

Section 2—Use of Credit**Title of Lesson/Subject:** *The Power of Plastic***Prepared by:****Contact Information****E-mail address:****Phone:****Time Allotment:**

One Class Period

Grade Level:

Junior and Senior Students in Entrepreneurship Classes

ND Standards Competencies:**Key Economic Concepts:****Brief Description:****Learner Objectives:**

Students will understand the differences between a debit and a credit card.

Students will be able to list ways in which credit cards are affecting consumer spending habits.

Students will become more knowledgeable in statistical data concerning credit card usage vs. cash transactions.

Students will apply their knowledge in answering questions regarding credit privacy and costs.

Introduction:**Materials Needed:**

Paper and Pencil

Copies of article and corresponding worksheet “The Power of Plastic”

Audio/Visual Equipment Needed:**Lesson Outline:**

I found this great quiz in the November 2004 Wall Street Journal Classroom Edition that I plan to start out class with. It contains 10 multiple-choice questions regarding credit card usage statistics. It’s definitely a guessing situation for the students, but I’ve used these quizzes before and it’s a great way to introduce a short unit. Questions include information on the average credit card interest rates, discretionary spending by college students, % of credit-card holders that pay off their balance each month, etc.

I then plan to give the students a copy of an article entitled “The Power of Plastic.” Article is available online at:

www.wsjclassroom.com

I put together a worksheet that pertains to the article. I think the questions/article are very pertinent to those students in my Entrepreneurship class since they will have to deal with credit card usage in their businesses. I plan to implement a short unit dealing with credit into my Advanced Entrepreneurship course next semester. I’d like my students to at least be aware of the basics of credit card usage, especially when dealing with a business.

Resources:**Activities:**

The Power of Plastic—article and worksheet (attached)

Application/Assignment:**Evaluation Plan:**

Students will receive credit for completing the worksheet and a number of the questions will be included on the unit test.

NOVEMBER 2004 :: COVER STORY :: ECONOMICS

The Power of Plastic

Credit Cards and Debit Cards Replace Cash as America's Currency of Choice

By Jathon Sapsford
Staff Reporter of The Wall Street Journal

In terms of money, last year was like no other.

For the first time, Americans used cards-credit, debit and others-to buy retail goods and services more often than they used cash or checks.

The nation now uses cards to subscribe to cable TV, pay taxes, buy subway fares, contribute to charities and hire Phil Marlowe, a 17-year-old in Tyngsboro, Mass., to cart stuff in the back of his Chevy Silverado. He carries a cellphone with a "PowerSwipe" snapped onto the back to handle his card transactions. His sales roughly doubled when he started advertising credit-card acceptance on the side of his truck. "One lady gave me a \$30 tip just because I accepted cards," he says.

By letting consumers buy things with unprecedented convenience and speed, cards have transformed the economy. They have helped keep consumer spending strong even through terror attacks and recessions. When people pay with plastic, they tend to spend more-often more than they have in the bank. Thus, credit cards also have fueled an explosion in consumer debt. It is expected to hit \$838 billion this year, an increase of 6.8% from 2003 and more than double what it was 10 years ago.

For roughly 60 million Americans without bank accounts, however, living without cards is getting harder. They can't easily rent cars or stay in hotels, among other things. "You're effectively locked out of the American Dream if you don't have some kind of plastic, and it's going to get worse," says Russell Simmons, the hip-hop mogul, whose RushCard lets holders put their paychecks onto plastic.

Rare Moment in History

A currency can be anything that all members of a society agree it should be. The current boom in plastic is one of those rare moments in history when that agreement shifts and one payment form overtakes another as the preferred way to pay. The first such change came sometime between the 10th and 6th centuries B.C., when Greece and India each introduced metal coins, which surpassed barter or the shell currencies of earlier times.

Coins dominated trade for the next 2,000 years, until the introduction of checks by Italian merchants in the Middle Ages. In 1690, Massachusetts became the first of the colonies to introduce paper money. Cash took decades to gain broad acceptance, but eventually became the standard of payment for the next three centuries. The first credit card was introduced as a service for the wealthy in New York in 1950 under the Diner's Club brand. Today, U.S. consumers use plastic to buy \$2.2 trillion in goods and services each year-roughly 20% of U.S. gross domestic product.

Last year, cash was used in 32% of retail transactions, down from 39% in 1999. Credit-card use has remained stable, accounting for about 21% of purchases during that time. Meanwhile debit cards, which take money out of checking accounts immediately after each purchase, shot up to 31% of purchases last year, from 21% in 1999.

Consumer activists have long warned of the dangers of credit cards, which have caused many tragic stories of financial insecurity and personal bankruptcy. As cards spread, critics say consumers are running tabs for

increasingly routine purchases. "You could end up paying interest on ice cream," says Travis Plunkett of the Consumer Federation of America. (See [related article](#).)

Roughly 60% of credit-card holders roll balances over each month, paying interest of as much as 22%. Because these cardholders are the most lucrative customers of the banks, critics say they effectively subsidize the remaining 40% of cardholders.

Maria Nemeth, a psychologist in Sacramento, Calif., says card use is becoming so easy and pervasive that consumers are losing the ability to budget. Using plastic, she says, is as hard to resist as junk food, and potentially as dangerous. She regularly tells clients to go on 48-hour "cash diets," refraining from the use of plastic for two days at a time.

But a big part of the mission of companies like Visa and MasterCard (joint ventures owned by the thousands of banks that issue cards under those names) is to be exactly what Ms. Nemeth warns against: a ubiquitous presence that is hardly noticed, much less resisted. "It's like the switch on the wall," says Robert W. Selander, president and chief executive of MasterCard. "You turn on electricity and the lights turn on. ... We take it for granted."

Over the longer term, big earnings for the card industry could come from the commission merchants pay with each swipe, anywhere from 1% to 5% of each transaction. It amounts to a tax, of sorts, on the new currency of choice.

"There are still trillions of dollars in cash and check [transactions] that are out there just waiting to be captured on plastic," says Bill Glenn, president of American Express's Merchant Network, which manages the company's relations with merchants.

Card issuers have been targeting merchants who refuse to accept plastic, offering incentives and lower fees. The fast-food industry held out for years in the face of intense card-industry lobbying. The industry's reasoning was that signing or punching in code numbers at the counters was too time-consuming for an industry that relies on quick service, and the transaction fees were considered too expensive.

In response, the credit-card companies lowered the fees they charge quick-service restaurants and waived the signature requirement. McDonald's capitulated in March, agreeing to widespread card acceptance at its restaurants, a move that many in the industry say will force other fast-food restaurants to follow.

Card companies say McDonald's found the average transaction jumped from \$4.50 to \$7 when customers used debit and credit cards instead of cash-in part, because cardholders tend to buy for more people.

Eat Now, Pay Later

A California company named Creditel has found a way to turn the cellular phone into a swiper. Its "PowerSwipe" snaps onto the back of Nextel cellphones to process credit-card transactions. Stadium food vendors were given the devices before last year's Super Bowl in San Diego. Fans were able to charge drinks and hot dogs from their seats, without missing any of the game. The cellphone can even fax a receipt to the cardholder's office or home.

More technological innovation is coming, and plastic itself may eventually fall into disuse. After all, it is the numbers carried on plastic, not the plastic cards themselves, that are necessary to complete transactions. Since cards are susceptible to theft and fraud, the industry is working on "biometric" identification techniques. Computers would link credit-card numbers, housed on an electronic database, to unique body parts such as fingerprints, irises or facial characteristics.

Card industry executives envision consumers being identified at cash registers with devices such as fingerprint readers or eye scanners, which would replace the signature or PIN that consumers use to verify identity. Online shoppers might identify themselves by pressing fingers to a silicon wafer embedded in the keyboard, which would read the fingerprint, match it online with a copy held by the bank or merchant, then authorize the sale. They wouldn't need a card at all.

Do you think the ease of credit-card use encourages people to spend irresponsibly? [Write to us.](#)

THE POWER OF PLASTIC - Worksheet

NAME _____

Answer the following questions after reading the article "The Power of Plastic."

1. In what ways have credit cards affected the spending habits and economic health of consumers? List at least three.

2. How do debit cards work? How is this different from the way credit cards work?

3. How did the percentage of cash transactions for consumer in-store payments change between 1999 and 2003?

4. How long have credit cards been around and what was the name of the first card?

5. Consumer debt is expected to hit how many billion this year, which is an increase of what percentage from 2003?

6. Card issuers are targeting what type of merchants?

7. What is significant about the company named Creditel? Be specific when explaining.

8. How does credit card usage affect the U.S. gross domestic product?

9. Credit-card issuers get a commission of 1-5% from a merchant for each transaction, a cost that many retailers shift to consumers. If buyers pay by cash or check, should they get a 1-5% discount? Why or why not?

10. Imagine a future in which only credit or debit cards are accepted for every transaction. Consider the potential impact this would have on privacy. Would you be concerned if credit-card companies know how you spent every dollar, so that you were no longer allowed to make anonymous purchases? Explain your thoughts in detail.
