Name: ______________________ **Lesson 2** Period: ______________________

The Credit Card Mystery

Directions. Read the *Handy Dandy Guide* and the mystery. Read the clues. Be careful. While all the clues are correct, only some are *useful* in solving the mystery. Decide which clues are most relevant to solving the mystery. Use the clues and one or more of the ideas from the *Handy Dandy Guide* to figure out a solution to the mystery. Write your solution.

Handy Dandy Guide

1. People *choose*.
2. People's choices involve *costs*.
3. People respond to *incentives* in predictable ways.
4. People create *economic systems* that influence individual choices and incentives.
5. People gain when they *trade* voluntarily.
6. People's choices have consequences that lie in the *future*.

The Mystery

Interest rates change. Yet interest rates on credit card balances remain high relative to other rates, often averaging around 17 percent. Several bills have been introduced in Congress to impose a nationwide ceiling on credit card interest rates.

Why do we have high interest rates on credit cards when other interest rates are so much lower?

The Clues

1. Many states have laws that place an interest rate ceiling on credit cards.
2. Consumers most often use credit cards to purchase consumable things like meals, clothing, and such.
3. Most loans are secured by collateral (cars and homes, for example). Most credit card loans are unsecured.
4. Credit cards provide a convenient way of obtaining a short-term loan.
5. Just over half of all Americans use credit cards.
6. Most credit cards have a credit limit.
7. Most credit cards have a grace period; if you pay off your balance in 30 days, you are not subject to finance charges.
8. Credit cards are issued by many institutions such as banks, department stores, and oil companies.
9. Levels of credit card theft and fraud are high.

Record your solution and explain it briefly here:

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