



LESSON FOURTEEN Consumer Credit

TEACHERS

Introduction

Charge! That seems to be the motto of today's consumer. Buying goods and services on credit is one of the easiest ways to make a purchase, but it's also one of the easiest ways for us to overspend. When we buy on credit, we are actually making a promise to repay the amount with income earned in the future. Overspending on credit today limits our spending tomorrow, which limits our future choices. Buying on credit doesn't mean that we have more to spend; it just provides the benefit of having something today instead of waiting to make the purchase. We seem to get so much pleasure from making the purchase that we forget we must pay for it at a later time. We need to remember that credit is easier to obtain than it is to manage.

Purpose

This lesson will help students understand how interest rates and length of time to repay loans impacts the total price of goods and services. Students will compute changes in total prices of goods and services purchased on credit.

Coming next week: Consumer Credit: Credit Cards

Definition of the Week

Credit: Receiving a loan that allows us to buy something now and pay for it in the future, usually with interest.

Procedure

1. Ask students if they have ever loaned money to someone else. Discuss the reasons they made the loans and what they expected in return. Have students tell how they felt (or would have felt) if the loan was not repaid. Explain how borrowing money and making loans is an important part of our economy, noting that banks and other financial institutions loan money to their customers. Remind students that banks and other financial institutions charge interest on those loans, which increases the final cost of goods and services bought on credit.
2. Have students look through the newspaper advertisements and find one product they would like to purchase on credit. Have students calculate the total price for the product using the following formula.

$$\text{Amount of interest paid} = \text{Principal} \times \text{Interest Rate} \times \text{Time}$$

Example: You want to buy a new DVD player for \$100 at 10% interest, paid out in one year.
Amt of Int pd = \$100 x 10% x 1
The amount of interest paid is \$10;
\$100 + \$10 = \$110 paid for the DVD player.

Repeat the equation several times, changing the interest rates and length of time to repay the loan to show students how these variables impact the total cost of a product purchased on credit.

PARENT OPTION

Discuss the costs and benefits of using credit to make purchases, helping your child realize that credit purchases must be paid for with future income. Talk about the family's credit purchases, including good and bad credit decisions. Help your child make a decision tree to determine if a purchase is a want or need, and if credit must be used to make the purchase. Remember to ask if these choices help meet your child's financial goals. Go to www.chase.com, click on research and education, then click on student credit survival. Spend time with your child discussing the bank's tips on using consumer credit.

Be a Credit Counselor

You have just been hired by the newspaper to answer letters from readers who want advice about making good choices. Write a brief response to each letter below:

Dear Credit Counselor:

I need your advice. I found a really cool computer system – just like I want – at two different stores. At Store #1, the price is only \$750. The manager at Store #1 says I can buy it on credit at 16% interest and pay it off in two years. The same computer costs \$900 at Store #2, and the manager said I can buy it on credit at 12% interest for two years. Which is the better deal?

Signed, Confused

Your response _____

Dear Credit Counselor:

My mom said you can help me. I want to buy a really special gift for my dad on his birthday. He wants a new fishing pole and tackle set that costs \$65 or a new watch that costs \$50. Mom said we could buy the fishing equipment on credit at 12% interest or buy the watch on credit at 14% interest. Both would be paid off in one year. My friend Joey says we should save our money and buy one of them for Dad for Father's Day. He said the interest would add too much to the purchase price. Dad's birthday is this week and Father's Day is six whole months away. What should we do?

Signed, #1 Son

Your response _____

Dear Credit Counselor:

My dad and me really want a new 50" plasma TV to watch sports and movies. It would be so awesome. The salesperson at WatchMore TV says we can buy one on sale for \$3,000. Dad said we'd need to buy it on credit at 19% interest and pay it off in 5 years to afford the TV. But Mom is really mad at us. She said we should buy the 32" TV and save our money until the price of plasma TVs drop. Why should we wait when we can get such a great deal? Mom said we could pay cash for the smaller TV, but why should we wait when we can get such a great deal on a new plasma? We'd have the first one on our block and everyone would be so jealous! Mom says buying on credit means we pay more for it. Is she right? How much would it really cost us?

Signed, Plasma Paul

Your response _____

Newspapers for this educational program provided by: