

## MICRO ECONOMICS - PERSONAL BUDGETING

**OVERVIEW:** How many people can do their own income tax? Know about life, health, or property insurance? Will? How many shop wisely for an automobile? What about the costs of raising children? Infertility? How many people compare interest rates? Is it better, financially, to withdraw money from your savings account to pay for a large purchase or should you charge it? How do you figure out compound interest? Many of these questions and more will be addressed during our mini-unit on personal finance.

**PURPOSE:** The purpose of the class is to show students that life in the "real world" away from the secure confines of home is drastically different. Decisions must be made with your spouse or, if you're single, by yourself. The outlook changes when the money comes out of your pocket and not someone else's.

**UNIT OBJECTIVES:** Students will be able to make their own "real world" decisions based on lectures from the teacher and invited guests. Students will become more aware of the most important financial tasks for young adults:

- Selecting a potential career
- Building and maintaining a good credit record
- Developing a personal financial plan
- Considering insurance protection
- Comparing different ways to save and invest
- Analyzing the risk in different investments
- Identifying various stock exchanges, and indicators.
- Identifying various types of stocks
- Calculating the future value of an investment
- Considering the importance of a credit rating, selecting a card, and discussing it with your parents

### ACTIVITIES AND PROCEDURES:

1. Lecture by Mr. Davey on the stock market and investment opportunities
2. Completing your "home management assignment"
3. Students select a partner to who they are "married" and potentially have children, hopefully obtain jobs, and certainly pay bills.
4. Each student must describe their finance objective. (College, marriage, children, future business, wealth, retirement) and build **two financial budgets**.
  - a. Each couple must keep a two-week budget in a journal. The budget will be collected. The journal should have the following:
    - i. A statement of your net worth (Individual and together)
    - ii. List of how much you spent over the course of 2 weeks (Include recurring bills)
    - iii. An evaluation of how you will pay for this over the course of the next year (parents pay? Savings? Working?)
    - iv. A stated plan for saving money (How will you build toward a 3 month emergency fund)
    - v. A stated plan on what credit card you plan to open and why that particular card is useful
  - b. You must complete a budget for the year after you and your partner graduate college
5. The couple must research actual living arrangements, jobs, based on their expected educational objectives and career goals and pay their bills. They should use the Nerdwallet budget worksheet. (Download it!)

I hope that this activity will make the students' step into the "real world" somewhat easier by providing them answers to their questions, having experts explain various facets of life, and giving them "hands-on" experience with life's little surprises.

## **Home Management Assignment**

Procedure: Answer the questions below for this assignment after interviewing your parental unit.

- 1.) What are the monthly costs fixed costs in making your house run and what is their total cost.
  
- 2.) What additional flexible expendable costs can be factored into your monthly bills?
  
- 3.) What is the minimum monthly income/revenue needed to keep your home running?
  
- 4.) Assume that your primary source of income is interrupted for six months. What are some specific ways you can meet your obligations and continue running your house?
  
- 5.) What are your general observations about what it takes to keep a home running? (Especially in the Bay Area)
  
- 6.) If you were speaking to your high school senior about finance what would be the key piece of financial advice you would (are currently) sharing with them and why?

## The Basics of Financial Planning: 5 steps to creating a budget

1. **Figure out your after-tax income.** If you get a regular paycheck, the amount you receive is probably it, but if you have automatic deductions for a 401(k), savings, and health and life insurance, add those back in to give yourself a true picture of your savings and expenditures. If you have other types of income — perhaps you make money from side gigs — subtract anything that reduces it, such as taxes and business expenses.
2. **Determine Your 50/30/20 Budget:** In it, you spend roughly 50% of your after-tax dollars on necessities (try and stay under 1/3 on rent/mortgage), no more than 30% on wants, and at least 20% on savings and debt repayment. Over the long term, someone who follows these guidelines will have manageable debt, room to indulge occasionally, and savings to pay irregular or unexpected expenses and retire comfortably. *Your needs — about 50% of your after-tax income* — should include:
  - Rent
  - Groceries.
  - Housing.
  - Basic utilities.
  - Transportation.
  - Insurance.
  - Minimum loan payments. Anything beyond the minimum goes into the savings and debt repayment category.
  - Child care or other expenses you need so you can work.

*Leave 30% of your income for wants.* **Separating wants from needs** can be difficult. In general, though, needs are essential for you to live and work. Typical wants include dinners out, gifts, travel and entertainment. It's not always easy to decide. Is a gym membership a want or a need? How about organic groceries? Have you thought of birthday gifts for friends and dates? Could Ian ever really get a girl without buying her off with flowers? Decisions vary from person to person. If you're eager to get out of debt as fast as you can, you may decide your wants can wait until you have some savings or your debts are under control. But your budget shouldn't be so austere that you can never buy anything just for fun.

Every **budget** needs both wiggle room — maybe you forgot about an expense or one was bigger than you anticipated — and some money you're entitled to spend as you wish. Your budget is a tool to help you, not a straitjacket to keep you from enjoying life, ever. If there's no money for fun, you'll be less likely to stick with your budget — and a good budget is one you'll stick with.

**Commit 20% of your income to savings and debt repayment:** The priorities for this category should include

- Priority No. 1 is a starter emergency fund. Start with \$500 and work toward three months
- Priority No. 2 is getting the employer match on your 401(k).
- Priority No. 3 is toxic debt. Once you've snagged a match on a 401(k), if available, go after the toxic debt in your life such as high-interest credit card debt.
- Priority No. 4 is, again, saving for retirement.
- Priority No. 5 is other debt repayments.

3. **Track your progress.** Record your spending or use **online budgeting and savings tools**.

4. **Automate your savings.** Automate as much as possible so the money you've allocated for a specific purpose gets there with minimal effort on your part. An accountability partner or online support group can help, so that you're held accountable for choices that blow the budget.

5. **Revisit your budget as needed.** Your income, expenses and priorities will change over time. Adjust your budget accordingly, but always have one.

Go to the website: <https://www.nerdwallet.com/blog/finance/budget-worksheet/> And fill in your information for 2021 and 2026.

## Personal interview questions for parents before I go off to college

- What is my financial plan for college? -what will you be paying for? a) books, room and board? allowance etc.?

Put an estimated monthly budget for income (job, money from parents, and leftover financial aid/school loans) versus anticipated monthly expenses.

Starting Money	Income per month estimate	Expenses per month estimate

- If I'd like to study a semester abroad or in D.C., is that something you will pay for?
- I'd like to open a bank account at a bank that is near my college. Can you help me with that?
- We've studied the perils and benefits of credit cards in class. I have researched and selected this card \_\_\_\_\_. Do you have advice for me regarding credit:

-Would you be willing to co-sign on a credit card with me (under what conditions?)

- Do you have any advice on starting to save for a house?
- How/when do I start saving for retirement?
- Mr. Davey suggests I get a Roth IRA but I also want money for college. If I work this summer and put some money into a Roth IRA. Would you be able/willing to give me back some of this money to use for college expenditures?