

Lesson 1: Introduction to Budgeting

Student Guide Pages: 27-29

Lesson Objectives: By the end of this lesson, your students should be able to:

- Identify the three reasons why most budgets do not work

Lesson Summary:

Budgets are documents that help you track your income and expenses. The goal of a budget is to ensure that you don't spend more than you earn. Unfortunately, most people struggle to make them work. Typically, this is because of three reasons:

- **We write our budgets in La La Land.** We record how much we *want* to spend, not how much we *actually* spend, and we don't plan for emergencies. For instance, we mistakenly and naively assume our cars will *never* break down.
- **We forget the little stuff.** For most people, a budget is a list of expenses they *already* know. We frequently forget about the little things, like the occasional bag of chips, etc.

- **We fall prey to chain-reaction shopping.** This is when one purchase grows into additional ones. If you buy the purse, you have to have the shoes. If you buy the car, you have to gas it up. If you get cable, you simply must have the premium channels, right? Wrong!

Review Questions:

- The video stated that chain-reaction shopping works both ways. What does this mean?

Answer: While chain-reaction shopping can lead to an explosion of additional purchases, it can also lead to a reduction in additional expenses. This is because it starts a trend line. If your initial purchase is expensive, such as a car, apartment, or outfit, everything behind it will also be expensive. The additional purchases will follow the trend. On the flipside, if the initial purchase is more modest, the trend will head in that direction. For example, a smaller apartment is cheaper to heat and cool and uses less electricity.

Homework Assignment:

Have students write down, without looking, how much they think their electric, cellphone, and grocery bills are, even if someone else pays these bills. Next, ask them to guess how much they spend on

eating out or ordering takeout. Now, they should examine their actual bank and credit card statements or ask the bill payers for these amounts. How close were their guesses? Even in the ballpark? Record the differences.

Cellphone:

Estimated: _____ Actual: _____

Difference: _____

Electric Bill:

Estimated: _____ Actual: _____

Difference: _____

Grocery Bill:

Estimated: _____ Actual: _____

Difference: _____

Class Activity:

Ask the class for examples of chain-reaction shopping. If they get stuck, ask about their car, cellphone bill, or wardrobe. What are the purchases behind the original purchase? As a class, list some examples in which chain-reaction shopping rears its ugly head. Then trace the cost of the initial purchase, plus all the additional purchases. One example in the video was an apartment. If your budget is \$1,000 a month for that apartment, what *else* must be budgeted besides rent?

Additional Information:

www.mint.com: This free website helps you track monthly expenses and even handily pulls information from the existing bills you pay.

Your bank: The bank may offer free budgeting software and bill-paying services, so encourage students to ask. If your students don't use a bank, suggest they visit with three in their neighborhood and see what they offer.

Fun Facts:

According to *Sports Illustrated*, 60 percent of NBA players are broke within five years of retiring. In the NFL, that number is closer to 80 percent. While this isn't necessarily a fun fact and is more of a depressing one, it confirms that more income alone won't solve everything. You need a budget that works!

Notes:
