The Cost of Borrowing

Read how interest affects a borrower and a lender.

SS.4.FL.4.1 "Discuss that interest is the price the borrower pays for using someone else's money."

NAME ______________________ DATE ____________

1 READ AND MARK

Read it twice

YOUR JOB Underline each sentence that explains what interest is or why a borrower pays it.

Using Someone Else's Money

1 When Maya borrows $20 from her older brother to buy a game, she gets to use money that belongs to him. She promises to return the $20 in two weeks. Her brother may ask for a little extra money when she pays him back. That extra amount is called interest. Interest is not part of the original $20 Maya borrowed.

2 Interest is the price a borrower pays for using someone else's money. A borrower is a person who receives money now and agrees to pay it back later. The person or business that lends the money gives up the chance to use it for a time. Interest helps pay the lender for waiting and for taking a risk that repayment could be late.

3 At a bank, a loan can include interest. If Jordan borrows $100 and the interest for the loan is $5, Jordan repays $105 altogether. The $100 is the borrowed amount, and the $5 is the price of using the bank's money. Jordan should ask how much interest is due before borrowing. A loan with more interest costs the borrower more money to repay.

2 ANSWER WITH EVIDENCE

Use the passage

1. What is interest?

2. Why does a borrower pay interest to a lender?

3. Jordan borrows $100 and pays $5 in interest. How much does Jordan repay altogether?

4. How is interest different from the amount a person first borrows?

3 YOUR TURN

Your own words

Write a two-sentence borrowing example. Name the borrower and lender, tell the amount borrowed and the interest, then state the total repayment and explain why interest is paid.

PART 1 · READ AND MARK

Underline each sentence that explains what interest is or why a borrower pays it. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	What is interest?	**Interest is the price a borrower pays for using someone else's money.**
2	Why does a borrower pay interest to a lender?	**The borrower pays for using the lender's money. Interest also pays the lender for waiting and taking a risk.**
3	Jordan borrows $100 and pays $5 in interest. How much does Jordan repay altogether?	**$105**
4	How is interest different from the amount a person first borrows?	**The borrowed amount is the original money received. Interest is extra money paid for using that money.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

Luis borrows $30 from his aunt, and he agrees to pay $2 in interest, so he repays $32 altogether. The $2 is interest because Luis used his aunt's money for a time.

Accept equivalent explanations that identify interest as extra money paid by the borrower for using another person's or business's money. For the open response, check that the example includes all requested amounts, a correct total, and a clear explanation of interest.