

Chapter 4

Basics of Personal Financial Management



Section 2

Consumer Credit

1. Which of the following descriptions about credit cards is correct?
 - A. Commission is charged from the cardholder on each purchase.
 - B. Consumers must repay all the amount owed each month.
 - C. An interest is charged by the credit card companies on the remaining balance of the outstanding amount.
 - D. There is no upper limit that credit card users can borrow.

2. Which of the following statements about credit cards is/are correct?
 - (1) A credit limit is pre-defined.
 - (2) Credit card is a kind of non-revolving credit.
 - (3) Interests will not be charged on the remaining balance if minimum payment is made.
 - A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only

3. Which of the following is/are the disadvantage(s) of using credit cards?
 - (1) It is not accepted worldwide.
 - (2) Cardholders may suffer huge losses if the cards are stolen.
 - (3) The interest rate charged on the remaining balance is high.
 - A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only

4. Which of the following are the advantages of using credit cards?
 - (1) Consumers do not need to carry a large amount of cash.
 - (2) Consumers can pay using whatever currencies with a fixed exchange rate.
 - (3) Consumers can build a good credit history if they use the card properly.
 - A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

5. Which of the following is/are the benefit(s) consumers can enjoy when using credit cards?
- (1) They can purchase goods or services without paying cash instantly.
 - (2) They can repay less money to the financial institutions.
 - (3) They can enjoy special privileges when they pay with credit cards.
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only
6. Which of the following about bank overdraft are **INCORRECT**?
- (1) Overdraft is a means to solve long-term funding.
 - (2) The existence of bank overdraft facilities prevents a cheque from being dishonoured.
 - (3) The predetermined limit of overdraft can be extended if consumers are in need.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
7. Which of the following are benefits of maintaining a good personal credit record?
- (1) The chance of applying for consumer credit successfully increases.
 - (2) The cost of loans can be reduced.
 - (3) It can increase the upper limit of 70% on mortgage loans.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
8. Which of the following are possible factors for a bank to reject the application of credit cards by an individual?
- (1) level of outstanding debts
 - (2) record of bankruptcy
 - (3) past delinquency
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

9. Which of the following is the most appropriate measure for an individual to maintain a good credit rating?
- A. do not use any consumer credit for consumption
 - B. compare the cash inflow with cash outflow before consumption to avoid overspending
 - C. do not apply for credit cards
 - D. pay all bills three months before the due day
10. Which of the following are reasons for credit card companies to be more willing to issue credit cards to individuals with good personal credit records?
- (1) They are more likely to repay their debts on time.
 - (2) The risk of default is lower.
 - (3) They use credit cards less frequently and their outstanding balance is small.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
11. Jack is a university student. Recently, he finds it difficult to maintain a good personal credit record and he has accumulated huge debts. Which of the following is not a piece of suitable advice for him?
- A. use consumer credit with discipline
 - B. compare the cash inflow with cash outflow before consumption to avoid overspending
 - C. apply for more credit cards to repay for the debts
 - D. plan for consumption
12. Jaliff is planning to buy a car. Which of the following consumer credits best suit(s) his need?
- (1) credit card
 - (2) personal loan
 - (3) bank overdraft
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only

13. Which of the following is/are the correct description(s) about credit cards?
- (1) The credit card operators are banks.
 - (2) Consumers can purchase items on credit by using credit cards.
 - (3) Once a credit card user makes the minimum payment, no more interests will be charged on the remaining balance.
- A. (1) only
 - B. (2) only
 - C. (1) and (2) only
 - D. (1), (2) and (3)
14. Why is it important for a person to have a good personal credit record?
- (1) The interest on remaining balance of credit cards can be exempted.
 - (2) It is easier to obtain loans.
 - (3) The interest rates charged on that person are likely to be lower.
- A. (1) only
 - B. (2) only
 - C. (1) and (2) only
 - D. (2) and (3) only
15. Mr. Leung plans to purchase machines. He needs to pay a down payment. He is considering two ways to finance the purchase – by an instalment loan or credit cards.
- Which of the following is/are the advantage(s) of acquiring an instalment loan?
- (1) a lower total payment if Mr. Leung decides to prolong the repayment schedule
 - (2) ease for Mr. Leung to follow the repayment schedule
 - (3) a flexible repayment schedule
- A. (2) only
 - B. (1) and (2) only
 - C. (1) and (3) only
 - D. (1), (2) and (3)
16. Which of the following are the benefits of using a credit card for purchases?
- (1) It is convenient because the cardholders need not to bring a large amount of cash.
 - (2) Cardholders can enjoy discounts for some products.
 - (3) Credit rating can be enhanced by applying more credit cards.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)