



# CREDIT

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## CREDIT

### Definition/Background

Credit is the opportunity to borrow money or to receive goods or services in return for a promise to pay later. Some forms of credit commonly used by consumers are car loans, home mortgage loans and credit cards. Credit is extremely useful. Most people would have great difficulty buying a house if they couldn't borrow the money. Many people also use credit to finance their education. Borrowers who use credit responsibly establish good credit ratings; those who don't pay on time will earn poor credit ratings. Poor credit ratings can affect one's ability to borrow in the future, rent an apartment, or get a job. Excessive borrowing can be problematic as it increases debt. Buying something on credit is a good example of the economic principle that choices people make have both present and future consequences. When credit is used a choice is made to purchase something now and pay interest on that purchase in the future. Interest rates are the price paid to borrow money. The interest paid represents opportunity cost in that the borrower gives up paying a lower price for the product and chooses to pay more.

### Teaching Ideas

1. On a really nice day, allow your students to borrow 10 minutes of class time for additional recess. Explain that they will have to repay you later and that you will charge interest. On another day, explain that the students will have to repay the time that they borrowed plus two minutes. Reduce their recess time by 12 minutes. They will complain, but remind them that credit involves borrowing something with the promise to repay.
2. Credit and debt are often front-page newspaper stories. Create a "CREDIT IN THE NEWS" current events bulletin board by using articles cut out from newspapers and magazines.
3. Discuss the circumstances where it is to the consumer's advantage to use credit to purchase a good or service.
4. Explain that oxymorons are figures of speech in which opposite terms are combined. Challenge the students to explain how these oxymorons can be applied to purchasing goods and services using credit: calculated risk, easy payment, essential luxury, free credit, near future, exact estimate.
5. Have the students work in small groups and design public service brochures that promote the wise use of credit cards.

### Lessons & Resources

#### Print Lessons

**Financial Fitness for Life: 3-5, Lesson 12: Credit is Based on Trust** (elementary)  
**The Buck Starts Here, Lesson/Chapter 8: Do You Have Good Credit?** (elementary)  
Mathematics and Economics Connections for Life: 6-8, Lesson 6: How Much is That Bike? (middle)

#### Online Lessons

**Giving Credit** (elementary)  
<http://www.econedlink.org/lessons/index.php?lesson=481&page=teacher>  
**What Happens When a Bank Makes a Loan?** (upper elementary)  
[http://www.ncee.net/resources/lessons/lei\\_online\\_lesson3.pdf](http://www.ncee.net/resources/lessons/lei_online_lesson3.pdf)  
**Q T Pi Fashions - Learning About Credit Card Use** (middle)  
<http://www.econedlink.org/lessons/index.php?lesson=346&page=teacher>

#### Fed Resources

**Credit Card—Debit Card** (elementary)  
[http://www.richmondfed.org/education/for\\_teachers/lesson\\_plans\\_and\\_classroom\\_activities/pdf/debit\\_credit\\_lesson.pdf](http://www.richmondfed.org/education/for_teachers/lesson_plans_and_classroom_activities/pdf/debit_credit_lesson.pdf)

#### Literature

- **Cash, Credit Cards, or Checks: A Book about Payment Methods** by Nancy Loewen. Picture Window Books, 2005. A shopping trip provides opportunities for a family to talk about various methods of payment and banking terms. [Grades K-3]
- **One Hen: How One Small Loan Made a Big Difference** by Katie Smith Milway. Kids Can Press, 2008. After he is given a small loan, a boy from Ghana buys a hen and works his way out of poverty. [Grades 3-6]
- **Schooled** by Gordon Korman. Hyperion Books, 2007. Thirteen-year-old Capricorn Anderson, who has lived his entire life on a commune with his hippie grandmother, is not very clear about money and how it works. [Grades 6-9]

## VIRGINIA COUNCIL ON ECONOMIC EDUCATION

VCEE is a nonprofit organization providing Virginia's K-12 teachers with professional development, quality curriculum and other resources to promote economic and financial education. Visit [www.vcee.org](http://www.vcee.org) or contact VCEE or one of its affiliated centers for economic education to learn about specific opportunities.

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The Virginia Council on Economic Education, in cooperation with The Federal Reserve Bank of Richmond, is pleased to provide this poster featuring a winning entry from the 2008-2009 Color the Economic Concepts Contest.

**Teachers in Grades K-8:** Give your students the opportunity to illustrate their knowledge of economic concepts in a creative and fun way. They may be selected for a poster next year! Winning students also receive a \$50 U.S. Savings Bond.

**Entries must be received by April 30, 2010.** See [www.vcee.org](http://www.vcee.org) for more details.

For more resources on teaching economics and the Federal Reserve System go to [www.richmondfed.org/educational\\_info](http://www.richmondfed.org/educational_info). Among these free and easy to use resources you'll find lesson plans, workshop information and publications.

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