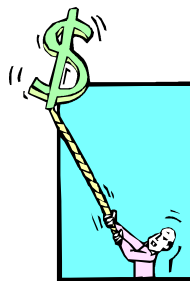


Simulation Activity

The aim of this simulation is to have the most money at the end of the year by choosing the best alternative in each of the following situations.

After choosing the alternative you must write it on the sheet provided in the **Option Chosen** column. After you have completed all situations your teacher will read out the amount that each option either costs or earns you. You then record the amount (which may be positive or negative) in the amount column.

The team with the highest amount at the end of all the rounds wins.



Situation 1

Your friend asks to borrow \$5,000 from you. Your friend is very reliable and will definitely pay you back. Your friend says at the end of the year she will pay you the \$5,000 and either 15% interest or \$600.

Do you take:

- (a) 15%?
- (b) \$600?

Situation 2



You need to buy a car. You find an excellent Honda (they all are!) for \$5,000.

The car dealer offers easy finance terms. You can:

1. Have 3 months with no repayments and interest free. After 3 months you must make repayments of \$700 each month for 9 months.
2. Buy on hire purchase paying \$600 month for 12 months.
3. Borrow \$5,000 from the bank for one year and pay 14% interest plus the principal at the end of the year.

Do you :

- (a) Take the three months interest free then repay the amount borrowed over 9 months?
- (b) Buy on hire purchase?
- (c) Borrow from the bank?

Situation 3



Your boss offers you an 8% pay rise or a \$4,000 bonus. You currently earn \$40,000 per year and intend going to university next year.

Do you:

- (a) Take the pay rise?
 - (b) Take the bonus?
-

Situation 4

You wish to buy a stereo. The stereo costs \$2,000. You can use your credit card and pay 17% interest. You intend to pay this off at the end of the year. You could buy on hire purchase. This would involve paying \$55 per week for one year.

Do you:

- (a) Use your credit card?
- (b) Use hire purchase?

Situation 5

You want to take out a one year mortgage for \$80,000. You intend buying a property, fixing it up and selling it in one year. A bank offers a mortgage rate of 7%. Another bank offers a mortgage of 6.5% but charges a \$700 administration fee. You will be able to sell the house for \$120,000 after doing it up.

Do you:

- (a) Borrow at 7%.
 - (b) Borrow at 6.5% but pay \$700 administration fee?
-

Situation 6

You have just inherited \$100,000 from your Uncle Ebenezer. You owe \$40,000 on your mortgage on which you are paying 8% interest. You also owe \$10,000 on your credit card, which you are paying 15% on. Your investment adviser says she can invest your money at 12% per year.

You will pay 33% income tax on investment income.

Do you:

- (a) Pay off your debts and invest the remainder?
- (b) Invest all of the \$100,000?



Answers to Simulation Activity

Situation 1

- (a) Take the 15% \Rightarrow add \$750.
- (b) Take the \$600 \Rightarrow add \$600.

Situation 2

- (a) 3 months no repayments then pay over 9 months \Rightarrow subtract \$6,300.
- (b) Buy on hire purchase \Rightarrow subtract \$7,200.
- (c) Take a bank loan \Rightarrow subtract \$5,700.

Situation 3

- (a) Take the pay rise \Rightarrow add \$43,200.
- (b) Take the bonus \Rightarrow add \$44,000.

Situation 4

- (a) Use your credit card \Rightarrow subtract \$2,340.
- (b) Use hire purchase \Rightarrow subtract \$2,860.

Situation 5

- (a) Take a mortgage at 7% \Rightarrow Profit is $\$120,000 - \$85,600 = \$34,400$.
- (b) Take mortgage at 6.5% \Rightarrow Profit is $\$120,000 - \$85,900 = \$34,100$.

Situation 6

- (a) Pay off your debts and invest.

You will have \$50,000 left to invest. Interest will be taxed at 33%. Net income will be \$50,000 at 12% (less 33 %) = \$4,000.

Add \$4,000.

- (b) Invest all of \$100,000 and keep debts.

You will earn \$8,000 in interest after tax but you will pay \$4,700 in interest.

Add \$3,300.