



Math Practice

# Activity 8: Comparing Credit Card Payments

Work through the following activity, considering concepts from the text.

If you have ever studied a credit card bill, you may have noticed that the company typically gives the cardholder the option of paying a minimum monthly amount—usually about \$20. Is it in the consumer’s best interest to pay such a small amount? You be the judge.

Assume that the interest rate on a credit card account is 12 percent annually (1 percent monthly). The outstanding balance is \$1,000, and the cardholder will make no other purchases during the year. The 1 percent monthly interest is calculated and added to the balance before the payment is applied.

Complete the table below for payments of \$20 (minimum), \$100, and \$200 over a period of 12 months. Then answer the questions that follow.

Month	Balance	Interest	Payment	Balance	Interest	Payment	Balance	Interest	Payment
1	\$1,000	\$10	\$20	\$1,000	\$10	\$100	\$1,000	\$10	\$200
2	\$990		\$20	\$910		\$100	\$810		\$200
3			\$20			\$100			\$200
4			\$20			\$100			\$200
5			\$20			\$100			\$200
6			\$20			\$100			
7			\$20			\$100			
8			\$20			\$100			
9			\$20			\$100			
10			\$20			\$100			
11			\$20						
12			\$20						

© Pearson Education, Inc., publishing as Pearson Prentice Hall. All rights reserved.

1. What will be the balance of the account after following each payment option for 12 months? (a) \$20: \_\_\_\_\_ (b) \$100: \_\_\_\_\_ (c) \$200: \_\_\_\_\_
2. What will be the amount of interest paid on the account after following each payment option for 12 months? (a) \$20: \_\_\_\_\_ (b) \$100: \_\_\_\_\_ (c) \$200: \_\_\_\_\_
3. Indicate which monthly payment option you would choose and explain why.

\_\_\_\_\_

\_\_\_\_\_