Paiboc analysis example

Scenario:

It's your first week away from home and on campus. You are registering for class, caught up in the excitement of new friends, experiences, new places to visit, and dozens of vendors handing out T-shirts, Frisbees, even Ipods - so what's the catch? Each of these vendors is " offering you a free credit card," just sign up today - no, you don't need a job, we trust college students. If you signed on the dotted line, you'll not be alone - over 75% of college students have at least two credit cards, and 60% have more than two.

And, did you by chance take the time to read the fine print? Did you know that the first bill you receive, even if you don't spend a dime, will include a $50 activation fee? That your interest rate is almost %30; and that if you are even one day late on your payment you're charged a $50 late fee and your interest rate rises? Well, that's the reality of the situation, and yes, the government is trying to regulate the industry and put guidelines on credit - but ultimately, it is yourresponsibilityto manage credit.

Answer

Credit is a relatively new concept in consumer economics; your grandparents had to save and purchase most things in cash - exceptions were larger purchases like a home or car. Credit also has a cost to it - which will vary depending on the situation and creditor. Credit is almost essential though, you cannot shop online without a credit or debit card; you may need to purchase textbooks or an apartment deposit before your Student Aidmoneyarrives, or you may have a medical emergency or automobile repair that is essential for your life. However, consider the following real-world example.

Seth, like you, received numerous credit card offers - which he accepted. Pretty soon, he was feeling quite wonderful, knowing he had $5, 000 in money that he " could" spend. Now Seth wasn't a brain, but he did well in school, and made a lot of new friends; who invited him out regularly for pizza and beer. Of course, not wanting to seem " cheap," Seth almost always bought a few pitchers; and then there was that new DVD; oh, and those fantastic tennis shoes; and did we mention Seth met a special person and wanted to impress- the bill for that night out was only $400 - easy, right?

Within a few months, even though Seth had made his payments on time, his cards were maxed out - he owed $5, 000 to three credit card companies - his monthly payments were right around $300, and, here's the focal point - it will take Seth 11 years to pay off that slice of pizza he had last week, and instead of just owing $5, 000, he will pay the credit card companies almost $10, 000. What a great way to start acareer, right, not to mention afamily? Seth's story isn't over. He cut his cards and tried to act responsibly; and then it came time for his auto insurance enewal - his rates increased 23% - he called and found out it was because of his credit score. Doing a little research, Seth found out that not only does his bank and insurance company check his credit score; but also potential employers, especially higher-end or technological companies, have minimum standards before they will eveninterview.

So, what's the smart way to manage credit - it's easy, and can be accomplished in just four simple steps:

- Use a debit card whenever possible; especially for purchases likefood, gas, and entertainment. Spend only what you can and resist the urge for that " immediate gratification.
- Save your credit cards for emergencies; not emergencies like a trip to Matzatlan, but real emergencies like healthcare, auto repair, textbooks, seminars, etc. Even then, manage your credit so that you can completely pay of X purchase in 6 payments maximum.
- Never be late on your credit card payment and always pay more than the minimum - if an emergency happens, call the company, most will take a payment over the phone, although some with a small fee.
- Avoid impulse - don't carry your credit card to the bar, restaurant, etc. " just in case. " Budget for the present and you will be budgeting for the future.