Chapter 01

Personal Finance Basics and the Time Value of Money

**True / False Questions**

|  |  |
| --- | --- |
| 1. | Financial planning has specific techniques that will be effective for every individual and household.    True    False |

|  |  |
| --- | --- |
| 2. | Increased demand for a product or service will usually result in lower prices for the item.    True    False |

|  |  |
| --- | --- |
| 3. | Inflation reduces the buying power of money.    True    False |

|  |  |
| --- | --- |
| 4. | Lenders benefit more than borrowers in times of high inflation.    True    False |

|  |  |
| --- | --- |
| 5. | Economics is the study of using money to achieve financial goals.    True    False |

|  |  |
| --- | --- |
| 6. | A decrease in the demand for a product or service may result in a decrease in wages for people producing that item.    True    False |

|  |  |
| --- | --- |
| 7. | Higher inflation usually results in lower interest rates.    True    False |

|  |  |
| --- | --- |
| 8. | Developing and using a budget is part of the "obtaining" component of financial planning.    True    False |

|  |  |
| --- | --- |
| 9. | A financial plan is another name for a budget.    True    False |

|  |  |
| --- | --- |
| 10. | Planning to buy a house is an example of an intangible goal.    True    False |

|  |  |
| --- | --- |
| 11. | Opportunity costs refer to what a person gives up when making a decision.    True    False |

|  |  |
| --- | --- |
| 12. | Opportunity costs refer to time, money, and other resources that are given up when a decision is made.    True    False |

|  |  |
| --- | --- |
| 13. | Time value of money refers to changes in consumer spending when inflation occurs.    True    False |

|  |  |
| --- | --- |
| 14. | Interest on savings is calculated by multiplying the money amount times the opportunity cost times the annual interest rate.    True    False |

|  |  |
| --- | --- |
| 15. | Present value is also referred to as compounding.    True    False |

|  |  |
| --- | --- |
| 16. | Most decisions have only a few alternatives from which to choose.    True    False |

|  |  |
| --- | --- |
| 17. | Risks associated with most financial decisions are fairly easy to measure.    True    False |

|  |  |
| --- | --- |
| 18. | Developing financial goals is the first step in the financial planning process.    True    False |

|  |  |
| --- | --- |
| 19. | Analyzing your current financial position is a part of the first stage of the financial planning process.    True    False |

|  |  |
| --- | --- |
| 20. | Gross Domestic Product (GDP) measures the total value of goods and services produced within a country's borders, excluding items produced with foreign resources.    True    False |

|  |  |
| --- | --- |
| 21. | Trade balance is defined as the difference between a country's exports and its imports.    True    False |

**Multiple Choice Questions**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 22. | The main goal of personal financial planning is:      |  |  | | --- | --- | | A. | saving and investing for future needs. |  |  |  | | --- | --- | | B. | reducing a person's tax liability. |  |  |  | | --- | --- | | C. | achieving personal economic satisfaction. |  |  |  | | --- | --- | | D. | spending to achieve financial objectives. |  |  |  | | --- | --- | | E. | saving, spending, and borrowing based on current needs. | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 23. | Higher prices are likely to result from:      |  |  | | --- | --- | | A. | lower demand by consumers. |  |  |  | | --- | --- | | B. | increased production by business. |  |  |  | | --- | --- | | C. | lower interest rates. |  |  |  | | --- | --- | | D. | increased spending by consumers without increased production. |  |  |  | | --- | --- | | E. | an increase in the supply of a product. | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 24. | Who is *most likely* to benefit from inflation?      |  |  | | --- | --- | | A. | Retired people |  |  |  | | --- | --- | | B. | Lenders |  |  |  | | --- | --- | | C. | Borrowers |  |  |  | | --- | --- | | D. | Low-income consumers |  |  |  | | --- | --- | | E. | Government | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 25. | Higher consumer prices are likely to be accompanied by:      |  |  | | --- | --- | | A. | lower union wages. |  |  |  | | --- | --- | | B. | lower interest rates. |  |  |  | | --- | --- | | C. | lower production costs. |  |  |  | | --- | --- | | D. | higher interest rates. |  |  |  | | --- | --- | | E. | higher exports. | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 26. | With an inflation rate of 9 percent, prices would double in about \_\_\_\_\_\_\_\_\_\_\_ years.      |  |  | | --- | --- | | A. | 4 |  |  |  | | --- | --- | | B. | 6 |  |  |  | | --- | --- | | C. | 8 |  |  |  | | --- | --- | | D. | 10 |  |  |  | | --- | --- | | E. | 12 | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 27. | Increased consumer spending will usually cause:      |  |  | | --- | --- | | A. | lower consumer prices. |  |  |  | | --- | --- | | B. | reduced employment levels. |  |  |  | | --- | --- | | C. | lower tax revenues. |  |  |  | | --- | --- | | D. | lower interest rates. |  |  |  | | --- | --- | | E. | higher employment levels. | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 28. | Higher interest rates can be caused by:      |  |  | | --- | --- | | A. | a lower money supply. |  |  |  | | --- | --- | | B. | an increase in the money supply. |  |  |  | | --- | --- | | C. | a decrease in consumer borrowing. |  |  |  | | --- | --- | | D. | lower government spending. |  |  |  | | --- | --- | | E. | increased saving and investing by consumers. | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 29. | The risk premium you receive as a *saver* is based in part on:      |  |  | | --- | --- | | A. | your credit rating. |  |  |  | | --- | --- | | B. | the amount of money you are borrowing. |  |  |  | | --- | --- | | C. | the uncertainty associated with getting your money back. |  |  |  | | --- | --- | | D. | the expected rate of inflation. |  |  |  | | --- | --- | | E. | the uncertainty associated with getting your money back and the expected rate of inflation. | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 30. | Which of the following would increase the risk of a loan?      |  |  | | --- | --- | | A. | Rising consumer prices |  |  |  | | --- | --- | | B. | A short time to maturity |  |  |  | | --- | --- | | C. | Lower consumer prices |  |  |  | | --- | --- | | D. | Constant interest rates |  |  |  | | --- | --- | | E. | A good credit rating | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 31. | The stages that an individual goes through based on age, financial needs, and family situation is called the:      |  |  | | --- | --- | | A. | financial planning process. |  |  |  | | --- | --- | | B. | budgeting procedure. |  |  |  | | --- | --- | | C. | personal economic cycle. |  |  |  | | --- | --- | | D. | adult life cycle. |  |  |  | | --- | --- | | E. | tax planning process. | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 32. | The study of how wealth is created and distributed is:      |  |  | | --- | --- | | A. | financial planning. |  |  |  | | --- | --- | | B. | opportunity cost. |  |  |  | | --- | --- | | C. | inflation. |  |  |  | | --- | --- | | D. | economics. |  |  |  | | --- | --- | | E. | a market economy. | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 33. | The main economic influence that determines prices is:      |  |  | | --- | --- | | A. | the stock market. |  |  |  | | --- | --- | | B. | interest rates. |  |  |  | | --- | --- | | C. | employment. |  |  |  | | --- | --- | | D. | government spending. |  |  |  | | --- | --- | | E. | supply and demand. | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 34. | *The Fed* refers to:      |  |  | | --- | --- | | A. | government regulation of business. |  |  |  | | --- | --- | | B. | Congress. |  |  |  | | --- | --- | | C. | the Federal Reserve System. |  |  |  | | --- | --- | | D. | the Federal Deposit Insurance Corporation. |  |  |  | | --- | --- | | E. | spending by the federal government. | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 35. | The main responsibility of *The Fed* is to:      |  |  | | --- | --- | | A. | maintain an adequate supply of money. |  |  |  | | --- | --- | | B. | approve spending by Congress. |  |  |  | | --- | --- | | C. | set federal income tax rates. |  |  |  | | --- | --- | | D. | determine illegal business activities. |  |  |  | | --- | --- | | E. | maintain a balanced budget for the federal government. | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 36. | Some savings and investment choices have the potential for higher earnings. However, these may also be difficult to convert to cash when you need the funds. This problem refers to:      |  |  | | --- | --- | | A. | inflation risk. |  |  |  | | --- | --- | | B. | interest rate risk. |  |  |  | | --- | --- | | C. | income risk. |  |  |  | | --- | --- | | D. | personal risk. |  |  |  | | --- | --- | | E. | liquidity risk. | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 37. | Which of the following would cause prices to drop?      |  |  | | --- | --- | | A. | Increased taxes on business |  |  |  | | --- | --- | | B. | Higher levels of demand by consumers |  |  |  | | --- | --- | | C. | A demand for higher wages |  |  |  | | --- | --- | | D. | A reduction in the money supply |  |  |  | | --- | --- | | E. | Increased production by business | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 38. | Attempts to increase income are part of the \_\_\_\_\_\_\_\_\_\_\_\_ component of financial planning.      |  |  | | --- | --- | | A. | planning |  |  |  | | --- | --- | | B. | obtaining |  |  |  | | --- | --- | | C. | saving |  |  |  | | --- | --- | | D. | sharing |  |  |  | | --- | --- | | E. | protecting | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 39. | A major activity in the planning component of financial planning is:      |  |  | | --- | --- | | A. | selecting insurance coverage. |  |  |  | | --- | --- | | B. | evaluating investment alternatives. |  |  |  | | --- | --- | | C. | gaining occupational training and experience. |  |  |  | | --- | --- | | D. | allocating current resources for spending. |  |  |  | | --- | --- | | E. | establishing a line of credit. | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 40. | The ability to convert financial resources into usable cash with ease is referred to as:      |  |  | | --- | --- | | A. | bankruptcy. |  |  |  | | --- | --- | | B. | liquidity. |  |  |  | | --- | --- | | C. | investing. |  |  |  | | --- | --- | | D. | saving. |  |  |  | | --- | --- | | E. | opportunity cost. | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 41. | The problem of bankruptcy is associated with poor decisions in the \_\_\_\_\_\_\_\_\_\_\_\_\_\_ component of financial planning.      |  |  | | --- | --- | | A. | sharing |  |  |  | | --- | --- | | B. | saving |  |  |  | | --- | --- | | C. | obtaining |  |  |  | | --- | --- | | D. | borrowing |  |  |  | | --- | --- | | E. | protecting | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 42. | A question associated with the saving component of financial planning is:      |  |  | | --- | --- | | A. | Do you have an adequate emergency fund? |  |  |  | | --- | --- | | B. | Is your will current? |  |  |  | | --- | --- | | C. | Is your investment program appropriate to your income and tax situation? |  |  |  | | --- | --- | | D. | Do you have a realistic budget for your current financial situation? |  |  |  | | --- | --- | | E. | Are your transportation expenses minimized through careful planning? | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 43. | A formalized report that summarizes your current financial situation, analyzes your financial needs, and recommends a direction for your financial activities is a(n):      |  |  | | --- | --- | | A. | insurance prospectus. |  |  |  | | --- | --- | | B. | financial plan. |  |  |  | | --- | --- | | C. | budget. |  |  |  | | --- | --- | | D. | investment forecast. |  |  |  | | --- | --- | | E. | statement. | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 44. | When an individual makes a purchase without considering the financial consequences of that purchase, ignores the \_\_\_\_\_\_\_\_\_\_\_\_\_\_ aspect of financial planning.      |  |  | | --- | --- | | A. | borrowing |  |  |  | | --- | --- | | B. | risk management |  |  |  | | --- | --- | | C. | spending |  |  |  | | --- | --- | | D. | retirement and estate planning |  |  |  | | --- | --- | | E. | obtaining | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 45. | The success of a financial plan will be determined by:      |  |  | | --- | --- | | A. | the amount of income available. |  |  |  | | --- | --- | | B. | the stage of the adult life cycle. |  |  |  | | --- | --- | | C. | a person's tax status. |  |  |  | | --- | --- | | D. | how resources are used. |  |  |  | | --- | --- | | E. | current economic conditions. | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 46. | As Jean Tyler plans to set aside funds for her young children's college education, she is setting a(n) \_\_\_\_\_\_\_\_\_\_\_\_ goal.      |  |  | | --- | --- | | A. | intermediate |  |  |  | | --- | --- | | B. | long-term |  |  |  | | --- | --- | | C. | short-term |  |  |  | | --- | --- | | D. | intangible |  |  |  | | --- | --- | | E. | durable | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 47. | \_\_\_\_\_\_\_\_\_\_\_\_ goals relate to personal relationships, health, and education.      |  |  | | --- | --- | | A. | Durable-product |  |  |  | | --- | --- | | B. | Short-term |  |  |  | | --- | --- | | C. | Consumable-product |  |  |  | | --- | --- | | D. | Intangible-purchase |  |  |  | | --- | --- | | E. | Intermediate | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 48. | Brad Johnson has a goal of "saving $50 a month for vacation." Brad's goal lacks:      |  |  | | --- | --- | | A. | measurable terms. |  |  |  | | --- | --- | | B. | a realistic perspective. |  |  |  | | --- | --- | | C. | specific terms. |  |  |  | | --- | --- | | D. | the type of action to be taken. |  |  |  | | --- | --- | | E. | a time frame. | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 49. | Which of the following goals would be the easiest to implement and measure its accomplishment?      |  |  | | --- | --- | | A. | "Reduce our debt payments." |  |  |  | | --- | --- | | B. | "Save funds for an annual vacation." |  |  |  | | --- | --- | | C. | "Save $100 a month to create a $4,000 emergency fund." |  |  |  | | --- | --- | | D. | "Invest $2,000 a year for retirement." |  |  |  | | --- | --- | | E. | "Increase our emergency fund." | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 50. | Opportunity cost refers to:      |  |  | | --- | --- | | A. | money needed for major consumer purchases. |  |  |  | | --- | --- | | B. | what a person gives up by making a choice. |  |  |  | | --- | --- | | C. | the amount paid for taxes when a purchase is made. |  |  |  | | --- | --- | | D. | current interest rates. |  |  |  | | --- | --- | | E. | evaluating different alternatives for financial decisions. | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 51. | An example of a *personal* opportunity cost would be:      |  |  | | --- | --- | | A. | interest lost by using savings to make a purchase. |  |  |  | | --- | --- | | B. | higher earnings on savings that must be kept on deposit a minimum of six months. |  |  |  | | --- | --- | | C. | lost wages due to continuing as a full-time student. |  |  |  | | --- | --- | | D. | time comparing several brands of personal computers. |  |  |  | | --- | --- | | E. | having to pay a tax penalty due to not having enough withheld from your monthly salary. | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 52. | The time value of money refers to:      |  |  | | --- | --- | | A. | personal opportunity costs such as time lost on an activity. |  |  |  | | --- | --- | | B. | financial decisions that require borrowing funds from a financial institution. |  |  |  | | --- | --- | | C. | changes in interest rates due to changes in the supply and demand for money in our economy. |  |  |  | | --- | --- | | D. | increases in an amount of money as a result of interest. |  |  |  | | --- | --- | | E. | changing demographic trends in our society. | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 53. | The amount of interest is determined by multiplying the amount in savings by the:      |  |  | | --- | --- | | A. | annual interest rate. |  |  |  | | --- | --- | | B. | time period. |  |  |  | | --- | --- | | C. | number of months in a year. |  |  |  | | --- | --- | | D. | time period and number of months. |  |  |  | | --- | --- | | E. | annual interest rate and the time period. | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 54. | If a person deposited $50 a month for 6 years earning 8 percent, this would involve what type of computation?      |  |  | | --- | --- | | A. | Simple interest |  |  |  | | --- | --- | | B. | Future value of a single amount |  |  |  | | --- | --- | | C. | Future value of a series of deposits |  |  |  | | --- | --- | | D. | Present value of a single amount |  |  |  | | --- | --- | | E. | Present value of a series of deposits | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 55. | Which type of computation would a person use to determine current value of a desired amount for the future?      |  |  | | --- | --- | | A. | Simple interest |  |  |  | | --- | --- | | B. | Future value of a single amount |  |  |  | | --- | --- | | C. | Future value of a series of deposits |  |  |  | | --- | --- | | D. | Present value of a single amount |  |  |  | | --- | --- | | E. | Present value of a series of deposits | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 56. | If inflation is increasing at 3 percent per year, and your salary increases at the same rate, how long will it take your salary to double?      |  |  | | --- | --- | | A. | 30 years |  |  |  | | --- | --- | | B. | 24 years |  |  |  | | --- | --- | | C. | 18 years |  |  |  | | --- | --- | | D. | 12 years |  |  |  | | --- | --- | | E. | 6 years | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 57. | When prices are increasing at a rate of 6 percent, the cost of products would double in about how many years?      |  |  | | --- | --- | | A. | 7.2 years |  |  |  | | --- | --- | | B. | 10 years |  |  |  | | --- | --- | | C. | 6 years |  |  |  | | --- | --- | | D. | 12 years |  |  |  | | --- | --- | | E. | 18 years | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 58. | Future value calculations involve:      |  |  | | --- | --- | | A. | discounting. |  |  |  | | --- | --- | | B. | add-on interest. |  |  |  | | --- | --- | | C. | compounding. |  |  |  | | --- | --- | | D. | simple interest. |  |  |  | | --- | --- | | E. | an annuity. | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 59. | If you put $1,000 in a saving account and make no further deposits, what type of calculation would provide you with the value of the account in 20 years?      |  |  | | --- | --- | | A. | Future value of a single amount |  |  |  | | --- | --- | | B. | Simple interest |  |  |  | | --- | --- | | C. | Present value of a single amount |  |  |  | | --- | --- | | D. | Present value of a series of deposits |  |  |  | | --- | --- | | E. | Future value of a series of deposits | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 60. | The first step of the financial planning process is to:      |  |  | | --- | --- | | A. | develop financial goals. |  |  |  | | --- | --- | | B. | implement the financial plan. |  |  |  | | --- | --- | | C. | analyze your current personal and financial situation. |  |  |  | | --- | --- | | D. | evaluate and revise your actions. |  |  |  | | --- | --- | | E. | create a financial plan of action. | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 61. | \_\_\_\_\_\_\_\_\_\_\_\_ risk refers to the danger of lost buying power during times of rising prices.      |  |  | | --- | --- | | A. | Trade-off |  |  |  | | --- | --- | | B. | Economic |  |  |  | | --- | --- | | C. | Personal |  |  |  | | --- | --- | | D. | Inflation |  |  |  | | --- | --- | | E. | Interest-rate | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 62. | Which of the following is an example of opportunity cost?      |  |  | | --- | --- | | A. | Renting an apartment near school |  |  |  | | --- | --- | | B. | Saving money instead of taking a vacation |  |  |  | | --- | --- | | C. | Setting aside money for paying income tax |  |  |  | | --- | --- | | D. | Purchasing automobile insurance |  |  |  | | --- | --- | | E. | Using a personal computer for financial planning | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 63. | The changing cost of money is referred to as \_\_\_\_\_\_\_\_\_\_\_\_ risk.      |  |  | | --- | --- | | A. | interest-rate |  |  |  | | --- | --- | | B. | inflation |  |  |  | | --- | --- | | C. | economic |  |  |  | | --- | --- | | D. | trade-off |  |  |  | | --- | --- | | E. | personal | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 64. | The uncertainty associated with decision making is referred to as:      |  |  | | --- | --- | | A. | opportunity cost. |  |  |  | | --- | --- | | B. | selection of alternatives. |  |  |  | | --- | --- | | C. | financial goals. |  |  |  | | --- | --- | | D. | personal values. |  |  |  | | --- | --- | | E. | risk. | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 65. | The financial planning process concludes with efforts to:      |  |  | | --- | --- | | A. | develop financial goals. |  |  |  | | --- | --- | | B. | create a financial plan of action. |  |  |  | | --- | --- | | C. | analyze your current personal and financial situation. |  |  |  | | --- | --- | | D. | review the financial plan. |  |  |  | | --- | --- | | E. | review and revise your actions. | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 66. | Using the services of financial institutions will be *most* evident in your effort to:      |  |  | | --- | --- | | A. | develop financial goals. |  |  |  | | --- | --- | | B. | evaluate and revise your actions. |  |  |  | | --- | --- | | C. | analyze your current personal and financial situation. |  |  |  | | --- | --- | | D. | implement the financial plan. |  |  |  | | --- | --- | | E. | create a financial plan of action. | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 67. | Changes in income, values, and family situation make it necessary to:      |  |  | | --- | --- | | A. | evaluate and revise your actions. |  |  |  | | --- | --- | | B. | implement the financial plan. |  |  |  | | --- | --- | | C. | develop financial goals. |  |  |  | | --- | --- | | D. | analyze your current personal and financial situation. |  |  |  | | --- | --- | | E. | create a financial plan of action. | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 68. | Which of the following is usually considered a long-term financial strategy?      |  |  | | --- | --- | | A. | Creating a budget |  |  |  | | --- | --- | | B. | Using savings to pay off a loan early |  |  |  | | --- | --- | | C. | Renting an apartment to save for the purchase of a home |  |  |  | | --- | --- | | D. | Investing in a growth mutual fund to accumulate retirement funds |  |  |  | | --- | --- | | E. | Purchasing auto insurance to cover the needs of dependents | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 69. | Lynn Roy will retire in the next year and has $675,000 in savings and investments and owns her own home that is worth $250,000. Which step in the financial planning process does this situation demonstrate?      |  |  | | --- | --- | | A. | Determining her current financial situation |  |  |  | | --- | --- | | B. | Developing her financial goals |  |  |  | | --- | --- | | C. | Identifying alternative courses of action |  |  |  | | --- | --- | | D. | Evaluating her alternatives |  |  |  | | --- | --- | | E. | Implementing her financial plan | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 70. | Lynn Roy wants to travel after she retires as well as pay off the balance of the loan she has on the home she owns. Which step in the financial planning process does this situation demonstrate?      |  |  | | --- | --- | | A. | Determining her current financial situation |  |  |  | | --- | --- | | B. | Developing her financial goals |  |  |  | | --- | --- | | C. | Identifying alternative courses of action |  |  |  | | --- | --- | | D. | Evaluating her alternatives |  |  |  | | --- | --- | | E. | Implementing her financial plan | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 71. | Lynn Roy wants to travel around the world. Lynn Roy has several options she can pursue. She can continue to work full time to earn the money she needs for her trip. She can work part time so that she can still earn some money but have the time necessary to complete her trip. She can take full retirement so that she has all the time necessary to complete her trip. Which step in the financial planning process does this scenario demonstrate?      |  |  | | --- | --- | | A. | Determining her current financial situation |  |  |  | | --- | --- | | B. | Developing her financial goals |  |  |  | | --- | --- | | C. | Identifying alternative courses of action |  |  |  | | --- | --- | | D. | Evaluating her alternatives |  |  |  | | --- | --- | | E. | Implementing her financial plan | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 72. | Lynn Roy knows that if she continues to work full time, it will be difficult for her to get the time off she needs to be able to travel around the world. However, if she continues to work full time she will more easily earn the money she needs to take her trip and still have money left for her living expenses after she gets back from her trip. Which step in the financial planning process does this scenario demonstrate?      |  |  | | --- | --- | | A. | Determining her current financial situation |  |  |  | | --- | --- | | B. | Developing her financial goals |  |  |  | | --- | --- | | C. | Identifying alternative courses of action |  |  |  | | --- | --- | | D. | Evaluating her alternatives |  |  |  | | --- | --- | | E. | Implementing her financial plan | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 73. | Lynn Roy has decided to take retirement from her job and use the time she has earned to travel around the world. She has decided to start her trip around the world in Europe by train and bus and will use her savings to pay for her trip. Which step in the financial planning process does this scenario demonstrate?      |  |  | | --- | --- | | A. | Developing her financial goals |  |  |  | | --- | --- | | B. | Identifying alternative courses of action |  |  |  | | --- | --- | | C. | Evaluating her alternatives |  |  |  | | --- | --- | | D. | Implementing her financial plan |  |  |  | | --- | --- | | E. | Reviewing and revising her financial plan | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 74. | Lynn Roy's goal has been to travel around the world. She has now been traveling for six months and she has decided she is a little tired of living out of a suitcase. She has decided to go home, look for a part time job and take shorter trips to locations around the world that appeal to her. Which step in the financial planning process does this scenario most likely demonstrate?      |  |  | | --- | --- | | A. | Developing her financial goals |  |  |  | | --- | --- | | B. | Identifying alternative courses of action |  |  |  | | --- | --- | | C. | Evaluating her alternatives |  |  |  | | --- | --- | | D. | Implementing her financial plan |  |  |  | | --- | --- | | E. | Reviewing and revising her financial plan | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 75. | John Gleason is interested in purchasing a 46" rear projection TV for his living room. John knows that right now the TV will cost approximately $1500. John is not sure he can afford this TV right now but is worried that if he waits, the cost of the TV will rise to $1800. Which type of risk is John worried about?      |  |  | | --- | --- | | A. | Inflation risk |  |  |  | | --- | --- | | B. | Interest rate risk |  |  |  | | --- | --- | | C. | Income risk |  |  |  | | --- | --- | | D. | Personal risk |  |  |  | | --- | --- | | E. | Liquidity risk | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 76. | John Gleason is interested in purchasing a 46" rear projection TV for his living room. He knows that right now the TV will cost approximately $1500. John wants to borrow the money to purchase the TV but is a little concerned because he thinks interest rates are going to fall in the future. He is worried that he might get stuck with a loan at a high interest rate. What type of risk is John worried about?      |  |  | | --- | --- | | A. | Inflation risk |  |  |  | | --- | --- | | B. | Interest rate risk |  |  |  | | --- | --- | | C. | Income risk |  |  |  | | --- | --- | | D. | Personal risk |  |  |  | | --- | --- | | E. | Liquidity risk | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 77. | John Gleason is interested in purchasing a 46" rear projection TV for his living room. He knows that right now the TV will cost approximately $1500. However, John is a little concerned about his job. John is a pilot for Delta Airlines and he thinks it is possible that he could be laid off in the near future. What type of risk is John worried about?      |  |  | | --- | --- | | A. | Inflation risk |  |  |  | | --- | --- | | B. | Interest rate risk |  |  |  | | --- | --- | | C. | Income risk |  |  |  | | --- | --- | | D. | Personal risk |  |  |  | | --- | --- | | E. | Liquidity risk | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 78. | Mary Sheets is considering investing in 30 year Corporate Bonds issued by Duke Energy Company. She knows that she will earn an interest rate of 8% by purchasing these bonds. However, she is concerned because she might need to take her money out of this investment in a year and she has heard that she might have to sell the bonds at a significantly lower price than she will purchase them for. What type of risk is Mary concerned about?      |  |  | | --- | --- | | A. | Inflation risk |  |  |  | | --- | --- | | B. | Interest rate risk |  |  |  | | --- | --- | | C. | Income risk |  |  |  | | --- | --- | | D. | Personal risk |  |  |  | | --- | --- | | E. | Liquidity risk | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 79. | John Dean has just moved into a new house and needs a lawn mower since he has always lived in apartments and now he has a lawn to mow. What type of goal would this be for John?      |  |  | | --- | --- | | A. | Consumable-products goal |  |  |  | | --- | --- | | B. | Durable-products goal |  |  |  | | --- | --- | | C. | Intangible goal |  |  |  | | --- | --- | | D. | Intermediate goal |  |  |  | | --- | --- | | E. | Long term goal | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 80. | Melanie Walsh likes to go to the movies once a week. When she is at the movies, she generally gets large popcorn and a drink. Melanie wants to be sure that she sets aside money each week so she can continue going to the movies. What type of goal would this be for Melanie?      |  |  | | --- | --- | | A. | Consumable-products goal |  |  |  | | --- | --- | | B. | Durable-products goal |  |  |  | | --- | --- | | C. | Intangible goal |  |  |  | | --- | --- | | D. | Intermediate goal |  |  |  | | --- | --- | | E. | Long term goal | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 81. | Paul Carter is 43 years old, married and has three children, ages 13, 10 and 5. Which influence on financial planning does this demonstrate?      |  |  | | --- | --- | | A. | Adult Life Cycle |  |  |  | | --- | --- | | B. | Economic Factors |  |  |  | | --- | --- | | C. | Global Influences |  |  |  | | --- | --- | | D. | Opportunity Costs |  |  |  | | --- | --- | | E. | None of these. | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 82. | One aspect of financial planning is to make wise decisions as to what to purchase and when to purchase it. Which aspect of financial planning does this deal with?      |  |  | | --- | --- | | A. | Borrowing |  |  |  | | --- | --- | | B. | Spending |  |  |  | | --- | --- | | C. | Managing Risk |  |  |  | | --- | --- | | D. | Investing |  |  |  | | --- | --- | | E. | Retirement and Estate Planning | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 83. | One aspect of financial planning is to control your use of credit. Which aspect of financial planning does this deal with?      |  |  | | --- | --- | | A. | Borrowing |  |  |  | | --- | --- | | B. | Spending |  |  |  | | --- | --- | | C. | Managing Risk |  |  |  | | --- | --- | | D. | Investing |  |  |  | | --- | --- | | E. | Retirement and Estate Planning | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 84. | One aspect of financial planning is to make sure you maintain adequate insurance coverage for your needs. Which aspect of financial planning does this deal with?      |  |  | | --- | --- | | A. | Borrowing |  |  |  | | --- | --- | | B. | Spending |  |  |  | | --- | --- | | C. | Managing Risk |  |  |  | | --- | --- | | D. | Investing |  |  |  | | --- | --- | | E. | Retirement and Estate Planning | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 85. | One aspect of financial planning is to buy stocks, bonds and mutual funds with the potential for long term growth. Which aspect of financial planning does this deal with?      |  |  | | --- | --- | | A. | Borrowing |  |  |  | | --- | --- | | B. | Spending |  |  |  | | --- | --- | | C. | Managing Risk |  |  |  | | --- | --- | | D. | Investing |  |  |  | | --- | --- | | E. | Retirement and Estate Planning | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 86. | When prices are rising at a rate of 3 percent, the cost of products and services would double in \_\_\_\_\_\_ years.      |  |  | | --- | --- | | A. | 3 |  |  |  | | --- | --- | | B. | 6 |  |  |  | | --- | --- | | C. | 12 |  |  |  | | --- | --- | | D. | 24 |  |  |  | | --- | --- | | E. | 36 | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 87. | Sources for financial planning can be found from:      |  |  | | --- | --- | | A. | print and media. |  |  |  | | --- | --- | | B. | digital sources. |  |  |  | | --- | --- | | C. | financial institutions. |  |  |  | | --- | --- | | D. | financial experts. |  |  |  | | --- | --- | | E. | All of these. | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 88. | The annual price increase for consumer goods and services measured by the Bureau of Labor Statistics is called \_\_\_\_\_\_\_\_.      |  |  | | --- | --- | | A. | deflation |  |  |  | | --- | --- | | B. | inflation |  |  |  | | --- | --- | | C. | the consumer price index |  |  |  | | --- | --- | | D. | the price calculator |  |  |  | | --- | --- | | E. | the goods index | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 89. | If you desire your money to double in 6 years, what rate of return would you need to earn?      |  |  | | --- | --- | | A. | 6 percent |  |  |  | | --- | --- | | B. | 8 percent |  |  |  | | --- | --- | | C. | 9 percent |  |  |  | | --- | --- | | D. | 10 percent |  |  |  | | --- | --- | | E. | 12 percent | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 90. | A family spends $40,000 on living expenses. With an annual inflation rate of 3 percent, they can expect to spend approximately \_\_\_\_\_\_\_ in three years.      |  |  | | --- | --- | | A. | $40,300 |  |  |  | | --- | --- | | B. | $41,200 |  |  |  | | --- | --- | | C. | $42,000 |  |  |  | | --- | --- | | D. | $43,720 |  |  |  | | --- | --- | | E. | $46,000 | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 91. | The future value of $1,000 deposited a year for 5 years earning 4 percent would be *approximately:*      |  |  | | --- | --- | | A. | $5,000 |  |  |  | | --- | --- | | B. | $5,250 |  |  |  | | --- | --- | | C. | $5,400 |  |  |  | | --- | --- | | D. | $6,500 |  |  |  | | --- | --- | | E. | $8,200 | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 92. | You are planning to buy a house in five years. How much do you need to deposit today to have a $10,000 down payment if your investment will make 6%?      |  |  | | --- | --- | | A. | $6,000 |  |  |  | | --- | --- | | B. | $6,590 |  |  |  | | --- | --- | | C. | $7,470 |  |  |  | | --- | --- | | D. | $9,400 |  |  |  | | --- | --- | | E. | $10,000 | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 93. | John is planning to go to graduate school in a program that will take three years. John wants to have available $10,000 available each year for his school and living expenses. If he earns 6% on his investments, how much must be deposited at the start of his studies for him to withdraw $10,000 a year for three years?      |  |  | | --- | --- | | A. | $10,000 |  |  |  | | --- | --- | | B. | $18,390 |  |  |  | | --- | --- | | C. | $26,730 |  |  |  | | --- | --- | | D. | $29,100 |  |  |  | | --- | --- | | E. | $30,000 | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 94. | Mary Sander's new job is very demanding. She regularly works long hours and on the weekends. As a result, Mary has not had much time for her family and friends. This is an example of:      |  |  | | --- | --- | | A. | deflation. |  |  |  | | --- | --- | | B. | financial opportunity cost. |  |  |  | | --- | --- | | C. | personal opportunity cost. |  |  |  | | --- | --- | | D. | time value of money. |  |  |  | | --- | --- | | E. | inflation. | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 95. | During \_\_\_\_\_\_\_\_\_\_, even though prices decline spending slows because consumers expect prices to continue to decline.      |  |  | | --- | --- | | A. | deflation |  |  |  | | --- | --- | | B. | depreciation |  |  |  | | --- | --- | | C. | appreciation |  |  |  | | --- | --- | | D. | economic recovery |  |  |  | | --- | --- | | E. | inflation | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 96. | Financial intermediaries include the following:      |  |  | | --- | --- | | A. | bank. |  |  |  | | --- | --- | | B. | credit unions. |  |  |  | | --- | --- | | C. | insurance companies. |  |  |  | | --- | --- | | D. | investment companies. |  |  |  | | --- | --- | | E. | All of these. | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 97. | More recently, the annual price increase for most goods and services as measured by the consumer price index has been less than \_\_\_\_ percent.      |  |  | | --- | --- | | A. | 1 |  |  |  | | --- | --- | | B. | 2 |  |  |  | | --- | --- | | C. | 3 |  |  |  | | --- | --- | | D. | 4 |  |  |  | | --- | --- | | E. | 5 | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 98. | Increased home building results in:      |  |  | | --- | --- | | A. | increased job opportunities. |  |  |  | | --- | --- | | B. | higher wages. |  |  |  | | --- | --- | | C. | increased consumer spending. |  |  |  | | --- | --- | | D. | overall economic expansion. |  |  |  | | --- | --- | | E. | All of these. | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 99. | Developing financial goals is the \_\_\_\_\_\_ step in the financial planning process.      |  |  | | --- | --- | | A. | first |  |  |  | | --- | --- | | B. | second |  |  |  | | --- | --- | | C. | third |  |  |  | | --- | --- | | D. | fourth |  |  |  | | --- | --- | | E. | fifth | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 100. | The following are examples of intangible goals, except:      |  |  | | --- | --- | | A. | obtaining a college degree. |  |  |  | | --- | --- | | B. | going on a cruise vacation. |  |  |  | | --- | --- | | C. | buying a house. |  |  |  | | --- | --- | | D. | losing weight. |  |  |  | | --- | --- | | E. | getting more sleep. | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 101. | Developing and using a budget is part of which component of financial planning?      |  |  | | --- | --- | | A. | Retirement and Estate Planning |  |  |  | | --- | --- | | B. | Investing |  |  |  | | --- | --- | | C. | Spending |  |  |  | | --- | --- | | D. | Managing Risk |  |  |  | | --- | --- | | E. | Planning | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 102. | Analyzing your current financial position is a part of which step in the financial planning process?      |  |  | | --- | --- | | A. | First |  |  |  | | --- | --- | | B. | Second |  |  |  | | --- | --- | | C. | Third |  |  |  | | --- | --- | | D. | Fourth |  |  |  | | --- | --- | | E. | Fifth | |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 103. | Measuring risk associated with making most financial decisions is difficult because of what factor(s)?      |  |  | | --- | --- | | A. | Inflation risk |  |  |  | | --- | --- | | B. | Interest rate risk |  |  |  | | --- | --- | | C. | Personal risk |  |  |  | | --- | --- | | D. | Liquidity risk |  |  |  | | --- | --- | | E. | All of these. | |

**Essay Questions**

|  |  |
| --- | --- |
| 104. | Describe the S-M-A-R-T approach to financial planning goal setting. Give an example. |

|  |  |
| --- | --- |
| 105. | What are the main components of personal financial planning? |

|  |  |
| --- | --- |
| 106. | People are commonly overwhelmed by the many influences on personal financial decisions. What are the factors affecting financial planning? |

|  |  |
| --- | --- |
| 107. | What types of risks are commonly associated with personal financial decisions? How can these risks be evaluated and minimized to reduce personal and financial difficulties? |

|  |  |
| --- | --- |
| 108. | Linda Ashworth is trying to decide whether to keep her money in a savings account or in a mutual fund. What would you tell her to help her analyze her decision? |

|  |  |
| --- | --- |
| 109. | What are the six steps in the financial planning process? |

|  |  |
| --- | --- |
| 110. | Explain why borrowers benefit more than lenders in times of high inflation. |

|  |  |
| --- | --- |
| 111. | What is meant by the term "Time Value of Money?" |

Chapter 01 Personal Finance Basics and the Time Value of Money Answer Key

**True / False Questions**

|  |  |
| --- | --- |
| 1. *(p. 4)* | Financial planning has specific techniques that will be effective for every individual and household.    **FALSE** |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-01 Analyze the process for making personal financial decisions. Topic: Financial Planning Process* |

|  |  |
| --- | --- |
| 2. *(p. 13)* | Increased demand for a product or service will usually result in lower prices for the item.    **FALSE** |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning. Topic: Economic Conditions-Consumer Prices* |

|  |  |
| --- | --- |
| 3. *(p. 12)* | Inflation reduces the buying power of money.    **TRUE** |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning. Topic: Inflation* |

|  |  |
| --- | --- |
| 4. *(p. 12)* | Lenders benefit more than borrowers in times of high inflation.    **FALSE** |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 3 Hard Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning. Topic: Inflation* |

|  |  |
| --- | --- |
| 5. *(p. 11)* | Economics is the study of using money to achieve financial goals.    **FALSE** |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning. Topic: Economics* |

|  |  |
| --- | --- |
| 6. *(p. 11)* | A decrease in the demand for a product or service may result in a decrease in wages for people producing that item.    **TRUE** |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning. Topic: Economic Conditions-Consumer Prices* |

|  |  |
| --- | --- |
| 7. *(p. 12)* | Higher inflation usually results in lower interest rates.    **FALSE** |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Learning Objective: 01-01 Analyze the process for making personal financial decisions. Topic: Inflation* |

|  |  |
| --- | --- |
| 8. *(p. 24)* | Developing and using a budget is part of the "obtaining" component of financial planning.    **FALSE** |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-05 Identify strategies for achieving personal financial goals for different life situations. Topic: Components of Personal Financial Planning* |

|  |  |
| --- | --- |
| 9. *(p. 27)* | A financial plan is another name for a budget.    **FALSE** |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Learning Objective: 01-05 Identify strategies for achieving personal financial goals for different life situations. Topic: Financial Plan* |

|  |  |
| --- | --- |
| 10. *(p. 16)* | Planning to buy a house is an example of an intangible goal.    **FALSE** |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Develop personal financial goals. Topic: Types of Financial Goals* |

|  |  |
| --- | --- |
| 11. *(p. 18)* | Opportunity costs refer to what a person gives up when making a decision.    **TRUE** |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Learning Objective: 01-04 Calculate time value of money situations associated with personal financial decisions. Topic: Opportunity Costs* |

|  |  |
| --- | --- |
| 12. *(p. 18)* | Opportunity costs refer to time, money, and other resources that are given up when a decision is made.    **TRUE** |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Learning Objective: 01-04 Calculate time value of money situations associated with personal financial decisions. Topic: Opportunity Costs* |

|  |  |
| --- | --- |
| 13. *(p. 19)* | Time value of money refers to changes in consumer spending when inflation occurs.    **FALSE** |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Learning Objective: 01-04 Calculate time value of money situations associated with personal financial decisions. Topic: Time Value of Money* |

|  |  |
| --- | --- |
| 14. *(p. 19)* | Interest on savings is calculated by multiplying the money amount times the opportunity cost times the annual interest rate.    **FALSE** |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 3 Hard Learning Objective: 01-04 Calculate time value of money situations associated with personal financial decisions. Topic: Interest Calculations* |

|  |  |
| --- | --- |
| 15. *(p. 22)* | Present value is also referred to as compounding.    **FALSE** |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Learning Objective: 01-04 Calculate time value of money situations associated with personal financial decisions. Topic: Time Value of Money-Present Value* |

|  |  |
| --- | --- |
| 16. *(p. 18)* | Most decisions have only a few alternatives from which to choose.    **FALSE** |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-04 Calculate time value of money situations associated with personal financial decisions. Topic: Opportunity Costs* |

|  |  |
| --- | --- |
| 17. *(p. 7)* | Risks associated with most financial decisions are fairly easy to measure.    **FALSE** |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-01 Analyze the process for making personal financial decisions. Topic: Evaluating Risk* |

|  |  |
| --- | --- |
| 18. *(p. 5)* | Developing financial goals is the first step in the financial planning process.    **FALSE** |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Learning Objective: 01-01 Analyze the process for making personal financial decisions. Topic: Financial Planning Process* |

|  |  |
| --- | --- |
| 19. *(p. 5)* | Analyzing your current financial position is a part of the first stage of the financial planning process.    **TRUE** |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-01 Analyze the process for making personal financial decisions. Topic: Financial Planning Process* |

|  |  |
| --- | --- |
| 20. *(p. 13)* | Gross Domestic Product (GDP) measures the total value of goods and services produced within a country's borders, excluding items produced with foreign resources.    **FALSE** |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning. Topic: Economic Conditions* |

|  |  |
| --- | --- |
| 21. *(p. 13)* | Trade balance is defined as the difference between a country's exports and its imports.    **TRUE** |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning. Topic: Financial System and Economic Factors* |

**Multiple Choice Questions**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 22. *(p. 4)* | The main goal of personal financial planning is:      |  |  | | --- | --- | | A. | saving and investing for future needs. |  |  |  | | --- | --- | | B. | reducing a person's tax liability. |  |  |  | | --- | --- | | **C.** | achieving personal economic satisfaction. |  |  |  | | --- | --- | | D. | spending to achieve financial objectives. |  |  |  | | --- | --- | | E. | saving, spending, and borrowing based on current needs. | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-01 Analyze the process for making personal financial decisions. Topic: Financial Planning Process* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 23. *(p. 12)* | Higher prices are likely to result from:      |  |  | | --- | --- | | A. | lower demand by consumers. |  |  |  | | --- | --- | | B. | increased production by business. |  |  |  | | --- | --- | | C. | lower interest rates. |  |  |  | | --- | --- | | **D.** | increased spending by consumers without increased production. |  |  |  | | --- | --- | | E. | an increase in the supply of a product. | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning. Topic: Economic Conditions-Consumer Prices* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 24. *(p. 12)* | Who is *most likely* to benefit from inflation?      |  |  | | --- | --- | | A. | Retired people |  |  |  | | --- | --- | | B. | Lenders |  |  |  | | --- | --- | | **C.** | Borrowers |  |  |  | | --- | --- | | D. | Low-income consumers |  |  |  | | --- | --- | | E. | Government | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning. Topic: Inflation* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 25. *(p. 12)* | Higher consumer prices are likely to be accompanied by:      |  |  | | --- | --- | | A. | lower union wages. |  |  |  | | --- | --- | | B. | lower interest rates. |  |  |  | | --- | --- | | C. | lower production costs. |  |  |  | | --- | --- | | **D.** | higher interest rates. |  |  |  | | --- | --- | | E. | higher exports. | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 3 Hard Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning. Topic: Economic Conditions-Consumer Prices* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 26. *(p. 12)* | With an inflation rate of 9 percent, prices would double in about \_\_\_\_\_\_\_\_\_\_\_ years.      |  |  | | --- | --- | | A. | 4 |  |  |  | | --- | --- | | B. | 6 |  |  |  | | --- | --- | | **C.** | 8 |  |  |  | | --- | --- | | D. | 10 |  |  |  | | --- | --- | | E. | 12 |   Rule of 72, 72/9 = 8 |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Apply Difficulty: 2 Medium Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning. Topic: Rule of 72* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 27. *(p. 14)* | Increased consumer spending will usually cause:      |  |  | | --- | --- | | A. | lower consumer prices. |  |  |  | | --- | --- | | B. | reduced employment levels. |  |  |  | | --- | --- | | C. | lower tax revenues. |  |  |  | | --- | --- | | D. | lower interest rates. |  |  |  | | --- | --- | | **E.** | higher employment levels. | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning. Topic: Economic Conditions-Consumer Spending* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 28. *(p. 12)* | Higher interest rates can be caused by:      |  |  | | --- | --- | | **A.** | a lower money supply. |  |  |  | | --- | --- | | B. | an increase in the money supply. |  |  |  | | --- | --- | | C. | a decrease in consumer borrowing. |  |  |  | | --- | --- | | D. | lower government spending. |  |  |  | | --- | --- | | E. | increased saving and investing by consumers. | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 3 Hard Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning. Topic: Economic Conditions-Interest Rates* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 29. *(p. 15)* | The risk premium you receive as a *saver* is based in part on:      |  |  | | --- | --- | | A. | your credit rating. |  |  |  | | --- | --- | | B. | the amount of money you are borrowing. |  |  |  | | --- | --- | | C. | the uncertainty associated with getting your money back. |  |  |  | | --- | --- | | D. | the expected rate of inflation. |  |  |  | | --- | --- | | **E.** | the uncertainty associated with getting your money back and the expected rate of inflation. | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 3 Hard Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning. Topic: Financial Opportunity Costs* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 30. *(p. 15)* | Which of the following would increase the risk of a loan?      |  |  | | --- | --- | | **A.** | Rising consumer prices |  |  |  | | --- | --- | | B. | A short time to maturity |  |  |  | | --- | --- | | C. | Lower consumer prices |  |  |  | | --- | --- | | D. | Constant interest rates |  |  |  | | --- | --- | | E. | A good credit rating | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 3 Hard Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning. Topic: Economic Conditions-Interest Rates* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 31. *(p. 10)* | The stages that an individual goes through based on age, financial needs, and family situation is called the:      |  |  | | --- | --- | | A. | financial planning process. |  |  |  | | --- | --- | | B. | budgeting procedure. |  |  |  | | --- | --- | | C. | personal economic cycle. |  |  |  | | --- | --- | | **D.** | adult life cycle. |  |  |  | | --- | --- | | E. | tax planning process. | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning. Topic: Adult Life Cycle* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 32. *(p. 11)* | The study of how wealth is created and distributed is:      |  |  | | --- | --- | | A. | financial planning. |  |  |  | | --- | --- | | B. | opportunity cost. |  |  |  | | --- | --- | | C. | inflation. |  |  |  | | --- | --- | | **D.** | economics. |  |  |  | | --- | --- | | E. | a market economy. | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning. Topic: Economics* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 33. *(p. 11)* | The main economic influence that determines prices is:      |  |  | | --- | --- | | A. | the stock market. |  |  |  | | --- | --- | | B. | interest rates. |  |  |  | | --- | --- | | C. | employment. |  |  |  | | --- | --- | | D. | government spending. |  |  |  | | --- | --- | | **E.** | supply and demand. | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning. Topic: Economics* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 34. *(p. 11)* | *The Fed* refers to:      |  |  | | --- | --- | | A. | government regulation of business. |  |  |  | | --- | --- | | B. | Congress. |  |  |  | | --- | --- | | **C.** | the Federal Reserve System. |  |  |  | | --- | --- | | D. | the Federal Deposit Insurance Corporation. |  |  |  | | --- | --- | | E. | spending by the federal government. | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning. Topic: Federal Reserve System* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 35. *(p. 11)* | The main responsibility of *The Fed* is to:      |  |  | | --- | --- | | **A.** | maintain an adequate supply of money. |  |  |  | | --- | --- | | B. | approve spending by Congress. |  |  |  | | --- | --- | | C. | set federal income tax rates. |  |  |  | | --- | --- | | D. | determine illegal business activities. |  |  |  | | --- | --- | | E. | maintain a balanced budget for the federal government. | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning. Topic: Federal Reserve System* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 36. *(p. 8)* | Some savings and investment choices have the potential for higher earnings. However, these may also be difficult to convert to cash when you need the funds. This problem refers to:      |  |  | | --- | --- | | A. | inflation risk. |  |  |  | | --- | --- | | B. | interest rate risk. |  |  |  | | --- | --- | | C. | income risk. |  |  |  | | --- | --- | | D. | personal risk. |  |  |  | | --- | --- | | **E.** | liquidity risk. | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Learning Objective: 01-01 Analyze the process for making personal financial decisions. Topic: Types of Risk* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 37. *(p. 12)* | Which of the following would cause prices to drop?      |  |  | | --- | --- | | A. | Increased taxes on business |  |  |  | | --- | --- | | B. | Higher levels of demand by consumers |  |  |  | | --- | --- | | C. | A demand for higher wages |  |  |  | | --- | --- | | D. | A reduction in the money supply |  |  |  | | --- | --- | | **E.** | Increased production by business | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 3 Hard Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning. Topic: Economic Conditions-Consumer Prices* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 38. *(p. 24)* | Attempts to increase income are part of the \_\_\_\_\_\_\_\_\_\_\_\_ component of financial planning.      |  |  | | --- | --- | | A. | planning |  |  |  | | --- | --- | | **B.** | obtaining |  |  |  | | --- | --- | | C. | saving |  |  |  | | --- | --- | | D. | sharing |  |  |  | | --- | --- | | E. | protecting | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-05 Identify strategies for achieving personal financial goals for different life situations. Topic: Components of Personal Financial Planning* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 39. *(p. 24)* | A major activity in the planning component of financial planning is:      |  |  | | --- | --- | | A. | selecting insurance coverage. |  |  |  | | --- | --- | | B. | evaluating investment alternatives. |  |  |  | | --- | --- | | C. | gaining occupational training and experience. |  |  |  | | --- | --- | | **D.** | allocating current resources for spending. |  |  |  | | --- | --- | | E. | establishing a line of credit. | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Learning Objective: 01-05 Identify strategies for achieving personal financial goals for different life situations. Topic: Components of Personal Financial Planning* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 40. *(p. 25)* | The ability to convert financial resources into usable cash with ease is referred to as:      |  |  | | --- | --- | | A. | bankruptcy. |  |  |  | | --- | --- | | **B.** | liquidity. |  |  |  | | --- | --- | | C. | investing. |  |  |  | | --- | --- | | D. | saving. |  |  |  | | --- | --- | | E. | opportunity cost. | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-05 Identify strategies for achieving personal financial goals for different life situations. Topic: Liquidity* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 41. *(p. 25)* | The problem of bankruptcy is associated with poor decisions in the \_\_\_\_\_\_\_\_\_\_\_\_\_\_ component of financial planning.      |  |  | | --- | --- | | A. | sharing |  |  |  | | --- | --- | | B. | saving |  |  |  | | --- | --- | | C. | obtaining |  |  |  | | --- | --- | | **D.** | borrowing |  |  |  | | --- | --- | | E. | protecting | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-05 Identify strategies for achieving personal financial goals for different life situations. Topic: Bankruptcy* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 42. *(p. 25)* | A question associated with the saving component of financial planning is:      |  |  | | --- | --- | | **A.** | Do you have an adequate emergency fund? |  |  |  | | --- | --- | | B. | Is your will current? |  |  |  | | --- | --- | | C. | Is your investment program appropriate to your income and tax situation? |  |  |  | | --- | --- | | D. | Do you have a realistic budget for your current financial situation? |  |  |  | | --- | --- | | E. | Are your transportation expenses minimized through careful planning? | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 1 Easy Learning Objective: 01-05 Identify strategies for achieving personal financial goals for different life situations. Topic: Components of Personal Financial Planning* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 43. *(p. 27)* | A formalized report that summarizes your current financial situation, analyzes your financial needs, and recommends a direction for your financial activities is a(n):      |  |  | | --- | --- | | A. | insurance prospectus. |  |  |  | | --- | --- | | **B.** | financial plan. |  |  |  | | --- | --- | | C. | budget. |  |  |  | | --- | --- | | D. | investment forecast. |  |  |  | | --- | --- | | E. | statement. | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Learning Objective: 01-05 Identify strategies for achieving personal financial goals for different life situations. Topic: Financial Plan* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 44. *(p. 25)* | When an individual makes a purchase without considering the financial consequences of that purchase, ignores the \_\_\_\_\_\_\_\_\_\_\_\_\_\_ aspect of financial planning.      |  |  | | --- | --- | | A. | borrowing |  |  |  | | --- | --- | | B. | risk management |  |  |  | | --- | --- | | **C.** | spending |  |  |  | | --- | --- | | D. | retirement and estate planning |  |  |  | | --- | --- | | E. | obtaining | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 1 Easy Learning Objective: 01-05 Identify strategies for achieving personal financial goals for different life situations. Topic: Components of Personal Financial Planning* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 45. *(p. 28)* | The success of a financial plan will be determined by:      |  |  | | --- | --- | | A. | the amount of income available. |  |  |  | | --- | --- | | B. | the stage of the adult life cycle. |  |  |  | | --- | --- | | C. | a person's tax status. |  |  |  | | --- | --- | | **D.** | how resources are used. |  |  |  | | --- | --- | | E. | current economic conditions. | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-05 Identify strategies for achieving personal financial goals for different life situations. Topic: Components of Personal Financial Planning* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 46. *(p. 15)* | As Jean Tyler plans to set aside funds for her young children's college education, she is setting a(n) \_\_\_\_\_\_\_\_\_\_\_\_ goal.      |  |  | | --- | --- | | A. | intermediate |  |  |  | | --- | --- | | **B.** | long-term |  |  |  | | --- | --- | | C. | short-term |  |  |  | | --- | --- | | D. | intangible |  |  |  | | --- | --- | | E. | durable | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-03 Develop personal financial goals. Topic: Types of Financial Goals* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 47. *(p. 16)* | \_\_\_\_\_\_\_\_\_\_\_\_ goals relate to personal relationships, health, and education.      |  |  | | --- | --- | | A. | Durable-product |  |  |  | | --- | --- | | B. | Short-term |  |  |  | | --- | --- | | C. | Consumable-product |  |  |  | | --- | --- | | **D.** | Intangible-purchase |  |  |  | | --- | --- | | E. | Intermediate | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Learning Objective: 01-03 Develop personal financial goals. Topic: Types of Financial Goals* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 48. *(p. 16)* | Brad Johnson has a goal of "saving $50 a month for vacation." Brad's goal lacks:      |  |  | | --- | --- | | A. | measurable terms. |  |  |  | | --- | --- | | B. | a realistic perspective. |  |  |  | | --- | --- | | C. | specific terms. |  |  |  | | --- | --- | | D. | the type of action to be taken. |  |  |  | | --- | --- | | **E.** | a time frame. | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Develop personal financial goals. Topic: Goal Setting Guidelines* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 49. *(p. 16)* | Which of the following goals would be the easiest to implement and measure its accomplishment?      |  |  | | --- | --- | | A. | "Reduce our debt payments." |  |  |  | | --- | --- | | B. | "Save funds for an annual vacation." |  |  |  | | --- | --- | | **C.** | "Save $100 a month to create a $4,000 emergency fund." |  |  |  | | --- | --- | | D. | "Invest $2,000 a year for retirement." |  |  |  | | --- | --- | | E. | "Increase our emergency fund." | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Develop personal financial goals. Topic: Goal Setting Guidelines* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 50. *(p. 7)* | Opportunity cost refers to:      |  |  | | --- | --- | | A. | money needed for major consumer purchases. |  |  |  | | --- | --- | | **B.** | what a person gives up by making a choice. |  |  |  | | --- | --- | | C. | the amount paid for taxes when a purchase is made. |  |  |  | | --- | --- | | D. | current interest rates. |  |  |  | | --- | --- | | E. | evaluating different alternatives for financial decisions. | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Learning Objective: 01-01 Analyze the process for making personal financial decisions. Topic: Opportunity Costs* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 51. *(p. 18)* | An example of a *personal* opportunity cost would be:      |  |  | | --- | --- | | A. | interest lost by using savings to make a purchase. |  |  |  | | --- | --- | | B. | higher earnings on savings that must be kept on deposit a minimum of six months. |  |  |  | | --- | --- | | C. | lost wages due to continuing as a full-time student. |  |  |  | | --- | --- | | **D.** | time comparing several brands of personal computers. |  |  |  | | --- | --- | | E. | having to pay a tax penalty due to not having enough withheld from your monthly salary. | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-04 Calculate time value of money situations associated with personal financial decisions. Topic: Personal Opportunity Costs* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 52. *(p. 19)* | The time value of money refers to:      |  |  | | --- | --- | | A. | personal opportunity costs such as time lost on an activity. |  |  |  | | --- | --- | | B. | financial decisions that require borrowing funds from a financial institution. |  |  |  | | --- | --- | | C. | changes in interest rates due to changes in the supply and demand for money in our economy. |  |  |  | | --- | --- | | **D.** | increases in an amount of money as a result of interest. |  |  |  | | --- | --- | | E. | changing demographic trends in our society. | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Learning Objective: 01-04 Calculate time value of money situations associated with personal financial decisions. Topic: Time Value of Money* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 53. *(p. 19)* | The amount of interest is determined by multiplying the amount in savings by the:      |  |  | | --- | --- | | A. | annual interest rate. |  |  |  | | --- | --- | | B. | time period. |  |  |  | | --- | --- | | C. | number of months in a year. |  |  |  | | --- | --- | | D. | time period and number of months. |  |  |  | | --- | --- | | **E.** | annual interest rate and the time period. | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Learning Objective: 01-04 Calculate time value of money situations associated with personal financial decisions. Topic: Interest Calculations* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 54. *(p. 22)* | If a person deposited $50 a month for 6 years earning 8 percent, this would involve what type of computation?      |  |  | | --- | --- | | A. | Simple interest |  |  |  | | --- | --- | | B. | Future value of a single amount |  |  |  | | --- | --- | | **C.** | Future value of a series of deposits |  |  |  | | --- | --- | | D. | Present value of a single amount |  |  |  | | --- | --- | | E. | Present value of a series of deposits | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 3 Hard Learning Objective: 01-04 Calculate time value of money situations associated with personal financial decisions. Topic: Time Value of Money-Future Value of an Annuity* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 55. *(p. 22)* | Which type of computation would a person use to determine current value of a desired amount for the future?      |  |  | | --- | --- | | A. | Simple interest |  |  |  | | --- | --- | | B. | Future value of a single amount |  |  |  | | --- | --- | | C. | Future value of a series of deposits |  |  |  | | --- | --- | | **D.** | Present value of a single amount |  |  |  | | --- | --- | | E. | Present value of a series of deposits | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-04 Calculate time value of money situations associated with personal financial decisions. Topic: Time Value of Money-Present Value of a Single Amount* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 56. *(p. 12)* | If inflation is increasing at 3 percent per year, and your salary increases at the same rate, how long will it take your salary to double?      |  |  | | --- | --- | | A. | 30 years |  |  |  | | --- | --- | | **B.** | 24 years |  |  |  | | --- | --- | | C. | 18 years |  |  |  | | --- | --- | | D. | 12 years |  |  |  | | --- | --- | | E. | 6 years |   Rule of 72: 72/3 = 24 |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Apply Difficulty: 3 Hard Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning. Topic: Rule of 72* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 57. *(p. 12)* | When prices are increasing at a rate of 6 percent, the cost of products would double in about how many years?      |  |  | | --- | --- | | A. | 7.2 years |  |  |  | | --- | --- | | B. | 10 years |  |  |  | | --- | --- | | C. | 6 years |  |  |  | | --- | --- | | **D.** | 12 years |  |  |  | | --- | --- | | E. | 18 years |   Rule of 72: 72/6 = 12 |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Apply Difficulty: 2 Medium Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning. Topic: Rule of 72* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 58. *(p. 20)* | Future value calculations involve:      |  |  | | --- | --- | | A. | discounting. |  |  |  | | --- | --- | | B. | add-on interest. |  |  |  | | --- | --- | | **C.** | compounding. |  |  |  | | --- | --- | | D. | simple interest. |  |  |  | | --- | --- | | E. | an annuity. | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Learning Objective: 01-04 Calculate time value of money situations associated with personal financial decisions. Topic: Time Value of Money-Future Value* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 59. *(p. 20)* | If you put $1,000 in a saving account and make no further deposits, what type of calculation would provide you with the value of the account in 20 years?      |  |  | | --- | --- | | **A.** | Future value of a single amount |  |  |  | | --- | --- | | B. | Simple interest |  |  |  | | --- | --- | | C. | Present value of a single amount |  |  |  | | --- | --- | | D. | Present value of a series of deposits |  |  |  | | --- | --- | | E. | Future value of a series of deposits | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-04 Calculate time value of money situations associated with personal financial decisions. Topic: Time Value of Money-Future Value of a Single Amount* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 60. *(p. 5)* | The first step of the financial planning process is to:      |  |  | | --- | --- | | A. | develop financial goals. |  |  |  | | --- | --- | | B. | implement the financial plan. |  |  |  | | --- | --- | | **C.** | analyze your current personal and financial situation. |  |  |  | | --- | --- | | D. | evaluate and revise your actions. |  |  |  | | --- | --- | | E. | create a financial plan of action. | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-01 Analyze the process for making personal financial decisions. Topic: Financial Planning Process* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 61. *(p. 8)* | \_\_\_\_\_\_\_\_\_\_\_\_ risk refers to the danger of lost buying power during times of rising prices.      |  |  | | --- | --- | | A. | Trade-off |  |  |  | | --- | --- | | B. | Economic |  |  |  | | --- | --- | | C. | Personal |  |  |  | | --- | --- | | **D.** | Inflation |  |  |  | | --- | --- | | E. | Interest-rate | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Learning Objective: 01-01 Analyze the process for making personal financial decisions. Topic: Types of Risk* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 62. *(p. 7)* | Which of the following is an example of opportunity cost?      |  |  | | --- | --- | | A. | Renting an apartment near school |  |  |  | | --- | --- | | **B.** | Saving money instead of taking a vacation |  |  |  | | --- | --- | | C. | Setting aside money for paying income tax |  |  |  | | --- | --- | | D. | Purchasing automobile insurance |  |  |  | | --- | --- | | E. | Using a personal computer for financial planning | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-01 Analyze the process for making personal financial decisions. Topic: Opportunity Costs* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 63. *(p. 8)* | The changing cost of money is referred to as \_\_\_\_\_\_\_\_\_\_\_\_ risk.      |  |  | | --- | --- | | **A.** | interest-rate |  |  |  | | --- | --- | | B. | inflation |  |  |  | | --- | --- | | C. | economic |  |  |  | | --- | --- | | D. | trade-off |  |  |  | | --- | --- | | E. | personal | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Learning Objective: 01-01 Analyze the process for making personal financial decisions. Topic: Types of Risk* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 64. *(p. 7)* | The uncertainty associated with decision making is referred to as:      |  |  | | --- | --- | | A. | opportunity cost. |  |  |  | | --- | --- | | B. | selection of alternatives. |  |  |  | | --- | --- | | C. | financial goals. |  |  |  | | --- | --- | | D. | personal values. |  |  |  | | --- | --- | | **E.** | risk. | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-01 Analyze the process for making personal financial decisions. Topic: Risk* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 65. *(p. 9)* | The financial planning process concludes with efforts to:      |  |  | | --- | --- | | A. | develop financial goals. |  |  |  | | --- | --- | | B. | create a financial plan of action. |  |  |  | | --- | --- | | C. | analyze your current personal and financial situation. |  |  |  | | --- | --- | | D. | review the financial plan. |  |  |  | | --- | --- | | **E.** | review and revise your actions. | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-01 Analyze the process for making personal financial decisions. Topic: Financial Planning Process* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 66. *(p. 9)* | Using the services of financial institutions will be *most* evident in your effort to:      |  |  | | --- | --- | | A. | develop financial goals. |  |  |  | | --- | --- | | B. | evaluate and revise your actions. |  |  |  | | --- | --- | | C. | analyze your current personal and financial situation. |  |  |  | | --- | --- | | **D.** | implement the financial plan. |  |  |  | | --- | --- | | E. | create a financial plan of action. | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 3 Hard Learning Objective: 01-01 Analyze the process for making personal financial decisions. Topic: Financial Planning Process* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 67. *(p. 9)* | Changes in income, values, and family situation make it necessary to:      |  |  | | --- | --- | | **A.** | evaluate and revise your actions. |  |  |  | | --- | --- | | B. | implement the financial plan. |  |  |  | | --- | --- | | C. | develop financial goals. |  |  |  | | --- | --- | | D. | analyze your current personal and financial situation. |  |  |  | | --- | --- | | E. | create a financial plan of action. | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 1 Easy Learning Objective: 01-01 Analyze the process for making personal financial decisions. Topic: Financial Planning Process* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 68. *(p. 17)* | Which of the following is usually considered a long-term financial strategy?      |  |  | | --- | --- | | A. | Creating a budget |  |  |  | | --- | --- | | B. | Using savings to pay off a loan early |  |  |  | | --- | --- | | C. | Renting an apartment to save for the purchase of a home |  |  |  | | --- | --- | | **D.** | Investing in a growth mutual fund to accumulate retirement funds |  |  |  | | --- | --- | | E. | Purchasing auto insurance to cover the needs of dependents | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Develop personal financial goals. Topic: Types of Financial Goals* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 69. *(p. 5)* | Lynn Roy will retire in the next year and has $675,000 in savings and investments and owns her own home that is worth $250,000. Which step in the financial planning process does this situation demonstrate?      |  |  | | --- | --- | | **A.** | Determining her current financial situation |  |  |  | | --- | --- | | B. | Developing her financial goals |  |  |  | | --- | --- | | C. | Identifying alternative courses of action |  |  |  | | --- | --- | | D. | Evaluating her alternatives |  |  |  | | --- | --- | | E. | Implementing her financial plan | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-01 Analyze the process for making personal financial decisions. Topic: Financial Planning Process* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 70. *(p. 5-6)* | Lynn Roy wants to travel after she retires as well as pay off the balance of the loan she has on the home she owns. Which step in the financial planning process does this situation demonstrate?      |  |  | | --- | --- | | A. | Determining her current financial situation |  |  |  | | --- | --- | | **B.** | Developing her financial goals |  |  |  | | --- | --- | | C. | Identifying alternative courses of action |  |  |  | | --- | --- | | D. | Evaluating her alternatives |  |  |  | | --- | --- | | E. | Implementing her financial plan | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-01 Analyze the process for making personal financial decisions. Topic: Financial Planning Process* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 71. *(p. 6)* | Lynn Roy wants to travel around the world. Lynn Roy has several options she can pursue. She can continue to work full time to earn the money she needs for her trip. She can work part time so that she can still earn some money but have the time necessary to complete her trip. She can take full retirement so that she has all the time necessary to complete her trip. Which step in the financial planning process does this scenario demonstrate?      |  |  | | --- | --- | | A. | Determining her current financial situation |  |  |  | | --- | --- | | B. | Developing her financial goals |  |  |  | | --- | --- | | **C.** | Identifying alternative courses of action |  |  |  | | --- | --- | | D. | Evaluating her alternatives |  |  |  | | --- | --- | | E. | Implementing her financial plan | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-01 Analyze the process for making personal financial decisions. Topic: Financial Planning Process* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 72. *(p. 7)* | Lynn Roy knows that if she continues to work full time, it will be difficult for her to get the time off she needs to be able to travel around the world. However, if she continues to work full time she will more easily earn the money she needs to take her trip and still have money left for her living expenses after she gets back from her trip. Which step in the financial planning process does this scenario demonstrate?      |  |  | | --- | --- | | A. | Determining her current financial situation |  |  |  | | --- | --- | | B. | Developing her financial goals |  |  |  | | --- | --- | | C. | Identifying alternative courses of action |  |  |  | | --- | --- | | **D.** | Evaluating her alternatives |  |  |  | | --- | --- | | E. | Implementing her financial plan | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-01 Analyze the process for making personal financial decisions. Topic: Financial Planning Process* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 73. *(p. 9)* | Lynn Roy has decided to take retirement from her job and use the time she has earned to travel around the world. She has decided to start her trip around the world in Europe by train and bus and will use her savings to pay for her trip. Which step in the financial planning process does this scenario demonstrate?      |  |  | | --- | --- | | A. | Developing her financial goals |  |  |  | | --- | --- | | B. | Identifying alternative courses of action |  |  |  | | --- | --- | | C. | Evaluating her alternatives |  |  |  | | --- | --- | | **D.** | Implementing her financial plan |  |  |  | | --- | --- | | E. | Reviewing and revising her financial plan | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-01 Analyze the process for making personal financial decisions. Topic: Financial Planning Process* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 74. *(p. 9)* | Lynn Roy's goal has been to travel around the world. She has now been traveling for six months and she has decided she is a little tired of living out of a suitcase. She has decided to go home, look for a part time job and take shorter trips to locations around the world that appeal to her. Which step in the financial planning process does this scenario most likely demonstrate?      |  |  | | --- | --- | | A. | Developing her financial goals |  |  |  | | --- | --- | | B. | Identifying alternative courses of action |  |  |  | | --- | --- | | C. | Evaluating her alternatives |  |  |  | | --- | --- | | D. | Implementing her financial plan |  |  |  | | --- | --- | | **E.** | Reviewing and revising her financial plan | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-01 Analyze the process for making personal financial decisions. Topic: Financial Planning Process* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 75. *(p. 8)* | John Gleason is interested in purchasing a 46" rear projection TV for his living room. John knows that right now the TV will cost approximately $1500. John is not sure he can afford this TV right now but is worried that if he waits, the cost of the TV will rise to $1800. Which type of risk is John worried about?      |  |  | | --- | --- | | **A.** | Inflation risk |  |  |  | | --- | --- | | B. | Interest rate risk |  |  |  | | --- | --- | | C. | Income risk |  |  |  | | --- | --- | | D. | Personal risk |  |  |  | | --- | --- | | E. | Liquidity risk | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-01 Analyze the process for making personal financial decisions. Topic: Types of Risk* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 76. *(p. 8)* | John Gleason is interested in purchasing a 46" rear projection TV for his living room. He knows that right now the TV will cost approximately $1500. John wants to borrow the money to purchase the TV but is a little concerned because he thinks interest rates are going to fall in the future. He is worried that he might get stuck with a loan at a high interest rate. What type of risk is John worried about?      |  |  | | --- | --- | | A. | Inflation risk |  |  |  | | --- | --- | | **B.** | Interest rate risk |  |  |  | | --- | --- | | C. | Income risk |  |  |  | | --- | --- | | D. | Personal risk |  |  |  | | --- | --- | | E. | Liquidity risk | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-01 Analyze the process for making personal financial decisions. Topic: Types of Risk* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 77. *(p. 8)* | John Gleason is interested in purchasing a 46" rear projection TV for his living room. He knows that right now the TV will cost approximately $1500. However, John is a little concerned about his job. John is a pilot for Delta Airlines and he thinks it is possible that he could be laid off in the near future. What type of risk is John worried about?      |  |  | | --- | --- | | A. | Inflation risk |  |  |  | | --- | --- | | B. | Interest rate risk |  |  |  | | --- | --- | | **C.** | Income risk |  |  |  | | --- | --- | | D. | Personal risk |  |  |  | | --- | --- | | E. | Liquidity risk | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-01 Analyze the process for making personal financial decisions. Topic: Types of Risk* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 78. *(p. 8)* | Mary Sheets is considering investing in 30 year Corporate Bonds issued by Duke Energy Company. She knows that she will earn an interest rate of 8% by purchasing these bonds. However, she is concerned because she might need to take her money out of this investment in a year and she has heard that she might have to sell the bonds at a significantly lower price than she will purchase them for. What type of risk is Mary concerned about?      |  |  | | --- | --- | | A. | Inflation risk |  |  |  | | --- | --- | | B. | Interest rate risk |  |  |  | | --- | --- | | C. | Income risk |  |  |  | | --- | --- | | D. | Personal risk |  |  |  | | --- | --- | | **E.** | Liquidity risk | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-01 Analyze the process for making personal financial decisions. Topic: Types of Risk* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 79. *(p. 16)* | John Dean has just moved into a new house and needs a lawn mower since he has always lived in apartments and now he has a lawn to mow. What type of goal would this be for John?      |  |  | | --- | --- | | A. | Consumable-products goal |  |  |  | | --- | --- | | **B.** | Durable-products goal |  |  |  | | --- | --- | | C. | Intangible goal |  |  |  | | --- | --- | | D. | Intermediate goal |  |  |  | | --- | --- | | E. | Long term goal | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 1 Easy Learning Objective: 01-03 Develop personal financial goals. Topic: Types of Financial Goals* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 80. *(p. 16)* | Melanie Walsh likes to go to the movies once a week. When she is at the movies, she generally gets large popcorn and a drink. Melanie wants to be sure that she sets aside money each week so she can continue going to the movies. What type of goal would this be for Melanie?      |  |  | | --- | --- | | **A.** | Consumable-products goal |  |  |  | | --- | --- | | B. | Durable-products goal |  |  |  | | --- | --- | | C. | Intangible goal |  |  |  | | --- | --- | | D. | Intermediate goal |  |  |  | | --- | --- | | E. | Long term goal | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-03 Develop personal financial goals. Topic: Types of Financial Goals* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 81. *(p. 10)* | Paul Carter is 43 years old, married and has three children, ages 13, 10 and 5. Which influence on financial planning does this demonstrate?      |  |  | | --- | --- | | **A.** | Adult Life Cycle |  |  |  | | --- | --- | | B. | Economic Factors |  |  |  | | --- | --- | | C. | Global Influences |  |  |  | | --- | --- | | D. | Opportunity Costs |  |  |  | | --- | --- | | E. | None of these. | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning. Topic: Adult Life Cycle* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 82. *(p. 25)* | One aspect of financial planning is to make wise decisions as to what to purchase and when to purchase it. Which aspect of financial planning does this deal with?      |  |  | | --- | --- | | A. | Borrowing |  |  |  | | --- | --- | | **B.** | Spending |  |  |  | | --- | --- | | C. | Managing Risk |  |  |  | | --- | --- | | D. | Investing |  |  |  | | --- | --- | | E. | Retirement and Estate Planning | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-05 Identify strategies for achieving personal financial goals for different life situations. Topic: Components of Personal Financial Planning* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 83. *(p. 25)* | One aspect of financial planning is to control your use of credit. Which aspect of financial planning does this deal with?      |  |  | | --- | --- | | **A.** | Borrowing |  |  |  | | --- | --- | | B. | Spending |  |  |  | | --- | --- | | C. | Managing Risk |  |  |  | | --- | --- | | D. | Investing |  |  |  | | --- | --- | | E. | Retirement and Estate Planning | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-05 Identify strategies for achieving personal financial goals for different life situations. Topic: Components of Personal Financial Planning* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 84. *(p. 26)* | One aspect of financial planning is to make sure you maintain adequate insurance coverage for your needs. Which aspect of financial planning does this deal with?      |  |  | | --- | --- | | A. | Borrowing |  |  |  | | --- | --- | | B. | Spending |  |  |  | | --- | --- | | **C.** | Managing Risk |  |  |  | | --- | --- | | D. | Investing |  |  |  | | --- | --- | | E. | Retirement and Estate Planning | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-05 Identify strategies for achieving personal financial goals for different life situations. Topic: Components of Personal Financial Planning* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 85. *(p. 26)* | One aspect of financial planning is to buy stocks, bonds and mutual funds with the potential for long term growth. Which aspect of financial planning does this deal with?      |  |  | | --- | --- | | A. | Borrowing |  |  |  | | --- | --- | | B. | Spending |  |  |  | | --- | --- | | C. | Managing Risk |  |  |  | | --- | --- | | **D.** | Investing |  |  |  | | --- | --- | | E. | Retirement and Estate Planning | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-05 Identify strategies for achieving personal financial goals for different life situations. Topic: Components of Personal Financial Planning* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 86. *(p. 12)* | When prices are rising at a rate of 3 percent, the cost of products and services would double in \_\_\_\_\_\_ years.      |  |  | | --- | --- | | A. | 3 |  |  |  | | --- | --- | | B. | 6 |  |  |  | | --- | --- | | C. | 12 |  |  |  | | --- | --- | | **D.** | 24 |  |  |  | | --- | --- | | E. | 36 |   Rule of 72, 72/3 = 24 |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Apply Difficulty: 2 Medium Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning. Topic: Rule of 72* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 87. *(p. 8)* | Sources for financial planning can be found from:      |  |  | | --- | --- | | A. | print and media. |  |  |  | | --- | --- | | B. | digital sources. |  |  |  | | --- | --- | | C. | financial institutions. |  |  |  | | --- | --- | | D. | financial experts. |  |  |  | | --- | --- | | **E.** | All of these. | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-01 Analyze the process for making personal financial decisions. Topic: Financial Planning Informational Sources* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 88. *(p. 12)* | The annual price increase for consumer goods and services measured by the Bureau of Labor Statistics is called \_\_\_\_\_\_\_\_.      |  |  | | --- | --- | | A. | deflation |  |  |  | | --- | --- | | B. | inflation |  |  |  | | --- | --- | | **C.** | the consumer price index |  |  |  | | --- | --- | | D. | the price calculator |  |  |  | | --- | --- | | E. | the goods index | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning. Topic: Consumer Price Index (CPI)* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 89. *(p. 12)* | If you desire your money to double in 6 years, what rate of return would you need to earn?      |  |  | | --- | --- | | A. | 6 percent |  |  |  | | --- | --- | | B. | 8 percent |  |  |  | | --- | --- | | C. | 9 percent |  |  |  | | --- | --- | | D. | 10 percent |  |  |  | | --- | --- | | **E.** | 12 percent |   Rule of 72, 72/x = 6, 6X = 72, 72/6 = 12 |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Apply Difficulty: 3 Hard Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning. Topic: Rule of 72* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 90. *(p. 42)* | A family spends $40,000 on living expenses. With an annual inflation rate of 3 percent, they can expect to spend approximately \_\_\_\_\_\_\_ in three years.      |  |  | | --- | --- | | A. | $40,300 |  |  |  | | --- | --- | | B. | $41,200 |  |  |  | | --- | --- | | C. | $42,000 |  |  |  | | --- | --- | | **D.** | $43,720 |  |  |  | | --- | --- | | E. | $46,000 |   Future value calculation (Table 1-A) $40,000 × 1.093 = $43,720. |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Apply Difficulty: 2 Medium Learning Objective: 01-04 Calculate time value of money situations associated with personal financial decisions. Topic: Time Value of Money-Future Value* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 91. *(p. 43)* | The future value of $1,000 deposited a year for 5 years earning 4 percent would be *approximately:*      |  |  | | --- | --- | | A. | $5,000 |  |  |  | | --- | --- | | B. | $5,250 |  |  |  | | --- | --- | | **C.** | $5,400 |  |  |  | | --- | --- | | D. | $6,500 |  |  |  | | --- | --- | | E. | $8,200 |   Future Value of an annuity (Table 1-B), $1,000 × 5.416 = $5416. |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Apply Difficulty: 2 Medium Learning Objective: 01-04 Calculate time value of money situations associated with personal financial decisions. Topic: Time Value of Money-Future Value of an Annuity* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 92. *(p. 44)* | You are planning to buy a house in five years. How much do you need to deposit today to have a $10,000 down payment if your investment will make 6%?      |  |  | | --- | --- | | A. | $6,000 |  |  |  | | --- | --- | | B. | $6,590 |  |  |  | | --- | --- | | **C.** | $7,470 |  |  |  | | --- | --- | | D. | $9,400 |  |  |  | | --- | --- | | E. | $10,000 |   Present Value (Table 1-C), $10,000 × .747 = $7470. |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Apply Difficulty: 2 Medium Learning Objective: 01-04 Calculate time value of money situations associated with personal financial decisions. Topic: Time Value of Money-Present Value of a Single Amount* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 93. *(p. 45)* | John is planning to go to graduate school in a program that will take three years. John wants to have available $10,000 available each year for his school and living expenses. If he earns 6% on his investments, how much must be deposited at the start of his studies for him to withdraw $10,000 a year for three years?      |  |  | | --- | --- | | A. | $10,000 |  |  |  | | --- | --- | | B. | $18,390 |  |  |  | | --- | --- | | **C.** | $26,730 |  |  |  | | --- | --- | | D. | $29,100 |  |  |  | | --- | --- | | E. | $30,000 |   Present Value of annuity (Table 1-D), $10,000 × 2.673 = $26,730 |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Apply Difficulty: 2 Medium Learning Objective: 01-04 Calculate time value of money situations associated with personal financial decisions. Topic: Time Value of Money Present Value of an Annuity* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 94. *(p. 18)* | Mary Sander's new job is very demanding. She regularly works long hours and on the weekends. As a result, Mary has not had much time for her family and friends. This is an example of:      |  |  | | --- | --- | | A. | deflation. |  |  |  | | --- | --- | | B. | financial opportunity cost. |  |  |  | | --- | --- | | **C.** | personal opportunity cost. |  |  |  | | --- | --- | | D. | time value of money. |  |  |  | | --- | --- | | E. | inflation. | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Apply Difficulty: 2 Medium Learning Objective: 01-04 Calculate time value of money situations associated with personal financial decisions. Topic: Personal Opportunity Cost Time* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 95. *(p. 12)* | During \_\_\_\_\_\_\_\_\_\_, even though prices decline spending slows because consumers expect prices to continue to decline.      |  |  | | --- | --- | | **A.** | deflation |  |  |  | | --- | --- | | B. | depreciation |  |  |  | | --- | --- | | C. | appreciation |  |  |  | | --- | --- | | D. | economic recovery |  |  |  | | --- | --- | | E. | inflation | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning. Topic: Deflation* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 96. *(p. 11)* | Financial intermediaries include the following:      |  |  | | --- | --- | | A. | bank. |  |  |  | | --- | --- | | B. | credit unions. |  |  |  | | --- | --- | | C. | insurance companies. |  |  |  | | --- | --- | | D. | investment companies. |  |  |  | | --- | --- | | **E.** | All of these. | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning. Topic: Financial System and Economic Factors* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 97. *(p. 12)* | More recently, the annual price increase for most goods and services as measured by the consumer price index has been less than \_\_\_\_ percent.      |  |  | | --- | --- | | A. | 1 |  |  |  | | --- | --- | | **B.** | 2 |  |  |  | | --- | --- | | C. | 3 |  |  |  | | --- | --- | | D. | 4 |  |  |  | | --- | --- | | E. | 5 | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning. Topic: Economic Conditions-Consumer Prices* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 98. *(p. 13)* | Increased home building results in:      |  |  | | --- | --- | | A. | increased job opportunities. |  |  |  | | --- | --- | | B. | higher wages. |  |  |  | | --- | --- | | C. | increased consumer spending. |  |  |  | | --- | --- | | D. | overall economic expansion. |  |  |  | | --- | --- | | **E.** | All of these. | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning. Topic: Economic Conditions* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 99. *(p. 5)* | Developing financial goals is the \_\_\_\_\_\_ step in the financial planning process.      |  |  | | --- | --- | | A. | first |  |  |  | | --- | --- | | **B.** | second |  |  |  | | --- | --- | | C. | third |  |  |  | | --- | --- | | D. | fourth |  |  |  | | --- | --- | | E. | fifth | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Learning Objective: 01-01 Analyze the process for making personal financial decisions. Topic: Financial Planning Process* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 100. *(p. 16)* | The following are examples of intangible goals, except:      |  |  | | --- | --- | | A. | obtaining a college degree. |  |  |  | | --- | --- | | B. | going on a cruise vacation. |  |  |  | | --- | --- | | **C.** | buying a house. |  |  |  | | --- | --- | | D. | losing weight. |  |  |  | | --- | --- | | E. | getting more sleep. | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 1 Easy Learning Objective: 01-03 Develop personal financial goals. Topic: Types of Financial Goals* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 101. *(p. 24)* | Developing and using a budget is part of which component of financial planning?      |  |  | | --- | --- | | A. | Retirement and Estate Planning |  |  |  | | --- | --- | | B. | Investing |  |  |  | | --- | --- | | C. | Spending |  |  |  | | --- | --- | | D. | Managing Risk |  |  |  | | --- | --- | | **E.** | Planning | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Learning Objective: 01-05 Identify strategies for achieving personal financial goals for different life situations. Topic: Components of Personal Financial Planning* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 102. *(p. 5)* | Analyzing your current financial position is a part of which step in the financial planning process?      |  |  | | --- | --- | | **A.** | First |  |  |  | | --- | --- | | B. | Second |  |  |  | | --- | --- | | C. | Third |  |  |  | | --- | --- | | D. | Fourth |  |  |  | | --- | --- | | E. | Fifth | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Remember Difficulty: 2 Medium Learning Objective: 01-01 Analyze the process for making personal financial decisions. Topic: Financial Planning Process* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 103. *(p. 7)* | Measuring risk associated with making most financial decisions is difficult because of what factor(s)?      |  |  | | --- | --- | | A. | Inflation risk |  |  |  | | --- | --- | | B. | Interest rate risk |  |  |  | | --- | --- | | C. | Personal risk |  |  |  | | --- | --- | | D. | Liquidity risk |  |  |  | | --- | --- | | **E.** | All of these. | |

|  |
| --- |
| *Accessibility: Keyboard Navigation Blooms: Understand Difficulty: 1 Easy Learning Objective: 01-01 Analyze the process for making personal financial decisions. Topic: Financial Planning Process* |

**Essay Questions**

|  |  |
| --- | --- |
| 104. *(p. 16)* | Describe the S-M-A-R-T approach to financial planning goal setting. Give an example.     Answers will vary.  Feedback: Goals should be specific, measurable, action-oriented, realistic and time-based. Examples will vary. |

|  |
| --- |
| *Blooms: Apply Difficulty: 2 Medium Learning Objective: 01-03 Develop personal financial goals. Topic: Goal Setting Guidelines* |

|  |  |
| --- | --- |
| 105. *(p. 24-27)* | What are the main components of personal financial planning?     Answers will vary.  Feedback: The main components of personal financial planning are obtaining, planning, saving, borrowing, spending, managing risk, investing, and retirement and estate planning. |

|  |
| --- |
| *Blooms: Remember Difficulty: 2 Medium Learning Objective: 01-05 Identify strategies for achieving personal financial goals for different life situations. Topic: Components of Personal Financial Planning* |

|  |  |
| --- | --- |
| 106. *(p. 10-15)* | People are commonly overwhelmed by the many influences on personal financial decisions. What are the factors affecting financial planning?     Answers will vary.  Feedback: Students answers will vary. Factors might include personal values, household situation, age, income level, marital status, employment situation, and economic conditions. |

|  |
| --- |
| *Blooms: Remember Difficulty: 2 Medium Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning. Topic: Influences on Personal Financial Planning* |

|  |  |
| --- | --- |
| 107. *(p. 8)* | What types of risks are commonly associated with personal financial decisions? How can these risks be evaluated and minimized to reduce personal and financial difficulties?     Answers will vary.  Feedback: Common risks are inflation risk, interest rates risk, personal risk, and liquidity risk. Risks can be evaluated and minimized by obtaining information, comparing alternatives before making a decision, and obtaining insurance. |

|  |
| --- |
| *Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-01 Analyze the process for making personal financial decisions. Topic: Types of Risk* |

|  |  |
| --- | --- |
| 108. *(p. 19)* | Linda Ashworth is trying to decide whether to keep her money in a savings account or in a mutual fund. What would you tell her to help her analyze her decision?     Answers will vary.  Feedback: Students answers will vary. Suggested responses might mention gathering information, comparing alternatives, analyzing risks, assessing personal goals, and contacting financial planning experts. |

|  |
| --- |
| *Blooms: Understand Difficulty: 2 Medium Learning Objective: 01-04 Calculate time value of money situations associated with personal financial decisions. Topic: Financial Planning Process* |

|  |  |
| --- | --- |
| 109. *(p. 5)* | What are the six steps in the financial planning process?     Answers will vary.  Feedback: The personal financial planning process involves: (1) determine your current financial situation, (2) develop financial goals, (3) identify alternative courses of action, (4) evaluate alternatives, (5) create and implement a financial action plan, and (6) review and revise the financial plan. |

|  |
| --- |
| *Blooms: Remember Difficulty: 1 Easy Learning Objective: 01-01 Analyze the process for making personal financial decisions. Topic: Financial Planning Process* |

|  |  |
| --- | --- |
| 110. *(p. 12)* | Explain why borrowers benefit more than lenders in times of high inflation.     Answers will vary.  Feedback: Inflation can also adversely affect lenders of money. Unless an adequate interest rate is charged, amounts repaid by borrowers in times of inflation have less buying power than the money they borrowed. If you pay 10 percent interest on a loan and the inflation rate is 12 percent, the dollars you pay the lender have lost buying power. |

|  |
| --- |
| *Blooms: Understand Difficulty: 3 Hard Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning. Topic: Inflation* |

|  |  |
| --- | --- |
| 111. *(p. 19)* | What is meant by the term "Time Value of Money?"     Answers will vary.  Feedback: Time value of money refers to the increase of an amount of money as a result of interest earned. You can calculate the increased value of your money in two ways: You can calculate the total amount that will be available later (future value) or you can determine the current value of an amount desired in the future (present value). Future value and present value can both be calculated by using a single sum or an annuity. |

|  |
| --- |
| *Blooms: Remember Difficulty: 2 Medium Learning Objective: 01-04 Calculate time value of money situations associated with personal financial decisions. Topic: Time Value of Money* |