

## Chapter Review

1. Anne does not know whether to get a limited-purpose credit card or a charge card. What is your advice?

e.g., Get a charge card if you can always pay your monthly balance and you travel many places. Get a limited-purpose card if you shop at specific stores, and you cannot always pay your monthly balance.

2. Should people have more than one credit card? Explain.

e.g., No. If you have too many credit cards, you could overspend and get into debt. OR Yes. You may be able to save money by using one card instead of another. Also you can have one in case of an emergency.

3. Cynthia is a DJ in Kamloops. She has a MasterCard. The credit limit is \$4000. Interest is 19.8%/yr, compounded daily. She used all her credit on the card to buy some new DJ equipment. Cynthia took 49 d after the grace period to pay the balance.

- a) Do you think Cynthia was wise to buy the equipment with her credit card? Explain.

e.g., No. She should have waited until she could pay cash, or at least until she could pay off the card without interest. OR Yes. She is buying something she needs for work.

- b) How much interest did Cynthia pay?

$$\begin{aligned} \text{e.g., } A &= \$4000\left(1 + \frac{0.198}{365}\right)^{49} & I &= \$4107.719... - \$4000 \\ & & &= \$107.719... \\ &= \$4107.719... & & \end{aligned}$$

She paid \$107.72 in interest.

- c) What other way might Cynthia have paid for her equipment?

e.g., a line of credit or a personal loan

- d) What method of financing would be unwise? Justify your answer.

e.g., a payday loan, because she needed 49 d to pay her balance, and the interest would be very high

4. Mariette works in construction. She often borrows more than \$10 000 to buy supplies. She wants to get a line of credit.

a) What type of line of credit should she not get? Justify your answer.

e.g., an overdraft line of credit, because they usually have a limit of \$5000

b) Mariette got a line of credit. Interest is 3.25%/yr, compounded daily. She is going to borrow \$12 329 to pay expenses as she renovates a basement. She will pay the balance in 37 d. How much interest will Mariette owe?

$$\begin{aligned} \text{e.g., } A &= \$12\,329.00 \left( 1 + \frac{0.0325}{365} \right)^{37} \\ &= \$12\,369.683\dots \end{aligned}$$

$$\begin{aligned} I &= \$12\,369.683\dots - \$12\,329 \\ &= \$40.683\dots \end{aligned}$$

Mariette will owe \$40.68 in interest.



5. Neil is selling his condo in Winnipeg. He is spending \$483.98 on window coverings to increase its value. If he uses his credit card, he will save 8% on the purchase and get 2.5% cash back.

a) How much would Neil save with the 8% savings?

$$\text{e.g., } 0.08 \times \$483.98 = \$38.718\dots \quad \text{Neil would save } \$38.72.$$

b) How much cash would Neil get back?

$$\text{e.g., } \$483.98 - \$38.718\dots = \$445.261\dots$$

$$\text{Cash back: } \$445.261\dots \times 0.025 = \$11.131\dots \quad \text{Neil would get } \$11.13 \text{ cash back.}$$

6. Sharon lives in Saskatoon. She wants to go to the West Edmonton Mall for a shopping trip with her friends. She does not have a job or much money. She decides to pay for the trip with her credit card.

Do you think this is wise? Explain.

e.g., No, Sharon should not use her credit card because she may not be able to pay it off. She should look for a job and not go on the trip.

7. Suppose you are borrowing \$500 for 10 d from a financial institution. What would be the least expensive way? Explain.

e.g., Use a line of credit or a personal secured loan. These charge lower interest rates than other choices. Payday loans or cash advances on credit cards charge high interest rates.