

UNIT 3 REVIEW

Credit, Debt, & Consumer Protection

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Student Directions

- Answer all questions.
- You may respond in complete sentences or bullet points.
- Show your thinking using examples and evidence.
- Use these sentence starters if helpful:
 - “The evidence suggests . . .”
 - “One risk is . . .”
 - “I would recommend . . . because . . .”
 - “This option may be better because . . .”

Topic 1: Credit & Borrowing

1. A student has \$50 in a checking account and wants to make a \$75 purchase.

They can:

- Use a debit card
- Use a credit card

a. Which option would allow the purchase immediately?

b. What financial obligation would result from that choice?

- c. Explain one advantage and one risk of using a credit card in this situation.

2. Jordan wants to borrow money to buy a car.

Loan A:

- 5-year term
- Lower monthly payment

Loan B:

- 3-year term
- Higher monthly payment

- a. Which loan might be easier to fit into a monthly budget?
- b. What additional information about interest rates, fees, or total repayment cost would you need before deciding which loan is less expensive overall?
- c. Explain why monthly payment alone does not tell the full story.

3. Two borrowers are approved for loans.

Borrower A:

- Secured loan

Borrower B:

- Unsecured loan

Borrower A stops making payments on a secured loan. Borrower B stops making payments on an unsecured loan.

a. How might the lender's response differ in each situation?

b. Why do lenders often charge lower interest rates on secured loans?

4. A student wants to borrow money to purchase a gaming system that will be outdated within a few years.

Another student wants to borrow money for education that may increase future earnings.

a. Which borrowing decision appears more likely to support a long-term financial goal based on the information provided?

b. What additional information could change your recommendation?

c. Identify one risk that exists in both situations.

5. A credit card advertisement states:

“Only \$25 per month!”

The advertisement does not mention the interest rate, fees, or repayment timeline.

a. What important information is missing?

b. Why could focusing only on the monthly payment be misleading?

Topic 2: Credit Scores & Credit Reports

6. Two people apply for the same apartment.

Applicant A:

- Several missed payments
- High credit card balances

Applicant B:

- Consistent on-time payments
- Low credit utilization

a. Which applicant is likely to be viewed as lower risk?

b. Identify two pieces of evidence that support your answer.

c. Explain how a landlord might interpret the information.

7. A person's credit score drops by 80 points over six months.

a. Identify two possible reasons this might happen.

- b. Explain how a lower credit score may affect future borrowing opportunities.

- 8. A recent graduate wants to build a positive credit history.
 - a. Identify two actions that could help build or maintain good credit.

 - b. Explain why each action may improve a person's financial reputation over time.

- 9. A person discovers an account on their credit report that they never opened.
 - a. What problem might this indicate?

 - b. What steps should the person take?

 - c. Why is acting quickly important?

Topic 3: Managing Debt & Financial Risk

11. A borrower has the following debts:

- Credit Card: \$2,000 balance at 24% interest
- Auto Loan: \$8,000 balance at 6% interest
- Student Loan: \$12,000 balance at 4% interest

- a. Which debt would be paid first using the avalanche method?
- b. Which debt would be paid first using the snowball method?
- c. Explain why one borrower might choose the avalanche method and another borrower might choose the snowball method.

12. A borrower makes only minimum payments on a credit card for several years.

- a. What warning sign does this behavior represent?
- b. How could this affect the total cost of borrowing?

c. What might happen if this pattern continues?

13. A person's monthly debt payments continue to increase while their income remains unchanged.

a. Why might this be a concern?

b. Explain how debt-to-income ratio could help evaluate the situation.

c. What action would you recommend?

14. A borrower is struggling to keep up with debt payments.

Option A: Work with a nonprofit credit counseling organization.

Option B: Continue making minimum payments and delay seeking help.

a. Which option is likely to be more effective?

b. Explain why.

c. Identify one benefit of seeking assistance early.

15. A person has experienced years of financial hardship, cannot repay debts, and has exhausted other options.

a. Why might bankruptcy be considered?

b. Why is bankruptcy generally viewed as a last resort?

c. Explain one possible long-term consequence of bankruptcy.

Topic 4: Consumer Protection, Fraud, & Identity Theft

16. A social media advertisement claims:

“Guaranteed approval! Zero risk! Limited-time opportunity!”

- a. Identify two red flags in this advertisement.
- b. Explain why consumers should be cautious.
- c. What additional information would you want before making a decision?

17. Taylor receives an email claiming to be from a bank. The email asks Taylor to click a link and provide account information immediately.

- a. Identify two warning signs that this may be a scam.
- b. Explain what Taylor should do before responding.

- c. Explain how responding could affect Taylor financially.

18. Two websites provide financial advice.

Website A:

- Lists sources
- Provides supporting evidence
- Is maintained by a recognized organization

Website B:

- Makes bold claims
- Provides no evidence
- Promises guaranteed financial success

- a. Which source appears more reliable?

- b. Explain your reasoning.

- c. What questions should consumers ask when evaluating financial information online?

19. A consumer believes a lender has reported inaccurate information and refuses to correct it.

- a. What consumer protection resource, law, or agency might help?

- b. Explain how it could help resolve the situation.

- c. Why is it important for consumers to have a process for correcting financial errors?

Extended Response

20. Casey is considering a credit card offer advertised online.

The advertisement promises:

- Instant approval
- Low monthly payments
- Limited-time offer

After researching further, Casey learns:

- The interest rate is higher than average.
- Several fees apply.
- Making only minimum payments could keep the balance for many years.
- The offer came from a company Casey has never heard of.

Answer the questions below.

- Identify two warning signs Casey should consider.
- Explain how this credit card could affect Casey's future financial flexibility.
- Describe two steps Casey should take before deciding whether to apply.
- Identify one reliable source Casey could use to verify information about the offer.

