

## Cost of Living Exercise

### ABSTRACT

This activity is suitable for general Human Resources, Selection, or Compensation courses. It can be facilitated as an in-class or an online exercise. Students are presented with a short scenario where they have to choose from two jobs in two different cities, solely based on financial considerations. I typically use two scenarios, one where the offered salaries in the two cities are very similar, and one where one of the salaries is significantly higher than in the competing offer. However, as students find out, taxes and cost of living will significantly impact which job is financially more advantageous.

Keywords: cost-of-living, compensation, selection

**Introduction:** Employees change jobs an average of 11-13 times in their lives. Changing jobs often includes relocation to a new city or town. Students often judge jobs based on the salary offered and they often disregard how much that salary is worth in that particular location. In the United States, cost of living varies significantly. Living expenses are extremely low in several small(er), Midwestern locations but can be exorbitantly high in East Coast and West Coast locations, such as San Francisco or Boston.

**Teaching Implications:** Students learn easier and engage more when we use experiential learning methods, especially when the particular activity has ‘real life implications.’ (Svinicki & McKeachie, 2014). Active learning helps students process information, particularly when we use a group setting. Group (or collaborative) learning is also an extremely useful method to facilitate application and retention. It also gives students the opportunity to develop interpersonal and cognitive skills (Svinicki & McKeachie, 2014) that will benefit them as they start (or continue) their professional careers.

To this end, this exercise introduces a scenario that student will likely face at some point in their lives. It introduces a real-world situation, which does not have a simple answer, and allows students to interact with their peers (i.e., teammates) as they look at the different facets of the issue at hand.

**Learning Objectives:** I use this activity in my Compensation class (a 4000 level HR elective course) when we talk about contextual influences on wages, such as geographic pay differentials and cost-of-living differences. At the same time, this exercise can also be used in a general Human Resources or in a Selection class. I have used this exercise both in class, as a group assignment, and also as an individual assignment online.

**Exercise Overview:** In class, students are shown a PowerPoint slide describing the activity. They need to decide which job to take (all else being equal), based on the offered salary. In a classroom of about 40 students (10 groups), I propose two scenarios and half of the groups would work on one pair of locations while the other half investigates the other pairing. In one pair of locations, the two offered salaries are very close; in the other, they are quite different. After completing the activity, students should realize that you cannot just look at the dollar amount to make a decision; you need to take a variety of other factors into consideration, such as housing cost, taxes, etc. I propose a few online tools on my slide to start them off (e.g., cost of living calculator, net income calculator), but I also encourage them to use other tools and resources. They often look for mean housing prices, sales and income tax; some even factor in gas prices or public transportation cost.

When I first conducted this activity, I used random locations. During the last few years, I had to finetune the locations and use areas that the students are familiar with or might consider moving to. Currently, I use two nearby locations (Charlotte, North Carolina and Gainesville, Florida) and two Western cities (San Diego, California and Tucson, Arizona). I would suggest, that anyone wanting to adopt this activity to ‘tailor’ the locations to the geographical location of the university and the interest of their students. Further, the salary offer may need to be readjusted to suit the particular location and will probably need to be updated over time.

I give students about 6-8 minutes for collecting information. They are encouraged to use their laptops, tablets, and phones to access the websites. They often engage in a lively discussion as they identify the different aspects that they need to take into consideration. I tell them to write down the specific information that they have found. After the groups found sufficient supporting

evidence, I have each group report to the whole class about their findings and identify the websites they have used.

After all groups described what decision they have made and what information they included in their decision making process, I usually ask a follow up question: If you were planning to move a new place, what else you might consider as important factors (besides the financial considerations)? Answers often include job opportunities for spouses, climate, crime rates, school rankings, and overall appeal of the city and the job.

When I used this exercise as an online, individual assignment, some students collected very detailed information, such as healthcare cost and cost of education. They also considered how much it is to rent a one or two-bedroom apartment in the respective city. The information included in the online submissions are often well thought out. Some students even include tables to summarize their findings.

The feedback I have received about this activity has been very encouraging. Several students noted that they would have not thought about looking at these issues before and the activity made them realize all the factors that you need to consider when choosing a job. Employees these days change jobs and geographical locations much more often than previous generations, therefore, having a solid understanding of the factors that go into relocation decisions and gaining familiarity with the online tools that are available to us, are crucial. I would strongly recommend using this exercise (or a modified version) to help our students in their future career planning.

**Session Description:** The overall timeline for this session will be as follows:

Introductions (5 min), Collecting Information/Decision Making (6-8 min), Reporting on Findings

(5-7 min), Debriefing/Follow-up Questions (5-6 minutes), Discussion/Recommendations (3-4 min).

The session will start with Introductions. I will introduce myself and ask participants which university they come from and what courses they teach. Afterwards, I will briefly introduce the activity, highlighting which courses it would be most appropriate. Then, I will conduct the activity as I do in class. Participants will be divided into groups of 3-5 people (depending on overall attendance). Ideally, I would like to have at least 3-4 groups. I will project the slide describing the activity and have participants gather information by using their laptops, tablets or phones. I will have them summarize their findings and choose a location.

I will continue with some follow-up questions, just as I would do in class. For example: if you were to make a decision like this in real life, what other issues would you take into consideration? Lastly, I would ask participants for the feedback and for recommendations on improvement (or modifications) for the activity.

## **Reference**

Svinicki, M. D., McKeachie, W. J. (2014). *McKeachie's Teaching Tips: Strategies, Research, and Theory for College and University Teachers*. Wadsworth, Cengage Learning: Belmont, CA

## APPENDIX

## Cost-of-Living Exercise Description:

You have **two job offers** in two different cities. Both companies and jobs are similarly attractive to you. Both locations have their advantages and disadvantages, so your decision is purely financial. **Which job would you choose?** Use the different online tools available to make your choice (cost-of-living calculators, housing prices, net income calculators, etc.). Be ready to discuss what you found.

**Groups 1-**

- Tucson, Arizona: \$62,500
- San Diego, California: \$95,100

**Groups 6-10**

- Gainesville, Florida: \$62,500
- Charlotte, North Carolina: \$64,700