

# Chapter 4: Assessment Answer Keys

*\*Please note that assessment questions are randomized in our FoundationsDigital platform for each student. Therefore, the order these questions will appear for each student will vary.*

## Chapter 4 Pre/Post-test

1. A long-term rental agreement on a car; a form of secured long-term debt.
  - Loan
  - Lease
2. The Federal Trade Commission (FTC) is one of many U.S. federal agencies that regulate the consumer credit system and enforce the laws related to it.
  - True
  - False
3. What is paycheck garnishment?
  - A court-ordered attachment that allows a lender to take monies owed directly from a borrower's paycheck
  - Process of taking something back for failure to make payments
  - Process by which the holder of a mortgage sells the property of a homeowner who has fallen behind on payments
  - A legal procedure for dealing with debt problems of individuals and businesses
4. Teens are a huge target of credit card companies today.
  - True
  - False

5. Which of the following statements is false?

- Prior to the FCRA, consumers were unable to challenge errors in their credit reports.
- Under FCRA, consumers are allowed to receive one free credit report every five years.
- The U.S. Congress enacted the Fair Credit Reporting Act to address concerns over consumer credit report accuracy, privacy and fairness.
- Under FCRA, creditors must notify consumers if they deny credit based on a credit report file, and they must also tell the consumer which of the three credit bureaus provided the report.

6. Which of the following best summarizes how the use of a credit card for purchases instead of cash can change one's spending behavior?

- Spending behavior does not matter as long as you pay off the credit card balance each month.
- Studies show that there is no change in spending behavior whether a person uses cash or credit.
- People typically spend less when they know that they are earning credit card "rewards."
- Studies show that consumers typically spend more when using credit as opposed to cash purchases.

7. It is okay to use a credit card if you pay it off every month.

- True
- False

8. A decrease or loss in value.

- Depreciation
- Inflation

9. Time frame that a loan agreement is in force, and before or at the end of which the loan should either be repaid or renegotiated.

- Loan term
- Loan financing

10. A detailed report of an individual's credit history.
- Credit report
  - Cash flow statement
11. Preferred method of debt repayment; includes a list of all debts organized from smallest to largest balance; minimum payments are made to all debts except for the smallest, which is attacked with the largest possible payments.
- Credit counseling
  - Debt snowball
12. You can and should obtain a free copy of your credit report annually in order to check for any suspicious activity.
- True
  - False
13. What factors affect a credit score?
- Type of debt
  - New debt
  - Duration of debt
  - All of the above
14. Which of the following is not a credit myth?
- The lottery and other forms of gambling will make you rich.
  - You have "arrived" financially once you get approved for a credit card.
  - Debt is a tool and should be used to create prosperity.
  - Borrowing money can have serious consequences and prevent you from building wealth.
15. You need to have a credit card to rent a car or check in to a hotel.
- True
  - False

16. Co-signing a loan is a good way to help a friend or relative.
- True
  - False
17. If you do not have a FICO score, what factors will determine whether or not you qualify for a mortgage?
- History of rental and utility payments
  - Spending history
  - You cannot get a mortgage without a credit history
  - None of the above
18. Which of the following is not a recommended step in the Drive Free method of purchasing a car?
- Plan your purchase in advance using the sinking fund method of saving.
  - Place your savings in a mutual fund so that your money can make more money.
  - Start with an inexpensive car and gradually move up in car value as your savings increases.
  - Explore new car dealerships for the best interest rate.
19. A card issued by a bank that allows users to finance a purchase.
- Credit card
  - Debit card
20. Individual account information is removed from your credit report seven years after the last activity on the account, except for Chapter 7 bankruptcy, which stays on your credit report for:
- 1 year
  - 10 years
  - 5 years
  - 20 years

21. Which of the following things cannot be done with a debit card but can be done with a credit card?

- Go into debt
- Rent a car
- Purchase something online
- Purchase an airline ticket

22. When a person owes more on an item (like a car or house) than it is worth, the person is said to be \_\_\_\_\_ on the loan.

- Secured
- Upside down

23. Which of the following is not a good idea for getting out of debt?

- Quit borrowing money
- Get a part-time job or work overtime
- Sell something
- Borrow money from your parents to pay for the debt

24. A credit score is intended to measure:

- Your financial success
- The risk of your not repaying debt
- Your income level
- The amount of money you have in the bank

25. An interest rate charged to a customer during the early stages of a loan; the rate often goes up after a specified period of time.

- Introductory rate
- New customer fee

26. Cost of borrowing money on an annual basis; takes into account the interest rate and other related fees on a loan.

- Annual percentage rate (APR)
- Annual fee

27. Which of the following is not a factor in determining a FICO score?

- Getting a personal loan from a bank
- Using credit cards
- Paying cash for all purchases
- Taking out a mortgage on a house

28. You must establish credit in order to buy a house.

- True
- False

29. Which of the following is the most cost-effective option for purchasing a home?

- Get a 15-year mortgage with a 5% down payment.
- Get a 30-year mortgage so that you can get the lowest possible payments.
- The most ideal way to buy a house is with 100% down; if that is not an option, you should get no more than a 15-year, fixed rate mortgage with a down payment of at least 10%.
- Get a 30-year mortgage with a 20% down payment.

30. Which of the following is a sign that your identity may have been stolen?

- A call from a collection agency about a debt you didn't incur
- Bank and billing statements don't arrive on time
- Your credit report shows accounts you didn't open
- All of the above

31. Under the Fair Credit Reporting Act (FCRA), any person or organization may check a person's credit information without having a legitimate need.

- True
- False

32. Which of the following is not recommended in the debt snowball method of getting out of debt?

- List your debts in order from smallest to largest balance and focus on paying the smallest debt off first.
- Every extra dollar you get should be thrown at the largest debt first.
- Attack your debt with intensity.
- Every time you pay off a debt, you add its old minimum payment to your next debt payment.

33. If you are a victim of identity theft, you are only responsible for paying back half of the debt.

- True
- False

34. A yearly fee that's charged by the credit card company for the convenience of the credit card.

- Interest rate
- Annual fee

35. There are three credit bureaus: Experian, TransUnion and Equifax.

- True
- False

### Chapter 4, Section 1 (Video 1:1a) Quiz “Debt is Everywhere”

1. College students receive an average of four phone calls and five mailings each month encouraging them to:

- Get a job
- Go to graduate school
- Apply for credit cards
- Open a bank account

2. If you spread a myth long enough, what happens?

- Nothing; it is still a myth
- It becomes accepted as the truth
- It depends on where the myth is spread
- Nothing; myths aren't spread

3. Debt is a wise financial choice because of the rewards you get back.

- True
- False

4. Everything that's said on TV and by the media is true.

- True
- False



### Chapter 4, Section 1 (Video 1:1b) Quiz “Debt is a Product”

1. The 1910 Sears Catalog said, “Buying on credit is the best thing you can do.”

- True
- False

2. Debt has been marketed to us for so long, most people struggle to imagine life without it.

- True
- False

3. The birth of the credit card occurred around what year?

- 1950
- 1905
- 1970
- 1880

4. You get a new way of doing things from

- Making the same mistakes over and over again
- Learning
- Someone else always telling you what to do
- Ignoring

## Chapter 4, Section 1 (Video 1:2c) Quiz “Financial Myths Young Adults Fall For”

1. There may be occasional reasons to go into debt, like real emergencies.

- True
- False

2. A cool looking car isn't necessary for school.

- True
- False

3. What myth do students believe about debt in college?

- That they can buy whatever they want while in college and can pay for it later.
- That they shouldn't buy anything in college and save all their money.
- That debt doesn't count before they turn 21.
- You can only collect debt from things like credit cards.

4. You have to build credit to survive.

- True
- False

**Chapter 4, Section 2 (Video 2:1a) Quiz “Money Myths, Part 1”**

1. It's always better to just give family money rather than expect it back.

- True
- False

2. Loaning money to a friend or a relative is helping them.

- True
- False

3. Banks require a co-signer because they know:

- The person signing the loan won't repay the loan
- You know the person better
- The person signing the loan just needs a little help
- Money doesn't grow on trees

## Chapter 4, Section 2 (Video 2:1b) Quiz “Money Myths, Part 2”

1. If you're poor and you do rich people stuff, like saving and budgeting, you'll

- End up rich
- Stay poor for the rest of your life
- Bounce back and forth between wealthy and broke
- Do nothing

2. Playing the lottery and other kinds of gambling will make you rich.

- True
- False

3. Cash advance, rent-to-own, title pawning, and payday lending are services to lower income people to help them get ahead.

- True
- False

4. What percentage of millionaires started with nothing?

- 0%
- 80%
- 10%
- 25%

## Chapter 4, Section 2 (Video 2:2A) Quiz “The Truth About Car Loans”

### 1. Opportunity:

- Abounds everywhere
- Only appears to the rich
- Is something that has to be earned
- Is an inheritance that has to be passed down

### 2. The average car payment in the USA today is:

- \$103 a month
- \$464 a month
- \$58 a month
- \$1216 a month

### 3. If you drive a car that your parents have a loan on:

- You should sit down and talk to them about options
- It doesn't matter -- it's not your money
- That should concern you, but they're the adult
- You should drive more recklessly

### 4. It is a myth that car payments are a way of life and you'll always have them.

- True
- False

### 5. Most millionaires have become millionaires by:

- Playing the lottery
- Inheriting their fortune
- Buying and paying cash for used cars
- Stealing from the poor

## Chapter 4, Section 2 (Video 2:3a) Quiz “The Truth About Car Leases”

1. The most expensive way to finance and operate a vehicle is:
  - A car lease
  - Paying cash for a car
  - Taking out a car loan
  - Borrowing the car from a friend
2. Dave describes some people who incorrectly believe that a “Dave car” must be...
  - Any leased car
  - Brand-new Mercedes
  - An old beater car with smoke coming out the back
  - A car with a car loan on it
3. The questions of broke people are:
  - “How much down?” and “How much a month?”
  - “How much?” and “What deal will you give me for cash?”
  - “What’s the value of the car?” and “How much will you take?”
  - “Where’s the closest ATM?” and “Would you like that cash or check?”

## Chapter 4, Section 2 (Video 2:3a) Quiz “The Truth About Car Leases”

1. A new car loses about 70% of its value in the first 4 years.

- True
- False

2. The car payment is the mantra of the \_\_\_\_\_

- Top 1% wealthy
- Millionaires
- Middle Class
- Extremely poor

3. The term "upside down" when it comes to cars means:

- You owe more than the car is worth
- You've had a bad accident in a car with payments
- You've paid off the car
- You're leasing a car

### Chapter 4, Section 2 (Video 2:4a) Quiz “Buying a House”

1. If you pay a \$225,000 Mortgage at 6% for 15 years rather than 30 years, you'll save \$143,874.
  - True
  - False
2. Never take out more than a \_\_\_\_\_ fixed-rate mortgage.
  - 5-year
  - 15-year
  - 30-year
  - 10-year
3. The first thing to go when life happens is
  - Paying extra on the house payment
  - The car payment
  - Food
  - Extra clothes for the kids



## Chapter 4, Section 2 (Video 2:5a) Quiz “Credit Cards, Part 1”

1. Consumers spend \_\_\_\_\_ a year on credit card penalties and fees.
  - \$10 million
  - \$110 billion
  - **\$90 billion**
  - \$80 million
2. You can do everything with a debit card that you can do with a credit card except:
  - Rent a car
  - Buy a car
  - **Go into debt**
  - Buy stuff on Amazon
3. You can run a debit card as a credit card to get the same protection as a credit card.
  - **True**
  - False
4. It's a myth that you need a credit card to rent a car or make a purchase online.
  - **True**
  - False

## Chapter 4, Section 2 (Video 2:5b) Quiz “Credit Cards, Part 2”

1. When McDonald's first went plastic, they saw that the average ticket order of \$4.75 \_\_\_\_\_ to \_\_\_\_\_.
  - Increase; \$5.10
  - Decrease; \$3.75
  - Increase; \$7.00
  - Decrease; \$4.00
2. Teenagers and kids are now the \_\_\_\_\_ target of credit card companies.
  - #1
  - #5
  - #3
  - #10
3. Consumer Reports did a study that showed \_\_\_\_\_ of airline miles are never redeemed.
  - 10%
  - 75%
  - 25%
  - 90%
4. When you pay cash rather than swiping a card, you spend \_\_\_\_\_.
  - 12-18% more
  - 12-18% less
  - 6-9% more
  - 7-11% less

## Chapter 4, Section 2 (Video 2:6a) Quiz “Debt vs. Wealth-Building, Part 1”

1. If you want to win, find \_\_\_\_\_ and mimic what they're doing.

- **Winners**
- Losers
- Anyone
- Your baby sister

2. Your largest wealth building tool is your:

- Credit card
- **Income**
- Car payments
- Checking account

3. Debt can be occasionally used to create prosperity if you're careful.

- True
- **False**

4. According to 75% of the Forbes 400 list, the #1 key to wealth building is to:

- Lease cars and keep at least 2 credit cards for AirMiles
- Sign-up for a 30-year adjustable rate mortgage
- Gamble in small accounts
- **Become and then stay debt-free**

5. A broke finance professor is like a:

- **Shop teacher with missing fingers**
- Math teacher with a PhD
- Doctor who's afraid of blood
- Hunter with perfect aim

**Chapter 4, Section 2 (Video 2:6b) Quiz “Debt vs. Wealth-Building, Part 2”**

1. Statistics show that if a credit card company can be the first one to get their card in your hand, you'll \_\_\_\_\_ for the rest of your life.
  - Hate them
  - Be brand loyal to them
  - Not really care about them
  - Be stuck in debt
  
2. Kids are supposed to carry the burden of the household when it comes to debt.
  - True
  - False
  
3. If you're trying to help out parents who are struggling, the best place to start is with an attitude of \_\_\_\_\_.
  - Humility
  - Pride
  - Indifference
  - Blame

### Chapter 4, Section 3 (Video 3:1b) Quiz “What Your Credit Score Really Measures”

1. Thirty-five percent of how a FICO score is calculated is based on:

- How much money you have in the bank
- Your debt history
- The type of debt you carry
- How much debt you have minus what you have in the bank

2. It's possible to not have a FICO score.

- True
- False

3. The FICO score is an “I Love Debt” score.

- True
- False

4. You need to build up your credit to survive.

- True
- False

### Chapter 4, Section 4 (Video 4:1b) Quiz “Identity Theft”

1. About 80% of identities are stolen by people you know.
  - True
  - False
2. When a theft occurs, you are liable for all the money that an identify thief used
  - True
  - False
3. It takes the average consumer about \_\_\_\_\_ hours to clean up the mess when their identity is stolen.
  - 600
  - 50
  - 5
  - 1200
4. The Federal Fair Credit Reporting Act requires the credit bureau to remove any and all inaccuracies within \_\_\_\_\_ of being notified.
  - 30 days
  - 2 months
  - 3 weeks
  - 1 year