Where does your money go?

Needs, wants and saving; small habits that add up; opportunity cost; pay yourself first; the 50/30/20 rule of thumb and what households really save.

1 Your split

$100: three jars

- $100 → NEEDS must pay · WANTS nice to have · SAVING kept for later = `100 − needs − wants`
- Your numbers: no right or wrong · nothing stored or sent · compared later with real households (row 6)

2 Need or want

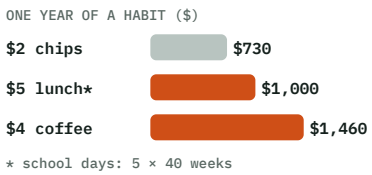
one test

- **Need**: "something you cannot live or earn without, in its cheapest form" → room, basic groceries, bus pass, basic coat (old one torn)
- **Want**: anything **above** that → streaming, concert, new sneakers when old ones work · restaurant meal = mostly want
- Test: could I live and get to school or work without it, or with a cheaper version? → yes ⇒ that part = want
- Part need, part want: phone plan $40 vs basic $15 → need $15 · want **$25**

3 Small habits

price × days

- Every day: `price × 365` → $4 coffee = **$1,460** a year · $2 chips = $730 · $3 = $1,095
- School days only: `price × 5 days × 40 weeks` → $5 lunch = $25 a week = **$1,000** a year (not 5 × 365 = $1,825)
- Lunch from home $2 → keeps $3 a day = $15 a week = **$600** a year



4 Opportunity cost

Micro Lesson 1

- **Opportunity cost**: "the best alternative you give up when you choose something"
- Price = what you pay ($4) ≠ opportunity cost = what you lose (best other use of **$1,460** a year)
- Enjoying it = a benefit, not a cost · choosing the coffee is fine → choose it **knowing the trade**

5 Pay yourself first

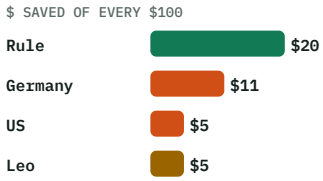
saving = a bill

- **Save what is left**: payday → spend → hope something remains → often $0
- **Pay yourself first**: "set the saving aside the moment money arrives, then spend what remains"
- Maya: payday $100 → same day $20 to savings (automatic) → sees $80 → month fits in $80 → **$20 saved** every month
- Decision made **once**, on payday, before the month of small temptations

6 50/30/20 + evidence

a guess vs real data

- **50/30/20** of **take-home pay** (after taxes): needs 50 · wants 30 · saving 20 → **rule of thumb**, not a law (Elizabeth Warren, US law professor and senator, + Amelia Warren Tyagi, 2005)
- Find 10% first: $2,000 → 1,000 · 600 · 400 · $1,500 → saving $300 · $2,500 → 1,250 · 750 · 500
- Needs cost more (Leo $1,500 of $2,500) → keep saving $500 → wants $500 ⇒ 60/20/20
- **Saving rate** = `saved ÷ income` · Maya $200 of $1,000 = 20% · Ana $200 of $2,000 = 10% · Leo $150 of $3,000 = 5%
- OECD (38 mostly rich countries): US households ≈ **$5** of every $100 · Germany ≈ **$11** ⇒ 20 = a target, not the average



7 The map

what comes next

- Two engines: **save early** + compound interest = interest (small extra paid on savings each year) on interest (Lessons 2, 6) · **study** for a career that pays and you like (Lesson 4) → the budget feeds both
- Saved money: SAVINGS MACHINE a piece of many companies, low costs, hold for decades vs CASINO buy and sell often, read price charts, pick "winners", pay fees (Lessons 6-9)

Watch out: "I save what is left" → usually **nothing** is left · and a small price is not a small cost: `$4 × 365 = $1,460`

This is a lesson, not financial advice. It shows what the evidence says about choices like these; what is right for you depends on your life.