

Elementary

Grades: 5-8



Determining Your Budget

Using an interactive, online activity developed by the U.S. Mint, students will build a budget based on an annual salary. This lesson introduces the concepts of fixed and variable expenses and taxes. This lesson requires that students have access to computers that are connected to the Internet.

FAQ

How easy is it to get started?

EASY! No registration is required. Below you will find a detailed lesson plan to accompany this lesson.

Is this website a stand-alone lesson or is it best used as a supplement?

This supplemental site supports elementary students' understanding of fixed and variable expenses and taxes.

How much time will my students need to complete the activity? Also, is this one activity or a series of activities that must be completed as a whole?

This game can be played multiple times with multiple outcomes. The game can be played within one class period. The support of the teacher economic lesson plans will ensure student understanding prior to gaming.

What kind, if any, assessments or pre-/post-testing is provided?

None

Are there any supplements or lesson extensions provided for the classroom?

See Below

What grade levels would benefit from this website?

This website can be used with students grades 5-8.

What topics are covered by this website?

Students will be exposed to taxes, fixed and variable expenses.

What Kentucky Core Content does the website address?

The site meets all the requirements for Kentucky Core Academic Standards (KCAS) for the economics strand of social studies.

LESSON PLAN

Economis Mini-Lesson: Budgeting 2 (Grades 5-8)

Suggested Target Age: Grades 5-8

Topics Covered: Budgeting

Time Required: 30-40 minutes

What Will the Students Learn?

- The difference between gross and net pay
- The components of a budget (fixed and variable expenses)
- What a Certificate of Deposit is
- What a “deductible” is
- They will practice budgeting online, with an automatic math calculator that moves the process along quickly

NOTE: Students will need access to computers and the Internet for this lesson.

Lesson Plan:

Set-Up: Gather students together in a computer lab where there is Internet access for all.

1. Have students go to: <http://www.themint.org/kids/determining-your-budget.html>
2. Tell the students that they’ve just gotten hired in their new job and they are going to be paid an annual salary of \$25,000. They should type in “\$25,000” in the Annual Salary box. Now the program will automatically calculate their net monthly take-home pay and will display that figure in the “monthly salary after taxes” box.
3. Staying on this first screen, tell the kids to divide \$25,000 by 12. (*They should get \$2083.33*) Ask them if the number they got matches the number in the box on the screen (*no*). Ask them why there is a difference (*Because their figure is gross pay and the computer figure is net pay.*) They can read the paragraph on the site about net pay – which is what is left from gross pay after deductions for taxes and other things are taken out. At this point, remind the youth that their paychecks through *Economis* also show them their gross and net pay and that in *Economis*, they do get money for taxes taken out of their paychecks.

4. Have them move to the next screen by clicking “build your budget.” This screen asks them how much of their paycheck they want to put into savings. Talk about the importance of savings – so that they have something available “for a rainy day.”

They might face an unexpected health care bill or an auto repair, and they will want to have some money available. The students will input on their computer what amount they want to put into savings. If they need a hint, you could suggest they think about saving 5-10% of their monthly pay. (10% of their net pay would be about \$135; 5% would be about \$67.) Then they need to determine which savings vehicle to use. The computer program offers three choices:

Savings Account
CD (Certificate of Deposit)
Money Market Account

Ask them what they know about these different kinds of savings instruments. Explain that a savings account at a bank is the safest option, and they will be able to get at their money at any time, but that they will get the smallest interest rate. A Certificate of Deposit will pay them a higher interest rate, but they won't have immediate access to their money. This is because CDs are sold in different “maturation terms.” Remind them that in *Economis*, they can buy CDs for terms of 30, 60, or 90 days. In the real world economy, CDs usually have terms of 1 year or more, although sometimes you can find a 6-month CD. Tell them that later on in the year you will discuss money market accounts. Have them select whether they want to use a savings account or a CD as their savings instrument, then have them click the Fixed Expenses button.

5. Now they have three choices in terms of their living situation – living alone, living alone in a fashionable high rent district, or living with a roommate and sharing expenses. They should select one option and then click “continue.”

6. Now they will make decisions about communications services (cell phone, land line, etc.) They should select the options desired, and then click “continue.”

7. On the next screen, they will select their preferred Transportation options, then click “continue.”

8. Next they will pick their insurance options. Explain that if they selected to have their own car, they will need to purchase car insurance. Generally, car insurance policies can be divided into two general types:

High deductible – a policy that is cheaper in terms of the monthly fee, but if you get in an accident, you will have to pay a higher deductible. Ask the kids if they know what a deductible is. Most probably won't – so you'll need to explain that it is the first part of the cost of the repairs. If the deductible is \$1000, for ex., that means if the person is in an accident and has \$2000 of car repairs, they will have to pay the first \$1000 and then their car insurance company will pay the rest.

Low deductible – this policy costs more each month, but means that you will have a lower deductible (or “out of pocket”) expense in the event of an accident.

They will also have the option on this screen of purchasing renters' insurance. Explain to them that renters insurance covers their possessions that are in their apartment – like their clothes and stereo and furniture. If their possessions are stolen from the apartment or damaged by some problem such as a fire or roof leaking water onto their stuff, then they will get money from the insurance company to replace their possessions.

9. The next screen shows savings and debts. First, the student will reenter the savings amount that he/she chose at the outset of the budgeting process (see step 4). This screen also includes a typical college loan repayment. Explain to the students that most people have to take out some loans in order to go to college, and then they pay off those loans in installments after they graduate. Some students may not go to college, and so may not have college loans to pay off. However, they might have a car loan to pay off. Click “variable expenses” to continue to the next screen.

10. The next screens allow them to choose some additional expenses. Note to them that the language on the screen has changed from “fixed expenses” to “variable expenses.” Write those two terms up on the chalkboard/whiteboard. Ask the students if they can explain the difference between fixed and variable expenses (fixed are those set expenses that happen every month, like your rent; variable expenses are expenses that will change—going up or down, depending on your decisions. At this point, you could get the kids thinking by calling out various kinds of expenses and having the students tell you whether those are fixed or variable expenses – then write the answers down on the board.

11. Now have the kids select their variable expenses (such as entertainment expenses) then click to continue.

12. On the final screen, the students will see whether they stayed within their monthly budget or went over. (In some ways, you almost hope they will be over – so that they will learn that living within a budget is not easy, and that it requires discipline and careful planning.) Ask for a show of hands for who stayed within their budgets and who didn't. Get the kids who stayed within budget to explain what some of their choices were that helped them live within their budget (e.g., choosing to live with a roommate, taking public transportation instead of having their own car, only going out for a movie once or twice per month, etc.)

OPTIONAL CLOSING ACTIVITY

Let the youth log into their *Economis* account to view their most recent paycheck. How much has been withheld so far (“year to date”) in taxes? Also give them time to purchase a CD in case they want to. Remind them that they will get higher interest rates on a CD than they do on their savings account, but also that they have to keep the money in the CD for the required length of time. If they wish to withdraw the money from the CD early, they will face a stiff penalty!