

## Worksheet

### Chapter 6: The Cost of Debt

Now you will learn how to compare the interest costs of loans with different interest rates. Follow your teacher's directions to either print out the activity, close this Web site, and go the S&P calculators Web site or click on Standard & Poor's now and go back and forth between Web pages.

**Step 1** Go to the Standard & Poor's calculators Web site at <http://calculators.pubimage.com>.

**Step 2** Scroll down the page and click on "Cost of Debt."

**Step 3** Click on "Start."

**Step 4** Now you will be able to enter information to calculate the interest costs for a loan. Enter the following values.

Total amount borrowed: 1000

Frequency of payments: Monthly

Annual rate of interest: 13

Term of the loan, in years: 3

Additional costs for the loan: 0

Press "Submit" and then use the results to answer the following questions:

1. What is the total interest cost of the loan?
2. What is the amount of the monthly payment?

Press "Start Over," then "Start," and enter "18" as the annual rate of return. Then press "Submit" and use the results to answer the questions below:

3. What is the total interest cost of the new loan?

4. What is the amount of the monthly payment?
  
5. Compare your answer to question 1 to that for question 3. How much more will you pay in interest for a loan at 18 percent compared to a loan at 13 percent?
  
6. Compare your answer to question 2 to that for question 4. By how much does the monthly payment increase for a loan at 18 percent compared to a loan at 13 percent?