Buy Now or Wait?

How borrowing costs shape purchase decisions

E.C.6.2 "Determine how changes in real interest rates impact people's decisions to borrow money and purchase goods in a market economy."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline the two changes in real interest rates and circle each shopper's borrowing or purchase decision. Use your marks to compare how the rate changes affect their choices.

Choices at Harbor Street

1. At the Harbor Street appliance store, buyers can pay cash or take out loans for refrigerators, washers, and other costly goods. A loan lets a buyer take a product home now and repay the lender later, with interest. The real interest rate describes the cost of borrowing after accounting for expected inflation. When expected inflation stays about the same, a higher loan rate means a higher real rate. A lower loan rate means a lower real rate. People weigh that borrowing cost against their need for the product, their income, and other uses for their money.

2. Suppose real interest rates rise while appliance prices and expected inflation remain stable. Nia needs a new washer but could use a laundromat for a few months. Because financing the washer would cost her more in inflation-adjusted terms, she considers waiting and saving instead of borrowing today. Another shopper, Luis, must replace a broken refrigerator before food spoils. He still takes a loan, although its higher cost leads him to choose a less expensive model. The store may sell fewer high-priced models, but a rate increase does not mean every customer stops buying.

3. Months later, real interest rates fall while prices and expected inflation remain stable. Mei, who had planned to wait for a new refrigerator, now finds a loan less costly in inflation-adjusted terms and buys one sooner. At the same time, Jonah wants a washer but has lost his job. Even with cheaper credit, he decides he cannot manage the payments. Lower real rates can increase borrowing and purchases by making loans more attractive, but they cannot guarantee that every person will borrow. Shoppers who pay cash may focus more on a product's price than on loan rates.

2 ANSWER WITH EVIDENCE

Use the passage

1. When real interest rates rise, why does Nia consider waiting to buy a washer?

2. How does the higher real interest rate affect Luis's choice, even though he still borrows?

3. When real interest rates fall, why does Mei buy a refrigerator sooner than she had planned?

4. Why does a lower real interest rate change Mei's decision but not persuade Jonah to borrow?

3 YOUR TURN

Your own words

Choose a purchase not named in the passage that someone might finance with a loan. In 3 to 4 sentences, compare what the person might decide when real interest rates rise and when they fall. Assume their income, the item's price, and expected inflation stay the same, and explain how borrowing cost affects each decision.

ANSWER KEY

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HIGH SCHOOL · E.C.6.2

PART 1 · READ AND MARK

Underline the two changes in real interest rates and circle each shopper's borrowing or purchase decision. Use your marks to compare how the rate changes affect their choices. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	When real interest rates rise, why does Nia consider waiting to buy a washer?	**A loan for the washer would cost more in inflation-adjusted terms, and she can use a laundromat while she saves.**
2	How does the higher real interest rate affect Luis's choice, even though he still borrows?	**The higher borrowing cost leads Luis to choose a less expensive refrigerator.**
3	When real interest rates fall, why does Mei buy a refrigerator sooner than she had planned?	**The lower real rate makes her loan less costly in inflation-adjusted terms.**
4	Why does a lower real interest rate change Mei's decision but not persuade Jonah to borrow?	**Cheaper borrowing leads Mei to buy sooner. Jonah has lost his job and does not think he can manage loan payments, even at the lower rate.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

A photographer wants a new camera but can keep using an older one. If real interest rates rise, a more expensive loan may prompt the photographer to delay the purchase and save. If real interest rates fall, cheaper borrowing may make buying the camera now worthwhile.

Accept decisions that differ from the sample if the student clearly explains how a higher or lower real borrowing cost affects the choice. The response should keep income, price, and expected inflation unchanged.