

Chapter 4

Basics of Personal Financial Management



Section 2

Consumer Credit

1. C 2. A 3. D 4. B 5. C 6. B 7. A 8. D 9. B 10. A
11. C 12. B 13. B 14. D 15. A 16. A

1. **C**

If a consumer pays by a credit card and does not repay the entire amount he/she owes by the end of each month, he/she will need to pay interests for the outstanding amount to the institution.

A is incorrect. No commission is charged for the use of credit cards for payment. Please note that commission is usually charged on a yearly basis once one registers for a credit card.

B is incorrect. Consumers can choose to repay a minimum amount of money each month. Yet, interest is calculated on the outstanding balance.

D is incorrect. There is an upper limit, which is called a credit limit, given to consumers based on the credit terms and agreements between the institution and the consumers.

2. **A**

(1) is correct. The credit limit restricts the amount of money that credit card users can borrow.

(2) is incorrect. Credit card is a type of revolving consumer credit which allows people to borrow money up to a pre-approved amount.

(3) is incorrect. Interests will still be charged on the outstanding balance even if the minimum payment is made.

3. **D**

(1) is incorrect. Credit cards are widely accepted all over the world. People can use credit cards for payment in different countries.

(2) is correct. The thieves who steal the cards can make use of them to buy expensive items. Cardholders may suffer huge losses.

(3) is correct. Generally, the interest rate charged on the remaining balance is high as the risk of bad debts for the issuing institute is high.

4. **B**

(1) is correct. As consumers can pay by credit cards, they need not bring a large amount of cash with them.

(2) is incorrect. Most of the exchange rates fluctuate with the market rates.

(3) is correct. If most of the time customers repay debts on time, good credit records can be built so that they can obtain loans or apply for new credit cards more easily.

5. **C**
(1) is correct. With a credit card, cardholders can buy goods or services up to a pre-approved amount instantly. It is extremely helpful when they face emergencies or do not bring a large amount of money.
(2) is incorrect. Cardholders do not enjoy any discounts received from the financial institutions. Instead, they need to pay the interest if there is any outstanding balance on the due date for repayment.
(3) is correct. Cardholders receive special gifts or discounts when they purchase goods or services from shops that cooperate with the financial institutions. For example, some shops state that consumers enjoy 10% discount if they pay by certain credit cards.
6. **B**
(1) is incorrect. Overdraft is not appropriate for long-term funding as the interest rate charged is quite high. More importantly, the interest is charged on a daily basis.
(2) is correct. Some account holders issue cheques without a sufficient amount of money in their current accounts. The bank overdraft facilities prevent cheques from being dishonoured by allowing the account holders to draw money more than they have in their accounts.
(3) is incorrect. Consumers cannot extend the pre-determined limit for the overdraft facilities.
7. **A**
(1) is correct. A good personal credit record increases the credibility of an individual, thus it is easier for the person to obtain consumer credit.
(2) is correct. With a good personal credit record, the interest rates charged to the applicants are lower. This reduces the costs of loans.
(3) is incorrect. No matter how good an individual's personal credit record is, the upper limit cannot be extended because of the regulations and rules set.
8. **D**
(1) is correct. A low outstanding balance increases an individual's credit score, or vice versa.
(2) is correct. Once an individual goes bankrupt, he/she would have a low credit score.
(3) is correct. Delinquency lowers an individual's credit score.
9. **B**
Comparing cash inflow with cash outflow is a part of preparing a budget. This helps avoid overspending, which in turn helps maintain a good personal credit record.
A is incorrect. Using consumer credit is a convenient way for customers to buy expensive items. If individuals exercise self-control and use it with discipline, there are no problems.
C is incorrect. Using credit cards carefully can reduce the need of carrying a large amount of cash along.
D is incorrect. Repaying the owed amount too early may adversely affect the cash flow in hand.
10. **A**
(1) and (2) are correct. Individuals with a good personal record are more likely to repay all their debts. The risk for credit card companies to suffer losses decreases.
(3) is incorrect. Having a good personal credit record does not mean that they use credit cards less frequently but rather means only that cardholders repay their outstanding balance on time.

11. **C**

Applying for more credit cards does not help maintain one's personal credit record. Instead, the credit reference agencies (CRAs) may suspect that one is having great difficulties in repaying debts.

A, B and D are incorrect. They are useful advice for Jack. They remind Jack to make a plan for consumption and avoid overspending.

12. **B**

(1) and (3) are incorrect. Confined by a pre-defined limit, the amount may not be enough for Jaliff to buy a car, as the price of which is usually a large sum. Also, using credit cards and the bank overdraft facilities usually incurs a high interest.

(2) is correct. Personal loans such as car loans best suit his need. Buying a car requires a large amount of money. Personal loans are easy to obtain and are offered at fixed, relatively low interest rates because the repayment of these loans are spread over a long period with fixed repayment schedules. The risk of bad debts to the bank is relatively low.

13. **B**

(1) is incorrect. Banks are credit card issuers, but not operators. Credit operators, to exemplify but a few, are companies like VISA, MasterCard, UnionPay and American Express.

(2) is correct. Factually, it is the aim of credit cards to enable users to enjoy purchasing on credit.

(3) is incorrect. Regardless of whether the minimum payment is made, interest will be charged if there is any outstanding balance.

14. **D**

(1) is incorrect. Having a good personal credit record does not mean that interests on any remained balance can be exempted. If a person has remaining credit card balances, an interest has to be paid.

(2) is correct. With good personal credit record, a person is abler to repay loans. Lenders are more willing to lend money to them.

(3) is correct. The possibility of people with good credit record failing to pay is lower. Therefore, the interest rates charged are usually lower.

15. **A**

(1) is incorrect. Total payment cannot be lowered. Only periodic repayments can be lowered if repayment schedule is prolonged. Note that interests charged may be higher.

(2) is correct. As there is a fixed schedule, it is easier for customers to follow.

(3) is incorrect. The repayment schedule is fixed. Mr. Leung has to repay the loan regularly.

16. **A**

(1) is correct. Using credit card reduces the need to carry a large amount of cash.

(2) is correct. Cardholders are entitled to several benefits. For example, they can enjoy discounts for buying some products or gifts from the bank.

(3) is incorrect. Applying more credit cards may damage the credit rating.