

08-19 Personal Finance: The Life Budget Project and Core Financial Concepts

This summary outlines the "Life Budget Project," a practical personal finance exercise where students create a comprehensive monthly budget based on a simulated life in a new city. The project emphasizes using realistic, current data for expenses.

The Life Budget Project Overview

The central assignment is for students to build a detailed monthly budget using a Google Sheets template. After selecting a career, salary, and rental property, students must research and input actual costs for major life expenses. The budget is structured into categories including income, rent/mortgage, utilities, phone bills, and subscriptions. The Google Sheets template comes with pre-filled income figures (e.g., \$4,300) that students must replace with their own calculated monthly income. Fields for 'extra income' (side hustle) and 'income two' (partner's income) are to remain blank initially, reflecting the partner's unemployed status. A key project rule is that any assumed partner is initially unemployed and contributes no income.

Core Financial Concepts

The curriculum is built on foundational economic principles to illustrate the long-term impact of financial decisions.

Core Pedagogical Concept: Opportunity Cost

The instructor focused on the concept of opportunity cost, explaining that the true cost of a decision includes the value of the best alternative that was given up. This was illustrated with two examples:

1. **Narrative Scenario:** A student chooses to go on a date (costing \$300) instead of to a poker night (with a high probability of winning \$100). The total opportunity cost of the unsuccessful date is \$400—the \$300 spent plus the \$100 forgone.
2. **Bell Ringer:** Buying \$100 shoes effectively costs \$200, as the initial \$100 could have been invested to earn another \$100.

Calculating Monthly Expenses

Students are provided with a standardized model to calculate their recurring monthly costs.

Budgeting for Utilities

Experts suggest essential utilities (excluding internet) should be about **5% to 10% of a monthly budget**, while including internet, this figure rises to **10% to 15%**. To simplify calculations, students use a model based on national averages, adjusted for their specific situation.

- **Baseline Monthly Costs (1-Bedroom Apartment):**
 - **Electricity:**\$160
 - **Water, Sewer, & Trash:**\$60
 - **Internet:**\$70 (fixed cost)
- **Adjustment Factors:**
 1. **Cost of Living Index:**The baseline cost is multiplied by the index for the student's chosen city.
 2. **Number of Bedrooms:**Costs are adjusted up by 20% for a two-bedroom and 40% for a three-bedroom. Conversely, a studio apartment, being smaller than a one-bedroom, will incur lower utility costs.
 3. **Rental Type:**An additional 15-20% is added for a house versus an apartment.
 4. **Age of Property:**Costs are increased by 15% for newer, efficient buildings or 25% for older, less-efficient ones.

Other Recurring Expenses

Students must also budget for other common monthly costs:

- **Professional Expenses:**Costs like professional liability insurance (\$16/month for a teacher), licensing fees, association dues, and financed payments for necessary tools or equipment.
- **Lifestyle and Technology:**Expenses such as gym memberships (~\$35/month per person, which doubles for married couples) and cell phone plans. Students must research a new phone and plan, with costs for a high-end phone and data plan often totaling \$70-\$100/month.
- **Discretionary Subscriptions:**Personal choices like Netflix, Amazon Prime, Spotify, or Xbox Game Pass must be factored into the budget.

Classroom Procedures and Technology Use

A significant challenge arose when school internet filters blocked websites needed for research (e.g., AT&T, Hulu). This blocking is attributed by the instructor to a lack of trust in students, preventing them from accessing real-world financial information directly. To overcome this, a new protocol was established.

- **ChatGPT for Research:**Students are now encouraged to use AI tools like ChatGPT to gather pricing information from blocked sites. For

example, they can query, "How much is the latest iPhone and how much would it cost if I bought that on a monthly plan with AT&T?"

- ****Official AI Policy:****While students are encouraged to use AI for research and understanding concepts, they are strictly forbidden from copying and pasting answers. They must demonstrate their learning in their own words.

Assignments and Next Steps

- Complete the "renting of a house in your new town" form. **(Due today)**
- Complete the "utilities at the new rental" and "other monthly stuff to consider" forms. **(Due by Thursday)**
- As each budget component is calculated, update the main monthly budget spreadsheet.
- Complete the bell ringer "meme analysis" on opportunity cost, which is designed to take approximately 10 minutes.
- The instructor will meet with school administration (Mr. Dunn) to discuss unblocking necessary websites.
- Students are reminded to check their school email every morning for important announcements from Mr. Norton.