



It's Free, But at What Cost?

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How do you react when you are offered something for free? Do your eyes light up? Do you become excited? Do you take the freebie, even if it's an item you normally wouldn't buy or use? When many of us come upon something given away for free, we happily take advantage of the situation. But is it truly free or are strings attached?



You've probably heard the classic phrase "There is no such thing as a free lunch," which is often shortened to the acronym TINSTAALF. This phrase dates back to the time when local bars offered a "free lunch" if drinks were purchased. Its meaning emphasizes that it's

impossible to get something for nothing. The cost may be hidden or distributed among other items, such as charging more for drinks, but it's there somewhere.

In today's world, the word "free" is a marketer's best friend. Retailers offer "buy one, get one free (or BOGO)." They may advertise an item "free with purchase." Clubs and websites give "free trial periods" for their services.

Most discerning adults see through these ploys of "free" goods and services and understand there's some type of cost under the surface. But kids often think something offered for free is hidden treasure. They can hardly believe their luck—it's free! Because kids can't see through the illusion of these offers, it's up to parents and other adults to help them look more deeply at these situations.

So how do you explain that free does not always mean free? Try using terms and examples that kids understand. When they receive their kid meal with a "free-with purchase" toy, discuss how fast food restaurants often increase the price of the meal or other items on the menu to cover the cost of the toy. If you dine out with your family at a "kids eat free" establishment, each child generally gets their meal free with a paid adult entrée. Since the family may not have chosen the restaurant otherwise, tell them that the establishment is selling adult-sized meals in return for free smaller-sized kid portions. And the restaurant is hoping you'll be back for additional meals in the future. So the increase in business is worth the cost.

Now give kids insight on what "buy one, get one free" really means. Tell them that BOGO is actually a reduction of 50 percent off the listed price of each item (which may

have been increased before the offer.) So the second pair of shoes is not free, since you must purchase two pairs. Whether the child really needs two is worth considering. The next “free” topic of discussion is “free trial periods.” These can be tricky for kids to comprehend. If they are dying to join a LEGO club for a trial period, make sure they know when the free ride stops. They should mark it on a calendar or write it down so they are able to cancel before a membership fee may be charged.

If your child is old enough to think critically, further explain that everything kids buy has a hidden cost. Economists call this an opportunity cost. Tell them that opportunity cost is the next best choice that you give up when you made a final choice. So if a child buys a video game with his savings, he gives up buying the other video game he was considering, or another item with those same dollars. The concept also works without money in the picture. A child can have an opportunity cost when she chooses to play tennis instead of softball. She is giving up softball time for tennis time. One more example that kids understand is making a meal choice. Choosing chicken

nuggets over a hamburger puts the burger in the opportunity cost category. Try working through the opportunity cost examples on page 23 to sharpen kids’ skills.

A newer free phenomenon is the offer of a free college education. Some states are considering a law that makes their community colleges tuition-free, regardless of family income. College students may enjoy the benefits of free education, but their parents and other taxpayers will bear the cost. Annual community college tuition averages about \$3,300 nationally, with books and fees adding to the cost. A state offering this freebie will need millions of additional dollars to make this a feasible option.

So the message to kids is to be wary of goods or services offered for free. Tell them to consider whether they would buy the item if it wasn’t a freebie. If not, they probably don’t really need or want it, even if getting it feels like a treat. Understanding that most free items have a related cost should help them become more informed consumers.



Financial Education Resources

The Kansas City Fed is committed to promoting economic and financial literacy and greater knowledge of the Federal Reserve’s role by providing resources for teachers, students and the public. Visit our website at KansasCityFed.org for more information. The resources below are a few of many available on this subject.

Federal Reserve Resources

Once Upon a Decision online course for consumers (http://www.stlouisfed.org/education_resources/once-upon-a-decision-c/) A young girl makes decisions and considers her opportunity costs. Ages 7-10.

The Art of Decision-Making online course for consumers (http://www.stlouisfed.org/education_resources/the-art-of-decisionmaking-c/) Discusses how to make informed decisions successfully. Ages 14-17.

Opportunity Cost online course for consumers (http://www.stlouisfed.org/education_resources/opportunity-cost-online-course-c/) A 12-minute course that explains that every choice we make has a cost. For Adults.

Fiction Books

Glo Goes Shopping by Cheryl Willis Hudson (http://www.stlouisfed.org/education_resources/assets/lesson_plans/GloGoesShopping.pdf) Glo uses decision-making skills to make the best choices. Ages 5-8.

Non Fiction Books

It’s Your Decision For Teens: A Commonsense Guide to Making Better Choices by Al Foderaro. This book gives teens a commonsense approach to making initial social and financial decisions. Ages 14-17.

Smart Choices: A Practical Guide to Making Better Decisions by John S. Hammond. This book suggests skills to help adults become more consistent and confident in their decisions. For Adults.

An Opportunity Cost is an Opportunity Lost

Here's your chance to become an economist. Read each story below and give your choice and your opportunity cost, or the choice that was given up.

- It's 4 o'clock and school's out for the day. You have two hours of free time before dinner. You can spend your time in one of two ways: Play at the park with a friend or ride bikes in the neighborhood. Which one would you choose, and what would be your opportunity cost?

I would choose to _____; my opportunity cost would be _____.

- Your cousin is visiting and you have two ways to spend Saturday afternoon together: Go to the zoo or the newest Disney movie. Which one would you choose, and what would be your opportunity cost?

I would choose to _____; my opportunity cost would be _____.

- Your birthday money is burning a hole in your pocket. You have narrowed down your possible choices to two items: A lazer tag set or remote control plane. Which one would you choose, and what would be your opportunity cost?

I would buy _____; my opportunity cost would be _____.

- Your class has earned a party. Class members need to vote on the food for the event: Pizza or hot wings. Which one gets your vote?

I would vote for _____; my opportunity cost would be _____.

Time to create your own opportunity cost story. Think of a situation that would have two possible choices for the outcome. Write the story and choices below, then complete by making your choice and telling your opportunity cost.

