

# Chapter Assessment

## SUMMARY

### 16.1

- \* Credit began here when the U.S. grew from a bartering society to a currency exchange economy and manufactured products became available.
- \* Early forms of credit were accounts at the general store, offered by store owners to customers they knew and trusted.
- \* Today, credit has become a way of life.
- \* To borrow, you must have sufficient capital and often collateral to pledge as security for the loan.
- \* For the privilege of using credit, you will pay a finance charge.
- \* Advantages of credit are the ability to buy now and pay later, a source of emergency funds, deferred billing, receipts as proof of purchase, and the safety of not having to carry a lot of cash.
- \* Disadvantages of credit are higher product prices, finance charges, decreased ability to spend in the future, and the tendency to overspend.

### 16.2

- \* Open-ended credit allows you to borrow again and again, up to your set limit.
- \* The finance charge is the total dollar cost of credit, including interest and fees.
- \* The annual percentage rate is the cost of credit expressed as a percentage.
- \* Closed-end credit is a loan for a specific amount that must be repaid, including finance charges, by a due date. Lenders generally require payment in monthly installments.
- \* Sources of credit include retail stores, credit card companies, banks, credit unions, finance companies, pawnbrokers, private lenders, and life insurance policies.
- \* Loan sharks are unlicensed lenders who charge illegally high rates and prey on people who can least afford to pay.
- \* Usury laws protect consumers from unfairly high interest rates.

## REVIEW TERMS

### Directions

Can you find the definition for each of the following terms used in Chapter 16?



annual percentage rate  
(APR)

capital

closed-end credit

collateral

credit

deferred billing

finance charge

line of credit

loan sharks

open-ended credit

pawnbroker

service credit

usury laws

1. Money borrowed to buy something now, with the agreement to pay for it later.
2. An agreement to have a service performed now and pay for it later.
3. Laws setting maximum interest rates that may be charged for loans.
4. A legal business that makes high-interest loans based on the value of personal possessions pledged as collateral.
5. A pre-established amount that can be borrowed on demand with no collateral.
6. A service to credit customers whereby purchases are not billed for several months.
7. Unlicensed lenders who charge illegally high interest rates.
8. An agreement to lend the borrower an amount up to a stated limit and to allow borrowing up to that limit again, whenever the balance falls below the limit.
9. A loan for a specific amount that must be repaid, in full, including all finance charges, by a stated due date.

10. Property owned that is worth more than the owner's debt.
11. Property pledged to assure repayment of a loan.
12. Total dollar amount of all interest and fees you pay for the use of credit.
13. The cost of credit expressed as a yearly percentage.

## REVIEW FACTS AND IDEAS

1. When credit first began in this country, did loans have high interest rates?
2. How has credit affected the American economy?
3. How does collateral help assure repayment of a loan?
4. List several advantages of using credit.
5. List several disadvantages of using credit.
6. What are two kinds of open-ended credit?
7. How is open-ended credit different from installment (closed-end) credit?
8. Identify common credit card terms and explain how each affects borrowing costs.
9. Why does the law require lenders to include all loan costs in the APR?
10. List seven major sources of credit for consumers.
11. Give three examples of service credit.
12. Why do credit unions offer lower interest rates on loans than do commercial banks?
13. How are consumer finance companies different from sales finance companies?
14. Why do finance companies charge high interest rates on their loans?
15. Explain how pawnbrokers work.

## APPLY YOUR KNOWLEDGE

1. Give an example of a situation in which you would use collateral when making a purchase on credit.
2. How does your family make use of credit? Do you see credit use in your family as a good or bad thing? Explain your answer.
3. Do you think consumers are being unfair when they accept a “free ride” based on a “grace period” for credit cards? Give reasons for your answer.
4. Companies and organizations that offer credit cards compete for your credit card business by offering “low introductory rates.” Search the Internet for offers of a special deal to new credit card customers. What is the “low introductory rate”? Now read the fine print. What would your rate be later, after the introductory period? At this regular rate, how much finance charge would you have to pay on a \$1,000 balance each month? How much would the finance charge be if you maintained a \$1,000 balance all year?
5. One major advantage of credit is that it helps consumers deal with emergencies. How does this advantage have special meaning where service credit is concerned?
6. If you were going into business for yourself, you would have to decide whether or not to accept credit cards from customers. Explain the points in favor of both positions.
7. Would it be possible to live without ever using coins, paper money, or checks? Explain how you might live on credit alone.
8. Does your state have usury laws? You can find out by consulting a current almanac or other references at your library or on the Internet. Identify some of the finance rates that states allow, including your state and neighboring states.



# Solve Problems ⊕ Explore Issues

1. Suppose that your elderly neighbors have never used credit. When they were young, their families lost their life savings during bad economic times, and they have never trusted others enough to pay for anything except with cash. What types of problems can result from not using credit? What would be your advice to them, knowing that they have a good income from investments and have no need to buy on credit?
2. Interview three or four adults about credit. Ask them the following questions. Prepare a short report from what you learn.
  - a. How do you feel about the use of credit?
  - b. Do you use credit cards, such as store credit cards or all-purpose credit cards?
  - c. Do you think the interest rates charged by stores and credit card companies on unpaid balances are reasonable?
  - d. What are some typical interest rates that you have experienced?
  - e. How would you advise a young person just starting out about credit?
3. Do you feel that the advantages of using credit outweigh the disadvantages? Write a paper of no more than one page, either defending the use of credit or explaining why it should be avoided.
4. A friend of yours wishes to buy a new car. She has picked one out at a local dealer but has only enough money to make a down payment. She asks your advice about where she can finance the balance of her loan for \$10,000. What will you tell her? Explain.
5. Your cousin Tyler needs \$100 immediately. He has a portable stereo worth at least \$800 and wants to take it to a pawnbroker. Explain to him how much he can borrow against the stereo, and what will happen with pawnbroker credit.

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