

High School Resource Life Skills Class

The Cost of Using a Credit Card

In our financial credit unit, we have considered the factors that must be taken into account when choosing and using a credit card appropriately. Along with that, we have considered interest rates and the monthly cost of using a credit card. The purpose of this lesson is to explore what happens when you get behind in making your monthly credit card payments.

Part 1: Suppose that you are going off to college and feel that you simply have to have a laptop, a small flat-screened television, and a Wii for your dorm room. You do not have the money to pay cash for the needed items, but can use your new credit card to buy them now and pay for them in monthly payments. You were fortunate enough to find all of your electronic equipment on sale with a total cost of **\$1000.00** charged to your credit card. You do not plan to put any additional charges on this card until your electronics are paid for, which you plan to do in fixed monthly payments. The credit card that you chose charges **19% interest** and uses a **minimum monthly payment rate of 3.5%**. After analyzing your budget, you have a decision to make. Should you stay with your plan to make monthly minimum payments? Would it be better to switch to a fixed monthly payment of \$50, \$75, or \$100? Go to www.bankrate.com/crt/calc/minpayment.asp and use the online calculator to complete the chart below. Use the completed chart to complete part 2 of this task

	Min. Payment.	\$50 Payment	\$75 Payment	\$100 Payment
Balance	\$1000.00	\$1000.00	\$1000.00	\$1,000.00
Interest Rate	19%	19%	19%	19%
MINIMUM PAYMENT RATE	3%	3%	3%	3%
Months Needed to Pay Off Debt				
Total Amount of Interest Paid				

Part 2:

Use the information from the completed chart to answer the following questions. After answering all of the questions, continue to part 3 of the task.

1. After making the minimum payment for two years (24 months), how much will you owe on this account?
2. After making the minimum payment for three years (36 months), how much will you owe on this account?
3. After making the minimum payment for four years (48 months), how much will you owe on this account?
4. After making the minimum payment for five years (60 months), how much will you owe on this account?
5. How does the final cost of the items purchased compare to the original cost?
6. Is the final cost of the needed items worth the amount of interest you will pay? (Be ready to defend your answer with logical reasons.)

Part 3:

Using the chart and questions above, decide whether to stay with a minimum monthly payment or switch to a fixed monthly payment. Perhaps you decided that the final cost is too high, and you cannot afford to buy the “essential” dorm room items, or maybe you could buy just one of the items. Which one would you buy and why?

Once you have decided whether to buy one or all of the items on credit, please write at least an eight-sentence summary defending your decision. Include the cost of making minimum monthly payments, as well as fixed monthly payments and final cost items purchased. Also include the time that it will take to pay off the credit card.