

The Cost of Buying on Credit



EXAMPLE 3 Finding the Cost of Buying on Credit

You use a credit card to purchase a plasma television for \$2500. The credit card company sends you a monthly bill, asking for a minimum payment of 3% of the balance or \$25, whichever is greater. The annual percentage rate for the unpaid balance is 28%. How long does it take to pay for the television by making only minimum payments? How much interest do you pay?

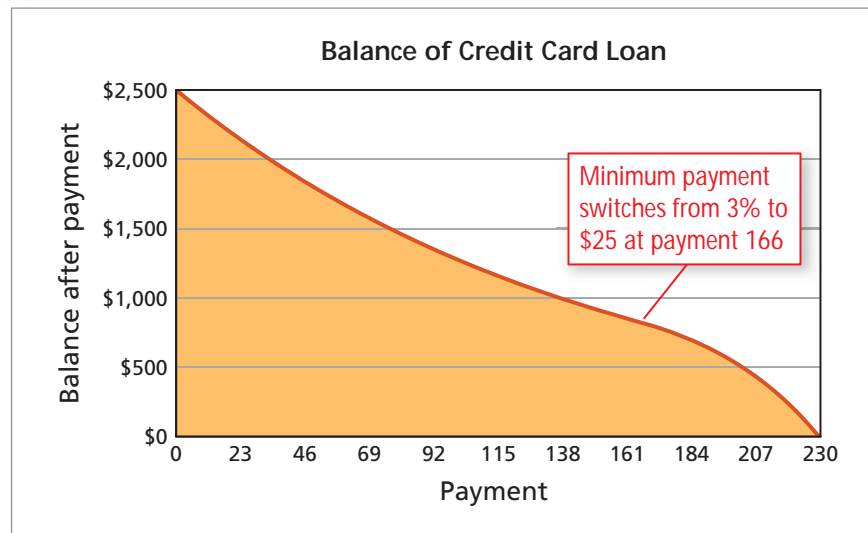
SOLUTION

The spreadsheet illustrates why you should make more than the minimum payment each month.

DATA					
	A	B	C	D	E
	Payment Number	Balance before Payment	Minimum Payment	Interest	Balance after Payment
1	1	\$2,500.00	\$75.00	\$58.33	\$2,483.33
2	2	\$2,483.33	\$74.50	\$57.94	\$2,466.78
3	3	\$2,466.78	\$74.00	\$57.56	\$2,450.33
228	227	\$81.93	\$25.00	\$1.91	\$58.84
229	228	\$58.84	\$25.00	\$1.37	\$35.21
230	229	\$35.21	\$25.00	\$0.82	\$11.03
231	230	\$11.03	\$11.29	\$0.26	\$0.00
232	Total		\$9,130.26		

Study Tip

Credit card companies often offer a limited time 0% APR for new customers. However, this rate usually reverts to the standard APR when you are late with a payment. So, when you accept this type of card, be sure you pay at least the minimum payment *on time* each month.



This repayment plan takes 230 payments, or 19 years and 2 months. During this time, you pay $9130.26 - 2500.00 = \$6630.26$ in interest.

✓ Checkpoint

Help at Math.andYOU.com

Suppose you make a payment of \$75 each month.

- How long does it take to repay the loan?
- How much interest do you pay?