Session 17:

Setting and **Achieving Financial Goals** and **Spending**

Session Description

Students will learn about setting both short term and long- term financial goals and the value of developing a budget.

Standards and Benchmarks (see page 17.4)

Talking Points

Setting and Achieving Financial Goals

1. A financial goal is a monetary target to be met by a specific time in order to purchase a good or service (car, down payment on a house, college education, start-up funds for a business, retirement, and so on).

2. Financial goals are met with a systematic financial plan for saving (deciding how much to save each pay period) and investing (deciding what financial assets to purchase with income saved).

3. A financial plan largely depends on
   - the amount of the goal,
   - how long a person has until the goal must be met,
   - how much can be saved each pay period, and
   - the rate of return earned on investment assets.

4. A person's net worth, or wealth, is the market value of the assets he or she owns minus the market value of the debt, or liabilities, he or she owes.

5. A person's cash flow is the amount of income he or she earns minus the amount of expenses he or she incurs over a given period of time.

6. A person's net worth tends to rise when his or her cash flow is positive—that is, when income is greater than expenses each pay period.

7. A person's net worth tends to fall when his or her cash flow is negative—that is, when income is less than expenses each pay period.

8. A budget is a cash-flow plan that decides how a person's income is to be spent each period (all income each pay period is essentially spent on goods and services, taxes, and savings to purchase goods and services in the future).

9. There are three categories of spending in a typical monthly budget:
    - regular spending (goods and services typically purchased every month),
    - irregular spending (financed by short-term saving for goods and services purchased on a non-monthly basis during the year), and
    - future spending (financed by long-term saving, or investment, for purchasing goods and services more than a year away).

10. Making a budget involves trade-offs—allocating more spending to one item and less to other items—so one must consider the satisfaction per dollar spent on each item (see Session 1).

Spending

1. The fundamental consumer problem is a scarcity of resources from which they are able to earn income. This means that people don't have enough income to buy all the goods and services they would like to have. Thus, they must decide how to spend (or allocate) their income in order to best satisfy their unlimited wants.

2. Two general assumptions are made about people's preferences (or the satisfaction they get from consuming goods and services):
    - More is preferred.
    - Each additional unit of a particular good tends to add less satisfaction than the unit before it.
3. People maximize their satisfaction by purchasing those goods or services that give them the most satisfaction per dollar spent. So, their preferences and the prices of goods and services both matter in making spending decisions.

Resources

NOTE: See p. v for instructions on how to set up an Econ Lowdown account and assign resources found in the Resource Gallery to your students.

Online Modules

Allow time for students to complete the modules:

- *It's Your Paycheck!* (These lessons are also available in PDF and PPT formats.)
    - Lesson 3: Cash the Check and Track the Dough (40:00)
      https://www.econlowdown.org/resource-gallery/its_your_paycheck_3
    - Lesson 4: Your Budget Plan (20:00)
      https://www.econlowdown.org/resource-gallery/its_your_paycheck_4
- Budgeting 101 (30:00)
  https://www.econlowdown.org/resource-gallery/budgeting_101

Lessons

Allow time for students to complete the lessons:

- *It's Your Paycheck!* (These lessons are also available as online modules.)
    - Lesson 3: Cash the Check and Track the Dough
      https://www.stlouisfed.org/education/its-your-paycheck-curriculum-unit
    - Lesson 4: Your Budget Plan
      https://www.stlouisfed.org/education/its-your-paycheck-curriculum-unit
- *Making Personal Finance Decisions*
    - Unit 2: Planning and Tracking—Lesson 2A: The inventory Game—Net Worth and Cash Flow
      https://www.stlouisfed.org/education/making-personal-finance-decisions-curriculum-unit/inventory-game
    - Unit 5: Budgeting—Lesson 5A: Making a Budget—It Is All Spending!
      https://www.stlouisfed.org/education/making-personal-finance-decisions-curriculum-unit/making-a-budget
    - Unit 5: Budgeting—Lesson 5B: Budget Trade-Offs—A Penny Here and a Penny There
      https://www.stlouisfed.org/education/making-personal-finance-decisions-curriculum-unit/budget-trade-offs

Standards and Benchmarks

Arkansas Economic Standards

Content Standard E.6: Students will understand the factors affecting income, wealth, and financial risk. This includes the role of credit in personal finance.

- **E.6.ECON.PF.4:** Analyze income and expenses to create a household budget including food, shelter, transportation, utilities, insurance, savings, charitable giving, and other expenses.

Personal Finance Alignment

- **PF.5.MM.4:** Analyze expenses to create a household budget including, but not limited to, housing, utilities, food, saving, insurance, taxes (e.g., taxes on earnings such as income tax, taxes on what people buy such as groceries (i.e., sales tax), and items people own such as a house or car (i.e., property tax), spending, and charitable giving.
- **PF.5.MM.5:** Examine the influences on financial planning decisions (e.g., long-term, needs vs. wants, priorities, values, stages of life, estate planning).