

Chapter 1: Managing Money

Introduction

Managing money is one of the most difficult things to master. You have to make decisions about each purchase you make. Ideally, each purchase would involve careful planning, research and consideration of the costs and benefits. Of course, it takes time to research and fill out a cost-benefit chart. One must consider when weighing the benefits and the costs of that item. For example, if you make a purchase today, how will that affect the cash you have tomorrow, next year or ten years from now? Spending on impulse (without thinking about all of the costs) could lead to disaster when you may need that same cash for a school lab fee or required reading book for English class. When you decide to spend money now, you will lose the opportunity to spend that money later. This is called opportunity cost. Opportunity cost can be in the short run (now) or the long run (later). Opportunity cost is not always about money. Because all resources are scarce, decisions must be made. For example, making decisions due to lack of time, space in a closet or garage, or whether you need a new pair of sneakers are all examples that show you will miss an opportunity. Every time you make a choice, you decide on the most valuable choice, it is the second alternative that is the opportunity cost. Only you can decide what are the most valuable choices and the opportunity that is lost.

In this section you will learn

- That spending your money doesn't always have benefits, but always has costs
- How to budget your money so you get the greatest benefit from your cash
- How to generate visuals so you can see where your money goes
- How to define good spending habits from bad spending habits
- How to become an informed consumer so you can maximize your spending power

Learning the Language

- **Opportunity cost** – the highest valued alternative not taken in an economic decision
- **Utility** - satisfaction gained from an economic decision
- **Cash flow** - the income you have available to use for spending or saving
- **Spending habits** - the level of spontaneity or patience you exhibit when making consumption decisions
- **Purchasing power** - the value your money generates in the market
- **Cost/Benefit Analysis** - weighing the pros and cons of a decision before you make it
- **Budget** - a financial summary of anticipated income and expenditures

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EXERCISE:

What do these quotes mean to YOU?

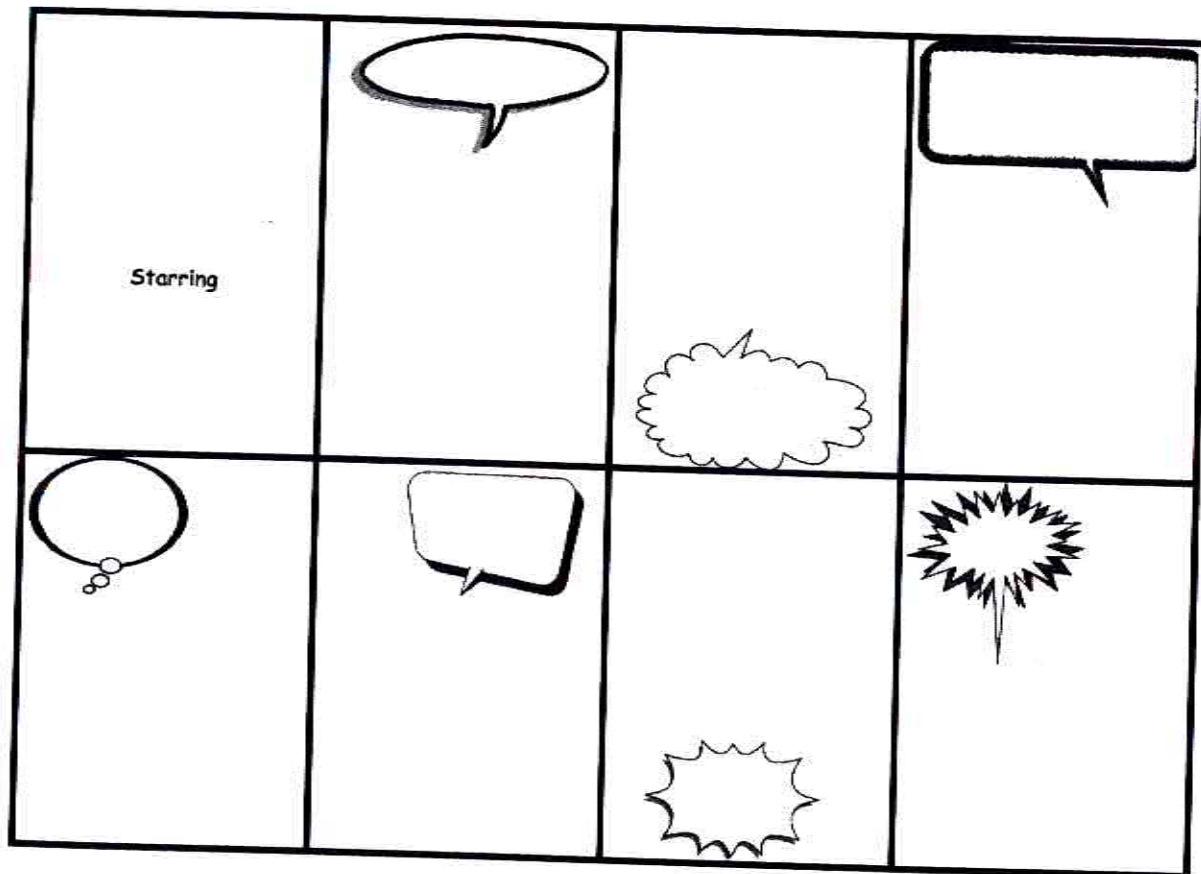
"Don't let the money burn a hole in your wallet"

"A fool and his money are soon parted." ~Thomas Tusser 1573

"He who buys what he does not need steals from himself." ~Author Unknown

"The safe way to double your money is to fold it over once and put it in your pocket." ~Frank Hubbard

THINK: Using a phrase from above (or another one you have heard) draw a cartoon starring your own characters.



PAIR: Share this cartoon with another student to see if you were able to communicate the message of your quote.

SHARE: What did your partner think about your cartoon? Would there be a better way to communicate the message of your quote?

Gaining control over your cash flow can be accomplished in three steps.

1. Tracking your spending in the short run will show your buying habits including impulse spending.
2. Creating a realistic budget for how you intend to spend your money each month.
3. Maximizing purchasing power for the dollars that you spend.

Once you have a week's worth of spending entries, it is time to analyze your spending habits. Categorize your spending and add up all of the purchases to get the Total Category Amounts.

Categories	Food/Drinks/Lunches	School Supplies/Fees	Transportation	Entertainment Games/Tickets	Other
Monday					
Tuesday					
Wednesday					
Thursday					
Friday					
Saturday					
Sunday					
Total Category Amount					

A graphical representation of your spending habits can give you a quick visual of understanding how your money was spent. To get the percentage spent on specific categories, divide the total category amount by the total spending amount from Step 1 to get the percentage of your budget spent on a specific category.

For example: If the Total Category Amount for food is \$10 and the Total Spending Amount is \$40 then

Total category amount

= result x100= percentage of total spending

Total Spending Amount

or

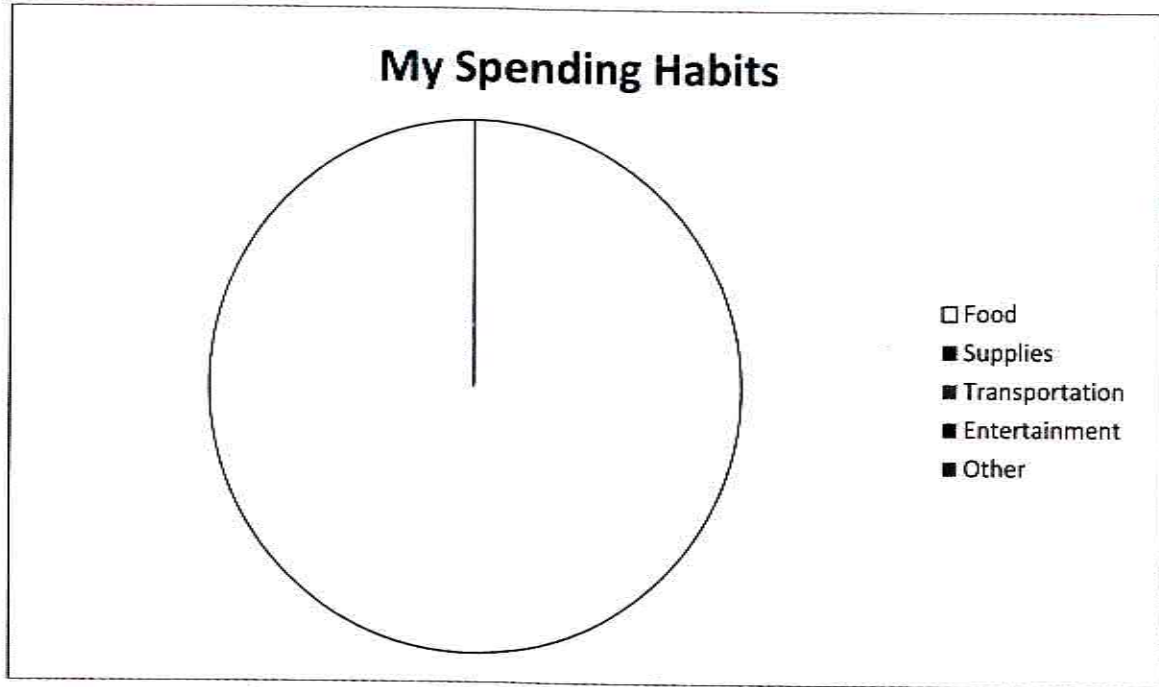
$$\mathbf{\$10/\$40 = .25 \times 100 \text{ equals } 25\%}$$

Figure out the percentage spent on each category and fill out the pie chart below

Categories	Food/Drinks/Lunches	School Supplies/Fees	Transportation	Entertainment Games/Tickets	Other
Total Category Amount					
Total Spending Amount					
= result x 100=					
%					

Excellent! Check your math and make sure that all the categories add up to 100%.

Making a graphical representation will help you quickly see at a glance the percentage of your income spent on each category. Construct a pie graph below designating a different color to each category.



Do you practice "good" spending habits? What are those?

Do you have any "bad" spending habits? What are those?

Were any purchases an impulse buy (something you bought without price comparison or research)? Did you buy bottled drinks from the vending machine everyday? How much can you save by bringing your own lunch to school or work? [http://www.360financialliteracy.org/Tools/Calculators/Lunch-Savings/\(language\)/eng-US](http://www.360financialliteracy.org/Tools/Calculators/Lunch-Savings/(language)/eng-US)

What are some ways you can change your spending habits?

Step 2: Setting a realistic budget

Now that you have a clear picture of your spending habits, it is time to set a budget for a specific period of time. Usually a month or two is a great start. As you grow older, your spending habits and income will change. Nevertheless, if you master the skill of budgeting now, you can predict how you will spend (and save) your money in the future.

You have investigated your expenses, which you spend money on regularly. This is called a fixed expense. A fixed expense is one that remains the same week after week, or month after month. A variable expense is one that changes from week to week.

Estimating (or predicting) your future income and spending is the foundation of a solid budget.

Regular (Fixed) Monthly Expenses:	Planned Amount:
Food/Drinks/Lunches	\$
School Supplies/Fees	\$
Transportation	\$
Entertainment	\$
Other Expense 1	\$
Other Expense 2	\$
Other Expense 3	\$
Other Expense 4	\$
Other Expense 5	
Other Expense 6	
Total Regular Monthly Expenses:	\$

Income:	Amount:
Monthly Allowance (Weekly x 4)	\$
Monthly Pay (Net after deductions)	\$
Other Income Source 1	
Other Income Source 2	
Other Income Source 3	
Total Monthly Income:	\$

Short-Term Goals (This Month):	Cost:
Attend Favorite Band's Concert	
Purchase Music CDs	
Short-Term Goal 1	
Short-Term Goal 2	
Short-Term Goal 3	
Total Cost of Short-Term Goals:	\$

Long-Term Goals (Next year or more)	Total Amt.	Term: months	Monthly Amt.
Vacation after Graduation	\$	24	
Holiday Gifts for Family & Friends	\$	12	
Long-Term Goal 1			
Long-Term Goal 2			
Long-Term Goal 3			
Long-Term Goal 4			
Long-Term Goal 5			
Total Cost of Long-Term Goals	\$		Total Amount to Save Monthly: \$

Budget Overview:	
Total Monthly Income:	\$
Total Regular Monthly Expenses:	(\$)
Total Cost of Short-Term Goals:	(\$)
Monthly Savings for Long-Term Goals:	(\$)
Extra Money Available to Save:	\$

Total Amount to Save: (Short-Term + Long Term + Extra)	\$
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Adapted from CU Succeed http://www.cusucceed.net/resources/b_budget_page.php

If you don't like this budget, try Microsoft Online for a variety of templates <http://office.microsoft.com/en-us/templates/CL102207099.aspx>

Step 3: Maximizing your purchasing power by being an informed dollar stretcher

Advertising Tricks

Have you ever purchased an item, only to get home and find out that the item is not what you thought it would be? The goal of advertisers is to create a sense that you will benefit from the item being advertised...but at what cost? Purchasing items such as a refreshing soda or a fresh made pizza offer immediate satisfaction. Marketers create an illusion of urgency that places your immediate satisfaction ahead of long-term sacrifices. Arm yourself by becoming aware of how advertisers try to get you to consume more products. <http://pbskids.org/dontbuyit/advertisingtricks/>

Competition and Cash are best friends

There is nothing better than going shopping for an item with cash you've accumulated through saving. How do you know that you are getting the best price and value for your hard saved cash? A good rule of thumb is to check at least three different places to get an idea of how much this item will cost you. This is called price-comparison shopping. Checking Sunday sales flyers and a few internet sources will allow you to check buyer reviews. Bring newspaper flyers or print out the internet advertisement and bring it to the store with you when you are comparison-shopping. Many times sellers of an identical item will price match. Price matching means the store that has the item at a higher price will match the lower price, even though that item is sold at

a different store. The items must be an exact match, and you may have to go through a customer service representative to make the price match happen.

Knowing if the item will be going on sale is also information that you can obtain by asking a store or sales associate. If the item will be going on sale in the near future, it will be worth waiting to be able to save 10-20% of the purchase price.

Calendar for Clearance Items								
January	February	March	April-May	June-July	August-Sept	October	November	Decemeber
computers electronics winter wear post-holiday sales small appliances sports equipment	jewelry perfumes gift items electronics housewares furniture	spring clothing wedding gifts air conditioners washers /dryers garden supplies outdoor winter sports gear luggage	spring clothing Bridal gowns (save up to 70%) furniture cruises vacation packages	summer items school supplies school clothes summer clothes summer sports equipment	Tax free days school supplies school clothes summer clothing (bathing suits and sandals) linens and towels	last year's car models fishing equipment houses crystal silver glassware	houses quilts and blankets winter clothing	clothing appliances gifts wrapping paper holiday cards other holiday items

Source: <http://www.wisebread.com/buying-calendar>

Last but not least, some stores may offer a cash discount. When you have the cash, asking and getting a cash discount might surprise you when you find out that the price is negotiable.

Finding the lowest common demoninator to compare prices

Often, when trying to decide upon a product to buy, the best way to compare is to get to the lowest per a specific unit. Usually grocery stores will offer a shelf label that will divide the size of the items by the price and give you a per ounce or per pound price. This method can also be used for packages per box or items per case, but may require that you do the math yourself. For the example, look at the sugar shelf labels. Each package is 5 lbs. and when we look at the per ounce price, we see a major difference in price.

