case they get sick and are temporarily not able to work.
* People also save their income for their retirement/old age. If they have money saved up, they can afford to retire and work as little as they like (or not at all!).

**Advantages of placing income in a savings account:**

It is important to save your income. It’s an intelligent way that YOU can plan to get what you need or want. It is a strategy used so that your money can earn more money. When money is placed in a savings account in a financial institution, the money earns interest. Interest is ‘a fee paid for borrowed or saved money’.

Lisa inherited $2,500 from a close relative. She decided to put $2,000 in a savings account at the bank, collecting 4% annual interest over the next five years. How much will she earn in interest over those five years?

**Year One** - **$2,000** + $80 (4% interest) = $2,080

**Year Two** - $2,080 + $83.20 = $2,163.20

**Year Three** - $2,163.20 + $86.53 = $2,249.73

**Year Four** - $2,249.73 + $89.99 = $2,339.72

**Year Five** - $2,339.72 + $93.59 = **$2,433,31**

 The compounding interest in her savings account increased Lisa’s savings over time. The longer that money is left alone in a savings account, the larger the savings accumulation. This occurs because interest earned is added to the amount of money originally saved (principal). Any new interest earned after that is calculated on a larger amount (principal + past interest earned). Your money grows at a more rapid rate by earning a larger amount of interest each time interest is added to principal.

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LESSON 6-15 STUDENT HANDOUT

 WHAT WOULD YOU DO?

**Scenario**: You have $5,000 in a savings account that is earning approximately $16.00 in interest a month. Based on what you have learned in this lesson, what would you do in the following scenarios?

**Situation #1**: Apple has just launched the new iPad™ product, which is still hard to buy in stores. To buy the top-of-the-line iPad, it will cost you approximately $900. Your parents don’t want you to touch your savings because it has been designated for college. You know that you could save allowance or do yard work to earn the money, but you really want the iPad now. What would you do – buy now or wait?

**Situation #2**: Your family planned a vacation to Disneyland for spring break. Assume you’ve never been there before. You are very excited to go as it has been your dream for three years now. But the family car just broke down and all the money for the trip was used up toward the repair of the car. You know that there is enough money in your savings account to cover the cost of the entire trip. Your parents said you don’t have to use your savings account, that they would start saving again, and when enough money was resaved, they would take you to Disneyland at that time. You really want to go to Disneyland now. What would you do – travel now or wait?