Paying the Minimum

If you are not paying off your credit card balance in full every month, your money is slowly going down the "interest drain." In this project you will select a credit card, use it to purchase a "big ticket" item, and see what happens when you make only the minimum payment on the card.



Step 1: Find a credit card that is right for you. (25 points)

There are many different credit cards with many different benefits available. Compare the important features of three different cards (assume you are a first-year college student). Create a chart that summarizes the key rates and terms for the three cards. Write a paragraph about each card. Discuss in detail which card is best for you and why. This is the card that you will use for your big purchase.

Step 2: Purchase a "big ticket" item. (10 points)

Find an expensive item that you would like to purchase (\$2,000 minimum). It could be a big-screen TV, furniture for your new apartment, a cruise in the Caribbean, etc. Get a picture of the item and calculate the total cost to purchase it (include tax and shipping, if applicable).

- Step 3: Enjoy your big purchase, paying only the minimum! Assume that the minimum payment is 2 percent of your account balance or \$10, whichever number is higher. (50 points)
- Using your first-choice card and the regular annual percentage rate (APR) determine the account balance and finance charge for the first three months (showing all your work).
- b. On a spreadsheet, chart the account balance and finance charges for five years. How much do you still owe after five years? Calculate the total amount spent in payments and finance charges over the five-year period.
- c. How long does it take to pay off the item completely? Calculate the total amount spent in payments and finance charges. Show how you arrived at your answer.
- d. If you had to use the default APR, how long would it take you to pay off the item? Calculate the total amount spent in payments and finance charges. Show how you arrived at your answer.
- e. Some cards have increased the minimum payment from 2 to 4 percent. Does this make a big difference in the time it takes to pay off the balance and the amount of interest paid over time? Create a spreadsheet and use calculations to support your answer. Explain why there is or is not a significant difference.

Step 4: Create a poster and present your project. (15 points)

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Include the credit card comparison, your "big ticket" item and your work from Step 3. Write a paragraph that summarizes the pros and cons of credit cards. Include a second a paragraph summarizing what you've learned from this project. (Print out a copy of each part of the project to include in your notebook.)

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