

Cost of Borrowing Money Calculations

Question #1 - Purchasing a truck

A) A contractor is buying a truck for work. They have saved \$2,000.00 for the down payment. The remaining \$4,000.00 will be financed through the dealership for three years at an interest rate of 2%. How much interest would they pay by the end of the finance?

B) The other option is getting a line of credit from the bank for the \$4,000.00 at an interest rate of 7%. The contractor can take as long as they want to pay back the line of credit as long as they make the interest payments each month. How much interest would they pay for the money borrowed?

C) Which option do you think the contractor should choose to purchase the truck? Explain your reasoning.

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Question #2 - Purchasing a home

A) A couple are purchasing their first home. They got a \$300,000.00 mortgage from the bank. For the first five years they can get a rate of 2.5% fixed. How much interest will they pay on the original amount?

B) They have the option of making bi-weekly payments instead of monthly. Paying the mortgage this way puts more money towards the principal borrowed amount. Why is this so?