financialalgebra

*7.7 Credit Cards*

*Student Activity Packet*

UNIT: TYPES OF CREDIT & MODELING FUNCTIONS

**Name:**

**IN THIS LESSON, YOU WILL:**

- Solve multi-step word problems
- Use a recursive sequence to model debt repayment
- Explain why a person may need or want a credit card
- Explain how a credit card works in terms of making purchases, calculating interest, and managing payments
- Read a Schumer box

## INTRO

**QUESTION OF THE DAY: What do cardholders fear most when using a credit card?**

Write your answer to the questions 1 & 2 below. Then, compare your answers to the answer on the second slide. Finally, answer question 3 below.

1. **For you, personally, what would be your biggest concern about opening and using a credit card?**

2. **When Americans as a whole are surveyed, what do you think they fear most about credit card usage?**

3. **On slide 2, how would you categorize the difference between the #1 fear and the entire rest of the list (fears 2-5)?**

## LEARN IT

**VIDEO: Why Do We Use Credit Cards?**

As you saw in the INTRO, many Americans fear their own overspending or money habits could make incurring debt on credit cards dangerous. Now, watch this clip from a longer video to see three reasons it might be a GOOD idea to open a credit card.

1. **If one reason to open a credit card is to build credit for bigger, larger loans you might need in the future, does that mean you shouldn't bother with a credit card if you don't ever anticipate needing a car loan or mortgage? What do you think?**

2. **How is a credit card actually more secure than a debit card?**

3. **Lance has a credit card that gives him 1% cash back on all his purchases, so he's thinking it's the perfect time to charge a bunch of big ticket items he can't currently afford. He'll get tons of rewards! What's the flaw in Lance's strategy?**

## EXPLORE IT

**VIDEO: Schumer Box**
**ACTIVITY: FINE PRINT: Schumer Box**
If you were going to open a credit card account, you'd need to know what to look for (besides reward programs) in a "good card." The first place to look is at a credit card's Schumer box, which summarizes the terms of that specific card. Watch this video on what you can expect in a Schumer box, and then complete the FINE PRINT activity.

## LEARN IT

**ARTICLE: How Is Credit Card Interest Calculated?**
The Schumer box lays out the all-important costs of your credit card: What are the flat fees? And what is the interest rate charged? But, HOW is that interest calculated when you're buying new stuff all month long? It's a multi-step process, which you can read about here before answering the questions that follow.

Albert has a credit card with an APR of 20.7% and the following daily balances for this billing period:

| | |
|---|---|
| Days 1-3: | $50 |
| Days 4-10: | $100 |
| Days 11-25: | $175 |
| Days 26-30: | $225 |

1. **What is Albert's daily rate? Round to the nearest ten thousandth.**

2. **What is his average daily balance?**

3. **Assuming Albert doesn't pay it off in full, how much interest is Albert charged for this billing period?**

4. **Before making his minimum monthly payment, what would Albert's total credit card balance be for this billing period?**

5. **Your calculations calculate interest only for the entire month. Most credit card companies compound interest daily. What effect would that have on Albert's total balance for this billing period?**

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**VIDEO: Credit Card Debt Explained**

OK, in the previous problem, you saw that Albert's interest actually wasn't all that high, right? Why is it the case that we're constantly hearing about the dangers of credit card debt? How do you prevent getting sucked in? Watch this video to find out.

1. **What is the #1 reason you should plan to pay your full credit card balance every single month?**

2. **If paying the entire balance off every month is the most financially advantageous way to use a credit card, why would anyone charge MORE than they can pay off in a given month?**

3. **Explain how your credit limit (also known as your line of credit) and your credit card balance impact one another.**

4. **Let's say you can only afford to pay the minimum monthly payment every month. Will you ever pay your balance back down to $0? Explain.**

5. **If you owed the $3500 suggested in the video and you could not afford to pay the full balance in just one month, what would you do to get out of debt?**

6. **What is the difference between a traditional credit card and a predatory lender?**

## MATH CONNECTION - RECURSIVE SEQUENCES

**ACTIVITY: MATH: The Cost of Minimum Payments**
The ideal, of course, is paying the full bill every month so you pay no interest whatsoever. And we've seen what happens if you pay **just** the minimum. In this MATH CONNECTION, you'll explore how various repayment amounts impact the total cost of shopping with a credit card and the amount of time it takes to pay off your balance.

## EXIT TICKET

Follow your teacher's instructions to complete the Exit Ticket.

**Teachers,** you can find exit ticket questions on the Lesson Guide.