

Expensive debt first

Lesson: zerotoinvest.com/en/lesson/expensive-debt/

Name _____

Date _____

EXERCISE 1

Max owes \$2,500 on his overdraft at 12 percent. What does that cost him per year?

Your answer

EXERCISE 2

A loan costs 8 percent. Investment income is taxed at about 26.375 percent. How much would an investment have to earn before tax to keep up?

Your answer

EXERCISE 3

Credit card \$1,200 at 19 percent, installment loan \$4,000 at 7 percent. You have \$1,200 spare. Where do you save more interest per year?

Your answer

EXERCISE 4

A mortgage costs 3 percent, the payment is affordable and the emergency fund is in place. Does the rule of thumb from the lesson favor extra repayment or investing alongside?

Your answer

Tip: the calculators on zerotoinvest.com help you check your answers.

Solutions: Expensive debt first

Remove this page before handing out the sheet.

Exercise 1. $\$2,500 \times 12 \text{ percent} = \$300$ a year. That is exactly what he saves for certain by paying it off.

Exercise 2. $8 \div (1 - 0.26375) = 10.9 \text{ percent}$. And that would have to be certain, which no investment promises.

Exercise 3. On the card: $\$1,200 \times 19 \text{ percent} = \$228$. On the loan: $\$1,200 \times 7 \text{ percent} = \$84$. So the card comes first.

Exercise 4. 3 percent is below the rough line of 5 percent. Investing alongside can make sense.

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