

# BUDGET BASICS

Jason and Amy Hunter, 14-year-old twins, couldn't believe it! Their parents had agreed to let them look for a car that they could purchase in two years when they both got their licenses at 16. The only catch was they had to save enough over two years to buy the car themselves, and to also pay for costs like gas, repairs, and insurance.

Jason and Amy decided to "window shop" for cars at Friendly Fred's Autorama. Friendly Fred himself helped them find a reasonably priced car for \$6,000, an amount that they thought they could afford. "Remember," said Fred, "You won't be buying the car for two years, and with inflation, a similar car will probably cost about 5% more, or \$6,300. When you're ready, Friendly Fred will be here to help you!"

"Now that we know what we want, how can we possibly come up with \$6,300?" wondered Jason. Amy had an idea: "Let's figure out where we stand and make a budget—an estimate of our expected income and expenses. Then we can make adjustments to make sure we can save \$6,300 over the next two years." Jason and Amy got down to work and made a list of the money they expected to receive and spend each month.



## QUESTIONS

Use the chart on the right. Show your work on separate paper.

1. Prepare a monthly budget (a listing of expected income and expenses) for Amy and one for Jason.
  - a. How do their expenses compare to their incomes?
  - b. After two years, will they have enough to buy the car?
  - c. How much more money does each sibling need to save each month to afford to buy the car?
  - d. What would you suggest they do to make sure they save enough for the car?
2. Jason and Amy are budgeting to make sure they save enough to buy the car. They also have to consider the expenses they will face to operate the car after they buy it. What kinds of operating expenses should they include?

Monthly Income or Expense Item	Jason	Amy
Allowance	\$40	\$40
Video Games	\$10	\$0
Babysitting Earnings	\$0	\$20 (2 jobs per month for 2 hours each at \$5 per hour)
Snacks	\$14	\$0
Art Supplies	\$0	\$44
Donation to Animal Shelter	\$0	\$5
Batting Cage Rentals	\$16	\$0

## DEFINITIONS:

- **Budget:** An estimate of expected income and expenses for a future period of time.
- **Income:** Money received during a period of time from wages, interest, and other sources.
- **Expenses:** Money spent during a period of time to pay for goods or services.

## NOW TRY THIS!

Make a list of the income you receive and the expenses you have each month and prepare a budget for yourself. If your income and expenses are equal, you aren't saving anything. Do you think this is a problem? Explain your thinking.