

CASH COURSE WORKSHEET

Borrowing Money Quiz



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1. Match the definition in Column A with the term in Column B.

Column A

- _____ Money paid in advance to lower the amount borrowed
- _____ An extra fee charged for borrowing money
- _____ A word for the amount of money borrowed
- _____ A type of loan backed by other assets
- _____ Something valuable you own that secures a loan

Column B

- a. Secured Loan
- b. Down Payment
- c. Interest
- d. Principal
- e. Collateral

2. True or False: Borrowing money is always a bad idea.

3. What is the annual interest on a \$1,000 loan with a 5% interest rate?

- a. \$5
- b. \$50
- c. \$500
- d. \$5,000

4. How do banks make money on loans?

- a. They ask for tips
- b. They charge interest
- c. They charge for appointments
- d. They don't make money on loans

5. Which of the following is NOT good advice when borrowing money?

- a. Only take out a loan for a large and necessary purchase or investment
- b. Only take out a loan if you know you can repay it without undue stress
- c. Don't borrow money for a term that will last longer than the item you buy
- d. Don't borrow money unless you know the bank manager personally

Application: You've decided to buy a used car for \$10,000 by taking out a loan with an annual simple interest rate of 6% that you agree to pay back over 3 years. What is the total amount you will have paid at the end of the 3 years? What is your monthly payment going to be? (Round up to the nearest cent)

$$\begin{array}{ccccccc} \$ \underline{\hspace{2cm}} & \times & \underline{\hspace{2cm}} & \times & \underline{\hspace{2cm}} & = & \$ \underline{\hspace{2cm}} \\ \text{(PRINCIPAL)} & & \text{(ANNUAL INTEREST RATE)} & & \text{(YEARS OF PAYMENT)} & & \text{(TOTAL INTEREST PAID)} \end{array}$$

$$\begin{array}{ccccccc} \$ \underline{\hspace{2cm}} & + & \$ \underline{\hspace{2cm}} & = & \$ \underline{\hspace{2cm}} \\ \text{(PRINCIPAL)} & & \text{(TOTAL INTEREST PAID)} & & \text{(TOTAL AMOUNT PAID)} \end{array}$$

$$\begin{array}{ccccccc} \$ \underline{\hspace{2cm}} & \div & \underline{\hspace{2cm}} & = & \$ \underline{\hspace{2cm}} \\ \text{(TOTAL AMOUNT PAID)} & & \text{(\# OF MONTHS THAT YOU} & & \text{(MONTHLY PAYMENT)} \\ & & \text{WILL BE MAKING PAYMENTS)} & & \end{array}$$

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Answer Key

1. Match the definition in Column A with the term in Column B.

Column A

- b. Down Payment** Money paid in advance to lower the amount borrowed
- c. Interest** An extra fee charged for borrowing money
- d. Principal** A word for the amount of money borrowed
- a. Secured Loan** A type of loan backed by other assets
- e. Collateral** Something valuable you own that secures a loan

Column B

- a. Secured Loan
- b. Down Payment
- c. Interest
- d. Principal
- e. Collateral

2. True or **False**: Borrowing money is always a bad idea.

3. What is the annual interest on a \$1,000 loan with a 5% interest rate?

b. \$50

4. How do banks make money on loans?

b. They charge interest

5. Which of the following is NOT good advice when borrowing money?

d. Don't borrow money unless you know the bank manager personally

Application: You've decided to buy a used car for \$10,000 by taking out a loan with an annual simple interest rate of 6% that you agree to pay back over 3 years. What is the total amount you will have paid at the end of the 3 years? What is your monthly payment going to be? (Round up to the nearest cent)

$$\begin{array}{r} \$ \underline{10,000} \\ \text{(PRINCIPAL)} \end{array} \times \begin{array}{r} \underline{.06} \\ \text{(ANNUAL INTEREST RATE)} \end{array} \times \begin{array}{r} \underline{3} \\ \text{(YEARS OF PAYMENT)} \end{array} = \begin{array}{r} \$ \underline{1,800} \\ \text{(TOTAL INTEREST PAID)} \end{array}$$

$$\begin{array}{r} \$ \underline{10,000} \\ \text{(PRINCIPAL)} \end{array} + \begin{array}{r} \$ \underline{1,800} \\ \text{(TOTAL INTEREST PAID)} \end{array} = \begin{array}{r} \$ \underline{11,800} \\ \text{(TOTAL AMOUNT PAID)} \end{array}$$

$$\begin{array}{r} \$ \underline{11,800} \\ \text{(TOTAL AMOUNT PAID)} \end{array} \div \begin{array}{r} \underline{36} \\ \text{(\# OF MONTHS THAT YOU} \\ \text{WILL BE MAKING PAYMENTS)} \end{array} = \begin{array}{r} \$ \underline{327.78} \\ \text{(MONTHLY PAYMENT)} \end{array}$$