

Tools for Teaching the Arkansas High School Economics with Personal Finance Course

Session 20:

Borrowing

Session Description

Students will investigate different forms of credit, compare credit card offers, and determine the costs and benefits of credit.

Standards and Benchmarks (see page 20.5)

Talking Points

1. People receive credit when they obtain the use of someone else's money to purchase goods or services.
2. People who obtain credit are given a loan of money in exchange for their promise to repay the money later plus additional money called interest.
3. Common types of credit include mortgage loans, car loans, student loans, personal loans, and credit cards.
4. Interest is the price borrowers pay for using someone else's money and the price lenders receive for letting someone else use their money.
5. Using credit has both benefits and costs.
6. Benefits of credit include the following:
 - acquiring assets to increase your net worth over time,
 - the ability to finance emergency purchases,
 - payment convenience (purchasing goods and services now as opposed to later),
 - a lower cost than using your own invested funds, and
 - the ability to take advantage of a lower price for some good or service (to get a good deal).

7. Costs of credit include the following:
 - creating a liability that lowers your net worth,
 - paying interest and fees,
 - purchasing fewer goods and services in the future,
 - less available credit for emergencies, and
 - increased exposure to identity theft.

8. Credit providers consider the three C's in deciding to whom they will extend credit:
 - Capacity—The ability of the creditor to repay the loan.
 - Character—How honest and reliable the creditor is in paying debts.
 - Collateral—Assets the creditor has that could be sold later to pay off the loan.

9. People's credit scores are a measure of their character because credit scores are based largely on their payment history. For example, whether they
 - pay bills on time,
 - pay bills in full,
 - stay below their credit limits, or
 - have declared bankruptcy.

10. When considering whether credit or a loan is desirable, it is important for people to consider the likely impact the choice will have on their personal net worth over time.

Resources

NOTE: See p. v for instructions on how to set up an [Econ Lowdown](#) account and assign resources found in the Resource Gallery to your students.

Online Modules

Allow time for students to complete the modules:

- Credit Cred (90:00)
https://www.econlowdown.org/resource-gallery/credit_cred
- *Cards, Cars, and Currency* (These lessons are also available in PDF and PPT formats.)
 - Lesson 2: The Credit Card Deal (30:00)
https://www.econlowdown.org/resource-gallery/cards_cars_currency_2
 - Lesson 4: The Car Deal Package (45:00)
https://www.econlowdown.org/resource-gallery/cards_cars_currency_4
- Paying & Receiving Interest (30:00)
<https://www.econlowdown.org/resource-gallery/interest>
- *It's Your Paycheck!* (These lessons are also available in PDF and PPT formats.)
 - Lesson 6: Credit Reports (20:00)
https://www.econlowdown.org/resource-gallery/its_your_paycheck_6
 - Lesson 7: Creditors' Criteria and Borrowers' Rights and Responsibilities (30:00)
https://www.econlowdown.org/resource-gallery/its_your_paycheck_7
 - Lesson 8: So How Much Are You Really Paying for that Loan? (20:00)
https://www.econlowdown.org/resource-gallery/its_your_paycheck_8

Video Q&A

Allow time for students to view the videos and answer the questions:

- Continuing Feducation Video Series—The Amazing \$2000 Pizza (10:00)
<https://www.econlowdown.org/resource-gallery/continuing-feducation-the-amazing-2000-pizza>
- Continuing Feducation Video Series—Understanding How a FICO Credit Score is Determined (15:00)
<https://www.econlowdown.org/resource-gallery/continuing-feducation-understanding-how-a-fi-co-credit-score-is-determined>

Reading Q&A

Allow time for students to read the essays and answer the questions:

- *Page One Economics*®—Bankruptcy: When All Else Fails
<https://www.econlowdown.org/resource-gallery/bankruptcy-when-all-else-fails>
- *Page One Economics*®—Credit Bureaus: The Record Keepers
<https://www.econlowdown.org/resource-gallery/credit-bureaus-the-record-keepers>
- *Page One Economics*®—On the Move: Mortgage Basics
<https://www.econlowdown.org/resource-gallery/on-the-move-mortgage-basics-high-school>
- *Page One Economics*®—Fast Cash and Payday Loans
<https://www.econlowdown.org/resource-gallery/fast-cash-and-payday-loans>

Lessons

Allow time for students to complete the lessons:

- *It's Your Paycheck!* (These lessons are also available as online modules.)
 - Lesson 6: Credit History, Credit Reports, and Credit Scores
<https://www.stlouisfed.org/education/its-your-paycheck-curriculum-unit>
 - Lesson 7: Creditors' Criteria and Borrowers' Rights and Responsibilities
<https://www.stlouisfed.org/education/its-your-paycheck-curriculum-unit>
 - Lesson 8: How Much Are You Really Paying for that Loan?
<https://www.stlouisfed.org/education/its-your-paycheck-curriculum-unit>
- *Cards, Cars, and Currency* (These lessons are also available as online modules.)
 - Lesson 2: The Credit Card Deal
<https://www.stlouisfed.org/education/cards-cars-and-currency-curriculum-unit>
 - Lesson 4: The Car Deal Package
<https://www.stlouisfed.org/education/cards-cars-and-currency-curriculum-unit>
- *Making Personal Finance Decisions*
 - Unit 9: Borrowing—Lesson 9A: The Three C's of Credit
<https://www.stlouisfed.org/education/making-personal-finance-decisions-curriculum-unit/three-cs-of-credit>
 - Unit 9: Borrowing—Lesson 9B: Evaluating the Benefits and Costs of Credit
<https://www.stlouisfed.org/education/making-personal-finance-decisions-curriculum-unit/benefits-costs-credit>

Standards and Benchmarks

Arkansas Economic Standards

Content Standard E.6: Students will understand the factors affecting income, wealth, and financial risk. This includes the role of credit in personal finance.

- **E.6.ECON.PF.6:** Evaluate costs and benefits (e.g., interest rates, fees, penalties, rewards) of using various types of credit:
 - Student loans
 - Credit cards
 - Personal loans (e.g., auto, home mortgage)

Personal Finance Alignment

- **PF.4. C.4:** Analyze factors that determine/influence mortgage costs (e.g., interest rate, term length, credit rating)
- **PF.7.SI.2:** Examine how consumers are affected by raising and lowering interest rates
- **PF.7.SI.3:** Calculate simple and compound interest and explain the difference between the two
- **PF.4. C.7:** Understand the different components of loans by:
 - Differentiating between the types of loans (e.g., payday, auto, home, personal, student)
 - Examining the lending process from application to approval
 - Calculating true costs associated with loans (e.g., term length, interest rate)
 - Understanding the factors that contribute to different interest rates
 - Evaluating the implications of obtaining and/or defaulting on a loan
- **E.6.ECON.PF.7:** Analyze factors that affect creditworthiness (e.g., credit score, three Cs of credit).

Personal Finance Alignment

- **PF.4. C.4:** Analyze factors that determining/influence mortgage costs (e.g., interest rate, term length, credit rating)
- **PF.4. C.5:** Understand different components of credit by:
 - Comparing and contrasting sources of credit (e.g., car loans, student loans, credit cards)
 - Discussing the establishment and use of credit
 - Identifying the factors that contribute to a credit score
 - Calculating the actual costs associated with credit
 - Discussing methods of solving credit problems
 - Evaluating the risks associated with overextending credit

- **E.6.ECON.PF.8:** Evaluate strategies to avoid and correct credit issues:
 - Identity protection
 - Bankruptcy*
 - Debt and credit management

Personal Finance Alignment

- **PF.4. C.1:** Identify types of fraud and credit abuse and develop strategies to protect oneself from identity fraud and theft
- **PF.4. C.6:** Understand the different components of bankruptcy by:
 - Identifying and evaluating types of bankruptcy
 - Examining the impact of declaring bankruptcy and how it may affect future financial opportunities
- **E.6.ECON.PF.9:** Discuss consumer protection laws (e.g., Credit Card Accountability Responsibility and Disclosure Act of 2009, Truth in Lending Act, Fair Debt Collection Practices Act, Fair Credit Reporting Act).

Personal Finance Alignment

- **PF.4. C.2:** Discuss common crimes against consumers and examine federal consumer protection laws.