

Topic 2(a) Spending money

We choose to spend our money on the things that are most important to us. First we satisfy our basic needs (food, shelter, etc.) and then, if we still have money left over, we spend money on less necessary items. People have their own ideas about what is necessary and what is not and this is a personal choice.



Look at this list of items (in no order of importance) that people spend money on. Some are items that you won't have to spend money on until you leave home. How much do you spend on each per week?

Item of expenditure	Amount spent per week					
	You		A friend		Someone 10 (or more) years older	
	£	p	£	p	£	p
Books 						
CDs, DVDs & games 						
Clothes						
Computer equipment & software						
Food 						
Going out						
Mobile phone & call time 						
Rent or mortgage payments 						
Toiletries & make-up						
Transport travel & 						

Did you know?

According to research, university students get more depressed about not having enough money to spend on everyday items than they do about the amount of debt they are building up. Many students are more likely to worry about not having enough money to go out in the evening with their friends than about the amount of money they will owe when they finish university.

Why do you think this happens?



Attitudes to spending

Different people also have different approaches to spending. Some people are natural savers and spend as little as possible. Others spend their money as soon as they get it – it ‘burns a hole in their pocket’. You can often spot these tendencies in young children.



Case study

Kadim, Lim and Emily are three friends aged 15. They get the same pocket money every week but they all have different approaches to their money.

Kadim never spends his money unless he is forced to; he tries to make his parents buy him what he wants. He is saving his pocket money in a bank account and already has £500. He doesn't know what he might spend it on eventually – he just likes having the money there.



Lim is a spender. He spends his pocket money every week on sweets and CDs and he often asks his mother to give him his money in advance. The only money he has in his bank account is £50 that his mother made him save.

Emily is somewhere between her two friends. She spends some of her pocket money but she saves some as well. She makes careful decisions about what she spends. She has £300 in her bank account and she is hoping to buy a car when she is 17.



**What do you think about the three attitudes?
Who are you most like? What is your attitude to spending and saving?
Which approach do you think is the most sensible?**

The value of money

When you are a child, adults provide you with what you need and you probably don't think about where these things come from. But when you grow up, you realise that the food, clothes and entertainment that were provided for you were paid for with money that was hard-earned. It is when you become a teenager, and particularly when you get a part-time job, that you understand the value of money.

Look at the following conversation between two friends.

Liam: How much pocket money do you get, Kayleigh?

Kayleigh: My Mum gives me £15 a week and my Dad gives me £10. But if I want something expensive, they usually buy me that as well.

Liam: You're joking! £25 a week plus! I get £5 to pay for going out, games and things and I also have a clothes allowance of £100 a year.

Kayleigh: That's not much. So how do you manage?

Liam: I've just got myself a weekend job in our local supermarket, filling the shelves. I get £3.20 an hour and I work for 6 hours on a Saturday.

Kayleigh: That sounds really boring. By the way, there's a rock concert in the Park next week – do you want to come?

Liam: I don't know – how much are the tickets?

Kayleigh: They're only £40, but you'll need to bring more than that because we'll have something to eat and drink as well.

Liam: Did you say 'only' £40? Do you know how long I'll have to work to earn that? If I bring another £8 spending money, I'll have to work for 15 hours to pay for it. And it will also mean that I'll have to give up a new football training kit I was planning to buy.

Kayleigh: Well, I'm not very good at maths. And anyway, I don't have to work out whether I can afford it because my Dad said he'll pay.

Kayleigh has not really understood the value of money because her parents buy everything for her. £40 is just a number to her. She is judging it by her parents' standards but when she starts working, she won't be earning as much and she will begin to appreciate the value of what she spends.

Liam might not be as well off as Kayleigh but he certainly has a much better idea of the value of money. He has valued the evening at the rock concert in two ways. Firstly, he realises that he will have to work for 15 hours to pay for it – this is 2 ½ Saturdays. This measures the **real value** to him. Secondly, he knows that spending £48 on the



concert means he will have to give up something else he was hoping to buy. This is called the **opportunity cost** and it measures the value of the thing we choose in terms of the one we give up; it tells us the value of the goods and services we buy in terms of other goods and services.

Budgeting

A budget is a financial plan. Drawing up a personal budget is a good idea because it enables you to think out your money situation over the coming months. Your budget would have three main sections:

- the money you expect to receive and when. This might be from your pocket money or from earnings from a weekend or holiday job. You will have a good idea of your expected incomings, especially if you have a regular job you can rely on;
- the money you expect to spend and when. This is up to you and will depend on the amount of money you like to spend. It should be limited by the amount you expect to receive;
- the balance (difference) between the total you expect to receive and the total you expect to spend. If the balance is positive, you will have money left over and you can either save this or spend it on something special at the end of the budget period. If the balance is negative, you have overspent. You either need to cut down your proposed spending or you must borrow money from someone.



Getting a part-time job means you can earn extra income.



Here is a simple budget for you to complete.

Personal budget



David gets £6 pocket money a week. He also helps in a restaurant for 4 hours on a Saturday evening and is paid £5 per hour.

Every week, David puts £5 into his savings and spends £3 when he goes to a café with his friends. At the end of each month he buys a Playstation game for £40. Any money he has left over, he puts into a clothes fund.



Use the grid on the following page to prepare a weekly budget for David. Put the individual sources of income in the first column, add them up and write the total in the second column. Now do the same for the individual expenses. Deduct the total expenses from the total receipts and you will have the balance, i.e. the amount left over.

- How much does David have left over every week?
- David wants to buy a pair of new trainers that will cost £40. How long will it take him to save up for them?



David's weekly budget

	£	£
Income		
Expenditure		
Balance		

The advantages of keeping a budget

- Writing down what you earn and what you are going to spend your money on helps you to focus on reality; when you know what you can afford, it is easier not to overspend.
- At the end of the budget period, you can compare what you aimed to earn and spend with what really happened. If you have overspent, you can be more careful next time. If you have underspent, you can always go out and spend the surplus!
- Budgeting now while you are young is good practice for when you are older. Getting into debt now means you owe money to your friends and family, but later it will mean you are in debt to a bank, which will not be so easy-going if you can't repay.

Value for money

Value for money means that we feel we have paid a fair price for the product we have bought. It does not necessarily mean that we have bought the cheapest, because this might not be good quality. But it does mean that we did not pay 'over the top' for a brand that was no better than other, cheaper brands.



Bargains

When we manage to buy a product for a really good price, we say we bought a **bargain**. Here are some examples of how you might get a bargain.

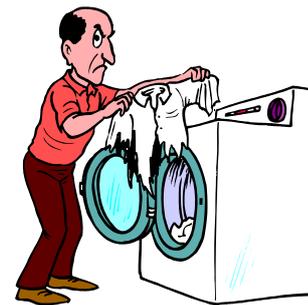
- Buying fresh food in a supermarket at the end of the day. The shop can't sell the food the next day so they sell it off cheap, but there is nothing wrong with it.
- Buying your clothes in the sales, when shops reduce their prices to clear their unsold stock. You won't get the same choice as at the beginning of the season, but you might find exactly what you want.
- Taking advantage of discounts and special offers, as long as you really want the products.



False bargains

And here are some examples of items that might seem cheap but that are not really a bargain in the long run:

- buying something that is very poor quality just because it is cheap. For example, you might pay £5 for a T-shirt only to find that the seams start to come apart and the material shrinks in the wash. After a couple of weeks, you can't wear it and you have to buy another one;
- buying a cheap electrical product from a second-hand shop or from a street market might seem a good idea at the time but you can't return the item if it doesn't work or if it breaks down soon after you bought it;
- buying a pirate CD or DVD. Some street-traders sell illegal copies of disks that look and sound more or less like a legal copy – although the quality may not be so good. But there is another problem. These disks have been copied from originals and none of the money received from their sale goes to the artists who made the music or the film. If everyone bought pirate versions, originals would have to sell for much more to make an income for the makers; eventually, it might not be worth their working at all. Added to all this, it is illegal to buy pirate material and you could be arrested!



And one final word on bargains. Buying something you didn't want in the first place is not a bargain – it just means that you spent money on something you didn't need and hadn't budgeted for. If you hadn't seen it advertised at a reduced price, you wouldn't have thought about buying it.

Why are some products so expensive?

Some products are expensive because they are genuinely good quality or because they are very rare, but others are priced high because of certain features that make them desirable but do not add much real value to the product. Here are some examples.

- Products with designer labels and trendy names. Some manufacturers use the names of celebrities to brand and advertise their goods. For example, if you buy a replica football shirt from Arsenal Football Club, you will pay £40 for it. For this amount, you could go to a high street sports shop and buy three or four plain shirts.
- Products with special packaging are more highly priced, partly because of the cost of the packing but also because they appear at certain times of the year, when people want to give presents. They are willing to pay more for a nice-looking product, even if its contents are no different from the non-packaged version. Think of how a soft toy might be wrapped for a special occasion and how this would be more expensive than just buying the toy on its own.
- Products sold in expensive places.

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Have a look at the menus from the two restaurants shown below.

The Butlers Wharf Chop House is a restaurant situated on the renovated Butlers Wharf on the south bank of the Thames in London. Here is a selection from its dinner menu.

	<i>First Courses</i>	
	Chicken, mushroom & leek soup £6.50	
	Goats cheese & potato terrine, hazelnut dressing £7.50	
	Classic prawn cocktail £9.00	
	Dressed Cornish crab £13.50	
	<i>Main Courses</i>	
	Fish & chips, mushy peas £14.00	
	Steak & kidney pudding £14.50	
	Roast rib of beef, Yorkshire pudding & gravy £17.50	
	Charcoal grilled sirloin steak & chips £22.00	

Now here is a selection from the menu of Garfunkel's Restaurants, a chain that has many branches in London and other cities.

	<p style="text-align: center;"><i>Appetisers</i></p> <p>Creamy mushroom soup served with a bread roll £3.25</p>	
	<p>Chicken Dippers £4.35</p> <p>Garfunkel's Prawn Cocktail £4.45</p> <p>Nachos Supreme with chicken £4.95</p>	
	<p style="text-align: center;"><i>Main Courses</i></p> <p>Spaghetti Bolognese £6.75</p> <p>Golden Fried Plaice with French fries and garden peas £7.75</p> <p>Rib and Chicken Platter for one £9.95</p> <p>Sirloin Steak with French fries and peas £11.25</p>	

(The dishes presented here have been chosen for their similarity to each other; both restaurants offer a much wider selection than the dishes shown here.)



Compare the food and the prices between the two restaurants. What are the reasons for the differences? What kind of people would probably eat at each restaurant?

Why do some people buy expensive products?

So why do people sometimes pay for the more expensive product, even if it does not seem to be good value? There can be several reasons:

Reason	Example
<p>They are well off and the price does not seem to be high to them. They may be used to paying for expensive items.</p>	<p>Highly paid film stars don't buy their clothes in high street chain stores but have them specially made by well-known designers. The actress you see at the Oscar awards ceremony has probably paid several thousands of pounds for her evening dress.</p>



They are not well off but they have a special interest in the product and want the best. This is a priority to them and they are prepared to give up other things for it.

Someone who plays cricket for a local team and who needs a new cricket bat could buy a cut-price one in a sports shop but might prefer to spend more on a really good make, because it will help them to play better and will last for longer.



They might be attracted by the image created for the product by the marketing people.

A pair of trainers endorsed by a famous sportsperson is probably no better than a pair with an ordinary name, but it will be more expensive.



They want to give a nice present to someone and they are prepared to pay more than usual.

Packaged gift sets of perfumes and toiletries at shops such as Boots are quite a lot more expensive than the sum of the individual items enclosed.



The product might be a very special and limited one that has no substitute.

An example might be a ticket to see your favourite band or singer live, or to go to a big football match. Watching it on television is not the same as being there but you will pay a high price if you want to go. Popular events such as the FA Cup Final are always sold out and some people are willing to pay ticket touts very high prices.



They might just want to treat themselves and their friends by doing something out of the ordinary.

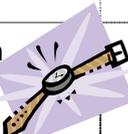
Hiring a limo and going somewhere expensive one evening in the year.



Have you ever paid a lot for a product? Why did you pay it? How did you feel afterwards? Would you do it again?



Look at the following products and say which you think are genuine value for money and which are probably overpriced. What are you paying for in each case?

Item	Value for money? (Y/N)	What you're paying for
 Pair of Armani jeans		
 A Rolex watch		
Coffee and a croissant in a trendy coffee bar beside the Thames London 		
 An Apple Mac laptop		
Thornton's Easter Egg 		

Nowadays a lot of businesses design 'no-frills' goods and services, which they aim at people who do not have high incomes and who need to be careful of what they spend. These products are basic – they don't come with expensive packaging or with a lot of extra services but they do satisfy the same need. Here is an example.



Case study - easyJet

easyJet was one of the first no-frills airlines. These airlines offer cheap airfares to a lot of popular destinations. The airline is able to keep its fares low by cutting its costs:

- it is a ticketless airline, which means that you either book online (for a discount) or phone direct to the easyJet office; you can't book through a travel agent, who would add their profit to the price of the fare;
- no meals are provided onboard, although you can buy a snack. This cuts out the cost of the food and it also frees up space in the aircraft – what used to be the galley where the food is heated up now holds extra seats, which increases the number of passengers per flight;



easyJet reduce the cost of fares by charging for food. and drink.

- many of the airline's flights leave from Luton Airport, which charges cheaper take-off and landing fees than Heathrow Airport.

So, if you don't mind booking your own ticket, buying your own lunch and travelling to Luton, you can fly to Athens or Geneva for a lot less than if you went with British Airways and you'll get there in the same flying time. **Which would you go for?**

It is interesting to note that budget airlines like easyJet and Ryanair appeal not only to individuals who can't afford expensive airfares but also to businesses who often can.

easyJet has branched out into other basic products. One of these is easyHotels. The company has opened two hotels, one in London and the other in Basel, Switzerland. The London hotel offers rooms for just £25 per night for a tiny windowless room and no extras. Another is easyCruises, which does cheap, basic cruises to the Caribbean for young people.

Here are some other examples of basic products:

- Lidl supermarket, sells basic products for very competitive prices.
- The Globe Theatre in London sells its seats at prices ranging from £18 to £28. If you can't afford this but you'd still like to see Shakespeare, you can stand for £5. You'll see the same play but in less comfort and you'll get wet if it rains.
- Seconds shops sell clothes that are new but are rejects from the original production line – sometimes there is very little wrong with them and they are a good option for people on a limited budget.



You can reduce your shopping bill by buying more basic food products.

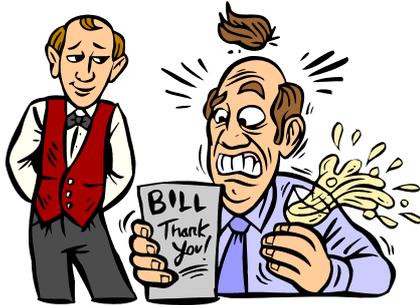
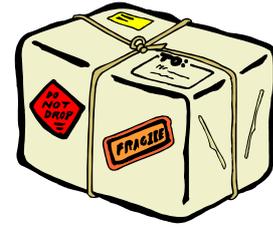
Hidden charges

Sometimes, products that seem to be cheap have hidden charges that were not advertised and in the end, you spend more than you thought. Here are some examples of these hidden charges.

- Taxes: the advertised charge might be the pre-tax price. For example, if you ask a garage to give you a quote for servicing your car, they might give you the figure without VAT included (see later section on VAT). So you have to add the tax to find out how much you are going to pay.
- Airlines have to pay airport tax and they pass this on to their passengers in the price of the tickets. For example, if you go to the easyJet website and look for the price of the fare from Luton to Basel, Switzerland, you will be given a price depending on the day and time you book. An example of a fare is £39.99. When you go to book the ticket, you will find that £5 tax is added, so the real price to you is £44.99.



- If you buy goods through a catalogue, you might have to pay for postage and packing (p&p). Some mail order firms offer free post and packing if your order is more than a certain amount and this is a way of persuading you to buy more.



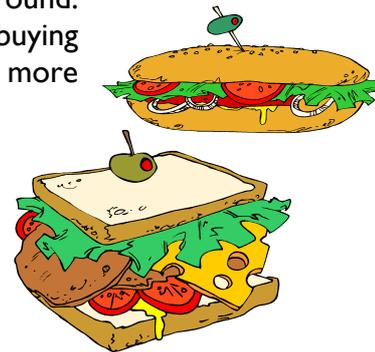
The service charge can add a lot to the bill in a restaurant!

- Some restaurants in London add a service charge of 12.5%. This is usually optional and you can refuse to pay it if you want. It adds a lot to a bill – for example, if your bill comes to £20, you will actually pay £22.50.

Because hidden charges may exist, you need to investigate thoroughly when deciding to buy something, so you know exactly what you will have to pay.

Shopping around

One way to get the best value for money is to shop around. This means that you have to do a bit of research before buying something. The more expensive a product, the more worthwhile it is to shop around because you stand to save a lot. For example, if you just want to buy a sandwich for lunch from a local shop, you might not mind spending 10p more in one shop than another for the same quality of sandwich; although even here, you will save 50p a week if you buy the cheaper one. But if you are saving up to buy a new mobile phone, for example, you might be able to save quite a lot by getting some information beforehand.



There are two stages to shopping around. Once you know the type of product you want, the next step is to choose the brand. Different brands sell for different prices and some are better value than others. Next, when you have chosen the make and model you want, you look for the retailer that is selling it for the cheapest price.

If everyone did good research before buying a product, no supplier would ever be able to overcharge for its goods and services. But the fact is that not everyone is a good shopper.

What prevents people from seeking out the cheapest product?

Problem	Solution
<p>No time. People nowadays lead very busy lives and some cannot spare the time to shop around.</p> 	<p>If you are a busy person, you can save time by buying goods by mail-order catalogue or online and making your purchase decisions in the evening at home. There are Internet sites that help you to find the cheapest, e.g. www.mySimon.com.</p>
<p>Lack of knowledge. People might not know that a cheaper alternative exists and so they can end up paying more because they don't know what else is on offer.</p> 	<p>You can get information by consulting consumer organisations that help you to make informed choices about what you buy. A good example is <i>Which?</i>, the consumer publication, which is also available online (www.which.net). There are also television and radio programmes that give information to consumers and highlight customer complaints, e.g. <i>You and Yours</i> and <i>Watchdog</i>.</p>
<p>Location. The cheapest product might be too far away to make it worth going there to buy it.</p> 	<p>Instead of using more expensive convenience stores every day, it might be cheaper, even taking the time into account, to go shopping once in a while to a city centre and buy everything you need then, using cheaper shops. You would also have more choice.</p>
<p>Non-qualification. Sometimes products are offered at reduced prices to certain groups of people, e.g. students or pensioners. Someone who does not qualify cannot take advantage of the cheaper price.</p> 	<p>You cannot qualify to be a student or a pensioner if you are not, but you can make sure that you take advantage of everything that you do qualify for instead of ignoring it. If you are still at school or university, you can get cheaper travel fares and discounts at a range of shops.</p>
<p>Can't be bothered. This isn't a very good reason for not shopping around but it does apply to some people, especially when they don't have money problems.</p> 	<p>Some people don't want to shop around, even if they are able to. They find it easier to buy the first product they see and just pay up.</p>

Which? magazine was launched in 1957 by the Consumers' Association; this now works under the *Which?* name. The organisation campaigns for consumer rights and makes a wealth of information available on a wide range of goods and services so that people can do their research before buying. They also do surveys on particular types of goods and services. Here is an example, taken from the *Which?* website.

'Organic food is the fastest growing area of the UK food and drink market. Four out of every five households have bought organic food in the last year. It's generally more expensive, but shopping around can help keep the cost down.

We checked out prices in ten different shops and were amazed that the cheapest store for our shopping basket was more than £20 cheaper than the most expensive, which made it 37% less. We also found that the small specialist organic shops needn't be pricier than national supermarket chains.'

Taken from the *Which?Online* website (www.which.net)

How can you pay the cheapest price?

There are ways of bringing down the price you pay for a product. Here are some examples.

- Qualify for a **discount** i.e. the seller takes off a percentage of the price. This might be because you bought a lot or because you are a good, regular customer.
- Buy several items at the same time. For example, some book shops offer '3 for the price of 2' on older stock and Buy One Get One Free offers (BOGOF) are common in many places.
- Collect 'money off' coupons from newspapers and supermarkets.
- Loyalty cards: a lot of stores have their own loyalty cards that give you points on everything you buy. You can use these points to get discounts off your bill or you can exchange them for free gifts. For example, Nectar is a loyalty card that has links with Sainsbury's, Argos, Barclaycard and American Express. You collect points and you can get money off holidays and other goods and services.
- Free gifts: a lot of catalogues offer free gifts when you place an order for more than a certain value. The gift might be just what you want and this will reduce the price of what you buy, but make sure that you do want the items you order, and the gift.

Taxes on spending

In the UK, as in most other countries, the government **levies** (i.e. charges) a tax on the goods and services we buy, so that they cost more. In other words, when we buy a product that has been taxed, we pay the seller's price plus the tax. This is called an **expenditure tax** and it is a type of **indirect taxation**; this means that the tax is charged not on us personally or directly like income tax, which is a **direct tax**, but indirectly on what we buy.

The main expenditure tax in the UK is value-added tax or VAT. VAT is levied on most goods and services. There are three main rates of VAT:

- **Standard rate of 17.5%:** this is the rate levied on the majority of goods and services we buy, from clothes to electrical equipment to personal services like hairdressing or plumbing.
- **Reduced rate of 5%:** this is the rate charged on domestic fuel.
- **Zero-rate of 0%:** this is the rate charged on a range of products considered to be necessities. (It might sound a bit strange that a tax can be levied at 0% and you are probably thinking that this just means that the product is not taxable. But there is a difference – it is better for the seller to be registered for VAT but to pay at 0% because then he can claim back the VAT he has paid on what he has had to buy to make the product. If he was not registered at all, he could not claim this money back.)



VAT is charged on services such as plumbing.

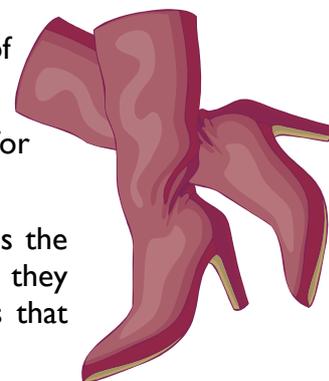
The reason the government imposes expenditure taxes is not to discourage us from spending but to raise money to finance the many public services it has to provide. The government feels that there is a limit to the amount of tax it can raise by income tax and National Insurance Contributions and this is another way of raising money. Some people say that indirect taxes are fairer and other people disagree. Look at the following conversation between Kelly and her Mum.

Kelly: Look Mum! I've just bought a lovely new pair of boots. Do you like them?

Mum: Oh they're lovely! How much did you pay for them?

Kelly: They were £35.25 – not too bad. Look – here's the price ticket. Oh, I don't understand this. It says they were £30 and then it's got £5.25 VAT. What's that Mum?

Mum: VAT stands for value-added tax. It's the tax you pay when you buy things.



- Kelly:** Do you mean I should only have paid £30? That's not fair!
- Mum:** I'm sorry but there's nothing you can do about it. That's the system and it's the same for everyone. The government has to have money to pay for schools and hospitals.
- Kelly:** But I thought they got tax from you when you work.
- Mum:** Yes they do, but that's not enough. At least you can avoid paying VAT.
- Kelly:** How can I do that? Tell me and I'll do it!
- Mum:** By not buying things that are taxed. You didn't have to buy those boots – you've already got 4 pairs.
- Kelly:** But I would have paid the same tax even if I hadn't had any. And anyway, look, it's not fair and I'll tell you why. I've paid £5.25 in tax and I'm only earning £20 on a Saturday. If you'd bought the same shoes, you'd have paid the same tax but you're earning £20,000 a year. So when you buy things and pay the tax, they don't ask you whether you can afford it or not. Everyone pays the same amount whatever they earn.
- Mum:** Well, you're right about that but I suppose they reckon that richer people will choose to buy more expensive things and so they'll pay more tax.
- Kelly:** But what about the poor people? They can't choose not to buy clothes for their children so they're forced to pay the tax.
- Mum:** Some goods, like clothes for young children, are charged VAT at 0% so there isn't any tax on them. The same goes for other necessary products so that poorer people don't suffer.
- Kelly:** Well, I still think it's a bit of a fiddle. You pay tax without even knowing you're doing it. I think the government shouldn't hide its taxes – they should tell us straight out that they're taking our money off us!



Kelly feels that VAT is an unfair tax as everybody pays the same no matter how much they earn.



What are the main points of information you have learned from reading this conversation?

Kelly's chat with her Mum highlights some of the arguments for and against expenditure taxes. Kelly is right to say they are 'hidden' in the prices of goods and services and people don't always realise they're paying them. And all people buying the same product pay the same amount of tax, whatever their income – but VAT is

not taken out of our incomes and so, to some extent, we do have a choice whether or not to pay it. Basic necessities are not taxed but almost everything else is. So if you're thinking of buying a new pair of jeans or a music CD, remember that you are paying tax at the same time. If this bothers you, don't buy the item. If you really must buy it, then you have to pay the tax.



There are other expenditure taxes besides VAT. These are called **excise taxes** and they are levied on particular products – some examples are fuel, alcohol, tobacco and gambling. They are not necessary products so a government does not feel that it is harming poor people by levying them. Look at the box below and read about the tax on fuel.

Did you know?

Just over 2/3 of the price people pay on petrol goes in tax to the government. Look at the following chart to see where the money paid goes.

Breakdown of the price of 1 litre of petrol

	Pence
Production cost and profit	23.2
Retailer's cost and profit	6.3
Value-Added Tax	13.4
Petrol duty	<u>47.1</u>
	<u>90.0</u>



What is the percentage of the total cost of the litre that goes to the government in tax?



Review questions

1. Why do we have to make choices when deciding how to spend our money?
2. Why is it a good idea to make a budget?
3. What do we mean if we say that we bought a bargain?
4. Give three reasons why some people are willing to pay more for a product that is more expensive than the average.
5. What does the phrase 'shopping around' mean? Give two reasons why people don't always shop around.
6. What do the letters BOGOF stand for?
7. Why do supermarkets give their customers loyalty cards?
8. Is value-added tax a direct or an indirect tax?
9. What is the standard rate of VAT?
10. How does the government justify charging taxes on people's expenditure?
11. What percentage of the price of petrol goes to the government in tax?



Case study

Jody has done well in her school examinations and her parents have given her £100 as a reward. She doesn't know what to do with it and is considering various options.

Option A: Take a group of friends out for dinner and a cinema trip one evening.

Option B: Buy the MP3 player she's been wanting for some time.

Option C: Some combination of the above two options.

- (a) What are the advantages and disadvantages of each option?
- (b) What would you do if you were Jody and why?
- (c) Jody eventually decides to buy an MP3 player. Advise her on how to get the best value for money. What research should she do?
- (d) Jody's friend tells her that he knows a 'nearly new' shop at the edge of town that is selling MP3 players for almost half-price. What advice would you give Jody?

- (e) Jody finds an MP3 player costing £60 advertised on the website of a reputable high street store and decides to buy it. The price does not include VAT. How much will she actually pay?
- (f) Jody buys the MP3 player and saves the rest. What are the opportunity costs of her decisions?

Learning activities



Internet

1. Go to the easyJet website (www.easyjet.com) and find out how much it would cost you and your family to book a return flight between London Luton and Athens during your next half-term. The fare will differ according to the day and time. What is the cheapest price you can find? Are there any hidden charges?
2. Go to the following website: www.direct.gov.uk and select the following: 'Money, tax and benefits' > 'Taxes' > 'Beginner's Guide to Tax'. Click on 'VAT – Value Added Tax' to read more about the products that VAT is charged on.
3. Go to the BBC News Front Page website at www.news.bbc.co.uk and enter 'Value Added Tax' in the Search box. You will be given a list of articles about VAT. Open the one entitled 'Value Added Tax Explained' (there is currently one dated 23.9.05 but this may be updated). Read the article and find out the VAT registration limit – this is the amount of sales a business must make each year before it is obliged to register for VAT.



Individual

1. Go to your local shopping centre and compare prices for the following items:
 - trainers
 - jeans
 - music CDs
 - mobile phones.



Key points for Spending money

- We earn money to spend on the products we need and want. We don't earn enough to buy everything we would like so our income is scarce and we have to make choices about how to spend it.
- We all have personal priorities when choosing how to spend our money.
- Different people have different attitudes to spending – some spend freely, others spend carefully and others again prefer to save than to spend.
- We understand the value of money more when we have to earn our own income. The real value of an item can be described by calculating how long we had to work in order to afford it. The opportunity cost of an item is the other item we had to give up in order to buy the first.
- A budget is a financial plan. You write down what you expect to earn and spend over the coming months and calculate the surplus or deficit you expect to have.
- Making a budget helps you to keep control of your finances and is good practice for when you are older and keeping yourself.
- Value for money is a personal idea and depends on your income. It means that you feel you have had a good deal for what you spent.
- A bargain is something you bought for less than the normal price – you feel you have had a good deal.
- A false bargain is something you bought cheap but which is not worth even that. Or it might be something you bought because it was cheap, even though you didn't want it.
- Some goods and services are very expensive. There are various reasons for this – they might be very rare or very high quality or they might have some extra feature that makes them desirable.
- Some people are able and willing to buy expensive products – they might have a high income or they might be willing to spend their limited income on something which is special to them.
- 'No-frills' products are specially designed to be basic, with no extras, in exchange for a cheap price. They attract customers who don't feel the extras are worth paying a lot for.
- Some products carry hidden charges and you might have to pay more than was originally advertised.
- Shopping around means that, before you buy a product, you do some research about the features of the various brands on offer and about where you can buy them more cheaply.

- Some people don't shop around because they haven't got the time or means to do it. But there are services to help them, e.g. consumer publications and surveys.
- There are various ways you can get price reductions, e.g. discounts, points cards and free gifts.
- Expenditure taxes are indirect taxes levied on the purchase of goods and services. The main expenditure tax in the UK is value-added tax (VAT). VAT is a hidden tax but it can be avoided by not buying taxed items.
- There are other expenditure taxes called excise taxes, which are levied on items such as petrol, alcohol and tobacco.