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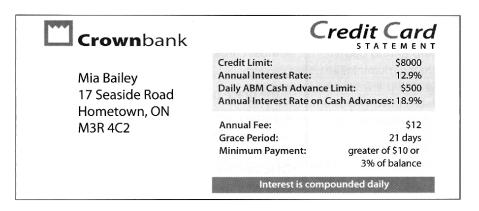
Worksheet 7-5: Credit Cards

Using a credit card allows you to buy items without paying for them immediately. A credit card is considered as a way of borrowing money for a short period of time. Interest rates charged on credit card accounts are often much greater than the interest rates paid on savings accounts.

Most credit cards compound interest daily on overdue accounts. An overdue account is an account with a balance that remains unpaid after the due date has passed. If the balance is paid in full by the due date, no interest is charged during the grace period, the period of days during which no interest is charged. However, if the balance is not paid in full by the due date, interest will be charged and compounded daily since the dates on which the purchases take place.

Some credit card companies offer incentives or rewards to customers for using the card to make purchases.

To answer questions 1-5, refer to Mia's credit card statement.



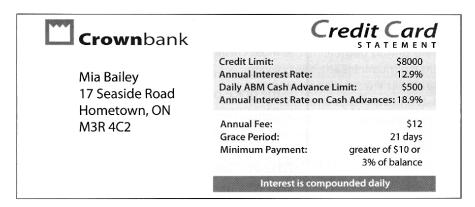
- 1. A statement is issued to Mia on the 18th of each month. What is the due date for:
- (a) the January 18 statement?

(b) the February 18 statement?

2. Mia's December statement has a balance of \$289.40. Determine the minimum monthly payment.

Assigned Work: WS 7-5; p. 479 #2, #10

To answer questions 1-5, refer to Mia's credit card statement.



3. After using her credit card for all her holiday shopping, Mia's January statement has a balance of \$1220.74. Determine the minimum monthly payment.

4. Explain one advantage and one disadvantage of Mia using her credit card to make all her holiday purchases.

- 5. Determine each daily interest rate charged on Mia's credit card. Express each answer as a percent and as a decimal rounded to six decimal places.
- (a) on cash advances (cash withdrawal)
- (b) on credit card purchases

6. The information found on the back of Omar's monthly statement for a credit card issued by his bank is shown.

Crown bank	Credit Cara		
Omar Mustafa 32 Cherry Lane	Account Number: 5446 x: Credit Limit: Daily ABM Cash Advance Limit: Annual Interest Rate:	xxx xxxx 3230 \$5700 \$1000 14.9%	
Hometown, ON M7K 2B1		0 21 days 1 ater of \$10 or 3% of balance	

- (a) If a statement is issued to Omar on the 8th of each month, on what date will the payment be due?
- (b) Determine his minimum payment if Omar has a balance of:
- (i) \$86.36 in September

(ii) \$462.18 in October

(c) If it takes three days to process his payment, what is the latest date that Omar can pay October's bill and not be overdue?

(d) Calculate the interest charged on October's bill if it is paid in full five days after the due date. Omar paid his September bill in full. He made one new purchase for \$462.18 September 15.

7. Ray decides to apply for a credit card. His parents have to co-sign his application – that is, they agree to pay the outstanding balance if Ray cannot or will not pay. On the application, they indicate that they want a spending limit of \$250. A portion of Ray's first credit card statement is shown.

Crown bank		Credit Card	
	STATEMENT FROM .	lune 25 to July 26	
7/2	The Jeans Factory		48.00
7/7	T-shirt Haus		22.75
7/22	Soccer Unlimited		28.49
Previous Balance:	0.00	New Balance:	?
Payments:	0.00	Minimum Due:	?
Overdue Balance:	0.00	Statement Date:	July 26
Interest Charged:	0.00	Annual Interest Rate:	16.9%
New Purchases:	?	Available Credit:	

(a) Calculate the amount of the new purchases made this month and Ray's new balance.

(b) If the minimum payment is \$10 or 3% of the balance, whichever is greater, determine Ray's minimum payment.

(c) Determine the due date if the payment is due 21 days after the statement date.

(d) Four days after he received the statement, Ray went online and paid the balance.

(i) What is the daily interest rate?

(ii) How much interest was he charged?

Answers: 1. (a) February 8, (b) March 11; 2. \$10; 3. \$36.62; 4. Advantage: carries less cash and makes fewer bank transactions (cash withdrawal), Disadvantage: might over-spend and buy more than she can afford;
5. (a) 0.0518%, 0.000518, (b) 0.0353%, 0.000353; 6. (a) 29th of each month, (b) (i) \$10 vs. \$2.59),

- **5.** (a) 0.0518%, 0.000518, (b) 0.0353%, 0.000353; **6.** (a) 29^{th} of each month, (b) (i) \$10 (\$10 vs. \$2.59) (ii) \$13.87 (\$10 vs. \$13.87), (c) 26^{th} of each month, (d) \$9.34 (\$471.52 462.18, i = 0.149/365);
- 7. (a) \$99.24, (b) \$10 (\$2.98 vs. \$10), (c) August 17, (d) (i) 0.046%, 0.00046, (ii) \$0.

Name: ______ \
Date: _____ \



Credit Card

Mia Bailey 17 Seaside Road Hometown, ON M3R 4C2 Credit Limit: \$8000
Annual Interest Rate: 12.9%
Daily ABM Cash Advance Limit: \$500
Annual Interest Rate on Cash Advances: 18.9%

Annual Fee: \$12
Grace Period: 21 days
Minimum Payment: greater of \$10 or
3% of balance

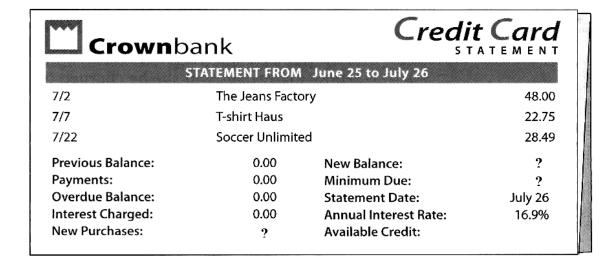
Interest is compounded daily



Credit Card

Omar Mustafa 32 Cherry Lane Hometown, ON M7K 2B1 Account Number: 5446 xxxx xxxx 3230
Credit Limit: \$5700
Daily ABM Cash Advance Limit: \$1000
Annual Interest Rate: 14.9%

Annual Fee: 0
Grace Period: 21 days
Cards Issued: 1
Minimum Payment: greater of \$10 or 3% of balance



3% of balance

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Credit Card

Ahmad Mustafa 32 Cherry Lane Hometown, ON M7K 2B1 Account Number: 5446 xxxx xxxx 3230
Credit Limit: \$5700
Daily ABM Cash Advance Limit: \$1000
Annual Interest Rate: 14.9%

Annual Fee: 0
Grace Period: 21 days
Cards Issued: 1
Minimum Payment: greater of \$10 or