

CREDIT CARDS AND DEBT

Credit Card Interest and Payment Choices

Detailed practice, calculation, decision-making, and assessment

GRADES 9-12	TIME 2 x 42 min	GROUPING I / pairs / whole	PRODUCT Payment comparison recommendation
YOUR CHALLENGE Use a simplified monthly-interest model to compare three payment choices. Explain how paying more can lower the next balance and reduce future interest.			

Interest Makes an Unpaid Balance Grow

Credit card APR is a yearly rate. Card issuers commonly calculate interest daily, but this classroom activity uses APR divided by 12 to create a simple monthly estimate. Real statement interest may differ.

Term	Student-friendly meaning
APR	Yearly percentage used to describe borrowing cost.
Monthly rate estimate	APR divided by 12 for this activity.
Interest charge	Estimated balance multiplied by the monthly rate.
Minimum payment	Smallest required payment for the cycle.
Principal reduction	Part of a payment that lowers the balance.
New purchase	A charge that can make repayment take longer.
ESTIMATE ONLY Do not treat this classroom estimate as a real issuer's exact method. Check the actual card agreement and statement.	

Part 1 - Find the Monthly Interest Estimate

Taylor has a \$1,200 balance at 24% APR. Assume no new purchases or fees.

Step	Calculation	Answer
Convert APR to decimal	24% =	
Estimate monthly rate	24% / 12	
Estimate one month of interest	\$1,200 x monthly rate	
Balance after interest	\$1,200 + interest	

Explain why 24% APR does not mean Taylor is charged 24% every month.

Part 2 - Compare Three Payments

Add the \$24 estimated interest first. Then subtract each payment.

Choice	Starting balance	Interest added	Payment	Estimated ending balance	Balance reduced from \$1,200
Minimum	\$1,200	\$24	\$40		
Larger payment	\$1,200	\$24	\$100		
Aggressive payment	\$1,200	\$24	\$200		

Show all three ending-balance calculations. Which payment lowers the balance the most?

Part 3 - Continue for a Second Month

Use each Month 1 ending balance. Estimate Month 2 interest at 2%, then subtract the same payment again.

Choice	Month 1 ending balance	Month 2 interest	Month 2 payment	Month 2 ending balance	Total paid over two months
Minimum			\$40		
Larger			\$100		
Aggressive			\$200		

Compare the Month 2 interest amounts. Why does the larger payment reduce later interest?

Part 4 - New Purchases Change the Plan

After making the \$100 payment in Month 1, Taylor adds a \$150 purchase before Month 2.

Question	Calculation	Answer
Balance after Month 1 \$100 payment		
Balance after new \$150 purchase		
Month 2 interest estimate at 2%		
Balance after Month 2 \$100 payment		
Difference from the no-new-purchase plan		

Explain why a payoff estimate usually assumes no new purchases.

Part 5 - Make a Payment Recommendation

Decision check	Evidence
Required minimum	
Amount safely available	
Essential costs protected	
Estimated interest	
Ending balance under each choice	
New-purchase rule	
Due-date reminder	
Recommended payment	

Write a 150-200 word recommendation for Taylor. Include the monthly rate, Month 1 and Month 2 calculations for one option, a comparison with the minimum, and one rule about new purchases.