

**Case Study Objectives**

- Describe how credit cards work.
- Compare the effect of paying the minimum balance against paying the full balance on the total amount paid.
- Evaluate the role of credit cards in spending decisions.

Jump\$tart 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 small plastic 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** on time (every month). Today, you 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.
- **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 along with whom they believe was charged.
- **Reflection (Closing/Synthesis/Feedback):** (5 min) Ask students, “*What are the advantages and disadvantages of credit cards?*”

**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. He takes it home today, and pays the *minimum payment* of \$35 every month. This means he pays interest on the money he hasn't paid back each month. His APR (interest rate) on the credit card is 15%.

**Camille** buys the \$1,000 television using her credit card and takes it home today. 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 mid-February, he has enough to pay for the TV in cash and bring it home, though he didn't get it in time to host a Super Bowl party.

### CREDIT CARD TERMS TO KNOW

- **Balance Due:** the 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 the lender.
- **Fees:** an additional payment made to the credit card company in exchange for using the card or for using the card in a certain way.

### 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 the credit card company that money back.
- 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 (interest).
- 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.

### 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 15% 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 a 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 in college and thinking about getting a credit card. Based on what you learned in this case study and the pro/con video, write a short letter to your cousin giving him/her advice on how to best use the card. Include at least one advantage and one disadvantage to using a credit card.

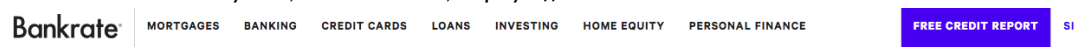
# Answer Key: Credit Card Crunch

## 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.

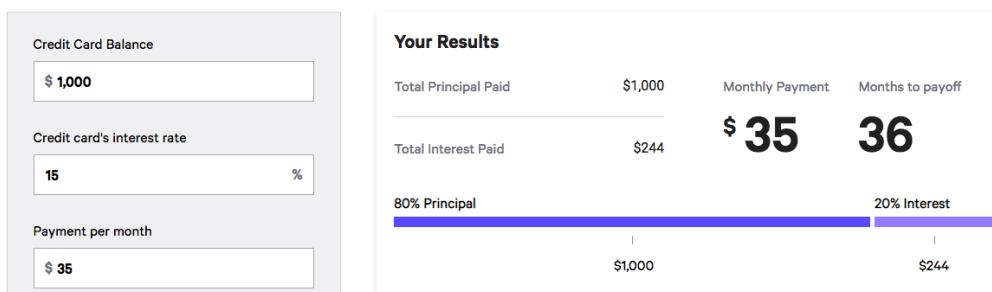
- How long will it take Alex to pay off his entire credit card balance if he continues to pay only the minimum balance each month?

*It will take Alex three years, or 36 months, to pay off his entire balance.*



### Credit Card Payoff Calculator

Trying to pay down a large credit card balance? Let us know how much you'd like to pay a month, or when you'd like to be debt-free and we'll help you come up with a monthly payment plan.



- Based on the calculator, how much does Alex pay, total, in interest?  
*Alex pays \$244 (20% more) in interest.*
- How much does each person pay, total, for their TV?  
*Alex pays \$1,244, Camille pays \$1000, James pays \$1000.*
- 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.*
- Who do you think made the smartest buying decision? Explain why.  
*Answers may vary. James or Camille can both be correct answers: Camille got immediate access AND paid no extra money, while James paid no 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.	
One advantage is listed.	
One disadvantage is listed.	