

Calculating Interest

Word Problems

1. Suppose you borrow \$1,000 and pay the loan back in 12 equal payments of \$95.50. What is the finance charge for this loan?
2. Suppose you borrow \$5,000 and make 12 equal payments to retire the debt. If the finance charge for the loan is \$400, what will the amount of each monthly payment be?
3. Last year, the average account balance among students at Chesterfield College who use credit cards was \$2,800. If this figure increased by 4.5 percent this year, what is the average balance held by Chesterfield students now?
4. If 6 percent of all credit card charges never get paid, and total credit card charges last year were \$750 billion, what was the total amount of unpaid credit card charges last year?
5. Becky has a balance of \$2,000 on her credit card. Her minimum payment is \$40 on a card with an APR of 17 percent. How much of that payment will go toward paying the interest?
6. Solomon has a balance of \$4,000 on his credit card account, which has a minimum payment requirement of 4 percent. What is the minimum payment on this account?

Calculating Interest

Previous Balance Method, Adjusted Balance Method, Average Monthly Balance Method

Examine the credit card information shown below. Compute the interest charge and the new balance (amount owed) using the three different methods of computing interest.

CREDIT CARD INFORMATION

Previous Balance: \$500

Purchases:

May 12	\$25
May 22	\$100
May 30	\$50

Payment:

May 20	\$110
--------	-------

Interest Rate: 12% per year (1% per month)

1. Previous Balance Method

Interest: _____

New Balance: _____

2. Adjusted Balance Method

Interest: _____

New Balance: _____

3. Average Monthly Balance Method

Interest: _____

New Balance: _____