

Midterm Review - FINANCE

1. When do you start paying interest on your credit card?

At the beginning of the next month if the balance hasn't been paid off by then.

2. Explain what leasing means.

Long term renting.

3. What are the pros and cons of leasing compared to buying?

pros: no large amount of money to have at the start

cons: no equity at the end.

4. What type of investments do you know?

→ banking: RESP, RRSP, savings account,

→ real estate: buying properties

→ buying shares in a company

→ stock market

5. You want to buy \$250 000 boat.

You make a \$25 000 down payment and you borrow the rest over 15 years with a 6% annual interest rate, compounded quarterly. What will be your monthly payments?

$$N = 12 \times 15 = 180$$

$$I\% = 6$$

$$PV = 225000$$

$$PMT = \longrightarrow \text{\$ } 1898.68 / \text{month}$$

$$FV = 0$$

$$P/Y = 12$$

$$C/Y = 4$$

6. You're buying a \$350 000 apartment.
 You're making \$35 000 down payment and then you borrow the rest ^{over} ~~for~~ 20 years with a 5% annual interest rate compounded semi-annually.
- a) What will be your monthly payment?

$$N = 20 \times 12 = 240$$

$$I\% = 5$$

$$PV = 315\,000$$

$$PMT \longrightarrow$$

$$\boxed{\$ 2075.26 / \text{month}}$$

$$FV = 0$$

$$PY = 12$$

$$CY = 2$$

- b) What will be the total cost of the apartment?

$$\text{Cost: } 35000 + 240 \times 2075.26 = \boxed{\$ 533\,062.40}$$

7. If you're investing \$10 000 with a 9% annual interest rate, compounded monthly.
 What will be your investment worth in 10 years?

$$V = 10\,000 \left(1 + \frac{0.09}{12}\right)^{12 \times 10}$$

$$\boxed{V \approx \$ 24\,513.57}$$

8. If you're investing \$20 000 at a 4% annual interest rate, compounded quarterly, what will be your investment after 15 years?

$$V = 20\,000 \left(1 + \frac{0.04}{4}\right)^{4 \times 15}$$

$$\boxed{V \approx \$ 36\,333.93}$$