Unit 5: Lesson 3
Thinking About Credit Like an Economist

DURATION: 45 minutes

OVERVIEW:

In this lesson, students explore the costs and benefits of using credit by viewing video clips, reading about credit cards or student loans, and discussing real-life borrowing scenarios. The lesson concludes with students applying economic thinking principles to offer advice in a "life coach" activity.

LEARNING OBJECTIVE:

Students will be able to:

- Describe the costs and benefits of using credit.

RELEVANT UNIT BIG IDEA: Planning

- Planning is critical to achieving your personal finance goals.

RELEVANT UNIT ESSENTIAL QUESTION:

- How do the choices you make today shape your life in the future?

MATERIALS:

Instruction Slides (display during class period)

Student Handout pp. 4-5 (1 copy per student)

Credit Card Reading pp. 6-7 (Enough for two-thirds of the students to have their own copy)

Student Loan Reading pp. 8-9 (Enough for two-thirds of the students to have their own copy)

Suggested Responses p. 10 (1 copy for educator use)

SEQUENCE:

Activator - 7 minutes (Slides 2-6)

1. Display Slide 2. Instruct students to discuss their answer to the question on the slide with a peer. Reveal the correct response on Slide 3 and acknowledge that many households are unable to afford an unexpected $400 expense. (Additional educator tips/details/suggested answers are in the notes section throughout *Instruction Slides*.)
2. Proceed to Slide 4. Ask students to consider the question on the slide. After approximately 30 seconds, call on students to share their responses. Click to reveal the remaining text on the slide.
3. Advance to Slide 5. Emphasize that using a credit card and taking out a loan are both examples of using credit.
4. Display Slide 6 and explain the learning objective for the lesson. Highlight that many people utilize credit and that credit is the formal process for borrowing money.

**Printing Pro Tip: print everything as 2 sheets per page to cut down on the amount of paper used. "How To"*

Credit Cards and Student Loans - 23 minutes (Slides 7-18)

5. Progress through Slides 7-9. Distribute 1 copy of *Student Handout* to each student and encourage students to jot down notes throughout the lesson. Define credit using the text on Slide 9.
6. Proceed to Slide 10. Ask students to consider the question on the slide with a partner. Click to reveal the text on the slide and acknowledge that there are many forms of credit. Identify credit cards and student loans as the focus of this lesson.
7. Display Slide 11. Remind students of the definition of interest (introduced in Lesson 3.11) and identify the potential to be charged interest as one of the significant costs associated with any form of credit.
8. Advance to Slide 12. Provide an overview of credit cards using the information on the slide. Click to reveal the remaining text and provide an overview of student loans.
9. Proceed to Slide 13 which includes a short video clip identifying some of the costs and benefits of using credit cards. Tell students to consider Question 1 — listed on *Student Handout* under "Video Clips" — as they watch the clip. Play the video.
10. Display Slide 14. Instruct students to discuss the question on their handout with 1 to 2 classmates and record their ideas on *Student Handout* before debriefing as a class. (Refer to the notes section of Instruction Slides for suggested student responses.)
11. Advance to Slide 15 which includes a short video clip identifying some of the costs of taking out federal vs. private student loans. Tell students to consider Question 2 — listed on *Student Handout* under "Video Clips" — as they watch the clip. Tell students that benefits are not explicitly mentioned and they will need to make inferences to respond to that portion of the question. Play the video.
12. Proceed to Slide 16. Instruct students to discuss the question on their handout with 1 to 2 classmates and record their ideas on *Student Handout* before debriefing as a class.
13. Progress to Slide 17. Encourage students to think about their future plans and goals and ask students to consider the question on the slide.
14. Display Slide 18. Click to reveal the text on the slide to explain the task students will complete using their handout and chosen reading.
15. Distribute 1 copy of *Credit Card Reading* to each student who selected credit cards as most relevant to them and 1 copy of *Student Loan Reading* to each student who selected student loans as most relevant to them. **Note**: Make both readings accessible to students on your learning management system and encourage interested students to also read the other article and/or visit the sites linked in the readings.
16. Allow students 12 minutes to complete the task outlined on Slide 17. **Note**: If students ask about credit scores and creditworthiness, provide students with a basic explanation and tell them Lesson 5.4 focuses on those concepts in detail.
17. Display Slide 19. Pair each student with a classmate who read the same article. (Create groups of 3 as needed.)
18. Advance to Slide 20. Instruct pairs to share their responses and add to their handouts. Circulate while students work to offer clarification as needed.

Summarizer - 15 minutes (Slides 21-23)

19. Progress through Slides 21-22. Direct students to turn to the "Economist as Life Coach" section of *Student Handout*. Tell students that they will be responsible for 1 of the scenarios.
20. Direct pairs to pick the scenario they are most interested in (or assign scenarios) and complete the instructions on the slide.
21. After 6 minutes, proceed to Slide 23. Call on a pair of students who responded to the first scenario and instruct them to share their responses. Supplement student responses as needed. (Example recommendations are included in *Suggested Responses*.)
22. Continue calling on pairs for the remaining scenarios. Ideally, each principle of economic thinking will be covered at least once in the debrief. Consider allowing additional pairs to offer connections to other principles of economic thinking for each scenario.
    a. **Pro Tip**: Students were given a copy of all scenarios to provide students with ready-made retrieval practice. This can be assigned later in the unit as out-of-class practice. If you do so, post Suggested Responses to your learning management system and/or provide students with opportunities to discuss their responses with a classmate or with you.

STANDARDS: National Standards for Personal Financial Education

V. Managing Credit

FEEDBACK & QUESTIONS

Fill out this 30-second feedback form to let us know how the lesson went. Thank you!

Contact Kathleen Cusack with questions at Kathleen@econiful.org.

5.3 Student Handout (Thinking About Credit Like an Economist)

Name:________________________________ Period:__________

Thinking About Credit Like an Economist

Credit: the ability to borrow money with the promise to repay it later, usually with interest

Interest rate: the price of lending and borrowing money

Credit Cards	Student loans
Everyday purchases	Education
Higher interest rates	Lower interest rates
Borrow up to the credit limit	Receive a fixed amount
Payments due every month	Monthly payments typically start after you finish school

Video Clips

1. What are the costs and benefits of using credit cards?

2. What are the costs and benefits of taking out student loans?

Reading Instructions

Annotate the reading with a focus on benefits and costs of using this form of credit.

Provide two pieces of advice to someone who is considering using that form of credit.

Economist as Life Coach

What advice would an economist offer? Explain your answer using at least one of the principles of economic thinking.

1. Yara got into her dream school. Scholarships and grants will cover tuition and books, but not housing or meals. She's considering a $7,000 federal student loan to live on campus and avoid a long commute.

2. Camila sees a new gaming laptop on sale for $900. She has $300 saved but considers putting the rest on a credit card. She doesn't have a job yet, but says she'll "figure it out."

3. Arjun has built good credit. He now qualifies for an unsecured rewards card. The credit card offers 2% cash back but comes with a $95 annual fee.

4. Bassey is offered a private student loan with a lower interest rate than a federal loan. But the private loan doesn't offer flexible repayment or forgiveness options.

5. Chen has paid the minimum on his credit card for the past year. He wants to buy a concert ticket for $250, but still has a credit card balance of $400. He plans to pay it off "sometime next year."

5.3 Credit Card Reading (Thinking About Credit Like an Economist)

CREDIT CARDS: WHAT YOU NEED TO KNOW

A credit card is a tool that allows you to borrow money to pay for goods and services. You're expected to pay back what you borrow — plus interest if you don't pay it off in full by the due date. Understanding how credit cards work, the risks involved, and how to manage them responsibly can help you avoid costly mistakes.

How Do Credit Cards Work?

When you use a credit card, you're borrowing money from the card issuer (usually a bank or financial company). Each month, you receive a statement listing all your charges. You can pay the full balance, a minimum payment, or an amount in between, but interest is charged on any amount you don't pay in full.

Most cards come with a grace period — at least 21 days between the end of the billing cycle and the payment due date. If you pay in full during this time, you avoid interest. But if you carry a balance, interest starts to build, and fast thanks to compound interest.

The Cost of Using a Credit Card

Here are common credit card costs you need to watch for:

Cost	What It Means
APR (Annual Percentage Rate)	The interest rate you pay on unpaid balances. Some cards have fixed APRs (the interest rate will not change); others are variable (the interest rate can change based on market conditions).
Annual Fee	A yearly fee some cards charge, often in exchange for perks like rewards or points.
Late Fees	Charged if you don't make at least the minimum payment on time.
Cash Advance Fee	Extra cost for taking out cash from your credit card. Interest often starts immediately and is higher.
Balance Transfer Fee	Charged when you move debt from one card to another.

Tip: Always read the Schumer Box—a summary table that clearly shows a card's interest rates and fees. It's legally required and helps you compare credit cards quickly.

Interest Rates and Interest Charges	
Annual Percentage Rate (APR) for Purchases	**0%** Introductory APR on all purchases for six months.* After that, the Standard Rate APR will range from **7.99%** to **17.99%,** based on your creditworthiness.
APR for Balance Transfers	**0%** introductory APR for twelve months.** After that, the Standard Rate APR will range from **7.99%** to **17.99%,** based on your creditworthiness
APR for Cash Advances	**0%** introductory APR for six months After that, the Standard Rate APR will range from **7.99%** to **17.99%,** based on your creditworthiness

Common Pitfalls and How to Avoid Them

Mistake	How to Avoid It
Only paying the minimum	Pay more than the minimum to minimize interest costs.
Carrying a balance month-to-month	Try to pay in full to avoid interest charges.
Ignoring fees	Know your card's annual fee and late penalties.
Spending more than you can afford	Remember: it's borrowed money, not free money.
Taking out cash advances	Avoid unless you have a serious emergency: they come with higher fees and no grace period.

Benefits of Credit Cards

If used wisely, credit cards offer advantages:

- Convenience: You don't need to carry cash, and you can make purchases online or in emergencies
- Purchase Protection: Many cards offer protection against fraud and disputes with retailers.
- Rewards and Perks: Some cards give you cash back, airline miles, or discounts.
- Build Credit History: Making on-time payments helps build a positive credit score.

Types of Credit Cards

- Unsecured Cards: No deposit needed but they require good credit. (Most common.)
- Secured Cards: Require a deposit and are good for building or rebuilding credit.

Bottom Line

Credit cards can be a helpful financial tool or a source of stress; it all depends on how you use them. If you learn how interest works, watch out for fees, and make payments on time, you can build credit, earn rewards, and avoid unnecessary debt.

Adapted from:

Blomethenthal, A. (2024, September 30). *Credit card: What it is, how it works, and how to get one.* Investopedia. https://www.investopedia.com/terms/c/creditcard.asp

Kagan, J. (2024, October 7). *Schumer box: What it is and how it works*. Investopedia. https://www.investopedia.com/terms/s/schumer-box.asp

5.3 Student Loans Reading (Thinking About Credit Like an Economist)

7 THINGS TO KNOW ABOUT STUDENT LOANS BEFORE YOU START SCHOOL

If you're shopping for student loans, hopefully it's only after exhausting more cost-effective options — like scholarships, fellowships, and grants — since that's money you don't have to pay back. Scholarships, fellowships, and grants are typically awarded based on academic performance, financial need, or specific talents.

Millions of Americans have borrowed money to pay for school, according to the Department of Education. So even after taking advantage of "free" money, you may still need student loans to close the funding gap.

Here are seven things you need to know about getting your first student loan.

1. Opt for federal loans before private ones

There are two main loan types: federal and private. Federal loans — received by submitting the Free Application for Federal Student Aid, or FAFSA[1]— are often the best choice because you don't need a credit history to qualify, and they come with benefits including an income-driven repayment option and a path to loan forgiveness, which private loans don't offer.

> An income-driven repayment plan (called the Repayment Assistance Plan) sets your monthly loan payment based on how much money you earn. Payments are lower for borrowers who earn less.
>
> Loan forgiveness means you might not have to repay part or all of your loan under certain conditions (like working in public service for 10 years while enrolled in the Repayment Assistance Plan). Other borrowers enrolled in RAP can have their remaining balance forgiven after 30 years of payments.

Federal loans can be unsubsidized and subsidized. Subsidized loans don't accrue interest while you're in school — unsubsidized loans do. You may qualify for subsidized loans if you demonstrate financial need. Because of the additional protections these programs offer, consider maxing out federal loans before taking out private loans.

2. Borrow only what you need — and can reasonably repay

If you are a dependent undergraduate student under the age of 24, you have a lifetime limit of $31,000 in federal loans. Your eligibility is determined by your FAFSA application, which considers your parents'/guardians' financial circumstances.

If you take out private loans, you can borrow up to the cost of attendance (tuition, fees, room, board, books, transportation, and personal expenses) minus financial aid that doesn't need to be repaid (such as scholarships, grants, and fellowships).

But you don't have to borrow the maximum. One rule of thumb is to borrow the amount that will keep your student loan payments around 10% of your projected after-tax monthly income.

A student loan affordability calculator can help you evaluate student loans in light of your projected earnings in your post-graduation profession.

Your financial aid award letter should give instructions on accepting and rejecting financial aid. If you're not sure how to do it, contact your school's financial aid office.

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[1] FAFSA is a form you fill out to apply for financial aid from the government, your state, or your school.

3. You'll pay interest (and maybe fees) on the loan

Whether you take out federal or private student loans, you're going to owe more than the amount you borrowed due to interest.

The fixed federal undergraduate loan interest rate is 6.52%, as of July 1, 2026, but it changes each year. Private lenders will use your or your co-signer's credit history to determine your rate. (A co-signer is someone who agrees to pay your loan if you can't. Their credit can help you qualify for better rates.)

In addition to interest, federal loans also require that you pay a loan fee — a percentage of the total loan amount. The current loan fee for federal direct student loans for undergraduates is 1.057%.

4. After you agree to the loan, your school will handle the rest

Your loan will be paid out to the school after you sign a master promissory note agreeing to repay.

Typically, your school will apply your loan money to tuition, fees, and, if you live on campus, room and board. If there are funds remaining, they will be paid out to you for other expenses.

You can expect to receive your loan funds each term or at least twice within an academic year.

5. You can use loan money only for certain things

Even if you receive your loan money directly, it can only be used for education-related expenses.

You can't use your loan for entertainment, takeout, or vacations, but you can use it for transportation, groceries, study abroad costs, personal supplies, or off-campus housing.

6. Find out who your servicer is and when payments begin

If you take out federal loans, your debt will be turned over to a student loan servicer contracted by the federal government to manage loan payments. A loan servicer is like the customer service department for your loan. For private loans, your lender may be your servicer or it may similarly transfer you to another company.

When you graduate or are no longer enrolled in school at least half-time, you often have a six-month grace period before the first student loan payment is due. (A grace period gives you time to get financially settled before you have to start repaying your loan.) Student loan interest accrues during your grace period for many loans, which, in turn, increases the overall amount of money you have to repay.

7. What Happens to My Student Debt if I Don't Graduate?

All student loans must be repaid, regardless of graduation status. If you are in default on a federally subsidized student loan (failed to repay the loan) the federal government can garnish your wages (withhold a portion of your wages) and withhold your tax refunds until your loan is paid off.

Adapted from:

Goncalves, E. (2026, July 1). The Rules for student loans just changed. What borrowers need to know. *The Wall Street Journal*. https://www.wsj.com/personal-finance/student-loans-repayment-deadline-8bbc06e4?st=QWxTYh&reflink=desktopwebshare_permalink

Haverstock, E. & Lowe, K. (2025, June 2). *Current student loan interest rates and how they work*. Nerdwallet. https://www.nerdwallet.com/article/loans/student-loans/6-things-to-know-about-student-loans-before-freshman-year

Kagan, J. (2024, June 16). *Student debt: What it means, how it works and forgiveness*. Investopedia. https://www.investopedia.com/terms/s/student-debt.asp

5.3 Suggested Responses: Economist as Life Coach (Thinking About Credit Like an Economist)

Economist as Life Coach

What recommendations would an economist offer? Explain your answer using at least one of the principles of economic thinking.

1. Yara got into her dream school. Scholarships and grants will cover tuition and books, but not housing or meals. She's considering a $7,000 federal student loan to live on campus and avoid a long commute.

Cost-benefit principle: *An economist might recommend Yara take the loan if the benefits of living on campus outweigh the costs. Living closer could save her time and stress, and possibly help her focus more on academics. She should consider not just the financial cost of the loan but also the potential benefits, like better grades, stronger friendships, and more time for studying or campus jobs.*

2. Camila sees a new gaming laptop on sale for $900. She has $300 saved but considers putting the rest on a credit card. She doesn't have a job yet, but says she'll "figure it out."

Opportunity cost principle: *An economist would probably caution Camila against using a credit card without a plan to repay. She may have to give up future opportunities to pay off the $600 balance plus interest. The true cost isn't just the $600 borrowing along with interest payments, but also what else she could've done with the future income she'll use to pay for the laptop.*

3. Arjun has built good credit. He now qualifies for an unsecured rewards card. The credit card offers 2% cash back but comes with a $95 annual fee.

Cost-benefit principle and interdependence principle: *An economist might say Arjun should weigh the benefits of the 2% cash back against the $95 annual fee. If he expects to spend more than $4,750 over the year and pay the balance off each month, then the benefits of the cash back (2% of $4,750 = $95) would cover the cost of the fee, so any additional spending earns him net rewards. If he expects to spend less than $4,750 or he can't always pay the balance in full, the benefits might not outweigh the cost.*

4. Bassey is offered a private student loan with a lower interest rate than a federal loan. But the private loan doesn't offer flexible repayment or forgiveness options.

Opportunity cost principle: *An economist may warn Bassey to consider not just the interest rate, but also what he gives up with the private loan, like repayment flexibility and forgiveness options. The lower rate looks cheaper, but the true cost may be higher if he loses access to safety nets federal loans offer.*
Interdependence principle: *An economist would also point out that Bassey's expectations about his future employment and future interest rates will likely influence his decision. If Bassey expects that it will be easy to find a job that allows him to make his loan payments monthly, then the flexible repayment options will be less important in his decision making*

5. Chen has paid the minimum on his credit card for the past year. He wants to buy a concert ticket for $250, but still has a credit card balance of $400. He plans to pay it off "sometime next year."

Marginal Principal: *An economist would likely advise Chen to avoid adding more debt before paying off the balance on his credit card. Charging "just one more thing" may seem small, but over time, each extra purchase adds up and becomes harder to pay off as interest compounds.*
*I**nterdependence Principle**: An economist might say Chen ought to purchase the ticket if he expects to receive a raise in the very near future. But he should keep in mind that things may happen in the future that would prevent him from paying off his balance on his intended timeline (like an emergency or unexpected expense). If he doesn't expect a raise, he shouldn't add more debt until he pays off his current balance.*