

Personal Finance, 6e (Madura)
Chapter 8 Managing Your Credit

8.1 Credit Cards

1) It is not difficult to find a credit card company that is eager to extend credit to you.

Answer: TRUE

Diff: 2

Question Status: Previous edition

2) Credit cards are commonly used to pay for items such as clothing, car repairs, or a new car.

Answer: FALSE

Diff: 1

Question Status: Revised

3) One advantage of credit cards is that you can receive free financing if you pay off your balance each month.

Answer: TRUE

Diff: 1

Question Status: Previous edition

4) When using credit cards, there is no way to keep track of individual expenditures.

Answer: FALSE

Diff: 2

Question Status: Revised

5) Advantages of using credit include the ability to make purchases without cash and the convenience of not carrying checks.

Answer: TRUE

Diff: 1

Question Status: Revised

6) Credit cards can eliminate the need for carrying large amounts of cash.

Answer: TRUE

Diff: 1

Question Status: Previous edition

7) When applying for a credit card, the amount of savings that you have will not be a factor in the credit card company's decision.

Answer: FALSE

Diff: 2

Question Status: Previous edition

8) Because of the short-term nature of credit card lending, the condition of the economy is not considered.

Answer: FALSE

Diff: 2

Question Status: Previous edition

9) One of the disadvantages of credit cards is that they allow you to spend beyond your means.

Answer: TRUE

Diff: 2

Question Status: Previous edition

10) One advantage of using a credit card is that you receive a list of your purchases, which enables you to keep track of your spending.

Answer: TRUE

Diff: 1

Question Status: Previous edition

11) The easiest way to establish credit is to

A) purchase a new car with a car loan.

B) purchase a house with a mortgage.

C) obtain a credit card.

D) pay cash for all your purchases.

Answer: C

Diff: 2

Question Status: Previous edition

12) When you apply for a credit card, the potential creditor will look at which of the following as a source of future debt payments if necessary?

A) Cash outflows

B) Credit history

C) Potential inheritances

D) Balances in savings accounts

Answer: D

Diff: 2

Question Status: Revised

13) Credit cards are generally used for such purchases as

A) cars.

B) homes.

C) meals, clothing, and groceries.

D) stocks.

Answer: C

Diff: 1

Question Status: Previous edition

14) Credit cards have all of the following advantages **except**

- A) they allow you to borrow cash interest free for 60 days.
- B) make purchases without carrying cash.
- C) obtain free financing until the bill is due.
- D) itemized monthly statement.

Answer: A

Diff: 1

Question Status: Previous edition

15) Which of the following personal information would **not** be asked on a credit card application?

- A) Cash inflows
- B) Country of birth
- C) Capital and collateral
- D) Cash outflows

Answer: B

Diff: 1

Question Status: Previous edition

16) Which of the following personal information should **not** be asked on a credit card application?

- A) Stocks and bonds owned
- B) Race or ethnic group
- C) Employment history
- D) Expenses and commitments

Answer: B

Diff: 1

Question Status: Revised

17) In applying for a credit card, the potential creditor will look at your _____ to determine if you have funds to cover future debt payments if necessary.

Answer: capital

Diff: 1

Question Status: Previous edition

18) Describe the availability of credit today for a person younger than 21 years of age. Do you get credit card offers in the mail and are discounts available when signing up for a proprietary credit card?

Answer: The Credit CARD Act of 2009 made it more difficult for persons younger than 21 to obtain credit cards. Individuals below the age of 21 must show proof of their income or have an adult, such as a parent, as a cosigner on the account.

Diff: 1

Question Status: Revised

19) Describe the advantages and disadvantages of credit cards.

Answer:

Advantages: take advantage of discounts and sales when short on cash; allows for an extended payment period; establish credit history; security (safer than cash); convenience.

Disadvantages: high interest rate if the bill is not paid in full; may also be more difficult to fit the payments into a tight budget; spending may increase due to a false sense of security; too much credit may mean too much debt with the possibility of bankruptcy.

Diff: 1

Question Status: Previous edition

20) "Wise" use of credit cards includes the following behaviors

A) tracking your purchases.

B) paying off the entire card balance monthly to avoid interest charges.

C) using credit if you find something "you just have to have."

D) Both A and B are correct.

Answer: D

Diff: 2

Question Status: New

21) When using your credit card frequently, it is wise to

A) pay off the balance every month.

B) make only the minimum payment to conserve cash.

C) use the card that offers the most points regardless of other provisions.

D) Both A and C are correct.

Answer: A

Diff: 2

Question Status: New

8.2 Characteristics of Credit Cards

1) It is good financial planning to pay only the minimum credit card payment and thus maintain a balance since interest rates are low on credit cards.

Answer: FALSE

Diff: 1

Question Status: Previous edition

2) To properly manage your money you should use a credit card only if you will have the cash to cover the payment when you receive your credit card statement.

Answer: TRUE

Diff: 2

Question Status: Previous edition

3) Because credit card interest rates are usually quite high, you should pay off your credit card balances before you invest funds anywhere else.

Answer: TRUE

Diff: 1

Question Status: Previous edition

4) Even if you cannot pay your credit card bill in full, you should still attempt to pay as much as possible so that you can minimize finance charges.

Answer: TRUE

Diff: 1

Question Status: Previous edition

5) There is no cost to the merchant when you use a MasterCard or Visa credit card.

Answer: FALSE

Diff: 2

Question Status: Revised

6) Financial institutions issuing MasterCard and Visa credit cards typically charge a high rate of interest on the credit extended.

Answer: TRUE

Diff: 2

Question Status: Revised

7) MasterCard and Visa credit cards are not accepted by gas stations such as Shell, which issue their own credit cards.

Answer: FALSE

Diff: 2

Question Status: Revised

8) Creditors are willing to extend credit when the economy is weak to stimulate purchases.

Answer: FALSE

Diff: 1

Question Status: Previous edition

9) MasterCard, Visa, and American Express credit cards all allow you to pay only a portion of your amount due and finance the remainder from month to month.

Answer: FALSE

Diff: 2

Question Status: Revised

10) An alternative to MasterCard, Visa, and American Express credit cards is a retail or proprietary card that is issued for use at a specific retail establishment.

Answer: TRUE

Diff: 1

Question Status: Previous edition

11) One disadvantage of a proprietary credit card is that it limits your purchases to a single merchant.

Answer: TRUE

Diff: 1

Question Status: Previous edition

12) Credit limits may be as high as \$10,000 for those credit card holders who have an exceptional credit history.

Answer: TRUE

Diff: 2

Question Status: Previous edition

13) Credit card companies offer many incentives, such as airline miles and bonuses to get you to use their cards.

Answer: TRUE

Diff: 1

Question Status: Revised

14) Prestige cards always charge higher interest rates, but offer extra benefits such as access to private jet programs and concierge service at hotels.

Answer: FALSE

Diff: 2

Question Status: Revised

15) If you pay your total credit card balance before the grace period, you normally are not charged any interest.

Answer: TRUE

Diff: 1

Question Status: Revised

16) The interest charged on purchases and cash advances on credit cards is computed in the same way.

Answer: FALSE

Diff: 2

Question Status: Previous edition

17) Cash advances on credit cards normally cost you interest from the date of the advance and also a transaction fee of 1 to 2 %.

Answer: TRUE

Diff: 1

Question Status: Revised

18) Some credit cards offer card users cash rewards if they exceed a certain spending level each month.

Answer: TRUE

Diff: 1

Question Status: Previous edition

19) The annual percentage rate (APR) on credit is the simple interest rate after including any fees (such as an application processing fee) imposed by the creditor.

Answer: TRUE

Diff: 2

Question Status: Previous edition

20) The annual percentage rate (APR) is useful because it allows you to easily compare financing costs among various possible creditors.

Answer: TRUE

Diff: 1

Question Status: Previous edition

21) In comparing credit cards to other forms of credit, which of the following is true?

- A) Credit cards are generally the most expensive form of credit.
- B) You should invest funds before paying off your credit cards.
- C) It is prudent to borrow from some cards to pay off other credit cards.
- D) All of the above.

Answer: A

Diff: 2

Question Status: Previous edition

22) In comparing credit cards to other forms of credit, which of the following is **false**?

- A) Credit cards are generally the most expensive form of credit.
- B) You should pay the most expensive debt off first.
- C) Credit cards can be viewed as a source of funds.
- D) A home equity loan is a way of combining credit card and other debt.

Answer: C

Diff: 3

Question Status: Previous edition

23) For good financial management, you should treat a credit card as

- A) a source of funds.
- B) a means of convenience.
- C) a way to finance everything.
- D) an inexpensive form of financing.

Answer: B

Diff: 2

Question Status: Previous edition

24) Credit has its advantages and disadvantages. Which of the following is **false**?

- A) Credit cards should be used with discipline.
- B) You should spend up to the limit on all your credit cards.
- C) Cash advances are available through a credit card.
- D) Bankruptcy is the worst-case scenario from poor credit management.

Answer: B

Diff: 1

Question Status: Previous edition

25) Which of the following are good tips on the use of a credit card?

- A) Treat it as a means of convenience
- B) Use it as a source of funds
- C) Make the minimum required monthly payment
- D) All of the above

Answer: A

Diff: 2

Question Status: Previous edition

26) Some credit card companies will waive the annual fee on a credit card if

- A) you use the card infrequently.
- B) you carry a large balance from month to month.
- C) you pay your bills in a timely manner.
- D) Credit card companies never waive annual fees.

Answer: C

Diff: 2

Question Status: Previous edition

27) If a credit card has a provision allowing you to make purchases beyond the stated credit limit for a fee, it is referred to as

- A) a purchase protection plan.
- B) over limit protection.
- C) a grace period.
- D) a first forgiveness provision.

Answer: B

Diff: 2

Question Status: Revised

28) A credit card whose interest rate changes as a specific market interest rate changes is said to have a

- A) variable rate.
- B) fixed rate.
- C) constant rate.
- D) tiered rate.

Answer: A

Diff: 2

Question Status: Previous edition

29) Credit cards with tiered interest rates charge cardholders who

- A) carry large balances a lower rate.
- B) pay off their balance monthly a higher rate.
- C) make early payments a higher rate.
- D) carry large balances a higher rate.

Answer: D

Diff: 2

Question Status: Revised

30) A credit card issued by a financial institution and secured by funds deposited by the cardholder is a

- A) prepaid card.
- B) protected card.
- C) secured card.
- D) proprietary card.

Answer: C

Diff: 2

Question Status: New

31) All of the following are disadvantages of proprietary credit cards **except**

- A) your purchases are limited to a single merchant per card.
- B) you may need several credit cards.
- C) you receive several billing statements.
- D) it takes considerable time to process your application to allow you to begin obtaining credit.

Answer: D

Diff: 1

Question Status: Previous edition

32) When obtaining a credit card you should try to obtain

- A) the highest maximum limit possible.
- B) a maximum limit high enough to cover necessary monthly purchases.
- C) a maximum limit high enough to cover anything you might wish to purchase.
- D) the lowest maximum limit possible to restrict your usage.

Answer: B

Diff: 2

Question Status: Revised

33) Which of the following may **not** be a feature of some credit cards?

- A) Credit limits
- B) Annual fees
- C) Grace periods
- D) Cash advances

Answer: B

Diff: 2

Question Status: Previous edition

34) Which of the following is **not** true about annual fees on credit cards?

- A) The fees are the same on all credit cards.
- B) The fees may be high, amounting to several hundred dollars per year for some prestige cards.
- C) Many cards do not have annual fees.
- D) Some cards may waive the fees for individuals who pay their credit card bills in a timely manner.

Answer: A

Diff: 1

Question Status: Revised

35) All of the following are true of prestige credit cards **except** they

- A) have a longer grace period than other cards.
- B) may have substantially higher fees.
- C) provide extra benefits to cardholders.
- D) are given to individuals who have an exceptional credit standing.

Answer: A

Diff: 2

Question Status: Revised

36) All of the following are true of the grace period on credit cards **except** it

- A) is usually about 20 days.
- B) applies only to cash advances.
- C) is the time in between the time the statement is "closed" and the time the payment is due.
- D) amounts to free credit time.

Answer: B

Diff: 1

Question Status: Revised

37) Which of the following is **not** true regarding cash advances on credit cards?

- A) They are treated just like other charges on your credit card.
- B) There is a charge for interest from the time you take the advance to the time you pay it off.
- C) There is also a transaction fee on most cash advances.
- D) The grace period does not apply to cash advances.

Answer: A

Diff: 1

Question Status: Previous edition

38) Cash advances are

- A) a good way to finance your purchases.
- B) cheaper than a line of credit.
- C) not shown on the credit card statement.
- D) easy to obtain at an ATM.

Answer: D

Diff: 2

Question Status: Revised

39) Which of the following is **not** correct about cash advances?

- A) There is no grace period for cash advances.
- B) The interest rate for cash advances is higher than for purchases.
- C) A cash advance is like a loan.
- D) A transaction fee of 5% may be charged.

Answer: D

Diff: 2

Question Status: Previous edition

40) In comparing credit cards, which of the following is **false**?

- A) Some cards are more widely accepted than others.
- B) Some cards offer a teaser interest rate.
- C) Some cards charge an annual fee and others do not.
- D) Some cards allow you to always carry a balance from month-to-month with no interest.

Answer: D

Diff: 1

Question Status: Revised

41) A credit card that can only be used in establishments of the issuer is called a(n) _____ credit card.

Answer: retail or proprietary

Diff: 1

Question Status: Previous edition

42) Cards that are purchased at retail establishments and loaded with funds that you provide are called _____.

Answer: prepaid cards

Diff: 1

Question Status: New

43) The _____ is usually about 20 days after the credit card statement is closed.

Answer: grace period

Diff: 1

Question Status: Previous edition

44) Which of the following is not true regarding payroll cards?

- A) The employer can require employees to accept their wages on these cards.
- B) Employers use payroll cards because they are cheaper than issuing payroll checks.
- C) Fees are frequently associated with the cards.
- D) The cards are convenient for employees who lack bank accounts.

Answer: A

Diff: 1

Question Status: New

45) Which of the following statements is not true of prepaid cards?

- A) Many fees may be associated with them.
- B) Some prepaid cards can be used to withdraw cash from ATM's.
- C) They can be useful in rebuilding an individual's credit record.
- D) They offer less protection against theft than standard credit cards.

Answer: C

Diff: 1

Question Status: New

Use the following two columns of items to answer the matching questions below:

- A) time allowed without interest before the payment is due
- B) allows you to make purchases beyond your stated credit limit for a fee
- C) credit card good only with a particular merchant
- D) the maximum amount allowed to charge
- E) a card that allows for purchases to be paid for at a later date
- F) cards that offer extra benefits and are available to persons with high incomes and exceptional credit histories
- G) cash borrowed on a credit card

46) credit card

Diff: 1

Question Status: New

47) grace period

Diff: 1

Question Status: New

48) credit limit

Diff: 1

Question Status: New

49) prestige cards

Diff: 1

Question Status: New

50) overlimit protection

Diff: 1

Question Status: New

51) cash advance

Diff: 1

Question Status: New

52) proprietary credit card

Diff: 1

Question Status: New

Answers: 46) E 47) A 48) D 49) F 50) B 51) G 52) C

53) Which of the following statements is true about bank credit cards like VISA and MasterCard?

- A) They are an excellent source of emergency funds for unexpected expenses.
- B) Their interest rate is generally lower than a loan at a credit union.
- C) Like home equity loans, the interest paid on credit cards is tax deductible.
- D) Their interest rate is lower than home equity lines of credit.

Answer: A

Diff: 1

Question Status: New

8.3 Finance Charges

1) Finance charges apply only to balances that were not paid in full before their due date in the current billing period.

Answer: TRUE

Diff: 1

Question Status: Previous edition

2) The previous balance method takes into account the time that you pay off any part of the outstanding balance.

Answer: FALSE

Diff: 1

Question Status: Previous edition

3) If you find yourself with an excessive credit card balance, the first thing you should do is

- A) borrow funds from family members.
- B) quit school and get a job.
- C) spend as little as possible.
- D) file for personal bankruptcy.

Answer: C

Diff: 1

Question Status: Previous edition

4) Which of the following is **not** a method for computing interest on credit cards?

- A) Previous balance method
- B) Average daily balance method
- C) Present value of future payment method
- D) Adjusted balance method

Answer: C

Diff: 1

Question Status: Previous edition

5) On a credit card, a finance charge is applied to

- A) any purchase.
- B) any balance not previously paid.
- C) current purchases.
- D) future purchases.

Answer: B

Diff: 1

Question Status: Previous edition

6) Which of the following is **not** a method by which financial institutions calculate finance charges on credit cards?

- A) Previous balance method
- B) Ending balance method
- C) Average daily balance method
- D) Adjusted balance method

Answer: B

Diff: 2

Question Status: Previous edition

7) Which of the following methods of calculating finance charges on credit cards is least favorable to the cardholder?

- A) Previous balance method
- B) Ending balance method
- C) Average daily balance method
- D) Adjusted balance method

Answer: A

Diff: 3

Question Status: Previous edition

8) The _____ method charges interest based on the balance at the beginning of the new billing period.

- A) new cycle
- B) adjusted balance
- C) average daily balance
- D) previous balance

Answer: D

Diff: 2

Question Status: Previous edition

9) As of November 14, Ben has an outstanding credit card balance of \$1,100 from purchases made over the past month. The new billing period begins on November 15. Assume Ben's outstanding balance for the first 15 days of this new billing period (Nov. 15-29) is \$1,100. Then on November 29, the financial institution receives a payment of \$600 from Ben, reducing his balance to \$500. This is the balance for the remaining 15 days.

Using the average daily balance method and a monthly interest rate of 2.5%, Ben's finance charge would be

- A) \$15.00.
- B) \$12.50.
- C) \$27.50.
- D) \$20.00.

Answer: D

Explanation: D) $(\$1100 + \$500)/2 = \$1600/2 = \$800 \times .025 = \$20$

Diff: 3

Question Status: Previous edition

10) As of November 14, Ben has an outstanding credit card balance of \$1,100 from purchases made over the past month. The new billing period begins on November 15. Assume Ben's outstanding balance for the first 15 days of this new billing period (Nov. 15-29) is \$1,100. Then on November 29, the financial institution receives a payment of \$600 from Ben, reducing his balance to \$500. This is the balance for the remaining 15 days.

Using the previous balance method and a monthly interest rate of 2.5%, Ben's finance charge would be

- A) \$15.00.
- B) \$12.50.
- C) \$27.50.
- D) \$20.00.

Answer: C

Explanation: C) $\$1100 \times .025 = \27.50

Diff: 3

Question Status: Previous edition

11) As of November 14, Ben has an outstanding credit card balance of \$1,100 from purchases made over the past month. The new billing period begins on November 15. Assume Ben's outstanding balance for the first 15 days of this new billing period (Nov. 15-29) is \$1,100. Then on November 29, the financial institution receives a payment of \$600 from Ben, reducing his balance to \$500. This is the balance for the remaining 15 days.

Using the adjusted balance method and a monthly interest rate of 2.5%, Ben's finance charge would be

- A) \$15.00.
- B) \$12.50.
- C) \$27.50.
- D) \$20.00.

Answer: B

Explanation: B) $\$500 \times .025 = \12.50

Diff: 3

Question Status: Previous edition

12) Of the three methods by which finance charges may be calculated on outstanding credit card balances, the least favorable to the cardholder is the _____ balance method.

Answer: previous

Explanation: *Appendix

Diff: 1

Question Status: Previous edition

13) When making payments on a credit card, the amount paid is first applied to _____ and the remainder is applied to _____.

- A) late fees; interest
- B) balance due; late fees
- C) interest for the month; balance due
- D) The entire payment is applied to the balance due.

Answer: C

Diff: 2

Question Status: New

14) Ben owes \$3500 on his credit card which bears an interest rate of 1.5% per month or 19.6% per year. Since Ben is maxed out on his credit limit he is no longer charging anything to the card, but is only making the required monthly minimum payment which is 1.25% of the outstanding balance. How much of Ben's next payment will go towards paying off the outstanding balance?

- A) \$10 per month
- B) \$0; Ben is not even paying enough to pay the monthly interest charge.
- C) \$8.75
- D) 443.75

Answer: B

Diff: 3

Question Status: New

8.4 Estimating Credit Repayment

1) The simple interest rate includes any fees charged by the creditor.

Answer: FALSE

Diff: 1

Question Status: Previous edition

2) The interest you pay when using credit cards can have a major impact on the total amount you owe.

Answer: TRUE

Diff: 1

Question Status: Previous edition

3) If it takes you four years to pay off a loan, you have to pay the total annual interest four times.

Answer: FALSE

Diff: 1

Question Status: Previous edition

4) The annual percentage rate (APR) is all of the following **except**

A) a simple interest rate for borrowing money for a year.

B) it requires a complex formula to compute.

C) it includes fees such as application processing fees.

D) it allows easy comparison of financing costs among various creditors.

Answer: B

Diff: 1

Question Status: Previous edition

5) APR means

A) actual percentage rate.

B) applied percentage rate.

C) annual percentage rate.

D) all-banks percentage rate.

Answer: C

Diff: 1

Question Status: Previous edition

6) Jill just borrowed \$6,000 and will be charged a simple interest rate of 12 percent. Jill will pay _____ interest for borrowing the money on September 1 and repaying the money on December 31.

A) \$240

B) \$420

C) \$720

D) \$1,200

Answer: A

Diff: 2

Question Status: Previous edition

7) If you borrowed \$8,700 at 6% for one year, what would your total interest be if you are charged simple interest?

- A) \$600
- B) \$9,222
- C) \$522
- D) \$600

Answer: C

Explanation: C) $\$8,700 \times 0.06 = \522

Diff: 1

Question Status: Previous edition

8) Assuming you were charged simple interest on a loan of \$4,900 which requires you to repay in one year \$5,292, what rate of interest would you be charged? (Round interest rate to the nearest hundredth percent if necessary.)

- A) 9.26%
- B) 8%
- C) 7.41%
- D) 11%

Answer: B

Explanation: B) $(\$5,292 - \$4,900)/\$4,900 = 8\%$

Diff: 1

Question Status: Previous edition

9) Assuming you were charged simple interest of 5% on a loan of \$1,000 that requires you to repay in two payments, one at the end of the first six months and one at the end of the second six months, total payments on the loan would be

- A) \$1,037.50.
- B) \$525.00.
- C) \$512.50.
- D) \$1,000.00.

Answer: A

Explanation: A)

First payment: $\$1,000 \times .05 \times 6/12 = \25 ; $\$25 + \$500 = \$525.00$

Second payment: $\$500 \times .05 \times 6/12 = \12.50 ; $\$12.50 + \$500 = \underline{\$512.50}$
 $\$1,037.50$

Diff: 1

Question Status: Revised

10) Bill borrowed \$3,600 and will be charged a simple interest rate of 18%. Bill will pay _____ interest for borrowing the money on April 1 and repaying the money on December 31.

- A) \$468
- B) \$648
- C) \$486
- D) \$162

Answer: C

Explanation: C) $\$3600 \times .18 \times 9/12 = \486

Diff: 1

Question Status: Previous edition

11) What is the interest cost and the total amount due on a six-month loan of \$1,500 at 13.2% simple annual interest?

- A) \$99; \$1,500
- B) \$99; \$1,599
- C) \$198; \$1,698
- D) \$198; \$1,500

Answer: B

Explanation: B) $\$1,500 \times .132 \times 6/12 = \99 ; $\$1,500 + \$99 = \$1,599$

Diff: 1

Question Status: Previous edition

12) Sandy had a beginning balance on her MasterCard statement of \$300. This month she had purchases of \$400, payments of \$300, and a \$100 cash advance. To avoid interest charges, Sandy must make a payment of

- A) \$400.
- B) \$500.
- C) \$100.
- D) Sandy cannot avoid interest charges.

Answer: D

Diff: 2

Question Status: Previous edition

13) You are considering applying for one of two credit cards. Credit card "A" has an annual fee of \$30 and charges interest of 10%. Credit card "B" has no annual fee, but charges an interest rate of 15%. If you carry an average balance of \$500 on your credit card, the lowest total annual expenses you could have with one of these two credit cards would be

- A) \$50.
- B) \$80.
- C) \$75.
- D) \$90.

Answer: C

Explanation: C)

Card "A" $\$500 \times 0.10 = \$50 + \$30 = \80

Card "B" $\$500 \times 0.15 = \75

Diff: 2

Question Status: Revised

14) John is considering pursuing one of two credit cards. Credit card "A" has no annual fee and charges an interest rate of 12.5%. Credit card "B" has an annual fee of \$45 but charges an interest rate of 9%. If John is likely to have an average credit card balance of \$2,000, the lowest annual expenses John could have with one of these two cards would be

- A) \$225.
- B) \$180.
- C) \$250.
- D) \$240.

Answer: A

Explanation: A)

Credit card "A": $\$2000 \times .125 = \250

Credit card "B": $\$2000 \times .09 = \$180 + \$45 = \225

Diff: 2

Question Status: Previous edition

15) If you include all fees charged by a lender and the simple interest rate, the result will be the _____.

Answer: annual percentage rate

Diff: 1

Question Status: Previous edition

16) You are presented two choices to borrow funds for a significant unexpected expenditure. it will take at least three years to pay off the loan assuming you make more than the minimum payment. Which choice is the least cost alternative in terms of interest paid over the life of the loan?

- A) A credit card with a variable interest rate of 4 % over the prime rate; for info, the latest forecast is for prime to stay below 5% throughout the life of your loan.
- B) An interest only balloon payment loan for 3 years with 10% interest, but your monthly payments would be half of those compared to the credit card.
- C) There is not enough information to make the decision.
- D) Both A and B are about equal since the interest only payment aspect offsets the slightly higher interest rate on the credit card

Answer: A

Diff: 3

Question Status: New

8.5 Credit Card Statement

1) A credit card statement lists purchases that were made with the credit card as well as any balance carried forward from the previous statement.

Answer: TRUE

Diff: 1

Question Status: Previous edition

2) A credit card statement will not show the method of calculating finance charges.

Answer: FALSE

Diff: 1

Question Status: Previous edition

3) If you discover an error on your credit card statement, you should not pay any portion of the balance until the matter has been resolved.

Answer: FALSE

Diff: 1

Question Status: Previous edition

4) A personal credit card statement does **not** contain which of the following?

A) Previous balance

B) Current balance

C) Account number

D) Who purchased the item

Answer: D

Diff: 1

Question Status: Previous edition

5) On your credit card statement, the amount that you owe the financial institution now is called the

A) previous balance.

B) minimum payment.

C) new balance.

D) payments.

Answer: C

Diff: 2

Question Status: Previous edition

6) By reviewing your credit card statement, you can determine all of the following **except**

A) total purchases made year-to-date.

B) your available credit remaining.

C) if a payment can be made that will avoid interest charges.

D) how much time you have to make a payment.

Answer: A

Diff: 1

Question Status: Previous edition

7) Suppose you have a credit card balance of \$500 that you were unable to pay off. During the current month you purchase another \$250 worth of products. You made a payment during the grace period of \$300. Assuming your retail credit card company charges an annual interest rate of 22%, compute your new balance.

- A) \$510
- B) \$250
- C) \$494
- D) \$454

Answer: D

Explanation: D)

Beginning balance:	\$500
Less payment:	<u>\$300</u>
Balance subject to interest	\$200
Interest ($\$200 \times .22$)	\$44
Current month's purchases	<u>\$250</u>
New balance	\$294

Diff: 1

Question Status: Revised

8) Compute the new balance on a credit card assuming that:

- Beginning balance = \$450
- Purchases during the month = \$300
- Payments made within the grace period = \$250
- Interest rate = 18%

- A) \$550
- B) \$503
- C) \$516
- D) \$1,000

Answer: B

Explanation: B)

Beginning balance	\$450
Less payment	<u>\$250</u>
Balance subject to interest	\$200
Interest ($\$200 \times 0.015$)	\$3
Current month's purchases	<u>\$300</u>
New balance	\$503

Diff: 2

Question Status: Previous edition

9) It is a good practice to review your credit card statement online as often as daily or weekly in order to

- A) make sure there are no fraudulent charges.
- B) make sure there are no duplicate or erroneous charges from merchants.
- C) monitor your spending patterns.
- D) A, B and C are all correct.

Answer: D

Diff: 2

Question Status: New

8.6 Regulation of Credit Cards

1) Congress has passed regulations that protect consumers who use credit card services.

Answer: TRUE

Diff: 1

Question Status: Previous edition

2) If your credit card company decides to increase your interest rate, it must notify you 30 days in advance.

Answer: FALSE

Diff: 1

Question Status: Revised

3) Your credit card statement must state how long it will take you to pay off the existing balance due when paying only the minimum amount each month.

Answer: TRUE

Diff: 1

Question Status: Previous edition

4) The Consumer Financial Protection Bureau was created in 2010 to ensure that credit card companies are treated fairly.

Answer: FALSE

Diff: 1

Question Status: Revised

5) New regulations that provide clearer and more favorable financing rules for individual credit card users do all of the following **except**

- A) prohibit interest rate increases if you miss a payment on another credit card.
- B) cap the amount of any increase to 5%.
- C) require a 45 day notice of any credit card interest rate increase.
- D) prohibit the rate on existing credit card balances from being increased unless you are at least 60 days late on payments.

Answer: B

Diff: 1

Question Status: Previous edition

6) Credit card companies' fees cannot exceed _____ of the initial credit limit.

- A) more than 5%
- B) more than 10%
- C) more than 50%
- D) more than 25%

Answer: D

Diff: 1

Question Status: Previous edition

7) All of the following are provisions of the Credit CARD Act of 2009 **except**

- A) cardholders must be given at least 21 days from the day in which the bill is mailed to make a payment.
- B) cardholders younger than age 21 must show proof of their income or have a co-signer.
- C) cardholders can spend beyond the limit imposed on the credit card.
- D) promotional interest rates must be offered for a period of at least six months.

Answer: C

Diff: 1

Question Status: Revised

8.7 Tips on Using Credit Cards

1) A self-imposed credit limit indicates that you will use a credit card only if you will have the cash to cover the payment when you receive your credit card statement.

Answer: TRUE

Diff: 1

Question Status: Previous edition

2) You should cancel any credit card that is not sponsored by a company that sells necessities.

Answer: FALSE

Diff: 1

Question Status: Previous edition

3) You should invest in risky investments instead of paying off your credit card debt because the return might be higher than the cost of financing.

Answer: FALSE

Diff: 1

Question Status: Previous edition

4) If you have credit problems, you should contact a credit repair service instead of trying to resolve the issues yourself.

Answer: FALSE

Diff: 1

Question Status: Previous edition

5) If you have exhausted all efforts to resolve an excessive credit card balance, personal bankruptcy may be your only option.

Answer: TRUE

Diff: 1

Question Status: Previous edition

6) You have a credit card on which your beginning balance for the month was \$400. On the 10th of the month you took out a cash advance of \$500. During the month you made purchases of \$250. Assuming that the interest rate on purchases is 15% (1.25% per month), the rate on cash advances is 18% (1.5% per month), and there is a 1% fee on all cash advances, what would you have to pay to pay off your account if your due date is the 30th of the month.

A) \$1,165.00

B) \$1,222.50

C) \$1,305.00

D) \$1,342.50

Answer: A

Explanation: A)

Beginning balance	\$400
Interest on beginning balance ($\$400 \times 0.15$)/12	\$5
Cash advance	\$500
Service charge on cash advance ($\$500 \times 0.01$)	\$5
Interest on cash advance ($\$500 \times 0.18$) $\div 3 \times 2$	\$5
Current month's purchases	<u>\$250</u>
Total pay-off amount	\$1,165

Diff: 2

Question Status: Revised

Use the following two columns of items to answer the matching questions below:

- A) statement that lists beginning balance, purchases and payments, and an ending balance
- B) the simple interest rate after including any fees imposed by the creditor
- C) the percentage of credit that must be paid as interest on an annual basis

7) simple interest

Diff: 1

Question Status: New

8) percentage rate

Diff: 1

Question Status: New

9) credit card statement

Diff: 1

Question Status: New

Answers: 7) C 8) B 9) A

8.8 How Credit Management Fits Within Your Financial Plan

1) Identifying specific goals for managing your credit is an important part of your personal financial plan.

Answer: TRUE

Diff: 1

Question Status: Previous edition

2) Discuss how many credit cards you think you should have and why.

Answer: Subjective answer ranging from one to many credit cards. Reasons vary from taking advantage of rewards to juggling payments on more than one card.

Diff: 1

Question Status: Revised

3) Describe how credit cards affect your personal budget, income statement, and balance sheet. Has credit allowed you to expand your purchases?

Answer: This is a subjective answer. Interest expense on credit reduces wealth. However, purchases on credit allow you to purchase more assets. With credit cards, it may be harder to restrain spending on a tight budget.

Diff: 1

Question Status: Previous edition

4) Why is it important to carefully consider your credit cards when developing a budget, financial plan and personal financial objectives?

A) You should include more than the minimum payments in the budget to pay off the balances as soon as possible and minimize interest expense.

B) Evaluate relative interest rates of all cards and other loans, and investments to understand how best to prioritize payments and decide on best use of excess cash flow.

C) Financial plan should really focus on investing excess cash flow for retirement.

D) Both A and B are correct

Answer: D

Diff: 3

Question Status: New