

**Lesson Description**

In this lesson, students will investigate the four most frequently used methods of payment: debit cards, credit cards, online banking and cash. Students will learn the advantages and disadvantages of methods of payment via story reading for three of the methods. Students will draw from their experiences as well as other students' experiences about using cash.

**Texas Essential Knowledge and Skills (Target standards)**

**PFL Math 8.12E** identify and explain the advantages and disadvantages of different payment methods

**Texas Essential Knowledge and Skills (Prerequisite standards)**

**Math 8.1:** Mathematical Process Standards

**National Standards (Supporting standards)**

**CEE 8.4:** People choose from a variety of payment methods in order to buy goods and services.

**CEE 8.4:** People often make a cash payment to the seller of a good—called a down payment—in order to reduce the amount they need to borrow. Lenders may consider loans made with a down payment to have less risk because the down payment gives the borrower some equity or ownership right away. As a result, these loans may carry a lower interest rate.

CEE - Council for Economic Education

**PFL Terms**

- Credit card
- ATM or Debit card
- Online banking
- Bank transaction
- Withdraw
- Deposit
- Overdraft fee
- Insufficient funds

**Time Required**

One 45-minute class

**Materials Required**

- A copy of **Activity 8.3-1** for each group of 3
- A copy of **Visual 8.3-1** and **8.3-2**
- A copy of **Activity 8.3-2** for each student
- Scissors
- Tape
- 2 blank sheets of paper per student
- 4-5 pencil colors for each group of students
- A sheet of chart paper for each group
- 4 markers for each group

**Procedure****Engage**

1. Place students in groups of 3. Distribute one copy of **Activity 8.3-1**, tape, and two pairs of scissors to each group. Have students cut out cards on **Activity 8.3-1**. Display **Activity 8.3-1** as a visual.
2. Tell students to sort the cards into two stacks. The first stack is various methods to purchase goods and services. The second stack will be short stories describing a purchase. Then have each student take turns reading the short description of a purchase. The group is to work together to decide which method of payment was used to make the purchase. Each method of payment should be matched with one description. Once all cards have a match, direct students to place a piece of tape across each pair of cards. Have different students share one pairing that was made. As the students share their answers, use the **Activity 8.3-1** visual to draw a line from the method of payment to the scenario. At this time, do not comment if the pairing is correct or incorrect.

**Explain**

3. Display **Visual 8.3-1**. Tell students that this visual describes three of the methods of payment used in the previous activity. Ask students to share their description about cash. (***Bills or coins that can be used to purchase items.***) After all descriptions are read, students may make changes to their pairing of cards. Have different students read each method of payment. Then allow for students to correct their pairing. Below are the correct pairings.
  - Debit Card – 2
  - Online Banking – 5
  - Credit Card – 4
  - Check – 1
  - Cash – 3
4. Ask students if there are any other methods to pay for goods and services. (***cashier's check, gift card, trade, layaway, installment payments***)
5. Ask students to explain how consumers decide which methods of payment to use to make purchases. Allow a few students to offer their suggestions. (***Sample responses: If someone doesn't have money in his or her account, they may use a credit card. Making a payment online is easier than writing a check and putting it in the mail. For some people, using cash may be the best method to make sure they don't spend more than what is in their checking account.***) Then tell them that today we are going to analyze the advantages and disadvantages of common methods of payment. This will help them make better decisions when they have access to these methods of payments.
6. Write "insufficient funds" and "overdraft fee" on the board. These are new term students will need to understand before proceeding. Explain that insufficient funds occur when someone tries to purchase an item using a check or debit card without having enough money in his or her bank account.  
[Source: [http://www.investopedia.com/terms/i/insufficient\\_funds.asp](http://www.investopedia.com/terms/i/insufficient_funds.asp)]  
An overdraft fee occurs when you write a check, make an ATM transaction, use your debit card to make a purchase, or make an automatic bill payment or other electronic payment for an amount greater than the balance in your checking account.

[Source: [http://www.federalreserve.gov/consumerinfo/wyntk\\_overdraft.htm](http://www.federalreserve.gov/consumerinfo/wyntk_overdraft.htm)]

### Explore

7. Give each student 2 sheets of paper. Give each group 4-5 pencil colors and a pair of scissors. Display **Visual 8.3-2**. Tell students that they are going to create an interactive notebook to keep their notes on each method of payment. Read the directions from the visual as you model the process for creating the interactive notebook.
8. Have students write their name on the upper right hand corner of the front cover and title the booklet: *Methods of Payment*. Instruct students to create an illustration with the pencil colors on the front cover that depicts the title. The teacher should continue modeling each step of the way.
9. Instruct students to open their interactive book and title the inside pages with the following: Credit Card, Debit Card, Online Banking and Cash. About 2 inches from the bottom of each page, draw a horizontal line across the width of the page. In the area between the page title and this line create two columns. Label column 1 “Advantages”. Label column two “Disadvantages”. Below is a sample of page 1.

<u>Credit Card</u>	
<u>Advantage</u>	<u>Disadvantage</u>

10. Distribute **Activity 8.3-2** to each student. Tell the students that they will read stories about three of the methods of payment listed in their interactive notebook. As they read, they are to find clues that reveal advantages or disadvantages about the method of payment. Read the first story with the class. After each advantage or disadvantage is revealed, question students to help them disclose the advantage or disadvantage. Then have the students look at **Activity 8.3-1** and **Visual 8.3-1** for additional clues. Direct the students to record their findings in the appropriate column of their interactive notebook
11. Instruct students to work with their group to find the advantages and disadvantages for the debit card and online payment. For the cash method, ask students to pull from their own experiences using cash to create a list of advantages and disadvantages. To help students think about advantages and disadvantages of using cash, use the questions listed below. Allow students to share an experience they had with cash.
  - a. Have you ever purchased an item with cash then tried to return the item? Did you have a receipt?
  - b. Did you ever hand a cashier a twenty and he or she gave you change for a ten?

- c. Did you ever start off the day with \$20 and by the end of the day you only had \$1 remaining? Did you remember how you spent the money?
- d. Did you ever leave your money in your pocket and your parent washed your jeans? What happened to your money?

**Elaborate**

12. Once students have completed the lists of advantages and disadvantages, have each group brainstorm on what precautions consumers should consider when using each payment method. Instruct students to write these precautions on the bottom reserved section of each page of their interactive notebook.
13. Distribute 1 sheet of chart paper and 3-4 markers to each group. Instruct students to divide the chart paper into four quadrants. Title each quadrant by the four methods of payment listed in their interactive notebook. Then document everything listed on each page onto the chart paper. Below are sample lists.

<u>Credit Card</u>	
Advantage	Disadvantage
-easy to carry -easy to use -offer rewards -ability to pay for emergencies - (see step #20) can improve credit score with timely payments and maintaining a low balance	-too easy to overspend -may have annual fee -late payment can result in late fee -interest will be charged if balance is not paid within a certain time
To avoid interest, don't spend more than you can pay.	

<u>Debit Card</u>	
Advantage	Disadvantage
-easy to carry -easy to use -PIN protected -(see step #19) not responsible for unauthorized transactions after card is reported missing	-possible fee(s) -insufficient funds may result in overdraft fee -transaction may be denied if there are insufficient funds -can't purchase more than what is available
To avoid overdraft fees, keep track of your transactions.	

<u>Online Banking</u>	
Advantage	Disadvantage
-saves time -saves cost of stamps and trip to post office -ability to buy online	-using unprotected Internet can result in fraud -insufficient funds may result in overdraft fee
Always use a private Internet. To avoid fees, keep track of all transactions.	

<u>Cash</u>	
Advantage	Disadvantage
-easy to carry -can help stay within budget	-can be lost or stolen -easy to forget how it was spent -no proof of purchase other than receipt -can't make online purchases
Know how much money you start with each day. Keep receipt in case you need to return your purchase.	

- Instruct students to hang the chart paper in designated areas around the room. Students will take their interactive notebook and a pencil and stand in front of their chart paper. Once everyone is standing in the appropriate area, have groups rotate counter clockwise to the next chart. They are to compare the list of advantages and disadvantages shown on the chart with their own list. In their interactive notebook, they will check off items on the list in which they agree. They should add additional items to their list that are missing. Continue to instruct students to rotate every 2 minutes until all charts have been visited.

**Explain**

- After students have visited all charts, direct them to return to their seats. Explain to students that there are multiple ways a credit card account number can be stolen; therefore credit card companies offer fraud protection. This means the card holder is not responsible for any unauthorized charges. Ask if this is an advantage or a disadvantage for a credit card. (**Advantage**) Instruct students to add this information in their interactive notebook under the advantage column on the page for credit cards. The teacher will model the entry.
- Tell students that the Federal Reserve explains that many banks (as well as savings and loans and credit unions) offer "courtesy [overdraft-protection](http://www.federalreserve.gov/pubs/bounce/)," or "bounce coverage," plans so that your checks do not bounce and your ATM and debit card transactions go through. With these plans, you'll still pay an overdraft fee or a bounce coverage fee to the bank for each item. But you will avoid the merchant's returned-check fee and will stay in good standing with the people you do business with. [Source: Federal Reserve, <http://www.federalreserve.gov/pubs/bounce/> ]
- Ask: *On My Debit Card Story, the storyteller chose not get the overdraft protection. What happened when he or she had insufficient funds? (The credit card transaction was denied because the account owner choose not have overdraft protection.) In this case, would it have been better to have the overdraft protection? (No. The account owner would have paid an extra fee for the two coffees.)*
- An overdraft occurs when there is not enough money in a bank account to cover a withdrawal, purchase or electronic payment. Financial institutions offer an overdraft protection service. This means that if there is not enough money in the account, the bank will authorize the withdrawal, purchase or electronic payment for a fee. Suppose you have an electronic payment of \$50 scheduled to pay your cell phone service that is due tomorrow and you have a \$60 balance in your bank account. Before the bank transfers your money for payment, you make a \$20 purchase with your debit card. Now your balance is \$40. If you have overdraft protection service, the bank will authorize the electronic payment of \$50. Now you have negative \$10. Because you do not have the funds to cover the scheduled payment, the bank charges you an overdraft fee of \$30. What is your balance? (negative \$40) The benefit of overdraft protection is that the bank pays your bill. This will avoid fees from the retailer. The retailer will not send a negative report to the credit bureaus.*
- Explain that if you report an ATM or debit card missing before someone uses it, you are not responsible for any unauthorized transactions. If someone uses your debit card before you report it lost or stolen, your liability depends on how quickly you report it.

[Source: Federal Trade Commission, <http://www.consumer.ftc.gov/articles/0213-lost-or-stolen-credit-atm-and-debit-cards>]

20. Explain to students that every consumer has a credit history that is maintained by credit bureaus in the form of a credit report. This credit report is a record of each consumer's credit use. Consumers who buy goods on credit and pay them off on time can show lenders that they can be trusted to meet their financial obligations. Paying off credit can give a consumer a better credit score, which will help him or her get credit when he or she wants to make a major purchase, such as a car. It will also help the consumer get better interest rates when applying for a loan. Ask students if this is an advantage or disadvantage? (**Advantage**) Instruct students to add this information to their interactive notebook under the advantage column on the page for credit cards. The teacher will model the entry.

**Evaluate/End**

21. To close this lesson, lead a class discussion by posing the questions below.
- For which methods of payment is the consumer using his or her own money? (**debit card, online banking, and cash**)
  - For which method of payment is the consumer borrowing money? (**credit card**)
  - What precautions should a consumer consider when using a credit card? (**Sample responses: Don't purchase more than you can pay. You are borrowing money to pay for the purchase so be sure to pay your bill on time. If you don't pay off the balance, you will pay interest.**)
  - What precautions should a consumer consider when using a debit card? (**Sample response: To avoid an overdraft fee or to avoid a purchase denial, keep track of your transactions.**)
  - What precautions should a consumer consider when using an online bank? (**Sample response: To avoid fraud, keep your account information secure. To avoid an overdraft fee, keep track of your transactions.**)
  - What precautions should a consumer consider when using cash? (**Sample response: Keep your receipt for proof of purchase. Keep your money in a safe place.**)

**Extension**

Have students enhance their interactive notebook by researching the websites below.

For more information on Debit Cards, go to:

[http://www.federalreserve.gov/consumerinfo/wyntk\\_overdraft.htm](http://www.federalreserve.gov/consumerinfo/wyntk_overdraft.htm)

For more information on Credit Cards, go to:

<http://www.federalreserve.gov/creditcard/>

For information on Installment Plans, go to:

<http://www.wisegeek.com/what-is-installment-buying.htm>

<b>Activity 8.3-1</b>
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Directions: Cut cards apart. Match numbered card with the correct method of payment.

ATM or Debit Card	<b>1:</b> On the 25 <sup>th</sup> of every month, Tamesha pays her rent by writing the amount on a small official preprinted note that contains information about a checking account. She puts this note in an envelope and drops it off at the post office.
Online Banking	<b>2:</b> Inga goes to the store to buy groceries. To pay for the groceries, she slides her card through a card reader and enters a special code.
Credit Card	<b>3:</b> On the 30 <sup>th</sup> of every month, Maribel pays her rent by first driving to bank to make a withdrawal and then driving to the real estate agency to make the payment.
Check	<b>4:</b> It's time for Binh to get the oil changed in his car. The payment for the oil change shows up on his monthly bill for the card.
Cash	<b>5:</b> On the 28 <sup>th</sup> of every month, Blake pays his rent by logging on to the computer. He goes to his bank's website and enters his password for access. Then, he types in the needed information to make the payment.

## Visual 8.3-1

**Methods of Payment****Credit Card**

A credit card is a small plastic card issued by a financial company. This card has a magnetic strip on the back. When the card is swiped through a card reader, the owner of the card is borrowing money from the financial company to make the payment. Here's what happens when the card is swiped:



- The amount of the purchase is transferred from the financial company who issued the credit card to the store's account. The owner of the credit card will pay for all purchases charged to the card soon after the bill or statement arrives.

Purchases using a credit card can also be made on the Internet. Inputting the credit card information allows the credit card holder to borrow money from the credit card company to make the purchase.

**ATM or Debit Card**

An ATM or debit card is a small plastic card issued by a financial institution. This card has a magnetic strip on the back. The card is swiped through a card reader and a Personal Identification Number (PIN) is entered. This process will allow for the owner of the card to make a payment or withdraw funds. The money is immediately transferred from the owner's checking account.

**Online Banking**

An electronic payment is a process of using the Internet to make a payment. This process requires that the account owner input secure information via the Internet. Accessing his or her bank account to make a payment means that the money will be transferred out of the account for payment.

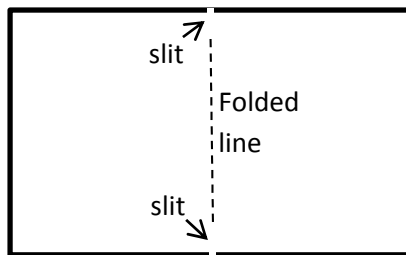




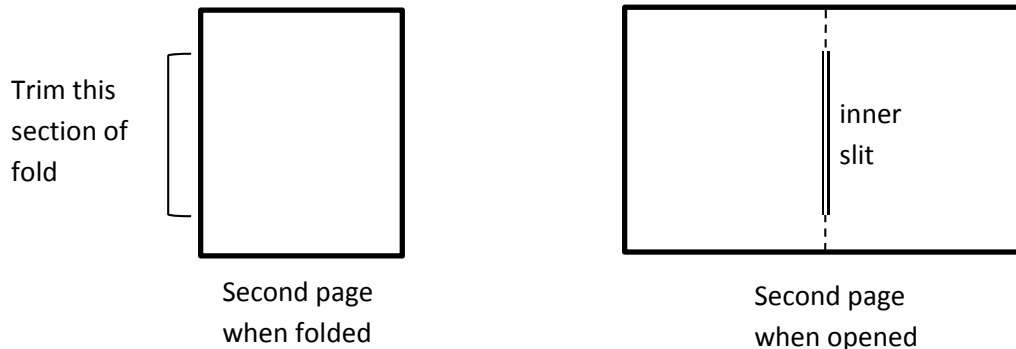
**Visual 8.3-2**
**Steps to Create an Interactive Notebook**

Materials: 2 sheets of paper and a pair of scissors.

1. Stack two sheets of blank paper together and fold along the shortest line of symmetry.
2. Open one sheet of paper. Cut two 1 inch slits along the outer edge of the folded line as shown below.



3. Keep the second sheet folded. Using a pair of scissors, trim the fold starting 1 inch from the top and end 1 inch from the bottom. When the page is open, there will be a slit down the middle as shown below.



4. Open the first page with the outer slits. Roll this page around its longest line of symmetry. Slide rolled page through the slit of the second page. When the rolled paper is inserted halfway through the slit, open the page. The outer slits will be aligned with the fold of the second page to create a booklet.

**Activity 8.3-2****My Credit Card Story**

I was so excited when I got my first credit card. I no longer had to carry that bulky check book. Using a credit card was so easy. All I had to do was swipe it and I could buy anything I wanted. The best feature is the rewards program. For every \$1000 I charge to the card, I get one \$25 gift card to the restaurant of my choice.

Then I received my first statement. I knew that the maximum I could charge was \$500, but how did I already get so close to this amount? I owe \$496.22. To make matters worse, the credit card company included my annual fee of \$35 in this bill. There was no way I could pay this bill. After paying my rent, cell phone, and utilities, I only had \$215.00 remaining in my account. I needed at least \$100 for food. Therefore, I could only make a payment of \$115 to the credit card company.

The next month, I only used my card once. Bruno, my dog, got very ill. The vet bill was \$200. Since I did not have \$200 in cash nor in my checking account, I decided to charge this bill to my credit card.

When I received my next bill, I was shocked. This bill was for \$515.50. First, I noticed there was a late fee for \$40. I guess I should have looked more carefully for the due date. Then I noticed that the credit card company charged me \$94.28 in interest. My mother warned me that credit cards have high interest rates. It took me 7 months to pay off this debt. I paid \$188.78 in interest and fees in addition to the amount I owed.

## My Debit Card Story

When I was 18, I enrolled at the local junior college and got a part-time job. After I received my first paycheck, my employer encouraged me to get a checking account so that I would have automatic deposit. This means that as soon as my paycheck was ready, the money would be transferred to my account.

I used my first paycheck to open a checking account at a bank near my place of employment. Once I opened my checking account, the clerk gave me an option of getting a check book, debit card or both. I chose to get a debit card, because it was so easy to use. But there was a price to pay for this convenience. I had to pay a \$5 monthly fee.

The clerk explained that I still needed a check register to track my withdrawals and deposits. He explained that a withdrawal was any action that transferred money out of my account such as a purchase using my debit card. A deposit is the action of putting money into my account.

The clerk offered me overdraft protection. If I accepted overdraft protection, it would cover any purchases I make even if I don't have the funds to cover it. With this feature, I would be charged a \$30 overdraft fee for each time I have insufficient funds to cover a purchase. Without overdraft protection, my card would be declined each time I have insufficient funds to cover a purchase. I choose to not have overdraft protection with my debit card.

He also asked me to create a Personal Identification Number (PIN) that only I would know. When I withdraw cash or use the card for a purchase, I enter this PIN. This will protect me if someone steals my card and tries to withdraw cash or make a purchase.

The first week I had the card, I used it to make all my purchases. I took my girlfriend to a coffee shop to buy a drink. We each ordered a coffee. I slid my card through the card reader and entered my PIN. "Denied," exclaimed the clerk. "Oh this is awkward", I thought to myself. I asked my girlfriend to wait for me while I went to the nearest ATM. Panic hit me when the ATM also denied me cash. My last resort was to call my mom and ask her to bring me enough money to cover the purchase. I guess from now on, I will use my check register to keep track of withdrawals and purchases.

## My Online Banking Story

Having online banking saves me lots of valuable time. When I'm ready to pay my monthly bills, I simply log on to my bank's website by entering my account number, a password, and a security code. Then I select the bills that are due. I enter the amount I want to pay for each and the date that I want each bill paid. Not only do I save valuable time, but I save the cost of stamps, envelopes and the gas driving to the post office.

At my bank, the standard overdraft practice for online banking includes overdraft protection. This means that if I pay a bill online and do not have sufficient funds, I will be charged \$25 for each transaction.

Last week, I was reviewing my checking account balance online. I saw that I had \$100 remaining in my account, so I decided to withdraw cash and go eat with my friends. The next day, I received an email notice that I was overdrawn on my account. This meant that I spent more than my balance. I quickly logged onto my account to investigate the matter. I noticed that my Internet bill was paid that morning. I forgot to record this payment on my check register. This resulted in an overdraft fee of \$20.

One day, I was at a coffee shop surfing the web. I found the perfect backpack. Since there was only one left, I decided to make an online purchase. To do this, I had to enter my bank's routing number and my bank account number. Two days later, I checked my account. There were multiple purchases that I did not recognize. I soon realized that someone stole my account information. It must have been when I used the unsecure Internet at the coffee shop. I immediately called my bank to inform them of the fraud. The bank froze all payments. They helped me set up a new account and a new password. I lost over \$300 due to my carelessness, but it could have been worse.