**Understand**

**1 (a) What is credit?**

**(b) Why is credit used?**

(a) Credit is purchasing items or services using borrowed money.

(b) Credit is often used when you are unable to pay the full amount at the time of purchase.

**2 What do you consider to be the main**

**(a) advantage and**

**(b) disadvantage of borrowing money?**

Ask the students to arrange the reasons for and against borrowing money in order from ‘most important advantage/disadvantage’ to ‘least important advantage/ disadvantage’. If there is a great diversity in answers, conduct a debate in which the class has to agree on a common list.

**3 What is meant by the term ‘interest’?**

‘Interest’ means the amount of money you have to pay in order to take advantage of using credit. The interest rate is the annual charge, specified as a percentage of the total price that you have to pay if you agree to use credit to purchase an item.

**5 Why is it important to know how much you will have to pay**

**for credit?**

It is important to know how much you will have to pay for credit because it will mean that you can make a more informed decision about whether it is a good idea to buy the product or not.

**6 Lee Tan is interested in buying a digital camera. If he pays cash, he can buy the camera he wants for $895. Or he can buy it on credit for a deposit of $100 and $85 a month for twelve months. What is the (a) total cost and (b) interest rate of using credit?**

The interest rate for buying the camera is 25.1% per annum.

Total cost: $1120

**7 Examine the cartoon on page 47.**

**(a) Why does Tom have a right to charge Ross interest?**

**(b) What is the rate of interest Tom charges Ross?**

**(c) Why was Ross charged extra? Do you think it was reasonable for Tom to do this? Explain your answer.**

**(d) If you were a financial counsellor, what advice would you give to Ross?**

**(e) Do you think it is appropriate to borrow money from a friend? Explain your answer.**

(a) Tom has the right to charge Ross interest because he sets the conditions for the loan. If Ross does not want to pay the interest he can always decline the offer.

(b) The interest rate that Tom charges Ross is 10% in the first week and 12.5% in the second week.

(c) Ross was charged extra because he was unable to repay the loan by the agreed due date. This is reasonable because Tom takes a risk in lending the money to Ross in the first place and he did not get his money back on time.

(d) If I were a financial counsellor I would probably have asked Ross whether he could wait a week to buy a new skateboard so that he wouldn’t have to pay interest on his borrowings.

(e) Borrowing money from a friend can be problematic because the friendship may come to an end if you fail or are unable to repay the loan. Borrowing money from a friend is okay as long as you ensure that you repay the loan at the agreed time.

**8 Why should you only borrow money when you are certain that you can make regular repayments?**

You should only borrow money when you are certain that you can make regular payments because otherwise the interest payments will increase and you will get yourself heavily in debt.