

Case Study: #9 The Latte Factor - Brewing Your Financial Future

Meet Maya

Maya, a 17-year-old high school senior, loves her daily iced caramel latte from the local coffee shop. It's a small indulgence that brightens her mornings and gives her a boost of energy before school. However, at \$5 a pop, her daily coffee habit is starting to put a dent in her wallet. Maya dreams of traveling the world after graduation, but she's worried she won't be able to save enough money if she keeps spending on her lattes.

The Latte Factor in Action

Maya decides to do some calculations. She realizes that her daily latte habit costs her $\$5 \times 365$ days = \$1825 per year! That's a significant amount of money that could be going towards her travel fund.

Questions for Maya (and You!)

1. **Opportunity Cost:** What is the opportunity cost of Maya's daily latte habit? What could she do with that \$1825 per year if she didn't spend it on coffee?
2. **Compound Interest:** Let's say Maya decides to invest the \$1825 she saves each year in a diversified index fund with an average annual return of 7%. Use a compound interest calculator to estimate how much her investment would grow over 5, 10, and 20 years.
3. **Budgeting & Prioritizing:** How can Maya create a budget that allows her to enjoy occasional lattes while still saving for her travel goal? What other discretionary expenses could she potentially cut back on?
4. **Behavioral Factors:** What psychological or social factors might make it difficult for Maya to change her spending habits? How can she overcome these challenges?
5. **Alternative Strategies:** Besides cutting back on lattes, what other strategies could Maya use to reach her travel savings goal faster? (Think about increasing income, finding cheaper alternatives, etc.)

Critical Thinking Challenge

- **The "Latte Factor" Beyond Coffee:** Identify other "latte factors" in your own life - small, recurring expenses that might be hindering your financial goals. Calculate the annual cost of these expenses and consider the potential impact of redirecting that money toward savings or investments.
- **The Power of Habit:** Discuss how habits, both good and bad, can shape our financial futures. How can we develop positive financial habits and break free from negative ones?
- **Delayed Gratification:** Explain the concept of delayed gratification and its importance in achieving long-term financial goals. How can we train ourselves to prioritize future rewards over immediate pleasures?

Remember:

- There are no right or wrong answers, but thoughtful analysis and reflection are key.
- Use online resources and tools to support your calculations and research.
- Discuss your findings with classmates or a trusted adult to gain different perspectives.