

## Theme Introduction: Credit

COURSE TITLE:  
**Personal Finance**

THEME TOPIC:  
**Credit**

GRADE LEVEL:  
**10-12**

### Missouri Competencies:

- SC.3: Compare the advantages and disadvantages of different payment methods.
- SC.4: Analyze the benefits and costs of consumer credit.
- SC.5: Compare sources of consumer credit (e.g., credit cards, consumer loans, auto loans, student loans).
- SC.6: Evaluate the terms and conditions of credit cards and consumer loans.
- SC.7: Evaluate factors that affect credit worthiness.
- SC.8: Explain the purpose and components of credit records.
- SC.9: Demonstrate awareness of consumer protection and information (e.g., identity theft, phishing, scams)
- SC.10: Propose ways to avoid or correct credit problems.
- SC.11: Describe the rights and responsibilities of buyers and sellers under consumer protection laws.

### Theme Rationale:

Given the number of consumers who have made irresponsible credit choices, it is both prudent and responsible to educate youth about the costs and benefits of using credit. Understanding the long-term effects of assuming debt is a life skill that must be mastered at a young age before students make financial decisions that can be detrimental to their future.

### Essential Questions:

1. How do consumers plan and manage credit to their best advantage?

### Instructional Objectives in This Theme:

- A: Differentiate between debit and credit cards and cash. (SC.3)
- B: Analyze the costs and benefits of various methods of payment. (SC.3)
- C: Define credit and interest. (S.3, SC.4)
- D: Compare the advantages and disadvantages of using credit. (SC.4, SC.5)
- E: Explain the opportunity cost of using credit. (SC.4)
- F: Describe the rights and responsibilities of buyers and sellers under consumer protection laws. (SC.11)
- G: Identify types of credit and their common forms. (SC.5, SC.6)
- H: Compare types of loans from different financial institutions. (SC.5, SC.6)
- I: Identify the qualities a lender looks for in a loan applicant. (SC.7)
- J: Analyze a credit report and Fair Isaac Corporation (FICO) score. (SC.8, SC.9)
- K: Explain the factors that determine the cost of credit. (SC.8, SC.9)
- L: Calculate finance charges using different interest rates. (SC.4)
- M: Analyze the relationship among the finance charges, principle of the loan and the loan repayment period. (SC.4)
- N: Compare credit cards in terms of annual fee, annual percentage rate, grace period and credit limit. (SC.4)
- O: Propose ways to avoid or correct credit problems. (SC.10)

## Instructional Components

### Summary:

1. Pretest and post test with record sheet.
2. CSI lesson 9: An Interest in Credit Cards.

### Sample Pretest and Post Test:

The included tests are intended only as sample questions to assess student mastery, not as end-of-unit exams, nor are the questions representative of the state's end-of-course exam for Personal Finance. Some questions require higher order thinking skills. The accompanying record sheet is designed to help teachers compare student mastery throughout a course before and after instruction.

SCHEDULE:	NUMBER OF CLASSES:
<b>50-min Period</b>	<b>10 Class Periods</b>
<b>90-min Period</b>	<b>6 Class Periods</b>
<b>120-min Period</b>	<b>5 Class Period</b>

Also consider the enclosed lesson activity recommendations. Instructional objective references are included for each lesson.

### Technology Integration:

*Keep in mind that as you locate and use websites, updates can change links and availability of information. Check any website you plan to use BEFORE sending students to it.*

- Use search keywords: credit cards, credit issues, bankruptcy.
- Search for credit company websites; i.e., Visa, MasterCard, Discover, American Express.
- Use a spreadsheet to calculate credit costs and track credit card account activity.
- Possible web sites:
  - [www.practicalmoneyskills.com](http://www.practicalmoneyskills.com)
  - [www.ftc.gov/bcp/menu-credit.htm](http://www.ftc.gov/bcp/menu-credit.htm)

### Reading and Writing Resources:

- Use credit card application fliers or “junk mail” (black out names and addresses) to guide students through key facts and “hidden” information.
- Use sample or mock credit card bills to find critical information
- Complete sample credit card and loan application forms
- Calculate the actual cost of a variety of credit accounts (e.g., installment loans, credit cards, car loans, home mortgages).
- Use a sample credit report to determine how to read the various sections of the report.
- Contact credit counseling agencies (i.e., Consumer Credit Counseling Service) for sample forms and brochures about wise use of credit, building a credit score and preventing and resolving credit problems.

### Higher Order/Critical Thinking Instructional Strategies:

CSI # 9 Assignment (Analyze and evaluate)

### Key Vocabulary:

- 20/10 Rule
- Annual percentage rate (APR)
- Bankruptcy
- Borrowing
- Capacity
- Character
- Collateral
- Credit
- Credit bureaus
- Credit card
- Credit limit
- Credit rating
- Credit report
- Credit worthy
- Debit card
- Debt
- Finance charge
- Free rider
- Leasing
- Line of credit
- Loan
- Prime rate
- Principal
- Rent
- Rent to own
- Sales tax
- Smart card

# Recommended Lesson Activities

## Credit

with Instructional Objective Alignments

### Instructional Objectives in This Theme:

- A: Differentiate between debit and credit cards and cash. (SC.3)
- B: Analyze the costs and benefits of various methods of payment. (SC.3)
- C: Define credit and interest. (SC.3, SC.4)
- D: Compare the advantages and disadvantages of using credit. (SC.4, SC.5)
- E: Explain the opportunity cost of using credit. (SC.4)
- F: Describe the rights and responsibilities of buyers and sellers under consumer protection laws. (SC.11)
- G: Identify types of credit and their common forms. (SC.5, SC.6)
- H: Compare types of loans from different financial institutions. (SC.5, SC.6)
- I: Identify the qualities a lender looks for in a loan applicant. (SC.7)
- J: Analyze a credit report and FICO score. (SC.8, SC.9)
- K: Explain the factors that determine the cost of credit. (SC.8, SC.9)
- L: Calculate finance charges using different interest rates. (SC.4)
- M: Analyze the relationship among the finance charges, principle of the loan and the loan repayment period. (SC.4)
- N: Compare credit cards in terms of annual fee, annual percentage rate, grace period and credit limit. (SC.4)
- O: Propose ways to avoid or correct credit problems. (SC.10)

### Relevant Competencies:

- SC.3 Compare the advantages and disadvantages of different payment methods.
- SC.4 Analyze the benefits and cost of consumer credit.
- SC.5 Compare sources of consumer credit (e.g., credit cards, consumer loans, auto loans, student loans).
- SC.6 Evaluate the terms and conditions of credit cards and consumer loans.
- SC.7 Evaluate factors that affect creditworthiness.
- SC.8 Explain the purpose and components of credit records.
- SC.9 Demonstrate awareness of consumer protection and information (e.g., identity theft, phishing, scams).
- SC.10 Propose ways to avoid or correct credit problems.
- SC.11 Describe the rights and responsibilities of buyers and sellers under consumer protection laws.

### Using the Activities Chart:

MATCH ACTIVITIES TO THE MISSOURI PERSONAL FINANCE INSTRUCTIONAL OBJECTIVES.

1. Lesson activity recommendations are listed alphabetically by source and activity name.
2. Web addresses (URLs) are provided for all activities found online.
3. Activities are aligned to the objectives at right, indicated by the letter designation.
4. Additional space is provided for teachers to add their own lesson activity ideas to the listing.

## Recommended Lesson Activities

### Credit

with Instructional Objective Alignments

	<i>Credit</i>	A.	B.	C.	D.	E.	F.	G.	H.	I.	J.	K.	L.	M.	N.	O.
1.	Center for Student Credit Card Education, <i>The ABCs of Credit Card Finance - Essential Facts for Students</i> <a href="http://www.cscce.com">http://www.cscce.com</a>		✓	✓							✓		✓		✓	✓
2.	EconEdLink, <i>The Costs of Credit</i> <a href="http://www.econedlink.org/lessons/index.cfm?lesson=MM175&amp;page=teacher">http://www.econedlink.org/lessons/index.cfm?lesson=MM175&amp;page=teacher</a>		✓		✓							✓				✓
3.	EconEdLink, <i>The Credit Card Mystery</i> <a href="http://www.econedlink.org/lessons/index.cfm?lesson=EM28&amp;page=teacher">http://www.econedlink.org/lessons/index.cfm?lesson=EM28&amp;page=teacher</a>		✓		✓							✓				✓
4.	EconEdLink, <i>Credit for Beginners</i> <a href="http://www.econedlink.org/lessons/index.cfm?lesson=EM386&amp;page=teacher">http://www.econedlink.org/lessons/index.cfm?lesson=EM386&amp;page=teacher</a>		✓		✓							✓				✓
5.	EconEdLink, <i>My Credit Rating: Why I Should Care</i> <a href="http://www.econedlink.org/lessons/index.cfm?lesson=MM188&amp;page=teacher">http://www.econedlink.org/lessons/index.cfm?lesson=MM188&amp;page=teacher</a>		✓		✓							✓				✓
6.	EconEdLink, <i>Should I Use Cash or Credit</i> <a href="http://www.econedlink.org/lessons/index.cfm?lesson=MM158&amp;page=teacher">http://www.econedlink.org/lessons/index.cfm?lesson=MM158&amp;page=teacher</a>		✓		✓							✓				✓
7.	The Mint, <i>Owing</i> , <a href="http://themint.ncee.net/owing/index.php">http://themint.ncee.net/owing/index.php</a>		✓	✓	✓	✓							✓			
8.	The Mint, <i>Credit: Buy Now, Pay More Later</i> , <a href="http://themint.ncee.net/teachers/credit.php">http://themint.ncee.net/teachers/credit.php</a>		✓	✓	✓	✓										
9.	The Mint, <i>Ways to Pay</i> <a href="http://themint.ncee.net/spending/waystopay.php">http://themint.ncee.net/spending/waystopay.php</a>	✓	✓		✓											
10.	FDIC Money Smart, CD-ROM or VHS, <i>Module 7: Borrowing Basics</i> Program and ordering information is available at: <a href="http://www.fdic.gov/consumers/consumer/moneysmart/overview.html">http://www.fdic.gov/consumers/consumer/moneysmart/overview.html</a>			✓					✓	✓						

## Recommended Lesson Activities Credit

with Instructional Objective Alignments

	<i>Credit</i>	A.	B.	C.	D.	E.	F.	G.	H.	I.	J.	K.	L.	M.	N.	O.
11.	FDIC Money Smart, CD-ROM or VHS, <i>Module 8: Charge It Right</i> Program and ordering information is available at: <a href="http://www.fdic.gov/consumers/consumer/moneysmart/overview.html">http://www.fdic.gov/consumers/consumer/moneysmart/overview.html</a>				✓			✓	✓						✓	
12.	NCEE, CD-ROM Curriculum, <i>Financial Fitness for Life, Lesson 11: What is Credit?</i> Pricing and ordering information: <a href="http://store.ncee.net/finfitperfin2.html">http://store.ncee.net/finfitperfin2.html</a>			✓	✓			✓	✓	✓		✓				
13.	NCEE, CD-ROM Curriculum, <i>Financial Fitness for Life, Lesson 12: Making Credit Choices</i> Pricing and ordering information: <a href="http://store.ncee.net/finfitperfin2.html">http://store.ncee.net/finfitperfin2.html</a>				✓											✓
14.	NCEE, CD-ROM Curriculum, <i>Financial Fitness for Life, Lesson 13: Applying for Credit</i> Pricing and ordering information: <a href="http://store.ncee.net/finfitperfin2.html">http://store.ncee.net/finfitperfin2.html</a>									✓	✓					✓
15.	NCEE, CD-ROM Curriculum, <i>Financial Fitness for Life, Lesson 14: All About Interest</i> Pricing and ordering information: <a href="http://store.ncee.net/finfitperfin2.html">http://store.ncee.net/finfitperfin2.html</a>											✓	✓	✓	✓	
16.	NCEE, CD-ROM Curriculum, <i>Financial Fitness for Life,</i> <i>Lesson 15: Shopping for a Credit Card</i> Pricing and ordering information: <a href="http://store.ncee.net/finfitperfin2.html">http://store.ncee.net/finfitperfin2.html</a>											✓			✓	





Measuring Student Mastery  
**Pretest and Post Test Record Sheet - Credit**

	Payment Knowledge		Credit Terms		Credit Knowledge		Rights and Responsibilities		Credit Comparison		Interest	
	QUESTION 1 Points Correct (14 pts.)	Percent Correct	QUESTION 2 Points Correct (4 pts.)	Percent Correct	QUESTIONS 3, 6 & 7 Points Correct (11 pts.)	Percent Correct	QUESTIONS 4 & 5 Points Correct (8 pts.)	Percent Correct	QUESTIONS 8, 9 & 10 Points Correct (24 pts.)	Percent Correct	QUESTIONS 7 & 8 Points Correct (12 pts.)	Percent Correct
<b>Student Name:</b>												

This chart could be used to record pretest and post test data collected from the pretest and post test included within this theme. Use one copy to record the pretest information and make another copy to record the post test data. Compare the points correct from the pretest with results from the post test to measure student mastery of the topics presented.

# Personal Finance Pretest

## Credit

Name: \_\_\_\_\_

Date: \_\_\_\_\_

Class Period: \_\_\_\_\_

Grade: \_\_\_\_\_

### Objectives:

- A: Differentiate between debit and credit cards and cash. (SC.3)
- B: Analyze the costs and benefits of various methods of payment. (SC.3)
- C: Define credit and interest. (S.3, SC.4)
- D: Compare the advantages and disadvantages of using credit. (SC.4, SC.5)
- E: Explain the opportunity cost of using credit. (SC.4)
- F: Describe the rights and responsibilities of buyers and sellers under consumer protection laws. (SC.11)
- G: Identify types of credit and their common forms. (SC.5, SC.6)
- H: Compare types of loans from different financial institutions. (SC.5, SC.6)
- I: Identify the qualities a lender looks for in a loan applicant. (SC.7)
- J: Analyze a credit report and FICO score. (SC.8, SC.9)
- K: Explain the factors that determine the cost of credit. (SC.8, SC.9)
- L: Calculate finance charges using different interest rates. (SC.4)
- M: Analyze the relationship among the finance charges, principle of the loan and the loan repayment period. (SC.4)
- N: Compare credit cards in terms of annual fee, annual percentage rate, grace period and credit limit. (SC.4)
- O: Propose ways to avoid or correct credit problems. (SC.10)

1. Explain the difference between debit cards and credit cards. What are two advantages and two disadvantages of using debit cards, credit cards and cash?

Source:	Advantages:	Disadvantages:
Debit Cards		
Credit Cards		
Cash		

2. Define the following as they relate to personal finance:

Credit –

Interest –

Principle –

Term –



7. What is a FICO score and how is it determined?

8. Determine which of the following is the best loan to purchase an automobile.

Loan A	Loan B	Loan C	Loan D
Price: \$3,500	\$3,000	\$3,500	\$3,000
Rate: 5.7%	6.5%	6.5%	5.7%
Term: 24 months	24 months	36 months	36 months

Show your work and explain your conclusion.

9. The following are sample credit card summaries. Which card would you choose and why?

<b>Company:</b>	<b>Interest Rate:</b>	<b>Introductory Rate:</b>	<b>Grace Period:</b>	<b>Credit Limit:</b>	<b>Annual Fee:</b>
ABC Credit	11.99% Variable	0% on purchases for 15 months	20 days	\$10,000	None
XYZ Credit	10.99% Variable	0% on purchases, balance transfers for 12 months	25 days	\$3,000	None
A+ Credit	7.99% Fixed	0% on balance transfers for 6 months	25 days	\$15,000	\$35

10. Read the scenario and advise Cade on his credit decision.

Cade Marecion is a typical senior graduating in May. He receives offers to sign up for credit cards almost daily in the mail. He and his parents have been talking about applying for a loan so that he could purchase a used car for transportation at school. Cade will also have to pay for part of his college tuition. He has about \$3,000 in savings. Cade believes that it would be nice to have a way to “pay at the pump” so is considering a credit card. The credit card offers that he receives are from gas companies (for specific types of gas) as well as card companies that would work anywhere (such as Visa, Master Card).

How would you advise Cade on his situation? How should he handle his savings? What types of credit should he consider? Why? Explain your advice.

# Personal Finance Post Test Credit

Name: \_\_\_\_\_

Date: \_\_\_\_\_

Class Period: \_\_\_\_\_

Grade: \_\_\_\_\_/61

## Objectives:

- A: Differentiate between debit and credit cards and cash. (SC.3)
- B: Analyze the costs and benefits of various methods of payment. (SC.3)
- C: Define credit and interest. (S.3, SC.4)
- D: Compare the advantages and disadvantages of using credit. (SC.4, SC.5)
- E: Explain the opportunity cost of using credit. (SC.4)
- F: Describe the rights and responsibilities of buyers and sellers under consumer protection laws. (SC.11)
- G: Identify types of credit and their common forms. (SC.5, SC.6)
- H: Compare types of loans from different financial institutions. (SC.5, SC.6)
- I: Identify the qualities a lender looks for in a loan applicant. (SC.7)
- J: Analyze a credit report and FICO score. (SC.8, SC.9)
- K: Explain the factors that determine the cost of credit. (SC.8, SC.9)
- L: Calculate finance charges using different interest rates. (SC.4)
- M: Analyze the relationship among the finance charges, principle of the loan and the loan repayment period. (SC.4)
- N: Compare credit cards in terms of annual fee, annual percentage rate, grace period and credit limit. (SC.4)
- O: Propose ways to avoid or correct credit problems. (SC.10)



(2 pts for the explanation, 1 pt for each box for 14 pts total.)

1. Explain the difference between debit cards and credit cards. What are two advantages and two disadvantages of using debit cards, credit cards and cash?

Source:	Advantages:	Disadvantages:
Debit Cards		
Credit Cards		
Cash		

(1 pt each for 4 pts total.)

2. Define the following as they relate to personal finance:

Credit –

Interest –

Principle –

Term –

(1 pt each for 6 pts total.)

3. List 3 advantages of using credit and 3 disadvantages of using credit.

(1 pt each for 4 pts total.)

4. List and explain 2 rights and 2 responsibilities of consumers in the U.S.

(1 pt each for 4 pts total.)

5. List and explain 2 rights and 2 responsibilities of business owners in the U.S.

(1 pt per characteristic for 3 pts total.)

6. What characteristics are considered on a credit application?

(1 pt for the definition, 1 pt for the explanation and 2 pts total.)

7. What is a FICO score and how is it determined?

(2 pts each for math, 2 pts for the conclusion and 10 pts total.)

8. Determine which of the following is the best loan to purchase an automobile.

Loan A	Loan B	Loan C	Loan D
Price: \$3,500	\$3,000	\$3,500	\$3,000
Rate: 5.7%	6.5%	6.5%	5.7%
Term: 24 months	24 months	36 months	36 months

Show your work and explain your conclusion.

(1 pt for selection, 1 pt for correctly addressing each category and 6 pts total.)

9. The following are sample credit card summaries. Which card would you choose and why?

<b>Company:</b>	<b>Interest Rate:</b>	<b>Introductory Rate:</b>	<b>Grace Period:</b>	<b>Credit Limit:</b>	<b>Annual Fee:</b>
ABC Credit	11.99% Variable	0% on purchases for 15 months	20 days	\$10,000	None
XYZ Credit	10.99% Variable	0% on purchases, balance transfers for 12 months	25 days	\$3,000	None
A+ Credit	7.99% Fixed	0% on balance transfers for 6 months	25 days	\$15,000	\$35

(2 pts for advice, 1 pt for savings, 3 pts for credit considerations, and 2 pts for explanation. 8 pts total.)

**10. Read the scenario and advise Cade on his credit decision.**

Cade Marcion is a typical senior graduating in May. He receives offers to sign up for credit cards almost daily in the mail. He and his parents have been talking about applying for a loan so that he could purchase a used car for transportation at school. Cade will also have to pay for part of his college tuition. He has about \$3,000 in savings. Cade believes that it would be nice to have a way to “pay at the pump” so is considering a credit card. The credit card offers that he receives are from gas companies (for specific types of gas) as well as card companies that would work anywhere (such as Visa, Master Card).

How would you advise Cade on his situation? How should he handle his savings? What types of credit should he consider? Why? Explain your advice.



## An Interest in Credit Cards

### The Set Up:

Two high school students, Elena and Sean, are planning to have senior pictures taken this week. The cost will be approximately \$350 for each of them. Elena and Sean both have jobs and make about \$100 per week. Both also have \$200 in their checking accounts.

The picture company is offering a 10% discount if students pay \$315 (\$350 less 10%) this week. Both Elena and Sean have decided to charge their pictures on their credit cards in order to take advantage of the discount.

Two weeks later when the credit card bills arrive, Sean decides to pay the balance in full. Elena decides to pay about \$25 per month until the bill is paid because she has things she wants to buy for her first year at college. The interest on her credit card is 24%.

### The Investigation:

Use an online amortization calculator similar to ones found at (<http://beginnersinvest.about.com/od/amortizationcalc/>) to analyze Elena's and Sean's choices.

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## An Interest in Credit Cards

### Consumer Scene Investigation Grade Sheet CSI 9 - An Interest in Credit Cards

- Competencies:** SC.1: Compare the benefits and costs of alternatives in spending.  
 SC.3: Compare the advantages and disadvantages of different payment methods.  
 SC.4: Analyze the benefits and costs of consumer credit.
- Objectives:** B: Analyze the costs and benefits of various methods of payment. (SC.3)  
 D: Compare the advantages and disadvantages of using credit. (SC.4, SC.5)  
 K: Explain the factors that determine the cost of credit. (SC.8, SC.9)  
 L: Calculate finance charges using different interest rates. (SC.4)  
 M: Analyze the relationship among the finance charges, principle of the loan and the loan repayment period. (SC.4)  
 O: Propose ways to avoid or correct credit problems. (SC.10)

Name: \_\_\_\_\_

Date: \_\_\_\_\_

Criteria:	5	4	2	1	Total:
Calculations	Calculations were correct.	One mistake was made in calculations.	Two mistakes were made in calculations.	Three mistakes were made in calculations.	
Analysis - Elena	Analysis was complete and maked sense for Elena.	Analysis was complete but lacked persuasion.	Analysis was mostly complete, reader had few questions.	Analysis was incomplete and left the reader with questions.	
Analysis - Sean	Analysis was complete and makes sense for Sean.	Analysis was complete but lacked persuasion.	Analysis was mostly complete, reader had few questions.	Analysis was incomplete and left the reader with questions.	
Advice/Opinion	Recommendation was knowledgeable and appropriate. Excellent recommendation.	Recommendation was appropriate and thought out. Super idea.	Recommendation was usable but not the best choice.	Recommendation was not appropriate.	
				<b>Total:</b>	



## An Interest in Credit Cards

Answers will vary, but students should note that Elena will end up paying more than Sean, and more than the discount given, for her senior pictures. See the results below from the website.

Principal borrowed: \$315.00

Annual payments: 12 Total Payments: 15

Annual interest rate: 24.00% Periodic interest rate: 2.0000%

Regular payment amount: \$24.52 Final Balloon Payment: \$0.00

The following results are estimates which do not account for values being rounded to the nearest cent. See the amortization schedule for more accurate values.

Total Repaid: \$367.80

Total Interest Paid: \$52.80

Interest as percentage of Principal: 16.762%

Pmt	Principal	Interest	Cum Prin	Cum Int	Prin Bal
1	18.22	6.30	18.22	6.30	296.78
2	18.58	5.94	36.80	12.24	278.20
3	18.96	5.56	55.76	17.80	259.24
4	19.34	5.18	75.10	22.98	239.90
5	19.72	4.80	94.82	27.78	220.18
6	20.12	4.40	114.94	32.18	200.06
7	20.52	4.00	135.46	36.18	179.54
8	20.93	3.59	156.39	39.77	158.61
9	21.35	3.17	177.74	42.94	137.26
10	21.77	2.75	199.51	45.69	115.49
11	22.21	2.31	221.72	48.00	93.28
12	22.65	1.87	244.37	49.87	70.63
13	23.11	1.41	267.48	51.28	47.52
14	23.57	0.95	291.05	52.23	23.95
15	*23.95	0.48	315.00	52.71	0.00

\*The final payment has been adjusted to account for payments having been rounded to the nearest cent.