Student Guide: “Lotto Dreams. Pun Intended.”

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A Lesson in:

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| * *Consumer Decisions*
 | * *Nominal and Real Interest Rates*
 | * *Willingness to take Risk*
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| * *Immediate vs. Future Spending*
 | * *Costs and Benefits of Information*
 | * *Cost/Benefit of Risk Prevention*
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**Before the Reading:**

1. **Personal experience.** Do gambling games get your attention? Did you ever play the “Claw Crane” game to try and win a stuffed animal when you were little? Have you made an attempt at winning any games at the fair- you know- for $5 you get five attempts at the ring toss? *What are your experiences with gambling?*

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1. **Incentive.** *Does it pay off to gamble? Why or why not?*

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1. **Write it out.** Dashed dreams are a reality when it comes to the lotto. Americans are spending about $70 billion dollars a year on lottery tickets. *Write out the number $70 billion in numeral form. {Ex. one million in numeral form is 1,000,000.}*

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1. **Predict.** What percent chance do you think an individual has to score a winning ticket? *Write your answer as a percent. How did you come to this conclusion?*

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1. **Consider.** Are the odds in your favor, or against you? Think for a moment about why someone may choose to spend money on the lottery. *Write about your conclusions.*

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**During the Reading with Newspapers in Education:**

1. **Read.** Read the article “Lottery Dreams” and brainstorm how you could use $273 a year instead of gambling it away.

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| *$273 = \_\_\_\_\_\_\_\_\_\_\_\_ a month in extra money!* |

1. **Compare.** *Do Floridians pay more or less on average than the national average? What is the difference?*

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**After the Reading:**

1. **Calculate.** Use an investment calculator, like one found at Calculator.net, <https://www.calculator.net/investment-calculator.html> and put the $273 in the calculator for the starting amount of the investment, with a modest return of 6% each year, entering $273 additional each year, how much could you have in 10 years? [Note this is an investment, not a savings account.]

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| **Starting investment:** | **After \_\_ years:** | **Return Rate:** | **Additional Contribution:** | **Contribute at the end of the:** |
| **$273** | **10 yrs** | **6%** | **$273** | **Year** |
| **End Balance: $\_\_\_\_\_\_\_\_\_\_\_** |
| **$273** | **20 yrs** | **6%** | **$273** | **Year** |
| **End Balance: $\_\_\_\_\_\_\_\_\_\_\_** |

1. What about 20 years? What happened to the ending balance from 10 to 20 years? *Why did it more than double?*

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1. **Number crunching.** Using the example from #8, if our economy has an expected inflation rate of 2%, what would the investor’s real interest rate be?

{*Expected inflation is the* anticipated *change in purchasing power of money (thus, the change in prices) over a given period of time*. For example, 5% inflation means that what was once purchased at $100 can now only be purchased with $105. Prices have increased by 5%, which means that the purchasing power of money has fallen 5% because it takes 5% more money to buy the same good.

*Real interest is the difference between the nominal (given) interest rate and the actual inflation rate… it allows for the adjustment earned/ paid after inflation.* Therefore, if a investment was earning 5% interest and inflation was 2%, then the real interest rate is 3% because 5% - 2% = 3%. Your buying power rose 3%. You are better off by 3% than if you simply held your money in a piggy bank- in which case you would have lost buying power by 2%.}

*After finding the real interest rate earned, this gives the change in buying power.*

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| *Solve for your Real Interest Rate earned on #8, based on a 2% inflation rate.* ***Interest Rate - Inflation Rate = Real Interest Rate***

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\*Your buying power increased by \_\_\_%. |

1. Some people have a tendency to be impatient and choose immediate spending with a mere chance at “winning” or coming out “ahead” compared to saving for the future.

*How do you think personality plays into these choices? Does self-control matter? Would you rather have a 1 in 175,000,000 chance at winning, or the total $273 invested over time? Why?*

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1. **The average consumer.** *How much research do you think the average consumer puts into their spending choices? Is it easy to learn about your spending options? Why do some people spend time researching their options?*

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1. **Research.** Consumers tend to make decisions as they are influenced by the price of a good or service, the price of alternatives, and the consumer’s income as well as his or her preferences.

When it comes to Florida lottery tickets, a player has a one in 292 million chance at winning the Powerball or a one in 71 chance in winning $5 or more with a scratch-off ticket. The player's chances do not improve with frequency of playing. Chances remain the same each time they play. Cheaper tickets have a lower percentage of winners, lower payouts, and a smaller range between the highest and lowest winnings.

*Write out each of these chances as a fraction with 1 over the numeral:*

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| Power Ball chance:  *\_\_\_\_\_\_\_1\_\_\_\_\_\_\_* | Scratch-off ticket chance: *\_\_\_\_1\_\_\_\_* |

*Why do you think that PowerBall tickets are $2? Why do scratch-off tickets range in price from $1 to $30? What do you think helps determine if someone buys one over the other?*

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**Extension:**

Use the articles listed to create an infographic that looks like a lottery ticket. Include at least 5 statistics to discourage gambling and encourage saving or investing.

* “Lottery Winner Statistics” from Credit Donkey <https://www.creditdonkey.com/lottery-winner-statistics.html>
* Kiplinger’s “5 Better Investments Than Powerball” <https://www.kiplinger.com/article/saving/T047-C011-S001-5-better-investments-than-powerball.html>,