PFL Academy

Teacher Guide: Chapter 6.1 — Credit Card Use and Management

OVERVIEW

TIME	MATERIALS	PREREQUISITES
45-50 Minutes	Student Activity Packet, Calculator	Understanding Student Loans (L-25)

LESSON FLOW

5 min **THE CHALLENGE**
- Read James's story—emphasize $1,500 interest on forgotten purchases.
- Ask: "How many of you have seen credit card offers? What do they promise?"

10 min **CORE CONCEPTS**
- Explain the grace period—the "free loan" window.
- Demonstrate how minimum payments mostly cover interest.
- Calculate: 18% APR ÷ 12 = 1.5% monthly interest on balance.

25-30 min **APPLY IT**
- **Part A (10 min):** Scenario analysis. Contrast Sarah's success with John's trap.
- **Part B (10 min):** Minimum payment math. The $1,964 savings is powerful.
- **Part C (10 min):** Personal strategy development.

10 min **CHECK YOUR UNDERSTANDING**
- Review Q3 calculation (30% of $2,500 = $750).
- Discuss Q5—balanced view of credit cards as tools.

DIFFERENTIATION

Support
- Use a visual timeline showing balance decreasing with different payment amounts.
- Provide the grace period concept with a calendar illustration.
- Work through Part B calculations as a class.

Extension
- Research and compare three real credit card offers.
- Calculate when rewards offset an annual fee.
- Create a payoff plan for a hypothetical balance.

Part A: Credit Card Scenario Analysis

Scenario 1 - Sarah: Interest paid: $0 (pays in full). Credit score impact: Positive (low utilization at ~17%, on-time payments). She gets the benefits of credit cards without the costs.

Scenario 2 - John: Time to pay off: 9+ years. Total interest: More than the original $2,000 balance. Minimum payments barely cover interest, so the balance decreases slowly.

Part B: Minimum Payment Math

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Interest Saved vs. Minimum:
• Double minimum: $2,200 - $523 = $1,677 saved
• $150/month: $2,200 - $236 = $1,964 saved
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3. $2,200 − $236 = **$1,964 saved** by paying $150/month.

4. With minimum payments, most money goes to interest charges first. The principal barely decreases, so interest keeps accruing month after month for years.

Part C: Your Credit Card Strategy

Good rules include: pay balance in full monthly, keep utilization below 30%, set up automatic payments, never spend more than you can afford, track all purchases, avoid cash advances, review statements monthly.

6. $1,000 × 0.30 = **$300 maximum balance**

Check Your Understanding

1. B (You pay no interest on purchases)

2. Cash advances have higher APR (often 25%+), no grace period (interest starts immediately), and often have fees (3-5% of amount). Never a good choice.

3. $2,500 × 0.30 = **$750 maximum**

4. (1) He spent more than he could afford to pay off—maxed out his card. (2) He only made minimum payments. He should have only charged what he could pay in full and stopped using the card while paying down the balance.

5. *Balanced responses recognize credit cards as tools. Used wisely (pay in full, low utilization), they build credit and offer rewards. Used poorly (carrying balances, overspending), they create costly debt.*

COMMON MISCONCEPTIONS

Misconception	Clarification
"The minimum payment is what I should pay."	The minimum keeps you in good standing but maximizes interest costs. Always pay more—ideally the full balance.
"I need to carry a balance to build credit."	False. You build credit by using the card and paying it off. Carrying a balance just costs you money.
"Credit cards are always bad."	Credit cards are tools. Paid in full monthly, they provide free short-term loans, rewards, fraud protection, and credit building.