

How Would You Like to Pay?

LESSON DESCRIPTION AND BACKGROUND

The students are introduced to various methods of payment, such as cash, check, debit and credit cards, and electronic or online payments. They learn about the advantages and disadvantages of each method of payment. They also practice writing a check and recording information on a check register.

Children have many misconceptions about how adults pay for things. Perhaps you've heard a parent say, "We can't afford that," only to hear a child respond, "Write a check for it" or "Get some money out of the machine." Such examples show that children don't understand the connection between having cash in a transactions account and being able to write checks or "get money." Children may view the mere use of a credit card as payment, thinking, "Gee, Mom bought those groceries, and she didn't even have to use any of her money." In such a case the child doesn't know that, at a later date, Mom will have to pay her credit-card bill with money. Correcting children's misconceptions about payment mechanisms improves their financial literacy.

Lesson 8 correlates with national standards for English language arts, mathematics, and economics, and with personal finance guidelines, as shown in Tables 1-4 in the introductory section of this publication.

ECONOMIC AND PERSONAL FINANCE CONCEPTS

- Check
- Consumers
- Credit card
- Debit card
- Electronic or online payment
- Finance charge

OBJECTIVES

At the end of this lesson, the student will be able to:

- Identify methods of paying for goods and services.
- Define money, **check, electronic or online payments, debit card, and credit card.**
- Explain the relationship between **checks** and money held in a checking account.
- Identify advantages and disadvantages of different methods of **payment**
- Explain why **credit cards** are not considered money.
- Explain how payment is made when a **consumer** uses a **credit card.**

TIME REQUIRED

Two 45-minute periods

MATERIALS

- A transparency of **Visual 8.1** and **8.2**
- A copy of **Exercise 8.1** and **8.2** from the *Student Workbook* for each student

ADDITIONAL RESOURCES



To download visuals, find related lessons, correlations to state standards, interactives, and more visit <http://fffl.councilforeconed.org/3-5/lesson8>

PROCEDURE

1. Explain that consumers are people who buy and use goods and services. Ask: How do you or members of your family pay for groceries, clothes, electricity, phone service, and so on? (**Answers may include cash, checks, electronic or online payments, debit card, credit card.**)

2. Explain that when consumers pay cash for something, they use paper money and coins. Ask: What are some things that students buy using currency (paper money) and coins? (**Gum, candy, school lunches, playing an arcade game, going to the movies, etc.**)

3. Introduce the point that people sometimes buy goods and services without using cash. Explain that there are many different methods of payment. Different people choose to use different methods of payment in different situations. In this lesson, the students will learn more about these various methods of payment.

4. To develop the point about different methods of payment, explain that children usually make their purchases using paper money (currency) and coins. However, as all students know, family members often use other methods of payment. Ask:

- What are some things that members of your family purchase by using a check? (**Groceries, clothes, shoes, toys, utilities, rent, etc.**)
- What are some things that members of your family purchase by using a credit card? (**Gasoline, car repairs, clothing, appliances, airline tickets, etc.**)
- What are some things that members of your family purchase by using a debit card? (**Gasoline, groceries, clothing, etc.**)
- What are some things that members of your family purchase by using electronic or online payment? (**Electricity, clothing, books, cable television service, website services, etc.**)

5. Explain that consumers sometimes make purchases using checks. Display **Visual 8.1**. Explain the key notations on the check: Mr. Estevez has a checking account at MyBank USA. He keeps some of his money in his checking account. As long as there is money in his checking account, he can buy goods and services and write checks to pay for them. When he does this, each check he writes serves as a note sent to his bank. For example, if he buys a new shirt and pays for it by writing a check, his check tells the bank, "You

have my permission to make a payment out of my account for the new shirt I have bought."

6. Introduce the term checking account balance. A "checking account balance" is the amount of money in a checking account. The balance goes down when the account holder writes checks to pay for goods and services. The account holder can maintain or increase the balance by depositing more money in the account.

7. Demonstrate how to write a check by filling in the check on **Visual 8.1** as follows:

- Mr. Estevez bought a birthday gift for his nephew at Toys Galore. He spent \$15.42. He wrote a check to pay for his purchase.
- First, he wrote the date at the top of the check.
- Second, he wrote "Toys Galore" on the "Pay to the Order of" line on the check. In doing this, he tells the bank to make a payment from his account to Toys Galore.
- Third, he wrote "\$15.42" on the line with the dollar sign.
- Fourth, he wrote the words "fifteen dollars and forty-two cents [or 42/100]." This note tells the bank how much to pay Toys Galore. The amount is written in numbers and in words so the bank is sure to pay the correct amount.
- Finally, Mr. Estevez signed the check. His signature gives the bank permission to make the payment.

8. Explain that Mr. Estevez would also record information about the check (to whom it was written, amount, check number, date, etc.) in his "check register." His check register is very important. By using his check register, Mr. Estevez can keep track of the money he spends from his account; at the same time, he can keep track of his account balance.

9. Refer to the bottom of **Visual 8.1**. Tell students that this is what a check register looks like. Complete the entry in the check register for Mr. Estevez's check as follows.

- Tell the students that Mr. Estevez had \$100 in his account before he wrote the check to Toys Galore. This is his original balance.
- Enter the check number in row 2, column 1. (5942)
- Enter the date on which the check was written in row 2, column 2.
- Enter the person or business to whom the check was written in row 2, column 3. (Toys Galore)
- Tell the students that because Mr. Estevez has given the bank permission to pay Toys Galore \$15.42 from his account, this is a “withdrawal.” Write “\$15.42” in row 2, column 5.
- Tell the students that withdrawals are subtracted from the balance because the money is being removed from the account and paid to someone else. Write the new balance. ($\$100 - \$15.42 = \$84.58$.)

10. Give each student a copy of **Exercise 8.1** from the *Student Workbook*. Have the students work through Parts 1 and 2 of the Books and More Bookstore transaction by writing a check and recording the transaction in the check register. Do not have the students complete Part 3 of the exercise (the debit transaction at Sunbrook Video) yet.

11. Pose a general question about methods of payment. Ask: Given the different possibilities, how should a consumer decide which method to use? Discuss responses briefly.

12. Pursue the question. Give each student a copy of **Exercise 8.2** from the *Student Workbook*. Display **Visual 8.2**. By reference to **Visual 8.2**, explain and discuss the advantages and disadvantages of each method of payment. Ask the students to make notes on their **Exercise 8.2** sheets to summarize the discussion.

13. It is important for students to understand that use of a “debit card” gives the bank permission to make an immediate payment electronically from the cardholder’s account. After completing the discussion of debit card advantages

and disadvantages, refer the students back to Part 3 of **Exercise 8.1** and have them record their debit transaction.

14. Explain that an “electronic or online payment” is a payment that consumers make using a web browser and a credit card, a debit card, or an online bank account. Specific procedures for electronic payments continue to evolve, providing for the electronic transfer of funds between bank accounts by means of computers, cell phones, and other emerging technologies.

15. Continue the discussion of advantages and disadvantages of online payments and “credit card” payments. In discussing credit cards, emphasize that credit cards aren’t money. Credit cards allow consumers to buy something now and pay for it later. In these cases, consumers actually receive credit—loans from the card issuer. The loans they receive create debts which they must repay in the future, when the card issuer pays for the purchases and bills the cardholder. If the debt is not repaid on time, the credit-card company will add a “finance charge” (extra money that the cardholder owes for borrowing from the credit card company for longer than one billing cycle) to the bill. A “finance charge” is the price charged for using the credit card company’s money. Businesses that accept the use of credit cards also pay a fee to the credit-card company.

16. Have the students complete **Exercise 8.2** by listing the advantages and disadvantages of using credit cards to make payments.

CLOSURE

Use the following questions to review the lesson:

- Lamont bought a hamburger, fries, and a coke at Dairy King. He said he paid cash. What does he mean? (**He used dollars and cents. He used paper money and coins.**)
- What is a check? (**A printed form used by consumers to purchase goods and services.**)

After such a purchase, the form is sent to the bank where the consumer has his or her checking account. Then the bank pays for the purchase using money drawn from the consumer's checking account.)

- What should you consider before writing a check to pay for something you buy? **(Whether there is a large enough balance [amount of money remaining] in your checking account to cover the amount of the purchase.)**
- What should you do after writing a check? **(Record the date, check number, to whom it was written, and the amount for which it was written, in your check register.)**
- What is a debit card? **(A card that allows the holder to transfer funds electronically from the holder's checking or savings account to a business account, as if he or she were writing a check. A debit card also can be used to get cash from an ATM.)**
- Using a debit card is like using a check. What should you do before using a debit card to pay for something you buy? **(Make sure there is a large enough balance in your account to cover the amount of the purchase.)** What should you do after using a debit card? **(Record the information in your check register.)**
- What is a credit card? **(A card that enables a cardholder to buy something now and pay for it later. In such a transaction, the cardholder receives a loan for the amount of the purchase from the credit-card company. The cardholder must repay this loan later when he or she is billed by the credit card company.)**
- What are some advantages of using a debit card or a check to make a purchase? **(One advantage is convenience. Consumers who use debit cards or checks don't have to carry a lot of cash around. Another advantage has to do with tracking expenditures. People who use checks or debit cards ordinarily list the amounts spent in a**

register, thus providing themselves with a record of how they have used their money.)

- What are some advantages of using a credit card to make a purchase? **(Using a credit card, consumer can buy what he or she wants now, without paying now. Also, credit cards are safer to carry than cash.)**
- What are some disadvantages of using credit cards? **(It's easy to forget that each time a credit card is used, debt is created; too much debt might be difficult to repay. Finance charges are added to your account if you don't pay the full amount due, on time, every month.)**
- What is an advantage of using online or electronic payments? **(You can pay bills without writing a check. You can buy goods and services from suppliers worldwide.)** What are some disadvantages? **(Some suppliers require additional fees for online payment; online payment creates some risk of identity theft; online payment requires consumers to be computer savvy, to keep track of passwords, etc.)**

ASSESSMENT

At the end of the **Spending and Credit** Theme, select appropriate assessment questions for this lesson.

EXTENSION

- Ask a local bank for sample check registers for students to use for practice in recording checking transactions and calculating balances. To provide contexts for such practice, have the students create story problems for other students in the class.
- Read stories about people buying goods and services; discuss the methods of payment used. Have the students write a story about buying goods and services using different methods of payment.

- Invite a local banker to your classroom to talk about the four methods of payment and what methods of electronic payment people may use 20 years from now.
- Read and consider uses of “Payment Parliament,” a role-playing lesson on the Federal Reserve Bank of Kansas City website at <http://www.kansascityfed.org>, under “Classroom Resources.”
- Divide the class into four groups. Assign each group a form of payment. Members of each group should write a skit teaching the other students the advantages and disadvantages of the respective forms of payment.