



MOUNTAIN MONEY ADVENTURES

KID'S CAMP

Ages
4-12



The Concept of Credit

{ <http://youth.macu.com> }

Mountain America Credit Union knows that it's never too early to start learning critical money management skills. That's why we've put this information together for teachers and educators to use. *Educating today's youth for a better tomorrow.*



UNIT:

The Concept of Credit

OVERVIEW

This lesson and activity will teach students the concepts of credit, interest, and the benefits and dangers of using consumer credit cards and buying with credit.



LESSON #1

Buying on Credit

Students will learn how credit can be useful, traps to avoid, and the penalties of interest. The student will be able to explain the ramifications of buying on credit.

UNIT : The Concept of Credit

LESSON #1

Credit & Interest

This lesson and activity will teach students the concepts of credit, interest, as well as the benefits and dangers of using consumer credit cards and buying with credit.

DISCUSSION

Use the following questions and discussion points as a springboard to get students thinking about the responsibilities associated with credit.

- Have you ever let someone borrow something, with just his or her word as collateral? Did you get it back? Would you lend money?
- Have you ever borrowed money? Would you borrow \$20 if you knew that you'd have to pay back \$25
- Have you ever neglected to return something to someone? Are you ever reminded that obligation?
- Do you think personal responsibility in borrowing and lending will affect you when you're 17? 25?

OBJECTIVE & KEY POINTS

Objective: Students will understand the costs, benefits, and responsibilities associated with the use of credit.

Key points:

Costs of Credit

- While using credit cards or taking out consumer loans can be helpful, there are also significant costs related to these methods of payment.
- Interest- When you borrow money you pay back both the initial amount of the loan and additional fees known as interest. It's similar to your bank paying you to keep your money there, but these fees are much higher.
- Interest accrues over time- The longer you take to pay off a loan or a credit card, the more interest you pay. A certain percentage is calculated every month that the initial amount is not paid off. This means items bought on credit will cost much more than item paid for up front.
- Minimum Payments- Credit cards will have a set minimum that you are required to pay each month.

Benefits of Credit

- There are good reasons to use credit and credit cards. And the proper use of these tools can help you live a better life. But the responsible use of these items is key.
- Credit is credit to have for emergencies. Medical bills, car repairs, and other unexpected life events can be addressed with credit. Just try to pay off the amount as quickly as possible.
- Large expenses like education, homes and cars often need to be paid with credit. The secret is to budget for the monthly payment. Budget based use of credit will get you lower interest rates on other loans you need.

Responsibilities of Credit:


- When someone extends you credit you have an obligation to repay that loan.
- You will develop a credit history based on your responsible use of credit that will affect your ability to get loans for cars, houses and other things when you are older.
- Credit is a privilege. Learning how to act responsibly while you are young will enable to receive this privilege when you are older.

ACTIVITIES & MATERIALS

STUDENT WORKSHEET – "Purchasing with Credit." The following activity will teach students the true cost of making interest payment on credit card over an extended period of time. Teacher's reference sheet is included.

Purchasing with Credit





CHARGE IT!

Payment & Interest Table
Credit card interest is 15% a year - (1.25% a month)

MONTH	PRINCIPAL	AMOUNT PAID	INTEREST	BALANCE
1	105.00	20.00	.00	85.00
2	85.00	20.00	1.31	66.31
3	66.31	20.00	1.08	47.39
4	47.39	20.00	.84	28.23
5	28.23	20.00	.30	8.83
6	8.83	8.83	.00	.00

PROBLEMS – (Please show your work below each problem.)

1. You want to purchase the MP3 player with headphones that is advertised at \$100.

- Figure out the total cost of the MP3 player with headphones including 5% sales tax.

2. Now, let's say you want to purchase a \$100 MP3 player with headphones using a credit card. If you don't pay the entire cost of the MP3 player when the first bill comes, the bank will charge you interest. Let's say you have budgeted \$20 a month to pay your credit card bill. Assuming that the credit card interest is at 15% a year (1.25% a month), look at the "Charge It!" table above to see how quickly this interest adds up!

- How much interest have you paid in the first 3 months?
- What would be the difference in the total cost of the headphones if you bought them with cash or a check, versus using a credit card and paying over 6 months?

TEACHER'S REFERENCE

Purchasing with Credit



CHARGE IT!



Payment & Interest Table

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PROBLEMS - (Please show your work below each problem.)

1. You want to purchase the MP3 player with headphones that is advertised at \$100.

- Compute the total cost of the MP3 player with headphones including 5% sales tax.

(100 x .05 = 5.00) (\$100 + \$5.00 = \$105.00)

2. Now, let's say you want to purchase a \$100 MP3 player with headphones using a credit card. If you don't pay the entire cost of the MP3 player when the first bill comes, the bank will charge you interest. Let's say you have budgeted \$20 a month to pay your credit card bill. Assuming that the credit card interest is at 15% a year (1.25% a month), look at the "Charge It!" table above to see how quickly this interest adds up!

- How much interest have you paid in the first 3 months?

Month 1 = **(\$0)**
 Month 2 = **(\$1.31)**
 Month 3 = **(\$1.08)**
(\$1.31 + \$1.08 = \$2.39)

- What would be the difference in the total cost of the headphones if you bought them with cash or a check, versus using a credit card and paying over 6 months?

Month 1 = **(\$0)**
 Month 2 = **(\$1.31)**
 Month 3 = **(\$1.08)**
 Month 4 = **(\$.84)**
 Month 5 = **(\$.30)**
 Month 6 = **(\$0)**
(\$1.31 + \$1.08 + \$.84 + \$.30 = \$3.53)