MONEY CONFIDENT Kids®
Presented by T. Rowe Price®

TIME HORIZON LESSONS
Recommended for Grades 6–8

Decision-Making

LESSON 3

Explore decision-making scenarios highlighting the impact and importance of making wise spending decisions.

Objective

To help kids evaluate the relationship between spending practices and achieving financial goals.

1 **Introduce** the concept of "Saving and Spending Wisely" by making deliberate spending decisions. Staying on track to reach financial goals involves making trade-off decisions for spending on things we don't really need. Help kids understand how making smart spending, saving, and investing decisions <u>now</u> will set them up for a more secure financial future.

2 **Explain** that we all have limited time and money and that resisting impulse buys is a key financial strategy. Further explain that "saving" is just planning to "spend later," Tell them it's really all spending but the difference is whether you're planning to spend now or spend later (*do you really need to buy something now or can it wait?*).

3 **Define** key learnings and vocabulary, such as:

a. Distinguishing between **needs**, the things we must have to survive or things that will help achieve a goal, and **wants**, things we would like to have but that are not essential for survival or that will take us off-track.

b. Realizing that some purchases, like insurance, are necessary even though they're not exciting.

c. Applying the concept of **comparison shopping**.

d. Understanding **credit**: when it can be appropriate, and the consequence of **interest charges**; learning that maintaining a good **credit rating** depends upon paying off **debt** on time.

Nikki's brother, Marcus, wants to go to culinary school and dreams of owning a bakery. He's also a big country music fan. They're going shopping for things he'll need next semester:

1. Look at Marcus's shopping list. Are these *wants* or *needs*?

Want or Need?

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Want or Need?

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Want or Need?

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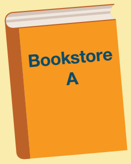
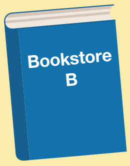
2. Marcus couldn't find the textbook in town, but he and Nikki found several options online. Which book should Marcus buy:



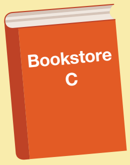
New, with shipping

$97



New, free shipping

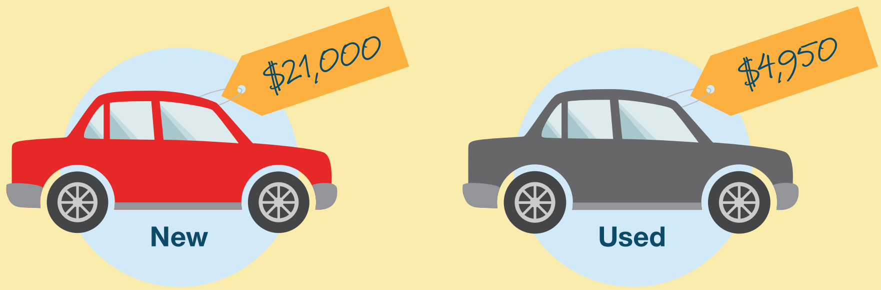
$90



Used, $10 shipping fee

$47

New or Used?



4 **Provide** guidance that deliberate spending decisions are particularly important around more costly medium- and longer-term goals. Use the example of Nikki who is now in college and needs to buy a car so that she can commute to her part-time job. Nikki made it a point to include a "Car Fund" line item in her budget, but she still may not have enough to buy a car. Nikki will have to decide between buying a new or used car. She really likes some of the new models, so she asked her parents if she should take out a loan. Discuss the following spending decisions:

a. With a car loan, Nikki wouldn't have to pay the whole cost of the car at once. Instead, she would make a cash payment for part of the cost (called a **down payment**) and then pay the rest each month over several years. **Pros**: Taking out a loan, Nikki would be able to get a newer car. **Cons**: Nikki now has several years of **debt**, which will have an impact on her ability to save for future purchases.

b. In addition to the amount of the loan, the lender also charges interest each month—a charge for borrowing money. Over a four- or five-year loan, interest charges can add hundreds or thousands of dollars to the original cost.

c. Nikki's mom said that if she got a loan, this could help her build a good **credit rating.** If she makes her payments on time, lenders will think more favorably of her when she wants to borrow again—like to buy a house or go to graduate school. If she messes up by not making payments on time, she'll end up with a bad credit rating and lenders will be less likely to let her borrow money in the future at a lower interest rate.

5 **Analyze** Nikki's car shopping adventure. Hand out the activity sheet, and provide guidance on the importance of the decision-making process that Nikki and her parents go through.

ACTIVITY 3

Decision-Making

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Name________________________________

Read and discuss:

Love That New-Car Smell!

After doing research, Nikki narrowed it down to the model of car she is interested in, both new and used. At the car dealer, she fell in love with a bright red, super cute, two-seater sports car. Nikki really wanted that car!

The new model cost $21,000 with an interest rate of 5%. Using an online loan calculator, Nikki figured out that if she made a $4,000 down payment, then her monthly payment would be $321 over 60 months (five years!).

Nikki's dad helped her do the math to figure out she would pay more than $2,000 in interest over the life of the loan and would use up a lot of her savings for the down payment. And there were other expenses she hadn't considered: gas, maintenance, insurance, and **unexpected costs** for repairs. Nikki's mom explained that insurance can cost hundreds of dollars per month and that she absolutely needed to protect herself from the financial **risk** of expensive repairs and lawsuits if she ever had an accident.

Thanks, mom and dad! They convinced Nikki that she should spend wisely! Nikki went back to the dealer and test drove a safe used sedan that cost $4,950. Grandpa even got involved—he helped check out the mechanics, and he approved. Sold!

Nikki's Car Purchase Analysis:

New Car

Car Fund (Savings): $6,500
Less Down Payment: $4,000
Remaining Savings: $2,500

Car Price–New	$21,000
Down Payment	$4,000
Amount of Loan	$17,000
Loan Period	60 months (5 years)
Interest Rate	5%
Monthly Payment	$321

Actual Total Cost of Car = $23,000!
($21,000 + $2,000 interest)

Used Car

Car Fund (Savings): $6,500
Less Down Payment: $4,950
Remaining Savings: $1,550

Car Price–Used	$4,950
Pay Cash	$4,950
Amount of Loan	$0
Loan Period	None
Interest Rate	0%
Monthly Payment	$0

Actual Total Cost of Car = $4,950

Remember that recurring costs (gas, maintenance, insurance) and unexpected costs (repairs) will add expenses to your monthly budget.

1. Having a car payment for five years is a serious financial commitment. How will this affect Nikki's income and her ability to save for other financial goals?

2. Which scenario will give Nikki a better chance of replenishing her savings—buying a new car or a used car?

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