Chapter 01

Personal Financial Planning in Action

**True / False Questions**

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| 1. | Personal financial planning is the process of managing your money to achieve personal economic satisfaction.  True    False |

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| 2. | A financial plan is an informal report that analyzes past financial decisions.  True    False |

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| 3. | A financial plan can only be created using a money management software package.  True    False |

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| 4. | Financial Plans are only created by financial planners.  True    False |

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| 5. | The life situation of a household includes a combination of personal factors such as age, income, household size, and personal beliefs.  True    False |

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| 6. | The financial activities for a young, single person will probably be the same as those for an older couple with no dependent children at home.  True    False |

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| 7. | Inflation is most harmful to people with incomes expected to increase.  True    False |

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| 8. | Inflation is a rise in the general level of prices and it, reduces the buying power of the dollar.  True    False |

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| 9. | When prices are increasing at a rate of 4 percent, the cost of products would double in about 18 years.  True    False |

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| 10. | As borrowing by consumers and businesses increases, interest rates are likely to decrease.  True    False |

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| 11. | Planned spending through budgeting is part of the "spending" component of financial planning activities.  True    False |

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| 12. | Retirement planning includes thinking about your housing situation, recreational activities, and possible volunteer or part-time work.  True    False |

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| 13. | Short-term goals are usually achieved within the next year or so.  True    False |

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| 14. | Intermediate goals are usually achieved within the next year or so.  True    False |

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| 15. | Purchasing an appliance is an example of a consumable-product goal.  True    False |

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| 16. | Purchasing a car is an example of a durable-product goal.  True    False |

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| 17. | Opportunity costs refer to money already spent.  True    False |

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| 18. | Personal opportunity costs refer to  resources, such as time, health, and energy, that are given up when a choice is made.  True    False |

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| 19. | Interest earned is calculated by multiplying the principal times the time value of money.  True    False |

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| 20. | Risks associated with many financial decisions are easy to identify and evaluate.  True    False |

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| 21. | $500 on deposit at 6% for 6 months would earn $20.  True    False |

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| 22. | There are only 3 methods of calculating time value of money.  True    False |

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| 23. | There are only 3 possible courses of action when developing alternatives for decision making.  True    False |

**Multiple Choice Questions**

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| 24. | A formalized report that summarizes your current financial situation, analyzes your financial needs, and recommends future financial activities is a(n)

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| A.  | Insurance prospectus. |

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| B.  | Financial plan. |

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| C.  | Budget. |

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| D.  | Investment forecast. |

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| E.  | Statement. |

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| 25. | The major function of personal financial planning is to

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| A.  | Reduce taxes. |

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| B.  | Increase savings. |

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| C.  | Achieve personal economic satisfaction. |

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| D.  | Improve your credit rating. |

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| E.  | Obtain adequate insurance protection. |

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| 26. | An advantage of effective personal financial planning is:

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| A.  | The use of low-interest savings |

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| B.  | Increased impulse spending |

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| C.  | Increased control of financial affairs |

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| D.  | More credit card debt |

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| E.  | Less monitoring of investments |

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| 27. | The stages in the family situation and financial needs of an adult is called the

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| A.  | Financial planning process |

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| B.  | Budgeting procedure |

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| C.  | Personal economic cycle |

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| D.  | Adult life cycle |

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| E.  | Tax planning process |

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| 28. | Jim Johnson was laid off from his job two months ago. He just received an offer for a position that pays 3/4 the salary of his old job. Why should he set up a financial plan?

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| A.  | To increase the effectiveness of obtaining, using, and protecting his financial resources. |

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| B.  | To decrease control of his financial affairs regarding debt. |

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| C.  | To accept the loss of freedom from financial worries due to his new position. |

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| D.  | To learn how to manage depending more on others. |

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| E.  | To find out why he was laid off. |

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| 29. | The consumer price index measures:

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| A.  | The prices of goods and services in the United States |

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| B.  | The prices of goods and services in Bolivia |

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| C.  | The average change in prices of goods and services of urban consumers |

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| D.  | The change in prices of goods and services around the world |

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| E.  | None of the above |

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| 30. | The actual cost of living increase for a household will be:

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| A.  | Greater than the inflation rate as reported by the CPI since the index excludes the product or service with the highest inflation rate for the past 12 months |

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| B.  | Lower than the inflation rate as reported by the CPI since the index excludes the product or service with the lowest inflation rate for the past 12 months |

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| C.  | Equal to the inflation rate as reported by the CPI since it includes all products and services whether or not the prices have changed in the past 12 months |

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| D.  | Either greater than or less than the inflation rate as reported by the CPI depending on the household's cost of necessities purchased |

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| E.  | Zero since the CPI does not measure consumer price changes |

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| 31. | The Rule of 72 is:

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| A.  | A tool to determine the number of years until retirement for an employee |

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| B.  | Used to estimate how fast prices will double using a given annual inflation rate |

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| C.  | The legal code for requiring companies to provide a match on retirement savings |

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| D.  | Used to calculate interest rates for savings |

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| E.  | The number of steps required to complete a financial plan |

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| 32. | Who is less likely to be harmed by inflation?

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| A.  | Retired people |

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| B.  | Lenders |

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| C.  | Borrowers |

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| D.  | Fixed income consumers |

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| E.  | Financial regulators |

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| 33. | Increased consumer saving and investing is likely to be accompanied by

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| A.  | Lower union wages |

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| --- | --- |
| B.  | Higher interest rates |

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| --- | --- |
| C.  | Lower production costs |

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| --- | --- |
| D.  | Lower interest rates |

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| --- | --- |
| E.  | Higher inflation |

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| 34. | A savor or an investor should expect to receive a *risk* *premium* for

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| --- | --- |
| A.  | Higher interest rates |

|  |  |
| --- | --- |
| B.  | Lower consumer prices |

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| --- | --- |
| C.  | Higher uncertainty about getting his/her money back |

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| --- | --- |
| D.  | Reduced credit ratings |

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| --- | --- |
| E.  | Expected lower inflation |

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| 35. | Which of the following would increase the interest rate for a loan?

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| --- | --- |
| A.  | Poor credit rating |

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| --- | --- |
| B.  | Higher down payment |

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| --- | --- |
| C.  | Expected lower inflation |

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| --- | --- |
| D.  | Lower consumer prices |

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| E.  | Short time to maturity |

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| 36. | Patrick Guitman recently graduated from college with $20,000 in student loans and $5,000 in credit card debt. He usually makes minimum payments on his debt and he has been late with three payments in the last year. He wants to buy a new car but was told that his interest rate on a loan would be very high. What is the most likely reason this might be so?

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| A.  | General interest rates are very low |

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| B.  | His credit rating is poor which results in a higher interest rate |

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| C.  | He already has a student loan outstanding |

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| D.  | Recent graduates are not allowed to have more than $25,000 in debt outstanding |

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| E.  | Interest rates must be tied to the CPI |

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| 37. | Attempts to increase income through employment are part of the \_\_\_\_\_\_\_\_\_\_\_\_\_ component of financial planning.

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| A.  | Obtaining |

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| --- | --- |
| B.  | Planning |

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| C.  | Saving |

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| --- | --- |
| D.  | Borrowing |

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| --- | --- |
| E.  | Spending |

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| 38. | The ‘borrowing' component in a financial plan relates to

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| A.  | Acquiring adequate insurance coverage |

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| B.  | Investing for long-term growth |

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| C.  | Setting up a budget |

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| D.  | Obtaining financial resources from employment, investments or ownership |

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| E.  | Maintaining control over credit-buying habits |

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| 39. | The problem of bankruptcy is associated with overuse and misuse of credit in the \_\_\_\_\_\_\_\_\_\_\_\_\_\_ component of financial planning.

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| A.  | Sharing |

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| --- | --- |
| B.  | Savings |

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| --- | --- |
| C.  | Obtaining |

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| --- | --- |
| D.  | Borrowing |

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| --- | --- |
| E.  | Protecting |

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| 40. | The saving component of financial planning focuses on long-term security and includes:

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| A.  | A regular savings plan for emergencies |

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| B.  | A current will |

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| --- | --- |
| C.  | Bankruptcy counseling |

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| D.  | A realistic budget for your current financial situation |

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| E.  | Minimizing transportation expenses through careful planning |

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| 41. | Which of the following *short-term* goals is stated most clearly using the SMART approach?

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| A.  | Buy a car for less than $15,000 within 6 months  |

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| B.  | Retire in 10 years at age 65 with $2,000,000 in my 401(k) account  |

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| C.  | Purchase a house with a mortgage no greater than $150,000 within 5 years  |

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| --- | --- |
| D.  | Set up an emergency fund  |

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| E.  | Invest $50 per month for the next 12 years for my nephew's college fund  |

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| 42. | Which of the following *long-term* goals is stated most clearly using the SMART approach?

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| A.  | Buy a car for less than $15,000 within 6 months  |

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| --- | --- |
| B.  | Retire in 10 years at age 65  |

|  |  |
| --- | --- |
| C.  | Purchase a house with a mortgage no greater than $150,000 within 5 years  |

|  |  |
| --- | --- |
| D.  | Set up an emergency fund  |

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| --- | --- |
| E.  | Invest $50 per month for the next 12 years for my nephew's college fund  |

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| 43. | Which of the following *intermediate* *goals* is stated most clearly using the SMART approach?

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| A.  | Buy a car for less than $15,000 within 6 months  |

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| --- | --- |
| B.  | Retire in 10 years at age 65 with $2,000,000 in my 401(k) account  |

|  |  |
| --- | --- |
| C.  | Purchase a house with a mortgage no greater than $150,000 within 5 years  |

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| --- | --- |
| D.  | Set up an emergency fund  |

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| E.  | Invest $50 per month for the next 12 years for my nephew's college fund  |

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| 44. | Which of the following goals would be the easiest to implement and measure?

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| A.  | Put money into an investment fund.  |

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| B.  | Reduce credit card debt.  |

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| C.  | Save funds for an annual vacation.  |

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| D.  | Save $100 a month to create a $2,400 emergency fund in 2 years.  |

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| E.  | Spend less each month.  |

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| 45. | The goal of investing $50 per month for the next 12 years for your nephew's college fund is a(n) \_\_\_\_\_\_\_\_\_\_ goal.

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| A.  | Short-term  |

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| B.  | Intermediate  |

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| --- | --- |
| C.  | Long-term  |

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| --- | --- |
| D.  | Intangible  |

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| --- | --- |
| E.  | Durable  |

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| 46. | Many Americans have money problems because of

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| A.  | Poor planning and weak money management habits  |

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| --- | --- |
| B.  | Too many clearly defined goals  |

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| --- | --- |
| C.  | Proper use of credit  |

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| D.  | Not enough advertising to make effective decisions  |

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| --- | --- |
| E.  | Controlled spending  |

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| 47. | Susan Smith has a goal of "saving $25 per month for a TV". Considering the SMART approach, Susan’s goal lacks

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| A.  | Measurable terms  |

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| B.  | A realistic perspective  |

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| C.  | An action-orientation  |

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| D.  | A specific objective  |

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| E.  | A time frame  |

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| 48. | Which of the following is correct?

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| A.  | A car purchase is a consumable-product goal  |

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| B.  | Entertainment is a durable-product goal  |

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| C.  | Appliances and sporting equipment are intangible-purchase goals  |

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| D.  | Leisure and education are durable-product goals  |

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| E.  | Food and clothing are consumable-product goals  |

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| 49. | \_\_\_\_\_\_\_\_\_ goals relate to infrequently purchased, expensive items.

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| A.  | Short-term  |

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| --- | --- |
| B.  | Intangible-purchase  |

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| --- | --- |
| C.  | Durable-product  |

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| --- | --- |
| D.  | Consumable-products  |

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| --- | --- |
| E.  | Intermediate  |

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| 50. | To develop financial goals, one should

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| A.  | Set several general goals for the short-term  |

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| B.  | Only set long-term goals after short-term goals have been accomplished  |

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| C.  | Focus on intermediate goals first  |

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| D.  | Identify specific, realistic goals that are measurable along with a time frame and an action plan  |

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| E.  | Not worry about whether or not the goals can be achieved based on one's income and life situation  |

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| 51. | The goal of purchasing a long-term care insurance policy would be most appropriate for

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| A.  | A young couple without children.  |

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| B.  | A single parent with a preschool daughter.  |

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| C.  | An unmarried couple without children.  |

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| D.  | An older single person with children.  |

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| E.  | A young single individual.  |

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| 52. | Opportunity cost refers to

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| A.  | Money needed for major consumer purchases.  |

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| B.  | The trade-off of a decision.  |

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| C.  | The amount paid for taxes when a purchase is made.  |

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| D.  | Current interest rates.  |

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| E.  | Evaluating different alternatives for financial decisions.  |

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| 53. | Robert Brown is interested in attending a concert next weekend. Unfortunately, he is scheduled to work. If he finds a substitute for his shift so he can attend the concert, what kind of cost is he incurring?

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| A.  | Personal opportunity cost relating to health  |

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| B.  | Personal opportunity cost relating to time  |

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| --- | --- |
| C.  | Personal opportunity cost relating to abilities  |

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| D.  | Personal opportunity cost relating to knowledge  |

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| E.  | Unexpected personal opportunity cost  |

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| 54. | Which of the following is an example of a financial opportunity cost?

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| A.  | Renting an apartment near school  |

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| B.  | Saving money instead of spending it today  |

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| C.  | Organizing income tax records  |

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| D.  | Purchasing automobile insurance  |

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| --- | --- |
| E.  | Using a personal computer for financial planning  |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 55. | 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.  |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 56. | 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 earned.  |

|  |  |
| --- | --- |
| E.  | Changing demographic trends in our society.  |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 57. | If I can invest a dollar today and earn interest on it, then it should be worth \_\_\_\_\_\_\_\_\_ in the future.

|  |  |
| --- | --- |
| A.  | Less  |

|  |  |
| --- | --- |
| B.  | The same as  |

|  |  |
| --- | --- |
| C.  | More  |

|  |  |
| --- | --- |
| D.  | Either less or the same as  |

|  |  |
| --- | --- |
| E.  | Either the same as or more  |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 58. | To calculate the time value of money, we need to consider all of the following *except* the

|  |  |
| --- | --- |
| A.  | Amount of the savings.  |

|  |  |
| --- | --- |
| B.  | Annual interest rate.  |

|  |  |
| --- | --- |
| C.  | Length of time the money is on deposit.  |

|  |  |
| --- | --- |
| D.  | Type of investment.  |

|  |  |
| --- | --- |
| E.  | Principal.  |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 59. | Future value computations are often referred to as

|  |  |
| --- | --- |
| A.  | Discounting.  |

|  |  |
| --- | --- |
| B.  | Present value.  |

|  |  |
| --- | --- |
| C.  | Compounding.  |

|  |  |
| --- | --- |
| D.  | Simple interest.  |

|  |  |
| --- | --- |
| E.  | An annuity.  |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 60. | Present value computations are also referred to as

|  |  |
| --- | --- |
| A.  | Discounting.  |

|  |  |
| --- | --- |
| B.  | Future value.  |

|  |  |
| --- | --- |
| C.  | Compounding.  |

|  |  |
| --- | --- |
| D.  | Simple interest.  |

|  |  |
| --- | --- |
| E.  | An annuity.  |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 61. | Steve Wilson wants to deposit $150 per month into an account earning 4 percent for the next 3 years, so he can purchase a used car at that time. What type of computation would he use to determine the amount he will have for his purchase?

|  |  |
| --- | --- |
| A.  | Present value of a single amount  |

|  |  |
| --- | --- |
| B.  | Future value of a single amount  |

|  |  |
| --- | --- |
| C.  | Simple interest  |

|  |  |
| --- | --- |
| D.  | Present value of an annuity  |

|  |  |
| --- | --- |
| E.  | Future value of an annuity  |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 62. | Rhonda Miller wants to take out a 4 year loan to purchase a car. What type of computation would she use to calculate her monthly payments?

|  |  |
| --- | --- |
| A.  | Present value of a single amount  |

|  |  |
| --- | --- |
| B.  | Future value of a single amount  |

|  |  |
| --- | --- |
| C.  | Simple interest  |

|  |  |
| --- | --- |
| D.  | Present value of an annuity  |

|  |  |
| --- | --- |
| E.  | Future value of an annuity  |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 63. | Tim Taylor received a $500 gift from his grandparents. He wants to invest this money for the down payment of a house that he plans to purchase in 3 years. What type of computation should he use?

|  |  |
| --- | --- |
| A.  | Present value of a single amount  |

|  |  |
| --- | --- |
| B.  | Future value of a single amount  |

|  |  |
| --- | --- |
| C.  | Simple interest  |

|  |  |
| --- | --- |
| D.  | Present value of an annuity  |

|  |  |
| --- | --- |
| E.  | Future value of an annuity  |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 64. | Jennifer Rodriguez plans to attend graduate school in 5 years. She thinks that she will need a total of $32,000 to pay for school, and she wants to save money each month to reach her goal. What type of computation should she use?

|  |  |
| --- | --- |
| A.  | Present value of a single amount  |

|  |  |
| --- | --- |
| B.  | Future value of a single amount  |

|  |  |
| --- | --- |
| C.  | Simple interest  |

|  |  |
| --- | --- |
| D.  | Present value of an annuity  |

|  |  |
| --- | --- |
| E.  | Future value of an annuity  |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 65. | Paul Davis wants to deposit money today for a vacation that he plans to take to Asia after he graduates from Graduate School. Which formula should he use to determine the amount of money he will have available for his vacation?

|  |  |
| --- | --- |
| A.  | Present value of a single amount  |

|  |  |
| --- | --- |
| B.  | Future value of a single amount  |

|  |  |
| --- | --- |
| C.  | Simple interest  |

|  |  |
| --- | --- |
| D.  | Present value of an annuity  |

|  |  |
| --- | --- |
| E.  | Future value of an annuity  |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 66. | The first step of the financial planning process is to

|  |  |
| --- | --- |
| A.  | Develop financial goals.  |

|  |  |
| --- | --- |
| B.  | Implement the financial plan.  |

|  |  |
| --- | --- |
| C.  | Determine your current financial situation.  |

|  |  |
| --- | --- |
| D.  | Evaluate and revise the financial plan..  |

|  |  |
| --- | --- |
| E.  | Create a financial action plan.  |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 67. | Making financial decisions related to income involves all of the following *except*

|  |  |
| --- | --- |
| A.  | Spending  |

|  |  |
| --- | --- |
| B.  | Saving  |

|  |  |
| --- | --- |
| C.  | Sharing  |

|  |  |
| --- | --- |
| D.  | Taking  |

|  |  |
| --- | --- |
| E.  | All of these are financial decisions  |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 68. | Place the following steps for a personal financial plan in the proper order:  1. Review and revise the financial plan 2. Identify alternative courses of action 3. Create and implement your financial action plan 4. Determine your current financial situation 5. Evaluate alternatives 6. Develop your financial goals

|  |  |
| --- | --- |
| A.  | 6, 1, 2, 5, 3, 4  |

|  |  |
| --- | --- |
| B.  | 4, 2, 6, 5, 3, 1  |

|  |  |
| --- | --- |
| C.  | 3, 6, 4, 2, 5, 1  |

|  |  |
| --- | --- |
| D.  | 4, 6, 2, 5, 3, 1  |

|  |  |
| --- | --- |
| E.  | 6, 2, 5, 4, 1, 3  |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 69. | Every decision involves uncertainty, which is referred to as

|  |  |
| --- | --- |
| A.  | Consequences of choices.  |

|  |  |
| --- | --- |
| B.  | Alternative courses of action.  |

|  |  |
| --- | --- |
| C.  | Financial goals.  |

|  |  |
| --- | --- |
| D.  | Personal values.  |

|  |  |
| --- | --- |
| E.  | Evaluating risk.  |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 70. | Changes in the cost of money is referred to as \_\_\_\_\_\_\_\_\_\_\_\_ risk.

|  |  |
| --- | --- |
| A.  | interest-rate  |

|  |  |
| --- | --- |
| B.  | inflation  |

|  |  |
| --- | --- |
| C.  | income  |

|  |  |
| --- | --- |
| D.  | personal  |

|  |  |
| --- | --- |
| E.  | liquidity  |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 71. | The rising or falling of prices that causes changes in buying power is referred to as \_\_\_\_\_\_\_\_\_\_\_\_ risk.

|  |  |
| --- | --- |
| A.  | interest-rate  |

|  |  |
| --- | --- |
| B.  | inflation  |

|  |  |
| --- | --- |
| C.  | income  |

|  |  |
| --- | --- |
| D.  | personal  |

|  |  |
| --- | --- |
| E.  | liquidity  |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 72. | The loss of a job or encountering an illness results in \_\_\_\_\_\_\_\_\_\_\_\_ risk.

|  |  |
| --- | --- |
| A.  | interest-rate  |

|  |  |
| --- | --- |
| B.  | inflation  |

|  |  |
| --- | --- |
| C.  | income  |

|  |  |
| --- | --- |
| D.  | liquidity  |

|  |  |
| --- | --- |
| E.  | personal  |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 73. | The tangible and intangible factors that create a less than desirable situation is referred to as \_\_\_\_\_\_\_\_\_\_\_\_ risk.

|  |  |
| --- | --- |
| A.  | interest-rate  |

|  |  |
| --- | --- |
| B.  | inflation  |

|  |  |
| --- | --- |
| C.  | income  |

|  |  |
| --- | --- |
| D.  | liquidity  |

|  |  |
| --- | --- |
| E.  | personal  |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 74. | The difficulty of converting savings and investments to cash is referred to as \_\_\_\_\_\_\_\_\_\_\_\_ risk.

|  |  |
| --- | --- |
| A.  | interest-rate |

|  |  |
| --- | --- |
| B.  | inflation |

|  |  |
| --- | --- |
| C.  | income |

|  |  |
| --- | --- |
| D.  | personal |

|  |  |
| --- | --- |
| E.  | liquidity |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 75. | Changes in personal, social, and economic factors may require you to

|  |  |
| --- | --- |
| A.  | Review and revise your financial plan more frequently. |

|  |  |
| --- | --- |
| B.  | Implement your financial action plan. |

|  |  |
| --- | --- |
| C.  | Develop your financial goals. |

|  |  |
| --- | --- |
| D.  | Determine current financial situation. |

|  |  |
| --- | --- |
| E.  | Create your financial plan of action. |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 76. | The step in the personal financial planning process that follows "Create and implement your financial action plan" is

|  |  |
| --- | --- |
| A.  | Review and revise the financial plan |

|  |  |
| --- | --- |
| B.  | Identify alternative courses of action |

|  |  |
| --- | --- |
| C.  | Determine current financial situation |

|  |  |
| --- | --- |
| D.  | Evaluate alternatives |

|  |  |
| --- | --- |
| E.  | Develop your financial goals |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 77. | Using the services of financial institutions or financial specialists (such as insurance agents or investment advisers) to seek relevant information is done in which step in the financial planning process?

|  |  |
| --- | --- |
| A.  | Develop your financial goals. |

|  |  |
| --- | --- |
| B.  | Review and revise your financial plan. |

|  |  |
| --- | --- |
| C.  | Determine your current financial situation. |

|  |  |
| --- | --- |
| D.  | Evaluate your alternatives. |

|  |  |
| --- | --- |
| E.  | Create your financial plan of action. |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 78. | If inflation is expected to be 8 percent, how long will it take for prices to double?

|  |  |
| --- | --- |
| A.  | 6 years  |

|  |  |
| --- | --- |
| B.  | 7 years  |

|  |  |
| --- | --- |
| C.  | 9 years  |

|  |  |
| --- | --- |
| D.  | 12 years  |

|  |  |
| --- | --- |
| E.  | 18 years  |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 79. | If a $10,000 investment earns interest of $500 in one year, what is its rate of return?

|  |  |
| --- | --- |
| A.  | .5 percent  |

|  |  |
| --- | --- |
| B.  | 10 percent  |

|  |  |
| --- | --- |
| C.  | 50 percent  |

|  |  |
| --- | --- |
| D.  | 75 percent  |

|  |  |
| --- | --- |
| E.  | 100 percent  |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 80. | If a $10,000 investment earns a 4 % annual return, what should its value be after one year?

|  |  |
| --- | --- |
| A.  | $100  |

|  |  |
| --- | --- |
| B.  | $400  |

|  |  |
| --- | --- |
| C.  | $4,000  |

|  |  |
| --- | --- |
| D.  | $10,000  |

|  |  |
| --- | --- |
| E.  | $10,400  |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 81. | If a $10,000 investment earns a 7% annual return, what should its value be after 6 years?

|  |  |
| --- | --- |
| A.  | $10,000  |

|  |  |
| --- | --- |
| B.  | $10,700  |

|  |  |
| --- | --- |
| C.  | $15,000  |

|  |  |
| --- | --- |
| D.  | $15,010  |

|  |  |
| --- | --- |
| E.  | $15,100  |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 82. | If Melinda Miller estimates that her $100 weekly grocery bill will increase at an annual inflation rate of 4%, what should her weekly grocery bill be in 3 years?

|  |  |
| --- | --- |
| A.  | $100.00  |

|  |  |
| --- | --- |
| B.  | $112.00  |

|  |  |
| --- | --- |
| C.  | $112.50  |

|  |  |
| --- | --- |
| D.  | $114.00  |

|  |  |
| --- | --- |
| E.  | $121.60  |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 83. | Annual earnings on a $500 Certificate of Deposit earning 3% would be

|  |  |
| --- | --- |
| A.  | $5.00  |

|  |  |
| --- | --- |
| B.  | $15.00  |

|  |  |
| --- | --- |
| C.  | $25.00  |

|  |  |
| --- | --- |
| D.  | $30.00  |

|  |  |
| --- | --- |
| E.  | $500.00  |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 84. | Randy Hill wants to retire in 20 years with $1,000,000. If he can earn 10% per year on his investments, how much does he need to deposit each year to reach his goal? Round your answer to the nearest dollar.

|  |  |
| --- | --- |
| A.  | $17,460  |

|  |  |
| --- | --- |
| B.  | $18,000  |

|  |  |
| --- | --- |
| C.  | $5,727  |

|  |  |
| --- | --- |
| D.  | $25,000  |

|  |  |
| --- | --- |
| E.  | None of the above  |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 85. | If you begin saving $2,000 a year at 5% (from age 22 to age 30 or 9 years), what will these funds grow to in this time period?

|  |  |
| --- | --- |
| A.  | $2,000  |

|  |  |
| --- | --- |
| B.  | $11,970  |

|  |  |
| --- | --- |
| C.  | $18,000  |

|  |  |
| --- | --- |
| D.  | $22,054  |

|  |  |
| --- | --- |
| E.  | $30,500  |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 86. | If you want $1,000 three years from now and you earn 4 percent on your savings, how much do you need to deposit?

|  |  |
| --- | --- |
| A.  | $885  |

|  |  |
| --- | --- |
| B.  | $889  |

|  |  |
| --- | --- |
| C.  | $1,000  |

|  |  |
| --- | --- |
| D.  | $1,030  |

|  |  |
| --- | --- |
| E.  | $1,040  |

 |

Chapter 01 Personal Financial Planning in Action Answer Answer Key

**True / False Questions**

|  |  |
| --- | --- |
| 1.*(p. 3)* | Personal financial planning is the process of managing your money to achieve personal economic satisfaction.  **TRUE**Definition |

|  |
| --- |
| *Blooms: RememberDifficulty: 1 EasyLearning Objective: 01-01 Identify social and economic influences on personal financial goals and decisions.Topic: Financial Planning* |

|  |  |
| --- | --- |
| 2.*(p. 4)* | A financial plan is an informal report that analyzes past financial decisions.  **FALSE**A financial plan is a formal report that summarizes your current financial situation, analyzes financial needs, and recommends future financial activities. |

|  |
| --- |
| *Blooms: RememberDifficulty: 1 EasyLearning Objective: 01-01 Identify social and economic influences on personal financial goals and decisions.Topic: Financial Planning* |

|  |  |
| --- | --- |
| 3.*(p. 4)* | A financial plan can only be created using a money management software package.  **FALSE**A financial plan can be created on your own, or you can seek assistance from a financial planner, or use a money management software package. |

|  |
| --- |
| *Blooms: RememberDifficulty: 2 MediumLearning Objective: 01-01 Identify social and economic influences on personal financial goals and decisions.Topic: Financial Planning* |

|  |  |
| --- | --- |
| 4.*(p. 4)* | Financial Plans are only created by financial planners.  **FALSE**Financial plans are created by individuals as well as by financial planners or by using a money management software package. |

|  |
| --- |
| *Blooms: RememberDifficulty: 1 EasyLearning Objective: 01-01 Identify social and economic influences on personal financial goals and decisions.Topic: Financial Planning* |

|  |  |
| --- | --- |
| 5.*(p. 5)* | The life situation of a household includes a combination of personal factors such as age, income, household size, and personal beliefs.  **TRUE** |

|  |
| --- |
| *Blooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-01 Identify social and economic influences on personal financial goals and decisions.Topic: Financial Planning* |

|  |  |
| --- | --- |
| 6.*(p. 5)* | The financial activities for a young, single person will probably be the same as those for an older couple with no dependent children at home.  **FALSE**In **Exhibit 1-1**, specialized financial activities differ for a young, single versus an older couple without children. |

|  |
| --- |
| *Blooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-01 Identify social and economic influences on personal financial goals and decisions.Topic: Financial Planning* |

|  |  |
| --- | --- |
| 7.*(p. 6)* | Inflation is most harmful to people with incomes expected to increase.  **FALSE**Inflation is most harmful to people with fixed incomes. |

|  |
| --- |
| *Blooms: RememberDifficulty: 1 EasyLearning Objective: 01-01 Identify social and economic influences on personal financial goals and decisions.Topic: Finance and EconomicsTopic: Financial Planning* |

|  |  |
| --- | --- |
| 8.*(p. 6)* | Inflation is a rise in the general level of prices and it, reduces the buying power of the dollar.  **TRUE** |

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| *Blooms: RememberDifficulty: 1 EasyLearning Objective: 01-01 Identify social and economic influences on personal financial goals and decisions.Topic: Finance and EconomicsTopic: Financial Planning* |

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| 9.*(p. 6)* | When prices are increasing at a rate of 4 percent, the cost of products would double in about 18 years.  **TRUE**Use the Rule of 72: (72/4 = 18 years). |

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| *Blooms: ApplyDifficulty: 2 MediumLearning Objective: 01-01 Identify social and economic influences on personal financial goals and decisions.Topic: Finance and EconomicsTopic: Financial Planning* |

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| 10.*(p. 7)* | As borrowing by consumers and businesses increases, interest rates are likely to decrease.  **FALSE** |

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| *Blooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-01 Identify social and economic influences on personal financial goals and decisions.Topic: Finance and EconomicsTopic: Financial Planning* |

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| 11.*(p. 7)* | Planned spending through budgeting is part of the "spending" component of financial planning activities.  **FALSE**It is part of the "planning" activity. |

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| *Blooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-01 Identify social and economic influences on personal financial goals and decisions.Topic: Financial Planning* |

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| 12.*(p. 8)* | Retirement planning includes thinking about your housing situation, recreational activities, and possible volunteer or part-time work.  **TRUE** |

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| *Blooms: RememberDifficulty: 1 EasyLearning Objective: 01-01 Identify social and economic influences on personal financial goals and decisions.Topic: Financial Planning* |

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| 13.*(p. 9)* | Short-term goals are usually achieved within the next year or so.  **TRUE** |

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| *Blooms: RememberDifficulty: 1 EasyLearning Objective: 01-02 Develop personal financial goals.Topic: Financial Planning* |

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| 14.*(p. 9)* | Intermediate goals are usually achieved within the next year or so.  **FALSE**Intermediate goals have a time frame of  2 to 5 years. |

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| *Blooms: RememberDifficulty: 1 EasyLearning Objective: 01-02 Develop personal financial goals.Topic: Financial Planning* |

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| 15.*(p. 9)* | Purchasing an appliance is an example of a consumable-product goal.  **FALSE**Purchasing an appliance is a durable-product goal. |

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| *Blooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-02 Develop personal financial goals.Topic: Financial Planning* |

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| 16.*(p. 9)* | Purchasing a car is an example of a durable-product goal.  **TRUE** |

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| *Blooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-02 Develop personal financial goals.Topic: Financial Planning* |

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| 17.*(p. 11)* | Opportunity costs refer to money already spent.  **FALSE**An opportunity cost is what a person gives up when a choice is made. |

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| *Blooms: RememberDifficulty: 2 MediumLearning Objective: 01-03 Calculate time value of money situations associated with personal financial decisions.Topic: Time Value of Money* |

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| 18.*(p. 11)* | Personal opportunity costs refer to  resources, such as time, health, and energy, that are given up when a choice is made.  **TRUE** |

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| *Blooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-03 Calculate time value of money situations associated with personal financial decisions.Topic: Time Value of Money* |

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| 19.*(p. 11)* | Interest earned is calculated by multiplying the principal times the time value of money.  **FALSE**Interest earned = principal (amount in savings) × annual interest rate × time period. |

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| *Blooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-03 Calculate time value of money situations associated with personal financial decisions.Topic: Time Value of Money* |

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| 20.*(p. 18)* | Risks associated with many financial decisions are easy to identify and evaluate.  **FALSE**These risks are difficult to identify and evaluate. |

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| *Blooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-04 Implement a plan for making personal financial and career decisions.Topic: Financial Planning* |

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| 21.*(p. 11)* | $500 on deposit at 6% for 6 months would earn $20.  **FALSE**$500 × 0.06 × 6mo/12mo = $15 interest earned |

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| *Blooms: ApplyDifficulty: 3 HardLearning Objective: 01-03 Calculate time value of money situations associated with personal financial decisions.Topic: Time Value of Money* |

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| 22.*(p. 11)* | There are only 3 methods of calculating time value of money.  **FALSE**There are 5 methods for calculating time value of money: formula calculation, time value of money tables, financial calculator, spreadsheet software, and websites/apps. |

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| *Blooms: RememberDifficulty: 2 MediumLearning Objective: 01-03 Calculate time value of money situations associated with personal financial decisions.Topic: Time Value of Money* |

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| 23.*(p. 17)* | There are only 3 possible courses of action when developing alternatives for decision making.  **FALSE**There are 4 possible courses of action when making decisions: continue the same course of action, expand the current situation, change the current situation, and take a new course of action. |

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| *Blooms: RememberDifficulty: 2 MediumLearning Objective: 01-04 Implement a plan for making personal financial and career decisions.Topic: Financial Planning* |

**Multiple Choice Questions**

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| 24.*(p. 3)* | A formalized report that summarizes your current financial situation, analyzes your financial needs, and recommends future financial activities is a(n)

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| A.  | Insurance prospectus. |

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| --- | --- |
| **B.**  | Financial plan. |

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| --- | --- |
| C.  | Budget. |

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| --- | --- |
| D.  | Investment forecast. |

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| --- | --- |
| E.  | Statement. |

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| *Blooms: RememberDifficulty: 1 EasyLearning Objective: 01-01 Identify social and economic influences on personal financial goals and decisions.Topic: Financial Planning* |

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| 25.*(p. 3)* | The major function of personal financial planning is to

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| A.  | Reduce taxes. |

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| B.  | Increase savings. |

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| **C.**  | Achieve personal economic satisfaction. |

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| D.  | Improve your credit rating. |

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| E.  | Obtain adequate insurance protection. |

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| *Blooms: AnalyzeDifficulty: 2 MediumLearning Objective: 01-01 Identify social and economic influences on personal financial goals and decisions.Topic: Financial Planning* |

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| 26.*(p. 4)* | An advantage of effective personal financial planning is:

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| A.  | The use of low-interest savings |

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| --- | --- |
| B.  | Increased impulse spending |

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| --- | --- |
| **C.**  | Increased control of financial affairs |

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| --- | --- |
| D.  | More credit card debt |

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| --- | --- |
| E.  | Less monitoring of investments |

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| *Blooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-01 Identify social and economic influences on personal financial goals and decisions.Topic: Financial Planning* |

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| 27.*(p. 4)* | The stages in the family situation and financial needs of an adult is called the

|  |  |
| --- | --- |
| A.  | Financial planning process |

|  |  |
| --- | --- |
| B.  | Budgeting procedure |

|  |  |
| --- | --- |
| C.  | Personal economic cycle |

|  |  |
| --- | --- |
| **D.**  | Adult life cycle |

|  |  |
| --- | --- |
| E.  | Tax planning process |

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| *Blooms: RememberDifficulty: 1 EasyLearning Objective: 01-01 Identify social and economic influences on personal financial goals and decisions.Topic: Financial Planning* |

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| 28.*(p. 4)* | Jim Johnson was laid off from his job two months ago. He just received an offer for a position that pays 3/4 the salary of his old job. Why should he set up a financial plan?

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| --- | --- |
| **A.**  | To increase the effectiveness of obtaining, using, and protecting his financial resources. |

|  |  |
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| B.  | To decrease control of his financial affairs regarding debt. |

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| C.  | To accept the loss of freedom from financial worries due to his new position. |

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| D.  | To learn how to manage depending more on others. |

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| E.  | To find out why he was laid off. |

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| *Blooms: AnalyzeDifficulty: 2 MediumLearning Objective: 01-01 Identify social and economic influences on personal financial goals and decisions.Topic: Financial Planning* |

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| 29.*(p. 7)* | The consumer price index measures:

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| --- | --- |
| A.  | The prices of goods and services in the United States |

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| --- | --- |
| B.  | The prices of goods and services in Bolivia |

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| --- | --- |
| **C.**  | The average change in prices of goods and services of urban consumers |

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| --- | --- |
| D.  | The change in prices of goods and services around the world |

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| --- | --- |
| E.  | None of the above |

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| *Blooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-01 Identify social and economic influences on personal financial goals and decisions.Topic: Finance and EconomicsTopic: Financial Planning* |

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| 30.*(p. 7)* | The actual cost of living increase for a household will be:

|  |  |
| --- | --- |
| A.  | Greater than the inflation rate as reported by the CPI since the index excludes the product or service with the highest inflation rate for the past 12 months |

|  |  |
| --- | --- |
| B.  | Lower than the inflation rate as reported by the CPI since the index excludes the product or service with the lowest inflation rate for the past 12 months |

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| --- | --- |
| C.  | Equal to the inflation rate as reported by the CPI since it includes all products and services whether or not the prices have changed in the past 12 months |

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| --- | --- |
| **D.**  | Either greater than or less than the inflation rate as reported by the CPI depending on the household's cost of necessities purchased |

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| E.  | Zero since the CPI does not measure consumer price changes |

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| *Blooms: AnalyzeDifficulty: 3 HardLearning Objective: 01-01 Identify social and economic influences on personal financial goals and decisions.Topic: Finance and EconomicsTopic: Financial Planning* |

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| 31.*(p. 6)* | The Rule of 72 is:

|  |  |
| --- | --- |
| A.  | A tool to determine the number of years until retirement for an employee |

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| --- | --- |
| **B.**  | Used to estimate how fast prices will double using a given annual inflation rate |

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| --- | --- |
| C.  | The legal code for requiring companies to provide a match on retirement savings |

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| --- | --- |
| D.  | Used to calculate interest rates for savings |

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| --- | --- |
| E.  | The number of steps required to complete a financial plan |

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| *Blooms: RememberDifficulty: 2 MediumLearning Objective: 01-01 Identify social and economic influences on personal financial goals and decisions.Topic: Finance and EconomicsTopic: Financial Planning* |

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| 32.*(p. 6)* | Who is less likely to be harmed by inflation?

|  |  |
| --- | --- |
| A.  | Retired people |

|  |  |
| --- | --- |
| B.  | Lenders |

|  |  |
| --- | --- |
| **C.**  | Borrowers |

|  |  |
| --- | --- |
| D.  | Fixed income consumers |

|  |  |
| --- | --- |
| E.  | Financial regulators |

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| *Blooms: UnderstandDifficulty: 3 HardLearning Objective: 01-01 Identify social and economic influences on personal financial goals and decisions.Topic: Finance and EconomicsTopic: Financial Planning* |

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| 33.*(p. 2015-07-06T00:00:0000)* | Increased consumer saving and investing is likely to be accompanied by

|  |  |
| --- | --- |
| A.  | Lower union wages |

|  |  |
| --- | --- |
| B.  | Higher interest rates |

|  |  |
| --- | --- |
| C.  | Lower production costs |

|  |  |
| --- | --- |
| **D.**  | Lower interest rates |

|  |  |
| --- | --- |
| E.  | Higher inflation |

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| *Blooms: UnderstandDifficulty: 3 HardLearning Objective: 01-01 Identify social and economic influences on personal financial goals and decisions.Topic: Finance and EconomicsTopic: Financial Planning* |

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| 34.*(p. 7)* | A savor or an investor should expect to receive a *risk* *premium* for

|  |  |
| --- | --- |
| A.  | Higher interest rates |

|  |  |
| --- | --- |
| B.  | Lower consumer prices |

|  |  |
| --- | --- |
| **C.**  | Higher uncertainty about getting his/her money back |

|  |  |
| --- | --- |
| D.  | Reduced credit ratings |

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| --- | --- |
| E.  | Expected lower inflation |

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| *Blooms: UnderstandDifficulty: 3 HardLearning Objective: 01-01 Identify social and economic influences on personal financial goals and decisions.Topic: Finance and EconomicsTopic: Financial Planning* |

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| 35.*(p. 7)* | Which of the following would increase the interest rate for a loan?

|  |  |
| --- | --- |
| **A.**  | Poor credit rating |

|  |  |
| --- | --- |
| B.  | Higher down payment |

|  |  |
| --- | --- |
| C.  | Expected lower inflation |

|  |  |
| --- | --- |
| D.  | Lower consumer prices |

|  |  |
| --- | --- |
| E.  | Short time to maturity |

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| *Blooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-01 Identify social and economic influences on personal financial goals and decisions.Topic: Finance and EconomicsTopic: Financial Planning* |

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| 36.*(p. 7)* | Patrick Guitman recently graduated from college with $20,000 in student loans and $5,000 in credit card debt. He usually makes minimum payments on his debt and he has been late with three payments in the last year. He wants to buy a new car but was told that his interest rate on a loan would be very high. What is the most likely reason this might be so?

|  |  |
| --- | --- |
| A.  | General interest rates are very low |

|  |  |
| --- | --- |
| **B.**  | His credit rating is poor which results in a higher interest rate |

|  |  |
| --- | --- |
| C.  | He already has a student loan outstanding |

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| --- | --- |
| D.  | Recent graduates are not allowed to have more than $25,000 in debt outstanding |

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| E.  | Interest rates must be tied to the CPI |

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| *Blooms: AnalyzeDifficulty: 2 MediumLearning Objective: 01-01 Identify social and economic influences on personal financial goals and decisions.Topic: Finance and EconomicsTopic: Financial Planning* |

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| 37.*(p. 7)* | Attempts to increase income through employment are part of the \_\_\_\_\_\_\_\_\_\_\_\_\_ component of financial planning.

|  |  |
| --- | --- |
| **A.**  | Obtaining |

|  |  |
| --- | --- |
| B.  | Planning |

|  |  |
| --- | --- |
| C.  | Saving |

|  |  |
| --- | --- |
| D.  | Borrowing |

|  |  |
| --- | --- |
| E.  | Spending |

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| *Blooms: UnderstandDifficulty: 1 EasyLearning Objective: 01-01 Identify social and economic influences on personal financial goals and decisions.Topic: Financial Planning* |

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| 38.*(p. 7)* | The ‘borrowing' component in a financial plan relates to

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| --- | --- |
| A.  | Acquiring adequate insurance coverage |

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| --- | --- |
| B.  | Investing for long-term growth |

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| --- | --- |
| C.  | Setting up a budget |

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| --- | --- |
| D.  | Obtaining financial resources from employment, investments or ownership |

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| --- | --- |
| **E.**  | Maintaining control over credit-buying habits |

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| *Blooms: RememberDifficulty: 1 EasyLearning Objective: 01-01 Identify social and economic influences on personal financial goals and decisions.Topic: Financial Planning* |

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| 39.*(p. 7)* | The problem of bankruptcy is associated with overuse and misuse of credit in the \_\_\_\_\_\_\_\_\_\_\_\_\_\_ component of financial planning.

|  |  |
| --- | --- |
| A.  | Sharing |

|  |  |
| --- | --- |
| B.  | Savings |

|  |  |
| --- | --- |
| C.  | Obtaining |

|  |  |
| --- | --- |
| **D.**  | Borrowing |

|  |  |
| --- | --- |
| E.  | Protecting |

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| *Blooms: RememberDifficulty: 1 EasyLearning Objective: 01-01 Identify social and economic influences on personal financial goals and decisions.Topic: Financial Planning* |

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| 40.*(p. 7)* | The saving component of financial planning focuses on long-term security and includes:

|  |  |
| --- | --- |
| **A.**  | A regular savings plan for emergencies |

|  |  |
| --- | --- |
| B.  | A current will |

|  |  |
| --- | --- |
| C.  | Bankruptcy counseling |

|  |  |
| --- | --- |
| D.  | A realistic budget for your current financial situation |

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| --- | --- |
| E.  | Minimizing transportation expenses through careful planning |

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| *Blooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-01 Identify social and economic influences on personal financial goals and decisions.Topic: Financial Planning* |

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| 41.*(p. 9)* | Which of the following *short-term* goals is stated most clearly using the SMART approach?

|  |  |
| --- | --- |
| **A.**  | Buy a car for less than $15,000 within 6 months  |

|  |  |
| --- | --- |
| B.  | Retire in 10 years at age 65 with $2,000,000 in my 401(k) account  |

|  |  |
| --- | --- |
| C.  | Purchase a house with a mortgage no greater than $150,000 within 5 years  |

|  |  |
| --- | --- |
| D.  | Set up an emergency fund  |

|  |  |
| --- | --- |
| E.  | Invest $50 per month for the next 12 years for my nephew's college fund  |

The only clearly stated short-term goal listed is A. B and E are long-term goals. C is an intermediate goal. D is a short-term goal; that is not measurable and does not have a time limit.  |

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| *Blooms: ApplyDifficulty: 3 HardLearning Objective: 01-02 Develop personal financial goals.Topic: Financial Planning* |

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| 42.*(p. 9)* | Which of the following *long-term* goals is stated most clearly using the SMART approach?

|  |  |
| --- | --- |
| A.  | Buy a car for less than $15,000 within 6 months  |

|  |  |
| --- | --- |
| B.  | Retire in 10 years at age 65  |

|  |  |
| --- | --- |
| C.  | Purchase a house with a mortgage no greater than $150,000 within 5 years  |

|  |  |
| --- | --- |
| D.  | Set up an emergency fund  |

|  |  |
| --- | --- |
| **E.**  | Invest $50 per month for the next 12 years for my nephew's college fund  |

The only clearly stated long-term goal listed is E. A is a short-term goal. B is a long-term goal; however, it is not measurable. C is an intermediate goal. D is a short-term goal that is not measurable and does not have a time limit.  |

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| *Blooms: ApplyDifficulty: 3 HardLearning Objective: 01-02 Develop personal financial goals.Topic: Financial Planning* |

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| 43.*(p. 2015-11-09T00:00:0000)* | Which of the following *intermediate* *goals* is stated most clearly using the SMART approach?

|  |  |
| --- | --- |
| A.  | Buy a car for less than $15,000 within 6 months  |

|  |  |
| --- | --- |
| B.  | Retire in 10 years at age 65 with $2,000,000 in my 401(k) account  |

|  |  |
| --- | --- |
| **C.**  | Purchase a house with a mortgage no greater than $150,000 within 5 years  |

|  |  |
| --- | --- |
| D.  | Set up an emergency fund  |

|  |  |
| --- | --- |
| E.  | Invest $50 per month for the next 12 years for my nephew's college fund  |

The only clearly stated intermediate term goal listed is C. A is a short-term goal; B and E are long-term goals. D is a short-term goal that is not measurable and does not have a time limit.  |

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| *Blooms: ApplyDifficulty: 3 HardLearning Objective: 01-02 Develop personal financial goals.Topic: Financial Planning* |

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| 44.*(p. 9)* | Which of the following goals would be the easiest to implement and measure?

|  |  |
| --- | --- |
| A.  | Put money into an investment fund.  |

|  |  |
| --- | --- |
| B.  | Reduce credit card debt.  |

|  |  |
| --- | --- |
| C.  | Save funds for an annual vacation.  |

|  |  |
| --- | --- |
| **D.**  | Save $100 a month to create a $2,400 emergency fund in 2 years.  |

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| --- | --- |
| E.  | Spend less each month.  |

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| *Blooms: ApplyDifficulty: 2 MediumLearning Objective: 01-02 Develop personal financial goals.Topic: Financial Planning* |

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| 45.*(p. 9)* | The goal of investing $50 per month for the next 12 years for your nephew's college fund is a(n) \_\_\_\_\_\_\_\_\_\_ goal.

|  |  |
| --- | --- |
| A.  | Short-term  |

|  |  |
| --- | --- |
| B.  | Intermediate  |

|  |  |
| --- | --- |
| **C.**  | Long-term  |

|  |  |
| --- | --- |
| D.  | Intangible  |

|  |  |
| --- | --- |
| E.  | Durable  |

 |

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| *Blooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-02 Develop personal financial goals.Topic: Financial Planning* |

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| 46.*(p. 9)* | Many Americans have money problems because of

|  |  |
| --- | --- |
| **A.**  | Poor planning and weak money management habits  |

|  |  |
| --- | --- |
| B.  | Too many clearly defined goals  |

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| --- | --- |
| C.  | Proper use of credit  |

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| D.  | Not enough advertising to make effective decisions  |

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| --- | --- |
| E.  | Controlled spending  |

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| *Blooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-02 Develop personal financial goals.Topic: Financial Planning* |

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| 47.*(p. 9)* | Susan Smith has a goal of "saving $25 per month for a TV". Considering the SMART approach, Susan’s goal lacks

|  |  |
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| A.  | Measurable terms  |

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| --- | --- |
| B.  | A realistic perspective  |

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| --- | --- |
| C.  | An action-orientation  |

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| --- | --- |
| D.  | A specific objective  |

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| **E.**  | A time frame  |

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| *Blooms: AnalyzeDifficulty: 2 MediumLearning Objective: 01-02 Develop personal financial goals.Topic: Financial Planning* |

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| 48.*(p. 9)* | Which of the following is correct?

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| A.  | A car purchase is a consumable-product goal  |

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| B.  | Entertainment is a durable-product goal  |

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| C.  | Appliances and sporting equipment are intangible-purchase goals  |

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| D.  | Leisure and education are durable-product goals  |

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| **E.**  | Food and clothing are consumable-product goals  |

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| *Blooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-02 Develop personal financial goals.Topic: Financial Planning* |

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| 49.*(p. 9)* | \_\_\_\_\_\_\_\_\_ goals relate to infrequently purchased, expensive items.

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| --- | --- |
| A.  | Short-term  |

|  |  |
| --- | --- |
| B.  | Intangible-purchase  |

|  |  |
| --- | --- |
| **C.**  | Durable-product  |

|  |  |
| --- | --- |
| D.  | Consumable-products  |

|  |  |
| --- | --- |
| E.  | Intermediate  |

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| *Blooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-02 Develop personal financial goals.Topic: Financial Planning* |

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| 50.*(p. 10)* | To develop financial goals, one should

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| A.  | Set several general goals for the short-term  |

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| --- | --- |
| B.  | Only set long-term goals after short-term goals have been accomplished  |

|  |  |
| --- | --- |
| C.  | Focus on intermediate goals first  |

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| --- | --- |
| **D.**  | Identify specific, realistic goals that are measurable along with a time frame and an action plan  |

|  |  |
| --- | --- |
| E.  | Not worry about whether or not the goals can be achieved based on one's income and life situation  |

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| *Blooms: AnalyzeDifficulty: 2 MediumLearning Objective: 01-02 Develop personal financial goals.Topic: Financial Planning* |

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| 51.*(p. 5)* | The goal of purchasing a long-term care insurance policy would be most appropriate for

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| --- | --- |
| A.  | A young couple without children.  |

|  |  |
| --- | --- |
| B.  | A single parent with a preschool daughter.  |

|  |  |
| --- | --- |
| C.  | An unmarried couple without children.  |

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| --- | --- |
| **D.**  | An older single person with children.  |

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| E.  | A young single individual.  |

See **Exhibit 1-1** for specialized financial activities for various life situations.  |

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| *Blooms: ApplyDifficulty: 2 MediumLearning Objective: 01-02 Develop personal financial goals.Topic: Financial Planning* |

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| 52.*(p. 11)* | Opportunity cost refers to

|  |  |
| --- | --- |
| A.  | Money needed for major consumer purchases.  |

|  |  |
| --- | --- |
| **B.**  | The trade-off of a decision.  |

|  |  |
| --- | --- |
| C.  | The amount paid for taxes when a purchase is made.  |

|  |  |
| --- | --- |
| D.  | Current interest rates.  |

|  |  |
| --- | --- |
| E.  | Evaluating different alternatives for financial decisions.  |

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| *Blooms: RememberDifficulty: 1 EasyLearning Objective: 01-03 Calculate time value of money situations associated with personal financial decisions.Topic: Time Value of Money* |

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| 53.*(p. 11)* | Robert Brown is interested in attending a concert next weekend. Unfortunately, he is scheduled to work. If he finds a substitute for his shift so he can attend the concert, what kind of cost is he incurring?

|  |  |
| --- | --- |
| A.  | Personal opportunity cost relating to health  |

|  |  |
| --- | --- |
| **B.**  | Personal opportunity cost relating to time  |

|  |  |
| --- | --- |
| C.  | Personal opportunity cost relating to abilities  |

|  |  |
| --- | --- |
| D.  | Personal opportunity cost relating to knowledge  |

|  |  |
| --- | --- |
| E.  | Unexpected personal opportunity cost  |

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| *Blooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-03 Calculate time value of money situations associated with personal financial decisions.Topic: Time Value of Money* |

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| 54.*(p. 11)* | Which of the following is an example of a financial opportunity cost?

|  |  |
| --- | --- |
| A.  | Renting an apartment near school  |

|  |  |
| --- | --- |
| **B.**  | Saving money instead of spending it today  |

|  |  |
| --- | --- |
| C.  | Organizing income tax records  |

|  |  |
| --- | --- |
| D.  | Purchasing automobile insurance  |

|  |  |
| --- | --- |
| E.  | Using a personal computer for financial planning  |

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| *Blooms: UnderstandDifficulty: 3 HardLearning Objective: 01-03 Calculate time value of money situations associated with personal financial decisions.Topic: Time Value of Money* |

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| 55.*(p. 11)* | 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.  |

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| --- | --- |
| E.  | Having to pay a tax penalty due to not having enough withheld from your monthly salary.  |

Time is an important personal opportunity cost.  |

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| *Blooms: UnderstandDifficulty: 3 HardLearning Objective: 01-03 Calculate time value of money situations associated with personal financial decisions.Topic: Time Value of Money* |

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| 56.*(p. 11)* | 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 earned.  |

|  |  |
| --- | --- |
| E.  | Changing demographic trends in our society.  |

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| *Blooms: RememberDifficulty: 1 EasyLearning Objective: 01-03 Calculate time value of money situations associated with personal financial decisions.Topic: Time Value of Money* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 57.*(p. 11)* | If I can invest a dollar today and earn interest on it, then it should be worth \_\_\_\_\_\_\_\_\_ in the future.

|  |  |
| --- | --- |
| A.  | Less  |

|  |  |
| --- | --- |
| B.  | The same as  |

|  |  |
| --- | --- |
| **C.**  | More  |

|  |  |
| --- | --- |
| D.  | Either less or the same as  |

|  |  |
| --- | --- |
| E.  | Either the same as or more  |

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| *Blooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-03 Calculate time value of money situations associated with personal financial decisions.Topic: Time Value of Money* |

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| 58.*(p. 11)* | To calculate the time value of money, we need to consider all of the following *except* the

|  |  |
| --- | --- |
| A.  | Amount of the savings.  |

|  |  |
| --- | --- |
| B.  | Annual interest rate.  |

|  |  |
| --- | --- |
| C.  | Length of time the money is on deposit.  |

|  |  |
| --- | --- |
| **D.**  | Type of investment.  |

|  |  |
| --- | --- |
| E.  | Principal.  |

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| *Blooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-03 Calculate time value of money situations associated with personal financial decisions.Topic: Time Value of Money* |

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| 59.*(p. 13)* | Future value computations are often referred to as

|  |  |
| --- | --- |
| A.  | Discounting.  |

|  |  |
| --- | --- |
| B.  | Present value.  |

|  |  |
| --- | --- |
| **C.**  | Compounding.  |

|  |  |
| --- | --- |
| D.  | Simple interest.  |

|  |  |
| --- | --- |
| E.  | An annuity.  |

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| *Blooms: RememberDifficulty: 2 MediumLearning Objective: 01-03 Calculate time value of money situations associated with personal financial decisions.Topic: Time Value of Money* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 60.*(p. 14)* | Present value computations are also referred to as

|  |  |
| --- | --- |
| **A.**  | Discounting.  |

|  |  |
| --- | --- |
| B.  | Future value.  |

|  |  |
| --- | --- |
| C.  | Compounding.  |

|  |  |
| --- | --- |
| D.  | Simple interest.  |

|  |  |
| --- | --- |
| E.  | An annuity.  |

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| *Blooms: RememberDifficulty: 2 MediumLearning Objective: 01-03 Calculate time value of money situations associated with personal financial decisions.Topic: Time Value of Money* |

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| 61.*(p. 13)* | Steve Wilson wants to deposit $150 per month into an account earning 4 percent for the next 3 years, so he can purchase a used car at that time. What type of computation would he use to determine the amount he will have for his purchase?

|  |  |
| --- | --- |
| A.  | Present value of a single amount  |

|  |  |
| --- | --- |
| B.  | Future value of a single amount  |

|  |  |
| --- | --- |
| C.  | Simple interest  |

|  |  |
| --- | --- |
| D.  | Present value of an annuity  |

|  |  |
| --- | --- |
| **E.**  | Future value of an annuity  |

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| *Blooms: UnderstandDifficulty: 3 HardLearning Objective: 01-03 Calculate time value of money situations associated with personal financial decisions.Topic: Time Value of Money* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 62.*(p. 15)* | Rhonda Miller wants to take out a 4 year loan to purchase a car. What type of computation would she use to calculate her monthly payments?

|  |  |
| --- | --- |
| A.  | Present value of a single amount  |

|  |  |
| --- | --- |
| B.  | Future value of a single amount  |

|  |  |
| --- | --- |
| C.  | Simple interest  |

|  |  |
| --- | --- |
| **D.**  | Present value of an annuity  |

|  |  |
| --- | --- |
| E.  | Future value of an annuity  |

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| *Blooms: UnderstandDifficulty: 3 HardLearning Objective: 01-03 Calculate time value of money situations associated with personal financial decisions.Topic: Time Value of Money* |

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| 63.*(p. 13)* | Tim Taylor received a $500 gift from his grandparents. He wants to invest this money for the down payment of a house that he plans to purchase in 3 years. What type of computation should he use?

|  |  |
| --- | --- |
| A.  | Present value of a single amount  |

|  |  |
| --- | --- |
| **B.**  | Future value of a single amount  |

|  |  |
| --- | --- |
| C.  | Simple interest  |

|  |  |
| --- | --- |
| D.  | Present value of an annuity  |

|  |  |
| --- | --- |
| E.  | Future value of an annuity  |

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| *Blooms: UnderstandDifficulty: 3 HardLearning Objective: 01-03 Calculate time value of money situations associated with personal financial decisions.Topic: Time Value of Money* |

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| 64.*(p. 13)* | Jennifer Rodriguez plans to attend graduate school in 5 years. She thinks that she will need a total of $32,000 to pay for school, and she wants to save money each month to reach her goal. What type of computation should she use?

|  |  |
| --- | --- |
| A.  | Present value of a single amount  |

|  |  |
| --- | --- |
| B.  | Future value of a single amount  |

|  |  |
| --- | --- |
| C.  | Simple interest  |

|  |  |
| --- | --- |
| D.  | Present value of an annuity  |

|  |  |
| --- | --- |
| **E.**  | Future value of an annuity  |

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| *Blooms: UnderstandDifficulty: 3 HardLearning Objective: 01-03 Calculate time value of money situations associated with personal financial decisions.Topic: Time Value of Money* |

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| 65.*(p. 13)* | Paul Davis wants to deposit money today for a vacation that he plans to take to Asia after he graduates from Graduate School. Which formula should he use to determine the amount of money he will have available for his vacation?

|  |  |
| --- | --- |
| A.  | Present value of a single amount  |

|  |  |
| --- | --- |
| **B.**  | Future value of a single amount  |

|  |  |
| --- | --- |
| C.  | Simple interest  |

|  |  |
| --- | --- |
| D.  | Present value of an annuity  |

|  |  |
| --- | --- |
| E.  | Future value of an annuity  |

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| *Blooms: UnderstandDifficulty: 3 HardLearning Objective: 01-03 Calculate time value of money situations associated with personal financial decisions.Topic: Time Value of Money* |

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| 66.*(p. 16)* | The first step of the financial planning process is to

|  |  |
| --- | --- |
| A.  | Develop financial goals.  |

|  |  |
| --- | --- |
| B.  | Implement the financial plan.  |

|  |  |
| --- | --- |
| **C.**  | Determine your current financial situation.  |

|  |  |
| --- | --- |
| D.  | Evaluate and revise the financial plan..  |

|  |  |
| --- | --- |
| E.  | Create a financial action plan.  |

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| *Blooms: RememberDifficulty: 1 EasyLearning Objective: 01-04 Implement a plan for making personal financial and career decisions.Topic: Financial Planning* |

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| 67.*(p. 15)* | Making financial decisions related to income involves all of the following *except*

|  |  |
| --- | --- |
| A.  | Spending  |

|  |  |
| --- | --- |
| B.  | Saving  |

|  |  |
| --- | --- |
| C.  | Sharing  |

|  |  |
| --- | --- |
| **D.**  | Taking  |

|  |  |
| --- | --- |
| E.  | All of these are financial decisions  |

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| *Blooms: RememberDifficulty: 1 EasyLearning Objective: 01-04 Implement a plan for making personal financial and career decisions.Topic: Financial Planning* |

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| 68.*(p. 16)* | Place the following steps for a personal financial plan in the proper order:  1. Review and revise the financial plan 2. Identify alternative courses of action 3. Create and implement your financial action plan 4. Determine your current financial situation 5. Evaluate alternatives 6. Develop your financial goals

|  |  |
| --- | --- |
| A.  | 6, 1, 2, 5, 3, 4  |

|  |  |
| --- | --- |
| B.  | 4, 2, 6, 5, 3, 1  |

|  |  |
| --- | --- |
| C.  | 3, 6, 4, 2, 5, 1  |

|  |  |
| --- | --- |
| **D.**  | 4, 6, 2, 5, 3, 1  |

|  |  |
| --- | --- |
| E.  | 6, 2, 5, 4, 1, 3  |

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| *Blooms: AnalyzeDifficulty: 3 HardLearning Objective: 01-04 Implement a plan for making personal financial and career decisions.Topic: Financial Planning* |

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| 69.*(p. 18)* | Every decision involves uncertainty, which is referred to as

|  |  |
| --- | --- |
| A.  | Consequences of choices.  |

|  |  |
| --- | --- |
| B.  | Alternative courses of action.  |

|  |  |
| --- | --- |
| C.  | Financial goals.  |

|  |  |
| --- | --- |
| D.  | Personal values.  |

|  |  |
| --- | --- |
| **E.**  | Evaluating risk.  |

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| *Blooms: RememberDifficulty: 1 EasyLearning Objective: 01-04 Implement a plan for making personal financial and career decisions.Topic: Financial Planning* |

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| 70.*(p. 18)* | Changes in the cost of money is referred to as \_\_\_\_\_\_\_\_\_\_\_\_ risk.

|  |  |
| --- | --- |
| **A.**  | interest-rate  |

|  |  |
| --- | --- |
| B.  | inflation  |

|  |  |
| --- | --- |
| C.  | income  |

|  |  |
| --- | --- |
| D.  | personal  |

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| --- | --- |
| E.  | liquidity  |

Interest-rate risk affects the costs of borrowing and the benefits of saving or investing.  |

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| *Blooms: RememberDifficulty: 2 MediumLearning Objective: 01-04 Implement a plan for making personal financial and career decisions.Topic: Financial Planning* |

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| 71.*(p. 18)* | The rising or falling of prices that causes changes in buying power is referred to as \_\_\_\_\_\_\_\_\_\_\_\_ risk.

|  |  |
| --- | --- |
| A.  | interest-rate  |

|  |  |
| --- | --- |
| **B.**  | inflation  |

|  |  |
| --- | --- |
| C.  | income  |

|  |  |
| --- | --- |
| D.  | personal  |

|  |  |
| --- | --- |
| E.  | liquidity  |

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| *Blooms: RememberDifficulty: 2 MediumLearning Objective: 01-04 Implement a plan for making personal financial and career decisions.Topic: Financial Planning* |

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| 72.*(p. 18)* | The loss of a job or encountering an illness results in \_\_\_\_\_\_\_\_\_\_\_\_ risk.

|  |  |
| --- | --- |
| A.  | interest-rate  |

|  |  |
| --- | --- |
| B.  | inflation  |

|  |  |
| --- | --- |
| **C.**  | income  |

|  |  |
| --- | --- |
| D.  | liquidity  |

|  |  |
| --- | --- |
| E.  | personal  |

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| *Blooms: RememberDifficulty: 2 MediumLearning Objective: 01-04 Implement a plan for making personal financial and career decisions.Topic: Financial Planning* |

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| 73.*(p. 18)* | The tangible and intangible factors that create a less than desirable situation is referred to as \_\_\_\_\_\_\_\_\_\_\_\_ risk.

|  |  |
| --- | --- |
| A.  | interest-rate  |

|  |  |
| --- | --- |
| B.  | inflation  |

|  |  |
| --- | --- |
| C.  | income  |

|  |  |
| --- | --- |
| D.  | liquidity  |

|  |  |
| --- | --- |
| **E.**  | personal  |

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| *Blooms: RememberDifficulty: 2 MediumLearning Objective: 01-04 Implement a plan for making personal financial and career decisions.Topic: Financial Planning* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 74.*(p. 18)* | The difficulty of converting savings and investments to cash is referred to as \_\_\_\_\_\_\_\_\_\_\_\_ risk.

|  |  |
| --- | --- |
| A.  | interest-rate |

|  |  |
| --- | --- |
| B.  | inflation |

|  |  |
| --- | --- |
| C.  | income |

|  |  |
| --- | --- |
| D.  | personal |

|  |  |
| --- | --- |
| **E.**  | liquidity |

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| *Blooms: RememberDifficulty: 2 MediumLearning Objective: 01-04 Implement a plan for making personal financial and career decisions.Topic: Financial Planning* |

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| 75.*(p. 20)* | Changes in personal, social, and economic factors may require you to

|  |  |
| --- | --- |
| **A.**  | Review and revise your financial plan more frequently. |

|  |  |
| --- | --- |
| B.  | Implement your financial action plan. |

|  |  |
| --- | --- |
| C.  | Develop your financial goals. |

|  |  |
| --- | --- |
| D.  | Determine current financial situation. |

|  |  |
| --- | --- |
| E.  | Create your financial plan of action. |

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| *Blooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-04 Implement a plan for making personal financial and career decisions.Topic: Financial Planning* |

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| 76.*(p. 16; 20)* | The step in the personal financial planning process that follows "Create and implement your financial action plan" is

|  |  |
| --- | --- |
| **A.**  | Review and revise the financial plan |

|  |  |
| --- | --- |
| B.  | Identify alternative courses of action |

|  |  |
| --- | --- |
| C.  | Determine current financial situation |

|  |  |
| --- | --- |
| D.  | Evaluate alternatives |

|  |  |
| --- | --- |
| E.  | Develop your financial goals |

 |

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| *Blooms: UnderstandDifficulty: 2 MediumLearning Objective: 01-04 Implement a plan for making personal financial and career decisions.Topic: Financial Planning* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 77.*(p. 20)* | Using the services of financial institutions or financial specialists (such as insurance agents or investment advisers) to seek relevant information is done in which step in the financial planning process?

|  |  |
| --- | --- |
| A.  | Develop your financial goals. |

|  |  |
| --- | --- |
| B.  | Review and revise your financial plan. |

|  |  |
| --- | --- |
| C.  | Determine your current financial situation. |

|  |  |
| --- | --- |
| **D.**  | Evaluate your alternatives. |

|  |  |
| --- | --- |
| E.  | Create your financial plan of action. |

 |

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| *Blooms: UnderstandDifficulty: 3 HardLearning Objective: 01-04 Implement a plan for making personal financial and career decisions.Topic: Financial PlanningTopic: Financial Services and Institutions* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 78.*(p. 6)* | If inflation is expected to be 8 percent, how long will it take for prices to double?

|  |  |
| --- | --- |
| A.  | 6 years  |

|  |  |
| --- | --- |
| B.  | 7 years  |

|  |  |
| --- | --- |
| **C.**  | 9 years  |

|  |  |
| --- | --- |
| D.  | 12 years  |

|  |  |
| --- | --- |
| E.  | 18 years  |

Rule of 72: (72/8 = 9 years).  |

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| *Blooms: ApplyDifficulty: 1 EasyLearning Objective: 01-01 Identify social and economic influences on personal financial goals and decisions.Topic: Finance and EconomicsTopic: Financial Planning* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 79.*(p. 11)* | If a $10,000 investment earns interest of $500 in one year, what is its rate of return?

|  |  |
| --- | --- |
| **A.**  | .5 percent  |

|  |  |
| --- | --- |
| B.  | 10 percent  |

|  |  |
| --- | --- |
| C.  | 50 percent  |

|  |  |
| --- | --- |
| D.  | 75 percent  |

|  |  |
| --- | --- |
| E.  | 100 percent  |

Solve for rate: Principal x rate x time = interest ($10,000 x rate x 1 year) = $500 then $10,000 x rate = $500 then rate = $500/$10,000 = .05 = .5%  |

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| *Blooms: ApplyDifficulty: 3 HardLearning Objective: 01-03 Calculate time value of money situations associated with personal financial decisions.Topic: Time Value of Money* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 80.*(p. 13)* | If a $10,000 investment earns a 4 % annual return, what should its value be after one year?

|  |  |
| --- | --- |
| A.  | $100  |

|  |  |
| --- | --- |
| B.  | $400  |

|  |  |
| --- | --- |
| C.  | $4,000  |

|  |  |
| --- | --- |
| D.  | $10,000  |

|  |  |
| --- | --- |
| **E.**  | $10,400  |

Future value = principal + interest $10,000 + (10,000 x 0.04 x 1 year) = $10,000 + $400 = $10,400  |

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| *Blooms: ApplyDifficulty: 3 HardLearning Objective: 01-03 Calculate time value of money situations associated with personal financial decisions.Topic: Time Value of Money* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 81. | If a $10,000 investment earns a 7% annual return, what should its value be after 6 years?

|  |  |
| --- | --- |
| A.  | $10,000  |

|  |  |
| --- | --- |
| B.  | $10,700  |

|  |  |
| --- | --- |
| C.  | $15,000  |

|  |  |
| --- | --- |
| **D.**  | $15,010  |

|  |  |
| --- | --- |
| E.  | $15,100  |

Correct answer uses **Exhibit 1-A** (Future Value of $1 table Compounded Sum) on page 40 in chapter appendix or **Exhibit 1-3** (A. Future Value of $1 Single Amount) on page 12:  $10,000 \* 1.403 = $14,030.  |

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| *Blooms: ApplyDifficulty: 3 HardLearning Objective: 01-03 Calculate time value of money situations associated with personal financial decisions.Topic: Time Value of Money* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 82.*(p. 13)* | If Melinda Miller estimates that her $100 weekly grocery bill will increase at an annual inflation rate of 4%, what should her weekly grocery bill be in 3 years?

|  |  |
| --- | --- |
| A.  | $100.00  |

|  |  |
| --- | --- |
| B.  | $112.00  |

|  |  |
| --- | --- |
| **C.**  | $112.50  |

|  |  |
| --- | --- |
| D.  | $114.00  |

|  |  |
| --- | --- |
| E.  | $121.60  |

Correct answer uses **Exhibit 1-A** (Future Value of $1 table, Compounded Sum) on page 40 in the chapter Appendix:  $100 \* 1.125 = $112.50.  |

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| *Blooms: ApplyDifficulty: 3 HardLearning Objective: 01-03 Calculate time value of money situations associated with personal financial decisions.Topic: Time Value of Money* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 83.*(p. 12)* | Annual earnings on a $500 Certificate of Deposit earning 3% would be

|  |  |
| --- | --- |
| A.  | $5.00  |

|  |  |
| --- | --- |
| **B.**  | $15.00  |

|  |  |
| --- | --- |
| C.  | $25.00  |

|  |  |
| --- | --- |
| D.  | $30.00  |

|  |  |
| --- | --- |
| E.  | $500.00  |

Future value = $500 × .03 × 1 year = $15.00  |

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| *Blooms: ApplyDifficulty: 2 MediumLearning Objective: 01-03 Calculate time value of money situations associated with personal financial decisions.Topic: Time Value of Money* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 84. | Randy Hill wants to retire in 20 years with $1,000,000. If he can earn 10% per year on his investments, how much does he need to deposit each year to reach his goal? Round your answer to the nearest dollar.

|  |  |
| --- | --- |
| **A.**  | $17,460  |

|  |  |
| --- | --- |
| B.  | $18,000  |

|  |  |
| --- | --- |
| C.  | $5,727  |

|  |  |
| --- | --- |
| D.  | $25,000  |

|  |  |
| --- | --- |
| E.  | None of the above  |

Correct answer uses 10% for 20 periods **Exhibit 1-B** table (Future Value of an Annuity): Future value = annual deposit \* factor = $1,000,000 = annual deposit \* 57.275 then Annual deposit = $1,000,000/57.275 = $17,460 (rounded). This can also be solved using computer or calculator functions using the following variables: N = 20, I = 10, PV = 0, FV = 1,000,000. Solve for PMT: $17,460 (rounded).  |

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| *Blooms: ApplyDifficulty: 3 HardLearning Objective: 01-03 Calculate time value of money situations associated with personal financial decisions.Topic: Time Value of Money* |

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| 85.*(p. 13)* | If you begin saving $2,000 a year at 5% (from age 22 to age 30 or 9 years), what will these funds grow to in this time period?

|  |  |
| --- | --- |
| A.  | $2,000  |

|  |  |
| --- | --- |
| B.  | $11,970  |

|  |  |
| --- | --- |
| C.  | $18,000  |

|  |  |
| --- | --- |
| **D.**  | $22,054  |

|  |  |
| --- | --- |
| E.  | $30,500  |

Using **Exhibit 1-3** on page 12 (B. Future Value of an Annuity): $2,000 × factor 11.027 = $22,054 $500 × 0.06 × 6mo/12mo = $15 interest earned  |

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| *Blooms: ApplyDifficulty: 3 HardLearning Objective: 01-03 Calculate time value of money situations associated with personal financial decisions.Topic: Time Value of Money* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 86.*(p. 14)* | If you want $1,000 three years from now and you earn 4 percent on your savings, how much do you need to deposit?

|  |  |
| --- | --- |
| A.  | $885  |

|  |  |
| --- | --- |
| **B.**  | $889  |

|  |  |
| --- | --- |
| C.  | $1,000  |

|  |  |
| --- | --- |
| D.  | $1,030  |

|  |  |
| --- | --- |
| E.  | $1,040  |

Using **Exhibit 1-C** on page 42 (Present Value of $ (single amount): $1,000 × factor .889 = $889  |

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| *Blooms: ApplyDifficulty: 3 HardLearning Objective: 01-03 Calculate time value of money situations associated with personal financial decisions.Topic: Time Value of Money* |