Tanyaporn Simasanti
5504641837

1) What type of housing would you suggest for people in the following life situations?

a. A single parent with two school-age children.

Answer: Renting a house would be appropriate for the family because renting provides flexibility for the residents to move elsewhere when the children has to change the school.

b. A two-income couple without children.

Answer: Renting an apartment would be appropriate for the couple because it requires little amount of maintenance while providing flexibility in terms of lifestyle plus less financial commitment comparing to purchasing one.

c. A person with both dependent children and a dependent parent.

Answer: Purchasing a new house would be appropriate because it provides tax benefit to the residents and it would be ample for both children and a parent to live in a house rather than a condominium room.

d. A couple near retirement with grown children.

Answer: Purchasing a condominium would be suitable for the elder couple because it requires less maintenance cost compared to a house. Moreover, condominium could be very useful if the school that the children would attend .

2) Which mortgage would result in higher total payments?

Mortgage A: $970 a month for 30 years

Mortgage B: $760 a month for 5 years and $1005 for 25 years

Answer: mortgage A (970*12*30 = 349,200) requires higher total payment than mortgage B ((760*12*5)+(1005*12*25)= 347,100)

3) What are the two main types of consumer credit?

Answer: closed-end credit and open-end credit

4) What are the general rules of measuring credit capacity?

Answer: debt payments to income and debt to equity ratios are the two general rules of measuring credit capacity.

5) A few years ago, Michael Tucker purchased a home for $100,000. Today, the home is worth $150,000. His remaining mortgage balance is $50,000. Assuming that Michael can borrow up to 80 percent of the market value, what is the maximum amount he can borrow?

Answer: the maximum amount he could borrow is 0.8*150,000= 120,000. However, he still owes 50,000 on his house payment. Therefore the maximum amount he could borrow is 120,000-50,000=70,000.