

Why Do People Borrow Money?

Borrowing money comes at a cost. This extra cost is called **interest**.

If borrowing money costs more, why do people still do it?

Here are three reasons why:

Reason 1: They don't want to wait

It's better to wait until you can afford something before you buy it. Some people do not want to wait. They borrow money that they cannot repay, and they go into debt.

Reason 2: They need to buy something REALLY big

Remember how it's better to save money to buy things yourself? This is hard to do with something as big as a car or a house. By borrowing money, people get to use their car or house while they are still paying for it.

Reason 3: They have an emergency

Sometimes, people need to pay for accidents or unexpected repairs. It's important to save money in an **emergency fund** so that you do not have to borrow money the next time an emergency takes you by surprise.



Borrowing money lets you buy something now and pay for it later.

Questions:

1. What is **interest**?
2. How can borrowing money help you? Give an example.
3. How can borrowing money hurt you? Give an example.
4. Why is it important to save money in an **emergency fund**?

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