

CHAPTER 1, SECTION 2

ACTIVITY 2

Hungry Piggy Banks

Track: 2

Date: 01/31/06

Length: 0:58

Summary: The audio segment for this activity explains that the savings rate among Americans is the lowest it's been since the Great Depression, according to the Commerce Department.

Correlation to *Economics: New Ways of Thinking*

Primary application: This activity was designed to be presented with the following *Economics: New Ways of Thinking* resources:

- ▶ Chapter 1, Section 2, “The Economic Way of Thinking,” *Student Text*, pages 13–21
- ▶ Chapter 1, Section 2, “Incentives,” *Applying the Principles Workbook*, pages 6–9
- ▶ Chapter 1, Section 2, Outlining Activity and Just the Facts Handout, *Guided Reading and Study Guide*, pages 4–6
- ▶ Chapter 1, Section 2, *Daily Lectures: Overheads and Notes*, pages 4–7, including Transparency 1-4

Optional application: This activity can also be adapted for use with the following *Economics: New Ways of Thinking* resource:

- ▶ Chapter 5, Your Personal Economics, “Investing in Yourself,” *Student Text*, pages 124–125

Materials

- ▶ Handout 2-1, “My Personal Savings Plan”

Procedure

1. Open the activity with the following introduction:

People have wants—things they desire. Resources are needed to produce the goods and services people want. A person's (and the world's) resources are limited. People can't have everything they want. People have to make choices. Making choices means deciding on one thing and giving up something else. The Your Personal Economics feature on pages 22–23 of the *Student Text* asks the question, “Spend a little now, or a lot more later?” This refers to the trade-off between spending your money now versus saving it to spend in the future. Many people underestimate the power of saving.

2. Ask students the following questions, and discuss their responses:

- a. How do you acquire or get money? (*Possible answers:* Work, gift, parents.)
- b. What do you do when you get some money? (*Possible answers:* Spend it, save it.)
- c. If you save money, when and where do you save it? (*Possible answers:* Save only when receive a large lump sum, save a portion of earnings weekly or monthly, save at home or in a financial institution.)

3. Explain to students that advertisements in the media each day tempt us to purchase the latest and greatest products and services. Invite them to listen to the *Marketplace* segment “Hungry Piggy Banks.” Then direct students to answer the following questions on their own paper:
 - a. Societies face trade-offs. What is the trade-off if people continue to not save—that is, if the savings rate continues to be negative?
 - b. What unintended effects might people experience if they do not save?
4. Discuss the students’ answers to the questions in step 3. List their responses to each question on the board and underline each response that the class agrees is a significant one.

Possible answers:

- a. In the short term, the economy grows at a faster rate because people are spending and buying things. Businesses sell more goods and create more jobs. The trade-off is that people aren’t saving for the future. Also, there may be fewer investment dollars available to finance business expansion.
- b. Eventually, increasing debt can hurt consumers. Once your debt is “maxed out,” it’s difficult to obtain loans to finance expensive items like cars and homes. Also, your retirement and emergency funds can be jeopardized if you don’t have sufficient savings.

Extended Learning Activity: Saving for the Future

1. Point out that saving is not the same as *not spending* (see page 23 of the *Student Text*). Saving is postponing your current spending in order to spend *more* at a later time or in the future. Then lead students in completing Handout 2-1.
2. Answers to the handout questions will vary. You might want to divide the students into pairs and have the partners check each other’s work. Be available to answer questions, to help students understand the concepts, and to check their math.



Name: _____ Date: _____

HANDOUT 2-1

My Personal Savings Plan

1. In column 1 of the chart that follows, list three big-ticket items you think you will want or need after you complete school and have a job or a career. Think practically—do not just dream. The items should be realistically attainable through personal savings. Examples could include a laptop computer, a flat-panel high-definition television, a car, a house or a condo, or a trip to a foreign country.

| Item | Purchase price | Down payment | Months of savings | Months of savings with sacrificing |
|------|----------------|--------------|-------------------|------------------------------------|
| 1. | | | | |
| 2. | | | | |
| 3. | | | | |

2. Use the Internet to research the prices of the items on your list. Write the price you expect to spend for each item in column 2 of the chart in step 1.
3. Now assume you have completed your education and begun your career. Create an income and spending budget like the following sample:

SAMPLE INCOME AND SPENDING BUDGET

| | |
|--|-----------------|
| Annual income | |
| Gross income from salary | \$36,000 |
| Less income taxes, Social Security, and Medicare | -\$6,000 |
| Net annual income (take-home pay) | \$30,000 |
| Annual spending (living expenses) | |
| Apartment rent | \$6,600 |
| Utilities and cable TV | \$600 |
| Cell phone | \$600 |
| Groceries, laundry, and incidentals | \$2,400 |

(continued)

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| | |
|---|-----------------|
| College loan payment | \$3,600 |
| Car insurance | \$1,200 |
| Gasoline, car maintenance, and license renewal fees | \$3,000 |
| Clothing | \$600 |
| Restaurants, travel, and entertainment | \$3,000 |
| Health insurance | \$2,400 |
| Annual living expenses | \$24,000 |

YOUR INCOME AND SPENDING BUDGET

| | |
|---|--|
| Annual income | |
| Gross income from salary | |
| Less income taxes, Social Security, and Medicare | |
| Net annual income (take-home pay) | |
| | |
| Annual spending (living expenses) | |
| Apartment rent | |
| Utilities and cable TV | |
| Cell phone | |
| Groceries, laundry, and incidentals | |
| College loan payment | |
| Car insurance | |
| Gasoline, car maintenance, and license renewal fees | |
| Clothing | |
| Restaurants, travel, and entertainment | |
| Health insurance | |
| Annual living expenses | |

4. Study your budget and answer the following questions:

- a.** How much of your annual budget will be available for personal savings? To find that amount, subtract your living expenses from your net income:

$$\text{Net income} \underline{\hspace{2cm}} - \text{Living expenses} \underline{\hspace{2cm}} \\ = \text{Annual savings} \underline{\hspace{2cm}}$$

Express that amount as a monthly value:

$$\text{Annual savings} \underline{\hspace{2cm}} \div 12 \text{ months} = \text{Monthly savings} \underline{\hspace{2cm}}$$

- b.** Look back at the items you listed in step 1. For each item priced under \$20,000, how many months will you need to save in order to purchase the item? Enter that amount in column 4 of the chart.

- c.** Some purchases are so costly and so necessary that it is difficult to wait and save enough to pay for them. For example, few people are able to save enough to pay cash for a car or a house. Do any of the three items you listed in step 1 cost more than \$20,000? If so, you might want to save up enough for a 10 percent down payment, and then take out a loan for the rest of the purchase price. Use the following formula to determine the down payment for each item over \$20,000:

$$\text{Price} \underline{\hspace{2cm}} \times 0.10 = \text{Down payment} \underline{\hspace{2cm}}$$

Enter each down payment in column 3 of the chart in step 1.

- d.** How many months will you need to save for a down payment on any item that costs more than \$20,000? Enter your answer in column 4 of the chart in step 1.

- e.** Will you be willing to save as long as necessary to purchase each of the three big items you want? If not, you might try to save more. Analyze your spending budget carefully, and identify three areas where you might be able to stretch or sacrifice for a while, in order to save more. For example, could you temporarily reduce your "Restaurants, travel, and entertainment" spending? For each "sacrifice area" of your budget, determine the additional amount you might save each month, and the new amount you would be able to save each month:

$$\text{Additional monthly savings} \underline{\hspace{2cm}} + \text{Original monthly savings} \underline{\hspace{2cm}} \\ = \text{New monthly savings} \underline{\hspace{2cm}}$$

With the additional savings from "sacrificing," how many months of savings are required to obtain each of your three items? Enter your answers in column 5 of the chart in step 1.

Do you think it would be worth it to make the sacrifices and purchase your items sooner?

Explain your answer.
