

Lesson 9: Easy as Pi

FINANCIAL RATIOS

Name: _____

Read each scenario and apply the appropriate financial ratio.

1. Debt-to-Income: monthly debt divided by monthly gross income

Ishaan has a monthly mortgage payment of \$800, one credit card at \$200 a month, a second credit card at \$80 a month, and a vehicle loan for \$250 a month. His income is \$2,500 each month before taxes.

What is Ishaan's total debt?

What is his income?

What is his Debt-to-Income ratio?

2. Debt-to-Assets: liabilities divided by assets

Stephanie recently took out a loan for \$5,500 to help pay for a new-used vehicle. The vehicle is worth \$9,500.

How much are Stephanie's total liabilities?

How much are her assets?

What is her Debt-to-Assets ratio?

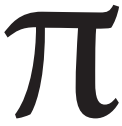
3. Debt-to-Limits: credit debt divided by credit limit

Avni has a credit card with a \$5,000 credit limit. She currently has a balance of \$2,000 on the card.

What is Avni's credit limit?

What is her debt?

What is her Debt-to-Limits ratio?



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RATIOS RACE

Name: _____

Working with your small group, be the first team to correctly solve the financial ratio problems below. Remember — the financial ratios to choose from are debt-to-income, debt-to-assets, and debt-to-limits. Ready, set, race!

1. James, 18 years old:

"I bought my first truck last year and it's great. It's so much easier to get to school and work now. I did have to borrow money, though, because I only had \$3,000 saved up and the truck cost \$5,000. I just checked online to see how much my truck is worth today, and it's dropped a little in value. If I sold it right now, it's worth \$4,500. I still have \$1,500 left on my loan, though. I'm wondering how I can measure my loan to the value of my truck. What do you think...which ratio should I calculate?"

What ratio should James use?

What is James's ratio percentage?

2. Elizabeth, 28 years old

"I haven't been very good about managing my debt, and I'm trying to figure out how my debt relates to my income. I have four different credit cards right now but I really want to pay them all off soon. For now, though, I'm making monthly payments of \$50 on one, \$200 on another, \$25 on a third, and \$175 on the fourth. I also own a home, and my mortgage is another \$900 a month. I earn \$3,200 each month before taxes. Can you help me figure out what financial ratio to use?"

What ratio should Elizabeth use?

What is Elizabeth's ratio percentage?

3. Michael, 23 years old

"I want to purchase a home someday, so I'm making sure my credit score is in good shape. I have a credit card that I can spend up to \$1,000 on but I only have a balance of \$100. What financial ratio would help me? Do the math...what's my percentage?"

What ratio should Michael use?

What is Michael's ratio percentage?