|  |  |
| --- | --- |
| **Amount of Loan** | **Monthly Payments** |
|  | **12-month term** | **36-month term** |
| $2 500 | $222 | $82 |
| $5 000 | $433 | $165 |
| $7 500 | $670 | $254 |

**Calculating the**

**Cost of Credit**

For each of the following loans, calculate the total amount that the monthly payments will be, and the total credit (interest) cost of each.

1. A $2 500 loan for 12 months and 36 months

12 months 36 months

$222 x 12 = $2,664 $82 x 36 = $2,952

Interest = $2,664 - $2,500 = $164 Interest = $2,952 - $2,500 = $452

1. A $5 000 loan for 12 months and 36 months

12 months 36 months

$433 x 12 = $5,196 $165 x 36 = $5,940

Interest = $5,196 - $5,000 = $196 $5,940 - $5,000 = $940

1. A $7 500 loan for 12 months and 36 months

As a small business owner, you need to set up an office in your house. You estimate it will cost $6000 to buy furniture and supplies. Calculate the simple interest for one year if you used the following methods of credit to make these purchases:

1. Retail credit card – 24% Interest = $6000 x 0.24 = $1,440

Total amount paid = $6,000 + $1,440 = $7,440

1. Universal credit card – 20% Interest = $6,000 x 0.20 = $1,200
2. Term loan 8% Interest = $6,000 x 0.08 = $480