

Decision Making in Finance: Using Credit

VI.D Student Activity Sheet 9: Understanding Credit Card Debt

J.R. owes \$9,000 on a credit card charging a 16.8% annual percentage rate (APR). He stopped using the card and has a debt plan to pay \$319.97 per month to pay off the balance in 36 months.

1. Create an amortization table for the 36 months of J.R.'s debt plan.
2. Graph the principal and interest portions as separate bar graphs for the 36 months.
3. **REFLECTION:** Compare and contrast the two graphs.
4. Will the payment in the 36th month be the same as all the rest? Why or why not?
5. **EXTENSION:** Prepare a short presentation of your findings for one of the following scenarios to share with the class.
 - Phoenix has gotten herself in a bit of trouble with credit cards. The following are the current balances and interest rates on her credit cards:
 - Visa: \$6,750 at 19.8% APR
 - MasterCard: \$8,267 at 16.5% APR
 - Gas card: \$1,579 at 22.65% APR
 - Department store card: \$3,345 at 21.99% APR

Phoenix earns \$3,000 per month as a painter. Can she afford this debt? Develop a debt plan so that her credit cards are paid off in two years.

- Horace paid for a \$0.79 pack of gum with a credit card. Due to his revolving balance, he will end up paying 23.49% interest on that pack of gum for 10 years. How much did it really cost Horace to charge that pack of gum? How much would a \$1,000 couch really cost him?
- Neeraj will pay \$350 per month toward his credit card debt for five years. Create a report that demonstrates how Neeraj could have used that money differently had he not used his credit cards.
- You want to buy \$10,000 in furniture and electronics for your new home. Research different credit card offers and, assuming you qualify for the full amount, choose the card(s) on which you will charge this purchase and explain your choice.