Back to basics

Cost of borrowing



Lilly would like to buy a new laptop. The laptop costs $1,500 after tax. She does not have the

money saved and is considering buying the laptop with her credit card. The credit card has an  interest rate of 19.99%.

Using the Financial Consumer Agency of Canada’s (FCAC) [Credit Card Payment Calculator](http://itools-ioutils.fcac-acfc.gc.ca/CCPC-CPCC/CCPCCalc-CPCCCalc-eng.aspx)\*, figure out how much it will cost Lilly to purchase the laptop and answer the questions below.

|  |
| --- |
| **How much will it cost?** |
|  | **Paying minimum payment** | **Paying minimum payment +$50** |
| Lilly’s first monthly payment |  |  |
| How long will it take to pay off the laptop? |  |  |
| Interest paid |  |  |
| **Total** |  |  |

1. How much would Lilly save if she paid in cash versus borrowing and making the minimum monthly payment?
2. How much time would Lilly save if she paid an extra $50 each month?
3. How much money would she save in interest payments if she paid an extra $50 each month?
4. Will the laptop outlive Lilly’s credit payments if she makes the minimum monthly payment?
5. What would happen to the minimum payment and cost of borrowing if the interest rate increased from 19.99% to 24%?

\* <http://itools-ioutils.fcac-acfc.gc.ca/ccpc-cpcc/ccpc-cpcc-eng.aspx>

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