



## UNIT 1

# SETTING FINANCIAL GOALS

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An important part of becoming a homeowner or renter is the development of money management skills. In this unit, students will learn about the importance of money management skills and the relationship between income and educational attainment. Student activities will focus on the relationship of these money management skills, income, and educational attainment in relationship to the type and size of house they will buy.

These activities will incorporate information from the Bureau of Labor Statistics' Occupational Outlook Handbook, income projections from the United States Census, and budgets based on recommendations from the Consumer Credit Counseling Service. An emphasis is placed on the cost of living in the student's community.

### Student Learning Objectives:

- The students will research information about a self-selected occupation such as the occupation's median annual salary, benefits, education required, job description, working conditions, opportunity costs, etc.
- The students will analyze the relationship between income and educational levels.
- The students will create a budget based on the median annual income of their selected occupation. They will create a spreadsheet based on this budget.
- The students will manipulate their budget spreadsheet based on given scenarios.

### Key Concepts:

budget  
cost-benefit analysis  
fixed expenses  
median income

opportunity cost  
periodical expenses  
standard of living  
variable expenses

## **LESSON 1-1: HOW MUCH WILL I EARN?**

An important step on the road to being a responsible homeowner or tenant includes money management skills. One such skill is the creation and adherence to a budget, or spending plan. In this lesson, students will select an occupation, research information about the requirements of that occupation, and determine the median annual income that they can expect to earn for that occupation. These earnings will be used later to determine what type of housing they will be able to afford.

### **Materials Needed:**

- Internet access to the Bureau of Labor Statistic's Occupational Outlook Handbook (<http://www.bls.gov/ocohome.htm>) or the Handbook is available in most school and public libraries.
- Duplicate the following for each member of the class: *Activity Sheet 1-1: Selecting an Occupation* and *Activity Sheet 1-3: The More You Learn, The More You Earn*.
- Overhead transparency of *Activity Sheet 1-2: The Future is So Bright*.

### **Teaching the Lesson:**

1. Introduce the lesson to the students by asking them to think about the type of occupation they would like to have. Explain to them that the **median income** (*the midpoint at which half of the workers in that group have lower levels of income and half have higher levels*) of their selected occupation will help to determine the type of housing they will be able to afford. Tell students that in this activity they are going to research information about the occupation they would like to have.
2. Distribute copies of *Activity Sheet 1-1: Selecting an Occupation* to everyone in class and review the directions. Explain that the Occupational Outlook Handbook is a source of career information published by the Bureau of Labor Statistics (BLS). Revised every two years, the Handbook describes what workers do on the job, working conditions, the training and education needed, earnings, and expected job prospects in a wide range of occupations. Employment in the approximately 250 occupations (from able seaman to zoologist) covered in the Handbook accounts for about six out of every seven jobs in the economy.
3. Direct students to the BLS web site or have bound copies of the Handbook available. Have them complete the activity sheet based on the occupations they have selected.

4. Using the overhead transparency of *Activity Sheet 1-2: The Future is So Bright*, ask each of the students to tally their selected occupation's income range and required educational level. The results should encompass a wide range of education and salary levels and should indicate that the more education one has (or the more one invests in their human capital), the higher their income level is likely to be. In addition, the unemployment rate decreases with an increase in education.
5. Distribute copies of *Activity Sheet 1-3: The More You Learn, The More You Earn* to each student. Explain to students that the Bureau of Labor Statistics and the Bureau of the Census collect employment, earnings, and educational attainment data periodically. Some of this data has been combined into the chart shown on the activity sheet.
6. Ask students to answer the questions on the activity sheet. Answers may include:
  - #1. *Earnings increase and unemployment decreases with additional years of education. Note that completing a program is worth more than attending college without earning a degree.*
  - #2. *The biggest reason for the variation in earnings is the different occupations people enter as a result of their education.*
  - #3. *Answers will vary. May include that education pays, because employers believe educated workers learn tasks more easily and are better organized.*
7. Ask students to compute how much more a high school graduate would earn over a lifetime (47 years) compared to a high school dropout (48 years)—\$276,400. How much more did a person with a bachelor's degree (42 years) earn than a high school graduate (47 years)—\$462,200.
8. What is the difference between the unemployment rate of the high school dropout, the high school graduate, and the person with a bachelor's degree? *There is a difference of 3.1% between the high school graduate and the high school dropout and a difference of 2.1% between the high school graduate and the person with a bachelor's degree.*
9. What are the implications of these rates and the opportunity cost of additional education? *Answers may vary. May include the more education one has, the more money they will likely earn. Also, a person's chances of being employed increase as the education level increases. Their opportunity cost would include the time foregone while pursuing the education and the lost income.*

## Debriefing the Lesson

Explain to the students that the type and size of house they buy will be a function of their income. Typically, bankers recommend that people purchase a house no more than 2 ½ times the size of their income. Based on the median income for each student's chosen occupation, ask volunteers for projections on how much money they can afford to spend on their housing. What is the average amount of money that the class will be able to afford? What are steps they could take to make their housing wants compatible with their income level?

## LESSON 1-2: WHERE WILL MY MONEY GO?

This lesson will emphasize the three parts of good money management: setting priorities, establishing a plan, and following a plan. Students will develop reasons for attaining good money management skills and adhering to a budget. These skills will then be used to create a budget, or spending plan, based on their selected occupation. The budget will then be manipulated using a computer spreadsheet. If computer access is not available, the students should create and compute the spreadsheets on graph paper.

### Materials Needed:

- Collect advertisements for housing, transportation, etc. from the local newspapers, grocery store circulars, the World Wide Web, and other available sources.
- Access to computer spreadsheet software or graph paper.
- Duplicate *Activity Sheet 1-4: Spending All That Cash* and *Activity Sheet 1-5: Darren's Budget Categories* for each student.

### Teaching the Lesson:

1. Ask students to review the information they learned about their selected occupation in Lesson 1. Explain to them that they are going to create a **budget** (*spending plan*) based on the median income of their occupation.
2. Talk about the three parts of good money management: setting priorities, establishing a plan, and following a plan. Before establishing their budgets, students should ask themselves what their spending priorities will be. A certain percentage of their future income will be spent on **fixed expenses** such as housing, food, and clothing. However, they will also have many **variable expenses** where they will be able to make choices among various options such as eating meals at restaurants or buying food at a discount grocery store and preparing it at home, purchasing new clothes at full retail price or at a clearance

price. They will also have **periodical expenses** that will be due once or twice a year such as car insurance payments, home maintenance expenses, and taxes, as well as discretionary spending on items such as charitable donations and gifts.

After determining their spending priorities, the students should determine their individual budgets. This budget is a means to translate their goals into a focused and meaningful plan. This process includes the creation of spending categories such as those listed on the activity sheet.

The final, and sometimes most difficult, step is to follow the plan. Remind students that it is important to keep records of spending and to be consistent and faithful to the spending plan. In addition, unexpected expenditures will occasionally happen, so it is important to be flexible.

3. Distribute copies of *Activity Sheet 1-4: Spending All That Cash* to everyone in class and review the directions. Also, distribute the advertisements for housing, transportation, etc. from the local newspapers, grocery store circulars, the World Wide Web, and other available sources that have been collected. If necessary, review the structure of the spreadsheet. Have students complete the activity sheet and create their budget spreadsheets. Remind students to include periodical and variable expenses in their spreadsheets. *Activity Sheet 1-5: Darren's Budget Categories* should be as a handout and/or overhead transparency to aid students in creating their spreadsheets.
4. Discuss student responses to the activity sheet. Discuss how they plan to budget for periodical and variable expenses. Discuss with students the differences between their actual **standard of living**, *level of material well being*, according to the budgeted figures compared to the lifestyle they would like to attain. What surprises did they encounter while creating their budgets? What are some of the trade-offs they needed to make in order to meet their budget constraints?

### **Debriefing the Lesson**

Remind students that the type and size of house they buy will be a function of their income. Based on their budget figures for each student's chosen occupation, ask volunteers for the types of housing they were able to afford. What was the average amount of money that the class was able to afford? What are steps they took in their budget process to make their housing wants compatible with their income level? What are some of the opportunity costs they faced in creating their budgets? What are some of the opportunity costs they will face in maintaining their budgets?

## LESSON 1-3: MAINTAINING MY FINANCIAL GOALS?

In this lesson, the students will use their selected occupation and budget from the previous two lessons. The students will be given financial scenario cards that will create changes in their budgets.

### Materials Needed:

- Duplicate *Activity Sheet 1-6: Everyone Wants Your Money* and cut the cards apart. You may also want to laminate the cards to increase their durability. Make enough sets of cards so that students can work in groups of 4 or 5.
- Student budget spreadsheets from Lesson 2.

### Teaching the Lesson:

1. Give the students a few minutes to review their budget spreadsheets from Lesson 2. Inform the students that they will be creating budget and balance sheets for a one-year financial period based on the budgets they have already created. Remind students of the types of expenses they will need to consider in their budgets such as periodical, fixed, and variable expenses.
2. They will be given scenario cards that will require them to make adjustments in their budgets. Some of the scenarios will require that they make changes in their budgets, whereas others will require decisions where they will use cost-benefit analysis to determine how they will allocate their money. **Cost-benefit analysis** is a *method of decision making that includes weighing the costs and benefits of various alternatives*. This can be done by listing the costs and benefits on paper, or may be done mentally. The decision they make in their cost-benefit analysis will result in an **opportunity cost**, *the value of the next best alternative foregone in their decision making process*.
3. Distribute one set of the *Everyone Wants Your Money* financial scenario cards to each group of four or five students. Tell the students after they complete the changes in their budgets based on the financial scenario card to return it to the bottom of the pile and select another card. Whenever they exchange cards, this will indicate a new month on their budget sheets.
4. Collect any remaining financial scenario cards from the students. Have students discuss some of the scenarios they faced in their budgets. How did they decide where to spend their limited financial resources? What are some of the opportunity costs they incurred?

## **Debriefing the Lesson**

Remind students of the three parts of good money management: setting priorities, establishing a plan, and following a plan. Ask them to explain how they used cost-benefit analysis to determine how they would follow their budget plan. What are some of the opportunity costs incurred when making these budget decisions? Recap with students that it is important to be flexible with their budgets, but also to keep their financial goals in sight.

## **UNIT RESOURCES:**



### **Community Resources:**

- Invite a counselor from the local Consumer Credit Counseling Service to speak with the class about budgeting and credit.



### **Teacher Resources:**

- Budget City. (1992). Board game on basic money handling and budgeting. Players collect paychecks, pay for bills, encounter unplanned expenses/windfalls, maintain investments, pay debts. Available from Social Studies School Services at: <http://www.socialstudies.com>.
- Coulson, Elaine and Sarapage McCorkle. (1994). Personal Finance Economics: Wallet Wisdom. New York: EconomicsAmerica, National Council on Economic Education. Interdisciplinary unit consisting of a teacher resource manual, activity pages, and blackline master forms.
- The Consumer's Almanac. Pamphlet that describes how to organize daily expenses, saving and investing for the future, and managing credit with monthly calendars and worksheet. Available from the Consumer Information Catalog at <http://www.pueblo.gsa.gov>.



### **World Wide Web Resources:**

<http://www.kiplinger.com/> Kiplinger's Personal Finance web page includes information on saving and borrowing, kids and money, spending, and other personal finance information

<http://www.pbs.org/moneymoves/> The Official Money Moves Home Page from PBS features hot topics, Money Moves, money facts, and archives of topics including financial planning, buying vs. renting, buying a home online, home renovations, money and ethics

<http://www.consumercredit.com/> The American Consumer Credit Counseling non-profit organization. Site features consumer information about credit, budgeting, savings, and money management

**ACTIVITY SHEET 1-1**  
**SELECTING AN OCCUPATION**

**Directions:** Using the Bureau of Labor Statistics' Occupational Outlook Handbook (<http://www.bls.gov/ocohome.htm>) select an occupation that you might want to pursue in the future. Answer the following questions.



Occupation: \_\_\_\_\_

Occupational Characteristics: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Working Conditions: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Employment: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Training, Other Qualifications, and Advancement: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Job Outlook: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Earnings: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Related Occupations: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Sources of Additional Information: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

## ACTIVITY SHEET 1-2 THE FUTURE IS SO BRIGHT

**Directions:** Place a tally mark in the box that corresponds with the educational level and median income of the occupation you selected.



	Less Than 20,000	\$20- 29,000	\$30- 39,000	\$40- 49,000	\$50- 59,000	\$60- 69,000	\$70,000 and Above
Professional Degree							
Doctorate							
Master's Degree							
Bachelor's Degree							
Associate Degree							
Some college, no degree							
Technical School							
High School Graduate							
Less Than High School Diploma							

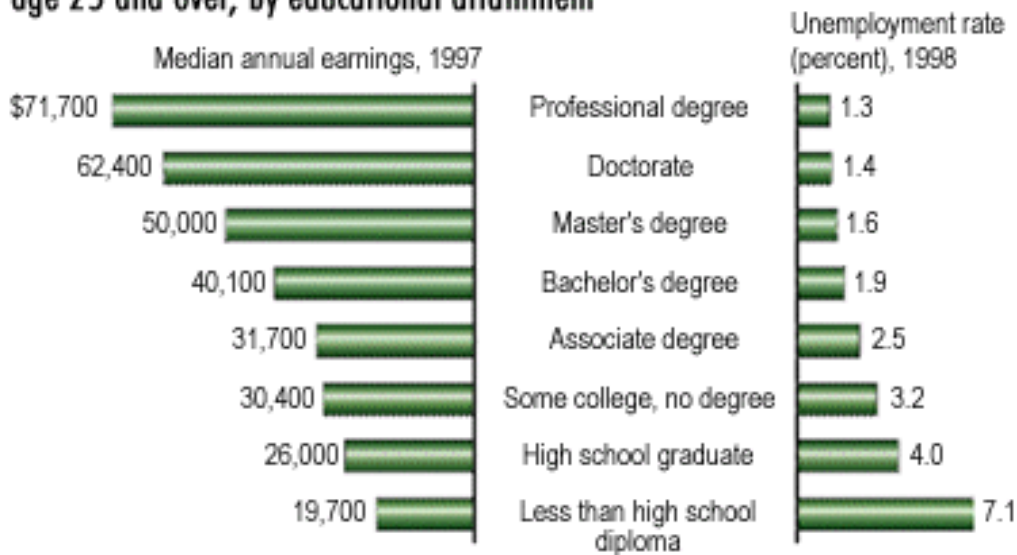
What is the relationship between income and educational attainment? What are the implications for your occupation?

## ACTIVITY SHEET 1-3 THE MORE YOU LEARN, THE MORE YOU EARN

**Directions:** Using the chart from the Bureau of Labor Statistics' *Occupational Outlook Quarterly Online*, answer the following questions.



**Earnings and unemployment for year-round, full-time workers age 25 and over, by educational attainment**



1. According to the chart, what is the relationship between educational level, earnings, and the unemployment rate? \_\_\_\_\_  
\_\_\_\_\_
2. The data for the annual earnings is an average, because variations occur at all educational levels. What could be some of the reasons for the variations?  
\_\_\_\_\_  
\_\_\_\_\_
3. Why do you think, education "pays"? \_\_\_\_\_  
\_\_\_\_\_

SOURCE: Bureau of Labor Statistics, *Occupational Outlook Quarterly Online*, Fall 1999, Volume 43, Number 3.  
(<http://www.bls.gov/opub/oog/oogchart.htm>)

## ACTIVITY SHEET 1-4 SPENDING ALL THAT CASH

**Directions:** For many people, money management can be a difficult task. Nevertheless, successful money management starts with three basic steps: setting priorities, establishing a budget or spending plan, and following that plan. Using the median income from your selected occupation, create a basic budget to determine your future standard of living.



Occupation: \_\_\_\_\_

Median Income: \_\_\_\_\_

Net Monthly Income (Income After Taxes): \_\_\_\_\_

(This is computed by subtracting 25% from the median income. Then divide the result by 12 for the monthly net income.)

<i>Spending Category*</i>	<i>Percent of Net Monthly Income</i>	<i>Dollar Amount Budgeted</i>
Housing	31%	_____
Credit Payments	20%	_____
Food	16%	_____
Miscellaneous	8%	_____
Saving	7%	_____
Clothing	6%	_____
Transportation	5%	_____

Using the dollar amount budgeted figures from above, search local newspapers, apartment and housing advertisements found in grocery stores, and the World Wide Web to select your housing, transportation, etc. Create a spreadsheet to show how you will budget your income. The spreadsheet should include all of the budget categories and the actual figures you found in your research.

\* Spending Categories and percentages based on categories recommended by Consumer Credit Counseling Service.

## ACTIVITY SHEET 1-5 DARREN'S BUDGET CATEGORIES

**Directions:** Based on the information you found from local newspapers, apartment and housing advertisements, and the World Wide Web create a spreadsheet similar to the one shown below to indicate how you will budget your income. The spreadsheet should include all of the budget categories and the actual figures you found in your research.



	A	B	C	D	E	F	...	O
1				January	February	March	....	December
2	<b>Fixed Expenses</b>							
3		Rent/Mortgage Payment						
4		Gas/Electric						
5		Other						
6		<b>Total</b>						
7	<b>Variable Expenses</b>							
8		Groceries						
9		Eating Out						
10		Other						
11		<b>Total</b>						
12	<b>Periodical Expenses</b>							
13		Gifts						
14		Car Maintenance						
15		Other						
16		<b>Total</b>						
17	<b>Month Total Expenses</b>							
18	<b>Savings</b>							
19	(Income minus Fixed, Variable, and Periodical Expenses)							
20								

Other expenses might include:

**Fixed Expenses:** Water, Phone, Trash Pick-Up/Removal, and Taxes

**Variable Expenses:** Clothing, Gasoline, Medical, Entertainment, Laundry/Dry Cleaning, Newspapers/Magazines, Cable Television, Tuition/Books, Charitable Donations, Miscellaneous

**Periodical Expenses:** Insurance, Taxes, and House Maintenance

## ACTIVITY SHEET 1-6 FINANCIAL CHANGE CARDS

**Directions:** Duplicate and cut the cards apart. You may also want to laminate the cards to increase their durability

Your last credit card bill was paid late.

The credit card company charges you a \$30 late fee.

Adjust your budget accordingly.

You need to buy materials for a project in your weekend art class.

The materials cost \$30.

Adjust your budget accordingly.

It is your best friend's birthday.

You buy him/her a \$30 present.

Adjust your budget to reflect this purchase.

Your boss had major surgery. You and your coworkers chip in \$10 each for a get-well card and gift.

Adjust your budget accordingly.

Your pet needs to visit the veterinarian for an annual check-up and shots.

The bill is \$75.

You get a flat tire and discover that all of your car's tires need to be replaced.

The bill total is \$250.

You and a friend  
go out to eat.

She/he left forgot  
to bring money, so  
you pay the bill.

Total Charge: \$25.

The biggest party  
of the year is fast  
approaching. You  
purchase a new  
outfit for an  
upcoming party.

Bill: \$150.

You are taking  
extra classes at  
the local  
university.

Tuition Fee: \$600.

You are driving  
home from work  
and notice that  
your car exhaust  
is extremely loud.

You need a new  
muffler.

Cost: \$125.

It's your lucky day.  
Your boss gives  
you a \$100 bonus  
for your efforts  
and dedication to  
your job.

The company  
where you work  
has just merged  
with another larger  
corporation.

You have just  
been informed  
that you will be out  
of work for one  
month until you  
can find another  
job.

The Fed has  
raised interest  
rates.  
This causes the  
interest on your  
variable rate home  
mortgage to go up.

Increase your  
housing payments  
by 2%.

The Fed has  
lowered interest  
rates.  
This causes the  
interest on your  
variable rate home  
mortgage to go  
down.

Decrease your  
housing payments  
by 2%.

The bank has just  
informed you that  
your credit card  
interest rate will be  
increasing from  
3.9% to 21%.

Adjust your  
interest payments  
accordingly.

You have a car crash on the way home from work.

It will cost \$2500 to have your car repaired.

You forgot to renew your health insurance premium and you were in the hospital. The tests and emergency room bill total \$5,000.

You receive a letter from your auto insurance company. You have received a \$150 discount for your excellent driving record.

A strong wind storm blew over a 100-year old tree in your yard.

It will cost \$650 to have it removed.

A long-lost aunt dies and leaves you an inheritance of \$2000

Adjust your budget accordingly.

Your clothes dryer quits working.

It will cost \$482 to purchase a new dryer.

You need to buy a Roth IRA before you pay your federal income taxes.

Minimum investment of \$1000-\$2000.

The interest rate on credit card decreases from 21% to 13.9%.

Adjust your credit payments accordingly.

You notice that your roof is leaking.

Purchase a new roof for your house: \$2500.

It's that time of year when the boss gives you your annual performance review.

Congratulations, you receive a 5% raise.

Congratulations! You have received a promotion at work.

Your salary will increase by 10%.

Adjust your budget accordingly.

You work overtime and your boss takes note of it.

You will receive an extra \$500 this month.

You are having a difficult time reading memos at work, and the road signs while you are driving are not as clear as they used to be.

You need new glasses/contacts.  
Total Bill: \$300.

Your landlord has just informed you that your rent is raised by 2%

Adjust your budget accordingly.

You decide to do some landscaping in your yard, by adding trees, shrubs, flowers, and other decorative plants.

Total cost \$500.

You have not had a vacation in two years.

You have the option to take a vacation this month.

Cost: \$500-\$2000.

You notice that your current home computer just is not performing as well as it used to.

Purchase a new computer: \$2000.

Or

Upgrade your current computer: \$500.

You have met someone that you really like, but to make an impression you need to go to the movies and eat out at least every other week.

Total Cost per month: \$100.