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Lesson 11: Alexander Hamilton – The American Dream

AUTHOR

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OVERVIEW

As an orphaned teenager from the Caribbean, Alexander Hamilton never could have envisioned the impact his emigration would have on the future of America. Beginning with his military service during the Revolutionary War, his life had become immediately intertwined with the fate of our new nation. Although more than 200 years ago, the guidance he provided as our first Secretary of the Treasury still serves as a foundation of our capitalistic economy today.

This mini-lesson is part of the Economics Arkansas iNSPIRE! series and can be used to start a class on a number of related topics including fiscal policy, taxes, or credit cards. The included activities will help your students identify the role that debt and credit play in our lives as well as in the lives of businesses and nations.

CONCEPTS

Credit

Credit Rating

Debt

OBJECTIVES

Students will be able to:

- Discuss how DEBT serves as a financial tool within a capitalistic economy.
- Demonstrate how the 5 C's of CREDIT are used when evaluating a loan request.
- Identify the five contributors to FICO's CREDIT RATING system.

TIME REQUIRED (*10 – 35 minutes*)

Bell Ringer: Steps 1 through 4 (*10 minutes*)

Mini Lesson: Steps 5 through 8 (*+20 minutes*)

Extension: Step 9 (*+5 minutes*)

MATERIALS

Visuals

- Visual 1: "Definitions"

Handouts

- Handout 1: "Video Questions" (1 per team of 3-4 students)



- Handout 2: “I.O.U.” (1 per student)
- Handout 3: “Reputation Matters” (1 per student)

Online Resources

- Video “Alexander Hamilton: The American Dream”
<https://www.thisiscapitalism.com/alexander-hamilton-the-american-dream/> (3 minutes, 46 seconds)
- myFICO Credit Education, Fair Isaac Corporation
<https://www.myfico.com/credit-education>

RELATED LINKS

Biography, A&E Television Networks

- Alexander Hamilton Biography
<https://www.biography.com/political-figure/alexander-hamilton>

PREPARATION

1. Before class begins, print *team* copies (1 per 3-4 students) of Handout 1: “Video Questions.”
2. Print *individual* copies (1 per student) of Handout 2: “I.O.U.” and Handout 3: “Reputation Matters.”
3. Print and cut out *individual* (1 per student) I.O.U. cards from Activity 1: “Trust Me (CARDS).”

PROCEDURES

1. Watch the video “Alexander Hamilton: The American Dream”
<https://www.thisiscapitalism.com/alexander-hamilton-the-american-dream/> (3 minutes, 46 seconds).
2. Ask students to work in teams of 3-4.
3. Distribute Handout 1: “Video Questions” (1 per team), and have teams complete the questions. Allow students five minutes to complete.
4. Ask teams (Question 2): “*What types of things do you think a government pays for by using **DEBT** (borrowed money)?*” Answers will vary but may include anything that the government pays for, e.g., education, healthcare, social security, pensions (retirement), economic growth, research, and subsidies. Emphasize that governments borrow because they spend more than they receive from taxes.
5. Using Visual 1: “Definitions,” review each definition. Explain that we will be exploring the roles of **DEBT** and the importance for an individual, business, or nation to build a strong **CREDIT RATING** in order to borrow on **CREDIT**.
6. With students back in their seats, distribute Handout 2: “I.O.U.” (1 per student) along with the I.O.U. cards (1 per student) from Activity 1: “Trust Me (CARDS).” Ask students to complete Handout 2 and copy the needed information to their I.O.U. cards. Gather the completed I.O.U. cards. Read a few examples and ask students to indicate (by raising their hands) if they would lend \$25 to each request based on the I.O.U. Why or why not?
7. Display Visual 2: “The 5 C’s” at the end of this activity. Explain that these are the C’s of **CREDIT**, and they are what lenders consider when reviewing a request for a loan. Ask students to identify which, if any, of their questions directly addressed these items—Character, Capacity, Capital, Collateral, and



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Conditions. *Character* considers whether or not the individual has proven their trustworthiness in the past. *Capacity* considers whether the individual can actually afford to repay the loan. *Capital* considers the individual's upfront contribution or "down payment." *Collateral* considers anything of value that could be sold to help with repayment. *Conditions* considers other factors like the terms of the loan, the interest rate, or the size of the interest payments.

8. Allow a few students to share how they would have changed their I.O.U. in order to address these main concerns. Emphasize that the goal of this activity was to consider and evaluate what a lender looks for in order to feel confident about extending **CREDIT** to a borrower.
9. Optional Extension Activity: Distribute copies of Handout 3: "Reputation Matters." Display the assignment, and ask students to complete it on their own paper in class or as a homework assignment. Ask students to complete the chart by visiting <https://www.myfico.com/credit-education> and identifying the five categories of information that together are used to calculate your **CREDIT** score. If used in class, ask students, "Based on this FICO Credit Score chart, what is the most important thing to do when building your credit score?" The answer: make your payments on time!



Visual 1: Definitions

Credit

An *agreement* to purchase something *now* with the promise to pay for it *later*

Credit Rating

A *grade* or score that indicates how *likely* it is for a specific borrower to repay a loan

Debt

An *obligation* to repay someone for something borrowed



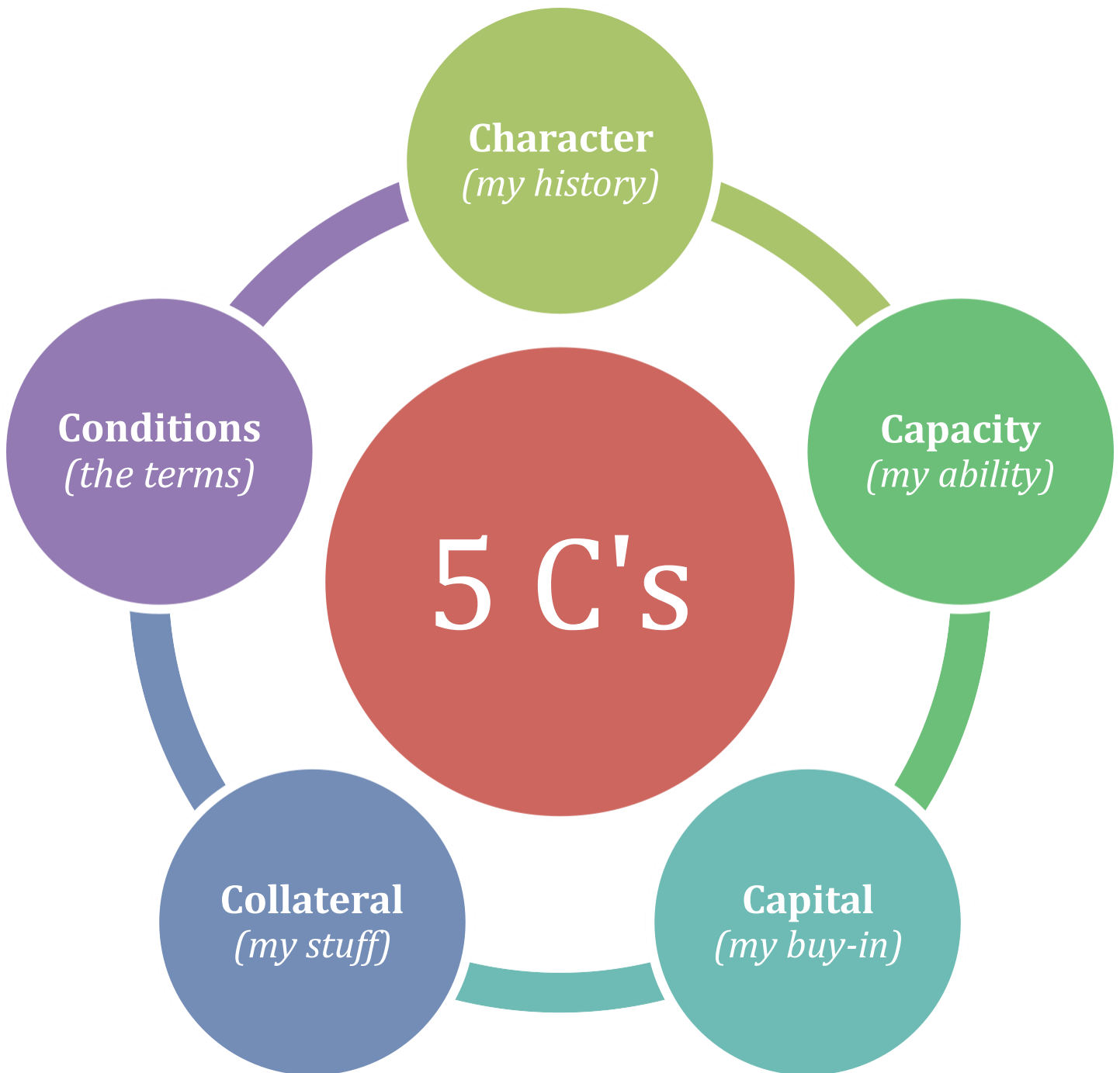
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Visual 2: The 5 C's





Activity 1: Trust Me (CARDS)

Cut out the following CARDS. Provide one to each student along with Handout 2: I.O.U.

I.O.U.

You can trust me to repay your \$25 because...

I.O.U.

You can trust me to repay your \$25 because...



Handout 1: Video Questions

***“A national debt, if it is not excessive,
will be to us a national blessing.”***

– Alexander Hamilton

After watching the video “Alexander Hamilton: The American Dream,” work in teams to answer the following questions. The video can be found at <https://www.thisiscapitalism.com/alexander-hamilton-the-american-dream/>.

Born on the Caribbean island of Nevis, Alexander Hamilton’s childhood didn’t look much like paradise. He was essentially orphaned around the age of 12 when his mother died. Given the opportunity to study in New York City four years later, however, his life became deeply intertwined with the founding and the future of the United States of America. As the first Secretary of the Treasury, Alexander Hamilton is considered a founding father not only of our nation but of our capitalist economy as well. Through the structuring of America’s national debt, currency, and central bank, he helped pave the way for our thriving free market system.

We may not immediately consider **Debt** something worth celebrating. When not managed well, it can and does quickly ruin lives. What would life look like, however, if everyone had to pay cash for *everything*? There are a number of important things in life that we could never afford without borrowing.

Review Visual 1: “Definitions” if needed.

1) Identify some things that *individuals* or families pay for by using **debt** (borrowed money)?

- | | | |
|--|--|---|
| <p>1. <u>Example: House (mortgage)</u></p> <p>2. _____</p> <p>3. _____</p> | | <p>4. _____</p> <p>5. _____</p> <p>6. _____</p> |
|--|--|---|

2) What types of things do you think a *government* pays for by using **debt** (borrowed money)? Be ready to report your results back to the class.

- | | | |
|--|--|---|
| <p>1. <u>Example: Military</u></p> <p>2. _____</p> <p>3. _____</p> | | <p>4. _____</p> <p>5. _____</p> <p>6. _____</p> |
|--|--|---|



Handout 2: I.O.U.

As Secretary of the Treasury in 1789, Alexander Hamilton began negotiations on behalf of the U.S. government to borrow \$19,608.81. The purpose was to consolidate the debts accumulated by the states during the Revolutionary War. The result was the beginning of our national **debt**. Hamilton understood that a country's opportunity to borrow "cheaply" is dependent on a combination of things including how others feel about its financial reputation and its ability to repay its **debts**. We have continued to borrow over the past two hundred years, establishing a longstanding reputation of trust among our global lenders.

That reputation suffered a setback, however, in 2011 when our national **Credit Rating** was downgraded from AAA (Extremely Strong) to AA+ (Very Strong). This may not sound like a major change, but it signaled that our **debt** was no longer one of the safest investments in the world and caused a financial panic across global markets. Had our **debt** suddenly become too "excessive" and moved beyond being a "national blessing?" In early 2019, the U.S. national debt hit a record high—twenty-two *trillion* dollars or \$22,000,000,000,000. Just a year earlier, we had reached another milestone. Our interest payments, the additional money we pay our lenders each year in order to borrow from them, exceeded five hundred *billion* dollars or \$500,000,000,000.

- 1) Assume that a new friend asks to borrow \$25 for something that they "really need" right now. While you don't think the purchase is really that important, it's clear that they do. You just aren't sure that you can trust them to repay the \$25. What 5 questions could you ask them that would help you make your decision? Be ready to report your results back to the class.

1. _____
2. _____
3. _____
4. _____
5. _____

- 2) Respond to each of your own questions with a brief statement about why someone should trust **you** to repay the \$25. Copy your response on the provided I.O.U. card.



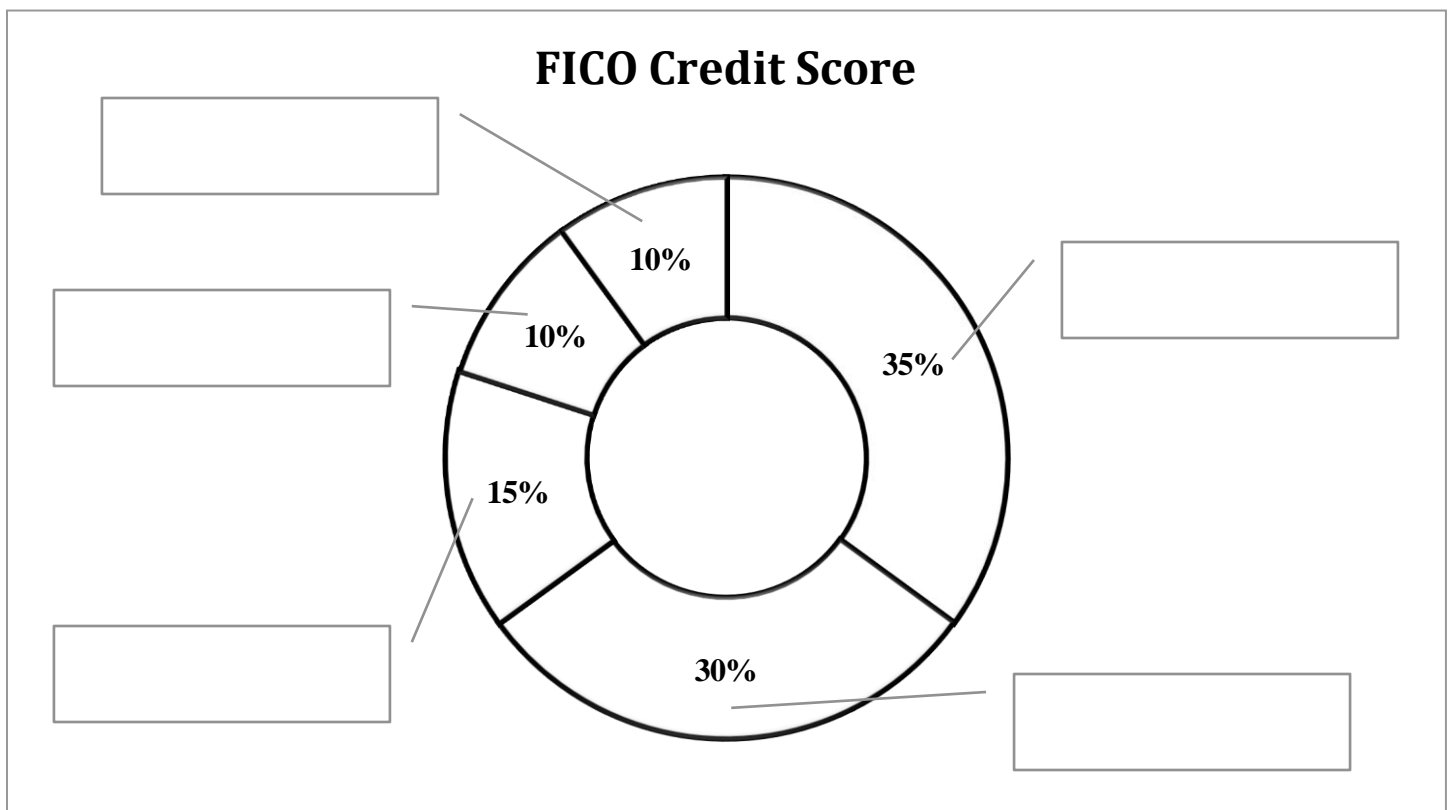
Handout 3: Reputation Matters

“You cannot escape the responsibility of tomorrow by evading it today.”

– Abraham Lincoln

Much like our country, each of us earns a **credit rating** based on the perceived risk of lending us money. The higher we are rated, the “cheaper” *we* can borrow money to pay for houses, cars, or a college education. These individual ratings, or credit scores, are constantly changing in response to our financial behavior. A number of companies including some apartment complexes and cell phone providers will even check our score before taking us on as a new customer. Their goal is to limit the risk of having a customer who doesn’t pay on time.

Visit <https://www.myfico.com/credit-education> and identify the five categories of information that together are used to calculate your credit score.



Based on this FICO Credit Score chart, what is the **most** important thing to do when building your **credit score**?