equals 365 days divided by 21 days) to give another apparent rate of interest of 1012 per cent. Both calculations are incorrect.

The reason the calculations are incorrect is that each ignores the implicit loan of $1000 from the purchase date to the payment date. The $14.54 in interest charges can correctly be considered the sum of interest charges on two implicit loans. The first is an implicit loan for $1000 running for 26 days from July 10th (the purchase date) to August 4th (the day before the partial payment was made). The second implicit loan is for $25 running 21 days from August 5th (the day of the partial payment) to August 25th (the statement date). The interest charge on the first implicit loan is $14.25; the interest charge on the second implicit loan is $0.29. In each case, the interest rate used was the daily rate corresponding to a 20 per cent annual rate—that is, 20 per cent divided by 365 or 0.05479 per cent per day.

The effective rate is 20 per cent per year, the same as the posted rate.)

b. It is reasonable to say that the range for the effective rate on a retail card is 6% per year to 28.8% per year. What the effective rate is depends on the timing of purchases and payments, the amount of any partial payment and the number of months it takes to pay the full balance.

Because the effective rate on a retail card can vary so widely, the spread between the effective retail card rate and the Bank Rate may be much smaller than the spread between the nominal rates shown in Appendix 2. The difference between the nominal and effective rate for a retail card depends on behaviour by the card user, behaviour that may not be consciously aimed at lowering the effective rate. With better information, a consumer might alter behaviour with respect to purchases and payments.

WORK OF THE FINANCE COMMITTEE, 1986-1987

The hearings, background research and report of the Finance Committee are readily available, so no detailed account of that Committee's work is needed. As noted, the Finance Committee was struck by the impressive growth of credit card use and concerned that rates might be at unwarranted levels. What led to this concern was the continued high level of rates in the face of a general downward movement in Canadian rates. (The Consumer and Corporate Affairs Committee also is concerned by high rates, but this concern was sparked by the recent increase in some credit card rates to their current high levels.)