

2.2 Exploring Credit Card Use p. 98

Name _____

Date _____

Goal: Compare credit options that are available to consumers.**EXPLORE** the Math

Jayden saw the new sound system he wanted on sale for \$2623.95, including taxes. He had to buy it on credit and had two options:

- Use his new bank credit card, which has an interest rate of 14.5%, compounded daily. (Because this credit card is new, he has no outstanding balance from the previous month.)
- Apply for the store credit card, which offers an immediate rebate of \$100 on the price but has an interest rate of 19.3%, compounded daily.

As with most credit cards, Jayden would not pay any interest if he paid off the balance before the due date on his first statement. However, Jayden cannot afford to do this. Both cards require a minimum monthly payment of 2.1% on the outstanding balance, but Jayden is confident that he can make regular monthly payments of \$110.

Which credit card is the better option for Jayden, and why?

Bank CC**Store CC**

N =

N =

I% =

i% =

PV =

PV =

PMT =

PMT =

FV =

FV =

P/Y =

P/Y =

C/Y =

C/Y =

A. Jayden could make smaller payments each month or he could pay a different amount each month, as long as each payment is at least 2.1% of the outstanding balance. Why would he choose to make regular payments of \$110 instead?

B. With a partner, decide which credit card, his new bank card or the store card, would be the better option if the conditions were changed as described below. Provide your reasoning.

I. The store credit card offers an immediate rebate of \$200, instead of \$100.

II. The store credit card offers an immediate rebate of \$200, instead of \$100, and has an interest rate of 20.3%, compounded daily.

III. Jayden's new bank credit card has an interest rate of 13.5%, instead of 14.5%, compounded daily.

I.

II.

III.

N =

N =

N =

I% =

I% =

I% =

PV =

PV =

PV =

PMT =

PMT =

PMT =

FV =

FV =

FV =

P/Y =

P/Y =

P/Y =

C/Y =

C/Y =

C/Y =

In Summary

Key Ideas

- Incentives or promotions are sometimes offered to entice people to use credit cards. For example, an immediate cash rebate may be offered on the first purchase using a credit card. Low interest rates, rewards, or no annual fees may also be offered.
- The full cost of borrowing should be considered before making a decision about using a credit card. This includes the total interest charged, as well as the total payments and the time it will take to pay off the balance.

Need to Know

- Credit cards usually have a minimum amount that must be paid each month, based on a percent of the outstanding balance. If there is no outstanding balance from the previous month and the new balance is paid off in full by the payment due date, no interest is charged.
- If a credit card does not have an outstanding balance and it is used for a single purchase, it can be treated as a loan. The purchase price is the principal borrowed, and regular payments can be made until the balance is paid off.
- The cost of using credit is not just the amount of interest charged. There are incentives, such as cash rebates, that reduce the principal. This may end up costing more in interest but result in a lower total loan payment amount.