A Guide to Interest, Banking and Inflation

Teaching Approach

In Grade 12, interest, banking and inflation are covered in the second term over a period of two weeks. The videos in this series do not need to be watched in any particular order. Summaries of the skills and contexts of each video are in this document, allowing you to find something appropriate quickly and easily. You will find a selection of tasks covering the required skills in the task video. These tasks have not been linked to the videos so that they can be used without viewing them.

When teaching finance to learners, it is important that you show learners as many different examples of banking loans and investment type document. Bank and insurance companies as well as investment and pension fund companies share many brochures as part of their marketing. Collect and share these with learners.

Although much of the basic knowledge that learners will use they would have been covered in earlier grades it is advisable to revise this knowledge while exploring these subjects to get learners comfortable with questioning the information at their disposal.

Video Summaries

Some videos have a 'PAUSE' moment, at which point the teacher or learner can choose to pause the video and try to answer the question posed or calculate the answer to the problem under discussion. Once the video starts again, the answer to the question or the right answer to the calculation is given.

Mindset suggests a number of ways to use the video lessons. These include:

- Watch or show a lesson as an introduction to a lesson
- Watch of show a lesson after a lesson, as a summary or as a way of adding in some interesting real-life applications or practical aspects
- Design a worksheet or set of questions about one video lesson. Then ask learners to watch a video related to the lesson and to complete the worksheet or questions, either in groups or individually
- Worksheets and questions based on video lessons can be used as short assessments or exercises
- Ask learners to watch a particular video lesson for homework (in the school library or on the website, depending on how the material is available) as preparation for the next days lesson; if desired, learners can be given specific questions to answer in preparation for the next day's lesson

1. **Calculating the Cost of Owning a Car**

   In this video we join Lebogang and Thandi as they explore the affordability of buying a car. This video covers subject matter to do with interest on loans, extra costs in finance, insurance, and related financial concepts.

2. **Financial Planning for the Future**

   In this video we discuss three forms of long term investment namely retirement, life and funeral policies and stokvels. We also look at the fundamentals of pension and retirement annuities.

3. **Inflation in Real Life**

   In this video we investigate through calculation and discussion the impact of inflation on purchasing power, the value of an item over time and the value of money in a bank account over time.

Resource Material

Resource materials are a list of links available to teachers and learners to enhance their experience of the subject matter. They are not necessarily CAPS aligned and need to be used with discretion.

1. **Calculating the Cost of Owning a Car**	http://consumerreports.org/cro/2012/12/what-that-car-really-costs-to-own/index.htm	This website looks at what a car really costs to own.
2. **Financial Planning for the Future**	http://en.wikipedia.org/wiki/Stokvel	This site defines stokvels and gives examples of different types of stokvels.
	https://www.sanlam.co.za/wps/wcm/connect/sanlam_en/Sanlam/For+Individuals/Sanlam+Sky+Solutions/Our+Solutions/Funeral+Insurance/	This website looks at funeral plan.
	https://www.sanlam.co.za/wps/wcm/connect/sanlam_en/Sanlam/For+Individuals/Sanlam+Sky+Solutions/Our+Solutions/Life+Cover/	This website looks at life cover.
3. **Inflation in Real Life**	http://www.ino.com/blog/2013/03/the-real-inflation-rate-and-what-to-do-about-it/#.Uw8F4c6yNI4	The real inflation rate and what to do about it.

Task

Question 1

Take a good look at the advert for the recliner and answer the questions that follow:

CASH R 1999

GET IT
ON CREDIT NO DEPOSIT

R92 PM X 36

T&C apply

1.1 What is the cash price of the recliner?
1.2 What is the total cost of the recliner if it is bought on credit?
1.3 An admin charge of R57 a month is added to the monthly repayments. What is the new total price paid for the recliner if it is bought on credit?
1.4 What would the cash price of the recliner be in 1 year's time if the inflation rate is 6,6%?

Question 2

Alfred invests R250 per month in a retirement annuity with an investment company to supplement his retirement provision. He has undertaken to increase the premium by 5% per year. He intends retiring in 30 years time. He also belongs to a pension fund.
2.1 What is Alfred's annual contribution towards his retirement annuity in the first year?
2.2 Based on the quotation, at a projected growth rate of 12% pa he should get an estimated amount of R1 200 000 paid out in 30 years. If inflation averages 8% over the period estimate how much money he can expect in today's value?

Question 3

When buying a car there are a number of options to choose from. Due to the high cost of cars buying on credit is usually the only option to choose. Rachel wants to buy a small new car for R 127 000, help her by answering the following questions.
3.1 The hire purchase option requires a deposit of 20% of the cars value. After that, she will need to pay off the loan over 72 months of equal payments. Calculate the cost of the deposit and the remaining amount that needs to be financed.
3.2 The dealer also informs her that she can choose option 2 where there is no deposit but there is a 55% residual. Explain what is meant by a residual value.
3.3 Rachel decides on a repayment of R1950 pm with the interest rate of 9,8%. Explain what would happen to her repayments if:
    3.1.1 The interest rate increases by 1,5%?
    3.1.2 The term of her loan is decreased to 60 months?

Task Answers

Question 1

1.1 R1999

1.2 R92 x 36 = R3312

1.3 R3312 - (R57 x 36) = R1260

1.4 Price at present = R199

Price after adjustment for inflation = R1999 + (R1999 x 6,6) = R 2130,93

Question 2

2.1 R250 x 12 = R3000

2.2 If inflation is 8% and growth is 12% then his effective rate would be 4%, this is ¼ of what the projection value is so he will receive about R300 000 in today's values.

Question 3

3.1 Deposit is 20% of R127000 = R25 400

Remaining value to be financed = R127000 – R25400 = R101600

3.2 A residual value is the amount of money that is payable as the last instalment of a car at the end of a loan period. Motor car dealers offer these to buyers to make their plans more affordable by lowering the monthly instalments. The residual value is determined by what the dealer would pay for the vehicle as a trade in at the end of the period. It is not a clever option if you intend to drive your car for the full term of the loan.

3.2.1 The monthly repayments would increase as the outstanding balance would now be recalculated using the new interest rate and the remaining term.

3.2.2 Here too the loan repayment would increase, the advantage of this for her would be that she pays less interest back to the bank.

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