

STOCKTON CENTER FOR
ECONOMIC & FINANCIAL LITERACY

THE RICHARD STOCKTON COLLEGE OF NEW JERSEY

An affiliate of SRI & ETTC and the NJCFE

Education Pay\$

Need or Want? Fixed, Flexible or Discretionary Expense?

Grade Level(s): 6 - 12

Key concepts:

Budgeting, types of expenses or costs
Choice, wants, and needs
Opportunity cost and trade-offs

Objectives:

This lesson will help students learn to classify the expenses and to assess wants versus needs to guide them in building a household or personal budget. It allows students to evaluate different choices.

NJ Core Curriculum Content Standards:

Standard 6: Social Studies, Strand C, Economics, Innovation, and Technology
Standard 9: 21st Century Life and Careers
9.2 B. Money Management
9.2 D. Planning, Saving, and Investing
9.2 E. Becoming a Critical Consumer

National Standards in K – 12 Personal Finance Education (from Jump\$Start Coalition):

Financial Responsibility and Decision Making:
Standard 1, “Take responsibility for personal financial decisions.”
Standard 4, “Make financial decisions by systematically considering alternatives and consequences.”
Planning and Money Management: Standard 1, “Develop a plan for spending and saving.”

National Content Standards in Economics (from Council for Economic Education):

Standard 2, choice, effective decision-making
Standard 3, benefits and costs

About the Authors: This lesson was written by Patricia G. Berhau, Ph.D. and Deborah M. Figart, Ph.D. Patricia is a Certified Personal Finance Counselor (CPFC™) and Certified Educator in Personal Finance (CEPF™). Deb Figart is a Professor of Education and Economics and Director of the Stockton Center for Economic & Financial Literacy.

Need or Want? Fixed, Flexible or Discretionary Expense?

Lesson:

The most common expenses in a household budget are rental/mortgage payments, insurance payments, transportation, utility bills, food, entertainment, and taxes. Some expenses are “fixed costs” that do not change from month-to-month. In a personal budget as in a business, monies to cover fixed costs are set aside first. That leaves remaining income to be devoted to “flexible expenses” or “discretionary expenses.” There may be overlap in these two categories. When an expense is flexible, unlike fixed, it can vary from month-to-month and a consumer can have some control over the total amount spent. Still, like fixed expenses, flexible expenses are generally considered to be necessities. “Discretionary expenses” include those over which consumers have the most discretion in their budgets.

Complete Table 1 by placing the expenses into a category or categories. Then think of one or two types of new expenses and place them into a category.

Table 1. Categorization of Expenses

	Need or Want?	Fixed? Flexible? Discretionary?
Car payment		
Magazine Subscriptions		
House payment/rent		
Cell phone		
Gifts (birthday, wedding, etc)		
Gas/electric		
Water		
Vacation fund		
Taxes		
Savings (emergency)		
Groceries		
Gym membership		

Extension Activities:

Planning an event or a project at a school or in a community is similar to this exercise. Planners need to figure what is a fixed or must-have expense and what is optional. Teachers can place students into teams/groups to have them plan an event such as a School Dance or Spring Concert or a project such as a Yearbook. This activity also allows students to look at the revenue side of a budget. What should we charge for a School Dance? What number of tickets sold (and various admission prices) would be needed for the break-even point? Should we charge a higher fee on the date of the dance? A Yearbook also has revenue that may come from advertising. Both the cost and the revenue sides of budgets allow students to categorize expenses and debate needs vs. wants.