



MIDDLE SCHOOL | UNIT 1

Being Financially Responsible

Title

Behavioral Economics and Financial Decisions

LEARNING OBJECTIVES

Students will:

- **explain** why certain incentives work better than others in motivating student behavior.
- **understand** how/why people often make decisions they know are not in their own best interests.
- **analyze** in writing a time they made a questionable financial decision.
- **devise** personal strategies to counteract cognitive biases and irrational decision-making.

Content Area

English Language Arts

Grades

6–8

Overview

Why do people sometimes make financial choices they know they shouldn't make? Students learn basic principles of behavioral economics by reflecting on personal financial decisions. The activity begins with students evaluating incentives for a new community volunteering program. Students then recall personal experiences in which they have made a questionable financial decision. Students review the components of a personal narrative, write their own, and conclude by considering a more rational alternative.

Themes

Personal Finance: Financial Responsibility

English Language Arts: Personal Narrative

Common Core English Language Arts Standards

ELA Writing 6.3, 7.3, 8.3: Write narratives to develop real or imagined experiences or events using effective technique, relevant descriptive details, and well-structured event sequences.

Key Terms

Personal Finance: behavioral economics, cognitive biases, irrational decision-making, mental accounting

English Language Arts: personal narrative, setting, character, plot, conflict, resolution

Pathway to Financial Success

In Schools

Connect

How does this connect to the student?

Students will be faced with many decisions over the course of their lifetime. Understanding what influences people when making decisions can help them stop and think instead of acting impulsively.

How does this connect to careers?

Budget Analyst: Individuals and families aren't the only ones that use budgets. Budget analysts help public and private institutions organize their finances. They prepare budget reports and monitor spending.

How does this connect to technology?

App creators and behavioral economists have teamed up to create tools that help people make better decisions. For example, there are now financial apps that can add money to a person's savings account each time they make an impulsive or indulgent purchase.

Prepare

Background: Daniel Kahneman's best-selling book, *Thinking Fast and Slow*, details the principles of **behavioral economics** (a field of study that combines economics and psychology to explain why people often make decisions that are not in their own best interest). In the book, he explains the two systems that drive the way people think. The first is fast, intuitive, and emotional. This method accounts for 95% of the decisions we make, including financial decisions. The second is slow, deliberate, and more logical.

Kahneman suggests that instead of taking our time to weigh the benefits and tradeoffs of any given financial choice, we tend to base our decisions on what we intuitively think will make us happy in the immediate future. For example, most people know that overindulging in sweets is not a healthy habit; however, they go with what makes them happy in the moment (another chocolate) rather than considering the future ramifications. In doing so, we sacrifice a rational analysis about what will make us happy over the long term. Our **cognitive biases** (mistakes in reasoning, evaluating, or remembering) have a profound effect on everything, often to our own detriment. This is particularly evident when it comes to planning our financial futures. Individuals often choose spending over saving—particularly for retirement. Behavioral economists suggest that when individuals are aware of their cognitive biases and mental tendencies, they are better prepared to counteract them. This allows them to make more rational and responsible financial choices.

Materials

- **Community Volunteering Program Student Capture Sheet**—one copy per student
- [Budgeting: What Is It and How Does It Work? Student Video](#)
- **My Financial Narrative Student Capture Sheet**—one copy per student

Engage

- Ask students which they would rather have: \$10 today or \$20 in two weeks. Explain that many times we make choices based on what will make us satisfied right now without thinking about what it will mean in the future.
- Distribute a copy of **Community Volunteering Program Student Capture Sheet** to each student. Read and explain the scenario to students and direct them to complete the reflection.

Pathway to Financial Success

In Schools

- Create a simple bar graph on the board or chart paper to display the number of students who chose each incentive. Gather classroom data by a show of hands. Facilitate a classroom discussion in which students share why they chose the incentive that they did. If there is an incentive that no one picked, ask the students why they think that is.
- Discuss how students' selection of rewards varied. Why do some students find a cash award more appealing than praise? What else might motivate them to volunteer in their communities?

Teach

- Play the video, [Budgeting: What Is It and How Does It Work?](#). Ask students why they think using a budget is a good idea. Would they use one as an adult? Inform students that only half of American adults use a budget¹ and ask them for possible explanations. Share with students that less than half of adults have money saved in an emergency fund. Could there be a connection? Challenge students to consider why people avoid making or using a budget even though it is a good financial decision.
- After students have shared their thoughts with the class, briefly introduce the concept of **behavioral economics** as a way of figuring out how and why people make the financial decisions that they do. Explain that traditional economics says that people will act rationally and make decisions that are in their own best interest. By comparison, behavioral economics recognizes that people are human and often make **irrational decisions** (the tendency to make decisions that are illogical and poorly adapted to goals). This applies to all areas of life including how people spend their money.
- Explain the process behavioral economists call **mental accounting** (the idea that people put personal funds into different mental categories). Instead of viewing all money as the same, people consider some money (like birthday money or lottery winnings) as a windfall—making it okay to spend. Doing so keeps many people from saving all or some of it toward other financial goals. Reinforce the key concept that all money is the same, and could all be used toward achieving one's financial goals.
- Inform students that they will be writing a brief personal narrative about a time they made a questionable financial decision (i.e., bought the latest fad shoe instead of ones that were more affordable or longer lasting, spent all their birthday money right after they got it, etc.). Allow students a moment to think of an idea for their personal narrative. Ask a few students to share their ideas aloud.
- Distribute a copy of the **My Financial Narrative Student Capture Sheet** to each student, and review the basic parts of a narrative. Invite students to complete the graphic organizer with details from their own story. Remind them that organizing their details before they begin writing allows them to tell a story with a clear beginning, middle, and end.
- After students have compiled their details, direct them to write their personal narrative on paper or using technology. Provide them with guidance detailing how long you expect it to be and any other requirements. Detailing a time when they made a questionable financial decision and the result of that decision.
- Challenge students to think of an alternative choice they could have made, or a “do-over.” Instruct students to record it on the bottom of their personal narrative.

Conclude

- Call on students to share their “do-over” with the class as well as any potential changes that would result from making an alternate financial choice.
- Direct students to submit an exit ticket answering the following question: The next time you get birthday money, what will you do with it? Why?

¹[U.S. Financial Capability Survey](#), FINRA Foundation

Pathway to Financial Success

In Schools

Extend

- **Speaking and Listening:** Challenge students to work in small groups and create skits based on a group member's personal narrative or a compilation of narratives. Invite students to share their skits with the class.
- **Family:** Encourage students to discuss financial decision making with their families. Are there financial decisions they regret making or choices they wish they had made? What do they do to prevent themselves from making irrational decisions?

Community Volunteering Program

Directions: Read the following scenario and answer the questions

The principal has decided to offer new incentives for students who volunteer in their communities. Teachers have been asked to gather feedback from students on the proposal. The principal has suggested the following incentives:

- A cash award in the form of a \$25.00 prepaid debit card
- A coupon for a free large pizza with any amount of toppings
- An awards assembly where the principal recognizes people by name in front of the entire school
- Putting award recipients' names on a "Community Volunteers" plaque in the school lobby

1. Rank the incentives, most to least, that would motivate you to volunteer in your community.

2. Explain why your top choice is more motivating than the others:

My Financial Narrative

Directions: Use the chart below to organize the details of your story. Then, write a short personal narrative about a time that you made a questionable financial decision.

| | |
|---|--|
| Setting | |
| Characters | |
| Plot/ Sequence of Events | |
| Conflict/ Financial Decision | |
| Resolution | |