

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

- a) A single parent with two school-age children.
- b) A two-income couple without children.
- c) A person with both dependent children and a dependent parent.
- d) A couple near retirement with grown children.

**Answer:**

For a) A single parent should rent or purchase the house that meet the financial and provides suitable environment for children.

For b) A two-income couple without children should rent or purchase housing that meet their financial and provide convenience and flexibility of lifestyle

For c) A person with both dependent children and a dependent parent should rent or purchase housing that provide the facilitate to members and good environment for children.

For d) A couple near retirement with grown children should rent or purchase housing that meet their financial, social, and physical needs.

**2) Which mortgage would result in higher total payments?**

- a) **Mortgage A: \$970 a month for 30 years**
- b) **Mortgage B: \$760 a month for 5 years and \$1005 for 25 years**

**Answer:** Estimate total payment in Mortgage A:  $\$970 \times 30 \times 12 = \$349,200$ . Estimate total payment in Mortgage B:  $(\$760 \times 12 \times 5) + (\$1005 \times 25 \times 12) = \$45,600 + \$301,500 = \$347,100$ . From the calculation, Mortgage B would result in higher total payment.

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

**Answer:**

- **Installment Closed-End Credit** - is only a specified amount of money is lent to the consumer, typically the total purchase price of the goods. This kind of credit is also used by department stores for the sale of large items and by auto dealers for the sale of automobiles.
- **Revolving Open-End Credit** - is the type of credit a consumer typically finds with a credit card. The consumer has a specified amount of credit she can use or not use at her leisure. Then, the consumer must pay off part of the credit she uses at the end of a period, normally a month. The credit does not close unless the company offering the credit closes the account. Since it usually does not close, this makes the credit revolving.

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

**Answer:** The two general rules for measuring credit capacity are the debt payments-to-income ratio and the debt-to-equity ratio. The debt payments-to-income ratio is calculated by dividing monthly debt payments by net monthly income. It is suggested that a person spend no more than 20% after net income on credit payments. The debt-to-equity ratio is calculated by dividing total liabilities by net worth. The lower the ratio is, the more capable of debt repayment a person is

**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:** He can borrow up to  $0.8(\$150,000) = \$120,000$ , what he owes is \$50,000, so he will get  $\$120,000 - \$50,000 = \$70,000$  which is the maximum amount he can borrow.