

**THINK CRITICALLY**

Handwrite your responses in the space below; 2 sentences each.

1. What are some reasons people get into extreme debt and seek bankruptcy?
2. Explain how credit counseling can help to avoid bankruptcy.
3. How is debt management different from debt consolidation?
4. What are the two purposes of bankruptcy law?
5. Why is Chapter 7 bankruptcy also called liquidation?
6. What are bankruptcy exemptions?
7. How is Chapter 13 bankruptcy different from Chapter 7 bankruptcy?
8. What is meant by bankruptcy fraud?

**COMPUTING EXEMPTIONS UNDER CHAPTER 7 BANKRUPTCY**

Assume the current federal bankruptcy exemptions are listed at the left, and the state exemptions are listed at the right. The debtor may use the exemption table that best benefits him or her. For the two circumstances shown below, compute the exemption amounts and decide which will be better for the debtor—the federal list or the state list.

**LIST A. FEDERAL EXEMPTIONS**

Equity in home .....	\$15,000
Motor vehicle .....	2,400
Household goods .....	8,000
(\$400 limit for a single item)	
Jewelry .....	1,000
Other property .....	800
Tools (for debtor’s trade) .....	1,500

**LIST B. STATE EXEMPTIONS**

Equity in home .....	\$25,000
Motor vehicle .....	1,500
Household goods .....	10,000
(\$1,000 limit for a single item)	
Jewelry .....	500
Other property .....	100
Tools .....	5,000

1. Jerry has the following assets: a house with equity of \$15,000, a car with equity of \$2,500, and household goods worth \$6,000 (no single item over \$400). He also has tools worth \$5,800 that he needs for his business. What is the total amount of exemptions Jerry would be allowed using the federal list? The state list? Which list will be more favorable for him? **SHOW YOUR WORK!**
  
2. Wilma has the following assets: a house with equity of \$14,250, a car with equity of \$2,700, and household goods worth \$9,000 (no single item over \$400). She also has jewelry worth \$1,100 and other property worth \$900. She has no tools used for work. What is the total amount of exemptions Wilma would be allowed using the federal list? The state list? Which list will be more favorable for her? **SHOW YOUR WORK!**