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|  | **Semester Course****5.2 How Credit Cards Work**Student Activity PacketUNIT: TYPES OF CREDIT |

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### Name:

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| In this lesson, you will learn to:  * Explain how a credit card works in terms of making purchases and managing payments * Read a Schumer box and identify how terms of the card impact total cost of purchases * Understand how interest is charged and how to avoid or minimize it |

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| **RESOURCES** | QUESTIONS |
| |  |  | | --- | --- | | **1** | [**Discussion Prompts**](https://docs.google.com/presentation/d/15tt89B7wJS3KzzkBNaNPHuLefijmFnliiyPkiiWaGwU/edit#slide=id.p)  Discuss these questions with your classmates or with a partner. | | *Estimated time: 5 mins*   1. What do you already know about credit cards?      1. How does this shape your view of them? |
| |  |  | | --- | --- | | **2** | [**Credit Card Debt Explained**](https://edpuzzle.com/media/5c8fdbdce9ec1f40a9ff2568)  Before you decide if opening and using a credit card is the right move for you, you need to understand exactly how they work. Otherwise, you can end up in some serious debt that is hard to dig out of. Watch this video to learn more. Then follow your teacher’s directions to answer the questions either within the EdPuzzle itself or on this document.  *NOTE: EdPuzzle videos shuffle answer choices and do not always match the order provided in the lesson here.* | | *Estimated time: 5 mins*   1. Which best describes how a credit card works?    1. The credit card company extends you a line of credit. You then pay a small percentage of the cost of those purchases in one annual payment.    2. The credit card company extends you a line of credit. You purchase "stuff" and the purchase gets directly paid with funds in your checking account.    3. The credit card company extends you a line of credit. This is free money that you can use to purchase the "stuff" that you need.    4. The credit card company extends you a line of credit. You purchase "stuff" and then have the choice to pay the balance in full or a minimum payment each month. 2. What is the advantage of paying your credit card balance in full each month?    1. You will incur only a small "paid in full" fee on your next credit card statement.    2. You pay only a small amount of interest.    3. You have less of your credit limit available, therefore, less temptation to spend.    4. You avoid paying any interest and fees. 3. What is an outstanding balance?    1. The amount you paid in your minimum payment    2. The amount you spent in total    3. The amount you still owe after you have made your most recent payment    4. The amount you still have in your life of credit 4. Why is it more difficult to get out of debt when only paying the minimum payment?    1. Your entire minimum payment goes toward principal and the interest continues to compound.    2. The majority of your minimum payment is going toward interest and finance charges and only a small amount toward the principal.    3. Your credit limit always resets, so you have a lot of spending power each month. 5. The video advises you to "be a deadbeat". What does that mean?    1. Pay your credit card bill in full and on time every single month, thus paying no interest or fees.    2. Make the minimum payment on your credit card on time each month.    3. Never open a line of credit so the credit card companies do not make any money. |
| |  |  | | --- | --- | | **3** | [**Cat Insanity**](https://playcatinsanity.com/)  The previous video illustrated some of the math behind credit card interest and payments and warned about going into debt. But what does it FEEL like to be swimming in overwhelming debt? Play this game to experience a lighthearted version of compounding debt, and then answer these questions. | | *Estimated time: 10 mins*   1. Use these sentence starters to explain how Cat Insanity is an analogy for debt repayment.    1. The multiply rate is…    2. The # of cats is…    3. Your food scoops are…    4. An underfed cat is…    5. A dead cat is… 2. If you had to make a real-life decision involving debt, what would you do differently as a result of playing the game? |
| |  |  | | --- | --- | | **4** | [**Decipher Credit Card Offers With the Schumer Box**](http://www.wisebread.com/decipher-credit-card-offers-with-the-schumer-box)  Because it can be easy to fall into a cycle of debt if you don’t understand the terms of your credit card agreement, Congress passed the Truth in Lending Act (1988) to standardize how credit card information must be presented. Skim the introductory article and then briefly review the Schumer Box provided so you can answer the question. | | *Estimated time: 5 mins*   1. While ALL the information in a Schumer Box is important, which items do you think matter most on a day-to-day basis? |
| |  |  | | --- | --- | | **5** | **[FINE PRINT: Schumer Box](https://docs.google.com/document/d/1RTS2CTPiUxbewhd1aPd4ud_DtuTqxwgCZV8g_SvzwA0/edit)**In this activity, you will explore a credit card agreement, called a Schumer Box, in more detail to understand its various components. Then, you will answer questions using the sample Schumer Box below. | | *Estimated time: 12 mins* |