Borrow, Save, Decide

Evaluate credit costs, lending risks, and purchasing power.

12.E1c "Managing personal finance effectively requires an understanding of the forms and purposes of financial credit, the effects of personal debt, the role and impact of interest, and the distinction between nominal and real returns..."

NAME ______________________ DATE ____________

1 READ AND MARK

Read it twice

YOUR JOB Underline borrowing costs. Circle lending warning signs. Mark nominal (N) and real (R) returns.

The Cost of Now

1 Credit allows borrowing now with repayment later. Credit cards provide revolving credit, while auto loans and mortgages commonly use scheduled installments. Interest is a borrowing charge; a loan's annual percentage rate, or APR, can also reflect specified fees. Check disclosures and total repayment, not just monthly payments. Extending repayment can lower each payment while increasing total interest. Debt payments reduce income available for other needs and savings.

2 Lenders consider repayment risk when setting rates, alongside market conditions and loan terms. On-time reported payments, manageable credit balances, and correction of credit-report errors can support stronger credit. Stronger credit may help obtain a lower rate, but cannot guarantee one. Hidden costs, pressure to sign unread terms, and unaffordable repayment demands are warning signs. Borrowers with urgent needs may be especially vulnerable to costly repeat borrowing. Fast approval alone does not establish that a loan is predatory; examine the terms and practices.

3 Nominal returns measure gains before inflation adjustment; real returns measure changes in purchasing power. With a 5% annual nominal return and 3% inflation over the same year, the real return is approximately 2%. More exactly, 1.05 divided by 1.03, minus 1, is about 1.94%. This comparison ignores taxes and fees. A positive account gain may still fall short of inflation. Financial decisions therefore require attention to debt obligations, total costs, risk, and purchasing power as well as advertised rates.

2 ANSWER WITH EVIDENCE

Use the passage

1. Why can a loan with a lower monthly payment cost more overall?

2. Identify two actions that can support a healthier credit rating. How can a healthier rating affect borrowing costs?

3. Name two warning signs that a lender may be using predatory practices. Why can these loans be especially harmful during an urgent expense?

4. In the savings example, what are the nominal return and the approximate real return? Why are they different?

3 YOUR TURN

Your own words

A fictional student needs a $900 laptop in four months and can save $225 monthly. In four sentences, compare saving with borrowing, name two borrowing costs to check, a credit-health action and lending warning sign, and explain nominal versus real savings returns.

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PART 1 · READ AND MARK

Underline borrowing costs. Circle lending warning signs. Mark nominal (N) and real (R) returns. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	Why can a loan with a lower monthly payment cost more overall?	**A longer repayment period can add more interest over time, even when the monthly payment is smaller.**
2	Identify two actions that can support a healthier credit rating. How can a healthier rating affect borrowing costs?	**Examples: make on-time reported payments, keep credit balances manageable, and correct credit-report errors. Stronger credit may help obtain a lower rate.**
3	Name two warning signs that a lender may be using predatory practices. Why can these loans be especially harmful during an urgent expense?	**Examples: hidden costs, pressure to sign unread terms, and unaffordable repayment demands. Urgent needs can make costly repeat borrowing harder to avoid.**
4	In the savings example, what are the nominal return and the approximate real return? Why are they different?	**The nominal return is 5 percent, and the approximate real return is 2 percent. Inflation reduces purchasing power.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

Saving $225 for four months reaches $900 without new debt, if the price stays fixed. Before borrowing, compare interest and fees in the total repayment. Timely reported payments support credit, while hidden costs are a warning sign. A nominal savings gain must be adjusted for inflation to judge purchasing power.

Accept equivalent explanations grounded in the passage. For the open response, check for a feasible choice, two borrowing-cost comparisons, a credit-building action, a predatory warning sign, and an accurate distinction between nominal and real returns.