Making Financial Decisions

Financial decisions are encountered throughout your life. Information, experience, and understanding can enable you to make wise decisions for investing and borrowing. Buying a vehicle may require saving in advance, financing with a loan, or both. Real estate purchases usually involve paying part of the cost with a down payment and borrowing the remainder as a mortgage. If you start your own business, you might use money you have saved, and also arrange a loan. To save for retirement, you may invest money in a plan that provides an income at regular intervals.

In the Modelling Math questions on pages 510, 533, 542, and 569, you will solve the following problem and other problems involving making financial decisions.

Suppose that, on the day you were born, your parents invested $4000 in an account earning interest at a rate of 5.9% per annum, compounded semi-annually. How much would the investment be worth on your 19th birthday? If the rate were compounded monthly instead of semi-annually, what difference would it make to the amount on your 19th birthday?

Answer the following questions now.

Jeffrey wants to buy a second-hand car with money from his part-time job. He is deciding between two payment options: pay $150 per month for 7 years, or $200 per month for 4 years.

1. Which option costs less?
2. What reasons might lead Jeffrey to choose the first option?
3. What reasons might lead him to choose the second option?
4. Which option do you think Jeffrey should choose? Support your answer by referring to reasons from questions 2 and 3.
5. What additional information would help Jeffrey make an informed decision?