



Introducing the Credit Card

Answer Guides

The answers below correspond to the exercises in *Introducing the Credit Card*. The correct ones are bolded for convenience, with detailed explanations where applicable. For a list of answers without explanations, see the *Quick Reference Answer Guide* in the back.

Exercise 1: What is a credit card?

1. What is a credit card?

A: A plastic card with a magnetic strip on the back

B: Something that represents a line of credit

C: A source of free money.

D: Both A and B

2. Which of these could be a credit card number?

A: 1122 2542 2565 215

B: 4670 1016 4923 7710

C: 5581 5820 4387 0956 1370

D: All of the above

Explanation: Credit card numbers must be 16 to 19 digits long. A is 15, B is 16, and C is 20.

3. How many digits are in a standard credit card number?

A: 16

B: 17

C: 18

D: 19

E: A credit card number can be 16 to 19 digits long.

4. What happens after the expiration date on a credit card?

A: The card no longer works

B: The cardholder has to get a new card

C: The card blows up

D: Both A and B

5. How many numbers are in a CVV code?

A: 1

B: 2

C: 3

D: 4

E: 3 or 4

Exercise 2: How do credit cards work?

1. True or false: You have to swipe a credit card to use it.

A: True

B: False

2. Which parties participate in credit card processing?

A: The issuer, the director, and the buyer

B: The acquirer, the analyst, and the accountant

C: The merchant, the acquirer, and the issuer

D: The authorizer, the batcher, and the lender

3. What are the steps of credit card processing?

A: Authorization, batching, sorting, and funding

B: Batching, acquiring, issuing, and lending

C: Clearing, funding, batching, and selection

D: Authorization, batching, clearing, and funding

4. Which of the following is not a way to pay off a credit card?

A: At a store or bank

B: With another credit card

C: On the phone

D: All of these will work as credit card payment options

5. What is the approximate minimum payment for a card with a \$1,000 balance?

A: \$15

B: \$20

C: \$100

D: \$200

Explanation: This refers to the following statement (page 9): “Your minimum monthly payment...is usually 2% of the balance or \$15 (whichever is higher).”

2% of \$1,000 = $.02 \times \$1,000 = \20

Exercise 3: Do credit cards have fees?

1. What does APR stand for?

A: Annual purchase rate

B: Annual percentage rate

C: Approximate payment rotation

D: Authorization processing rate

2. Which fees do all credit cards have?

A: Annual fees

B: Over-the-limit fees

C: Foreign transaction fees.

D: Some credit cards have no fees at all.

3. When do you have to pay a cash advance fee?

A: When you move a balance from one card to another

B: When you do not make your payments on time

C: When you spend more than your limit on a card

D: When you withdraw money from an ATM

4. If a card has a \$2,400 balance and a minimum payment of 4%, what would you need to pay to keep your card in good standing? Assume that there are no other fees involved.

A: \$40

B: \$24

C: \$96

D: \$240

Explanation: $4\% \text{ of } \$2,400 = .04 \times \$2,400 = \$96$

5. What would the one-month interest be for a \$5,000 credit card balance with a 12% APR?

A: \$120

B: \$600

C: \$500

D: \$50

Explanation: 12% APR represents a year, or 12 months of interest. 1 month of interest would be approximately $1/12$ of that.

$$12\% / 12 = 1\%$$

$$1\% \text{ of } \$5,000 = .01 \times \$5,000 = \$50$$

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Exercise 4: How can I apply for a credit card?

1. How old do you have to be to apply for a credit card?
A: 21
B: 18
C: 16
D: 13
2. Do you have to provide your social security number to apply for a credit card?
A: Yes
B: No
C: It depends on the credit card.
3. Complete the sample application at the end of this document. **Check over the students' applications.**

Exercise 5: How can I avoid credit card debt?

1. True or false: You cannot have a credit card without getting credit card debt.
A: True
B: False
- 2: What are the causes of credit card debt?
A: Bad spending
B: Bad payments
C: Bad shoes
D: Both A and B

Exercise 6: How do rewards programs work?

1. What would the approximate annual rewards be for the first year in the Capital One Cash Rewards example above?
A: \$134.25
B: \$162.38
C: \$201.38
D: \$324.76

Explanation: This card offers 1% cash back for all purchases, plus a 50% bonus at the end of the year. Using \$13,425 as the amount of money spent, we get...

$$1\% \text{ of } \$13,425 = .01 \times \$13,425 = \$134.25$$

$$50\% \text{ of } \$134.25 = \$67.13$$

$$\$134.25 + \$67.13 = \$201.38$$

2. What can travel rewards be used for?

A: Hotel rooms

B: Airline tickets

C: Cruises

D: Vacation packages

E: All of the above

3. What would happen to the rewards from the sample if you also put your insurance payments on the card?

A: It would go up because the total spent would go up.

B: It would go down because the total spent would go up.

C: It would go up because the total spent would go down.

D: It would go down because the total spent would go down.

Continue to the next section for the Quick Reference Answer Guide.

Exercise 1: What is a credit card?

1. **D: Both A and B**
2. **B: 4670 1016 4923 7710**
3. **E: A credit card number can be 16 to 19 digits long.**
4. **D: Both A and B**
5. **E: 3 or 4**

Exercise 2: How do credit cards work?

1. **B: False**
2. **C: The merchant, the acquirer, and the issuer**
3. **D: Authorization, batching, clearing, and funding**
4. **D: All of these will work as credit card payment options**
5. **B: \$20**

Exercise 3: Do credit cards have fees?

1. **B: Annual percentage rate**
2. **D: Continue to the next section for the Quick Reference Answer Guide.**
3. **D: When you withdraw money from an ATM**
4. **C: \$96**
5. **D: \$50**

Exercise 4: How can I apply for a credit card?

1. **B: 18**
2. **C: It depends on the credit card.**
3. **Check over the students' applications.**

Exercise 5: How can I avoid credit card debt?

1. **B: False**
2. **D: Both A and B**

Exercise 6: How do rewards programs work?

1. **C: \$201.38**
2. **E: All of the above**
3. **A: It would go up because the total spent would go up.**