

Postsecondary Education Expenses

Lesson Author

Andrea Caceres-Santamaria, Federal Reserve Bank of St. Louis

Standards and Benchmarks (see page 12)

Lesson Description

With the rising cost of postsecondary education, it may seem unrealistic to save for all or even some of the costs. The costs of postsecondary education are more than tuition and fees for the courses. Parking, meal plans, dorms, transportation, books, supplies, and other related expenses also need to be accounted for. In this lesson, students participate in activities that will engage them in discussions about a change in current spending habits to help them save for postsecondary education expenses, the level of education needed for various careers, and the impact of postsecondary education on future income. Students will also read an article and answer and discuss questions.

Grade Level

8-12

Economic Concepts

Expenses

Opportunity cost

Saving

Objectives

Students will be able to

- identify and explain postsecondary education expenses;
 - analyze various postsecondary education budgets;
 - define opportunity cost;
 - identify and explain the opportunity cost of a personal decision;
 - identify and explain the various monetary costs associated with postsecondary education;
-

- compare and contrast the different estimated costs for postsecondary education;
- compare earnings and consumption possibilities for individuals with different education and career backgrounds; and
- identify and explain other ways that students can pay for postsecondary education if savings are not enough.

Compelling Question

How do students pay for postsecondary education?

Time Required

45-60 minutes

Materials

- PowerPoint Slides
 - *Page One Economics® Focus on Finance: "Get an Education, Even if It Means Borrowing"* and corresponding assessment, one copy for each student
 - *Page One Economics® Focus on Finance: "Get an Education, Even if It Means Borrowing"* teacher edition, one copy for the teacher, available at www.econlowdown.org (see Preparation section)
 - Handout 1, one copy for each pair of students, cut apart into two decks of cards—College Expenses and Items with Prices
 - Handout 2, one copy for each pair of students
 - Handout 3, one copy for each student
-

Preparation

Go to <https://www.federalreserveeducation.org>. Click on explore resources and filter by Resource Type, choosing Reading Q&A. Click Apply and scroll to find the article by title. A middle school version is also available for different level readers.

Assign students the *Page One Economics® Focus on Finance* article "Get an Education, Even if It Means Borrowing," along with the included assessment. This can be assigned in the previous class or done as a bell ringer.

Procedure

1. Explain that **saving** means not spending income on consumption or taxes. Saving involves giving up current consumption for future consumption. **Expenses** are the costs people incur for goods and services. Discuss the following with the students:
 - What are some things you have saved or are saving money for? (*Answers will vary but may include a car, a trip, video games, a cell phone, or a tablet.*)
 - Have you ever thought about saving for postsecondary education expenses? Why or why not? (*Possible answers include the following: It is not a realistic goal; I don't have a job; or I want things now and not later.*)
2. Explain to the students that they will work on a matching activity with a partner. Once students have partnered up, give each group the two sets of cards from *Handout 1: Cost Matching Activity*. Give the following instructions to the students:
 - Each pair of students will receive two sets of cards—one set with items and their corresponding prices, and the other set with examples of college expenses for one year without the costs listed.
 - Match each item and its price with the college expense they believe is around the same.
 - Each item price is to be matched with one college expense.
3. Once every group is finished, display Slides 2 and 3 with both the answers to the matching activity and follow up questions. Discuss the following with the students:
 - Would your parents be willing to help you save for college by offsetting the cost of buying an item? (*Answers will vary.*)
 - Can you live without the items in the activity? (*Answers will vary.*)
 - Your friend would like some advice about the financial benefit of buying a used cell phone. What advice would you give him or her? (*Answers will vary.*)
 - Is it possible to purchase a reliable used car that costs less than \$11,000? (*Answers will vary.*)
 - Do you think you should budget for a car that costs less than \$11,000? (*Answers will vary.*)
 - List three advantages of eating meals from restaurants and three advantages of eating meals at home. Which do you do more of? (*Answers will vary.*)
4. Explain to the students that it is hard to think about future education expenses when people usually want the satisfaction of buying things now. Deciding whether to save \$1,000 for transportation or buy a designer brand item is an example of opportunity cost. **Opportunity cost** is the value of the next-best alternative when a decision is made; it's what is given up.
5. Review the definition of opportunity cost by explaining to the students that the choice between spending the \$1,000 on a designer brand item or saving involves thinking about a choice and

weighing the costs and benefits. When making a choice between two options, people choose the option they believe provides the greatest benefits relative to the costs. Ask the students to share personal examples of when they faced a decision, what they chose, and what the opportunity cost was. To get students thinking about their own examples, ask them about having to choose between two lunch options and point out that whichever one of the two choices they don't purchase is their opportunity cost. Or, consider sharing a decision you've made, including what the options were, what you chose, and what your opportunity cost was.

6. Explain to the students that as they choose where to go for postsecondary education and what their major will be, they will have many options. For each option they will have to consider the financial costs, emotional costs, social costs, benefits, and opportunity costs of their final decision. Analyzing the price of different options for postsecondary education will help them make better choices about how much to save to cover some of these expenses.
7. Display Slide 4, "Student Budgets, 2019-20." Explain to the students that the five categories in this figure make up the cost of attendance. Financial aid offices construct this information when determining how much financial aid a student needs. Point out the y-axis, which has four different categories of colleges. Discuss the following with the students:
 - Out of the four types of institutions, which one is the most expensive overall? Why? (*Private, Nonprofit, Four-Year, On-Campus*)
NOTE: The main difference between private and public institutions is how they are funded. Public institutions receive funds from state governments and from donations. Private institutions receive funds primarily through endowments, which are donations and the tuition and fees charged to students.
 - In looking at the costs between a public, four-year, in-state and a public, four-year, out-of-state institution, which is more and why? (*Tuition and fees for an out-of-state institution are more than double that for an in-state institution.*)
NOTE: Out-of-state students have not previously lived and paid taxes in the state where the school is located, while in-state students have. Since public schools receive state funding, the residents of that state have contributed to this funding with their tax dollars.
 - In comparing the costs of transportation, which of the four examples has the highest transportation but lower room-and-board costs? Why? (*A public, two-year, in-district, commuter has higher costs because students do not live on campus. Room and board are less expensive because they're likely living at home.*)
8. Display Slides 5 and 6. Explain to the students that there are vocational, trade, and technical schools throughout the country. There are also many local community colleges that offer programs in vocational areas as well. The difference between trade schools and community colleges is that trade schools may cost more, but they do at times have programs that are on a faster track than those at colleges. Apprenticeships and job placement assistance are also popular draws to these vocational institutions.

9. Explain to the students that they will be working with the same partner on an activity to determine the level of education needed for a variety of careers. Once students have paired up, give each pair of students one copy of *Handout 2: Education Matching Activity*. Display Slide 7, which shows a variety of careers. Explain the following directions to the students:
 - Using Handout 2, Part A, work together to match the career with the correct minimum level of postsecondary education required.
 - Write the name of the career in the column you think correctly corresponds with the minimum postsecondary education required.
 - Once you have completed the activity, work together to answer the questions in Part B.
10. Display Slide 8 once the groups have finished and review the answers. Discuss the following questions from Handout 2, Part B:
 - In thinking about income and education, which of these levels of education do you think will usually have higher lifetime earnings? Why? (*In most cases, careers requiring graduate degrees will have higher lifetime earnings. These careers are very specialized and require a significant amount of time in school, which not everyone chooses or is able to do.*)
 - List the costs that are common for pursuing an education whether you attend a two-year or four-year school, a public or private school, or a not-for-profit or profit school. (*Transportation, meals, books, supplies, tuition, fees, housing*)
 - What can students start to do around middle school and throughout high school to help cover these costs? (*Students can start to think about these costs and save as much as they can.*)
 - Jennifer wants to become a teacher. What is the minimum amount of education she will need? (*Bachelor's degree*)
 - If Johnny is choosing between becoming a carpenter and becoming a mechanic, and he ends up choosing to be a mechanic, what is the opportunity cost of his decision? (*The opportunity cost of Johnny's decision is being a carpenter.*)
11. Display Slide 9. Explain to the students that in general, more education will lead to higher income. When students choose to seek postsecondary education, they are making an investment in themselves for the future—investing in their human capital. Human capital is the knowledge and skills people obtain through education, experience, and training.
12. Display Slide 10. Ask four students to volunteer to read the scenarios aloud. Start with Scenario 1 by having one student read the part for Becky and another student read the part for Adam. Ask the class who they would rather be and why. (*They will likely choose Becky because she earns more, and therefore it takes less time for her to earn what her groceries cost.*) Continue to Scenario 2 with the other two volunteers. Ask the class who they would rather be and why. (*They will likely choose Sima because she earns more, and therefore it takes less time for her to earn what the PC costs.*)

13. Explain to the students that while saving can help offset some of the costs of postsecondary education, the expenses are high and there may not be enough savings. In this case there are other ways to gather the funds needed to pay expenses and achieve educational goals. One way is to finance education through student loans.
14. Ask students to refer to the *Page One Economics® Focus on Finance* article “Get an Education, Even if it Means Borrowing.” Review the answers to the article’s assessment with the students while emphasizing the idea that borrowing to pay for education is an investment in their future. It is still a decision to make carefully, but reasonable borrowing to pursue education that results in better future opportunities and income is worthwhile.
15. Refer to the article’s teacher edition for answers to the assigned questions. For question #8, ask students to share their responses. Encourage other students to think about and share how they can save for college.
16. Explain to the students that the article they read provides valuable information about student loans. Since postsecondary education can be expensive, some students do need student loans. Exactly how much needs to be borrowed depends on the career they choose and the minimum postsecondary education required to do well in that field. While loans are an option, saving is too.
17. Display Slides 11-15. Review the points on the slides about different approaches to saving for college. Encourage students to discuss other ways they can save for education expenses.
18. Explain to the students that there are many ways to pay for education, and while saving may not be something that everyone is able to do, there are ways to pay for school. While it can feel discouraging when the financial means to pay are not immediately available, there are resources and people willing to help students find a way to pay for their education.

Closure

19. Have students work with the same student they were paired with before. Ask them to take out three sheets of blank paper. Explain that they will work together in an activity to review some of the information taught.
20. Display Slides 16-21. Pause at each slide for students to read the definition or prompt, and give them time to write their responses on one of the sheets of paper.
21. Once all groups are finished writing their responses, ask someone in each group to hold up their answer so that you can see the various responses.

Assessment

22. Distribute a copy of *Handout 3: Assessment* to each student. Allow students about 15-20 minutes to write their responses. Review their responses with the following:

Handout 3: Assessment—Answer Key

1. Write an example of an academic decision you had to make that involved opportunity cost. Be sure to mention the opportunity cost of your decision.
Answers will vary. Some examples may include choosing between two elective classes, choosing between going out with friends and studying, or deciding in which fall or spring sport to participate.
2. In thinking about the future, what type of postsecondary education will you pursue—vocational school; two-year college; in-state, four-year college; or out-of-state, four-year college? Explain your decision.
Answers will vary. Students should mention their choice and include an explanation supporting why they have made that choice.
3. Based on your answer in #2, list some of the costs associated with pursuing your choice of postsecondary education.
Answers will vary. Regardless of their answer in #2, students should mention some costs that are common for all, such as transportation, books, supplies, housing, and food.
4. Darrel wants to take out a student loan and needs your advice. Write Darrel three pieces of advice on using student loans to pay for school.
Answers may vary based on what students choose to point out from the Page One Economics® article. Students may mention borrowing no more than is needed to attend school, attending in-state school because tuition is generally less expensive, or finishing school.
5. How will Janeen pay for school if she were not able to save?
Janeen can do well academically so that she is eligible for scholarships and grants. She can fill out the FAFSA to see what financial aid she qualifies for. Filling out the FAFSA can also determine how much in student loans she can qualify for.

Sources

College Board Research. "Trends in College Pricing 2019." November 2019; <https://research.collegeboard.org/trends/college-pricing>, accessed July 8, 2020.

Federal Reserve Bank of St. Louis. "College 101 Infographic"; <https://www.stlouisfed.org/education/college-101-infographic>.

Handout 1: Cost Matching Activity—College Expenses (page 1 of 2)

Dorm room decorations and supplies



Parking fees for one school year



Room and board for one school year



Cost of transportation
for one school year





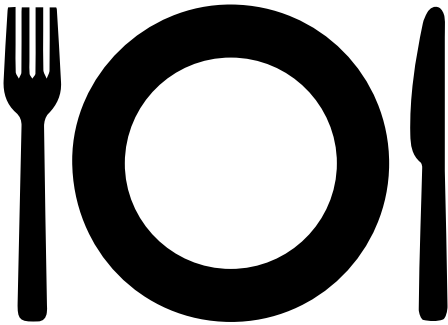

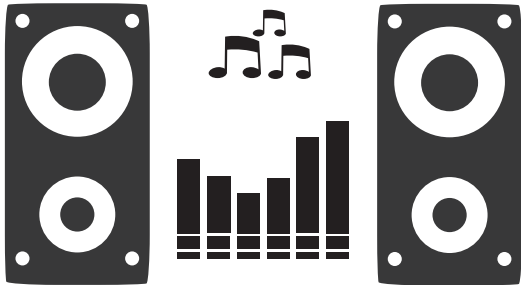

Books and supplies
for one school year



Two in-state community college
courses (6 credits) and fees
for one school year



Handout 1: Cost Matching Activity—Items with Prices (page 2 of 2)

<p>\$1,000 Designer bag</p> 	<p>\$600 \$300 Watch + \$300 Headphones</p> 
<p>\$150/month Meals away from home</p> 	<p>\$11,000 Used car</p> 
<p>\$950 Stereo equipment</p> 	<p>\$750 Smartphone</p> 

Handout 2: Education Matching Activity

Part A

Vocational/trade/ technical school	Two-year college	Four-year college	Graduate school (two to four years, in addition to bachelor's degree)

Part B

- In thinking about income and education, which of these levels of education do you think will usually have higher lifetime earnings? Why?
- List the costs that are common for pursuing education whether you attend a two-year or four-year school, a public or private school, or a not-for-profit or profit school.
- What can students start to do around middle school and throughout high school to help cover these costs?
- Jennifer wants to become a teacher. What is the minimum amount of education she will need?
- If Johnny is choosing between becoming a carpenter and becoming a mechanic, and he ends up choosing to be a mechanic, what is the opportunity cost of his decision?

Handout 3: Assessment

1. Write an example of an academic decision you had to make that involved opportunity cost. Be sure to mention the opportunity cost of your decision.
2. In thinking about the future, what type of postsecondary education will you pursue—vocational school; two-year college; in-state, four-year college; or out-of-state, four-year college? Explain your decision.
3. Based on your answer in #2, list some of the costs associated with pursuing your choice of postsecondary education.
4. Darrel wants to take out a student loan and needs your advice. Write Darrel three pieces of advice on using student loans to pay for school.
5. How will Janeen pay for school if she were not able to save?

Standards and Benchmarks

National Standards for Financial Literacy

Standard: Earning Income

- **Benchmarks: Grade 8**
 2. People make many decisions over a lifetime about their education, jobs, and careers that affect their incomes and job opportunities.
 5. Investment in education and training generally has a positive rate of return in terms of the income that people earn over a lifetime.
 6. Education, training, and development of job skills have opportunity costs in the form of time, effort, and money.
 7. People often use a portion of their savings to help themselves or their family members build human capital through education or job training.
- **Benchmarks: Grade 12**
 3. People vary in their willingness to obtain more education or training because these decisions involve incurring immediate costs to obtain possible future benefits. Discounting the future benefits of education and training may lead some people to pass up potentially high rates of return that more education and training may offer.
 4. People can make more informed education, job, or career decisions by evaluating the benefits and costs of different choices.

Standard: Buying Goods and Services

- **Benchmarks: Grade 12**
 1. Consumer decisions are influenced by the price of a good or service, the price of alternatives, and the consumer's income as well as his or her preferences.

Standard: Saving

- **Benchmarks: Grade 8**
 8. Different people save money for different reasons, including large purchases (such as higher education, autos, and homes), retirement, and unexpected events. People's choices about how much to save and for what to save are based on their tastes and preferences.
- **Benchmarks: Grade 12**
 1. People choose between immediate spending and saving for future consumption. Some people tend to be impatient, choosing immediate spending over saving for the future.