

Section 2—Use of Credit

Title of Lesson/Subject: *Credit Lesson Plan*

Prepared by:

Contact Information

E-mail address:

Phone:

Time Allotment:

This lesson will take approximately two class periods, 55 minutes long

Grade Level:

High school students

ND Standards Competencies:

Key Economic Concepts:

Brief Description:

Learner Objectives:

Upon completion of this unit, students will be able to:

- Explain the cost of borrowing with interest
- Compare the costs of different borrowing options, based on terms and interest rates
- Define and explain the benefits of having good credit
- Understand the differences between various options for paying off credit cards

Introduction:

This lesson plan was adapted from a CD-ROM received from Wells Fargo Bank entitled “Banking on Our Future.” The CD-ROM contains some lessons and a lot of useful information. I have added to their materials and adapted it to use in my accounting classes. A PowerPoint presentation is included in the CD-ROM along with activities and answer keys. I think it would be a good idea to have a guest speaker come in from one of the banks in town to add to this lesson.

Materials Needed:

Audio/Visual Equipment Needed:

“Banking on Our Future”—CD-ROM (lessons, materials, PowerPoint presentation—from Wells Fargo Bank)

Lesson Outline:

Day One

Show slides 1-11 of the PowerPoint presentation, “Banking on Our Future” (20 minutes). These slides cover the following topics:

- Define credit and interest
- Explain how to obtain credit
- What determines good or bad credit?
- Define installment loans

Assign the Loan Activity Worksheet. This is a short activity in which the students determine the difference between different payment options (10 minutes).

Show slides 12-15 of the PowerPoint presentation (15 minutes). These slides cover the following topics:

- Things you can do if your loan isn't approved
- Steps you can take to improve your chances of getting a loan
- Define credit card
- Go over example explaining how to compute interest on credit cards

Assign the Credit Card Activity Worksheet. This is an activity in which the students answer questions about different payment options with credit cards (10 minutes).

Day Two

Review over the previous days information on credit and credit card (5 minutes).

Show the remaining slides (16-20) of the PowerPoint presentation. Spend some time going over the different scenarios presented in the slide show. Make sure they understand the consequences of paying only the minimum balance, missing payments, or making late payments. Give examples of students who have gotten into credit card debt beyond their ability to pay. You could ask the students if they know anyone who has gotten into deep credit card debt. Get some class discussion going about this very important topic (35 minutes).

Assign the Internet Credit Card Activity. This is an activity in which the students use an online credit card calculator to answer the questions relating to different payment and APR options on a \$500 credit card balance (15 minutes).

Resources:

Activities:

Loan Activity Worksheet & Key (attached)
Credit Card Activity Worksheet & Key (attached)
Internet Credit Card Activity & Key (attached)

Application/Assignment:

Evaluation Plan:

The students will be assessed by the student activities provided with the lesson and their participation in the class discussion.

Loan Activity Worksheet **KEY**

Name _____ Hour _____

Answer the following:

3. Anna borrowed \$10,000 to buy a new car. If the loan is repaid over 24 months, the monthly payment, including interest, is \$450. If the loan is repaid over 48 months, the monthly payment, including interest, is \$245.

- a. What is the difference in the price of the car between the two payment options?

$$48 \times \$245 = \$11,760$$

$$24 \times \$450 = \underline{\$10,800}$$

$$\$ \quad 960$$

- b. Explain why Anna might choose each of these two options.

She will pick the option that her budget supports best. The longer-term loan is tempting because the payments are smaller, but the actual total cost of the loan is higher. What is important is that you can afford the monthly payments over the life of the loan.

4. Steve took out a loan for \$5,000 to help pay for his college education. If he repays the loan over 24 months, he will pay \$223.96 a month. If he repays the loan over 48 months, he will pay \$45.96 less each month.

- a. How much will Steve pay if he repays it over 24 months?

$$24 \times \$223.96 = \$5,375.04$$

- b. How much **more** will the loan cost Steve if he repays it over 48 months?

$$\$223.96 - \$45.96 = \$178.00$$

$$48 \times \$178 = \$8,544.00$$

$$\$8,544.00 - \$5,375.04 = \$3,168.96$$

Credit Card Activity Worksheet, continued

Dave making payments of \$20 a month			
Balance	Monthly payment	New balance	Interest at 18% APR
\$250.00	\$20.00	\$230.00	\$3.45
\$233.45	\$20.00	\$213.45	\$3.20
\$216.65	\$20.00	\$196.65	\$2.95
\$199.60	\$20.00	\$179.60	\$2.69
\$182.29	\$20.00	\$162.29	\$2.43
\$164.72	\$20.00	\$144.72	\$2.17
\$146.89	\$20.00	\$126.89	\$1.90
\$128.79	\$20.00	\$108.79	\$1.63
\$110.42	\$20.00	\$90.42	\$1.36
\$91.78	\$20.00	\$71.78	\$1.08
\$72.86	\$20.00	\$52.86	\$0.79
\$53.65	\$20.00	\$33.65	\$0.50
\$34.15	\$20.00	\$14.15	\$0.21
\$14.36	\$20.00	\$0.00	\$0.00

Credit Card Activity Worksheet **Key**

Name _____ Hour _____

Using the following tables, compute the answers to the following questions.

5. Dave purchased a \$250 TV set with his credit card. The bank charges 18% APR on the unpaid balance on his credit card (1.5% each month). Use the table below. How long will it take Dave to pay for the TV if he makes payments of \$80 a month? **(4 months)**

Dave making payment of \$80 a month			
Balance	Monthly payment	New balance	Interest at 18% APR (1.5% monthly)
\$250.00	\$80.00	\$170.00	\$2.55
\$172.55	\$80.00	\$92.55	\$1.39
\$ 93.94	\$80.00	\$13.94	\$0.21
\$14.15	\$14.15	\$0.00	\$0.00

6. Use the table on the following page. How long will it take Dave to pay for the TV if he makes payments of \$20 a month, and the interest rate is 18% APR (1.5% each month)?

(14 months)

7. Including the interest, what will the final cost of the TV if Dave makes payments of \$80 a month?

$$\mathbf{\$2.55 + \$1.39 + \$0.21 = \$4.15}$$

$$\mathbf{\$4.15 + \$250 = (\$254.15)}$$

8. Including the interest, what will be the final cost of the TV if Dave makes payments of \$20 a month?

$$\mathbf{\$3.45 + \$3.20 + \$2.95 + \$2.69 + \$2.43 + \$2.17 + \$1.90 + \$1.63 + \$1.36 + \$1.08 + \$0.79 + \$0.50 + \$0.21 = \$24.36}$$

$$\mathbf{\$24.36 + \$250 = (\$274.36)}$$

Credit Card Activity Worksheet, continued

Dave making payments of \$20 a month			
Balance	Monthly payment	New balance	Interest at 18% APR
\$250.00	\$20.00	\$230.00	\$3.45
\$233.45	\$20.00	\$213.45	\$3.20
\$216.65	\$20.00	\$196.65	\$2.95
\$199.60	\$20.00	\$179.60	\$2.69
\$182.29	\$20.00	\$162.29	\$2.43
\$164.72	\$20.00	\$144.72	\$2.17
\$146.89	\$20.00	\$126.89	\$1.90
\$128.79	\$20.00	\$108.79	\$1.63
\$110.42	\$20.00	\$90.42	\$1.36
\$91.78	\$20.00	\$71.78	\$1.08
\$72.86	\$20.00	\$52.86	\$0.79
\$53.65	\$20.00	\$33.65	\$0.50
\$34.15	\$20.00	\$14.15	\$0.21
\$14.36	\$20.00	\$0.00	\$0.00

Internet Credit Card Activity

Name _____ Hour _____

Go to the following web site to determine the answers to the following questions.

www.creditcardcomputer.com

\$500 @ 25% APR

1. How long would it take to pay it back making payments of \$15 a month?

2. How much interest would you pay in 5 years making payments of \$15 a month?

3. How much per month would you need to pay to have your balance paid off in 1 year? _____
4. How long would it take to pay it back making payments of \$20 a month?

5. How much interest would you pay in 5 years making payments of \$20 a month?

\$500 @ 18% APR

6. How long would it take to pay it back making payments of \$15 a month?

7. How much interest would you pay in 5 years making payments of \$15 a month?

8. How much per month would you need to pay to have your balance paid off in 1 year? _____
9. How long would it take to pay it back making payments of \$20 a month?

10. How much interest would you pay in 5 years making payments of \$20 a month?

\$500 @ 9.9% APR

11. How long would it take to pay it back making payments of \$15 a month?

12. How much interest would you pay in 5 years making payments of \$15 a month?

13. How much per month would you need to pay to have your balance paid off in 1 year? _____
14. How long would it take to pay it back making payments of \$20 a month?

15. How much interest would you pay in 5 years making payments of \$20 a month?

16. Explain what you have learned about using credit cards.

Internet Credit Card Activity **Key**

Name _____ Hour _____

Go to the following web site to determine the answers to the following questions.

www.creditcardcomputer.com

\$500 @ 25% APR

17. How long would it take to pay it back making payments of \$15 a month?
58 months
18. How much interest would you pay in 5 years making payments of \$15 a month?
\$362.54
19. How much per month would you need to pay to have your balance paid off in 1 year? **\$47.52**
20. How long would it take to pay it back making payments of \$20 a month?
36 months
21. How much interest would you pay in 5 years making payments of \$20 a month?
\$213.65

\$500 @ 18% APR

22. How long would it take to pay it back making payments of \$15 a month?
47 months
23. How much interest would you pay in 5 years making payments of \$15 a month?
\$359.46
24. How much per month would you need to pay to have your balance paid off in 1 year? **\$45.84**
25. How long would it take to pay it back making payments of \$20 a month?
32 months
26. How much interest would you pay in 5 years making payments of \$20 a month?
\$131.39

\$500 @ 9.9% APR

27. How long would it take to pay it back making payments of \$15 a month?
40 months
28. How much interest would you pay in 5 years making payments of \$15 a month?
\$150.85
29. How much per month would you need to pay to have your balance paid off in 1 year? **\$43.93**
30. How long would it take to pay it back making payments of \$20 a month?
29 months
31. How much interest would you pay in 5 years making payments of \$20 a month?
\$62.28

32. Explain what you have learned about using credit cards. (5 points)