

Exercise walk-through

2.2

Spending and Investing

GAC Business

You must be able to

- calculate total repayments
- distinguish simple and compound interest
- explain risk and diversification

1

The method

Method — Compare the total commitment

A laptop costs 4,800 yuan in cash or twelve payments of 450 yuan.

$$12 \times 450 = 5400 \text{ yuan}$$

Credit costs 600 yuan more. The decision depends on whether having the laptop now is worth that cost.

Method — Risk is not a promise

An investment can rise or fall. Diversification spreads money across investments so one poor result does not decide everything.

2

Practice

Practice 2.1 ■ 1 mark

Calculate the total cost of ten payments of 320 yuan.

Solution 2.1

Method: Compare the total commitment — p.4

Worked steps

$$10 \times 320 = \mathbf{3200} \text{ yuan}$$

B1

Practice 2.2 ■ 1 mark

State which kind of interest adds interest to earlier interest.

Solution 2.2

Worked steps

- **Compound interest** B1

Practice 2.3 ■ 2 marks

Explain one reason diversification can reduce risk.

Solution 2.3

Method: Risk is not a promise — p.5

Worked steps

- Money is spread across different investments. **B1**
- One poor result has less effect on the whole amount. **A1**

3

Exam-style

Exam-style 3.1 ■ 3 marks

A phone costs 3,600 yuan in cash or twelve payments of 330 yuan.
Calculate the extra cost of credit.

Solution 3.1

Method: Compare the total commitment — p.4

Worked steps

- Instalments: $12 \times 330 = 3960$ yuan. M1
- Extra credit cost: $3960 - 3600 = \mathbf{360}$ yuan. A1 A1

Exam-style 3.2 ■ 4 marks

Recommend whether a student should use credit for a necessary laptop. Justify your answer using a financial trade-off.

Solution 3.2

Method: Compare the total commitment — p.4

Worked steps

- A necessary laptop may allow study or work immediately. (B1)
- Credit costs more and creates a repayment commitment. (B1) (A1)
- **Recommendation:** use it only if the planned repayments are affordable and the immediate need outweighs the extra cost. (E1)