

LESSON 4a: BACK TO SCHOOL EXTENSION ACTIVITY

Students learn and apply the concept of opportunity cost in the process of evaluating higher education financing options. Students account for all aspects of the total cost of borrowing for higher education, including opportunity cost, and consider whether student loans are a desirable option for financing their education beyond high school.

JumpStart National Standards, Knowledge Statements, and Benchmarks for This Lesson

FINANCIAL RESPONSIBILITY AND DECISION MAKING

Knowledge Statement: Financial choices that people make have benefits, costs, and future consequences.	Grade 8
Standard 3: Attitudes and values affect financial decisions.	Grade 12
Standard 4: Make financial decisions by systematically considering alternatives and consequences.	Grade 12

INCOME AND CAREERS

Knowledge Statement: People's income reflects choices they have made about jobs and careers, education, and skill development.	Grade 12
Knowledge Statement: The wages/salaries paid for a given job depend on a worker's skill and education, plus the importance of the work to society and the supply of and demand for qualified workers.	Grade 12
Standard 1: Explore career options.	Grade 12

LEARNING OBJECTIVES

At the end of the lesson, students will be able to

- Understand the concept of opportunity cost and apply it by estimating the total cost of borrowing to finance their postsecondary education.
- Evaluate the usefulness of student loans to finance postsecondary education.
- Develop a set of criteria for assessing various career options.

TOOLS AND CONCEPTS

Through this activity, students will learn about opportunity cost, principal, and interest.

PREPARATION

Coordinate Internet access for groups of three or four students to work during class time on the online research assignment.

Photocopy Activity 4a-1—Cost Comparison Worksheet and Activity 4a-3 — In-Class Essay: Comparing Costs and Benefits for each student in the class.

Make one photocopy of Activity 4a-2—Scenario Cards, and cut the paper to create the cards.

KEY MESSAGES

- Costs and benefits when making financial decisions
- Opportunity cost as part of the total cost of a choice

TIME REQUIRED

90 minutes or two 50-minute class periods

PROCEDURE

1. Discuss costs, principal, and interest.

Ask students how they would calculate the total cost of a student loan and solicit responses until they identify principal and interest as components of total cost. They do not actually have to use the terms “principal” and “interest,” but they should at least describe the concepts. Cost calculations can also include such factors as time spent researching financing options, transportation costs associated with meeting with potential lenders, or costs from phone service providers incurred as a result of calls to potential lenders.

Provide definitions of principal and interest, using those outlined below, to ensure all students understand these terms:

- Principal— The unpaid balance on a loan, not including interest; the amount of money invested.
- Interest—A fee for the use of money over time. It is an expense to the borrower and revenue to the lender.

2. Discuss costs, benefits, and opportunity costs.

Make sure students understand the difference between costs and benefits. Explain that costs and benefits can be understood as the two sides of an exchange.

- Costs—The value that must be given up to acquire a good or a service.
- Benefits—The value received as a result of acquiring a good or service.

Define opportunity cost as the value of the next-best alternative you are giving up in order to pursue something. Explain that the true total cost of a loan—or any expense—includes opportunity cost. Any resource, including interest, that someone dedicates to obtaining a loan could be used for some other purpose. Therefore, the value of this other purpose would be the opportunity cost of the loan.

Explain that opportunity costs can be expressed as a monetary (dollar) value. The dollar amount that would compensate for giving up your next-best option (for example, using resources put toward obtaining a college loan for a vacation instead) is the monetary value of the opportunity cost.

3. Cost comparison activity.

Hand out to each student a copy of the Cost Comparison Worksheet (Activity 4a-1). In the Expenses column, line items for principal and interest are already provided. Beneath these line items are additional blank spaces for filling in several different types of costs, including opportunity costs.

Give students ten minutes to think of and write down in the spaces provided some examples of costs associated with researching, obtaining, and repaying a student loan. Then give them an additional ten minutes to estimate the dollar value of each of these costs and calculate the total costs. Instruct the students not to fill in the spaces in the Benefits column yet; instructions for completing that part of the table are listed in the steps below.

Have students form groups of three or four, and have a representative from each group select a scenario (using the scenario cards from Activity 4a-2) from the options listed below.

Veterinarian	Interpreter/ Translator
Paralegal	Chiropractor
Dancer	Librarian
Athletic Trainer	Social and Human Service Assistant
Conservation Scientist/Forester	Graphic Designer
Landscape Architect	Registered Nurse
Fashion Designer	Urban and Regional Planner

Using a computer lab, ask each group to access the U.S. Bureau of Labor Statistics Web site section on Professional and Related Occupations (<http://www.bls.gov/oco/oco1002.htm>). Using the information provided on the site, particularly in the “Earnings” and “Nature of the Work” sections, ask each group to brainstorm a list of benefits that an individual could receive if they took out a \$20,000 student loan and entered the profession listed on their scenario card. For example, what benefit would taking out a \$20,000 loan provide if you wanted to become a veterinarian? Would it enable you to train for a more lucrative position? Relocate to a more desirable area? Ask each member of the group to list the group’s answers in the

Benefits column of their cost comparison worksheet. Then ask each student to estimate the dollar value of each benefit they listed. If students require more time to fill out the worksheet, provide time at the beginning of the next class period to conclude this part of the lesson.

4. Complete assessment.

Hand out a copy of Activity 4a-3 to each student. Read the prompt aloud.

If you were to pursue the profession listed on your scenario card, do you think it is a good idea to take out a 120-month student loan for \$20,000 at 6 percent interest? Why or why not? Use the data you have collected on your cost comparison worksheet to justify your response, comparing the costs of borrowing money against the benefits.

Ask students to respond to the prompt in the space provided below it, giving them up to 15 minutes to write down their answers. Once they have completed their responses, ask students to summarize and share them verbally with the class. Ask them to explain why any items they identified as opportunity costs fit the definition of an opportunity cost. Also, ask them to select an example of a cost and an example of a benefit from their list and explain how they arrived at the dollar values that they assigned to them. Ask students if they agree with the dollar valuations and, if not, how they might calculate them differently.

After concluding the debriefing, collect each student's response and their cost comparison worksheet.

CLOSURE

- How can understanding costs and benefits help you to decide whether to take out a student loan?
- Has this lesson made you think differently about whether it would be worthwhile to take out a student loan? Why or why not?

EVALUATION

Have students complete their cost comparison worksheets in class, and ensure that they have followed the instructions in filling them out. Using the data from their worksheets as a guide, have students write the in-class essay on the handout form that you have provided them. Collect both the cost comparison and essay sheets, and evaluate the content based on the completeness of their responses. Answers on the cost comparison worksheet should reflect that the student can correctly identify costs and benefits. The essays should include a clear thesis statement that is relevant to the assignment as well as supporting statements that make reference to the costs and benefits of obtaining a student loan.

ACTIVITY 4a - I – COST COMPARISON WORKSHEET

Amount	Amount	Amount	Amount
\$20,000	loan principal	_____	_____
\$6,644	interest payments	_____	_____
(for a 120-month, 6% fixed-rate loan)			
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	Total	_____	Total

Instructions: Print or photocopy the cards below and cut them along the dotted lines. Have a representative from each group randomly draw one card, which will serve as the occupation for all group members to use during Step 4 of this lesson.

Veterinarian	Interpreter/Translator
Paralegal	Chiropractor
Dancer	Librarian
Athletic Trainer	Social and Human Service Assistant
Conservation Scientist/Forester	Graphic Designer
Landscape Architect	Registered Nurse
Fashion Designer	Urban and Regional Planner

ACTIVITY 4a - 3 — IN-CLASS ESSAY: COMPARING COSTS AND BENEFITS

Give students approximately 20 minutes to outline and write a response to the following prompt. (Responses should be at least two to three complete paragraphs.)

If you were to pursue the profession listed on your scenario card, do you think it is a good idea to take out a 120-month college loan for \$20,000 at 6 percent interest? Why or why not? Use the data you have collected on your cost comparison worksheet to justify your response, comparing the costs of borrowing money against the benefits.