

Chapter 3 ::

Household Expenditure

Learning outcomes

When you have completed this chapter you will be able to:

- ✓ Explain the difference between fixed, irregular and discretionary spending
- ✓ Prioritise expenditure
- ✓ Explain the difference between current and capital expenditure
- ✓ Define the terms 'impulse buying' and 'false economy'
- ✓ Prepare a household expenditure plan.

What is expenditure?

Expenditure refers to the way people choose to spend their income in order to satisfy various needs and wants.

Definition

Types of expenditure

Fixed expenditure

These are important items of expenditure that involve the same amount of money being spent on a regular basis (weekly, monthly or annually). Since the expenditure is fixed, the payment is not dependent on usage. Examples of fixed expenditure are:

- Mortgage repayments
- Local property tax
- Rent
- TV licence
- Car tax
- Insurance premiums.



Irregular expenditure

These items of expenditure occur on a less regular basis and the amounts involved also tend to vary with usage. Since both the timing and the amount of the payment are *less predictable* it is more difficult to plan for irregular spending. Examples of irregular expenditure are:

- Groceries
- Waste/recycling charges
- Clothing
- Telephone bills
- Motor fuel
- Education costs
- Light and heat
- Repairs.



Discretionary expenditure

This is spending on non-essential items that we choose to buy. Spending of this type tries to satisfy our wants rather than our needs. For that reason, money should be spent on discretionary items only after all essential items or needs have been paid for. Examples of discretionary expenditure are:

- Entertainment
- Holidays
- Gifts
- Upgrades to expensive items such as cars, furniture and household electronics
- Premium sports channels/movie channels.



Current expenditure versus capital expenditure

Current expenditure

Some expenditure is continuous and regular. This type of ongoing expenditure is called **current expenditure**. Examples of such expenditure are:

- Groceries
- Education
- Utility bills, such as gas and electricity
- Travel.
- Rent/mortgage

Capital expenditure

There is also another type of expenditure which is far less regular and will generally not be repeated for a long time. For example, a household may install a new dishwasher in their home. This is a large item of expenditure but the dishwasher is expected to last for several years. Spending on items that will last a long time or once-off spending of this type is called **capital expenditure**.

Other examples of household capital expenditure are the purchase of:

- A new car
- A laptop
- Furniture
- A TV.

3.1 The purchase of the dishwasher represents capital expenditure, but there is another type of expenditure relating to the running of the dishwasher. What is the name of this type of expenditure, and what items would be included?



Guidelines for effective spending

Households should look at all aspects of their spending to ensure that they live within their means. Here are some tips on how to do that.

- A.** Prepare a budget
- B.** Prioritise expenditure
- C.** Avoid impulse buying
- D.** Beware of false economies
- E.** Consider opportunity cost
- F.** Check bills, invoices and interest rates

A. Prepare a budget

The single most important item for effective spending is to prepare a budget based on expected income and future household spending needs.

See Chapter 5



B. Prioritise expenditure

Examine the household's needs and wants and decide which are the most important and urgent items. Needs should get priority over wants. For example, food, heat and rent/ mortgage payments must take priority over a TV subscription.

C. Avoid impulse buying

Impulse buying occurs when we buy things in an *unplanned* way or just 'on the spur of the moment'. This creates a risk of buying items that are not required and may even turn out to be wasteful or just poor value for money. It can also mean that the household does not have enough money available for more essential or urgent spending.

Making a shopping list, and sticking to it, can help people avoid impulse buying.



- 3.2** What do supermarkets do to try to get their customers to impulse buy?
- 3.3** What might magazine publishers do to persuade people to impulse buy their magazines?
- 3.4** What might small convenience shops do to persuade customers to impulse buy?
- 3.5** Think of a time recently when you bought something on impulse.
 - (a)** What was the item?
 - (b)** Can you think of what it was that persuaded you to buy that item?
 - (c)** Did you regret spending your money on that item? Could you have put the money towards something you wanted more?
 - (d)** How could you prevent yourself impulse buying? Think of at least two things. Share them with your group, note what others would do and think about whether that would work for you too.
- 3.6** Think of an occasion when impulse buying might be a good thing. Share your reasoning with the group and see if they agree that this might be an occasion when impulse buying is not so bad.

Groupwork

KSWwO
KSMIT
KSSW
KSMM
KSC



D. Beware of false economies

A false economy is a purchase that initially appears to be good value for money but in the longer term turns out to be more expensive.

Examples of false economies include:

- A decision to postpone a routine car service may result in major engine faults later. The cost of fixing these major faults is likely to be far greater than the routine service that could have prevented them.
- A decision to stop paying for house insurance may save a household a few hundred euro a year, but may cost tens of thousands in the event of a fire, flood or burglary.



'I told you it was false economy to buy them in the sale yesterday!'

3.7 Which of these would you consider to be a false economy and which are sensible?



- (a) Margaret buys two rolls of kitchen towel for €2; each roll has 200 sheets of one layer of tissue. She chooses this over one roll costing €1.50, which has 175 sheets of two-ply. When she uses it, she finds that she has to use two sheets instead of one as it doesn't soak up liquids very well.
- (b) Roland buys a pack of five cereal bars for €3, when normally each bar costs €1.20, and takes one bar for a morning snack at school each day for a week.
- (c) John buys the same pack of bars as Roland, but has no willpower and eats them all on the day he bought them. He has to buy more for his morning snacks for the rest of the week.
- (d) Deirdre goes to the supermarket to buy an evening meal. She looks at meat and vegetables to make a stew, which will cost €4.50 and make a huge pot. Then she sees a pre-packaged stew for one meal that costs €2.50 and decides to buy that as it doesn't cost so much money.
- (e) Hettie goes to the farmer's market at the end of the day to buy a punnet of tomatoes and finds two huge boxes of tomatoes on offer for just three times what one punnet would cost. Since she has space in her freezer and loves tomato sauce, she buys the lot.

3.8 Which of the above list is an impulse buy? On this occasion, is it worth it?

3.9 Which of the above list could be considered a 'calculated risk'? On this occasion, is it worth it?

E. Consider opportunity cost

Before making a decision on spending, households need to consider the alternative uses they might have for their money. This raises the issue of **opportunity cost** and is especially important when considering spending on wants rather than needs. Remember also that saving is an alternative to spending.



F. Check bills and interest rates invoices

Households and businesses also need to get into the habit of checking all **bills** and **invoices**. An invoice is a type of bill received whenever goods or services are bought, very often on credit. In this context, credit means 'buy now, pay later'. For example, households use electricity and receive a bill (or invoice) requesting payment for the units of electricity consumed during the previous two months.

As well as checking that the bills are accurate this should give the householders a better understanding of how and why they are being charged. Having this understanding will help the household examine ways of cutting back on unnecessary or excessive expenditure.

Interest rates on credit cards and loans vary enormously and switching to a different lender can help save money.

See Chapter 10



3.10 Grace's electricity bill included the following information:

Research



Current reading	Previous reading	Unit usage	Unit price	Amount €
10,518 units	8,332 units	2,186	0.1659	362.66
Standing charge	59 days @ €0.4493 / day			26.51
PSO Levy Jul/Aug				10.72
				399.89
VAT @ 13.5%				53.99
Amount due				453.88

(a) What is:

(i) A standing charge?

(ii) A PSO levy?

Why do we have to pay these charges on our electricity bills?

(b) Grace takes her own readings and phones the electricity company, who makes a note of them and sends a new bill. In your copy, write out what the new bill will look like, using Grace's reading of 8,846 units.

3.11 Kate and Ella go out for a pizza.

The menu is on the right.

Kate has a pizza with mushrooms, sweetcorn, onion and olives, and a large orange drink.

Ella has a pizza with ham, pineapple and chorizo, and a small lemonade.

They share a large dessert.

At the end of the meal they receive the following bill.

Luckily Kate and Ella checked the bill. Write out what it should look like, and include a 10% tip (because the pizzas were lovely and the service was great, despite the bill being incorrect).

Menu	Prices
Basic pizza	€4.35
Each topping	75c (chorizo €1)
Large drink	€2.75
Small drink	€2.00
Desserts	€4.50
Shared dessert	€6.00

Bill

Thank you for your order!

pizza + 4 toppings	€7.35
pizza + 3 toppings + chorizo	€7.90
2 large drinks	€5.50
2 desserts	€9.00
Total	€30.00



3.12 Energy bills (gas, electricity, oil, coal and wood, etc.) can be a huge cost for households, but even tiny changes to the way you use energy will help save money. Think of all the ways you could save on energy at home, and create an infographic or poster that will inform others about how they can save energy (and money!) too.

Groupwork

An **infographic** is a chart or diagram that represents information in a visual way.

See Student Activity
Book Introduction

**Recording and planning household expenditure**

Householders who are in the habit of recording ongoing expenditure and planning for future spending will be better able to keep control of their spending.

Both income and expenditure can be recorded in an **analysed cash book** or on a computer in a spreadsheet or accounting program. Income and expenditure records should help the household to plan future spending and household budgets.

See Chapter 5



See Chapter 6



Planning expenditure

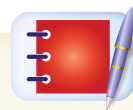
Planning is based on the best information you have available at the time. If something unexpected happens, you may need to review and change your plan.

Here is a three-month expenditure record for the Wilson household.



	JANUARY	FEBRUARY	MARCH	TOTAL
PLANNED EXPENDITURE	€	€	€	€
Fixed:				
Mortgage	1,100	1,100	1,100	
House insurance		640		
Motor tax	190			
Motor insurance	65	65	65	
<i>Subtotal</i>				
Irregular:				
Household costs	870	870	870	
Light and heat	280		240	
Telephone	60	110	60	
Car running costs	140	140	140	
<i>Subtotal</i>				
Discretionary:				
Entertainment	160	160	160	
Presents	60		145	
Holidays			1,500	
<i>Subtotal</i>				
TOTAL EXPENDITURE				

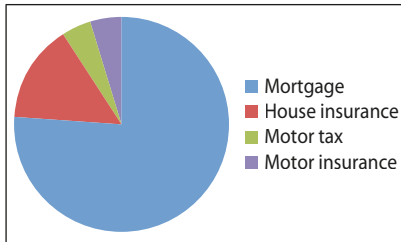
3.13 On the copy of the Wilson expenditure plan in the Student Activity Book complete the total column and subtotal and total rows. Alternatively, copy the expenditure plan into your record book 1 or on to a spreadsheet.



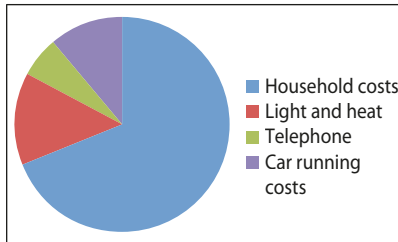
Charts

You can present the Wilson budget in chart format, as follows.

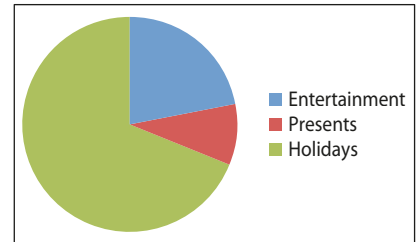
Fixed expenditure



Irregular expenditure



Discretionary expenditure



3.14 Make bar charts using the same information.

3.15 Do you think the pie charts or the bar charts are better for analysing spending? Give reasons for your answer.



3.16 Open the personal income plan you created in chapter 2. Add an expenditure plan of your own. You might include spending such as phone credit, magazines you buy regularly, an amount to put aside for buying birthday presents for family and friends. It might change later, but this will get you thinking about what you spend your money on. Present your personal expenditure in chart format.



Solutions to overspending

If you keep detailed and up-to-date records of your actual spending and check them against planned spending, you can put in place measures to prevent overspending.

- A.** Cut back on spending
- B.** Postpone non-essential spending
- C.** Spread large payments over a longer period of time
- D.** Use savings or surplus money from previous months
- E.** Generate extra income
- F.** Borrow money

A. Cut back on spending

- 1** Since discretionary spending tends to be the least essential, this is where spending cuts should be made first.
- 2** Some items of irregular spending are based on usage and these should be monitored to make sure the household is getting good value for money. For example, it may be possible to save money on energy bills by ensuring that lights are not left on unnecessarily or turning down radiator thermostats slightly.
- 3** It is also important to 'shop around' for the best value available. Are there cost savings to be made by switching service providers from time to time? Shopping comparison websites are useful for choosing current best deals.

See Chapter 13



3.17 (a) In small groups, find five comparison websites and list them in your copies.

(b) Choose one of the sites and create an advert to encourage people to use it. Put all the adverts up on the wall of your classroom.

Groupwork

Research

KSMIT
KSBL
KSC
KSBC
KSWwO



3.18 In what other ways can a household cut back on spending? At first, it might seem as though you can't cut back on anything, but if you look closely there are often some things, even little things, where you could make savings. One example is not buying magazines until you are in a better financial situation. In your group, try to think of other things.

3.19 Discuss the benefits of making savings, other than purely personal financial benefits.

3.20 On your own, think about ways you personally can help save money:

(a) In your own spending (for example, be more careful with your stationery so that you don't lose it and have to replace it)

(b) In your household (for example, make sure you turn lights out when they are not needed).

Groupwork

KSWwO
KSSW
KSMM



B. Postpone non-essential spending

It may be possible to get better value for money by planning your purchase for a different time, e.g. buying plane tickets at a time when airlines have a sale on.

C. Spread large payments over a longer period of time

For example, it may be possible to pay a €570 annual house insurance bill over a 10-month period at a monthly cost of €57. In general it is more affordable to make a number of small payments rather than one large payment in a single month.

In some instances it may cost a bit more to spread the payments out, but it still remains the best option from a **cash flow** point of view. For example, a household has the option to pay its annual car tax with a once-off payment of €400 or can make four quarterly payments of €105. Despite the extra cost involved in spreading the payment across the entire year, it may be easier to manage four smaller payments rather than take 'one big hit' to monthly household income.

3.21 Based on the above example, calculate the additional annual cost to a household which chooses to pay its car tax on a quarterly basis. What is the percentage increase involved for those who choose to pay quarterly?

KSBN



Cash flow This is the day-to-day money coming in and money going out of a household. You may be owed a big sum of money but if it is not going to come to you for another month, in the meantime your cash flow will be affected because you still have payments to go out.

Definition

D. Use savings or surplus money from previous months

If it is not possible to reduce or defer the spending, the extra cost involved might be covered by using money that has been saved in previous months.

E. Generate extra income

While this is not a direct solution to the problem of overspending, the ability to generate extra income helps reduce the negative effects of excessive spending. Extra income can be earned by working overtime, taking on a part-time job, or selling items you no longer need.

3.22 In your group, think of ways you could earn extra money as a teenager. Is it possible for you to earn money by working? You may have to wait until you are older. Consider ways an older student might be able to earn money or how an adult might be able to increase their income.

Groupwork

See Chapter 19



F. Borrow money

This 'solution' should only ever be used as a last resort and only for essential and unavoidable expenditure. The problem with borrowing is that it creates debt that must be repaid (normally with interest), and this reduces future disposable income.

See Chapter 10



When borrowing money it's important to avail of the services of legitimate financial institutions such as banks, building societies and credit unions. Avoid moneylenders as their rates of interest can be very high.

3.23 Discuss the people and things that influence our attitudes to money and expenditure (such as parents and family, friends and peers, media and culture, access to money).

Discussion



3.24 Although there is no denying that the way we live in our country today requires a certain amount of expenditure, once we have paid out on our needs, it is up to each of us to make decisions on how important our wants are. Look at this quote:

‘Wealth consists not in having great possessions, but in having few wants.’ Epictetus

Epictetus was a philosopher born nearly two thousand years ago. Discuss whether this quote is still relevant for today. Do you think there is a lot of pressure on us to gather possessions, and have the newest gadget as soon as it comes out?

Discussion



3.25 Find other quotes that are relevant to spending and possessions. Choose one you really like, or think is really relevant to today, and create a poster of it – this can be very simple, or as artistic as you like. On a separate piece of paper, write or type why you think the quote is one we should all take note of (what its relevance is, why you like it, how it relates to our lives). Put everyone’s quotes up around the walls of your classroom and make sure that you read everyone else’s quotes and why they chose them.

3.26 Write in your copy a definition of **consumerism**.

Research



Key Terms

You should be able to *define, spell, give examples and apply* to real life each of the following key terms associated with this topic.

Exercise: Write a sentence using each of the following terms. You may use more than one of the terms in your sentence if appropriate.

capital expenditure

false economy

cash flow

fixed expenditure

consumerism

impulse buying

current expenditure

invoice

discretionary expenditure

irregular expenditure

expenditure

