Teacher Answer Key

Case Study

1. The reading warns that buying a home with the last dollar available is how a broken furnace becomes a credit disaster, because owners absorb repairs themselves. Maintenance runs roughly one to four percent of home value each year, so fourteen hundred dollars would not cover a single major system failure.

2. The break-even point is how long an owner must stay before the benefits of owning outweigh the up-front purchase costs and eventual selling costs. If Andre transfers in two years, they would sell before reaching break-even and lose money to closing costs and agent commissions of roughly five to six percent.

Multiple Choice

1. A

2. D

3. C

Matching

1-E, 2-D, 3-A, 4-C, 5-B

Fill-in-the-Blank

1) mortgage, 2) PMI, 3) appreciation

Short Answer (Sample Responses)

Q1: A renter at the end of a lease can leave for a better job in another city with only thirty to sixty days of notice, while selling a home takes months and costs agent commissions of five to six percent. That flexibility has real financial value when work or family circumstances change unexpectedly.

Q2: The right answer depends on how long someone will stay, how stable their income is, how much cash they hold, and what housing costs in that particular market. Buying at the wrong moment can trap a person in a property they cannot sell without a loss, so the decision is situational rather than moral.

Q3: Paying down principal reduces the loan balance every month by a known amount, but appreciation depends on the market and can reverse. The reading notes values fell sharply in many markets between 2007 and 2012, leaving owners who had to sell owing more than their homes were worth.