



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 = $100 - \text{needs} - \text{wants}$
- 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**

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Small habits

price × days

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

ONE YEAR OF A HABIT (\$)

\$2 chips	\$730
\$5 lunch*	\$1,000
\$4 coffee	\$1,460
* school days: 5 × 40 weeks	

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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**

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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** = $\text{saved} \div \text{income}$ · 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

\$ SAVED OF EVERY \$100

Rule	\$20
Germany	\$11
US	\$5
Leo	\$5

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The map

what comes next

- Two engines: **save early** + compound interest = interest 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:

$$\$4 \times 365 = \$1,460$$