The Real Cost of Borrowing

Answer key for the SS8E3 Level 2 worksheet: comparing the true cost of three ways to borrow $1,000.

FOR TEACHER USE — WHY THIS IS HERE

Georgia's middle-grades standards are economics-only, with no dedicated personal-finance thread. New Jersey's 9.1.8.CDM.2 asks students to compare credit terminology across cards, installment loans, mortgages, and lines of credit, with interest-rate comparisons and calculations. This worksheet builds that directly onto SS8E3's existing "uses of debt and associated risks" objective. Mortgages and lines of credit are covered at the vocabulary level in Section 1; the numeric comparison in Section 2 uses a credit card, an installment loan, and store financing, since those are the borrowing types an 8th grader is most likely to encounter directly.

FOR TEACHER USE — ANSWER KEY

a) $1,000 + $1,030 = $2,030.

b) $87.43 × 12 = $1,049.16 (about $1,049). Interest = $1,049 minus $1,000 = about $49.

c) Paid off within 6 months: $0 interest. If $50 remains at the 6-month mark: back interest is calculated on the original $1,000 balance at 27% APR for 6 months, about $135, added all at once.

d) Least to most expensive: Option C ($0 interest, if paid off in time), then Option B (about $49), then Option A (about $1,030). The intended takeaway: the option that looks "free" is the cheapest if the borrower actually follows through, and the option with the smallest required monthly payment is by far the most expensive over time.