



## CASH OR CREDIT

There are a total of 1.2 billion credit cards in the United States. The average American has \$8,000 of credit card debt.

Credit cards are used to avoid having to handle a lot of cash and for when you need to spend more money than you have on hand. This might happen when you need to spend a large amount of money on a Thursday, but you won't get your paycheck until Friday. The credit card company loans you the money by paying for your purchase. You pay back the credit card company when you pay your monthly bill.

Credit cards are convenient but they can be dangerous. The credit card company is not an unlimited source of money. Your credit account will usually have a limit on it. You should not spend more than the limit on your card, from one billing period to the next. Also, remember that you must pay at least a

little of your bill every month. If you spend \$3,000, you may have to pay 10% of that, \$300. So, you should make sure that you have that much money. It is usually best to think of the credit card as actual cash. Do not spend more than you have or will have very soon.

If you do not pay your whole bill, you are charged interest. Interest is a percentage of your total bill that the company charges for borrowing their money for longer than the billing period. The credit card company usually charges a yearly interest rate that is then divided up among the monthly statements.

So, if the yearly interest rate is 18%, the rate charged on each bill will be 1.5%. For example, if you pay \$300 of your \$3,000 bill and are charged 1.5% percent on the rest of your balance, you will have to pay \$40.50 (1.5% of \$2,700) extra on your next bill.

1. Why are credit cards convenient to use?  
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2. What are some ways your family uses a credit card?  
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3. What is dangerous about using a credit card to pay for things?  
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4. Find a definition for *billing period*. Work with a partner, ask an adult, or use the Internet to search.  
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5. Write your own definition of *interest rate*.  
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