

**Financial Literacy**  
**Ch 9 Problems with Credit -- Worksheet**

Name \_\_\_\_\_  
Class \_\_\_\_\_

**Vocabulary**

Example: A(n) \_\_\_\_\_ is a court order that will allow creditors to collect the debts you have agreed to pay.

- |   |                         |
|---|-------------------------|
| 1. The total amount that is financed or borrowed, on which interest is computed, is called _____.   | 0. _____ judgment _____ |
| 2. The _____ rate of interest is charged by banks to their best business customers.   | 1. _____                |
| 3. The true rate of interest you are paying when you make installment loan payments and spread interest over the life of that loan is called the _____. | 2. _____                |
| 4. With a(n) _____, you get back a portion of what you spent in credit purchases over the year.   | 3. _____                |
| 5. _____ is the remaining credit available to you on current accounts.  | 4. _____                |
| 6. When computations to determine interest involve the formula $I = P \times R \times T$ , this is said to be _____ interest.                           | 5. _____                |
| 7. With a(n) _____ loan, the interest rate goes up and down with inflation and other economic conditions.   | 6. _____                |
| 8. The _____ that you will pay on a loan is always expressed as a percentage in the simple interest equation.   | 7. _____                |
| 9. _____ is expressed as a fraction of a year in the formula for simple interest.   | 8. _____                |
| 10. A deposit, or _____, is often made when purchasing a large or expensive item to ensure that you will continue to make payments.                     | 9. _____                |
| 11. The legal process that allows part of your paycheck to be withheld for payment of a debt is known as _____.   | 10. _____               |
| 12. A(n) _____ code protects your account name, number, and other information by making it unreadable to others.  | 11. _____               |
| 13. _____ is a scam that uses online pop-up or e-mail messages to deceive you into disclosing personal information.                                     | 12. _____               |
| 14. _____ occurs when you buy something without thinking about it and making a conscious decision.  | 13. _____               |
|   | 14. _____               |

APR  
down payment  
encryption  
garnishment  
impulse buying

phishing  
prime  
principal  
rate  
rebate program

simple  
time  
unused credit  
variable-rate

## True/False

- |   |   |   |    |
|---|---|---|----|
| 1. Interest rates tend to increase when the economy is growing.   | T | F | 1. |
| 2. The rate of interest that banks offer to their very best individual customers is called the prime rate.                        | T | F | 2. |
| 3. The time of repayment of a loan is expressed as a fraction of one year: 12 months, 52 weeks, or 360 days.                      | T | F | 3. |
| 4. To determine simple interest, multiply the number of payments by the amount of each payment and then subtract the principal.   | T | F | 4. |
| 5. The average daily balance method often results in a lower finance charge than does the previous balance method.                | T | F | 5. |
| 6. It is your responsibility to your creditors to limit spending to amounts that can be repaid according to the credit agreement. | T | F | 6. |
| 7. Rebates often serve to increase the cost of credit.  | T | F | 7. |
| 8. An installment plan may require a down payment up front.   | T | F | 8. |
| 9. Secured loans typically have higher interest rates than unsecured loans.   | T | F | 9. |

## Multiple Choice

- |  |       |    |
|--|-------|----|
| 1. To minimize the cost of credit, you should (a) keep the number of credit accounts to a minimum, (b) carry more credit than you need, (c) make minimum payments, (d) avoid credit incentive programs.  | _____ | 1. |
| 2. When creditors use the _____, they apply the finance charge only to the amount owed after you've paid your bill each month. (a) previous balance method, (b) adjusted balance method, (c) average daily balance method, (d) adjusted daily balance method | _____ | 2. |
| 3. A good rule of thumb is that purchases under _____ should not be charged but should be paid in cash. (a) \$5, (b) \$10, (c) \$25, (d) \$50  | _____ | 3. |
| 4. The formula $I = P \times R \times T$ is for computing (a) annual percentage rate, (b) compounded interest, (c) simple interest, (d) costs of loans.  | _____ | 4. |
| 5. The difference between the total price paid and the cash price is the (a) principal, (b) down payment, (c) annual percentage rate (APR), (d) finance charge.  | _____ | 5. |
| 6. A trade-in is _____ the purchase price of merchandise to determine the principal of a loan. (a) added to, (b) subtracted from, (c) not considered in, (d) computed as a percentage of   | _____ | 6. |
| 7. Your credit limit minus the amount you already owe is called (a) principal, (b) interest, (c) deferred credit, (d) unused credit.   | _____ | 7. |

**Simple Interest:** use the simple interest formula, round answers to nearest 10 of a percent

$$\text{Interest} = \text{Principal} \times \text{Rate} \times \text{Time} \quad I = P \times R \times T$$

1. (a) $I = ?$ $P = \$500$ $R = 8\%$ $T = 3 \text{ months } (3/12)$	(b) $I = ?$ $P = \$50$ $R = 12\%$ $T = 1 \text{ month } (1/12)$	(c) $I = ?$ $P = \$1,000$ $R = 18\%$ $T = 24 \text{ months } (24/12)$	(d) $I = ?$ $P = \$600$ $R = 15\%$ $T = 60 \text{ days } (60/360)$
2. (a) $I = \$6$ $P = ?$ $R = 12\%$ $T = 3 \text{ months } (3/12)$	(b) $I = \$15$ $P = ?$ $R = 15\%$ $T = 90 \text{ days } (90/360)$	(c) $I = \$300$ $P = ?$ $R = 12\%$ $T = 6 \text{ months } (6/12)$	(d) $I = 90¢$ $P = ?$ $R = 6\%$ $T = 60 \text{ days } (60/360)$
3. (a) $I = \$12$ $P = \$200$ $R = ?$ $T = 6 \text{ months } (6/12)$	(b) $I = \$390$ $P = \$2,000$ $R = ?$ $T = 18 \text{ months } (18/12)$	(c) $I = 50¢$ $P = \$25$ $R = ?$ $T = 6 \text{ weeks } (42/360)$	(d) $I = \$3$ $P = \$50$ $R = ?$ $T = 180 \text{ days } (180/360)$
4. (a) You have agreed to borrow \$50 and after six months pay back \$58. How much interest are you paying? What is the annual interest rate?	(b) If you borrow \$800 at 18% for 11 months, how much total interest will you pay?		

**Installment Interest:** compute answers for the following:

a) total installment price      b) amount of finance charge      c) annual percentage rate

1. Cash price is \$500. After making a down payment of \$100, the payments are \$50 a month for nine months.

a.

b.

c.

2. Cash price is \$6,000. A down payment of 10% is required. Monthly payments will be \$120 a month for 52 months.

a.

b.

c.

3. Cash price is \$910, with a down payment of \$100. Balance is due in 24 equal payments of \$40.

a.

b.

c.

**Adjusted Balance Method:** compute the finance charge. Use an APR of 18%, making monthly payments. Round answers to the nearest penny.

Payment Number	Beginning Balance	Payment Amount	Adjusted Balance	Finance Charge	New Balance
1	\$800.00	\$80.00			
2		80.00			
3		80.00			
4		80.00			
5		80.00			
6		80.00			
Total finance charge paid in six payments			\$_____		

**Previous Balance Method:** compute the finance charge. Use an APR of 18%, making monthly payments. Round answers to the nearest penny.

Payment Number	Beginning Balance	Finance Charge	Adjusted Balance	Payment Amount	New Balance
1	\$800.00			\$80.00	
2				80.00	
3				80.00	
4				80.00	
5				80.00	
6				80.00	
Total finance charge paid in six payments			\$_____		

**Average Daily Balance Method:** compute the finance charge

1. Balance + Debits (charges) - Credits (payments) = Balance
2. Record the Number of Days for how long that balance was maintained (total = billing cycle)
3. Multiply: Balance x No. of Days = Extension
4. Add the Extension column, write the total underneath the column
5. Total of Extension ÷ Billing Cycle number of days = Average Daily Balance
6. APR ÷ 12 months = monthly finance charge %
7. Average Daily Balance ÷ monthly finance charge % = Monthly Finance Charge

**EXAMPLE:**

Number of Days		Daily Balance	Extension
(20-22)	2	\$200	\$ 400
(22-26)	4	150	600
(26-30)	4	130	520
(30-05)	6	190	1,140
(05-10)	5	170	850
	21 days		
	10 left in cycle	195	1,950
	31		\$5,460
$\frac{\$5,460}{31} = \$176.13$ average daily balance			
The average daily balance is then multiplied by the monthly percentage rate. For example, an annual percentage rate (APR) of 18 percent is 1½ percent per month.			
$\$176.13 \times .015 = \$2.64$ finance charge assessed for the month			

1. Compute the daily balances and the average daily balance (30-day billing cycle). Then compute the monthly finance charge based on an APR of 15%. Round answers to the nearest cent.

Date	Item	Debit	Credit	Balance	No. of Days	Extension
6/5	Balance			\$350	_____	_____
6/10	Charge	\$50		_____	_____	_____
6/15	Payment		\$30	_____	_____	_____
6/18	Credit		20	_____	_____	_____
6/20	Charge	10		_____	_____	_____
6/25	Payment		30	_____	_____	_____

Average daily balance \$ \_\_\_\_\_

Monthly finance charge \$ \_\_\_\_\_

2. Compute the daily balances and the average daily balance (25-day billing cycle). Then compute the monthly finance charge based on an APR of 15%. Round answers to the nearest cent.

Date	Item	Debit	Credit	Balance	No. of Days	Extension
3/1	Balance			\$500	_____	_____
3/3	Payment		\$50	_____	_____	_____
3/6	Charge	\$65		_____	_____	_____
3/8	Charge	30		_____	_____	_____
3/10	Credit		11	_____	_____	_____
3/14	Charge	30		_____	_____	_____
3/18	Payment		20	_____	_____	_____

Average daily balance \$ \_\_\_\_\_

Monthly finance charge \$ \_\_\_\_\_