

4.1 Intro to Consumer Credit

Credit: Buy now, pay later

Creditors: Organizations or people that extend credit to consumers

For creditors to extend credit, they will check the financial history.

- **Assets**: everything you own.
(home, car, bank account, etc.)
- **Earning Power**: Ability to earn money.
(make sure you have enough income to repay the debt.)
- **Credit Rating**: Credit report card.

Credit Score based on three criteria

- 1.) Opening checking and saving accounts
- 2.) Bills paid on time
- 3.) Good credit transactions

scores --> higher score, better credit, better interest rate

- 770+ excellent credit
- 700+ good credit
- 600- bad credit

read example 4, page 177
read problem #19, page 180

$$3000 (.052)(3) = \$468$$

$$3000 (.082)(3) = 738$$

Installment Plan

- Pay down payment
- Pay the remaining amount in monthly payments which include a finance charge

1. Molly purchases a \$5,100 home office set. She can't afford to pay cash, so she uses the installment plan, which requires an 18% down payment. How much is the down payment?

$$5100(0.18) = \$918$$

2. Lisa purchases a professional racing bicycle that sells for \$3,000. It requires a \$200 down payment. The remainder, plus a finance charge, is paid back monthly over the next 2½ years. The monthly payment is \$111.75. What is the finance charge?

$$3000 - 200 = \underline{\underline{2800}}$$

$$(2.5)(12) = 30 \text{ mo.}$$

$$30(111.75)$$

$$\begin{array}{r} 3352.50 \\ - 2800.00 \\ \hline 552.50 \end{array}$$

3. Snow-House sells a \$1,980 snow thrower on the installment plan. The installment agreement includes a 20% down payment and 12 monthly payments of \$161 each.

a. How much is the down payment?

$$1980(.20) = \$396$$

b. What is the total amount of the monthly payments?

$$12 \cdot 161 = \$1932$$

c. What is the total cost of the snow thrower on the installment plan?

$$1932 + 396 = \$2328$$

d. What is the finance charge?

$$\$2328 - \$1980 = \$348$$

4. Carey bought a \$2,100 computer system on the installment plan. He made a \$400 down payment, and he had to make monthly payments of \$79.50 for the next two years. How much interest will he pay?

$$2100 - 400 = 1700 \quad 24(79.50) = 1908$$

$$1908 - 1700 = \$208$$

5. Depot Headquarters has a new promotional payment plan. All purchases can be paid off on the installment plan with no interest, as long as the total is paid in full within twelve months. There is a \$25 minimum monthly payment required. If the Koslow family buys a hot tub for \$4,355, and they make only the minimum payment for 11 months, how much will they have to pay in the 12th month?

$$11(25) = 275 \quad 4355 - 275 = 4080$$

6. Mike bought a set of golf clubs that cost k dollars. He signed an installment agreement requiring a 5% down payment and monthly payments of g dollars for $1\frac{1}{2}$ years.

a. Express his down payment algebraically.

$$.05k$$

b. How many monthly payments must Mike make?

$$1.5(12) = 18 \text{ months}$$

c. Write expressions for the total amount of the monthly payments and the finance charge.

$$18g + .05k - k$$

$$18g - .95k$$

7. Mrs. Smith bought a dishwasher at a special sale. The dishwasher regularly sold for \$912. No down payment was required. Mrs. Smith has to pay \$160 for the next six months. What is the average amount she pays in interest each month?

$$160 \cdot 6 = 960 \quad 960 - 912 = 48$$

$$\frac{48}{6} = \$8/\text{month interest}$$

HW 4.1 pg 178-180 #2, 4 - 6, 10, 12, 13, 16