

CALCULATE: Shopping with Interest

This activity will illustrate how even smaller purchases cost more when you purchase on a credit card and do not pay the balance in full each month. For this activity, we will use the [credit card calculator](#) from bankrate.com; open it in another window. We also make these assumptions:

- Your credit card's interest rate (APR) is 19.9%.
- The minimum payment due each month is 3% of your **starting** balance.

Part I: Practice with an Example

1. Suppose you have a credit card bill of \$1,275 for the month of October. If you pay the full balance before your bill is due, how much will you pay in interest?

2. With your bill paid off and starting back at \$0, the latest video game comes out and costs \$60. You put it on your credit card and can't afford to pay the whole bill all at once, so you make the minimum payment each month.
 - a. How much is that minimum payment?

- b. Use the credit card calculator to determine how much total interest you'll pay on this debt.

- c. When you include the purchase price **and** the interest, how much does the video game cost you in total?

3. Assume your balance is back at \$0. You desperately want a TV for your bedroom, but you don't have any money saved. You put the \$229 TV on your credit card and make the minimum monthly payment each month.

a. How much is that minimum payment?

b. Use the credit card calculator to determine how much total interest you'll pay on this debt.

c. When you include the purchase price **and** the interest, how much does the TV cost you in total?

4. What happens if you buy that same TV but you pay \$20 per month instead of just making the minimum monthly payment?

a. Use the credit card calculator to determine how much total interest you'll pay on this debt.

b. When you include the purchase price **and** the interest, how much does the TV cost you in total?

Part II: Choose Your Own Expenses

5. Using your own knowledge or internet research on the initial cost of the items, complete the chart below to determine the total cost of your purchase if you use a credit card and do NOT pay the bill in full each month but rather make only the minimum monthly payment.

Description of the Purchase	Purchase Price	Minimum Monthly Payment	Interest	Total Cost of the Item
a new outfit to wear to a friend's party				
the total cost of attending prom (attire, flowers, transportation, ...)				
purchasing holiday or other gifts for your immediate family and 2 best friends				
YOUR CHOICE (>\$100):				
YOUR CHOICE (>\$500):				

Part III: Summarize

5. Summarize the effect of credit card interest on the real cost of items.

6. What are some strategies consumers can use to reduce the amount of interest they'll pay on credit card debt?