

Lesson II Seeing Budgeting Clearly

- Teacher “Anybody recall any characteristics of a marketing economy? Can anybody recall any characteristics of a marketing economy? Andrea?”
- [Student responds, ‘The individuals like determine what is being produced like’, voice trails off]
- Teacher “Yes the individuals answer the 3 basic questions. What else? Sarah?”
- Student “Little or no government regulations.”
- Teacher “Why not? Brett?”
- Student “The market is supposed to regulate itself.”
- Teacher “Thank you. Any other characteristics? Aaron?”
- Student “People can own their own businesses.”
- Teacher “Anna?”
- Student “A little competition.”
- Teacher “Courtney?”
- [Student responds, “Profit.”]
- Teacher “Now of all those characteristics, which do you think is most important? And why? Of all the characteristics, which characteristic of a market economy do you think is the most important and why? Eric?”
- [Student responds, ‘Competition.’]
- So without competition are you saying the market is unable to regulate itself?”
- [Student responds.]
- Now a market economy ... is it the only type of economy in the world? No, and what do all the economic systems try to do? Make money. Something different. What do all economic systems try to do? Besides Aaron, he just volunteered. What do all economic systems try to do? Mike.”
- Student “Meet the people’s needs.”
- Teacher “Meet the people’s needs. With what? What do they, Russell? They provide goods and services but, Amber? [Voice trails off.] Well they do answer 3 basic questions; they do try to provide goods and services.
- Do societies have unlimited resources available to meet the needs of the people? No, so they have to make choices using limited resources to try to meet the needs of the people. Well today, we are going to take a lesson that

deals with scarcity and limited resources and apply it to decisions that we make as individuals and consumers. That's what we are going to try to do today. We are going to try to apply the concept of scarcity to a real life scenario or a real life situation. What's limited for us as consumers? Can we have everything we want? No. Why not? What's limited for us? What prevents us from having everything we want? Anna."

Student "Money."

Teacher "Because we have limited money, who has unlimited money? Give me some. But, most of us have limited money and as a result of that, what do we have to do because we don't have unlimited money. What do we have to do as consumers, as regular old people, because we have unlimited money? Sarah?"

Student "We have to make tradeoffs."

Teacher "How many of you ever heard of the word budget? Can anyone explain to me what a budget is? Or what comes to mind when you hear the word budget? What is a budget? Or what comes to mind when you hear the word budget? Any volunteers? Simone?"

Student "A plan for how you are going to spend your money."

Teacher "What else? That's good, love it. But it's a plan for how you are going to spend your money. What else? What else comes to mind? Simone gave me a definition of budget. Now what else comes to your mind when you hear the word budget? Madison."

Student "There's a limit to what you can spend on."

Teacher "Why? Go ahead, Madison."

Student "Because if you spend too much money on one thing", voice trails off.

Teacher "Did you all hear Madison? What did she say? Thank you. So it's a plan for how you spend money. You have limited choices because if you spend too much on one thing, you won't have enough money for something else."

Student "People choose things based on their values."

Teacher "Thank you, Aaron. You choose things based on your values and what else might impact our decision making? Our values might impact our decision making as far as how we are going to spend our money. What else might? We budget our money when we decide how we are going to spend it. What else might influence us besides what we value? Volunteers? Aaron already volunteered. Mike. Thank you, Mike."

Student "What you need."

Teacher "What you need versus what you want."

Teacher "And one more question. Who budgets in the US? Who budgets? Tell everybody. I want groups or people who budget in the US. Justine?"

[Student responds, 'Congress.']

Yes, because we talked about that in government, the US congress approves a budget, but who actually proposes the budget for the next year? The President. So the President creates the budget and the congress has to approve it. Who else budgets? Jennifer?"

Student "The governor of each state."

Teacher "The governor of each state proposes a budget. Who else budgets? Aaron."

Student "School systems."

Teacher "Oh, excellent! School systems have budgets and who else budgets? Esha. Businesses. You all don't need me. Yes you do, you need me to ask the questions. But, your right, businesses budget. Who else budgets? Anthony?"

Student "Individual's budget."

Teacher "And what we're going to look at today are choices that people have based on the profession they choose. Does that make sense? We are going to examine choices that people have in terms of budgeting based on the professions that they have chosen. Now this first assignment we're going to compare 3 professions. In the eye care industry. Let me pass out the handout. Now why do most people work in the US? Why do most of us work? Now I love you, I love teaching, hugs and kisses, but why do most of us work in the US? Russell."

Student "To make money."

Teacher "To make money. The day Mr. Nelson tells me, 'Miss Taylor the money has run out and we will no longer be able to pay you for teaching,' even though I love you, you are going to have to call me or email me. Because I need income right? To help support my family."

Teacher "So, let's look at this sheet. Job comparison. Opticians, Optometrists, Ophthalmologists. These individuals are all in the eye care industry. Let's look at it. It says generally, people work to earn income. Various factors such as education, skill level, talent and supply and demand can determine how much an individual will be paid for work performed. With your partner, I want you to read the job comparison handout, which is what you have. Then answer the questions that follow and what I want you to do is split it up, read it out loud to each other. Brett and Anthony are partners. Brett you might read optician's nature of work, then Anthony will read Optometrist and somebody else will read Ophthalmologist. So I want to make sure you're reading the information, sharing the information and then I want you to discuss questions 1 through 4, and then write down the answers. How long do you think you need to do that? No more than how many minutes? Ten. Compromise. So take no more than 10 minutes. Get to it, go."

Students "Optometrists usually work at least 40 hours a week and the Opticians; they only work about only 40 hours per week. Usually it goes up the scale the more schooling you have, how much you work. Their gross is about average."

- Students "Performs surgery for patients who need laser eye surgery working 50 hour work week or more, on call responsibilities, on rotating basis for most practices. High school and Bachelor's degree and medical school, and internship and residency."
- Teacher "Guys note that the pay salary for the Optometrist should be \$86,000. Jennifer caught that."
- Students "The amount of education," [voice trails off.]
- Students "As pay increases, what other factors appear to increase? I've noticed a change in how many hours they are expected to work. What other conclusions or observations did you make based on the region? Pay dramatically increases after medical school. What's that word, Ophthalmologist? It's just like average growth. I also said about as the pay rises, tests and surgeries get more difficult for, voice trails off. . Glasses are a little easier than eye surgery."
- Teacher "Guys from the tone of the class I feel like, you finished up this activity. So let's talk about it. Now, thank you Jordan for correcting that for me, I appreciate it. Number one, what do Opticians, Optometrists, and Ophthalmologists all have in common? Jennifer?"
- Student "They work with eyes, they need a high school degree and the growth of the profession is about average."
- Teacher "Excellent! Did anyone get anything else? Brett?"
- Student "It requires some college education."
- Teacher "Some of them need college ... at least a college education, not the same type, but you need more than high school. Who else? Somebody else said something? Ethan?"
- Student "They all work on eyes."
- Teacher "Thank you. That's true. What accounts for the difference in pay between those professions? Say that again, Amber."
- Student "The more you get paid, the longer you have to go to school."
- Teacher "Did anyone get anything else? Aaron."
- Student "The hours worked and then it says the Optometrists and the Ophthalmologists that you have, voice trails off, say as your hours fill up you get more pay."
- Teacher "So you work more, you get more pay, and you have more education, you get more pay."
- Teacher "Number 3, as pay increases and you guys kind of alluded to this already, what other factors appear to increase? As pay increases, what other factors appear to increase? Andrea."

- Student "The nature of work the more you do."
- Teacher "What do you mean by that?"
- Student "Like Opticians only have to do little things like fit glasses and contacts and the Ophthalmologist has to diagnosis patients."
- Teacher "So your responsibilities increase. Justine what were you just about to say? Jennifer what were you about to say? And what other conclusions and observations did you make based on this reading? Anything else?"
- Teacher "Now who do you think is going to be able to afford a better standard of living? The Ophthalmologist. Now the Optometrist's standard of living will also be what pretty good, better than mine. The standard of living of the Optometrist will probably be pretty decent too. But what we are going to look at now are what types of choices these individuals will have to make based on these salaries. And hopefully, through this activity, you will see the importance of budgeting. Now, regardless, all of these people, it doesn't matter if you're the Optician, Optometrist or Ophthalmologist, they don't have unlimited income. Right. This is their salary so they will still need to budget how they use their money."
- Teacher "Let's look at it. I'm going to get you started with your budget but you and your partner, you are going to create a budget for the Optometrist, Ophthalmologist and the Optician. So you are going to have 3 budgets. Pencil first. Pencil first. You might even want to put it on scrap paper first. You are going to have to turn in from your partnership 3 budgets, not six. Why 3 and not six? Students respond. Well yes, they're 3 jobs but what are you turning in as a partnership? One set. Does that make sense? So you are going to work on this together. You and your partner, you are going to create 3 budgets, one for the Optician, one for the Optometrist and one for the Ophthalmologist."
- "What's going to determine how you choose to spend the money and allocate the money? What's going to determine how you chose to spend the money? And allocate the money? Anthony?"
- Student "How much money they make?"
- Teacher "What else might you have to consider? Aaron?"
- Student "How much their house cost."
- Teacher "How much their house cost or what not. So you get to make choices for each person. What else? Now let's start. We're going to work on this together a little bit then you and your partner are going to work on your own. Now, you have your calculators."
- Teacher "Now, does this sheet tell you the monthly salary of the Optician? Let's start with the Optician. Does this sheet tell you the monthly salary? What are we going to have to do? Divide it by, oh you guys, the honors civics and economics you know this. You know that we are going to have to divide it by 12 so what's the monthly income of the Optician. I have a number Anna, what's the number, what's the number? That's right. Now folks this is before taxes. This is not her take home pay. This is how much she makes a month before taxes. She doesn't start out each month with \$2,133 to spend. So what do we

need to do next? We had to take out the taxes. Now on average 30% of your monthly income goes to taxes, so with that being said, how much are we going to have to take out for taxes? What's this number, Justin?"

Student "\$640."

Teacher "\$640.

Now have you ever had your parents tell you to pay yourself first? Have you ever heard that? My Dad used to say that, 'When you get your first paycheck, pay yourself first, Susan.' Do you know what that means to pay yourself first? It means you should, nobody has any idea? Madison. Madison this is your unit! Your savings! Take a little bit, what he was trying to tell me was, Susan don't spend all your money, put some aside for savings. We're going to recommend at least 5% of monthly income. If you can afford to do more, great! We might see that she or he is not going to be able to afford any savings. We are going to see that you are going to have to make that choice. But if we are recommending 5% of the monthly income, how much should this person take out for savings? Andrea."

Student "\$107."

Teacher "Now. So how much money then does she have or he, what's their monthly available income? What's the monthly available income? What are you going to work with for your budget? Andrea?"

Student "\$1,386."

Teacher "Does that sound like a lot? But it doesn't sound like a lot, \$2,052, so we have to make some decisions."

Teacher "And you and your partners can talk, you can make the decision but let's look at something, the food we recommend 11% of the monthly available income. You might have to cut that. Now for rent/mortgage these are your choices. On average it usually takes about 16% of monthly available income but let's look at her problem what's 16% of \$1,386? What's 16% of \$1,386? Jennifer. What's the problem? Is there any housing option available for \$221? No. So what would you probably chose for her or him? The \$400. Do you guys know what you're trying to do with your partners? What are you trying to do? Create a budget. And so you and your partners really need to discuss and make choices. I would recommend trying to decide what are necessities versus what are wants or what are things you can eliminate. So go ahead and work together with your partner, how many budgets? 3 budgets. If you have any questions, raise your hands. Now don't laugh at it, because it is far from scientific."

Students "\$153. Then does he need a phone? Because he needs insurance in case anything happens. What else could I do? \$97.00. That's transportation. That's \$97 of that so he has to take the smallest one which is the economy, 2 seats, voice trails off, he could use a bus or a car. Use a bus cause he makes no income at all so he can't afford a car. \$125 then Miscellaneous have like \$30. Medical \$124.74 and then, Clothing \$55.44. Charitable?"

- Teacher "Guys, can I talk to you about insurance costs and telephone costs? Now for the medical insurance, do you see there's a category Medical 9% of monthly available income and we're going to pretend that its covered, if you're able to afford your dental, vision medical insurance, that covers that. The other option for insurance, you could get renter's insurance, you could insure your home, you can get life insurance, so that's the type of insurance we're talking about here. But assume medical insurance is included under those other expenses, and for telephone you have options, some people don't have landline services anymore. What do they use, their cell phones, they can use that information. Thank you."
- Students [Voices trail off]
- Teacher "Guys, may I have your attention for just a minute. With your choices, try to make them as realistic as possible, for example: for recreation/entertainment, will somebody really not spend any money for the month on recreation and entertainment? And think about what could be recreation and entertainment. It could be a movie ticket. One movie ticket, it could be I don't know downloading something from ITUNE, to go to a concert, whatever you do for recreation and entertainment. Or it could be that maybe the person couldn't afford recreation and entertainment for that month and some of these, Amber had a question, 'Do we have to spend money on clothing?' What's going to be the answer to that? You don't have to. What's going to determine if Amber and Brandon get to spend money on clothing?"
- Teacher "No, because they don't know how much clothes the Optician has now. So what's going to determine how much they can spend on clothes? Monthly income. Yes. Their monthly income and Lauren, you said when Louis was talking about insurance; Louis was ready to set aside money for insurance. Lauren, what did you say? She said, 'we have to see if all are needs are met first.' So you guys will have to decide that. Good luck, good job."
- Students [Voices trail off]
- Teacher "Guys as you're going through this process, I want you to think about questions you have or observations that'll you make. Justine just asked whose going to spend \$6,000 a month on food was that the number? He said whose going to spend \$6,000 a month on food? Not me! That's not in my means. Right? What's that going to depend on? Who would spend \$6,000 a month on food? If they have a big family, if they entertain a lot, if they go out to eat a lot, but if he's not comfortable with that number what could he do? He can change that based on his value system and what he believes, you can do that." [Students talk among themselves]
- Teacher "Guys I'm going to give you about 10 more minutes, then we're going to wrap it up and discuss."
[Students talk among themselves again]
- Teacher "Guys, 5 questions that I want you and your partner to discuss and actually want you to write down your responses to these questions. Ricky said something insightful. Ricky said, 'I feel sorry for you.' Why. Ricky, why did you say you feel sorry for me? Even though I do not want his pity and I do not

accept it, but, Ricky, why did you say that? I also thought that was very interesting. He also said, I do not have a lot of money which is true, I have limited funds but that was very insightful.”

Teacher “But the questions I want you to answer with your partner ... Which expenses would be fixed? Regardless if you are the Optician, Optometrist, Ophthalmologist, there are going to be expenses in your budget that are fixed expenses. Do you know what I mean when I say they’re fixed? Kinsey?”
Student responds, ‘They are set.’

They are not necessarily going to change from month to month, so I want you to identify which expenses would be fixed, which would be variable. What were some choices that had to be made? And I actually heard you talking about that ... , I heard Brett say we could have chosen this and Lauren had alluded to some choices. So, what were some choices that had to be made, how did scarcity impact your decision making and look at number 5, now you have to hold on for 1 second, look at number 5 which position would be most impacted by inflation? Do you know what I mean by ..., do you know what inflation is? Prices go up. Prices have risen but what hasn’t changed? Your monthly income. So prices have gone up but your monthly income has remained the same.”

Teacher “So which position of those 3 would be most impacted by inflation and then add a 6th question, What have you learned from this experience? Can you do it? Some enthusiasm, please. Thanks, go do it!”

Students “And then for medical we don’t need any because he already has insurance, for clothing I would say like \$50, charitable give him \$25 and then recreation I would say \$125, other, we do need any? \$500 he said he likes to party \$2,075 so that’s his savings? Monthly expenditures, how much is your total and is that saving him, that’s a lot to save \$8,000, so he’s well off. I think we could increase the other, why don’t we say like \$1,000 then? Cause like what if he wants to buy a new laptop? Or you know what I mean like electronics or like sound systems cause he’s got \$8,000 to save what about \$2,000 or do you think \$1,000 you’re going to have \$7,000 here and then \$3,000 there. I think that’s it. Give it to charity, recreational entertainment or do you want to do a big screen TV? If it’s not too much to ask for, you’re an Ophthalmologist you can afford it, maybe put like what do you think would be reasonable \$600 maybe, \$42? Other vacation, say you lost your wallet and had \$300 in it, that happens, see what we have for our expenses right now, alright so we’re getting with miscellaneous expenses. Add \$150, OK so we have \$366 left, we spend like \$150 on recreation, \$216.80 on other, \$136, let’s add them together and see what we get, I added these two into it, OK so you’re right, OK so it’s \$10,696. What did you say it was? Food would be impacted by it because if prices go up then people would buy less.”

Teacher “Alright guys, let’s talk about it, first of all I want to say I think you all did fabulous! You are welcome. I feel like the level of engagement with this activity was very high. I feel like we learned something and I feel that a lot of you made insightful observations and hopefully, I’ll get to those. With number 6, what have you learned from this experience? And I also learned what I can do to tweak this lesson. This is the first time I implemented it. So I learned from you and how you participated.”

- Teacher "Which expenses would be fixed? Aaron?"
- Student "Taxes and savings."
- Teacher "Your taxes would definitely be fixed. Would savings be fixed? Why not Anna? What can I do with savings? So I can control that right? What are some other fixed expenses besides these taxes? Mike?"
- Student "The utilities?"
- Teacher "I know why you're saying that. Why are you telling me food and utilities? Because what do you see next to it? The percent sign, but actually food could vary based on what? Could I tell you this month my food expenses have gone up, December food my expenses are out of control compared to any other month. Why for me is December food expenses out of control? We had holidays, people over, special holiday foods you have to buy right? So food would exactly be an example of what expense? Variable expense."
- Teacher "Who else had their hand up? Jennifer?"
- Student "Your house payment."
- Teacher "Your rent payment, your house payment would be fixed. What else? Kirsten?"
Student responds, 'Telephone.'
- Teacher Your telephone would be fixed. Andrea? Student responds, 'Transportation.'
- Teacher Now transportation can be fixed. Now what transportation would be fixed? The car payment will be fixed. But what might vary?"
- Student "Gas."
- Teacher "The insurance for the car will be fixed. The insurance will be fixed. We kind of already did the variable cost but some choices that had to be made? Any volunteers? Now you were all buzzing with activity a few minutes ago. What were some choices that had to be made? Albert you had to decide what size car? What else? Russell. What kind of house? Jennifer."
- Teacher "And it was more difficult to make the choices for who? There was one budget I think that was harder to create than the other budgets. The Optician. And why, Kinsey? They have less of an income so sometimes when you're not bringing in as much money monthly, what happens to your choices? They become more limited. They go down. Justine you said something to Erika earlier, what did you say about going to college? You said something I heard you. You didn't know I heard you, you said something to Erika about what you learned. Erika, do you remember what Justine said?"
- Student "You should go to college? And why would you want to make more than \$20,000, \$25,000 a year?"
- Teacher "So your choices will be expanded. Needs can be met. Esha said that I thought that you could live off of that salary but what could be missing a little bit? Enjoyment, the quality of life. And which position would be most impacted

by inflation? Optician, for obvious reasons. Jennifer why? Because they don't have much money to begin with. Money is limited. Now we did have savings set aside for the Optician."

Teacher "And I want you to know something that budget does not include. What if an emergency happens? What if the car breaks down on the side of the road and you have to take it to the mechanic to get it fixed? Do you know that one mechanic visit can cost you about \$200! How much was the savings for the Optician? \$107."

Teacher "So know that this provided some insight on the budget process but there's still that missing piece of unexpected expenses that might have to come up, and can anyone share with me what you learned from this experience? Andrea. [Student responded.] Everyone needs to have a budget so they can manage their money and hopefully find ways to save money and then we're going to talk about investments, allowing your money to grow. What else have we learned? Aaron."

Student "If you don't make a budget, you're more likely to spend too much money on something you don't actually need."

Teacher "Alright, what else? What else have we learned? Anthony."

Student "The more money you have the more breathing room you have."

Teacher "What do you mean the more breathing room?"

Student "The more flexibility."

Teacher "And, I heard Mike talking to Audrey, he made a very interesting point. This budget did also not take into account what, Mike?"

Student "Paying back your student loans."

Teacher "Right. The Ophthalmologist went to school for lots and lots of years and a lot of people and is a college education always free? Not everyone gets a scholarship. So what do people do to pay for school? They take out loans. What do they have to pay back? The loans. So what one way that I can improve this assignment is to take into account that there are student loans out there that might be an expense for the Ophthalmologist or the Optometrist. Any other questions?"