

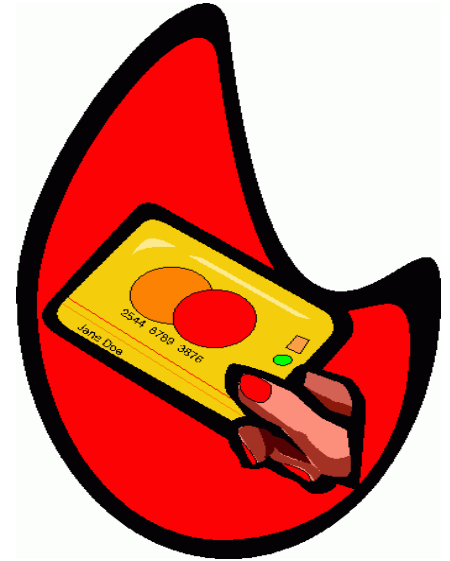
PERSONAL FINANCIAL LITERACY

Credit Cards

Completing this assignment will give students a better understanding of the advantages and disadvantages of Credit Cards in today’s society.

“The disappearance of cash and the coming of the credit card changed the shape of life in the United States.”

~ Jerzy Kosinski



Students will learn the following concepts:

- Terms and Conditions
 - Annual Percentage Rate
 - Balance Transfer
 - Annual Fees
 - Late Fees
 - Grace Period
 - Minimum Monthly Payments

ASSIGNMENT ONE - Credit Card Interest

Assume you are a Freshman College student. You have a job lined up for the entire year, so your parents open up a Credit Card for you to use to help get you started. They give you one month to make whatever charges you think you need, and then they will hold the credit card for you and have you pay it off over a specified amount of time.

Assignment ONE – PART A:

When you get to campus, you decide to purchase a \$1,000 computer system to use for your studies. You do not have the money to pay for it, so you use the credit card your parents opened up for you and decide to pay it off over time. The Credit Card Terms are shown in the table below.

Type	APR (Interest Rate)	Amt Borrowed (Principal)	Time to pay off	Annual Fee	Min Payment (2% of Balance)
VISA	11.24%	\$1,000	12 months	\$0	\$20

(1) To calculate your Interest, you need to multiply the amount you borrowed (principal) by the Annual Percentage Rate (APR or Interest Rate), and then multiply again by number of years you plan to take in order to pay off your debt. Calculate the interest on this purchase for 1 year.

Interest = Amt borrowed × APR × Time to Pay Off (in years) Interest = _____

(2) Instead of taking 1 year to pay off your computer system, you decide to do so in 6 months (or .5 years). What would your interest be in this case?

- (3) Let's now pretend you bought not only the \$1,000 computer system, but an additional \$500 worth of accessories and programs as well. Because of the extra charges, you plan to take a year and a half to pay off this debt, what will your Interest be then?

Assignment ONE – PART B:

You roommate, Samuel Morse, also has a job lined up for the year. He likes your parent's idea, so he opens up a new student credit card and charges \$525 worth of school supplies to his new card, and then will pay off these charges using part of his pay check. He then splurges and charges an additional \$300 for school clothes and a nice dinner out with his friends the day before classes begin. The terms of Samuel's Credit Card is shown in the table below.

Type	APR (Interest Rate)	Amt Borrowed (Principal)	Time to pay off	Annual Fee	Min Payment (2% of Balance)
Mastercard	13.24%	\$	12 months	\$0	\$

- (1) Complete the table by filling in his Amount Borrowed (school supplies + clothes/dinner) and his first minimum payment.
- (2) Calculate Samuel's Interest, assuming he plans to pay off his debt in 12 months.
- (3) Samuel is going to try to take the summer off so he is going to try to pay his debt off in 9 months (.75 years) instead. What will his Interest be then?
- (4) Samuel's mom bought a new car, and told Samuel he could use her old car at college, as long as he found a way to pay for his own parking permit to park on campus. Samuel decides to buy parking permit for the whole year, and charges yet another \$350 to his credit card. If he still plans to pay this off in 9 months, how much interest will he pay?
- (5) The first week in college has proven to be a lot tougher than Samuel was expecting, so he needs to cut back the number of hours he spends working. This means he will need more time to pay off his \$1,175 credit card debt. What will Samuel's interest be if he decides to take a 1 year and 9 months (1.75 years) to pay off his debt? What about the full 2 years?

ASSIGNMENT TWO – Credit Card Interest

For Assignment TWO, assume you opened a Student Credit Card to use throughout the school year. The first table shows the **Terms and Conditions** of your new Student Credit Card and the second table shows a **Summary of Purchases** for the first Six Months.

Terms and Conditions	
Annual Fee	\$50.00
Annual Percentage Rate (APR)	13%
Late Fee	\$35.00
Credit Limit	\$1,000.00
Minimum Payment	\$15.00
Minimum Payment % with balance over \$750.00	2%

SUMMARY OF PURCHASES	OCTOBER <i>(first month)</i>	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH
Balance Brought Forward	N/A	\$0.00	\$285.00	\$807.93	\$1,050.34	\$1040.49
New Purchases	\$50.00	\$300.00	\$500.00	\$250.00	\$0.00	\$200.00
Late Fees	N/A	\$0.00	\$35.00	\$0.00	\$0.00	\$0.00
Interest	N/A	\$0.00	\$2.93	\$8.58	\$11.15	\$11.05
Payments	-\$50.00	-\$15.00	-\$15.00	-\$16.16	-\$21.01	-\$20.81
New Balance	\$0.00	\$285.00	\$807.93	\$1,050.34	\$1,040.49	\$1,230.72

- (1) During the first month, you did not make any purchases, but your summary shows a \$50.00 “purchase” that was paid off right away. What do you think this \$50.00 “purchase” represents?
- (2) What is the total of your purchases from November to March?
- (3) What did you pay the credit card company from November to March?
- (4) How much interest did you get charged from November to March?
- (5) Based on the terms of your credit card, why do you think you increased your payments from January to March?
- (6) When did you get a charged a Late Fee and how much is your Late Fee? Make a guess as to why you were late (or skipped) with your payment in December.
- (7) Based on your terms and conditions, why were no purchases made in the month of February?

- (8) Predict what happened to allow the customer to make additional purchases in March.
- (9) What were the Total Purchases you made from November to March (Question 2)?

If you continued to only pay the minimum payment each month, it would take approximately 17 years to pay off these purchases. If you added all the interest over those 17 years, the Total Interest you would be paying would total about \$1,813.30.

This means, the REAL COST of your purchases would be calculated as follows:

$$\text{REAL COST} = \text{Total Purchases (Nov to Mar)} + \text{Total Interest}$$

What is the REAL COST of your purchases from November to March?

**This does not include your \$50.00 Annual Fee... which you'd need to pay 17 times!

Post Assessment – Credit Cards

- (1) Some of the costs associated with having credits cards are:
- Rent, electricity, and phone
 - Annual fees, late fees, and APR
 - State and Federal Taxes
 - There are no fees associated with credit cards
- (2) What does APR stand for?
- Average Person's Rating
 - Approximate Pay Rate
 - Annual Pay Reversals
 - Annual Percentage Rate
- (3) Ask an adult, or research the internet, to define the following Credit Card Terms:
- Grace Period –
 - Revolving Credit –
 - Credit Line –