Cost of Credit and Loans

Name: _____ Date: _____ Score: _____ / 24

Quick Review

Borrowing money is convenient, but it is not free — you pay it back with **interest**, the cost of using someone else's money. With an **installment loan** you make equal monthly payments, so the **total cost** is (monthly payment) × (number of months), and the **interest you pay** is total cost − amount borrowed. A **credit card** charges interest each month on any unpaid balance; the **APR** (annual percentage rate) divided by 12 gives the monthly rate. The lesson is simple: the longer you take to pay, the more interest piles up, so paying sooner saves money.

◇ **Example:** A $\$1{,}200$ loan is repaid in 12 monthly payments of $\$110$. Find the total cost and the interest paid.
⇒ Start with the total cost — that's every payment added up: $\$110 \times 12 = \$1{,}320$. That is what leaves your pocket. The *interest* is the extra you paid beyond what you borrowed, so subtract the loan amount: $\$1{,}320 - \$1{,}200 = \$120$. So this loan cost $\$120$ in interest — the price of spreading the payments over a year.

Answer: Total $\$1{,}320$; interest $\$120$

PRACTICE

Find the total cost, interest paid, or monthly charge as asked.

1. $\$2{,}000$ loan, $\$180/\text{mo} \times 12$; total cost _____
2. $\$2{,}000$ loan, $\$180/\text{mo} \times 12$; interest _____
3. $\$500$ loan, $\$90/\text{mo} \times 6$; total cost _____
4. $\$500$ loan, $\$90/\text{mo} \times 6$; interest _____
5. $\$3{,}000$ loan, $\$280/\text{mo} \times 12$; total cost _____
6. $\$3{,}000$ loan, $\$280/\text{mo} \times 12$; interest _____
7. $\$1{,}000$ loan, $\$95/\text{mo} \times 12$; total cost _____
8. $\$1{,}000$ loan, $\$95/\text{mo} \times 12$; interest _____
9. $\$1{,}500$ loan, $\$140/\text{mo} \times 12$; total cost _____
10. $\$1{,}500$ loan, $\$140/\text{mo} \times 12$; interest _____
11. $\$800$ loan, $\$75/\text{mo} \times 12$; total cost _____
12. $\$800$ loan, $\$75/\text{mo} \times 12$; interest _____
13. $\$5{,}000$ loan, $\$230/\text{mo} \times 24$; total cost _____
14. $\$5{,}000$ loan, $\$230/\text{mo} \times 24$; interest _____
15. $\$2{,}400$ loan, $\$220/\text{mo} \times 12$; interest _____
16. $\$10{,}000$ loan, $\$320/\text{mo} \times 36$; interest _____
17. Min. payment: 2% of a $\$400$ balance _____
18. One month interest: $\$1{,}000$ balance, 18% APR _____
19. One month interest: $\$600$ balance, 24% APR _____
20. One month interest: $\$300$ balance, 1.5% monthly _____

Word Problems

21. Sofia borrows $\$1{,}800$ for a used scooter and repays it in 15 monthly payments of $\$150$. How much interest does she pay in all? _____

22. Jordan has a $\$1{,}000$ credit card balance at 18% APR. If he makes no new charges and pays nothing for one month, how much interest is added? _____

23. A $\$3{,}000$ loan can be repaid as $\$280$/month for 12 months, or $\$160$/month for 24 months. How much more interest does the longer plan cost? _____

24. Aisha's credit card charges 24% APR. She carries a $\$600$ balance for 3 months without paying it down. About how much interest does she owe, ignoring compounding? _____

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Answer Keys

1. $2,160	**13.** $5,520
2. $160	**14.** $520
3. $540	**15.** $240
4. $40	**16.** $1,520
5. $3,360	**17.** $8.00
6. $360	**18.** $15.00
7. $1,140	**19.** $12.00
8. $140	**20.** $4.50
9. $1,680	**21.** $450
10. $180	**22.** $15
11. $900	**23.** $480 more
12. $100	**24.** $36

Step-by-Step Explanations

1. Total cost is all the payments: $180 \times 12 = 2160$.
2. Interest is total minus borrowed: $2160 - 2000 = 160$.
3. $90 \times 6 = 540$ paid in all.
4. $540 - 500 = 40$ in interest.
5. $280 \times 12 = 3360$.
6. $3360 - 3000 = 360$.
7. $95 \times 12 = 1140$.
8. $1140 - 1000 = 140$.
9. $140 \times 12 = 1680$.
10. $1680 - 1500 = 180$.
11. $75 \times 12 = 900$.
12. $900 - 800 = 100$.
13. $230 \times 24 = 5520$.
14. $5520 - 5000 = 520$.
15. Total $220 \times 12 = 2640$, so interest $= 2640 - 2400 = 240$.
16. Total $320 \times 36 = 11520$, so interest $= 11520 - 10000 = 1520$.
17. 2% of 400 is $400 \times 0.02 = 8$.
18. Monthly rate is $\frac{18\%}{12} = 1.5\%$, so $1000 \times 0.015 = 15$.
19. Monthly rate is $\frac{24\%}{12} = 2\%$, so $600 \times 0.02 = 12$.
20. The monthly rate is already given: $300 \times 0.015 = 4.50$.
21. Total paid is $150 \times 15 = \$2{,}250$. The interest is the extra above the loan: $2250 - 1800 = \$450$.
22. The monthly rate is $\frac{18\%}{12} = 1.5\%$. One month of interest is $1000 \times 0.015 = \$15$.
23. Short plan total: $280 \times 12 = \$3{,}360$, interest $\$360$. Long plan total: $160 \times 24 = \$3{,}840$, interest $\$840$. The difference is $840 - 360 = \$480$.
24. The monthly rate is $\frac{24\%}{12} = 2\%$, so each month adds $600 \times 0.02 = \$12$. Over 3 months that is $12 \times 3 = \$36$.

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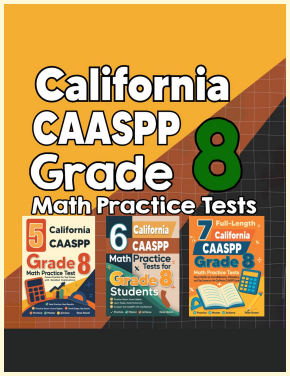

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