

Borrowing Money | Worksheet



Matching

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

Multiple Choice

1. True or False: Borrowing money is always a bad idea.
 - a. True
 - b. False
2. What is the annual interest on a \$1,000 loan with a 5% interest rate?
 - a. \$5
 - b. \$50
 - c. \$500
 - d. \$5,000
3. 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
4. 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?

$$\begin{array}{l}
 \$ \underline{\hspace{2cm}} \quad \times \quad \underline{\hspace{2cm}} \quad \times \quad \underline{\hspace{2cm}} \quad = \quad \$ \underline{\hspace{2cm}} \\
 \text{(PRINCIPAL)} \qquad \qquad \qquad \text{(ANNUAL INTEREST RATE)} \qquad \qquad \text{(YEARS OF PAYMENT)} \qquad \qquad \text{(TOTAL INTEREST PAID)} \\
 \\
 \$ \underline{\hspace{2cm}} \quad + \quad \$ \underline{\hspace{2cm}} \quad = \quad \$ \underline{\hspace{2cm}} \\
 \text{(PRINCIPAL)} \qquad \qquad \qquad \text{(TOTAL INTEREST PAID)} \qquad \qquad \qquad \text{(TOTAL AMOUNT PAID)} \\
 \\
 \$ \underline{\hspace{2cm}} \quad \div \quad \underline{\hspace{2cm}} \quad = \quad \$ \underline{\hspace{2cm}} \\
 \text{(TOTAL AMOUNT PAID)} \qquad \qquad \qquad \text{(\# OF MONTHS THAT YOU WILL BE MAKING PAYMENTS)} \qquad \qquad \qquad \text{(MONTHLY PAYMENT)}
 \end{array}$$



Borrowing money | Answer Key

Matching

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

Column A

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- c. An extra fee charged for borrowing money
- d. A word for the amount of money borrowed
- a. A type of loan backed by other assets
- e. Something valuable you own that secures a loan

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Application

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$$\begin{array}{l} \$ \underline{10,000} \\ \text{(PRINCIPAL)} \end{array} \times \begin{array}{l} \underline{.06} \\ \text{(ANNUAL INTEREST RATE)} \end{array} \times \begin{array}{l} \underline{3} \\ \text{(YEARS OF PAYMENT)} \end{array} = \$ \underline{1,800} \\ \text{(TOTAL INTEREST PAID)}$$
$$\begin{array}{l} \$ \underline{10,000} \\ \text{(PRINCIPAL)} \end{array} + \begin{array}{l} \$ \underline{1,800} \\ \text{(TOTAL INTEREST PAID)} \end{array} = \$ \underline{11,800} \\ \text{(TOTAL AMOUNT PAID)}$$
$$\begin{array}{l} \$ \underline{11,800} \\ \text{(TOTAL AMOUNT PAID)} \end{array} \div \begin{array}{l} \underline{36} \\ \text{(\# OF MONTHS THAT YOU} \\ \text{WILL BE MAKING PAYMENTS)} \end{array} = \$ \underline{327.78} \\ \text{(MONTHLY PAYMENT)}$$