

CASE STUDY

Instructions: In pairs, discuss the case scenario and then complete the budget and questions that follow. Work together and be thorough in coming up with as many ideas as possible to appropriately respond to the questions.

Case #1: Erica Gets a Job

When Erica graduated in May of 2006 with a degree in marketing, her dream was to work for a major marketing firm in New York City. She had visited New York as a child for family outings to Radio City, Rockefeller Center and the Metropolitan Museum of Art, and was enthralled by the city's energy and its many cultural attractions. Fortunately, a college friend had some contacts in New York and was able to help Erica secure an interview with a major firm.

Impressed with her academic record, the firm hired her at a starting salary of \$55,000. As part of her compensation package, Erica receives two weeks of paid vacation each year and health and dental insurance; her employee contribution is \$100 per month. The company also offers a 401(k) retirement savings program and will match Erica's contributions up to 5 percent of her gross salary. Erica would definitely take advantage of the retirement plan so she can begin saving for this long-term goal. In addition, the company will cover the cost of tuition and books for a graduate degree.

Having secured the job of her dreams, Erica now had to decide where to live. She really wanted an apartment in the city in order to take advantage of the city's activities after work and on weekends. At the same time, she recognized that rents in New York City were very expensive and would consume a sizeable chunk of her take-home pay. After doing some research, Erica found that she could get a one-bedroom apartment in Manhattan for \$1,800 per month. The same apartment would cost her \$1,200 in Brooklyn, a 30-minute commute by train. Alternately, if Erica was willing to have a roommate, she could get a two-bedroom apartment in Manhattan for \$3,000.

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1. Along with the facts above, use the following information to construct a monthly budget of fixed expenses for Erica for each of the three apartment alternatives (see worksheet on next page):
 - a. Taxes are 30 percent of her gross income.
 - b. Utilities (heat, gas, water, cable, phone) are 20 percent of her monthly rent. (Note: she would share the costs in the apartment with a roommate.)
 - c. If Erica decides to live in Brooklyn, she can get a train pass for \$150 per month; in Manhattan, she can take the subway for approximately \$40 a month.
 - d. After graduation, Erica needs to start paying off her college loans at the rate of \$200 per month.

2. What variable expenses does Erica still need to include in her budget? _____

Estimate an approximate cost for these variable expenses and include them in her budget on the worksheet attached. If necessary, add items to the list.

Case Study Budget Form

INCOME	Annual	Monthly
Gross Income	\$	\$
Taxes	\$	\$
Health/Dental Insurance	\$	\$
401K (PYF)	\$	\$
TOTAL NET INCOME	\$	\$

EXPENSES	Brooklyn Apt.	Manhattan 1-Bdrm Apt	Manhattan 2-Bdrm Apt
Fixed Expenses			
Rent	\$	\$	\$
Utilities	\$	\$	\$
College Loan	\$	\$	\$
Transportation	\$	\$	\$
	\$	\$	\$
Total Fixed Expenses	\$	\$	\$
Variable Expenses			
Groceries	\$	\$	\$
Clothing	\$	\$	\$
Entertainment/Social activities	\$	\$	\$
Savings	\$	\$	\$
	\$	\$	\$
Total Variable Expenses	\$	\$	\$
TOTAL EXPENSES	\$	\$	\$

3. Which of the three housing alternatives is the best choice for Erica? What benefits would Erica gain by selecting this alternative over the others? _____

4. What might be some possible disadvantages in selecting this alternative?

5. What are other alternatives that Erica might pursue?
