

## EXAMPLE 4.4 The Credit Card Offer Case

In our Progressive Example, Dave is planning to accept the offer for a Chase Bank credit card that carries an APR (nominal rate) of 14.24% per year, or 1.187% per month. He will transfer a balance of \$1000 and plans to pay it and the transfer fee of \$30, due at the end of the first month. Let's assume that Dave makes the transfer, and only days later his employer has a 1-year assignment for him in the country of Cameroon in West Africa. Dave accepts the employment offer, and in his hurried, excited departure, he forgets to send the credit card service company a change of address. Since he is now out of mail touch, he does not pay his monthly balance due, which we calculated in Example 4.2 to be \$1041.87.

- (a) If this situation continues for a total of 12 months, determine the total due after 12 months and the effective annual rate of interest Dave has accumulated. Remember, the fine print on the card's interest and fee information states a penalty APR of 29.99% per year after one late payment of the minimum payment amount, plus a late payment fee of \$39 per occurrence.
- (b) If there were no penalty APR and no late-payment fee, what effective annual interest rate would be charged for this year? Compare this rate with the answer in part (a).