HIRE PURCHASE

Under a HIRE PURCHASE contract, a purchaser pays an initial deposit and takes the item away. He or she then makes regular repayments (instalments). The instalments include both repayment of the debt and the interest being charged by the vendor. At the end of the period of the agreement, the purchaser owns the item.

HIRE PURCHASE FORMULAS

TOTAL AMOUNT PAID = DEPOSIT + INSTALMENTS

TOTAL INTEREST PAID = TOTAL AMOUNT PAID – ORIGINAL PRICE OF ITEM

The interest rate being charged under a Hire Purchase Agreement is calculated using the SIMPLE INTEREST formula and is called the ANNUAL FLAT RATE of interest:

\[ r_f = \frac{100I}{Pt} \]

Where:

- \( I \) = total interest paid under agreement
- \( P \) = amount owed (after deposit is deducted from original price)
- \( t \) = the number of years over which agreement runs
HIRE PURCHASE EXAMPLES

Question 1

Lachlan buys a new refrigerator. The advertised price was $2700. Under the terms of a hire purchase contract, Conor agrees to pay a deposit of $500 and monthly repayments of $115 over 2 years.

a. Under this agreement, what is the total cost to Lachlan of the refrigerator?

b. What is the total interest that Lachlan pays?

Question 2

Alex wants to buy the latest computer system. The price is $7000, but the store offers Alex a hire purchase agreement. Under this agreement, Alex would pay a deposit of $500 and equal monthly instalments of $220 over 3 years.

a. How much will the computer system cost Alex if he agrees to this plan?

b. How much interest will Alex have to pay under the terms of this agreement?
Question 3

A $2000 lounge suite was sold under a hire purchase agreement. A deposit of $200 was made. The balance and interest was then paid off in equal monthly instalments of $68 over 3 years.

a. How much did the lounge suite cost in total?

b. How much interest was charged under the terms of this agreement?

c. What was the annual flat rate of interest charged?

Question 4

Jack has purchased a $4200 plasma TV under a hire purchase agreement. He paid a deposit of $600 and will pay the balance in equal monthly instalments over 2 years. A flat rate interest of 6% per annum is charged.

a. How much is outstanding after the deposit is paid?

b. How much interest will be charged?

c. What will be the total cost of the TV?

d. What will be the amount in each monthly instalment?