**6.5 Store Promotions: Assignment**

1. George wants to buy a new living room set. His payment options are:

Option 1: Pay $2543.90 cash.

Option 2: Store payment plan of 6 monthly payments of $435.00.

Option 3: Pay using a cash advance on his credit card. He would be charged interest at an annual rate of 22.75%, and he expects that it would take him 30 days to pay the credit card balance.

a) If he chooses Option 2, how much will he pay in interest?

b) If he chooses Option 3, how much will he pay for the living room set?

2. Considering interest rate only, which is the better option on a $859.40 purchase?

Option 1: 4 monthly payments of $220.00

Option 2: 6 monthly payments of $150.00

3. Arlene is buying a new hybrid bicycle for commuting to work. She has three payment options.

**Option 1:** Pay cash. The bicycle costs $895.99 plus 12% tax.

**Option 2:** Use the store’s payment plan of 6 monthly payments of $190.00 (including tax).

**Option 3:** Pay using a cash advance on her credit card. She would be charged interest at an annual rate of 19.5%, and she expects that it would take her 15 days to pay her credit card balance.

Calculate the cost of the bicycle using each of the payment options. Which option would you recommend Arlene choose?

4. Mi Jung wants to buy a sofa. If she pays cash for the sofa, it will cost $899.99 with no delivery charge, or she can choose one of the following two payment options.

**Option 1:** The store offers a deferred payment plan of $899.99, with a delivery charge of $30.00 and an administration fee of $75.00, both to be paid at the time of sale. She would have 2 years to pay with no interest charged.

**Option 2:** She can pay for the sofa using her credit card, at the price of $899.99. She would not have to pay the delivery charge or the administration fee. She would be charged interest at a rate of 21.0% per annum, and she expects that it will take her 31 days to pay her credit card balance. (Mi Jung has a previous balance on her credit card.)

a) Calculate the amount Mi Jung must pay at the time of purchase if she chooses Option 1, the deferred payment plan.

b) Calculate the total cost of the sofa if she buys it on the deferred payment plan.

c) Calculate the total cost of the sofa is she buys it on her credit card.