Cash. Moola. Cha-Ching. No matter what we call it, we all make, spend and save money. While students may recognize the concepts of working, earning and spending; trying to understand variable expenses, cash flow and net income can feel like learning a foreign language. This lesson breaks down key terms in budgeting, has students analyze sample budgets and introduces them to the process of creating their own plans for spending and saving.

LEARNING OBJECTIVES:
Students will...
• Understand the components of a budget
• Create and calculate an individualized budget
• Keep financial records to assist in planning
• Demonstrate effective decision making in spending and saving

STANDARDS:
Jump$tart Standards:
• Planning Standards 1 and 2

National Economics Standards:
• Standard 1: Scarcity
• Standard 2: Decision Making
• Standard 3: Allocation

Common Core ELA Anchor Standards:
• Writing: Research to Build and Present Knowledge
• Speaking and Listening: Comprehension and Collaboration
• Speaking and Listening: Presentation of Knowledge and Ideas
• Language: Vocabulary Acquisition and Use

Common Core Math Standards:
• Numbers and Quantity: Quantities
• Modeling

Topic: Budgeting
Time Required: 65 minutes

SUPPLIES:
• Notebooks
• Computers or tablets
• Internet access
• Projector
• Student activity sheets (2)

PREPARATION:
• Copy student activity sheets

STUDENT ACTIVITY SHEETS:
Budget Busters: Who’s Breaking the Bank?
In this activity, students will analyze three different budgeting scenarios to determine which is the most effective and why.

Budgets 101: How to Get It Done
In this activity, students will learn how to create a personal budget by calculating a monthly net income and assessing monthly expenses.
**Essential Question**  
“How do I create and follow through with a budget?”

**Investigate: Budgeting and Goals**  
[Time Required: 10 minutes]

1. Begin by asking students about their financial goals. Would they like to purchase a laptop or a car? Do they plan to pay for a college education? Do they want to earn a certain amount of money by a particular age?

2. Initiate a class discussion on how to achieve financial goals and invite volunteers to share their strategies with the class. Explain that in order to reach financial goals, it’s important to make a plan for spending and saving. This plan is called a budget. An important part of creating an accurate budget is tracking exactly how much money comes in and goes out each month.

3. Explain that the concept of money coming in (income and earnings) and money going out (expenses and spending) is called cash flow. Just like ocean waves move in and out with the tide, so does our money—the difference is that we can control how our money flows by creating a good budget.

**Student Preparation: Understanding Cash Flow**  
[Time Required: 15 minutes]

4. Ask students to record in their notebooks what they have spent money on over the last two days. Have they bought any food, clothing or electronics? Have they gone to the movies with a friend or bought any groceries or food?

5. Invite volunteers to share some of their purchases and record them on the board. Then explain that there are several different types of expenses: fixed expenses that are the same each month, such as a rent, phone or car payment, and variable expenses, which change in price and frequency each month, like food or gas.

6. Ask students to label their purchases as fixed or variable expenses. Discuss how their goals fit into these categories, too. If they want to buy a home, will their mortgage be a fixed or variable expense? If they want to take a vacation to Europe, will that be a fixed or variable expense? Explain that as they become more independent, more expenses will become fixed. Help students understand that knowing how money fits into these categories will help them build an accurate budget.
7. Next, ask students if they’ve earned any money this month (e.g., birthday cash, paycheck or allowance). How do they keep track of what they make and what they spend?

8. Explain to students that just like we need to track our outgoing expenses, we also need to track our incoming earnings. Remind them that this process is called cash flow, and that we monitor it to determine a budget.

9. Explain that when you have a job, you earn what is called a gross income. This is the total amount of money you earn before taxes. Explain that state, federal and social security taxes are all deducted from your gross income (self-employed individuals also pay a self-employment tax). Once taxes are deducted from your gross pay, you are left with what is called net pay. This is the actual money you take home and the number you start with when building a budget.

**Challenge: Making a Budget**

[Time Required: 35 minutes]

10. Tell students that they will get a chance to study three different budgets showing fixed and variable expenses. Their challenge will be to decide which budget is the most effective in meeting the budgeter’s individual goals.

11. Hand out the student activity sheet, *Budget Busters: Who’s Breaking the Bank?* and ask students to work in groups of 4-5 to evaluate the budgets. Ask each group to assess which budget is the most successful in meeting the budgeter’s goals. What adjustments could be made to meet the goal sooner? Invite each group to share their answers, and then discuss as a class.

12. Distribute the student activity sheet, *Budgets 101* and explain that students will now get a chance to create their own budget.

13. Invite students to share their budgets with the class.

**Reflection**

[Time Required: 5 minutes]

Tell students to think back to the goals they defined in the beginning of class, and ask them to reflect in their notebooks about how they will use budgeting to achieve these objectives. How much will they need to save? What fixed and variable expenses can they adjust in order to meet their goals sooner?
Most successful budget:
Jamal is the most successful budgeter because his actual spending comes very close to what he budgeted. The most important part of Jamal’s budget is his extensive savings. He devotes nearly half of his income to savings because his other expenses are relatively low. Even though he missed his savings goal by $50, saving $820 per month is impressive.

Least successful budget:
Maria’s budget is the least successful because she is spending more per month than what she earns. She also overspends in categories that could be considered “wants,” such as personal shopping and entertainment (she has spent more than double the amount budgeted in many of these categories).

Adjustments that could be made to each budget:
Nate: While his actual spending matches his net income, Nate isn’t saving enough money each month to buy a car. He could increase savings by reducing his cell phone plan and personal shopping, and by only using public transportation rather than borrowing his brother’s car. Nate should also set a clear savings objective in a dollar amount rather than settling for what is left over.

Maria: She could benefit from reducing the amount spent on personal items, and recalculate categories such as entertainment, personal shopping and occasional spending in order to paint a more accurate picture of what she really spends.

Jamal: While Jamal is in good shape, he does overspend in the areas of personal shopping and entertainment. He could work to eliminate some expenditures from each of these categories to stay on point with his budget.
Note: Answers in the cost column are based on percentages provided. Students may adjust these figures to their personal preferences.

Net Income: $1,875.00/month

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<thead>
<tr>
<th>Cost</th>
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<tbody>
<tr>
<td><strong>Fixed Expenses</strong></td>
</tr>
<tr>
<td>• Rent</td>
</tr>
<tr>
<td>• Car Payment</td>
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<tr>
<td>• Car Insurance</td>
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<tr>
<td>• Cell Phone</td>
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<tr>
<td>• Savings Goals</td>
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<tr>
<td><strong>Variable Expenses</strong></td>
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<tr>
<td>• Utilities</td>
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<tr>
<td>• Food</td>
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<tr>
<td>• Occasional Expenses</td>
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<tr>
<td>• Entertainment</td>
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<td><strong>Total</strong></td>
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