The Price of Waiting

How interest rates shape decisions to save and borrow

GE.6.5 "Explain how interest rates act as an incentive for savers and borrowers."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline sentences that explain how interest rates influence savers, and circle sentences that explain how they influence borrowers so you can compare the two incentives.

Two Decisions, Two Rates

1. At a neighborhood credit union, Maya puts $1,000 in a savings account for a future car repair. The credit union pays interest on her balance. At 2% annual interest, $1,000 earns $20 in one year if the balance stays unchanged and interest is paid at year's end. At 5%, it earns $50 under the same conditions. A higher savings rate gives Maya a larger reward for waiting to spend her money. She may decide to set aside more of each paycheck. A lower rate provides a smaller reward, so saving instead of spending may seem less attractive.

2. Across town, Luis considers borrowing $10,000 to buy a new oven for his bakery. Suppose a lender offers a one-year loan with simple interest and no fees. At 6%, Luis owes $600 in interest in addition to repaying the $10,000. At 9%, he owes $900 in interest. A higher loan rate raises the price of buying the oven now with borrowed money, so Luis might postpone the purchase or choose a cheaper oven. A lower loan rate cuts that price and may make borrowing more appealing if the oven can help his bakery earn enough to cover the cost.

3. Savings and loan rates are not usually identical: lenders typically charge borrowers more than they pay savers. Still, a shift toward higher rates can change both decisions. If savings rates rise, Maya has a stronger reason to delay a purchase; if loan rates rise, Luis has a stronger reason to delay borrowing. A shift toward lower rates can weaken the reward for saving while making loans cheaper. Neither decision is automatic. Maya still needs cash for emergencies, and Luis must estimate whether the oven will bring in enough sales to justify its full cost, including interest.

2 ANSWER WITH EVIDENCE

Use the passage

1. How does a rise from 2% to 5% change what Maya earns on $1,000 in one year, and how might that affect her decision?

2. How does a rise from 6% to 9% change the interest Luis owes, and why might he delay buying the oven?

3. If savings and loan rates both rise, why might Maya delay spending while Luis delays borrowing?

4. Why would a lower loan rate make borrowing more appealing to Luis without guaranteeing that he takes the loan?

3 YOUR TURN

Your own words

Invent one savings goal and a separate purchase you could finance with a loan. In four to five sentences, explain how a rise in each interest rate could affect your choices, and give one reason a higher rate might not determine one of those choices.

The Price of Waiting

PART 1 · READ AND MARK

Underline sentences that explain how interest rates influence savers, and circle sentences that explain how they influence borrowers so you can compare the two incentives. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	How does a rise from 2% to 5% change what Maya earns on $1,000 in one year, and how might that affect her decision?	**Her interest rises from $20 to $50, an increase of $30. The larger reward may lead her to save more of each paycheck.**
2	How does a rise from 6% to 9% change the interest Luis owes, and why might he delay buying the oven?	**His interest cost rises from $600 to $900, an increase of $300. The higher cost of borrowing may lead him to postpone the purchase.**
3	If savings and loan rates both rise, why might Maya delay spending while Luis delays borrowing?	**Maya gains a larger reward for leaving money in savings. Luis faces a higher cost for buying the oven with a loan.**
4	Why would a lower loan rate make borrowing more appealing to Luis without guaranteeing that he takes the loan?	**A lower rate reduces the loan's cost, but Luis still needs to decide whether oven sales would justify its full cost.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

I am saving for a school trip next summer, and a higher savings rate would reward me for keeping my money in the account longer. I might put more of my weekend earnings into savings instead of spending them now. I am also considering a loan for a used bicycle to get to work, but a higher loan rate would raise what I repay and make me less eager to borrow. I might still take the loan if the bicycle helps me reach a job that pays enough to cover its total cost.

Accept responses that explain a higher savings rate as a stronger reward for saving and a higher loan rate as a greater cost of borrowing. The final reason should show why an incentive influences, but does not dictate, a choice.