Case Study Lesson Plan

FitMoney

Case Study Objectives
➢ Describe how credit cards work and how to use them responsibly
➢ Calculate the cost of buying with credit depending on how much of a statement you pay
➢ Justify the use of credit for a specific purpose

For Jump$tart & Math Common Core Standards Alignment click here.

Materials
➢ Class set of Credit Card Crunch case study, two sided
➢ Computer and display capabilities to show the How Credit Cards Work video
➢ Computer to access online credit card calculator

Key Terms
➢ Interest
➢ APR
➢ Minimum Payment
➢ Statement Balance

CASE STUDY (40 MIN)

- **Situation/Case Study**: (10 min) Activate student knowledge by asking, *"What do you know about credit cards?"* List as many facts about credit cards that students brainstorm. If students do not share, explain that a credit card is a card from a bank (most often) that allows the card holder to borrow money to purchase goods and services. The catch is you will pay interest if your bill is not paid in **full** and on time (every month) and today, they are going to complete a case study about credit cards. Have students read over the credit card scenario, introduce the vocabulary and then watch the following video as a class or individually. Ask a few clarifying questions to assure comprehension: *"What is interest? (Fees you pay when you don't pay your bill in full and on time.) How can you avoid paying interest? (Pay in full and on time.)"*

- **Questions**: (15 min) Have students answer the case study questions, and as time permits, begin the challenge task. Maybe have students share who they think made the best buying decision and why. This may serve as evidence for the challenge.

- **Challenge and Share/Present (can include Presentation & Share)**: (10 min) Have students complete the challenge. Then, time permitting, have students share their advice to their cousin.

- **Reflection (Closing/Synthesis/Feedback)**: (5 min) Ask students, *"How can you most responsibly use a credit card?"*

Assessment
➢ Evaluate accuracy and completeness of student answers to the questions and challenge using the Teacher Answer Key

Extensions/Connections
➢ Go to NerdWallet and find college credit cards. Choose a credit card to recommend to your cousin. Write a paragraph explaining which one you chose and why.
➢ Share the Family Conversation Guide for this lesson

Credit Card Crunch

CREDIT CARD SCENARIO:

Alex, James and Camille all want to buy TVs for their homes. They go shopping together on Black Friday in November and find a great TV on sale for $1,000. They each decide to buy one, but they handle the purchase in different ways:

Alex buys the $1,000 television using his credit card and takes it home that day. He then pays the *minimum payment* of $35 every month to his credit card company. This means he pays interest on the money he hasn't paid back each month. His APR (interest rate) on the credit card is 22%.

Camille buys the $1,000 television using her credit card and takes it home that day. She knows she has $1,500 in her savings account, so when the credit card statement comes she pays the *full balance* of $1,000 back to her credit card company.

James decides to save money until he has enough to buy the TV. He saves $200 from each paycheck. By March, he has enough to pay for the TV in cash, but the deal has ended and the TV now costs $1,200.

CREDIT CARD TERMS TO KNOW

- **Balance Due:** amount of money you owe the credit card company.
- **Interest**: a percentage of the balance due that a credit card company charges the borrower.
- **APR**: the "annual percentage rate" charged for borrowing money. This is the percentage used to figure out how much interest you owe on your unpaid balance.
- **Minimum Payment**: the smallest amount of money you MUST pay.

HOW CREDIT CARDS WORK: Watch this short video.

Key Points from the video:

- Using a credit card to pay for something is like taking a loan - you promise to pay back the credit card company **on time**!
- Each month, you receive a **statement**, a document that tells you your **balance**, how much you owe, the **minimum** you can pay back, and when the money is due.
- If you pay the total amount you borrowed before the due date, you pay no extra money (no interest) and can improve your credit score.
- If you pay the **minimum payment**, or anything less than the total balance, you will be charged **interest,** which is a penalty for owing the credit card company money.
- Not paying in full can lead to unhealthy credit card debit.

QUESTIONS:

1. How long will it take Alex to pay off his entire credit card balance if he continues to pay only the minimum balance each month?
   Hint: Use the Bankrate Credit Card Payoff Calculator to figure it out. His balance is $1000, with a 22% interest rate and a payment per month of $35.

2. Based on the calculator, how much does Alex pay in interest?

3. How much does each person pay, in total, for their TV?

4. When the friends get together one year later for Thanksgiving, how long will each of them have had their TV?

5. Who do you think made the smartest buying decision? Explain why.

CHALLENGE:

Your cousin is 20 years old and thinking about getting a credit card. They are offered 0% APR for the first six months, unless they miss a payment. After six months the APR becomes 22%.

Based on what you learned in this case study, write a short letter to your cousin advising them on how to most responsibly use the card. Include at least one advantage, one disadvantage,and how they can pay the least amount of interest possible.

Answer Key: Credit Card Crunch

Credit Card Crunch Case Study Questions

Note: There may be slight variations in student answers - use your judgment as to the level of comprehension students demonstrate with their answers.

1. How long will it take Alex to pay off his entire credit card balance if he continues to pay only the minimum balance each month?
   It will take Alex almost 4 years, or 41 months, to pay off his entire balance.

Your Results

| Total Principal Paid | $1,000 |
| Total Interest Paid | $429 |

Monthly Payment
$ 35

Months to payoff
41

70% Principal   30% Interest

$1,000 $429

2. Based on the calculator, how much does Alex pay, total, in interest?
   Alex pays $429 (30% more) in interest.
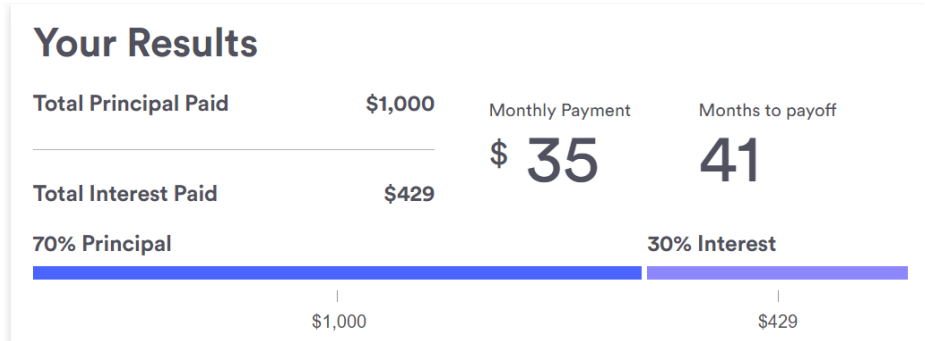
3. How much does each person pay, total, for their TV?
   Alex pays $1,429, Camille pays $1000, James pays $1200.

4. When the friends get together a year later for Thanksgiving, how long will each of them have had their TV?
   Alex and Camille will have had their TVs for a year. James will have had his TV 9-10 months, depending on when he bought it.

5. Who do you think made the smartest buying decision? Explain why.
   Answers may vary. Camille got immediate access AND paid no extra money, while James paid less extra money even if he had to wait a while.

Credit Card Crunch Case Study Challenge: Sample checklist for student letters.

Component	Included
Written in letter format	
Advice includes to pay ON TIME and the entire BALANCE to avoid paying interest.	
One advantage is listed.	
One disadvantage is listed.	