**Teaching Chapter 12**

**Managing Money & Minimizing Debt**

Key *Objective* (Intended *Learning Outcome)* for this Chapter

Simply stated, the major goal of this chapter is to promote students’ ability to manage one of their most important personal resources: money.

Rationale for the *Placement* of this Chapter in the Text’s *Sequence* of Topics

Money management is placed immediately after career development to highlight the fact that managing money effectively is just a college-success skill but life-success skill that’s critical for success beyond college.

Key Points to Make in this Chapter

\* Point out to your students that managing money is a critical form of self-management that poses significant challenges for many first-year students. Financial self-management is a life skill that students transitioning from high school to college often have little prior opportunity to practice and fine-tune while being housed, fed, and supervised at home. The greater fiscal freedom encountered in college, along with its accompanying responsibilities, can pose a significant challenge for first-year students, no matter how well prepared they may be to handle the academic challenges of college life.

\* Emphasize to your students that if they hope to gain greater control of their money, they need to think beneath the surface and beyond the present. Poor decisions about spending money are typically driven by short-sighted, impulsive thinking: “This is what I want and I want it now!” The chapter lends itself nicely to discussing the deeper issues of impulsivity vs. reflection, immediate vs. deferred gratification, and short-term sacrifice for long-term gain.

\* Note the similarities between the self-management skills of managing money and managing time. For example, both time and money come in finite quantities, requiring long-range planning, budgeting, itemizing, and prioritizing. Also, both skills require self-awareness and self-discipline, and both can serve as revealing “windows” into our personal needs, values, and priorities. By drawing parallels between these two elements of life management, the transferability of the skills that underlie effective management of both these resources may be better understood, appreciated, and implemented.

*Learning Exercises & Assignments*

***Cash-Flow Master Calendar***

Steps:

1. Create 4-member teams.

2. Ask the team to sub-divide into pairs. Have one pair assume the role of researching

different money-making options and their pay dates (e.g., for work-study positions,

campus jobs, off-campus work opportunities, financial aid stipends). The other pair takes

on the task of identifying payment-due dates or deadlines for the academic year (deadlines for

tuition payment, renewal of financial aid, residential bills, etc.)

3. Have the pairs integrate their respective work into a cash-flow master calendar that includes a

timeline for both “money-in” and “money-out” dates for the academic term or year.

Additional Material Excised from the *First* Edition of the Text May be Used in Lectures or as Reading Assignments

**Financial Tools for Saving Money**

If you’re taking in more money than you’re spending, you can invest the difference in an account that allows you to earn interest on your unspent money. The money you save, plus its accumulating interest, will enable you to build a *cash reserve* for future use, or for immediate use in case you encounter unexpected expenses (e.g., medical emergencies).

You can earn interest on your savings through use of either of the following financial tools:

(1) savings accounts, and

(2) money-market accounts.

“A penny saved is a penny earned.”

--Ben Franklin, 18th-century inventor, politician, and co-signer of the *Declaration of Independence*

Savings Account

You can open a savings account at virtually any bank and it will earn you interest on the money you've placed in the account. Usually, no minimum amount of money needs to be deposited to open a savings account and no minimum amount of money needs to remain in it for you to maintain the account.

Money-Market Account

A money-market account works much like a checking account, except that it allows you to write only a limited number of checks. If you plan on writing no more than three checks per month and can maintain a minimum balance in your account, you’re better off investing your savings in a money-market account than a savings account because the money-market account will typically pay a higher rate of interest.

Money Management & Time Management:

Two Related Life-Management Skills

Managing time and money are skills not only important for college success, but for success in life beyond college. If you gain greater control over these practical aspects of our life, you gain greater control over the quality of your life. On the other hand, if either one of them is ignored, you run the risk of increasing your level of stress, while decreasing the quality of your work performance and the quality of your life. Research indicates that procrastinators fail to complete important work assignments or produce work products of inferior quality (Steel, Brothen, & Wambach, 2001; Wesley, 1994), and their procrastination habit makes their life miserable (Tice & Baumeister, 1997).

There are two key characteristics of both money and time management that can easily turn them into bad habits:

1. They are habits that people fall into and continue to use *without personal reflection or conscious awareness*, and

2. The negative consequences of bad time- and money-management habits build up *gradually*--in small increments, so their impact is *delayed* and their negative consequences aren't fully felt until a later point in time. Research shows that when consequences of our actions are further away in time, the less likely we are to think about those consequences and factor them into our current, day-to-day choices and decisions (Lewin, 1935; Ainslie, 1975; Elster & Lowenstein, 1992).

“Many people take no care of their money till they come nearly to the end of it, and others do just the same with their time.”

--Johan Wolfgang von Goethe, German poet, dramatist, and author of the epic, *Faust*



Just as problems with managing time and money have common causes, they also have common solutions. There are recurring themes to effective time and money management which suggest that both managing both of these personal resources requires use of the following higher-level thinking skills and practices.

1. Reflective *analysis* of how we spend our time and money, which allows us to become more consciously aware of these habits and enables us to see where our time and money actually goes.

2. *Synthesis,* which allows us to relate or integrate our day-to-day decisions about our time and money with their and long-range consequences. Making this connection allows us to see how our small, short-term decisions and actions affect the long-term "big picture" (for example, how our daily decisions about spending our time and money affect what happens to us at the end of the term, at the end of college, and in life beyond college).

3. *Evaluation* of our priorities and the development of a plan that ensures we’re budgeting and spending our time and money on our highest priorities, or what we say we value most (e.g., success in college and life).

4. *Application* of effective time- and money-management strategies so that we actually put our plan into practice. Studies show that when people repeatedly practice effective life-management strategies, these strategies gradually become part of their regular routine and develop into natural, long-term habits. For example, when procrastinators begin to consistently practice effective time-management strategies, their procrastination habit begins to fade and is replaced by more effective time-management habits (Ainslie, 1992; Baumeister, et al., 1994). The same results occur when effective money-management habits are consistently practiced (Health & Soll, 1996; Walker, 1996). These research findings strongly suggest that once we become aware of effective strategies for managing time and money, and begin to put these strategies into daily practice, they're likely to develop into productive lifelong habits.

The four themes above are the keys to managing time and money effectively; they're also likely to the keys to managing all our habits.