

FINANCIAL LITERACY

Module 2

Paying on Credit



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What is this Module about?

Module 2 introduces students to the concepts of simple interest and credit card debt, helping them connect mathematical calculations to real-world financial decisions. This module builds both mathematical proficiency and financial literacy.

Students will gain practical knowledge that can help them make informed financial choices, avoid costly borrowing habits, and develop responsible money-management skills for the future.

Before beginning Module 2, students should be comfortable with:

- Adding, subtracting, multiplying, and dividing whole numbers and decimal numbers
- Converting between fractions, decimal numbers, and percentages
- Substituting values into formulas
- Solving simple one-step equations
- Identifying relevant information in financial scenarios

Through practical examples and problem-solving activities, students will develop financial literacy skills that support responsible decision-making as consumers.

By the end of the Module 2, students will be able to calculate simple interest, determine the total cost of borrowing, and analyze the impact of making only minimum payments on credit card balances.

You must have completed Module 1 before you can start this module.

Introduction

A **credit card** is a small plastic card that lets people buy things now and pay for them later.

Banks and companies give credit cards to most adults who have not filed for bankruptcy over the last seven years in Canada. Many post-secondary students will be able to apply for and receive a credit card while still in school.

Credit cards can be very useful tools when used wisely:

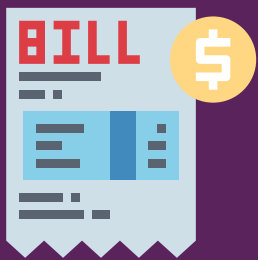


- They make shopping easier and safer
- They can help build good credit
- They can help people pay bills when they don't have the money immediately
- Some credit cards also give rewards where people may earn points, cash back, or travel miles when they use the card to help make other purchases

However, credit cards can also lead to debt and extra costs if people spend too much. Credit cards can be very helpful, but they can also cause problems if people are not careful.

In this module, you will explore how credit cards work and apply this understanding to ways in which you can use credit cards wisely and responsibly.





Lesson 1:

Income and Expense

What is this lesson about?

In Lesson 1, you will explore different methods of making payments for goods and services in Canada.

You will explore

- Five common payment methods
- How each payment method works
- The advantages and disadvantages of each payment method
- Which methods are best in different situations (based on factors like available funds, convenience, accessibility, and payment requirements)
- How to make informed choices when making purchases

Objectives

By the end of this lesson, you will be able to:

- Identify and describe five common methods of payment and explain how each payment method works
- Recognize the advantages and disadvantages of different payment methods
- Distinguish between spending your own money (cash, debit, e-transfer, cheque) and borrowing money (credit card)
- Analyze purchasing situations and select appropriate payment methods based on the circumstances
- Determine when certain payment methods may be impossible or impractical to use
- Apply financial decision-making skills to everyday spending scenarios



Payment Methods

There are many different ways that you can use money. Here are different ways that you can make payments:

Cash



Paper bills and coins that you keep in your wallet or your purse. Paying with cash can help you understand how much you spend because you can actually see the money in your hands.

Credit Card



A card given to you by a bank or financial institution that lets you borrow money to pay for something. You will have to pay this money back later. You can also get credit cards from grocery stores, big box stores, and more. In most instances, you will have to pay back *more* money than you borrowed.

Debit Card



A card that lets you pay for something with money that is already in your bank account. To use a debit card, you need to have enough money in your account. You also may be charged a fee when you use your debit card.

Electronic Transfer (e-Transfer)



Using the internet to send money from your bank account to someone else's bank account. This type of transaction is common in Canada. It is not available in some countries (like the United States). E-transfers usually do not have fees but always check the terms and conditions with your bank.



Cheque

A piece of paper that gives someone permission to take money out of your bank account. The payment amount is written on the cheque and must be signed by you.

Each payment type has advantages and disadvantages.

One advantage and one disadvantage for each payment type is shown on the table below.

Write one more advantage and one more disadvantage for each payment type:

	Advantages	Disadvantages
Cash	• You will never spend more than you have •	• You may not be able to buy what you want right now •
Credit Card	• You can buy what you want right now •	• You may spend more than you can afford to pay back •
Debit Card	• You can only spend what you have in your account •	• You may be charged a fee •
e-Transfer	• You can do it from your phone or computer •	• The internet can allow a bank account to be hacked •
Cheque	• You never need to carry cash that can be stolen •	• A payment may be late if you sent it through the mail •



Exercises



For each purchase in questions 1 to 3:

- Circle which payment method you think is best
- Write the reason you chose that payment method

1. Rondell buys three chocolate bars for \$2.70. He has a \$10 bill with him.

Cash Credit Card Debit Card e-Transfer Cheque

Reason _____

2. Liam needs to put \$20 on his Presto card. He only has \$3.80 left on the Presto card. Liam does not have the cash while at the subway but does have the money in his savings account.

Cash Credit Card Debit Card e-Transfer Cheque

Reason _____

3. Milan wants to buy a new pair of jeans and a sweater. The jeans cost \$57.95 and the sweater costs \$34.65. Milan has \$42.75 in cash and \$227.54 in her bank account.

Cash Credit Card Debit Card e-Transfer Cheque

Reason _____

For each purchase in questions 4 to 6:

- Circle which payment method is impossible
- Write the reason you chose that payment method



4. Fatima needs to buy a used computer for \$675. Fatima does not have cash with her. She also does not have the money in her bank account.

Cash Credit Card Debit Card e-Transfer Cheque

Reason _____

5. Sheila needs to buy groceries. She has difficulty leaving the house and decides to get her groceries delivered. The groceries cost \$187.25 plus \$15.48 for delivery. Sheila has \$355 in her bank account and \$23.65 in cash.

Cash Credit Card Debit Card e-Transfer Cheque

Reason _____

6. Marcel pays \$1800 each month in rent for a shared house. The landlord does not want to contact Marcel in-person each month. Marcel has a job that will deposit \$2454.45 each month into his bank account.

Cash Credit Card Debit Card e-Transfer Cheque

Reason _____

Your Turn

Time to think about your financial situation privately.

Do not share this information with anyone.

1. Which of the five payment methods do you use most often? You can look at the list on page 8 to refresh your memory. Explain why you chose that payment method.
2. List two advantages that *you* experience when you use the payment method from question 1.
3. Which of the five payment methods do you use least often? Explain why you do not use that payment method very often.
4. Write a scenario where you *would* use the payment method from Question 3.



Lesson 2:

Paying on Credit

What is this lesson about?

This lesson investigates the concepts of simple interest and credit card debt, focusing on how credit cards generate costs for both consumers and businesses.

You will explore

- How credit card companies earn money
- How to calculate interest charges and total repayment amounts using the simple interest formula
- The effects of making minimal payments
- The long-term consequences of borrowing money
- The risks of credit card debt
- The importance of using credit responsibly

You will also connect your work from Module 1 (needs versus wants) and use tables and repeated calculations to estimate repayment timelines.

Objectives

By the end of this lesson, you will understand:

- The true cost of borrowing money
- How interest increases the cost of purchases
- Why making only minimum payments can prolong debt repayment
- The importance of budgeting and spending within your means
- Responsible use of credit as part of effective personal financial management
- The simple interest formula and how it is used to determine the total amount that must be repaid after interest is added
- How to reflect on personal financial habits and make informed decisions about borrowing and managing credit responsibly

Credit cards are usually very easy to get. Sometimes, *too* easy. As long as the individual has not filed for bankruptcy in the previous 7 years, they can usually get a credit card. It can be tempting to pay bills with a credit card if your income is less than your expenses.

But how do credit cards companies stay in business? The bank that gives you the credit card pays the store *for* you when you make a purchase. Then, the bank will charge the store 2% of the total purchase price.

EXAMPLE 1

Suppose Lisa decided to pay her landlord \$2400 in rent using her credit card.

- a) How much will the landlord be charged by the bank?
- b) How much will the landlord actually receive?



Solution

- a) The person receiving the money is charged 2% of the total amount:

$$\begin{aligned} 2\% \text{ of } \$2400 &= 0.02 \times \$2400 \\ &= \$48 \end{aligned}$$

The landlord will be charged a fee of \$48.

- b) The person accepting payment by credit card will receive:

$$\$2400 - \$48 = \$2352$$

The landlord will receive \$2352.

The person using the credit card is also charged a fee.

There are two ways that the owner of the credit card can be charged:

- Simple interest
- Compound interest

There is a formula that credit card companies use to calculate the simple interest that will be charged to the person receiving the money.

$$\text{Interest Charged} = \text{Principle} \times \text{Rate} \times \text{Time}$$

Amount charged to credit card

Interest rate written as a decimal number

Length of time in years to pay it back

EXAMPLE 2

Lisa decides to pay one month's rent of \$2400 on her credit card. She is charged 24% in simple interest per year. Lisa decides that she will pay it with one payment in 6 months.

- a) How much interest will she pay?
b) How much will she pay in total?

Solution

- a) Lisa is being charged simple interest.

$$\begin{aligned}\text{Interest Charged} &= \text{Principal} \times \text{rate} \times \text{time} \\ &= \$2400 \times 0.24 \times \frac{6}{12} \\ &= \$288\end{aligned}$$

Time is written as part of a year. There are 12 months in one year.

Lisa will owe \$288 in interest.

b) When you use a credit card, you must pay back the original payment amount *and* the interest that the credit card company charges. Lisa paid \$2400 in rent on her credit card and is charged interest of \$288. The total paid back to the credit card company is shown below.

$$\begin{aligned}\text{Total Paid Back} &= \text{Principal} + \text{Interest} \\ &= \$2400 + \$288 \\ &= \$2688\end{aligned}$$

In this scenario, Lisa was allowed to wait 6 months to make a credit card payment. However, **most credit card companies in Canada require you to make a minimum payment every month.**

EXAMPLE 3

Lisa decides to pay one month's rent of \$2400 on her credit card. She pays simple interest of 24% per year (or 2% each month.) Her minimum payment each month is \$10. How many years will it take for Lisa to pay off her credit card?

Solution

Step 1 Find the interest charged each month.

$$\begin{aligned}\text{Interest added} &= \text{Principal} \times \text{rate} \times \text{number of months} \\ &= \$2400 \times 0.24 \times \frac{1}{12} \\ &= \$48\end{aligned}$$

Lisa pays only \$10.

Step 2 Decide how long it will take to pay off the credit card.

Since the payment is less than the interest, the total amount owed goes up each month.

In the first month, it will increase by \$38 (\$48 – \$10) and the debt will never be cleared.

In Canada, to avoid a situation like Lisa's, the minimum amount a person needs to pay each month is usually 2% to 3% of the balance that is left on their credit card.

EXAMPLE 4

Look at Example 3 again. After one month, how much does Lisa have to pay if the minimum payment amount is 3% of the balance?

Solution

$$\begin{aligned}\text{Interest added} &= \text{Principal} \times \text{rate} \times \text{number of months} \\ &= \$2400 \times 0.02 \times 1 \\ &= \$48\end{aligned}$$

$$\begin{aligned}\text{Amount paid} &= \text{Principal} \times \text{rate} \times \text{number of months} \\ &= \$2448 \times 0.03 \times 1 \\ &= \$73.44\end{aligned}$$

The amount owed on the card is reduced by \$73.44 – \$48 or \$25.44. There will now be \$2400 – \$25.44 or \$2374.56 left to pay.

Your Turn

Before trying the exercises below, estimate how many months it will take Lisa to pay off \$2400 if she pays the minimum amount each month. Give reasons for your estimate.

You will explore this idea more in the next lesson.



Exercises



1

Credit cards are accepted at most large retail stores. One large retailer is charged 3% by the credit card company each time a customer uses the card. A customer purchases a desk for \$300.

a) How much will the retailer be charged?

b) How much will the retailer actually receive?

2

A corner store is charged 2.5% of the total amount each time a credit card is used in the store. A customer has just made a \$48.97 purchase including taxes.

a) How much will the corner store be charged by the bank?

b) How much will the store actually receive?

3

The same corner store from Question 2 has a customer who purchases the following items using a credit card:

• Chips	\$2.49
• 2L of Milk	\$5.89
• Bread	\$2.49
• Chocolate Bar	\$1.25
• Frozen Vegetables	\$4.27
• 1L of Pop	\$2.99
• Cold Medicine	\$8.35



a) Identify each item as a need or a want. Give reasons for your choice.

b) The item prices already include taxes. How much will the customer charge to their credit card?

c) How much does the corner store actually receive from the purchase?

4 The customer from Question 2 has a credit card. It has a simple interest rate of 24% per year. The customer decides to pay the balance with one payment in 3 months.

a) How much interest will be paid?

b) How much will be paid back in total?

5

A customer has just purchased the following items at a department store:

- | | |
|---------------------------|--------------------|
| • 3 pairs of socks | \$3.99 per pair |
| • 2 shirts | \$7.99 per shirt |
| • 1 pair of running shoes | \$74.49 per pair |
| • 4 pillows | \$11.33 per pillow |
| • 1 spring jacket | \$24.79 per jacket |



The customer purchased the items using a credit card that charges 18% simple interest each year. The store is charged 2% interest for credit card purchases.

- a)** The item prices already include taxes. How much will the customer charge to their credit card?
- b)** How much does the department store actually receive from the purchase?
- c)** The customer is charged 20% simple interest per year. The customer decides to make one payment in 8 months. How much interest will the customer pay?

d) How much will the customer pay back in total?

e) The credit card company charged both the owner of the card and the store. How much did the credit card company earn on this transaction?

6

A customer owes a credit card company \$1000 after interest has been calculated and added. The customer must make a payment every month. The credit card company requires that each payment must be 3% of the balance or \$10; whichever is more.

a) What is 3% of \$1000?

b) What is the minimum payment that the customer must make?

c) How much does the customer owe the credit card company after the payment has been made?

7

Use the same balance from Question 6 (\$1000). The customer must pay 18% simple interest on their credit card.

a) How much interest will the customer be charged?

b) How much does the customer need to pay in order to completely pay off their credit card?



8

To help determine how long it will take to pay off their credit card, the customer set up a table like the one below. Complete the table to show six months of calculations. The first month of calculations are completed for you.

	Starting Balance	Interest Added	New Amount Owed	Minimum Payment	Ending Balance
1	\$1000	$I = p \times r \times t$ $= \$1000 \times 0.18 \times \frac{1}{12}$ $= \$15.00$	$\$1000 + \15.00 $= \$1015.00$	$3\% \text{ of } \$1015.00$ $= 0.03 \times 1015.00$ $= \$30.45$	$\$1015.00 - \30.45 $= \$984.55$
2					
3					
4					
5					
6					

9

Look at the table you have completed in the previous question.

- a) Does the first line show the same values that you found in questions 6 and 7? If not, can you find the error?

- b) Based on the table, estimate how many months it will take to completely pay off the credit card. Give reasons for your estimate.

- c) Do you think a table like this can be used to estimate how long it will take Lisa to completely pay off the \$2400 rent she charged to her credit card? Give reasons for your answer.

- d) Do you think Lisa was correct to use her credit card to pay off one month's rent if she has to make minimum payments each month? Explain your reasoning.

Your Turn

Time to look at your own financial situation privately once again. *Do not share this information with anyone.*

1. If you do not have a credit card, do you want to get one? If you already have a credit card, do you want to get another? Explain your decision.

2. List 3 reasons why you might use a credit card. Along with each reason, list at least one risk that goes along with the reason.

- 3.a) If you have a credit card, write how much do you currently owe to pay off the credit card completely? If you don't have a credit card, assume you have one and currently owe \$500.

- b) For the balance that you owe on your credit card from the previous question, list ways in which you can reduce the amount of interest that you must pay.



Lesson 3: Typical Credit Cards

What is this Lesson About?

This lesson connects to your understanding of credit cards by introducing compound interest, the method used by most credit card companies to calculate interest on unpaid balances.

You will explore

- how compound interest differs from simple interest and how interest can accumulate rapidly when balances are not paid in full
- key credit card features such as annual percentage rates, grace periods, minimum payments, and credit card repayment strategies
- the importance of understanding credit card terms and conditions, paying more than the minimum payment whenever possible, and using credit responsibly to avoid excessive debt

Objectives

By the end of this lesson, you will be able to explain:

- how compound interest can significantly increase the cost of borrowing
- why carrying a credit card balance can become expensive over time
- the benefits of paying off balances quickly and avoiding unnecessary interest charges
- the importance of reading and understanding credit card terms and understanding terms like “grace period” and “minimum payment”
- how repayment choices affect long-term financial health
- responsible credit management practices, including monitoring spending, limiting debt, and avoiding reliance on one credit card to pay another
- the relationship between mathematical calculations and real-world personal finance decisions

As mentioned in the previous lesson, credit cards do not usually charge only simple interest. The credit cards will charge **compound interest**.

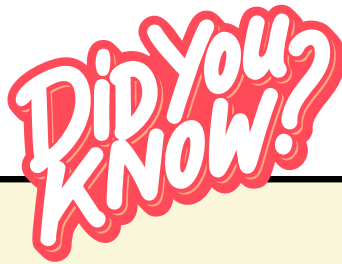
The compound interest formula is shown below.

$$A = P(1 + r)^n$$

The diagram shows the formula $A = P(1 + r)^n$ with four arrows pointing to its components: 'Total amount owed' points to A , 'Amount charged to card' points to P , 'Daily interest rate as a decimal number' points to r , and 'Number of days interest charged' points to n .

The interest rate that the user pays is quite high on most credit cards. The amount of interest you actually pay depends on a number of factors like

- the card's APR (Annual Percentage Rate)
- whether you pay the full balance
- how long you take to repay it



Credit card interest rates are high because the credit is unsecured. This means, if you don't pay the credit card back, the credit card company can take your home or your car. The interest rate is higher because the credit card company takes the risk of you not paying the money back. Not paying it back can hurt your credit rating significantly, however, making it harder to rent an apartment or get a loan.

EXAMPLE 1

Suppose you purchase a new computer for \$1000. The credit card charges an interest rate of 0.05479% compounded each day. You pay off the entire balance at the end of 30 days. How much do you pay in total?

Solution

$$\begin{aligned} A &= P(1 + r)^n \\ &= 1000(1 + 0.0005479)^{30} \\ &= 1016.57 \end{aligned}$$

The total amount paid back will be \$1016.57.

In this example, notice that \$1000 is the amount initially borrowed and \$1016.57 – \$1000 or \$16.57 is the interest that is paid back.

When using credit cards, it is important to read the terms and conditions on the credit card. Some credit cards have a grace period of 20 days. This means that if the total amount is paid off within 20 days of it being used, no interest is charged.

EXAMPLE 2

Suppose you purchase a new computer for \$1000. The credit card charges an interest rate of 1.83% compounded each month. You pay \$200 per month until it is paid off.

- a) How long does it take to pay it off in full?
- b) How much interest is paid in total?
- c) How much do you pay in total?

Solution

A table can help organize all the calculations.

Month	Starting Balance	Amount Owed After Interest	Interest Added	Payment Made	Ending Balance
1	\$1000	$A = P(1 + r)^n$ $= \$1000(1 + 0.0183)^1$ $= \$1018.30$	$\$1018.30 - \1000 $= \$18.30$	\$200	$\$1018.30 - \200 $= \$818.30$
2	\$818.30	$A = P(1 + r)^n$ $= \$818.30(1 + 0.0183)^1$ $= \$833.27$	$\$833.27 - \818.30 $= \$14.97$	\$200	$\$833.27 - \200 $= \$633.27$
3	\$633.27	$A = P(1 + r)^n$ $= \$633.27(1 + 0.0183)^1$ $= \$644.86$	$\$644.86 - \633.27 $= \$11.59$	\$200	$\$644.86 - \200 $= \$444.86$
4	\$444.86	$A = P(1 + r)^n$ $= \$444.86(1 + 0.0183)^1$ $= \$453.00$	$\$453.00 - \444.86 $= \$8.14$	\$200	$\$453.00 - \200 $= \$253.00$
5	\$253.00	$A = P(1 + r)^n$ $= \$253.00(1 + 0.0183)^1$ $= \$257.63$	$\$257.63 - \253.00 $= \$4.63$	\$200	$\$257.63 - \200 $= \$57.63$
6	\$57.63	$A = P(1 + r)^n$ $= \$57.63(1 + 0.0183)^1$ $= \$58.68$	$\$58.68 - \57.63 $= \$1.05$	\$58.68	$\$58.68 - \58.68 $= \$0$

a) It takes 6 months to pay off in total.

b) The total interest paid can be calculated from column 4 of the table.

$$\$18.30 + \$14.97 + \$11.59 + \$8.14 + \$4.63 + \$1.05 = \$58.68$$

c) The total amount paid can be calculated from column 5.

$$\$200 + \$200 + \$200 + \$200 + \$200 + \$58.68 = \$1058.68$$

One problem people can sometimes create for themselves with credit cards is when only the minimum monthly payment is made. Remember Lisa? In Lesson 2, Lisa decided to make one of her monthly payments on a credit card. Suppose Lisa's credit card has the following conditions:

- interest is charged at 1.5% compounded each month
- the minimum monthly payment must be 3% of the balance or \$10, whichever is greater

How long will it take Lisa to completely pay off the credit card?

A table like the one from Example 2 can be created to start the calculations.

Month	Starting Balance	Amount Owed After Interest	Payment Made (3% of balance)	Ending Balance
1	\$2400	$A = P(1 + r)^n$ $= \$2400(1 + 0.015)^1$ $= \$2436.00$	3% of \$2436.00 $= 0.03 \times \$2436.00$ $= \$73.08$	$\$2436.00 - \73.08 $= \$2362.92$
2	\$2362.92	$A = P(1 + r)^n$ $= \$2362.92(1 + 0.015)^1$ $= \$2398.36$	3% of \$2398.36 $= 0.03 \times \$2398.36$ $= \$71.95$	$\$2398.36 - \71.95 $= \$2326.41$
3	\$2326.41	$A = P(1 + r)^n$ $= \$2326.41(1 + 0.015)^1$ $= \$2361.30$	3% of \$2361.30 $= 0.03 \times \$2361.30$ $= \$70.84$	$\$2361.30 - \70.84 $= \$2290.46$
4	\$2290.46	$A = P(1 + r)^n$ $= \$2290.46(1 + 0.015)^1$ $= \$2324.82$	3% of \$2324.82 $= 0.03 \times \$2324.82$ $= \$69.74$	$\$2324.82 - \69.74 $= \$2255.08$
5	\$2255.08	$A = P(1 + r)^n$ $= \$2255.08(1 + 0.015)^1$ $= \$2288.91$	3% of \$2288.91 $= 0.03 \times \$2288.91$ $= \$68.67$	$\$2288.91 - \68.67 $= \$2220.26$
6	\$2220.26	$A = P(1 + r)^n$ $= \$2220.26(1 + 0.015)^1$ $= \$2253.56$	3% of \$2253.56 $= 0.03 \times \$2253.56$ $= \$67.61$	$\$2253.56 - \67.61 $= \$2185.95$

EXAMPLE 3

Complete three more rows of the table.

Month	Starting Balance	Amount Owed After Interest	Payment Made (3% of balance)	Ending Balance

Solution

Month	Starting Balance	Amount Owed After Interest	Payment Made (3% of balance)	Ending Balance
7	\$2185.95	$A = P(1 + r)^n$ $= \$2185.95(1 + 0.015)^1$ $= \$2218.74$	3% of \$2218.74 $= 0.03 \times \$2218.74$ $= \$66.56$	$\$2218.74 - \66.56 $= \$2152.18$
8	\$2152.18	$A = P(1 + r)^n$ $= \$2152.18(1 + 0.015)^1$ $= \$2184.46$	3% of \$2184.46 $= 0.03 \times \$2184.46$ $= \$65.53$	$\$2184.46 - \65.53 $= \$2118.93$
9	\$2118.93	$A = P(1 + r)^n$ $= \$2118.93(1 + 0.015)^1$ $= \$2150.71$	3% of \$2150.71 $= 0.03 \times \$2150.71$ $= \$64.52$	$\$2150.71 - \64.52 $= \$2086.19$

That was a lot of calculations. But what does it show?

EXAMPLE 4

Look at the entire 9 rows of the chart. After 9 months, Lisa still owes \$2086.19.

- a) How much has Lisa made in total payments?
- b) How much has Lisa actually paid off after 9 months?
- c) How much has Lisa paid in interest?

Solution

- a) To find how much Lisa paid in total after 9 months, find the sum of all the payments she has made.

$$\begin{aligned} & \$73.08 + \$71.95 + \$70.84 + \$69.74 + \$68.67 + \$67.61 + \$66.56 + \$65.53 + \\ & \$64.52 \\ & = \$618.50 \end{aligned}$$

Lisa has made payments totalling \$618.50.

- b) To find out how much of the \$2400 Lisa has actually paid, subtract the amount after 9 months from the starting principal of \$2400.

$$\$2400.00 - \$2086.19 = \$313.81$$

Lisa has paid off \$313.81 of the total amount after 9 months.

- c) The difference between the amount paid off the total and the total amount of the payments made is interest.

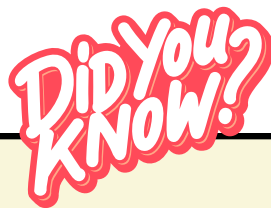
$$\$618.50 - \$313.81 = \$304.69$$

Lisa has paid \$304.69 in interest.

By making the minimum monthly payments, Lisa is paying a lot of money in interest. Money that Lisa may not have!

Your Turn

Before trying any of the exercises, estimate how long it will take Lisa to pay off the entire amount. Does this seem like a long time to you? Show how you made your estimate. You might want to create a spreadsheet if possible.



Credit cards can be very useful when paying bills. Especially if there is no interest charges for the first 20 days

However, they can take a long time to pay off if you are only paying the minimum monthly payment.

For Example:

If Lisa continues to make the minimum monthly payments, it will take about:

- 58 months for the amount owing to go below \$1000
- 12 years for the amount to be paid in full.

Credit Card Use Recommendations



1. **Pay as much of the statement balance every month as you can.**
This avoids interest charges entirely. If you only pay the minimum, interest compounds quickly and debt can last for years.
2. **Keep credit utilization low.**
Try to use less than about 30% of your available credit limit — ideally under 10% if possible. For example, with a \$5000 limit, staying below \$1500 helps reduce financial strain and can support a healthier credit score.
3. **Avoid cash advances.**
Cash advances usually start charging interest immediately and often have higher interest rates and extra fees. They are much more expensive than regular purchases.
4. **Review statements every month.**
Check for fraudulent charges, forgotten subscriptions, duplicate transactions, or spending patterns that are getting out of control. Catching problems early reduces both financial loss and stress.
5. **Limit the number of credit cards you actively use.**
Having many cards can make it harder to track balances, due dates, and spending habits. Using one or two well-managed cards is often safer and simpler than juggling several accounts.



Exercises

- ① Suppose you purchase a new iPhone for \$750. The credit card charges an interest rate of 0.05479% compounded per day. You pay off the entire balance at the end of 30 days. How much do you pay in total?

- ② Suppose you have a friendly credit card company for the iPhone purchase in question 1. They do not charge interest for the first twenty days as a grace period. The credit card charges an interest rate of 0.05479% compounded per day. You pay off the entire balance at the end of 30 days.
 - a) How much interest do you pay now?

 - b) How much do you pay in total?

 - c) As mentioned previously, some credit cards do offer a grace period after a purchase. Is it worth reading and knowing the terms and conditions of your credit card before using it? Give reasons for your answer.

 - d) How can you find out the terms and conditions for paying off a credit card?

3

A customer has just purchased the following items at a department store.

4 pairs of gloves at \$8.99 per pair

3 shirts at \$17.99 each

1 pair of shoes for \$74.49

4 blankets for \$18.44 each

1 winter coat for \$64.49

- a) The above items included all taxes. How much does the customer charge to their credit card?
- b) The store is charged 2% interest for using the credit card. How much does the department store actually receive from the purchase?
- c) The customer purchases the items using a credit card that charges 0.04567% per day. The customer pays the credit card off at the end of the month. How much does the customer pay if there is no grace period?
- d) The credit card company charged both the owner of the card and the store. How much did the credit card company earn on this transaction?

4

Suppose a customer bought \$635 worth of items on a credit card. The credit card charges 0.05507% per day. The customer pays \$100 off at the end of each month after interest has been charged.

- a) Complete the first three rows of this table to determine how much the customer owes at the end of three months.

Month	Starting Balance	Amount Owed After Interest	Payment Made (\$100 or final balance)	Ending Balance

- b) Is the same amount of interest paid after each month? Why do think this is so?
- c) How much interest is paid after three months?
- d) Based on this table, predict how many months it will take for the customer to completely pay off the balance?

- 5** Saheeth has purchased a new computer. With tax, the total is \$1089.54. Saheeth makes the purchase using a credit card that charges 0.0523% per day.

a) Complete the table below to show Saheeth's payment schedule for the first three months of payments.

Month	Starting Balance	Amount Owed After Interest	Payment Made (3% of final balance)	Ending Balance
1				
2				
3				

b) How much interest has Saheeth paid in total?

c) How much has Saheeth paid the credit card company after three months?

d) Predict how many months it will take for Saheeth to pay off the credit card balance completely. Explain your reasoning.

6 To pay off the credit card more quickly, Saheeth decides to double the minimum payment for the next three months.

a) Complete the table below to show Saheeth's payment schedule for the next three months of payments.

Month	Starting Balance	Amount Owed After Interest	Payment Made (3% of final balance)	Ending Balance
4				
5				
6				

b) How much interest has Saheeth paid in total during these six months?

c) How much has Saheeth paid the credit card company during the six months?

d) Now estimate the number of months it will take for Saheeth to completely pay off the credit card balance if he doubles the minimum payment until the end. Explain your reasoning.

7 Saheeth still did not like how long it was taking to pay off the balance on the credit card. He looks at his expenses for the next three months and decides to pay \$100 per month, regardless of the minimum payment.

a) Complete the table below to show Saheeth's payment schedule for the next three months of payments.

Month	Starting Balance	Amount Owed After Interest	Payment Made (\$_____)	Ending Balance
7				
8				
9				

b) How much interest has Saheeth paid in total during these nine months?

c) How much has Saheeth paid the credit card company during the nine months?

d) How many months will it take Saheeth to pay off the credit card?

8 Saheeth has another credit card and wonders whether he should pay off this credit card with another one. Under what conditions might you recommend that Saheeth use one credit card to completely pay off another credit card?

9 Saheeth then wonders whether he should make the minimum payment for one credit card using another credit card. Saheeth reasons “this will delay any payment I might need to make for one month.”

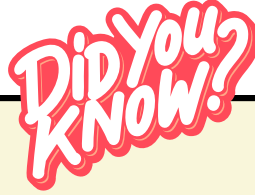
a) Do you recommend that Saheeth do this?

b) Write an argument to Saheeth using real numbers to convince him not to do this. Include the risks to Saheeth.

Your Turn

Think about your own current financial situation. Answer the following questions with this in mind. *Remember, do not share confidential information with anyone.*

1. Would you, or have you, ever used a credit card to purchase something that could be considered a “need”?
2. Would you, or have you, ever used a credit card to purchase something that could be considered a “want”?
3. List two possibilities where you might need to use a credit card. Give reasons for each possibility.
4. List two *advantages* to using a credit card.
5. List two *disadvantages* to using a credit card.



If someone in Ontario is struggling with credit card debt, there are several reputable places to get help.

1. **Non-profit credit counselling**

Credit Counselling Canada (creditcanada.com) members provide free or low-cost financial counselling. A counsellor can:

- review income, expenses, and debts and help create a realistic budget,
- discuss repayment options, or
- arrange a Debt Management Plan (DMP), where creditors may reduce or stop interest while the debt is repaid.

2. **Licensed Insolvency Trustees (LITs)**

If the debt has become unmanageable, the Office of the Superintendent of Bankruptcy Canada is a licensed trustee that can explain legally regulated options such as a consumer proposal to settle debts for less than the full amount while avoiding bankruptcy. The initial consultation is typically free.

3. **Financial Consumer Agency of Canada (FCAC)**

The FCAC (www.canada.ca › financial-consumer-agency) provides information about:

- managing debt
- dealing with creditors
- understanding interest charges
- avoiding debt relief scams

4. **Speaking with the credit card issuer**

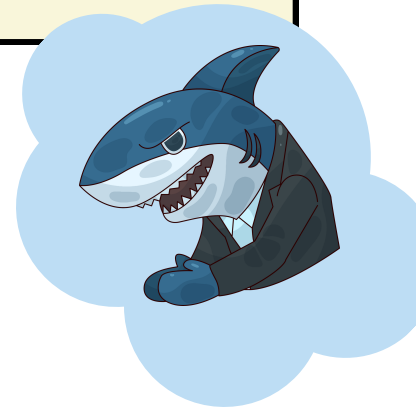
Many card issuers may be willing to:

- lower the interest rate temporarily
- allow reduced payments for a period
- work out another repayment arrangement

BE CAUTIOUS OF DEBT SETTLEMENT COMPANIES

Some for-profit debt settlement companies charge large upfront fees or make promises they cannot guarantee. Before signing anything:

- check whether the company is regulated
- avoid anyone who guarantees they'll eliminate your debt





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