Making Payment Choices

Lesson Description:

In this lesson, students review several forms of payment. Then, they think through four purchasing scenarios and decide whether they would use cash or credit to make the purchase.

Suggested Grade Level:

2nd – 3rd

Economic Concepts:

Decision Making
Money
Credit

Voluntary National Content Standards in Economics:

Content Standard 2: Decision Making
Students will understand that effective decision making requires comparing the additional costs of alternatives with the additional benefits. Many choices involve doing a little more or a little less of something; few choices are "all or nothing decisions."

Content Standard 5: Trade
Students will understand that voluntary exchange occurs only when all participating parties expect to gain. This is true among individuals or organizations within a nation, and among individuals and organizations in different nations.

Content Standard 11: Money and Inflation
Students will understand that money makes it easier to trade, borrow, save, invest, and compare the value of goods and services. The amount of money in the economy affects the overall price level. Inflation is an increase in the overall price level that reduces the value of money.

Content Standard 12: Interest Rates
Students will understand that interest rates, adjusted for inflation, rise and fall to balance the amount saved with the amount borrowed, which affects the allocation of scarce resources between present and future uses.

National Standards for Financial Literacy:

Standard II: Buying Goods and Services
People cannot buy or make all the goods and services they want; as a result, people choose to buy some goods and services and not buy others. People can improve their economic well-being by making informed spending decisions, which entails collecting information, planning, and budgeting.

Standard IV: Using Credit
Credit allows people to purchase goods and services that they can use today and pay for those goods and services in the future with interest. People choose among different credit options that have different costs. Lenders approve or deny applications for loans based on an evaluation of the borrower's past credit history and expected ability to pay in the future. Higher-risk borrowers are charged higher interest rates; lower-risk borrowers are charged lower interest rates.

Jump $tart National Standards in Personal Finance Education:

Spending and Saving – Standard 3:
Describe how to use different payment methods.

Credit and Debt – Standard 1:
Analyze the costs and benefits of various types of credit.

Financial Decision Making – Standard 1:
Recognize the responsibilities associated with personal financial decisions.

Financial Decision Making – Standard 4:
Make criterion-based financial decisions by systematically considering alternatives and consequences.

Financial Decision Making – Standard 5:
Apply communication strategies when discussing financial issues.

Time Suggested:

30-45 minutes (if completed in a single teaching period)

Supplies:

- *Kevin Becomes Famous* video and means to project it
- Writing utensil – one per student
- Chart paper and markers; white board and markers; or interactive white board
- Dollar bill copies – one individual bill per student
- Credit card copies – one individual card per student
- Scenario cards – one copy of each card for the teacher
- 'Choosing How to Pay' graphic organizer – one copy per student

Classroom Procedures:

1. In preparation for the lesson, have students watch the entire *Kevin Becomes Famous* video.
2. Following the video, ask students to compare the way that Kevin initially wanted to pay for his candy and the method he actually used:
    a. Ask, "After Kevin decides which candy he wants to buy, how does he offer to pay?" **(Using "street credit.")**
    b. Ask, "Why would the store not let him pay that way?" **(Street credit is not a form of payment. To buy items in a store, we need to use some form of money.)**
    c. Continue by reviewing the forms of payment discussed in the video. You can ask students to list them, if appropriate, or tell students what they are: cash, debit card, or credit card.
    d. Finally, ask students, "which form of payment did Kevin finally use to buy the candy he wanted?" **(A credit card, backed up by cash he knew he had in the bank.)**
3. As a class, create a simple three-part chart listing each form of payment from the video. Use chart paper, an interactive white board, etc. Then, have students recall information about each form and list it on the chart. They may share facts they already know or information they learned from watching Kevin. If students have trouble remembering facts about the different forms of payment, show the video's song again, beginning at 5:05. A sample of what the chart might contain is below:

FORMS OF PAYMENT

Cash	Debit Card	Credit Card
*you can spend exactly what you have with you, or you can spend less, but not more *if you lose it, there is no way to replace it	*removes money from a bank account *you do not have to have the cash with you, but you must have money in the bank *money must be in the account *can only spend the amount that you have in the account	*allows you to spend more money than you currently have *must be repaid within a given amount of time *must pay interest (more money than you spent) if the full amount is not repaid within that time

Important note: ONLY RECORD CORRECT INFORMATION. Younger students may have misconceptions about debit and credit cards. Use this opportunity to correct those, and reinforce factual statements about debit and credit card use.

4. Once the class has created and reviewed the chart, tell students that they will imagine a series of scenarios in which they are the consumer, and must decide whether to use cash or credit when making a specific purchase. This is a good time to point out that credit cards are for adults, and that children cannot use them. With that in mind, students will make their choices imagining that they have access to credit cards. The scenarios only ask students to choose between cash and credit. Remind students that debit cards function as a more convenient form of cash, so they are not included in this activity for simplicity's sake.

5. Before reading the first scenario card, help students think through the ramifications of using credit cards, especially when they might not be able to fully repay the charges within the allotted time. When having this conversation, be sensitive to students' families' financial situations and challenges. Try to encourage good future decision making by students rather than passing judgment on current situations.

    a. Ask students to recall what using a credit card can cost: "If an item costs fifty dollars, and you use a credit card to pay for it, how much money will you actually have to pay for it?" **(If you pay your entire credit card bill on time or early, it will cost $50. If you pay later, it will cost more.)**

    b. Ask, "why would that item cost more later?" **(If you do not pay off all your purchases, the credit card company charges interest. This means that you will pay more than just the cost of the item.)**

c. Explain to the class that when consumers do not pay their credit card bill in the given time, they are basically borrowing money from the credit card company. The credit card company charges interest as a fee for using the service of borrowing their money. At this age, students do not need a complete mathematical understanding of interest, but they do need to understand that using credit cards can incur an additional cost.

6. Following this conversation, students are ready to begin thinking through the scenarios on the cards at the end of this document. Distribute one copy of the 'Choosing How to Pay' graphic organizer to each student. For each scenario, students will record whether they would use cash or credit to make their purchase, and then write a short explanation of why they chose their selected form of payment.

7. Additionally, give each student one dollar bill printable and one credit card printable. Following each scenario's discussion, students record their responses on the graphic organizer. Then, the teacher will ask students to show which form of payment they chose, and they respond by holding up either the dollar bill or the credit card. This allows the teacher to see students' responses quickly and guide follow-up discussion accordingly.

8. Read the Scenario One card to students. Discuss the scenario, encouraging students to share their thoughts while considering their options:

    a. Ask, "what choices do you have in this situation?" **(Using all of your cash to buy the bike or using a credit card to buy the bike and paying the credit card bill later.)**

    b. Have students compare their choices: "what advantages are there to paying cash?" **(You can buy your new bike, and have no bills to pay later.)** "What advantages are there to paying with a credit card?" **(You can wait a few weeks to pay, so you can hold on to your cash now.)**

    c. Have students consider the disadvantages of each choice: "what disadvantage is there to paying cash?" **(Buying the bike will take all of your cash, so you will not have any extra money until you earn some more.)** "what disadvantage is there to paying with a credit card?" **(You will have a bill to pay in a few weeks, and if you are late paying or do not pay all of it, the credit card company will charge interest. That means you would actually pay more than the cost of the bike.)**

9. Following this discussion, have students complete the first line of their graphic organizer. Have them identify the item they are buying (the bike), circle whether they would choose to pay with cash or credit, and then write a short statement explaining their reasoning for their choice of payment. Either set a timer for a given amount of time (3-5 minutes,

depending on their writing abilities) or watch for most students to have completed their reasoning.

10. Ask students to raise their hands with either their dollar bill or their credit card to show which form of payment they selected. Acknowledge whether there is a clear favorite among the students, or if their opinions are divided. Then, ask a few volunteers to share the reasoning behind their choice. This can be a difficult thing to do for some students, so you may want to only ask volunteers to share out loud, or circulate among students and read their responses quickly before asking non-volunteers to share.
11. Continue the lesson by going through each of the remaining three scenarios in a similar way, and asking students to share why they have made their payment choices. Make sure to reinforce the idea that purchases made with credit cards must be paid back in full using cash, and that waiting to pay will result in wasting money on interest payments. Students should complete the graphic organizer for each scenario. (Teachers can decide whether to use the organizer as a formative assessment or simply a class activity.)
12. Once students have completed all four scenarios, ask them to think about the decisions that they made.
    a. Pose a question like, “how often did you choose to use cash? Why?” **(Answers will vary, but hopefully many students realized that paying for an item immediately was better than having a bill to pay in the future, and that buying only what they could afford with the cash they had available made more sense than buying something and hoping to find the money to pay for it.)**
    b. Ask, “in the situations where you chose to use credit cards, what plans would you need to make in order to pay the credit card bill when it comes due?” **(Save enough money to pay the entire amount. Do extra chores or spend birthday/ holiday gift money.)**
13. Finish the conversation by returning to Kevin’s choices in the candy store.
    a. Ask students to recall what Kevin did to earn enough money to buy the candy he wanted. **(He made a mixtape and sold it.)**
    b. Ask, “how were his choices similar to and different from yours?” **(Answers will vary, but students should note that they both made sure they had enough money to pay for their purchases, regardless of which type of payment they chose. Students who chose to pay for their purchases in cash might add that unlike them, Kevin chose to use the credit card and then pay the credit card company back.)**

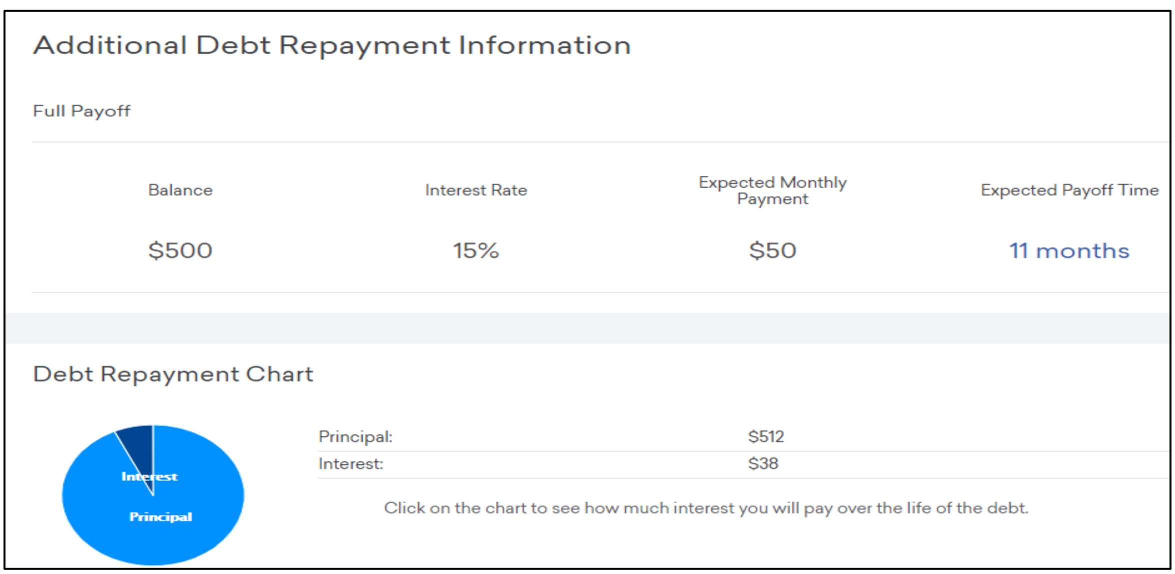
c. Take this final opportunity to reiterate that Kevin's choice to use a credit card ONLY makes sense because he had the cash to "back it up," and could pay for his purchases immediately.

14. Close by asking students to complete the reflection question handout at the end of this document. They should share whether or not they agree with Kevin's decision to use a credit card, and why. This can serve as a formative assessment of students' financial decision-making skills, as well as of their comprehension of the lesson content. Most students will not give a particularly deep answer, but they should be able to explain their thinking in some way: "I agree with Kevin using a credit card because it was an easier way to pay and he can pay his bill immediately" or "I disagree with Kevin's choice because it would have been better for him just to pay with the cash he had."

15. Depending on time and students' interest, you can decide if the class should discuss these answers, or end the lesson by simply asking one or two students to share their responses.

Extensions:

-If students are ready to dig a little deeper into what it means to use credit, use a credit card interest and payment calculator (examples below come from https://www.creditkarma.com/calculators/debtrepayment) to demonstrate what happens when you use a credit card without the cash to back it up. Even a fairly small purchase can accrue a large amount of interest if not paid off on time. For example, a $500 purchase accrues nearly $40 in interest charges when paid in $50 increments for nearly a year – and this assumes that no other charges are added.



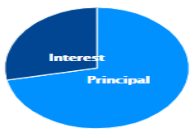
With the same $50 monthly payments, a $2000 purchase nets almost $800 in interest charges, and takes more than four years to pay off:

Additional Debt Repayment Information

Full Payoff

Balance	Interest Rate	Expected Monthly Payment	Expected Payoff Time
$2,000	15%	$50	56 months

Debt Repayment Chart



Principal:	$2,010
Interest:	$790

Click on the chart to see how much interest you will pay over the life of the debt.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THE UNITED STATES OF AMERICA
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ONE DOLLAR


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Choosing How to Pay

Item to Purchase:	Form of Payment:	Reason for Your Choice:
	cash credit	
	cash credit	

	cash credit	
	cash credit	

Do you agree with Kevin's decision to use a credit card to buy his candy? Why or why not?