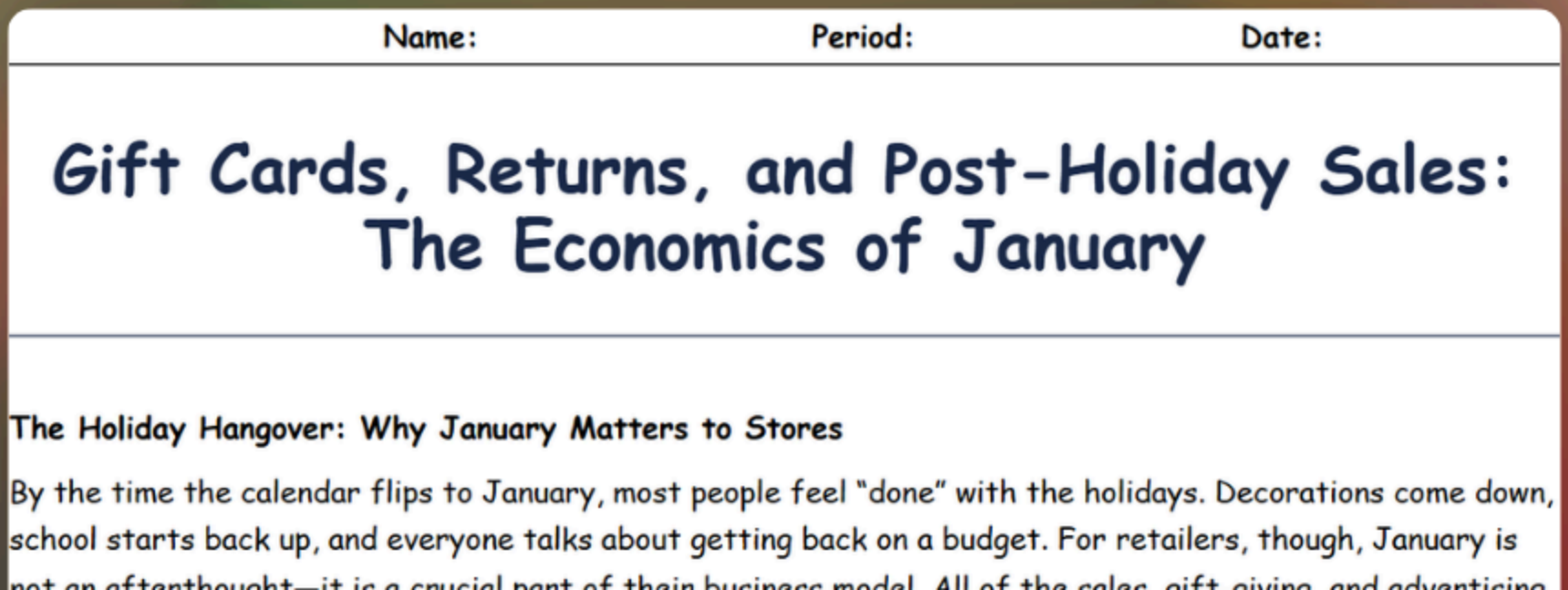
NO PREP

Gift Cards, Returns, and Post-Holiday Sales

The Economics of January

Includes: Student reading, case study, differentiated questions, teacher key



Name: Period: Date:

Gift Cards, Returns, and Post-Holiday Sales: The Economics of January

The Holiday Hangover: Why January Matters to Stores

By the time the calendar flips to January, most people feel "done" with the holidays. Decorations come down, school starts back up, and everyone talks about getting back on a budget. For retailers, though, January is

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The Holiday Hangover: Why January Matters to Stores

By the time the calendar flips to January, most people feel "done" with the holidays. Decorations come down, school starts back up, and everyone talks about getting back on a budget. For retailers, though, January is not an afterthought—it is a crucial part of their business model. All of the sales, gift-giving, and advertising from November and December spill into a second, quieter season of returns, exchanges, and gift card spending. Stores don't just think about December; they plan for the entire holiday cycle. In November and December, they push full-priced items, "doorbuster" deals, and big displays to pull customers in. In January, they have a different problem: leftover inventory that didn't sell and a wave of customers returning items that were the wrong size, color, or style. At the same time, many shoppers walk in carrying gift cards, which act like prepaid store money waiting to be spent. From an economics point of view, January is where we see concepts like sunk costs, opportunity cost, and consumer behavior in action. A sweater that cost the store $20 to buy from a supplier is now a sunk cost—they can't get that money back. The question becomes: how do they turn that sweater into cash before the season changes and it becomes even harder to sell? That's where clearance racks, store credit, and careful planning come in.

Gift Cards: Free Loans and "Breakage"

On the surface, gift cards look simple. Someone loads $25 on a card, gives it as a present, and the recipient later uses it in the store. Behind the scenes, gift cards are a powerful financial tool for retailers. When you buy a gift card, the store receives cash up front, often weeks or months before they have to hand over any

products. Economists sometimes compare this to an interest-free loan from the customer to the store. The retailer can use that money immediately to pay workers, order inventory, or invest, even though you haven't picked out your items yet. Another key idea is gift card breakage—the portion of gift card value that is never used. Maybe the card gets lost, a few dollars are left over, or the recipient never finds anything they want. For the consumer, that unused balance is wasted purchasing power. For the store, it is almost pure profit: they received the money, but never had to give up merchandise. Even small leftover amounts matter. If millions of cards each have $1–$3 left on them, that adds up to a large sum. Gift cards also change how people shop. Many customers treat a card as "free money," even though someone originally paid for it. That makes it easier to justify impulse purchases or upgrading to more expensive items. A $25 card often turns into a $40 sale because the customer cheerfully covers the difference. Economists would say the gift card shifts the reference point in the shopper's mind; spending feels less painful because the original gift card purchase is psychologically separate, or already "sunk."

Returns, Store Credit, and Clearance Strategy

After the holidays, stores face a flood of returns. Every returned item costs the retailer time and money. Workers must inspect the product, decide if it can go back on the shelf, and sometimes repackage or discount it. If the item is seasonal—like a Christmas-themed sweater—its demand drops sharply in January. That forces the store to use markdowns (price cuts) to move it out before it becomes nearly impossible to sell. Stores try to manage this risk using return policies and store credit. A generous policy ("return anything within 90 days") makes shoppers feel safer buying gifts, which can increase total holiday sales. But it also increases the number of returns the store must process. To balance this, many retailers offer store credit instead of cash refunds for certain items. Store credit keeps money inside the company. When you accept a gift card or merchandise credit instead of cash, your purchasing choices are limited to that retailer. Economists would say you have lost some flexibility, and the store has kept your spending locked in. Stores also use post-holiday sales to clear out unsold goods. The bright "50% OFF" signs are not an act of charity; they are part of inventory management. Holding onto unsold products ties up money and storage space. By marking prices down, retailers accept

lower profit margins (or even small losses) on individual items to free up space and cash for new, more profitable stock. Clearance pricing is a way of cutting their losses on sunk costs—money already spent on inventory that can't be unspent, only recovered partially.

Case Study Excerpt – The Half-Used Gift Card Drawer

Amari's family keeps a kitchen drawer full of half-used gift cards. In January, her economics teacher asks students to total up any unused balances at home. Amari sits at the table with a calculator and starts calling the numbers on the back of each card. One has $1.73 left, another has $4.50, and a third—given three years ago—still has the full $20. After fifteen minutes, she realizes her family has more than $60 sitting in plastic. "We would never leave $60 in cash crumpled in a drawer," she thinks, "but gift cards feel different. We forget about them." In class the next day, her teacher explains gift card breakage and how retailers know that a certain percentage of card value will never be used. Amari suddenly sees that every small leftover balance is not just an accident—it is part of how stores quietly profit from gift-giving season.

1. How does Amari's family's gift card drawer illustrate the concept of gift card breakage?

2. Why might people treat gift card balances differently than cash, and how does that benefit retailers?

Multiple Choice

1. According to the reading, one major way gift cards help retailers is by:

    a) Requiring the store to pay interest each month on any unused gift card balance

    b) Preventing any returns or exchanges after the holidays

    c) Forcing customers to spend less than the card's value

    d) Providing cash to the store up front, sometimes with unused balances left over

2. The term gift card breakage refers to:

    a) A discount for customers who use a card on clearance items

    b) Physical damage to the plastic card that stores must replace for free

    c) The percentage of gift card value that is never used by customers

    d) The moment when a card is first activated at the register

3. Post-holiday markdowns (clearance sales) are mainly used by retailers to:

    a) Clear out unsold inventory and recover some of their sunk costs

    b) Punish customers who waited too long to shop

    c) Raise prices on the most popular items in January to recover losses

    d) Avoid having to pay workers during the holidays

Matching

Write the letter of the correct definition on the line next to each term.

Term	Definition
1. ___ Gift card breakage	A) Measure of how quickly a store sells through its stock
2. ___ Store credit	B) Money already spent that cannot be recovered
3. ___ Sunk cost	C) Price reduction used to move unsold goods
4. ___ Markdown	D) Non-cash refund that keeps a customer's future spending in the store
5. ___ Inventory turnover	E) Portion of prepaid card value that is never redeemed

Fill-in-the-Blank

1. When a store has already paid a supplier for goods, that payment is a sunk _____, because it cannot be undone.

2. A slip or card issued instead of a cash refund, which can only be spent at that retailer, is called store _____.

3. When customers forget about small balances on prepaid cards, those unused amounts are part of gift card _____.

Short Answer

Answer each question in 2-4 complete sentences.

1. Based on the reading, explain how gift cards can lead customers to spend more than the original card value when they shop in January.

_____

_____

_____

2. Describe one way generous return policies help customers, and one way they can create extra costs or challenges for retailers.

3. Imagine you receive three different gift cards during the holidays. Using concepts from this reading, describe two strategies you could use to make sure that value doesn't quietly turn into "breakage."