

Cash versus Credit

Introduction:

Whenever people go into a store to buy something, they have a choice. They can pay with cash or credit. There can be many advantages to using credit cards, but there are also many disadvantages to using them and as well.

What is credit?

Paying with credit means to use a credit card. When someone pays with a credit card, they will be billed by the credit card company the amount they charged. So, if you have a credit card and decide that you really want a new CD that costs \$15 you can charge it and the credit card company will pay the store. You would then be expected to pay the \$15 back to the credit card company when they send you a bill.

Why are credit cards good?

Many people like credit cards because it's safer than carrying around a wad of cash. If someone steals your cash (or you lose it), it's gone. If your credit card is lost or stolen, you just need to report it to the credit card company and they will stop accepting it.

Credit cards can also be used as a tool for people who want to build good "credit". If you ever want to get a loan from a bank, they will look at your credit score. Higher credit scores are better. Using a credit card responsibly can increase your credit score.

What happens if you are away from home and your car breaks down? You can use a credit card to help pay for car repairs, towing and any other unexpected expenses.

Credit cards also serve as forms of identification. Adults often have to show a major credit card as a form of identification.

Why are credit cards bad?

While credit cards have many advantages, they can get you into a lot of financial trouble. Being able to pay for things with a credit card instead of cash can be very tempting. Balances add up very quickly and many times people are unable to pay off the balance each month.

If you don't pay off the entire bill each month, you "carry a balance". Carrying a balance is not good because finance charges will be added to your balance.

The longer you carry a balance on your credit card, the more finance charges you'll have to pay. Getting out of credit card debt can be very difficult because of the finance charges. If you end up taking a year or more to pay for something that you've charged, you will end up paying more than the original price over time.

How does a credit card compare to cash?

You won't have finance charges with cash.

You won't have monthly bills with cash.

You won't build your credit history with cash.

You will know exactly how much money you've spent at all times with cash.

You will have less security if your cash gets lost or stolen.

You won't end up paying more over time with cash.

Name _____



Date _____

Find the Answer

1. What happens when you charge money to a credit card?

2. Credit cards are safer than cash because

- a. it is easy to lose cash.
- b. credit cards will never be stolen.
- c. credit cards can be cancelled.

3. How can you use a credit card to show your financial responsibility?

- a. Charge everything
- b. Charge nothing
- c. Pay off everything each month
- d. Pay off part of the bill each month

4. What happens if you “carry a balance” on your credit card?

5. Why shouldn't you expect to take a year to pay off a credit card charge?

6. List two advantages of cash over credit cards:

a. _____

b. _____