Lesson 4.3: Payment Methods

Adapted from *Ways to Pay* by Princeton Williams, Federal Reserve Bank of Atlanta, and Christopher Cannon, Georgia Council for Economic Education

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Standards and Benchmarks

See page 6.

Lesson Description

In this lesson, students explore a variety of payment methods and evaluate the tradeoffs associated with each option. Students apply factors such as convenience, budgeting impact, fraud protection, privacy, and spending habits to determine which payment methods may be most appropriate in different financial situations. To obtain answer keys for the handouts and assessment in this lesson, create an account on FederalReserveEducation.org.

Concepts

Payment methods
Tradeoffs

Objectives

Students will be able to:

- Identify common payment methods and how they work.
- Compare tradeoffs associated with different payment methods.
- Recommend appropriate payment methods for different spending situations using evidence and reasoning.

Compelling Question

How do informed consumers decide which payment method to use?

Time Required

One 90-minute class or two 45-minute classes

Materials

- Payment Methods Lesson 4.3 Lesson Slides
- Handout 4.3.1: Quiz & Trade Cards
- Handout 4.3.2: Payment Methods Infographic

- Handout 4.3.3: Pick Your Payment Method
- Handout 4.3.4: Assessment

Preparation

- You will need to print Handout 4.3.1 one-sided and cut apart enough copies for each student to receive one card.

Procedure

1. Display Slide 2 (slide is animated) and ask students to share which payment method they would use for each situation. (*Answers will vary, but students will likely mention cash, debit cards, credit cards, mobile wallets, and payment apps.*)

2. Tell students there is not always one "best" payment method and that different payment methods may work better in different situations, which is the idea they will explore throughout the lesson.

3. Provide each student one card from Handout 4.3.1: Quiz & Trade Cards. Tell students they are going to participate in a quiz and trade activity to build familiarity with ten payment methods commonly used by consumers today. The card they receive includes information on one of these payment methods. Explain that while there are additional ways to pay, these ten are the focus of this lesson.

NOTE: There are only ten cards in a set, so you may need to print and cut apart multiple sets to ensure there are enough cards for all students.

4. Display Slide 3 and review the quiz and trade procedures:
   a. When prompted, students should stand up, raise a hand, and find a partner. Partner A is the person whose birthday is coming up next.
   b. Partner A reads the clues on their card while Partner B guesses the payment method.
   c. If needed, Partner A should provide coaching and additional clues, or they should praise Partner B if the payment method is identified correctly.
   d. Partners then switch roles and repeat the process.
   e. Finally, students trade cards, find a new partner, and repeat the cycle.

5. Tell students they should work with as many different classmates as possible and avoid partnering with the same person more than once. If partners have the same card, quickly find a different partner and continue the activity. Allow students several rounds to review the payment methods.

6. Debrief the quiz and trade activity as a whole class by asking: Which payment methods felt most familiar to you? Which felt least familiar? Why do you think that is? (*Answers will vary, but students may mention they are more familiar with cash, debit cards, mobile wallets, or P2P payment apps because they see family members or friends use them. Students may identify ACH payments or wire transfers as less familiar because they are typically used less frequently by teens.*)

7. Explain that while students may already recognize or even use some of these payment methods, the ways people pay for goods and services continue to change over time, especially as digital technology has become more common.

8. Display Slide 4 and introduce the question: "Is cash going extinct?" Tell students they will watch a short video discussing the increased use of digital payments and the role cash still plays in the economy. As students watch, ask them to think about the discussion questions on the slide. After the video, ask several students to share their responses:
   a. What do cash payments do better than digital payments? (*Answers will vary, but students may mention cash provides more privacy because purchases are not automatically tracked or stored digitally. Students may also note cash does not require a phone, internet connection, or technology and can still be used if systems go down.*)
   b. What do digital payments do better than cash? (*Answers will vary, but students may mention digital payments are often faster, more convenient, and don't require a person to carry physical money*.)
   c. Do you think cash will eventually go away? (*Answers will vary, but some students may argue cash could become less common as digital payments continue to grow. Others may argue cash will remain because not everyone has equal access to digital payment methods, and some people value the privacy and flexibility cash provides. Sometimes cash is the only payment method accepted by a business since fees are often charged for accepting digital payments.*)

NOTE: You can click on the slide to play the video, or you can open the linked URL in a new window: https://youtu.be/CxHarNKW7Go?si=Zt8Zar6OBF5V1sis.

End of Day 1 / Class 1

9. Tell students the video they watched demonstrates no payment method is perfect. Cash and digital payments each have costs and benefits, and the most appropriate payment method often depends on the situation. Explain to students they will now apply this idea by evaluating different payment methods and determining which options may work best and worst in a variety of spending situations.

10. Display Slide 5 (slide is animated) and instruct students to work with a partner. Provide each pair of students with one copy of Handout 4.3.2: Payment Methods Infographic and one copy of Handout 4.3.3: Pick Your Payment Method.

11. Tell students Partner A is the person whose next birthday is furthest in the future. For the first scenario, Partner A should identify at least one payment method they would recommend and one they would NOT recommend. Then, they should justify their selections using the key factors on Handout 4.3.2. Partner B listens, then agrees or disagrees and explains the reasoning. Students should switch roles for each new scenario.

12. Use the practice scenario at the top of Handout 4.3.3 (also on the bottom of Slide 5) to model expectations: Sending a down payment for a house purchase that needs to arrive today. "Think aloud" using these sample responses:
    a. *Partner A: I would recommend a wire transfer since the down payment is probably a large dollar amount and needs to arrive quickly. The worst payment method would probably be cash since most people don't keep that much cash on hand and would need to visit a bank first.*
    b. *Partner B: I agree with this but would also add that carrying around a large amount of cash can be risky because it could be lost or stolen. A wire transfer would also create a digital record of the down payment being made.*

13. After modeling the example, refer students to Factors 1 and 3 on Handout 4.3.2. Highlight how protection and convenience influenced the justifications you just demonstrated. Address any questions then direct students to begin the activity.

14. Once student pairs have completed all the scenarios on Handout 4.3.3, bring the class back together for a whole-group discussion. Invite several pairs to share their choices and explain their reasoning. Clarify any misconceptions and reinforce there is not always one universally "best" payment method. Payment choices involve **tradeoffs**, and the most appropriate option often depends on the situation and the factors that matter most to the consumer.

Closure

15. Display Slide 6 and ask the closure questions.

    a. Why might two people choose different payment methods for the same purchase? (*Answers will vary, but students may mention different people value different factors. For example, a consumer most concerned with sticking to a budget may prefer using cash when grocery shopping, while a consumer who prioritizes convenience may choose to use a credit card linked to a digital wallet.*)

b. How can understanding the tradeoffs among payment methods help people make informed financial decisions? (*Answers will vary, but students may mention understanding tradeoffs can help people choose payment methods most appropriate to their situation. In turn, this helps avoid potential problems such as overspending, fraud, or unnecessary risk.*)

Assessment

16. Provide each student with a copy of Handout 4.3.4: Assessment. Tell students they will apply what they learned about payment methods by first solving a "payment method mystery." Direct students to carefully read the case file in part 1, identify which payment method was most likely used, describe the problem that occurred, and recommend a different payment method that may have worked better in the situation. Remind students to use evidence and clues from the case file to support their answers.

17. For part 2, tell students they will create their own case file. Students should choose a payment method from the lesson and develop a realistic scenario that demonstrates a potential drawback or challenge associated with that payment method. They should then identify the problem and recommend a different payment method that may have been a better fit for the situation, explaining their reasoning.

Standards and Benchmarks

National Standards for Personal Financial Education

Standard 2: Spending

A budget is a plan for allocating a person's spendable income to necessary and desired goods and services. When there is sufficient money in their budget, people may decide to give money to others, save, or invest to achieve future goals. People can often improve their financial well-being by making well-informed spending decisions, which includes critical evaluation of price, quality, product information, and method of payment. Individual spending decisions may be influenced by financial constraints, personal preferences, unique needs, peers, and advertising.

Benchmarks: Grade 8

1. Creating a budget can help people make informed choices about spending, saving, and managing money in order to achieve financial goals.

4. Consumers weigh the costs and benefits of different payment methods to determine the best option for purchasing goods and services.

Handout 4.3.1: Quiz & Trade Cards (Page 1 of 2)

Cash

Physical money, such as coins and paper bills, used to pay for goods and services immediately

Debit Card

A payment card linked directly to a bank account. Money is withdrawn from the account when purchases are made.

Credit Card

A payment card that allows users to borrow money to make purchases and repay it later. Interest may be charged if the balance is not paid in full.

Mobile Wallet

A digital wallet stored on a smartphone or smartwatch that allows users to make electronic payments, often using apps like Apple Pay or Google Pay.

Peer-to-Peer Payment App (P2P)

A digital payment app, such as Venmo, Cash App, or PayPal, that allows money to be instantly transferred between two people. The app is linked to your bank account or credit card.

Buy Now, Pay Later (BNPL)

A digital payment option (like Klarna) that lets you split a purchase into smaller payments over time, acting as a short-term loan, often carrying no finance charge.

Prepaid Debit Card

A card loaded with a set amount of money that can be used for purchases until the balance runs out.

Check

A printed form directing a bank to withdraw money from an account and pay it to another account.

Automated Clearing House (ACH) Payment

An electronic money transfer made between banks and credit unions across a network called the Automated Clearing House (ACH). This method of payment is often used for direct deposit, automatic bill payments, or transferring money between accounts.

Wire Transfer

An electronic movement of money directly from one bank account to another. This method of payment is often used for large amounts or when money needs to arrive quickly.

Handout 4.3.2: Payment Methods Infographic

THINK BEFORE YOU PAY

How You Pay Matters

Different payment methods can affect your money, your information, and your habits. Consider these key factors before you choose how to pay.

1. FRAUD PROTECTIONS

Some payment methods offer more protection if something goes wrong.

- Credit cards often offer fraud liability protection.
- Debit cards have protections, but funds may be withheld while issues are resolved.
- Cash and some payment apps offer little to no protection if lost or stolen.

Consider: What happens if your payment information is stolen or a purchase is fraudulent?

2. BUDGETING IMPACT

Each payment method affects your budget and cash flow differently.

- Cash and debit payments use money you already have.
- Credit cards can help in emergencies but may lead to debt if not paid in full.
- Buy now, pay later options can break payments into smaller amounts, but fees may apply.

Consider: How does this payment affect your budget now and in the future?

3. CONVENIENCE

Think about how easy and quick the payment method is to use in your everyday life.

- Digital wallets and tap-to-pay are fast and easy.
- Cards are widely accepted online and in stores.
- Cash may not be as convenient and is not accepted everywhere.

Consider: How convenient is this option for the way you shop and pay?

4. PRIVACY

Some payment methods share more of your personal information than others.

- Cash offers the most privacy.
- Cards and digital payments may track where and how you spend.
- Apps and online payments may collect and share your data.

Consider: How much of your information are you comfortable sharing?

5. SPENDING PSYCHOLOGY

The way you pay can influence how much you spend.

- Swiping or tapping feels less "real" than paying cash, which can lead to overspending.
- Cash can make spending feel more intentional.
- Payment methods that delay the pain (like credit or BNPL) can make it easier to buy more.

Consider: How might this payment method influence your spending habits?

THERE'S NO ONE-SIZE-FITS-ALL.
The best payment method depends on the purchase, your goals, and what matters most to you.

Handout 4.3.3: Pick Your Payment Method (Page 1 of 2)

Instructions: For each scenario, list at least one payment method you would recommend and one you would NOT recommend and explain why. You may list more than one. Use Handout 4.3.1: Payment Method Infographic to help you justify your selections.

Practice Scenario: Sending a down payment for a house purchase that needs to arrive today.

I would recommend: I would NOT recommend:

Justification:

Scenario 1: Shopping online from your favorite store during a limited-time flash sale

I would recommend: I would NOT recommend:

Justification:

Scenario 2: Paying for gas while traveling

I would recommend: I would NOT recommend:

Justification:

Scenario 3: Splitting the cost for concert tickets with friends

I would recommend: I would NOT recommend:

Justification:

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Handout 4.3.3: Pick Your Payment Method (Page 2 of 2)

Scenario 4: Going to the amusement park and wanting to stick to a budget when paying for food and souvenirs

I would recommend:

I would NOT recommend:

Justification:

Scenario 5: Buying furniture from a stranger on Facebook Marketplace

I would recommend:

I would NOT recommend:

Justification:

Scenario 6: Giving money as a gift inside a birthday card

I would recommend:

I would NOT recommend:

Justification:

Scenario 7: Paying for a monthly gym membership

I would recommend:

I would NOT recommend:

Justification:

Scenario 8: Paying for an unexpected, expensive car repair

I would recommend:

I would NOT recommend:

Justification:

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Handout 4.3.4: Assessment (Page 1 of 2)

Payment Method Detective

Part 1: Solve the Case File

Instructions: Read the case file below. Identify which payment method was most likely used based on the clues provided, describe the problem that occurred, and recommend a different payment method that may have been a better choice for the situation. Be sure to explain your reasoning.

Case File: Too Much Pizza

Jeff went to the mall with friends planning to spend only $20 on lunch and snacks. Jeff quickly paid for pizza, a drink, candy, and a few other small purchases by tapping a phone at checkout. Later that evening, Jeff realized almost $50 had been spent.

Which payment method was most likely used, and what clues helped you decide?
What problem occurred?
What payment method would be a better option and why?

Handout 4.3.4: Assessment (Page 2 of 2)

Part 2: Create Your Own Case File

Instructions: Create your own payment method case file. Choose a payment method from the lesson and write a brief scenario that demonstrates a potential problem a consumer could experience when using that payment method. Then, describe the problem and recommend a different payment method that may have been a better choice. Be sure to explain your reasoning.

Reminder: No payment method is perfect. Focus on creating a realistic situation where the payment method you selected may not have been the best fit for the circumstances.

Case file scenario:
What problem occurred?
What payment method would be a better option and why?