Prom Spending Plan

LESSON

Learner Objectives

- Students will learn how to forecast expenditures
- Students will learn ways to save money
- Students will learn how to plan spending

Materials

- 2003 Prom Expenditures News Release
- Prom Expenditures Survey form
- Record keeping material (chalk board, White board, newsprint, overhead transparency and markers)
- Students need notebooks/paper for activities

Time for lesson: one or two class periods (Discussions will take more time if class is larger than 12-16 students; Directions for a second class period follow basic lesson plan)

▼ Part One

To Do:
Instructor reads or has students read Extension prom survey news release.

Students break out into groups of 2-3.

To Say:
How does this apply to our school? How do these expenses relate to your own expenses?

In your small groups discuss these two questions for 5-6 minutes and prepare to report back to the group.

To Do:
On whiteboard, blackboard, overhead or newsprint record 1-2 comments from each group. *(Allow 5-10 minutes)*

To Say:
Now we are going to forecast our own spending for a prom at _____ *(your own)* high school. Whether or not you are planning on attending, use this form to plan your expenses.

To Do:
Hand out prom survey forms. Have students fill them out. *(Allow 5 minutes)*

To Say:
Now we are going to determine where we are going to get that money you will be needing to cover your forecast expenses. On a sheet of paper, write your grand total prom expenses at the top. Now write these in lines below.

- Me – from savings
- Me – from earnings
- My parents
- Other

Determine the sources of income you will be using for prom expenses. Total the sources and make sure the totals add up! *(Allow 5 minutes)*

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Now let's look at where that money comes from. First take the total and divide by $5.15 — the current minimum wage. Someone would have to work X hours at minimum wage to pay for your prom.

Now take the amount just YOU plan to contribute. Divide that number by $5.15 — is it worth that many hours of your life to spend the amount you have planned for prom? If you do have a job, divide your contribution by your take home wage (hourly wage minus deductions, taxes, etc) This is how many hours you are spending for your prom! Is it a good trade-off?

To Do:
Ask students for comments.

Application:
Students write a two-paragraph reaction paper to the prom planning exercise.

Students can develop their own prom budget for their next prom.

Note to Educators: NDSU Extension is once again conducting a survey of prom expenses. Please have your students who attended prom in 2003 fill out a survey form. Collect all forms and return to your local county office of the NDSU Extension Service.

▼ Advanced Lesson (Part Two of Prom Lesson)

Learner Objectives

- Students will share tips and learn ways to economize.
- Students will learn about the Rule of 72
- Students will learn about the time value of money
- Students will learn about differing rates of return and potential risk for long-term investments
- Students will learn the future value of a lump sum saved today

Materials

- Rule of 72 Problem Cards
- Time Value of Money Scenario Cards

To Do:
Read through the lesson and determine how much you will have time to cover. Prepare scenario cards for students to use.

To Say:
The average cost for a couple to attend prom in 2002 was over $500, according to a NDSU Extension study. The average for girls was $299 and for boys, $235. The range of costs were $25-$710 for girls, and $107 to $620 for boys. Several ways to reduce costs without affecting the experience have been identified, such as borrowing clothes, group meals, and wearing simple accessories.

If you decide — like the one young man who said he planned to skip prom next year and save the money — to save the money instead or cut back on prom expenses, what could the money you save be worth in five years, when you start your first career? How about in 15 years, when you buy your first house, or in 50 years, when you retire?

The answer to that question lies in the meaning of the "time value of money."

Rule of 72

One easy way to look at how money, couple with time, increases over time, is the "Rule of 72".

Ask:
Who has heard of the "Rule of 72"?

To Say:
The Rule of 72 tells us that when you divide a given interest rate into the number 72, the resulting number is the number of years it would take for your money to double.

To Do:
Divide students up into groups or arrange at tables. Hand out "Rule of 72" Problems.

To Say:
Of course, the time it will take your money to double depends on where you put your money. If you put $100 under your mattress, or in a piggy bank, how much will you have in 5 years?

That's right, $100 if you are lucky and it doesn't get lost or stolen . . . and with inflation, it will actually be worth LESS than $100 in five years. Not great investment strategy, huh?

There are places to put your money where it will work FOR you and grow, however. Who can tell me places to put your money where it will increase in value?

To Do:
Allow students to answer question . . . responses should include the following. IF any are missed, fill in.

– Savings account
– Certificate of deposit
– Savings bonds
– T-bills
– Money market mutual funds
– Mutual Funds
– Stocks

Average returns on these savings and investment vary, but generally, a savings account has the least return, often not keeping up with inflation, but your money is safe as bank deposits are guaranteed up to $100,000 per account holder. Certificates of deposit are also very safe, and currently return annually between 1.5% and 3%. Savings bonds and T-bills are also very safe and can offer higher returns than savings accounts and CDs. To get the higher return, you may need to have higher amounts to set aside also.

Money market mutual funds are not insured, but may offer a higher rate of return (along with greater uncertainty and higher risk) than bank products. Over time, the highest rates of return are available with stocks and mutual funds. For those with a long time horizon (12 years or more), they have consistently returned more than 12% on investments.

Now let's see how different time and rates of return can affect the Rule of 72.

Rule of 72 Activity

To Do:
Give each group 2-3 minutes to complete two or more problems. Ask for one person from each group to give their answers.

To Say:
Now that we have had a taste of how money can increase over time, let's look at some advanced problems, using prom spending . . . and prom savings as the source of the money!!

Time Value of Money Activity

To Do:
Use a computer lab for this activity. Cut out or copy the scenarios for students. Keep a copy of the answers for yourself.

Have students break out into four groups, having no more than 3 per computer. If you have a large class, you may want to have two sets of scenarios, and have eight groups.

To Say:
What can money you save today (on prom, or for any other reason) be worth at some point in the future? Let's find out using a time value of money calculator, available online at *www.calculator.com* or *www.teachmefinance.com* .

To Do:
Allow time for all students to access the web site. Check that all are in the site before proceeding.

Scenario One

If Joan saves $100 today (borrows a dress instead of buying one) what will it be worth in two years, earning 10% interest? In 50 years, earning 12% intereset? What investment products can earn that kind of interest? When might you want to invest in that product? Is this a smart idea for a two year investment? A 50 year investment?

Answer . . .

a. $100 will equal $121 in two years at 10% interest

b. $100 will equal $28,900 in 50 years at 12% interest

The stock market averages 12% return when you have a time frame of 12 years or longer. If Joan needs the money in two years, it might not be there in entirety if she chooses the stock market. However, in 50 years, she has a very good chance of achieving the desired returns.

Scenario Two

Sean and Stacey decide not to go to prom this year. They put the $600 in mutual funds. What will the $600 grow to in 50 years, when they retire, if they achieve a 12% rate of return? If they put the money aside, instead for a new car when they finish college in 5 years, how much will they have if they earn 2% interest in a bank savings account? If they have? How about a CD earning 5% interest?

Answer . . .

A $600 will grow to $173,401 in 50 years. Bank savings account

B 2% will equal $736.

C $600 will grow to $765 at 5% interest in five years.

Scenario Three

Craig decides to buy a suit to wear to prom for the three years he plans to go. Although he spends $140 for the suit, he saves $300. He puts the money in a bank savings account, earning 2% interest. How much will it be worth in three years? In fifty years in the stock market earning 12% interest?

Answer . . .

a. $300 will grow to $318 in three years at 2% interest

b. In fifty years in the stock market, it may well grow to $86,700.

Scenario Four

If a couple skips prom and puts the average expense ($600) in mutual funds, how much will it grow to in 50 years, when they retire? If they cut costs and are able to put away $350, how much will that be worth?

Answer . . .

A $600 — 50 years at 12% interest will equal $173,401.

B $350 will grow to $101,151 in fifty years.

Application:

Send some of the problems home with the students.

Have students write a two paragraph reaction to the Time Value of Money.

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