

## UNIT TWO

## Decision Making

**LEARNING OBJECTIVES:**

At the end of this Unit, students will be able to:

- Distinguish between wants and needs
- Explain the decision-making process
- Explain the concept of prioritising

**INTRODUCTION**

This Unit provides students with the ability to recognise the difference between personal needs and wants, helps students set priorities and make sound financial decisions required for saving, budgeting and financial planning.

**Needs vs. Wants**

An important component of financial planning is determining and differentiating between your wants and your needs.



Define or explain the concept of **'Needs'** – An individual's needs are those items necessary for survival. Have students indicate aloud what these may comprise – water, food, clothing, shelter, medical care.

Define or explain the concept of **'Wants'** – An individual's wants are those things not required for survival, but which are desired for improved comfort and satisfaction. Wants vary according to each individual's tastes, likes and lifestyles. Wants are considered non-essential items. Have students list some of these – types of sneakers, handbags, dresses, electronic items, etc.

**Establishing Priorities**

Describe the 1-2-3 system for establishing priorities and have the class give examples of each. Encourage discussion about how to rate different items.

- **1 – Items that are essential for healthy living**  
(e.g., basic food, clothing, shelter, etc.)
- **2 – Items that are not essential but important**  
(e.g., a car, bank card, entertainment, education, etc.)
- **3 – Items that are not essential and not important**  
(e.g., popcorn at the movies, new music, video games, etc.)



Refer to Activity 2.1 – Needs, Wants, Priorities Sheet in the student workbook

**Have Students:**

- Assign a figure/cost to each non-essential item on their list
- Calculate the amount of money spent on common non-essential purchases on their lists (e.g. soft drinks, music, clothing, etc.).
- Total their spending on non-essential items
- Discuss what else they could do with the money

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Following the discussion, explain to students that individuals experience needs and wants differently based on values, culture, background, age etc. Understanding which of your needs are important or which take priority, will help to initiate the development of an effective budget. Of note, values change over time because of our life experiences. Values in turn influence our needs and wants and ultimately our goals.

Values are related to financial planning. For example, your parents value your education hence, they focus on investing in your education. Therefore they may be more inclined or motivated to save for your schooling expenses. Similarly, if you value a comfortable retirement you will value saving for your retirement.



Refer to Activity 2.2 – Spending Decisions Personal Quiz – Students can complete this out of class

### Scenarios – Think Tank and Discussion

Read the following two scenarios to the class and ask them in groups or as a class to share advice that they would give to the individual.



**Life Example 1** – Leo is an 18 year old boy whose goal is to be an accountant. He does well in school, but his family doesn't have a lot of money and wants him to help cover the household expenses by getting a job. He is very focused and willing to make sacrifices to achieve his goal. What should he do?

**Life Example 2** – Mandy is a 16 year old girl who is saving money so that she can study to be a nurse. One day she finds out her uncle has passed away, and her father asks her to help pay for the funeral. Mandy has always wanted to become a nurse, but she loves her family and wants to support them as well. What should she do?

There is no right or wrong answer. The exercise encourages the students to think about life, its challenges and the need to refocus their goals to meet the reality of what life offers each day. Whether that means adjusting the time to achieve your goal, doing something differently, setting priorities, giving up something etc.



Refer to activity 2.3 – Understanding your Needs, Wants, and Priorities Quiz - Assignment

### A Step Further

#### Opportunity Cost

Explain to the students the concept of “Opportunity Cost” and how it applies to financial planning and investing.

**Opportunity Cost** – Opportunity cost refers to a benefit that a person could have received but gave up, to take another course of action. Simply put, it is the thing you are willing to give up so that you can accomplish something else. When you look at your options in this way, and put a cost to your decisions, you may be able to prioritise better. It may be a goal, or a need or a want. The benefit or value that was given up can refer to decisions in your personal life, in a company, in the economy, in the environment, or on a governmental level. Refer to the previous examples and see what the opportunity costs in those examples are.

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**Example 1:** The **'Opportunity Cost'** of pursuing CAPE and going to University right after school, would be the money/opportunities you would have lost out on if you started working earlier. The benefit to studying is the hope or expectation that you will earn a higher salary once you have your certification.

**Example 2:** The **'Opportunity Cost'** of foregoing a movie to stay home and study for a test in order to get a good grade, would be the cost of the movie and the enjoyment of seeing it. The benefit would be a good grade based on the extra studies put in.

Ask students to come up with other examples and share with the class.

In both cases, a choice between two options must be made. It would be an easy decision if you knew the end outcome; however, the risk that you could achieve greater "benefits" (be they monetary or otherwise) with another option is the opportunity cost.

Offer a solution to students. Show students the following pyramid - Three C's of good Decision-Making.



Refer to Activity 2.4 - Three C's of Good Decision-Making in the Student Workbook.

### Reflection and summary.

Have students individually or in groups:

Write the three most important things they learned about needs and wants.

### Review the items students listed with the class. Points should include:

- People have needs and wants, which vary from time to time and person to person
- Lifestyle choices and values affect needs and wants
- The importance of setting spending priorities so you will have money for the things you really need and want
- Many factors influence how you spend, including emotions, habits and peer pressure.
- By managing wants and focusing on priorities, people can begin to manage their money
- The value of analysing options and prioritising in terms of opportunity cost – as you forego one option for another.

## THREE C'S OF GOOD DECISION-MAKING.

