

A close-up photograph of a hand holding a credit card over a computer keyboard. The hand is positioned as if about to use the card. The background is a light blue, slightly blurred. The text is overlaid on the image.

Unit 8:

Credit Cards and Shopping Online

Personal Financial Literacy

Objectives

- Compare costs and benefits of using credit cards.
- Analyze differences among credit cards, and the importance of comparison shopping for a credit card.
- List fees associated with credit cards.
- Discuss the importance of paying off a credit card on or before the payment due date.

Objectives - Continued

- Select from a list benefits of online shopping.
- List ways to protect yourself when shopping online.

Credit Card Benefits

- Good option when paying for something that will go up in value
- Can take advantage of sales and special offers
- Convenience; don't have to carry around large sums of money
- Bonus points, cash rebates
- Establish a consumer's credit rating

Credit Card Benefits - Continued

- Simplify recordkeeping with statements
- Credit card company can help with refunds; limits liability
- Can use goods and services while paying for them
- Available for emergency situations



Credit Card Costs/Disadvantages

- Can become a habit
- Contribute to impulse buying
- Pay more for items than you would with cash if you don't pay them off each month
- Late or missed payments damage credit rating
- Credit problems lead to higher interest rates

Credit Card Costs/Disadvantages - Continued

- May spend more than you earn
- Encourage overspending
- Tie up future income
- Danger of credit card fraud
- Identity theft



Types of Credit Cards

- Affinity card – each time the card is used a portion goes to the organization named (such as airlines, universities, professional organizations, sports teams, shopping centers) and includes the logo of organization on card
- Co-branded card – branded with network processor (such as Visa or American Express) and retailer (Best Buy, Cabelas)
- Prestige-status card – invitation only (Chase Sapphire Preferred Card, Capital One Venture Rewards, MasterCard Gold Card)
- Smart card (includes microprocessor)

Interest Rates

- Annual Percentage Rate or APR
- Applied to unpaid balance as part of finance charge
- No interest on new purchases during the grace period
- After grace period, finance charges apply based on accrued interest from the day of purchase

Universal Default Clause

Things that can raise interest rate:

- Late credit card or bill payment
- Getting a new mortgage or car loan
- Going over credit limit on or using over half of credit line
- Too many credit accounts
- Applying for credit
- Too much debt

20/10 Rule

- Total credit card debt — Don't exceed 20% of annual take-home pay.
- Monthly debt payments – 10% or less of monthly take-home pay.

Online Shopping Advantages

- Place orders without leaving home
- Shop any time of day
- Compare selection and prices
- Find products that aren't available locally
- No sales taxes at time of purchase * Law changed
- No aggressive salespeople or crowds to deal with
- No worries about parking; saves gas

Online Shopping Disadvantages



- Can't inspect items before buying
- Wait for delivery
- Must add cost of shipping and handling
- Encourages impulse buying
- Difficult to determine reliable sellers
- Security issues can put credit card information at risk

Online Shopping Disadvantages

- Lack of individual customer service
- Can affect the local economy adversely
- Returns may be more of a hassle, and sometimes include shipping costs

Online Security

- Physical address, phone number
- Privacy policy
- Return and refund policy
- Read product descriptions
- Avoid phishing sites
- Lock icon
- Https

Online Payments

- Terms of agreement
- Privacy policy and security
- Beware of payment service website that looks unprofessional or is based in another country.
- Call payment service to verify online identify
- Pay by credit card

Online Payments - Continued

- Know total cost
- Save copy of receipt
- Don't allow website to save credit card number



Unit Review

1. Explain the concept of “borrowing to spend.”
2. Distinguish between credit card credit and vehicle loan credit.
3. How are people encouraged to use credit cards?
4. Compare and contrast the advantages and disadvantages of using credit cards.
5. Explain the difference between private label cards and general purpose cards, giving an example of each.

Unit Review - Continued

6. Name at least three types of general purpose of credit cards.
7. Describe how credit card interest rates work.
8. How can you avoid paying interest when you use a credit card?
9. What is the problem with only paying the minimum payment on monthly credit card statements?
10. What are some of the factors to consider when shopping for a credit card?

Unit Review - Continued

11. Explain how credit card companies use incentives, and is this a good practice?
12. Describe fees associated with credit cards.
13. Discuss why people like to shop online.
14. Describe some of the disadvantages of shopping online.
15. What factors are important when shopping online?

Unit Review - Continued

16. How can you tell if you're shopping at a secured site?

17. Discuss the credit changes required by the CARD Act.

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