Senior Financial Services
PFIN 7 8 9 Unit III Test: Credit
November 18, 2020

Name: ______________________	___ / 300

PFIN 7 Matching *(3 Points Each)*

_____	Credit	1. A credit account with a fixed balance that you repay with periodic payments
_____	Fixed Rate	2. A partial refund of the purchase price of an item
_____	Installment Credit	3. A preapproved amount that can be borrowed
_____	Line Of Credit	4. A type of credit with which you make payments and continue charging to the account
_____	Rebate	5. An interest rate that changes at the discretion of the creditor
_____	Revolving Credit	6. An interest rate that remains the same each month
_____	Service Credit	7. Credit offered through an individual company or merchant
_____	Spending Limit	8. The ability to borrow money with the agreement to pay it back later
_____	Store Accounts	9. The maximum you are willing to spend for an item
_____	Variable Rate	10. Use of electricity, water, and other utilities that you will pay for later is an example of this type of credit

PFIN 8 Matching *(3 Points Each)*

_____	Adjustable Rate Mortgage	1. A large payment that is much higher than the other regular payments and that must be paid at a set time, such as 5 years after the loan is made
_____	Amortization	2. A loan agreement in which the interest rate, payments, and length of the loan can change over time
_____	Balloon Payment	3. A loan that is used to secure financing for the purchase of a house
_____	Closing Costs	4. A person who agrees to pay a loan if the borrower fails to pay
_____	Cosigner	5. A type of lender that makes loans for the purchase of consumer goods, such as cars or household appliances
_____	Grace Period	6. Debt that is used to finance a student's education costs
_____	Mortgage	7. Expenses a borrower must pay to get a loan, such as recording fees
_____	Sales Finance Company	8. Repaying a debt by making regular payments of principal and interest over a set period of time
_____	Student Loan	9. The amount of time you have before a credit card company starts charging interest on your new purchases
_____	Wire Transfer	10. Sending money electronically instead of using paper checks

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PFIN 9 Matching *(3 Points Each)*

_____	Bankruptcy	1. A proceeding in which a creditor may legally take possession of money or goods held by a third party in payment of a borrower's debt
_____	Credit Report	2. A remedy or action taken to seek correction of an error
_____	Debt Consolidation	3. Property a debtor is allowed to keep in a bankruptcy proceeding
_____	Discharge	4. The process of taking an asset that was used for collateral, such as a car, and selling it to pay a debt
_____	Equity Loan	5. A document that gives a person's credit history and current credit status
_____	Exemption	6. A legal process to force the sale of mortgaged property to repay a mortgage debt
_____	Foreclosure	7. A legal procedure to relieve a person who cannot pay debts of those debts or to create a payment plan for paying some of the debts
_____	Garnishment	8. A loan in which the equity in a home is used as security for the loan
_____	Recourse	9. The process of getting one loan to pay all other existing debts
_____	Repossession	10. A court order that pardons a debtor from paying some debts

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Short Answer *(50 Points Each)*

YOU MAY <u>TYPE</u> OR <u>WRITE</u> YOUR ANSWERS ON SEPARATE SHEETS OF PAPER. STAPLE ALL PAGES TO THE BACK OF THE TEST.
*Your response should be in complete sentences and should be approximately **<u>100</u>** words each.*

1. **What the Heck Is Credit, Anyway?** What exactly is CREDIT? List several sources of credit and what the most common uses might be. What is the difference between a secured loan and a personal loan? How are consumer loans different from credit cards? What are some of the benefits of credit? Give examples.

2. **How Expensive Is Credit?** Credit can sometimes be expensive. What are some of the COSTS of using credit? Explain the difference between accounts that have a fixed interest rate and those that have a variable interest rate. Explain what is meant by a minimum payment, an over limit fee, and a late payment fee.

3. **More Credit, More Problems.** What are some of the things that you should AVOID doing with credit? If you find yourself in trouble, what are some of the things that you can do to get unstuck? Why should bankruptcy be a last resort?

Case Study: "Why You Buy On Impulse" *(60 Points)*

YOU MAY <u>TYPE</u> OR <u>WRITE</u> YOUR ANSWER ON SEPARATE SHEETS OF PAPER. STAPLE ALL PAGES TO THE BACK OF THE QUIZ.
*Your response should be in complete sentences and should be approximately **<u>100</u>** words.*

1. Read the article on the next page, "Why You Buy On Impulse" and summarize the main points. How does this article relate to the topics we discussed in chapter 7?

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Article: Why You Buy On Impulse

When Florida resident Amy Barr went to high-end furniture store Norfolk (now known as Luxe) just to browse, she unexpectedly spotted a pair of beautiful black end tables that she couldn't resist. "I fell in love with [them] and ended up purchasing all the other furniture around those nesting tables," Barr tells MainStreet. She ultimately spent $20,000 at the store, despite the fact that she knew the purchase was somewhat impractical. "We have two boys, a dog and five cats," Barr says. "The furniture was ruined before it was paid off," she adds. Things got more complicated when she totaled her car a week later in an accident that, on top of her new furniture payments, left her with a monthly car payment and a big "I-told-you-so" from her husband.

We may be inclined to classify a purchase as an impulse buy the second it is proven to be frivolous, but what exactly should be considered one? By definition, impulse buying is any purchase made without any preconceived plans. This means that an impulse buy can include buying a pack of gum while in line at grocery store or purchasing a Rolls Royce while out window shopping.

To capitalize on consumers' general unpredictability, stores are always looking for ways to get you to make more expensive purchases. Interestingly, the tactics differ dramatically depending on the price of the item. Retailers typically get consumers to pick up small items by overloading their check-out areas and carefully organizing in-store displays. They create an environment where we are driving on autopilot. McDonald's often asks customers to donate to charity while they are waiting for their food. It's convenient and it seems like a good idea at the time.

Big ticket items, conversely, are impulsively purchased when a customer considers them scarce. This means, for example, that you're more likely to pick up a cashmere sweater when it's the last one on the rack, especially if another customer is eyeing it. Similarly, McCall explains, a car salesman may get an ambivalent consumer to drive off the lot by offering a provisional discount, the idea being that you can only get that car at that price at that very moment.

While the idea that you can be manipulated into buying may seem rather daunting, recent research indicates that we may not be as controlled by our impulses as we think. A study led by Wharton marketing professor David Bell argues that only 20% of purchases can actually be considered unplanned. Bell's Unplanned Category Purchase Incidence: Who Does It, How Often and Why analyzes grocery shoppers' behavior in the Netherlands. He explains that you can't classify a choice between two brands as unplanned if you intended to buy that particular category of item to begin with. For example, choosing Coke or Pepsi can't be considered an impulse buy if you know you are going to buy soda.

Use the following tips to help you curb your impulses.

<u>Enter the Store With a Plan</u>: According to Bell, your inclination to impulse shop is determined primarily by how much time you spend in the store and where you travel while in it. As such, the most frugal shoppers are those who enter a shop with a plan and subsequently stick to it. For example, taking the extra time to write out a list before going to the store may minimize the items that make it into your cart.

<u>Stick to a Budget</u>: To minimize big ticket impulse purchases or, more pointedly, to avoid jumping at a retailer's "one time only" deal, don't allow yourself to purchase anything that will put you over your monthly budget. "It sounds very basic, but it is effective," McCall says, explaining that retailers have become increasingly aggressive these days in an attempt to coerce even careful shoppers.

<u>Visit Stores During Off-Peak Hours</u>: Bell's research indicated that people were more likely to impulse buy when a store was full of people. The overcrowding, he explains, increases the amount of time a shopper spends in a store and often forces them off the path of least resistance. Remember, it's not just the duration of your stay that increases your chance of splurging; it's where you go in the store as well. This is why grocery stores will elect to sell cheap items, such as eggs, below cost, only to tuck them in the furthest reaches of their establishment. To minimize getting redirected, you should try to visit stores during off-peak hours. This can be as simple as visiting a supermarket in the early afternoon or as extreme as avoiding all retail stores on Black Friday.

<u>Resist the Urge to Shop Online</u>: Online shopping is especially dangerous for impulse buyers. Online retailers are increasingly good at playing the scarcity card, as Amazon's listing for Apple's popular iPad. The page pointedly lets consumers know that they should "order soon" as there are only 4 devices left in stock.

<u>Pay With Cash</u>: Online purchases are also susceptible to impulses in that they require a credit card or other electronic mode of payment. According to Bell's more recent research, consumers become more frivolous when they break out the plastic. "People may pay $25 for a baseball ticket when they use cash, but they will use $50 when they are paying on credit," he explains.