sonework Questions
Revisit #15 ill BANK 15. For the upcoming season, Mike plans to buy a new biathlon rifle that costs \$2152. .90231.. PMT: BEGIN MT: **EN** BEGIN 76.19*362742.84] 22.52*104 2342.08 The sporting goods store has offered to finance the purchase Te Store at 16.5%, compounded monthly, for a term of 3 years with payments at the end of each month. Mike could also borrow the money from a bank at 8.5%, compounded weekly, for a term of 2 years with weekly payments. How much would the rifle cost if he financed it through the store? b) How much would the rifle cost if he financed it through the bank? 590.84-190.08 What is the difference in the amount of interest that Mike would pay for the two loans? What features of the loan from the sporting goods store might encourage Mike to choose it over the bank loan?

17. Connor is negotiating the purchase of a new car and has two options:

Option A: Borrow \$21 000 at 1.8%, compounded monthly, with a term of 4 years, and pay off the loan by making regular monthly payments.

Option B: Pay \$5000 at the time of purchase. Borrow \$16 000 at 1.8%, compounded monthly, for a term of 3 years, and pay off the loan with regular monthly payments.

a) For each option, what is the regular monthly payment?

b) For each option, what is the total amount of interest?

c) What would you advise Connor to do? Justify your recommendation.

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N=36 I%=1.8 PV=16000 • PMT=-456.80560... FV=0 P/Y=12 C/Y=12 PMT: | BEGIN

453.77*48 21780.96 Ans-21000 780.96

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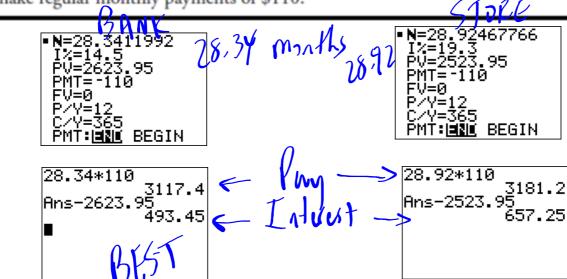
Compare credit options that are available to consumers.

EXPLORE the Math

Jayden saw the new sound system he wanted on sale for \$2623.95, including taxes. He had to buy it on credit and had two options:

- Use his new bank credit card, which has an interest rate of 14.5%, compounded daily. (Because this credit card is new, he has no outstanding balance from the previous month.)
- Apply for the store credit card, which offers an immediate rebate of \$100
 on the price but has an interest rate of 19.3%, compounded daily.

As with most credit cards, Jayden would not pay any interest if he paid off the balance before the due date on his first statement. However, Jayden cannot afford to do this. Both cards require a minimum monthly payment of 2.1% on the outstanding balance, but Jayden is confident that he can make regular monthly payments of \$110.



In Summary

Key Ideas

- Incentives or promotions are sometimes offered to entice people to use credit cards. For example, an immediate cash rebate may be offered on the first purchase using a credit card. Low interest rates, rewards, or no annual fees may also be offered.
- The full cost of borrowing should be considered before making a decision about using a credit card. This includes the total interest charged, as well as the total payments and the time it will take to pay off the balance.

Need to Know

- Credit cards usually have a minimum amount that must be paid each. month, based on a percent of the outstanding balance. If there is no outstanding balance from the previous month and the new balance is Promotions (discounts) paid off in full by the payment due date, no interest is charged.
- If a credit card does not have an outstanding balance and it is used for a single purchase, it can be treated as a loan. The purchase price is the principal borrowed, and regular payments can be made until the balance is paid off.
- The cost of using credit is not just the amount of interest charged. This may end up costing more in interest but result in a lower total loan great for tracking your There are incentives, such as cash rebates, that reduce the principal. payment amount.

PAGE 536 Copy highlighted information into your notes titled 'Credit Cards'

- Visa & Mastercard
- Pay monthly payments
- No interest if paid within 30 days
- Interest is compounded daily
- Incentives (Airmiles) and
- minimum payment (10 % owe)
- annual fees (lower rate) or no annual fee (higher rate)
- spending/expenses
- other features may include insurances (health)
- must be 18 years old

9.3

Solving Problems Involving Credit

line of credit

A pre-approved loan that offers immediate access to funds, up to a pre-defined limit, with a minimum monthly payment based on accumulated interest; a **secure line of credit** has a lower interest rate because it is guaranteed against the client's assets, usually property.

Bank of Canada prime rate

A value set by Canada's central bank, which other financial institutions use to set their interest rates.

APPLY the Math p. 543

EXAMPLE 1

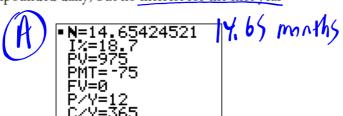
Solving a credit problem that involves overall cost and number of payments

Meryl and Kyle are buying furniture worth \$1075 on credit. They can make monthly payments of \$75 and have two credit options. Which option should they choose? Explain.

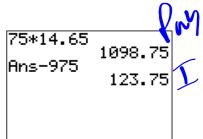
Option A: The furniture store credit card, which is offering a \$100 rebate off the purchase price and an interest rate of 18.7%, compounded daily

Option B: A new bank credit card, which has an interest rate of 15.4%, compounded daily, but no interest for the first year

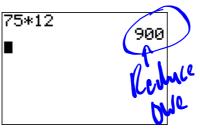


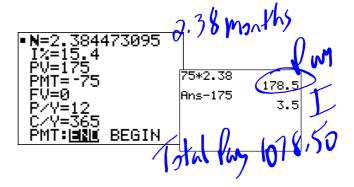


BEGIN









HOMEWORK...

Use the TVM-Solver for each of the following...

p. 538: #1 - 4 AND p. 552 #1, 2, 3

NOTE: Have screenshots ready if not done!

Cash Rebate - \$ given back at the end of fixed amount of time...can be used towards paying off a purchase