

**CREDIT AND CREDIT CARDS****PRE-TEST**

**Directions: Answer the following either true or false.**

1. Most credit cards charge you interest even if you pay your balance in full each month.
  - A. True
  - B. False
2. Credit card companies don't like to give credit cards to people in their late teens and early twenties.
  - A. True
  - B. False
3. Your credit rating may be checked when you try to rent an apartment.
  - A. True
  - B. False
4. A "store credit card" is a credit card that can only be used at one company's stores.
  - A. True
  - B. False
5. Your "credit line" is the maximum balance the credit card company will allow you to have.
  - A. True
  - B. False
6. It's not a good idea to pay your balance in full each month because this will upset the credit card company.
  - A. True
  - B. False
7. All credit cards have an annual fee that you must pay to the credit card company.
  - A. True
  - B. False
8. Credit card companies can charge you a late fee even if you're only a couple of days late.
  - A. True
  - B. False
9. Credit cards can only be used to buy things. They cannot be used to obtain cash.
  - A. True
  - B. False
10. If you fall behind on your credit card payments, the credit card company is not allowed to report this to anyone. This is confidential information.
  - A. True
  - B. False

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**POST-TEST**

**Directions: Answer the following either true or false.**

1. Most people in their late teens and early twenties have credit cards.  
A. True                      B. False
2. Very few young people have more than one or two credit cards.  
A. True                      B. False
3. Interest is the extra money you must pay a lender because they gave you the money in the first place.  
A. True                      B. False
4. The number of people in their late teens and early twenties with credit problems has decreased in recent years.  
A. True                      B. False
5. To use a credit card as a "purchase enabler" means you're buying things that you want even though you don't have the money in the bank now.  
A. True                      B. False
6. If you pay the "minimum payment amount" each month, you will pay off your credit card balance in a reasonable amount of time.  
A. True                      B. False
7. If you use a debit card to make a purchase, the purchase price will be subtracted from your checking or savings account at your bank.  
A. True                      B. False
8. Using your credit card to get cash advances make good economic sense.  
A. True                      B. False
9. A "balance transfer" is where you pay off one credit card by transferring your balance to another credit card.  
A. True                      B. False
10. If your credit card has a high interest rate, don't waste your time asking them to reduce the rate, because credit card companies would never agree to cut your interest rate.  
A. True                      B. False

**MULTIPLE CHOICE QUESTIONS**

11. What percent of people in their late teens and early twenties have credit cards?  
A. 10%                      B. 25%                      C. 50%                      D. 80%
12. What percent of people in their late teens and early twenties have four or more credit cards?  
A. 2%                      B. 10%                      C. 25%                      D. 50%
13. As of December, 2002, the average young person had a credit card balance of:  
A. \$300                      B. \$1,000                      C. \$2,700                      D. \$4,500
14. A bad credit history generally stays with you for \_\_\_\_\_.  
A. six months                      B. one year                      C. three years                      D. seven years

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**POST-TEST (CONTINUED)**

15. Your credit rating may be checked when you apply for a job.  
 A. True                      B. False
16. Noelle is a young person with a typical credit card balance for the year 2002. She pays only the "minimum payment amount" each month. How long will it take her to pay off her balance? Show your calculations on the back of this sheet  
 A. 28 years                  B. 15 years                  C. 6 years                  D. 3 years
17. If your credit card is lost or stolen and you notify your credit card company right away, your legal responsibility is limited to \_\_\_\_\_.  
 A. \$0                          B. \$50                          C. \$100                          D. There is no legal limit on your responsibility.
18. A "loan consolidation" means you have convinced your credit card company to reduce your interest rate.  
 A. True                      B. False
19. A "balance transfer" means you have moved your credit card balance from one credit card company to another.  
 A. True                      B. False
20. If a credit card company gives you a very low interest rate, the company cannot raise that rate for at least two years.  
 A. True                      B. False

**SHORT ANSWER QUESTIONS**

**Read each of the following statements and answer in one or two sentences.**

21. Define credit.

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22. What does it mean to use a credit card as a "purchase enabler?"

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23. How is a "store credit card" different from a typical credit card issued by a bank?

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24. Lamar just received notice that his credit card company is increasing his credit line by \$1,000. "Sweet! I can buy a lot of cool stuff with that." Comment on Lamar's statement.

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**POST-TEST (CONTINUED)**

25. If a credit card company only requires you to pay the "minimum payment amount" each month, why would someone think it's a good idea to pay more?

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26. What should you do if you find that you are in "over your head" and cannot pay even the "minimum payment amount?"

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27. Is a "balance transfer" a transaction that reduces your overall debt?

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28. Whenever Marcie wants some cash, she goes to an ATM and gets a cash advance on her credit card. Comment on her economic plan.

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29. Will has a \$2,000 credit card balance on a card with a 21% interest rate. Noelle has a \$5,000 credit card balance on a card with a 13% interest rate. Noelle asked Will "Why is my interest charge this month so much higher than yours if your interest rate is so much higher than mine?" Explain.

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30. Distinguish between an annual fee and a late payment fee.

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### ESSAY QUESTIONS

**Write a short essay in response to each of the following situations. Use the back of this sheet.**

31. Nathan has a credit card issued by a store named Hi-Tech Electronics. He has a \$1,000 credit limit. Soon after getting the card, Nathan uses it to buy a bunch of gadgets totaling \$900. Nathan has no money saved in the bank. When his mother discovered the purchases, she asked Nathan how he would pay back the money. He said, "I'm not worried about that. The worst thing that could happen is that the store won't let me buy any more stuff. If that happens, I can always switch to some other store."

32. Marla plans to apply for a job at Huge Industries, Inc. For the last year she has worked at Tiny Company. Marla's uncle Leon, advised her to clean up her poor credit history by paying off her past due bills and reducing her high credit card balances. She responded, "I don't need a good credit record to apply for a job. Employers only look at your employment record, and I've been a good employee at Tiny Company. Why would a company care about your credit history, as long as you show up every day and do a good job?"

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**DISCUSSION QUESTIONS AND ACTIVITIES**

**1. DEBATE**

Some people think that it is a good idea to "carry a balance" on your credit card, which means that you don't pay off your full balance each month, but instead pay off just a portion of the balance. One reason commonly given is that the credit card company will value you more as a customer, because you will be paying interest on the balance that you are carrying.

Other people feel just as strongly that it's better to be a "balance payer," and thereby avoid interest charges completely.

Create two debate teams, one for the proposition that it's smart to "carry a balance," the other for the proposition that it's better to be a "balance payer." Each team should research its position to identify valid arguments in favor of its proposition. Each team should also research the opponent's position, to try to anticipate arguments the opponent is likely to make. Each team should include mathematical examples involving interest charges. The formula for interest is:

$$\text{Interest} = \text{Balance} \times \text{interest rate} \times \text{time}$$

For example, one month's interest on a \$3,000 balance at 21% interest would be:

$$\text{Interest} = \$3,000 \times .21 \times 1/12$$

$$\text{Interest} = \$52.50$$

After this research is completed, the two teams can debate this issue.

**2. NEWSCAST**

Many actual news stories in recent years have described the growth in credit card use among young people. They have noted that there have been large increases in:

- The number of credit cards the typical young person has.
- The dollar balance carried on these cards.
- The interest paid on these cards.
- The number of credit problems (e.g. bankruptcies) young people experience.

Depending on the class size, create teams to research this issue. Next, the teams can develop and present mock newscasts on the subject. If you wish, you can make this into a competition. If you do so, it is recommended that it be required of each team that it submit a script before any newscasts are presented, so that teams that present later are not unfairly advantaged by having access to the research done by the teams that presented earlier. It is recommended that the teams weave into their newscasts a discussion of interest charges. The formula for interest is:

$$\text{Interest} = \text{Balance} \times \text{interest rate} \times \text{time}$$

For example, one month's interest on a \$5,000 balance at 18% interest would be:

$$\text{Interest} = \$5,000 \times .18 \times 1/12$$

$$\text{Interest} = \$75$$

**3. SKIT**

Having a bad credit rating (history) can be harmful in a number of ways. For example, it may result in a lender refusing to extend credit to you in the future, or requiring that you pay a very high interest rate to get a loan. Create and present a skit showing the numerous scenarios that a person with bad credit might confront. It is recommended that the skit include a segment dealing with interest charges. The formula for interest is:

$$\text{Interest} = \text{Balance} \times \text{interest rate} \times \text{time}$$

For example, the interest on a \$10,000, six month loan at 15% interest would be:

$$\text{Interest} = \$10,000 \times .15 \times 6/12$$

$$\text{Interest} = \$750$$

**CREDIT AND CREDIT CARDS****VOCABULARY LIST**

**annual fee** - Yearly fee charged by some credit card companies.

**ATM cash advance** - Using your credit card to get cash from an automated teller machine.

**balance payer** - Someone who pays off his or her entire credit card balance each month.

**balance transfer** - Paying off one credit card balance by transferring it to another credit card.

**credit** - Borrowing money and promising to pay it back later.

**credit card solicitations** - Advertisements sent in the mail inviting you to apply for credit cards.

**credit cards** - Plastic cards used to make purchases on credit.

**credit inquiry** - A lender's check of your credit rating.

**credit line** - The maximum amount you can borrow on a credit card.

**credit rating (history)** - A detailed record of past borrowing and credit payments.

**debit cards** - Plastic cards used to pay for purchases with funds you have in a bank account.

**grace period** - Time period following your credit card statement date where no interest is charged if paid in full during grace period.

**interest** - Fee paid to a lender for use of money.

**interest rate** - Annual percentage which when multiplied by your credit card balance equals the interest charge.

**late fee** - Yearly fee charged by some credit cards.

**loan consolidation** - Paying off all of your current loan balances by taking out one new, large loan.

**minimum payment amount** - The minimum amount you must pay this month.

**purchase enabler** - Using a credit card to make transactions where you already have the money in the bank and will pay the bill off in full each month.

**store credit cards** - Cards issued by specific stores, for use in that company's stores only.

**teaser rates** - Low, temporary interest rates offered by some credit cards.

**debit cards** - Plastic cards used to pay for purchases that are withdrawn from funds you have in a bank account.

**late fee** - Fee charged for a late payment.

**CREDIT AND CREDIT CARDS****USE THE CORRECT TERM**

**Directions:** Find the right word or term from the vocabulary list that completes the following statements.

1. To find your interest charge, you would multiply the \_\_\_\_\_ by your credit card balance.
2. Last month Lydia only paid the \_\_\_\_\_ on her credit card, the smallest amount allowed.
3. If you are not careful with the use of credit, you can damage your \_\_\_\_\_.
4. Sam paid his credit card bill five days after it was due and was charged a \_\_\_\_\_.
5. Maria uses her credit card to buy things only when she already has the money in the bank, or as a \_\_\_\_\_.
6. Mario is a \_\_\_\_\_, because he always pays his entire credit card bill each month.
7. If your credit card company informs you that you can charge a greater amount on your card, it means they have increased your \_\_\_\_\_.
8. Nate just received a \_\_\_\_\_ in the mail, inviting him to apply for a credit card.
9. If you borrow money, the extra money you have to pay to the lender is called \_\_\_\_\_.
10. Rick paid off one credit card by using another credit card. This is called a \_\_\_\_\_.