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Chapter 18 Making informed financial decisions

18.1 Examine the factors to be considered with saving, investing, and borrowing.

HL Paper 2 Q2 (c)

(c)

Value of personal loans drawn down in 2023 surges to over €2bn.

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

1
2
3

OL Paper 1 Q4 (a)

(a) Claire is planning to set up a savings account and is considering choosing one of the options shown below.

Option 1: Trade Republic

TRADE REPUBLIC	**Savings Account**	No minimum Term	Instant Access
	Deposit Guarantee Scheme	Min / Max savings (total deposit) €1 / €50,000	3.75% AER

Option 2: Bank of Ireland

Bank of Ireland	**SuperSaver Account**	No minimum Term	Restricted Access
	Deposit Guarantee Scheme	Min / Max savings (total deposit) €5 / €2,500	3.00% AER

(i) Indicate which savings option you would recommend to Claire, by putting a tick (✓) in the appropriate box.

Option 1: Trade Republic	
Option 2: Bank of Ireland	

(ii) Give a reason for your answer.

(iii) What do the letters AER stand for? (Write your answer in the space below)

A	E	R

OL Paper 1 Q4 (b)

(b) Outline **two** factors, apart from interest rates, that a person should consider when deciding where to save their money.

1
2

18.4 Explain how technology impacts the provision of financial products and outline the benefits and challenges of fintech.

OL Paper 1 Q4 (c)

(c) Explain **two** advantages for consumers of setting up an account with a digital bank such as Trade Republic.

1
2

OL Paper 2 Q2 (b)

(b)

78% of consumers manage money or payments using mobile devices.

Fintech is the use of technology to deliver financial services and products to consumers.

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

Benefit:
Challenge:

18.5 Outline how a person's credit rating is established, the factors that can impact on credit rating, and the consequences of a poor credit rating.

HL Paper 1 Q3 (c)

(c) Strong demand for cars helped drive the personal loans market during the first three months of 2024.

Outline **three** factors that can affect a person's credit rating.

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2
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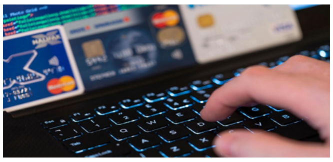
18.7 Outline a range of financial fraud activities and discuss how consumers can protect themselves.

OL Paper 1 Q2 (e) (i)

(e)



Almost €100m stolen through fraud and scams in Ireland in 2023

A report has found that card fraud accounted for 36% of gross fraud losses in 2023 and 34% of the total losses from unauthorised electronic transfers.

(i) Explain **three** ways consumers can protect themselves against fraud.

1
2
3

18.8 Describe Central Bank Digital Currency and examine the potential impact of digital currency on consumers and businesses.

HL Paper 2 Q3 (c)

(c) The European Securities and Markets Authority (ESMA) and the European Banking Authority (EBA) have been actively analysing developments in the crypto-asset market.

(i) Describe **two** differences between Central Bank Digital Currency (CBDC) and crypto assets.

1
2

(ii) Explain **one** potential impact of digital currency on consumers and businesses.

Consumers
Businesses

Chapter 18 Making informed financial decisions - Solutions

18.1 Examine the factors to be considered with saving, investing, and borrowing.

HL Paper 2 Q2 (c) Solution

(c)

Value of personal loans drawn down in 2023 surges to over €2bn.

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

Risk

Borrowing creates a legal obligation to repay the money borrowed.
If repayments are missed, this can damage a person's credit rating or lead to serious consequences such as repossession in the case of a mortgage.

Interest rates

Interest is the cost of borrowing money charged by the lender on top of the loan amount.
Even small differences in interest rates can greatly affect the total amount repaid over time, especially on long-term loans.

Taxes and charges

Some loans include additional costs such as setup fees, monthly charges, or early repayment penalties.
These charges increase the real cost of borrowing and must be considered before taking out a loan.

Short-, medium-, and long-term considerations

The length of a loan affects both monthly repayments and the total amount repaid.
Longer loans reduce monthly repayments but increase the total interest paid, so consumers must balance affordability now with overall cost.

OL Paper 1 Q4 (a) & (b) Solution

(a) Claire is planning to set up a savings account and is considering choosing one of the options shown below.

Option 1: Trade Republic

TRADE REPUBLIC	**Savings Account**	No minimum Term	Instant Access
	Deposit Guarantee Scheme	Min / Max savings (total deposit) €1 / €50,000	3.75% AER

Option 2: Bank of Ireland

Bank of Ireland	**SuperSaver Account**	No minimum Term	Restricted Access
	Deposit Guarantee Scheme	Min / Max savings (total deposit) €5 / €2,500	3.00% AER

(i) Indicate which savings option you would recommend to Claire, by putting a tick (✓) in the appropriate box.

Option 1: Trade Republic	
Option 2: Bank of Ireland	

Make sure to tick one of the boxes here!

(ii) Give a reason for your answer.

Option 1 – Trade Republic

Higher interest rate (AER)

Trade Republic offers a higher AER of 3.75 percent compared to 3.00 percent with Bank of Ireland.
This means Claire will earn more interest on her savings over time.

Greater flexibility and savings limits

Trade Republic provides instant access and allows savings up to €50,000.
This gives Claire more flexibility and suits both short- and medium-term savings goals better than the restricted account with a lower limit.

Option 2 – Bank of Ireland

Face-to-face support and security

Bank of Ireland provides access to in-branch services, which may suit Claire if she values personal support and guidance. She won't get that with a digital bank.

This can be especially important for consumers who prefer dealing with staff directly when managing their savings.

(iii) What do the letters AER stand for? (Write your answer in the space below)

A	E	R

Annual Equivalent Rate

(b) Outline **two** factors, apart from interest rates, that a person should consider when deciding where to save their money.

Risk and security

A person should consider how safe their money is when choosing a savings account.
Savings held with regulated banks or credit unions are protected by the Deposit Guarantee Scheme, reducing the risk of loss.

Access and time frame

A person should consider how easily they can access their savings and how long they plan to save for.
Accounts with instant access suit short-term goals, while restricted or fixed-term accounts suit longer-term savings where money is not needed immediately.

Taxes and charges

A person should consider whether any taxes or fees apply to the savings account.
Charges or taxes can reduce the overall return on savings, even if the account appears attractive.

Savings limits

A person should consider the minimum and maximum amounts they can save in the account.
Low maximum limits may restrict how much a person can save and make the account unsuitable for larger savings goals.

18.4 Explain how technology impacts the provision of financial products and outline the benefits and challenges of fintech.

OL Paper 1 Q4 (c) Solution

(c) Explain **two** advantages for consumers of setting up an account with a digital bank such as Trade Republic.

Convenience and ease of access

Digital banks such as Trade Republic operate entirely online, allowing consumers to open and manage accounts through an app.
This makes banking quicker and more convenient, as consumers can access their money, savings, or investments anytime without visiting a branch.

Competitive interest rates and low costs

Digital banks often offer higher interest rates and lower fees than traditional banks due to lower operating costs.
This allows consumers to earn better returns on savings and reduce charges, making digital banks attractive for cost-conscious consumers.

Greater transparency and control

Digital banks such as Trade Republic provide clear, real-time information on balances, interest earned, and transactions through their apps.
This helps consumers track their finances easily and make informed decisions about saving or investing without relying on paper statements or branch visits.

OL Paper 2 Q2 (b) Solution

(b)

78% of consumers manage money or payments using mobile devices.

Fintech is the use of technology to deliver financial services and products to consumers.

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

Benefits

Convenience and accessibility

Fintech allows consumers to access financial services through apps and online platforms at any time.
This makes managing money quicker and easier without needing to visit a bank branch.

Greater choice and lower costs

Fintech increases competition by offering alternative financial products such as digital banking and payment services.
This can lead to lower fees and better value for consumers.

Challenges

Security and fraud risks

Using fintech services increases the risk of hacking, data breaches, and online fraud.
Consumers must rely on strong passwords and security measures to protect their personal and financial information.

Lack of face-to-face support

Fintech services are usually fully digital and do not offer in-branch assistance.
This can be challenging for consumers who prefer personal support or need help with complex financial issues.

18.5 Outline how a person's credit rating is established, the factors that can impact on credit rating, and the consequences of a poor credit rating.

HL Paper 1 Q3 (c) Solution

(c) Strong demand for cars helped drive the personal loans market during the first three months of 2024.

Outline **three** factors that can affect a person's credit rating.

Missed or late repayments

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

This signals to 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 see this as a sign that the person is over-reliant on borrowing.

Defaults or unpaid credit agreements

Leaving loans or credit cards unpaid for a long period can seriously harm a credit rating.

This shows lenders that the borrower has not met their financial obligations.

Number of credit applications

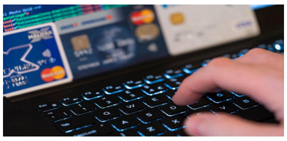
Applying for credit frequently in a short period can negatively affect a person's credit rating.

Lenders may view multiple applications as a sign of financial difficulty or over-reliance on credit.

18.7 Outline a range of financial fraud activities and discuss how consumers can protect themselves.

OL Paper 1 Q2 (e) (i) Solution

(e)



Almost €100m stolen through fraud and scams in Ireland in 2023

A report has found that card fraud accounted for 36% of gross fraud losses in 2023 and 34% of the total losses from unauthorised electronic transfers.

(i) Explain **three** ways consumers can protect themselves against fraud.

Verify sources and providers

Consumers should check that financial providers are regulated and authorised before sharing personal or financial information.

This reduces the risk of dealing with fake or untrustworthy organisations.

Avoid suspicious links and messages

Consumers should not click on links or download attachments from unexpected emails, texts, or social media messages.

Scammers often use fake messages to trick people into giving away personal or banking details.

Use strong security measures

Consumers should use strong, unique passwords and enable two-factor authentication where available.

This makes it harder for fraudsters to access accounts even if some details are compromised.

Monitor accounts regularly

Consumers should regularly check bank statements and transaction histories for unusual activity.

Spotting suspicious transactions early allows consumers to act quickly and limit financial loss.

18.8 Describe Central Bank Digital Currency and examine the potential impact of digital currency on consumers and businesses.

HL Paper 2 Q3 (c) Solution

(c) The European Securities and Markets Authority (ESMA) and the European Banking Authority (EBA) have been actively analysing developments in the crypto-asset market.

(i) Describe **two** differences between Central Bank Digital Currency (CBDC) and crypto assets.

Control and issuer
Central Bank Digital Currency (CBDC) is issued and controlled by a central bank, while crypto assets are created and managed by private developers or decentralised networks.
This means CBDC is state-backed and trusted as official money, whereas crypto assets are not backed by any government.
For example, a digital euro would be issued by a central bank, while Bitcoin is created through a decentralised network.

Regulation and stability
CBDC is fully regulated and designed to maintain a stable value, similar to cash.
Crypto assets are largely unregulated and can be highly volatile in value.
For example, the value of CBDC would remain stable, while the price of a crypto asset can rise or fall sharply in a short period.

(ii) Explain **one** potential impact of digital currency on consumers and businesses.

Impact on consumers – Convenience
Digital currency allows consumers to make fast, cashless payments without relying on traditional banks.
This makes everyday transactions quicker and easier, especially for online purchases.

Impact on businesses – Lower transaction costs
Digital currency can reduce the need for intermediaries such as banks or card providers.
This can lower transaction fees and reduce the cost of processing payments for businesses.