

# Fundamental finance qanda



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11. 1 Outline the advantages for a car hire firm of the introduction of credit cards into Australia. Firstly, for the car-rental companies, customers drive away merchandise. And credit card is an indicator of good financial standing with external parties, furthermore, it provides efficient and secure transaction. Secondly, using credit cards will benefit both companies and individuals. For the car-rental companies, extra incoming will be increased which come from the 'holding fees' for customers. When using a credit card to rent a car, the estimated amount of the rental will put on the card but the transaction will not put through.

Though it may be a small number of incoming for each transaction, it brings considerable profits for the companies in the long-run. As for individuals, for instance, one is in need with a car for business uses, and after that the person will get a considerable income. As a result, it will gain the company income and increase the person's purchasing power. Lastly, credit cards transaction will reduce the cost of holding cash, which saving the cost of cash printing and do good to the environment, in addition, it provides the global market a more efficient way of transaction. 11. 2

Indicate two cases where the issue of a credit card by a bank could be considered an unethical practice. a. Give credit to minors b. Give unreasonable high credit to customers who will not be able to handle the situation. 11. 3 Is household debt of 150% of disposable income necessarily a financially dangerous situation? While the debt to disposable income is 150% and house process are much higher than normal based on price-to-income ration, the debt service is average and loan-to-value ratios are low at

55%65%. In addition, there are guarantees on 60% of mortgages, and residential delinquencies are only 38 basis points.

Thus the credit risk is moderate, due to mitigation factors. Nonetheless, growth will slow. 11. 4 On what basis did the major supermarkets refuse to accept credit cards for receiving payments for about two decades after their introduction? Firstly, the supermarkets may not trust the credit card system or held doubts about it. As the cash-to-product transaction is a safe way of collection cash and reducing the risks of residential delinquencies. In addition, supermarkets need a quick flow of currency to purchase goods for sale. The late payment due to credit card using may result in shortage of currency.

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Lastly, the credit cards using system may not be developed well and the that needs time for people to get used to it. 11. 7 As a result of past unethical behavior, financial institutions asking for guarantees must now obtain certification that the guarantor has accessed independent legal advice. Why is this necessary? Obtaining independent legal advice will clear the doubts about what a client can and cannot expect from a lawyer in those circumstances. 11. 8 Roxley has always paid cash for his purchases, including his car and boat, on which he lives. He goes to his bank to arrange a loan, but is refused because of his credit history.

Why? Roxley was refused because he has no records about the credit payments and his bank may hold doubts about his behavior and whether or not he is able to give payment. 11. 9 Is a debt-to-income ratio benchmark

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useful as the sole determinant of loan s the approvals? The debt-to-income ratio is a crucial indicator but should not be the sole determinant of loan approvals. As one may have extra money but he will not pay the load on time. 11. 10 What is the opportunity cost for a financial institution of not lending? The opportunity cost of not lending will be the interests that are foregone.