

**Bah-Da, Dah-Dot, Da-Da,
CHARGE!
...But to which card?**

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Lesson Plan Contest 2007

Second Place

LESSON DESCRIPTION

In this lesson students learn

- 1) About the various types of credit cards and credit card offers, allowing them to get a better understanding of the pros and cons of managing a credit card account.
- 2) They will be introduced to related terms and concepts.
- 3) Then, the class will locate information on the Federal Reserve Web site and use the information provided to answer the worksheet questions.
- 4) Next, the class will choose the card it feels is best for various scenarios.
- 5) Finally, they will compare and contrast various credit cards by using the Federal Reserve checklist and decide which card would be best for them.

GRADE LEVEL

Secondary level (grades 9–12)

CONCEPTS IN ECONOMICS AND PERSONAL FINANCE

- Economic Decision Making
- Costs and Benefits
- Trade-offs
- Opportunity Cost
- Credit Cards
- Debit Cards
- Principal
- Interest
- Annual Percentage Rate (APR)
- Finance Charges

NATIONAL CONTENT STANDARDS IN ECONOMICS

Standard 1: Scarcity

- **Benchmark 7 for 4th grade:** The opportunity cost of a choice is the value of the best alternative given up.
- **Benchmark 3 for 8th grade:** Choices involve trading off the expected value of one opportunity against the expected value of its best alternative.
Benchmark 4 for 8th grade: The choices people make have both present and future consequences.
- **Benchmark 5 for 8th grade:** The evaluation of choices and opportunity costs is subjective; such evaluations differ across individuals and societies.

Standard 10: Role of Economic Institutions

- **Benchmark 1 for 4th grade:** Banks are institutions where people save money and earn

interest, and where other people borrow money and pay interest.

Standard 12: Role of Interest Rates

- **Benchmark 1 for 12th grade:** An interest rate is a price of money that is borrowed or saved.

NATIONAL JUMPSTART PERSONAL FINANCE STANDARDS

Spending and Credit Standards:

- **Benchmark 4 for 12th grade:** Making minimum payments on credit card balances increases the total cost and repayment time.
- **Benchmark 5 for 12th grade:** Understanding credit card disclosure information is key to controlling borrowing costs.
- **Benchmark 6 for 12th grade:** Consumers with excessive debt have a number of options.
- **Benchmark 8 for 12th grade:** Laws and regulations offer specific consumer protections.
- **Benchmark 9 for 12th grade:** Negative information in credit reports can affect your financial future.

TENNESSEE STANDARDS

Taken from the state of Tennessee Department of Education website:

<http://tennessee.gov/education/ci/standards/>

A. Standard 4.0: Governance and Civics

1. **Standard:** Governance establishes structures of power and authority to provide order and stability. Civic efficacy requires understanding rights and responsibilities, ethical behavior, and the role of citizens within their community, nation, and world.
2. **Learning Expectations:** 4.1 — The student will understand the economic roles and responsibilities of citizens living in a democratic society.

B. Standard 6.0: Individuals, Groups, and Interactions

1. **Standard:** Personal development and identity are shaped by factors including culture, groups, and institutions. Central to this development are exploration, identification, and analysis of how individuals and groups work independently and cooperatively.
2. **Learning Expectations:** 6.1 — The student will understand the elements of personal and fiscal responsibility.

OBJECTIVES

Students will:

- Identify the terms and processes used to apply for a credit card.
- Display an understanding of the correct procedures in credit card use as well as responsibilities of usage.
- Identify how credit cards can lead to debt.
- Differentiate between a credit card and a debit card.
- Understand the difference between a finance charge and an annual percentage rate.

TIME REQUIRED

Two 90-minute classes.

MATERIALS

- ***How to Establish, Use and Protect Credit***, pamphlet from the Federal Reserve Bank of Philadelphia. (Order from: www.philadelphiafed.org)
- ***Choosing a Credit Card***, a brochure found on the Federal Reserve Web site: <http://www.federalreserve.gov/pubs/shop/default.htm>
- ***Checklist for Comparing Credit Cards***, on the *Choosing a Credit Card* Web site: <http://www.federalreserve.gov/pubs/shop/checklist.htm>

Note: A classroom set of the *Choosing a Credit Card* brochure above, along with the checklist, is available as a hard copy, free from the Federal Reserve. They can be ordered by telephone (202-452-32450[check phone number-RS]) or online from the Federal Reserve System Publications Catalog (<http://www.newyorkfed.org/publications/result.cfm>).

Or complete and fax the order form at (<http://www.federalreserve.gov/pubs/order.htm>) to the Federal Reserve Board's Publications Fulfillment staff at 202-728-5886 or mail it to: Board of Governors of the Federal Reserve System, Publications Fulfillment, MS-127, Washington, DC 20551.

- ***Survey of Credit Card Plans***, on the *Choosing a Credit Card* Web site:

<http://federalreserve.gov/pubs/shop/survey.htm>

- ***Visual 1: The Disclosure Box***
- ***Activity 1: Choosing a Credit Card Worksheet*** (Make one copy for each pair of students.)
- ***Activity 2: Choosing a Credit Card Worksheet (Answers)***
- ***Activity 3: Credit Card Scenarios*** (Make one copy on cardstock and cut out the cards.)
- ***Activity 4: Costs and Benefits Chart*** (Make one copy for each student.)

PROCEDURE

1. Introduction

- a. Prior to this lesson, distribute the pamphlet, "How to Establish, Use, and Protect Credit," produced by the Federal Reserve Bank of Philadelphia, making this an introductory reading assignment for homework.
- b. To introduce the class to the concept of credit, write the three questions below on the board and discuss how students should use them when making purchases as consumers.
 1. Do I really require this item?
 2. Can I postpone purchasing the item until later?
 3. Can I afford to borrow or use credit?
- c. Explain and discuss the following terms and concepts:
 - ***Credit*** — Receiving money to buy goods and services now, with the promise to repay the money in the future.
 - ***Credit Card*** — A credit card is a method of borrowing money for a purchase now. The borrowed money and a finance charge must be repaid later.
 - ***Debit Card*** — A debit card immediately pays at the time of purchase. Money is taken from the purchaser's checking account electronically. No finance charge is applied. It is similar to writing a check.

- **Principal** — The amount of money originally borrowed in a loan.
- **Interest** — The amount of money that the borrower must pay to the lender for the use of the borrowed money. With a credit card this is usually called a finance charge.
- **Annual percentage rate (APR)** — The cost of credit (finance charge) expressed as a yearly percentage.
- **Grace Period** — The number of days available to pay a bill in full without triggering a finance charge.
- **Credit Limit** — The total amount that can be charged to a credit card without suffering a penalty.

2. Exploring Credit Cards

- a. Tell students that today they will begin to learn how to select a credit card that will be appropriate for their own use.
- b. Distribute to each student a copy of the handout, *Activity 1: Choosing a Credit Card Worksheet*.
- c. Choose one of the following methods to present the “Choosing a Credit Card” material:
 1. If the class has access to a computer lab, have them explore the Federal Reserve’s Web site called, “Choosing a Credit Card.” (www.federalreserve.gov/pubs/shop/default.htm) Have students work in pairs using the Web site to find answers for the worksheet.
 2. If the class does not have access to a computer lab, or if using a hard copy is preferred, distribute copies of the booklet, “Choosing a Credit Card,” available by mail, fax, telephone, or online from the Federal Reserve Bank (<http://www.newyorkfed.org/publications/result.cfm>). Have students work in pairs using pages 1–14 in this booklet to find answers for the worksheet.

- d. After students have completed the assignment, conduct a class discussion and go over the answers to the worksheet, as found in *Activity 2: Choosing a Credit Card Worksheet (Answers)*.
- e. Explain to students that federal law requires all solicitations and applications for a credit card to contain a disclosure box with basic information about the card.
- f. Demonstrate by either displaying *Visual 1: The Disclosure Box*, or using the disclosure box on the Web site. If you are using the hard copy brochures, have students follow along in their booklet, on pages 12–14. Go over information found in the box. If available, show students applications you have received in the mail, pointing out the disclosure boxes on each.

3. Who Needs a Credit Card?

- a. Tell students that they will now explore some credit card scenarios for various people. They should consider each situation carefully and decide whether the people in the scenario need a credit card. If so, they should decide which credit card features would be most important when choosing a card.
- b. Using the cards cut from *Activity 3: Credit Card Scenarios*, have selected students draw a card from the stack and read it aloud to the class. Have the class discuss each situation. Help them come to good conclusions as suggested below.
 1. The Millers are a young family of four, with both parents working. Phil is thinking about getting a new car in a year or two, and both he and Tonya will want to buy a house some day. They are thinking about getting a credit card now even though they don’t have a lot of need for credit now. *(This family might benefit from a credit card, using it for small purchases, buying things by telephone or Internet, and/or using it in an emergency. This way they can build up their credit so that they will be able to finance a car or a house in the future.)*

2. Allison Smith is a single mom with three young children. She has a good job, but she also has many expenses with the children and only one income in the household. She is considering getting a credit card. ***(A credit card might be helpful to her for emergencies, but it could easily lead to debt because a single mom might not have the finances to pay it off. She should be careful.)***
3. Joe Washington is a recent college graduate, but he has not started a job in his degree field. He is currently working in retail and has numerous expenses for material things. He wants a credit card. ***(Joe might be tempted to use his credit card as income in this situation, which could lead to huge debt. Remind students of the "boomerang kids" who become forced to move back into their parent's homes due to financial difficulties.)***
4. Tina Gonzalez is a college freshman in the first week of school. She is bombarded with credit card applications, many of which mention something about special "student rates." Tina is starting a part-time job, and she is sure she'll be able to get a good job after graduation. She is wondering if a credit card is right for her. ***(A credit card might not be a good idea for Tina. Credit card debt and student loans are the big reasons many students graduate with huge debts. Tina might be better off with a debit card.)***
5. Jennifer Wilson was married but recently got divorced. She had a credit card when she was married, but she is depending upon her ex-husband to pay it off. She is wondering whether she should get another credit card. ***(Students should understand that divorce does not erase debts incurred previously. Jennifer should be certain that her ex-husband pays off the previous credit card, so that her credit standing will not be damaged. It would be a good idea for her to establish credit independently with a new card in her name only.)***
6. James Cole is excited because he has just gotten his first job. He wants to get a credit card so that he can buy new things and pay for them on time. He has decided that the most important thing for him is to get a card with a low minimum payment so that he won't have large bills to pay each month. ***(James needs to realize that a low minimum payment only postpones the repayment of the debt, and it can cause the total payment to be much greater because of the interest that he must keep paying on the debt over time. He should be thinking more about a card with a low APR, if he plans to pay it off slowly. If he doesn't understand this, perhaps having a credit card is not a good thing for him.)***
7. Tommy Jones has had a good job for a couple of years and is considering getting a credit card. He has been thinking about traveling and thinks it might be a good idea to get a card that offers frequent flyer miles. ***(Airline miles and other rewards are sometimes offered as incentives, to get people to use the cards. If Tommy is going to fly a lot, this card might be good for him, but he should watch out for large annual fees or high APR's.)***
8. Marcus and Shontel Thomas both have had good jobs for several years and want to get a credit card. They expect to pay off all charges in full each month to keep from having to pay finance charges. They are trying to decide what kind of card to get. ***(They would be wise to get a card with no annual fee, and a longer grace period, to help them with getting the card paid off each month. The APR is not as important, if they can truly pay the entire charges on***

time each month. They will need to take care to do this if the APR is high.)

9. Felicia Williams has a good job and wants a credit card. She expects to carry over a balance each month as she buys the things she needs for her new apartment. *(She should be careful about adding more to the card each month, so that her payments don't get too high. She needs to look for a card with a low APR.)*
10. Bill Johnson often finds that he cannot make it to his next payday on the money he makes. He wants a card to get cash advances when he needs them. *(Bill should think twice about getting cash advances, because there may be large cash-advance fees. A credit card probably would not be a good idea for him. If he cannot manage on his current salary, he probably would not be able to make the payments on the card each month. But if he does decide to do this anyway, he should get a card with a lower APR, and he should watch out for high cash-advance fees.)*

- c. Help students conclude that not all people need credit cards. Some might do better with debit cards. Those who do want a credit card should consider the features of the cards carefully when choosing a card.

4. A Cost-Benefit Analysis

- a. Demonstrate for students how they can find information about different credit cards from the Federal Reserve's *Survey of Credit Card Plans*. (<http://federalreserve.gov/pubs/shop/survey.htm>) If you are not using computers, print out some hard copies of the survey for students to use.
- b. To work with the *Checklist for Comparing Credit Cards*, have students use pages 2–3 in the booklet, or print out copies from the Web site if using the computers. (<http://federalreserve.gov/pubs/shop/>

[checklist.htm](#)). Then have each student choose three credit cards from the survey and fill in the information about each on the Checklist, under "Card A," "Card B," and "Card C."

- c. Explain that not all credit cards will be the best for all people. Which credit card to choose will depend upon what is important to the individual. To make decisions about the credit cards, the individual should consider the **cost and benefits** of each credit card. Explain to students that benefits are the advantages of each alternative card. Costs are the disadvantages or the things given up.
- d. Distribute *Activity 4: Costs and Benefits Chart* to students. Have students list the three cards in the left column. Then they should compare the three cards on their checklists, and transfer information about the costs and benefits of each card from their checklists to the appropriate column on the chart. Explain that this chart will make it easier for them to compare cards and make a decision.
- e. Have students examine the information they have collected, and decide which of their three credit cards would be preferable for their individual use. Explain that people often give up some of one thing to get a little more of something else, and the results are called **trade-offs**. Tell students that they may have to make some trade-offs when choosing a credit card, giving up something in one category to get a better situation in another category.
- f. Tell students to rank the cards they examined according to their preferences. If students cannot find a card from their list that fits their needs, tell them to return to the survey, and find a better card.
- g. Explain that the most valuable alternative given up when you make a choice is called your **opportunity cost**. Tell students to determine not only their choice, but also their opportunity cost — the second-best credit card — that they must give up. Explain that if their choice was difficult because the second-best card was almost

as good as their first choice, then their opportunity cost was high.

- h. Have students present their selections to the class and give reasons for their choices.

CLOSURE

Use the following questions to review the main points of the lesson:

1. Why do people go into debt? *(They feel they must purchase certain items that they want right away and they want to spread the payments over the life of the item being purchased.)*
2. What is the difference between a credit card and a debit card? *(A credit card allows for payments on a purchase at a later date with a finance charge applied. A debit card charges the purchaser's account electronically from available money and no finance charge is applied.)*
3. How does a credit card account work? *(It allows a person to use the card to make purchases at the present time without paying cash and then repay the amount plus interest at a later time.)*
4. What is the difference between a finance charge and an APR? *(A finance charge is the cost of credit expressed in dollars and cents, and an APR is the cost of credit expressed as a yearly percentage.)*
5. What are the costs and benefits when a choice is made? Describe the costs and benefits of your credit card choice. *The benefits are the advantages and the costs are the disadvantages or things given up. Descriptions of the costs and benefits of their choices will vary.*
6. What are trade-offs? What trade-offs did you have to make when choosing a credit card? *Trade-offs occur when people give up some of one thing to get more of something else. Descriptions of trade-offs will vary.*

7. Define opportunity cost. What was your opportunity cost? *Opportunity cost is the highest-valued alternative foregone when a choice is made. The opportunity cost of their credit card choice was the best credit card that they did not choose — the second-best card overall.*
8. What are some questions that individuals should ask themselves before buying on credit?
 - *Do I really require this item?*
 - *Can I postpone purchasing the item until later?*
 - *Can I afford to borrow or use credit?*

ASSESSMENT

Have students write a short essay describing the credit card chosen in this lesson, and their opportunity cost. Students should include the reasons for their choices in the essay. This essay may be a homework assignment.

SUMMARY OF PREVIOUS CLASSROOM USE

The students related well to the lesson because it presented a real world concept. Students at the secondary-level (grades 9–12) are on the verge of having financial independence. Issues dealing with credit and debt will be realities for this age group in just a few years. Students of this age range are already seeking jobs, worried about finances, and wanting goods and services that money can bring.

This lesson will educate those students about the benefits and dangers of using a credit card. Allowing students to see actual examples of credit card applications provides for a practical learning experience.

The students were assessed for an understanding of the lesson by evaluating their responses to questions posed during the class lecture as well as responses to the worksheets.

Finally, part of their unit test was based on the concepts taught in this lesson.

Visual 1: The Disclosure Box

How do I find information about credit cards?

You can find lists of credit card plans, rates, and terms on the Internet, in personal finance magazines, and in newspapers. The Federal Reserve System surveys credit card companies every six months. Go to <http://www.federalreserve.gov/pubs/shop/survey.htm>

You'll need to get the most recent information directly from the credit card company — by phoning the company, looking on the company's Web site, or reading a solicitation or application.

Under federal law, all solicitations and applications for credit cards must include certain information in a disclosure box similar to the one shown below.

<u>Annual percentage rate (APR) for purchases</u>	2.9% until 11/1/06 after that, 14.9%
<u>Other APRs</u>	Cash-advance APR: 15.9% Balance-Transfer APR: 15.9% Penalty rate: 23.9% See explanation below.*
<u>Variable-rate information</u>	Your APR for purchase transactions may vary. The rate is determined monthly by adding 5.9% to the Prime Rate.**
<u>Grace period for repayment of balances for purchases</u>	25 days on average
<u>Method of computing the balance of purchases</u>	Average daily balance (excluding new purchases)
<u>Annual fees</u>	None
<u>Minimum finance charges</u>	\$.50
<u>Transaction fee for cash advances: 3% of the amount advanced</u> <u>Balance-transfer fee: 3% of the amount transferred</u> <u>Late Payment fee: \$25</u> <u>Over-the-credit-limit fee: \$25</u>	
*Explanation of penalty. If your payment arrives more than 10 days late two times within a six-month period, the penalty rate will apply. **The Prime Rate used to determine your APR is the rate published in the <i>Wall Street Journal</i> on the 10th day of the prior month.	

Activity 1:
Choosing a Credit Card Worksheet

***LOCATE THE ANSWERS TO THE FOLLOWING:**

1. What is the first step in choosing a credit card?
2. What does APR stand for?
3. Explain how a card can have multiple APRs.
4. What is the difference between a fixed and variable rate APR?
5. What is meant by credit limit?
6. Identify three incentives that card companies may offer.

***IDENTIFY WHEN A CONSUMER WILL BE CHARGED THE FOLLOWING FEE:**

7. Annual fee —
8. Cash-advance fee —
9. Balance-transfer fee —
10. Late-payment fee —
11. Over-the-credit-limit fee —
12. Credit-limit increase fee —
13. Set-up fee —
14. Return-item fee —
15. Other fees —

***ANSWER THE FOLLOWING:**

16. Identify at least five items that all credit card companies, according to federal law, must disclose to the consumer upon solicitation of offering a new card.

Activity 2:
Choosing a Credit Card Worksheet (Answers)

***LOCATE THE ANSWERS TO THE FOLLOWING:**

1. What is the first step in choosing a credit card? **Determining how it will be used.**
2. What does APR stand for? **Annual Percentage Rate**
3. Explain how a card can have multiple APRs. **It can have different APRs for purchases, cash advances, and balance transfers; tiered APRs for different levels of balance; penalty APRs for late payments; introductory APRs; and delayed APRs.**
4. What is the difference between a fixed and variable rate APR? **Fixed APRs do not change without notification.**
5. What is meant by credit limit? **The maximum total amount the user may charge on the card.**
6. Identify three incentives that card companies may offer. **Answers must include three of the following: rebates, frequent flyer miles, additional warranty coverage, car rental insurance, travel accident insurance, and/or credit card registration.**

***IDENTIFY WHEN A CONSUMER WILL BE CHARGED THE FOLLOWING FEE:**

7. Annual fee — **Charged for having the card.**
8. Cash-advance fee — **Charged when user gets a cash advance.**
9. Balance-transfer fee — **Charged when user transfers a balance from another credit card.**
10. Late-payment fee — **Charged when payment is received after the due date.**
11. Over-the-credit-limit fee — **Charged when user goes over the credit limit.**
12. Credit-limit increase fee — **Charged when user asks for an increase in the credit limit.**
13. Set-up fee — **Charged when a new account is opened.**
14. Return-item fee — **Charged when the user's payment check bounces.**
15. Other fees — **These can be charged when paying by phone, when reporting to a credit bureau, when reviewing accounts, or when providing other customer services.**

***ANSWER THE FOLLOWING:**

16. Identify at least five items that all credit card companies, according to federal law, must disclose to the consumer upon solicitation of offering a new card. **Answer must include five of the following: APRs for purchases, other APRs, variable rate information, grace period for repayment of balances, method of computing the balance for purchases, annual fees, minimum finance charge, transaction fee for cash advances, balance-transfer fees, late-payment fees, and/or over-the-credit-limit fees.**

Activity 3: Credit Card Scenarios

1. The Millers are a young family of four, with both parents working. Phil is thinking about getting a new car in a year or two, and both he and Tonya will want to buy a house some day. They are thinking about getting a credit card now even though they don't have a lot of need for credit at the present time.

2. Allison Smith is a single mom with three young children. She has a good job, but she also has many expenses with the children and only one income in the household. She is considering getting a credit card.

3. Joe Washington is a recent college graduate, but he has not started a job in his degree field. He is currently working in retail and has numerous expenses for material things. He wants a credit card.

4. Tina Gonzalez is a college freshman in the first week of school. She is bombarded with credit card applications, many of which mention something about special "student rates." Tina is starting a part-time job, and she is sure she'll get a good job after graduation. She is wondering if a credit card is right for her.

5. Jennifer Wilson was married but recently got divorced. She had a credit card when she was married, but she is depending upon her ex-husband to pay it off. She is wondering whether she should get another credit card.

6. James Cole is excited because he has just gotten his first job. He wants to get a credit card so that he can buy new things and pay for them on time. He has decided that the most important thing for him is to get a card with a low minimum payment so that he won't have large bills to pay each month.

7. Tommy Jones has had a good job for a couple of years and is considering getting a credit card. He has been thinking about traveling and that it might be a good idea to get a card that offers frequent flyer miles.

8. Marcus and Shontel Thomas both have had good jobs for several years and want to get a credit card. They expect to pay off all charges in full each month to keep from having to pay finance charges. They are trying to decide what kind of card to get.

9. Felicia Williams has a good job and wants a credit card. She expects to carry over a balance each month as she buys the things she needs for her new apartment.

10. Bill Johnson often finds that he cannot make it to his next payday on the money he makes, so he wants a card so that he can get cash advances when he needs them.

**Activity 4:
Costs and Benefits Chart**

	Costs (Disadvantages)	Benefits (Advantages)
Card A:		
Card B:		
Card C:		