Chapter 18

Ordinary Level Questions

Q1. Outline one reason why a consumer should consider the **risk** involved before investing.

Investments can lose value
The value of an investment can fall due to market changes or economic conditions.
This means a consumer could get back less money than they originally invested in something like Bitcoin.

Q2. Explain risk tolerance from a consumer perspective.

Risk tolerance is how much financial risk a consumer is willing to accept when investing.
A consumer with low risk tolerance will prefer safer options, while a consumer with higher risk tolerance is more willing to accept more uncertainty for the chance of higher returns.

Q3. Suggest one way a consumer can check if a financial information source is reliable.

Check if the provider is regulated
A consumer can confirm whether the provider is authorised by the Central Bank of Ireland.
Regulation helps protect consumers and ensures the information follows legal standards.

Q4. Outline one benefit and one challenge of fintech for consumers.

Fintech increases convenience for consumers
Fintech allows consumers to manage their finances easily through mobile apps and online platforms.
This makes banking and payments quicker and more accessible.

Fintech increases security risks for consumers
Using digital financial services increases the risk of hacking or online fraud.
Consumers must rely on strong security measures to protect their personal information.

Q5. Claire is choosing between two savings options:

- Option A: A local bank with 1.2% AER
- Option B: An online provider with 2.5% AER but no branch service

Which option would you recommend? Give a reason for your answer.

Option B offers a higher AER, which means Claire will earn more interest on her savings over time. (2.5% vs 1.2%)

Option A offers access to a local bank branch, which provides face-to-face support for Claire, if she values personal service and guidance.

Q6. Discuss one potential consequence for consumers if the financial services industry was under-regulated.

Consumers could face higher financial risk
Without strong regulation, financial providers may offer unsafe or misleading products. This increases the risk of consumers losing money without having legal protection or compensation if they are ripped off.

Q7. Outline two types of financial fraud activities and explain how consumers can protect themselves against them.

Phishing scams
Phishing involves fake emails or messages that trick consumers into giving personal or banking details.
Consumers can protect themselves by avoiding suspicious links and contacting organisations directly to verify messages.

Investment scams
Investment scams promise high returns with little or no risk to pressure consumers into investing quickly.
Consumers can protect themselves by checking if providers are regulated and avoiding offers that seem too good to be true.

Q8. Explain one potential impact of digital currency on consumers and businesses

Digital currency can improve convenience for consumers Digital currency allows consumers to make fast, cashless payments without relying on traditional banks. This can make everyday transactions quicker and easier, especially for online purchases. **Digital currency can reduce transaction costs for businesses** Businesses may face lower fees as digital currency can reduce the need for intermediaries such as banks or card providers. This can lower costs and improve efficiency in processing payments.

Higher Level Questions

Q1. Explain three factors a consumer should consider before borrowing money.

Cost of borrowing (APR)

The APR shows the true cost of a loan, including interest and any extra charges.
A higher APR means the consumer will repay more money overall, making borrowing more expensive in the long term.

Ability to repay

A consumer should consider their income, regular expenses, and existing loans before borrowing more.
If repayments are not affordable, the consumer may miss payments and damage their credit rating.

Loan terms and conditions

The length of the loan and any penalties affect how flexible the loan is.
Longer loan terms reduce monthly repayments but can increase the total interest paid over the lifetime of the loan.

Q2. Discuss how **inflation**, **risk** and **interest rates** would impact on a consumer's decision when deciding where to save their money.

Inflation

Inflation reduces the purchasing power of money over time.
If savings earn less interest than the inflation rate, the real value of savings falls.
For example, if a savings account pays 1 percent interest while inflation is 3 percent, the consumer's money will buy less in the future.

Risk

Savings accounts with regulated providers are low risk and offer security.
Lower risk usually means lower returns, which can influence where a consumer saves.
For example, a consumer may choose a bank savings account over investing in shares to avoid the risk of losing money.

Interest rates (AER)

Interest rates, shown as AER, affect how much interest a consumer earns on savings.
Higher AERs provide better returns but may limit access to money.

For example, a fixed-term savings account may offer a higher AER but restrict withdrawals for a set period.

Q3. Investigate the range of risks facing consumers of financial products.

Market risk

The value of financial products such as shares or cryptocurrency can rise or fall due to changes in market conditions.
This means consumers may lose some or all of their money if prices fall.
For example, a drop in share prices during an economic downturn can reduce the value of an investment.

Credit risk

Credit risk is the risk that a financial provider may fail or be unable to repay money owed to consumers.
This is higher when consumers use unregulated providers, as their money may not be protected.
For example, savings with an unregulated institution may be lost if the provider collapses.

Fraud and scam risk

Consumers face risks such as phishing scams, fake investment schemes, and identity theft.
These scams can lead to direct financial loss or misuse of personal information.
For example, a consumer may lose money after responding to a fake message claiming to be from their bank.

Suitability risk

Suitability risk is the risk that a financial product does not match a consumer's goals, life stage, or financial situation.
If a product is unsuitable, it can create financial pressure or limit long-term benefits.
For example, a consumer with unstable income may struggle to repay a large mortgage, while a young adult choosing a very low-risk pension may reduce potential long-term growth.

Q4. Describe two potential benefits of a consumer that chooses to switch mortgage provider.

Rates - Lower interest rate Switching mortgage provider can allow a consumer to move to a lower interest rate. This reduces monthly repayments and lowers the total cost of the mortgage over time. For example, switching from a 4 percent rate to a 3 percent rate can save thousands of euro over the life of the loan. Terms - Reduced monthly repayments A new provider may offer better repayment terms that reduce the monthly mortgage payment. This can improve a consumer's cash flow and make the mortgage more affordable. For example, extending the mortgage term when switching can lower monthly repayments. Incentives – Financial rewards as cashback for switching Some mortgage providers offer incentives such as cashback for switching. For example, a consumer may receive 2% cashback when switching, which can help cover their legal costs.

Q5. Explain two challenges for consumers of setting up an account with a digital bank such as Revolut.

Lack of face-to-face support Digital banks operate fully online and do not offer in-branch customer service. This can be challenging for consumers who prefer personal support or need help resolving complex issues. For example, a consumer may find it difficult to get immediate assistance if there is a problem with their account, or may miss face to face interaction in their local bank. Technology and security concerns Setting up and managing a digital bank account requires access to technology and digital skills. Consumers may also worry about data protection, hacking, or online fraud.

Q6. (i) Outline how a person's credit rating is established and explain how this might affect them in the future.

How a credit rating is established

A person's credit rating is created using information held by the Central Credit Register. Lenders report details such as loans taken out, amounts owed, and repayment history, which builds a record of how reliably a person manages credit.

Impact on the consumer in the future

A poor credit rating can limit access to loans or credit, as lenders may see the person as high risk.

It can also lead to higher interest rates, as lenders charge more to compensate for increased risk.

A poor credit record may make it difficult to get a mortgage, rent a property, or lease a car.

Credit history remains on record for up to five years, meaning past issues can affect future borrowing even if income improves.

(ii) Outline two factors that can cause a poor credit rating for a person.

Missed or late repayments

Failing to make loan or credit card repayments on time negatively affects a person's credit record.

This shows lenders that the person may be unreliable when managing credit.

High levels of outstanding debt

Owing large amounts of money compared to income can damage a credit rating.

Lenders may view this as a sign that the person is over-reliant on borrowing.

Q7. Discuss how consumers could manage risk they face in relation to **pensions**, **mortgages** and **credit-based products (loans or credit cards).**

Pensions

Pensions involve investment risk, as fund values can rise or fall over time.
Consumers can manage this risk by choosing pension funds that match their goals and risk tolerance.
Using regulated pension providers and ignoring unsolicited pension offers also reduces the risk of financial loss or fraud.

Mortgages

A mortgage is a long-term commitment and carries the risk of becoming unaffordable if interest rates rise or a person's income falls.
Consumers can manage this risk by choosing fixed-rate mortgages to protect against variable rate increases and by avoiding borrowing the maximum amount available to them.
Switching mortgage providers during the loan term can also reduce costs and help manage repayment risk.

Credit-based products (loans and credit cards)

Credit-based products can lead to high-interest debt if not managed carefully.
Consumers can manage this risk by setting spending limits, making repayments on time, and paying off balances in full where possible.
Choosing lower-interest products and regularly checking statements helps protect both finances and credit ratings.

Q8. (i) Describe two advantages and two disadvantages of Central Bank Digital Currency (CBDC) as an electronic equivalent to cash

Advantages

Government-backed and secure

A CBDC is issued and backed by a central bank, making it a safe and trusted form of digital money.

This reduces the risk of loss compared to unregulated digital currencies.

For example, consumers would trust a digital euro more than private cryptocurrencies.

Convenient digital payments

CBDC allows consumers to make electronic payments without needing cash or a bank account.

This can improve access to payments and reduce reliance on physical cash.

For example, a consumer could pay for goods digitally even if cash is no longer widely accepted.

Disadvantages

Privacy concerns

CBDC transactions may be traceable by central authorities.

This could reduce anonymity compared to using physical cash.

For example, consumers may worry that their spending habits could be monitored.

Impact on banks

If consumers hold money directly with a central bank, commercial banks may lose deposits.

This could reduce banks' ability to lend money.

For example, banks may have less funds available for mortgages or business loans.

(ii) Describe two differences between Central Bank Digital Currency (CBDC) and stablecoins.

Control

CBDC is issued by a central bank, while stablecoins are issued by private companies.

This means CBDC is fully state-backed, while stablecoins depend on private organisations.

For example, the digital euro would be issued by a central bank, while stablecoins are created by private firms.

Regulation and security
CBDC is fully regulated and protected under national financial systems. Stablecoins are not always fully regulated and may carry higher risk. For example, a CBDC would offer stronger consumer protection than a privately issued stablecoin for a consumer.

Read the following and then answer the questions that follow

The Business World – Mortgage options

Aoife, a 27-year-old teacher from Galway, has saved €35,000 for a house deposit. She plans to buy a two-bedroom home in the city and has started comparing mortgage offers from different lenders.

Bank	Interest Rate	Monthly Repayment	Cashback Offer	Type of rate
Mortgage A	4.3%	€1,230	€3,000 upfront	Fixed
Mortgage B	3.8%	€1,110	None	Variable

While comparing her options, Aoife comes across online posts about a new cryptocurrency called **SunBit**. It's been trending on social media and has doubled in value in just three months. Influencers describe it as a "can't-miss" investment. Aoife decides to invest €5,000 of her house deposit into SunBit, hoping to grow her savings before committing to the mortgage.

Aoife still has **an unpaid credit card balance from last year** of €1,500 which she never fully cleared. She wanted to save for a deposit so that she could afford a house over paying it off. She thinks this might not matter when applying for her loan as the mortgage is with another bank.

Q1. Aoife has asked you for advice. Choose between Mortgage A or Mortgage B, and give two reasons for your choice.

Mortgage A should be recommended

Fixed rate increases certainty of repayments

Mortgage A offers a fixed interest rate, which gives Aoife certainty about her monthly repayments.

This protects her from future interest rate increases and makes budgeting easier.

Cashback incentive

Mortgage A provides a €3,000 cashback payment upfront.

This can help cover legal fees, moving costs, or furniture when buying the home.

Or

Mortgage B should be recommended

More affordable repayments

Mortgage B offers a lower monthly repayments of €1,110 compared to €1,230.
This improves affordability and reduces financial pressure for Aoife in the short to medium term.

Lower interest rate

The lower interest rate of 3.8 percent means Aoife will pay less interest over the life of the mortgage.
This makes Mortgage B cheaper overall despite the lack of a cashback offer.

Q2. Do you think Aoife made a smart financial decision by investing €5,000 of her house deposit into cryptocurrency? Give two reasons for your answer.

No.

High risk investment

Cryptocurrency values can rise or fall sharply in a short period of time.
This puts Aoife's house deposit at risk, which is unsuitable for a short-term financial goal like buying a home.

Reduced mortgage deposit

Using part of her deposit reduces the amount available for the house purchase.
This could limit her mortgage options or increase the amount she needs to borrow.

Q3. (i) Explain what a credit rating is and how it can affect someone applying for a mortgage.

A credit rating is a record of a person's borrowing and repayment history.
Lenders use it to assess how reliable a borrower is when applying for credit.

Impact on mortgage applications

A poor credit rating can lead to loan refusal or higher interest rates.
This increases borrowing costs and reduces mortgage options.

(ii) Do you agree with Aoife's belief that her unpaid credit card won't matter because she's borrowing from a different bank? Why or why not?

No, Aoife's belief is incorrect

All lenders check the Central Credit Register when assessing loan applications.
Her unpaid credit card balance will be visible to the mortgage lender and may negatively affect her application.