

Lesson 5: Go With the Flow

TOPIC: Payment Options

OVERVIEW:

Learners continue to explore the concept of **budgeting** through a close examination of **cash flow**. The central purpose of the lesson is for learners to identify sources of **income** and **expenses**, and then to apply those concepts to a budget to demonstrate cash flow.

OBJECTIVES:

1. Explain the purpose and value of budgeting
2. Explain the budget categories: fixed expenses, variable expenses, and discretionary expenses
3. Create a budget accounting for income, expenses, and unexpected scenarios

INDIVIDUAL HANDOUTS:

- Go with the Flow
- Expenses

GROUP HANDOUTS:

- None

TEACHER PRESENTATION SLIDES:

- What Is Cash Flow?

ESSENTIAL QUESTIONS:

- What is a budget?
- When can I use a budget?
- Why is budgeting important?
- What budgeting strategies lead to a positive cash flow?

ASSESSMENT ACTIVITIES:

Pre-Assessment:

- **Activity:** What Is Cash Flow?

Post-Assessment:

- **Game:** Go with the Flow
- **Discussion:** Why Cash Flow Matters

Time:50 min

Supplies:

- Projector (for teacher presentation slides)
- Die (or some other method of random selection from 1 to 6)
- Access to the Internet (optional)

Preparation:

- Make copies of student handouts
- Set up projector with presentation slides

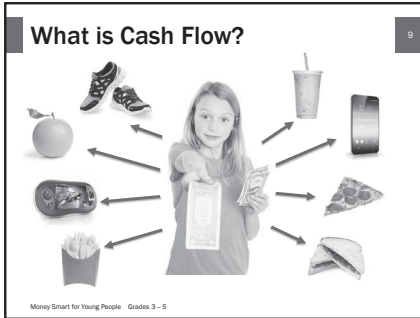
Glossary with key vocabulary 15

Instruction Steps

WARM UP

What is Cash Flow?

10 MINUTES



Display the *What Is Cash Flow? slide* and ask students to draw conclusions about the meaning of the terms “positive cash flow” and “negative cash flow.”

Review the meaning of the term **cash flow (income and expenses over a given period of time)**. Then, discuss some or all of the questions below:

- *How do some people arrive at a positive cash flow? How will this affect them?*
- *How do some people arrive at a negative cash flow? How will this affect them?*
- *Do you think there are some people that always have a positive cash flow? How?*
- *What do you think it means to have a “balanced cash flow”? Is it possible? How?*

MONEY SMART TIP!

The Federal Trade Commission (FTC) offers an online budgeting form to help plan monthly income and expenses.

www.consumer.ftc.gov/articles/pdf-1020-make-budget-worksheet.pdf

GUIDED AND INDEPENDENT EXPLORATION

“Go With the Flow” Cash Flow Game

30 MINUTES

Distribute copies of the *Go with the Flow and Expenses handouts*.

Provide students or small groups with a die. (Note: Any random selection method from 1 to 6 may also be used.)

First, have students roll the die to determine their income. Next, have them log their income in the green income box under Round 1 on their handouts. Then, have students roll the die to determine their expenses, including housing, transportation, bills, and groceries.

Grade-Level Modifications:

Beginner: Provide fewer options on the *Expenses* handout, including income, and the expenses.

Advanced: Allow students to use computers to research possible expenses for their area and select their expenses for the month.

Once students have logged their income and expenses, ask them to do the math below the expenses box, writing in how much they have in income, how much total they have in expenses, and then subtract their expenses from their income. At the end, students should be able to determine whether they had a positive, negative, or balanced cash flow. See the **Answer Key** for a sample *Go with the Flow handout* with possible answers.

Discuss:

- *What type of cash flow did you have – positive, negative, or balanced?*
- *Why did you think you had that type of cash flow?* (Possible answers: I had a positive cash flow because I spent less than I earned in income. I had a positive cash flow because I limited some of my expenses, like I didn't spend money on the most expensive type of house. I had a negative cash flow because I do not earn much in my monthly income and I spent on some of the more expensive things.)

Ask: *How much money do people with a positive cash flow statement have left over? Explain that this money could be left over for **discretionary expenses**, which is spending for wants or non-essential items, rather than needs.*

Discuss discretionary expenses:

- *What types of things could be considered discretionary expenses?*
- *If you have a positive cash flow, do you have to use the additional money on discretionary expenses?*
- *How else could you use it?* (Possible answers: putting the money into savings, investing the money, giving the money to a charitable organization.)

Ask students to review their **budgets**. If this were their real-life budget, is there anything that they would be able to change from month to month? (Students should be able to identify that their month- to-month salary and housing numbers wouldn't change, but their transportation and bills could change, depending on their habits.)

Explain to students that the expenses that could change month to month based on their habits are called **variable expenses** because from month to month their cost will vary. (For example: one might decide one month to ride a bike to work because the weather is especially nice and it would save on gas.) Have students mark their variable expenses on their handouts with a "V."

Remind students that there are some expenses – such as car insurance – that may be paid only once or twice a year, and that are not included on this worksheet.

Explain to students that the expenses that won't change from month to month are called **fixed expenses**. Although these could change over a longer period, they will likely not change from month to month. (For example: after their lease is up at an expensive apartment, they could get a new lease for a cheaper apartment.) Tell students to use the key on their handout to label the fixed expenses with an "F."

Now students get a chance to create a positive cash flow statement in Round 2. Tell students that they no longer need to use their die to determine their variable expenses; they may select their expenses themselves based on how they would like their cash flow statement to read at the end of the month.

Students may not, however, change their fixed expenses. Allow students to use the **Expenses** handout to select their variable expenses and complete Round 2 of the **Go with the Flow** game.

Discuss:

- *What changes did you make to develop a positive cash flow?*
- *Were you successful in developing a positive cash flow? Why or why not?*
- *Do you think you will be able to manage a budget like this when you get older? Why or why not? How will things be different when you do this in real life?*

WRAP UP
Why Cash Flow Matters
Discussion

10 MINUTES

Explain to students that understanding cash flow and creating positive cash flow is a problem for many Americans. In the United States, 18 percent of individuals reported that, over the past year, their household spent more than their income (not including the purchase of a new home, car, or other big investment), while 21 percent reported having medical bills that were past due.

www.usfinancialcapability.org/results.php?region=US

Discuss:

- *How would understanding cash flow strategies help Americans who are in debt?*
- *How do you think so many Americans got to be in debt?*
- *Based on what you've learned today about fixed, variable, and discretionary expenses, what advice would you give to Americans who are in debt?*

Extended Exploration

Note: Use the following ideas to extend financial literacy concepts throughout the school year within core content areas through English Language Arts, Math, Social Studies and Economics, and Technology activities, projects, and discussions. Duration of activities will vary.

ENGLISH LANGUAGE ARTS

Writing Prompts:

Write a narrative about a family that is managing their cash flow. Your narrative could be about a family that has a successful positive or balanced cash flow and the strategies that they use, or it could be about a family that has a negative cash flow and the lessons that they learn about their finances along the way. Your narrative should read like an interesting memoir or novel. Include characters, dialogue, plot, and an interesting conflict.

Write a letter to the editor of a local news publication explaining the current state of debt in the United States and include some tips for preventing debt.

Additional Readings/Resources:

Spend by the Financial Literacy and Education Commission: A short overview of tips on student spending, including tips on budgeting and a sample budgeting worksheet.

www.mymoney.gov/spend/Pages/spend.aspx

Budgeting Worksheets by the Financial Literacy and Education Commission: A collection of budgeting worksheets for student use.

www.mymoney.gov/Fast/Pages/Results.aspx?k=Budgeting%20worksheets&s=All

MATH

Activity/Project Ideas:

Have students develop a cash flow statement at home for themselves and/or for their families. Over time, they should track how much income they have and the cost of their fixed and variable expenses. Ask them to consider whether their cash flow is positive, balanced, or negative, and then to explain the changes they would like to make on their cash flow statement.

SOCIAL STUDIES AND ECONOMICS

Activity/Project Ideas:

Research and develop an argument about whether or not the government should have to have a balanced cash flow. You may begin with the PBS NewsHour lesson at www.pbs.org/newshour/extra/lessons-plans/lesson-plan-how-to-create-a-balanced-budget-its-a-balancing-act/

TECHNOLOGY

Online Games/Tools:

Mint's online budgeting template. www.mint.com/budgeting-3/home-budget-template-create-an-effective-household-budget

Classroom activities from the Consumer Financial Protection Bureau (CFPB)

The CFPB has developed a set of classroom activities to help teachers develop and support the building blocks of financial capability in their students. Each activity is designed to be completed within a single class period and includes a teacher guide and supporting student material. Some specific activities that are relevant to this lesson include:

Creating a monthly household budget

Students determine how to balance their needs and wants when budgeting for household bills.

www.consumerfinance.gov/practitioner-resources/youth-financial-education/teach/activities/creating-monthly-household-budget/

Budgeting for a fun day with a friend

While planning a fun day with a friend, students make decisions about how to budget their money.

www.consumerfinance.gov/practitioner-resources/youth-financial-education/teach/activities/budgeting-fun-day-friend/

Learning about budgets

Students learn about budgeting rules and then apply their understanding in an interactive budgeting activity.

www.consumerfinance.gov/practitioner-resources/youth-financial-education/teach/activities/learning-about-budgets/

Teaming up to build a budget

Students pretend to plan a middle school event to learn about budgeting.

www.consumerfinance.gov/practitioner-resources/youth-financial-education/teach/activities/teaming-build-budget/

Answer Key

Student Handout 1:

Go With the Flow

Answers will vary.



Lesson 5: Go With the Flow

GO WITH THE FLOW

Name: _____

Go with the Flow—Round 1

Monthly Income:

(includes salary and interest earned from bank accounts)

Cash Flow Expenses: (Label your **Cash Flow Expenses** as: circle F - Fixed or V- Variable)

Monthly Housing Cost:

F or V

Type of Housing:

Monthly Transportation Cost:

F or V

Type of Transportation:

Monthly Bills:

(Gas, Electric, Phone, Cable)

F or V

Details:

Monthly Grocery Bill:

F or V

Details:

Monthly Income – Total Expenses: =

Is your Cash Flow statement positive, negative, or balanced? (circle answer)

Go with the Flow—Round 2

Monthly Income:

(includes salary and interest earned from bank accounts)

STAYSTHE SAME AS IN ROUND 1

Cash Flow Expenses: (Label your **Cash Flow Expenses** as: circle F - Fixed or V- Variable)

Monthly Housing Cost:

F or V

Type of Housing:

Monthly Transportation Cost:

F or V

Type of Transportation:

Monthly Bills:

(Gas, Electric, Phone, Cable)

F or V

Details:

Monthly Grocery Bill:

F or V

Details:

Monthly Income – Total Expenses: =

Is your Cash Flow statement positive, negative, or balanced? (circle answer)



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MONTHLY EXPENSES

	Income	Housing	Transportation	Bills	Groceries
1	\$1,500	\$500 Shared apartment	\$20 Walk mostly, bus occasionally	\$100 Shared basic utilities	\$50 Shared grocery expenses
2	\$2,000	\$600 Studio apartment	\$20 Bike with maintenance	\$200 Basic utilities	\$100 Basic groceries
3	\$2,500	\$700 One-bedroom apartment	\$75 Monthly bus pass	\$300 Basic utilities and phone	\$150 Basic groceries, plus groceries for hosting a party
4	\$3,000	\$800 Shared house	\$120 Mostly bus, sometimes taxi	\$450 Basic utilities, phone, cable, and internet	\$200 Basic groceries from expensive grocery store
5	\$3,500	\$1,500 Small house	\$200 Car with gas	\$650 Basic utilities, phone, cable, and high-speed Internet	\$250 Expensive groceries
6	\$4,000	\$2,500 Large house	\$350 Expensive gas-guzzling car	\$850 Basic utilities, phone, premium cable, and high-speed Internet	\$250 Expensive groceries from expensive grocery store