Learning Outcome 1.5

1.5 Identify reasons for saving and borrowing money, relate the reasons to determining appropriate sources of finance with respect to their purpose, costs and risks

Summary of Qs asked 2019-2026 on Learning Outcome 1.5

2019 Q3	Suggest suitable source of finance for different needs (house, car, groceries)	Borrowing, Source of finance	6m
2022 Q7	What is interest, why low interest rates encourage borrowing	Interest / borrowing	6m
2022 Q18 (c)(i)(ii)(iii)	Reasons for saving, DIRT, Interest/DIRT calculation and comparison	Saving, DIRT, Interest/DIRT calculation	15m
2023 Q15	Calculate total loan (12 monthly payments), interest	Borrowing, loan calculation	6m
2024 Q9	DIRT, DIRT calculation on interest	Saving, DIRT, DIRT calculation	6m
2024 Q18 (b)(i)	Calculate total loan (12 monthly payments), interest	Borrowing, loan calculation	3m
2025 Q16 (a)(i)	Reasons to save in different financial institutions	Financial Institutions	8m
2026 Q5	Identify three factors to consider before borrowing money	Borrowing	6m

Key skills required so far answering the JC Exam:

1. Identify reasons a household saves or borrows
2. Match a source of finance to the purpose of a purchase
3. Calculate interest and DIRT on savings, showing workings
4. Calculate the interest and total cost of a loan, showing workings
5. Recommend a financial institution or product and give a reason

Page 36 Introduction + Class Activity - Saving and borrowing in real life

1. Why people save instead of spending all their income

For the future, for emergencies, for retirement, or for a goal such as a car or a holiday, and for peace of mind.

2. What someone might do if they need something expensive but have no savings

Borrow (a loan, hire purchase or credit card, repaid with interest), save up first, sell something to pay for it, or choose a cheaper option.

3. Examples of things people borrow for:

A house (mortgage), a car, home improvements, college, or large appliances.

Page 38 Class Activity - Emma's saving

- 1. Two reasons Emma is saving: to buy a car in the future (future planned expenditure) and to have savings available for emergencies.
- 2. Emma saves €40 of her €120 weekly income, so she has €120 - €40 = €80 left to spend each week.
- 3. Opportunity cost of saving €40: the things she goes without, eg new clothes or going out with friends, because that €40 cannot be spent on them.
- 4. One risk if Emma did not save: she may not be able to afford a car or cover an emergency, so she would have to borrow (repaid with interest) or go without.

Page 42 Exam Corner + Class Activity - Jamie's savings (interest and DIRT)
Key ideas → Calculates interest and DIRT on two savings options and chooses the better account for quick access.

- (a) (i) Interest from each option:
  - An Post Demand Deposit: €6,000 x 2.5% = **€150 interest**. No DIRT applies.
  - Commercial Bank Notice Deposit: €6,000 x 3.5% = €210 interest. DIRT 33% x €210 = €69.30, so interest after DIRT = €210 - €69.30 = **€140.70**.
- (a) (ii) Total value after one year:
  - An Post: €6,000 + €150 = **€6,150**.
  - Commercial Bank: €6,000 + €140.70 = **€6,140.70**.
- (b) If Jamie may need quick access: the An Post Demand Deposit Account. It can be **withdrawn at any time**, whereas the notice account **needs 30 days' notice**.
- Here An Post also gives the higher net return (€6,150 v €6,140.70).

Page 44 Class Activity - Sarah's borrowing

Key ideas → Works through the purpose, cost, risk and a further factor of borrowing for one named purchase.

- i. One reason Sarah may borrow:
  - to buy something she cannot afford outright
  - so she can get the €900 laptop now and repay the €600 over time (with interest).

- ii. One cost of borrowing:
  - she repays more than she borrows because the loan is repaid with interest,
  - there is an opportunity cost, as the repayments cannot be spent elsewhere.

- iii. One risk of borrowing:
  - if she cannot keep up the repayments it could damage her credit rating and make future borrowing harder
  - cause stress.

- iv. One further factor to consider:
  - whether she can afford the repayments (a budget),
  - the total cost (interest plus fees),
  - whether she could save up or buy a cheaper laptop instead.

Page 48 Exam Corner + Class Activity - Matching a source of finance

Key ideas → Matches each purchase to the most suitable short, medium or long-term source of finance.

- Q1 Match the purchase to the source of finance:
  - 1. Buying a house - B. Mortgage.
  - 2. Paying an electricity bill - A. Bank Overdraft.
  - 3. Buying a new car - C. Hire Purchase.
- Q2 Match the purchase to the source of finance:
  - 1. Building an extension - C. Long-term loan.
  - 2. Paying for groceries - A. Credit Card.
  - 3. Buying large kitchen appliances - B. Medium-term loan.
- Q3 Suggest a source of finance:
  - 1. Paying a mobile phone bill - short-term, eg a bank overdraft or credit card.
  - 2. Buying a laptop - medium-term, eg a medium-term loan or hire purchase.
  - 3. Purchasing a rental property - long-term, eg a long-term loan or mortgage.

Page 50 Exam Corner + Class Activity - Evaluating financial products

Key ideas → Compares two loan options on total cost and total interest, then advises which to choose.

A. John's couch (€1,500)

- 1. Total cost:
  - Option A Bank Loan 12 x €139.40 = €1,672.80;
  - Option B Credit Union €1,500 x 8% = €120 interest, so total €1,500 + €120 = €1,620.
- 2. Total interest:
  - Option A €1,672.80 - €1,500 = €172.80;
  - Option B €120.
- 3. Advise John: choose Option B, the Credit Union loan. It costs €1,620 against €1,672.80, **saving €52.80 in interest**.

B. Georgina's car (€12,000 over 2 years)

- 1. Total cost:
  - Option A 104 x €135 = €14,040
  - Option B 24 x €590 = €14,160.
- 2. Total interest:
  - Option A €14,040 - €12,000 = €2,040;
  - Option B €14,160 - €12,000 = €2,160.
- 3. Advise Georgina: choose Option A, the weekly repayments. It costs €14,040 against €14,160, saving €120 in interest.