

# TEST BANK FOR

Introduction to Personal Finance Beginning Your Financial Journey, 3rd Edition John E. Grable, Lance Palmer

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## Chapter 1-10

### Chapter 1 Beginning Your Financial Journey: The Interior Finance Point of View

1) Which of the following refers to one's ability to understand and use personal finance information?

- A) Financial risk tolerance.
- B) Financial well-being.
- C) Financial knowledge.
- D) Financial ability.

Answer: C

Explanation: Financial knowledge is the ability to understand personal finance information. Knowing who you are, where you want to go, and what skills you currently possess are essential factors shaping your financial journey.

Diff: 1

LO: 1.1, Section 1.1

Bloom: K

AACSB / IMA: none; none

AICPA: FC: none

Min: 1

2) People who believe that what happens to them is based on fate or luck might view their financial journey as being uncertain. This is an example of

- A) financial risk tolerance.
- B) financial literacy.
- C) feelings of control.
- D) financial ability.

Answer: C

Explanation: Feelings of control is the amount of control you feel you have when making financial decisions. People who believe that what happens to them is based on luck or fate might view their financial journey as uncertain.

Diff: 1

LO: 1.1, Section 1.1

Bloom: C

AACSB / IMA: none; none

AICPA: FC: none

Min: 1

- 3) Internal finance includes your
- A) financial knowledge.
  - B) financial risk tolerance.
  - C) feelings of control.
  - D) All of these answer choices are correct.

Answer: D

Explanation: Internal finance is essentially the combination of financial knowledge, financial risk tolerance, and feelings of control.

Diff: 1

LO: 1.1, Section 1.1

Bloom: K

AACSB / IMA: none; none

AICPA: FC: none

Min: 1

- 4) Which of the following refers to your confidence and peace of mind regarding your financial situation?
- A) Financial literacy.
  - B) Financial well-being.
  - C) Financial knowledge.
  - D) Financial ability.

Answer: B

Explanation: Financial well-being is your confidence and peace of mind regarding your financial situation. Your financial well-being will increase as you apply your financial knowledge, develop skills, and organize your finances to achieve your personal goals.

Diff: 2

LO: 1.1, Section 1.1

Bloom: C

AACSB / IMA: none; none

AICPA: FC: none

Min: 1

- 5) In addition to financial knowledge, which of the following is important in shaping your view of the financial world?
- A) Financial risk tolerance, only.
  - B) Feelings of control, only.
  - C) Financial well-being only.
  - D) Financial risk tolerance and feelings of control.

Answer: D

Explanation: Our financial decisions can be based on a biased view of the financial world, which is based on the combination of our financial knowledge, financial risk tolerance, and feelings of control.

Diff: 2

LO: 1.1, Section 1.1

Bloom: C

AACSB / IMA: none; none

AICPA: FC: none

Min: 1

6) Which of the following refers to your willingness to engage in financial endeavors that have uncertain outcomes?

- A) Financial literacy.
- B) Financial risk tolerance.
- C) Financial knowledge.
- D) Financial ability.

Answer: B

Explanation: Your financial risk tolerance is your willingness to engage in financial endeavors that have uncertain outcomes.

Diff: 1

LO: 1.1, Section 1.1

Bloom: K

AACSB / IMA: none; none

AICPA: FC: none

Min: 1

7) Which of the following is measured by adding up how much the United States produces in goods and services in a year?

- A) Gross domestic product.
- B) The cost of goods sold.
- C) Financial literacy.
- D) Financial risk tolerance.

Answer: A

Explanation: Gross domestic product (GDP) is measured by adding up how much a country produces in goods and services in a year.

Diff: 1

LO: 1.1, Section 1.1

Bloom: K

AACSB / IMA: none; none

AICPA: FC: none

Min: 1

8) How much of GDP consists of consumer spending?

- A) 46%.
- B) 50%.
- C) 60%.
- D) 66%.

Answer: D

Explanation: In 2022, the U.S. GDP was \$24.46 trillion and nearly two-thirds (66%) of GDP consists of consumer spending.

Diff: 1

LO: 1.1, Section 1.1

Bloom: K

AACSB / IMA: none; none

AICPA: FC: none

Min: 1

9) Which of the following will help you outline exactly how to apply your financial knowledge to achieve your life vision?

- A) Financial literacy.
- B) Financial roadmap.
- C) Financial knowledge.
- D) Financial ability.

Answer: B

Explanation: Envisioning the future is not easy, but having a long-term life vision and a plan requires a financial roadmap, a course that will help you outline how to apply your financial knowledge to achieve your life vision.

Diff: 1

LO: 1.1, Section 1.1

Bloom: K

AACSB / IMA: none; none

AICPA: FC: none

Min: 1

10) An action item that should be a part of everyone's journey to financial well-being includes which of the following?

- A) Keeping good records.
- B) Spending less than you earn.
- C) Maintaining appropriate insurance.
- D) All of these answer choices are correct.

Answer: D

Explanation: The actions that can help you to manage your financial well-being include: keeping good records, earn money, manage taxes, spend less than you earn, save wisely, invest strategically, maintain appropriate insurance, and plan for your future.

Diff: 2

LO: 1.1, Section 1.1

Bloom: C

AACSB / IMA: none; none

AICPA: FC: none

Min: 1

11) How does consumer spending affect GDP?

- A) If spending decreases, GDP increases.
- B) If spending increases, GDP decreases.
- C) If spending increases, GDP increases.
- D) Consumer spending doesn't affect GDP.

Answer: C

Explanation: Gross domestic product (GDP) is measured by adding up how much a country produces in goods and services in a year. Everything from the value of cars to the value of the shrubs and flowers purchased at a local store is included in GDP. Since nearly two-thirds (66%) of GDP consists of consumer spending; the more consumers spend, the larger GDP becomes. On the other hand, if consumption slows down, GDP goes down.

Diff: 2

LO: 1.1, Section 1.1

Bloom: C

AACSB / IMA: none; none

AICPA: FC: none

Min: 1

12) Financial literacy takes more than financial knowledge. You must also have some key personal behaviors, including which of the following?

- A) Self-control.
- B) A desire to apply financial information to the management of your household financial situation.
- C) An interest in personal finance topics.
- D) All of these answer choices are correct.

Answer: D

Explanation: Financial literacy is one of the most important predictors of savings and investment success and overall well-being. In addition to financial knowledge, you must possess financial discipline (self-control) and a desire to develop skills and apply your financial knowledge to achieve your personal goals.

Diff: 1

LO: 1.1, Section 1.1

Bloom: C

AACSB / IMA: none; none

AICPA: FC: none

Min: 1

13) Which of the following is one of the most important predictors of savings and investment success, and overall well-being?

- A) Financial literacy.
- B) Financial well-being.
- C) Financial knowledge.
- D) Financial ability.

Answer: A

Explanation: Financial literacy is one of the most important predictors of savings and investment success and overall well-being.

Diff: 1

LO: 1.1, Section 1.1

Bloom: K

AACSB / IMA: none; none

AICPA: FC: none

Min: 1

14) Those who increase their financial \_\_\_\_\_ tend to experience greater life and financial well-being.

- A) literacy
- B) risks
- C) knowledge
- D) ability

Answer: C

Explanation: As you apply your financial knowledge, develop skills, and organize your finances to achieve your personal goals, your confidence and peace of mind regarding your financial situation, or your financial well-being, will increase.

Diff: 1

LO: 1.1, Section 1.1

Bloom: C

AACSB / IMA: none; none

AICPA: FC: none

Min: 1

15) If you slow down or stop spending, what happens to GDP?

- A) GDP increases.
- B) GDP decreases.
- C) GDP is unchanged.
- D) GDP is not related to consumer spending.

Answer: B

Explanation: Gross domestic product (GDP) is measured by adding up how much a country produces in goods and services in a year. Everything from the value of cars to the value of the shrubs and flowers purchased at a local store is included in GDP. Since nearly two-thirds (66%) of GDP consists of consumer spending, the more consumers spend, the larger GDP becomes. On the other hand, if consumption slows down, GDP goes down.

Diff: 2

LO: 1.1, Section 1.1

Bloom: A

AACSB / IMA: none; none

AICPA: FC: none

Min: 1

16) Scarcity refers to:

- A) having unlimited resources available.
- B) having too much debt.
- C) having too little financial knowledge.
- D) having limited resources available.

Answer: D

Explanation: Scarcity refers to having a limited number of resources available.

Diff: 1

LO: 1.1, Section 1.1

Bloom: K

AACSB / IMA: none; none

AICPA: FC: none

Min: 1

17) Your ability and willingness to work, learn, earn, and make wise decisions about how to save and invest money refers to what?

- A) Financial literacy.
- B) Financial well-being.
- C) Social capital.
- D) Human capital.

Answer: D

Explanation: Human capital is your ability and willingness to work, learn, earn, and make wise decisions about how to save and invest money.

Diff: 1

LO: 1.2, Section 1.2

Bloom: C

AACSB / IMA: none; none

AICPA: FC: none

Min: 1

18) How well you are able to form connections with other people is referred to as what?

- A) Financial literacy.
- B) Financial well-being.
- C) Social capital.
- D) Human capital.

Answer: C

Explanation: Social capital is how well you are able to form connections with other people.

Diff: 1

LO: 1.2, Section 1.2

Bloom: K

AACSB / IMA: none; none

AICPA: FC: none

Min: 1

19) Human capital is your most valuable:

- A) asset.
- B) liability.
- C) skill.
- D) ability.

Answer: A

Explanation: Human capital is your ability and willingness to work, learn, earn, and make wise decisions about how to save and invest money. Human capital is your most valuable asset, as it determines your life-long earnings potential.

Diff: 1

LO: 1.2, Section 1.2

Bloom: K

AACSB / IMA: none; none

AICPA: FC: none

Min: 1

20) Example(s) of human capital include which of the following?

- A) Formal education.
- B) Health.
- C) Skill development.
- D) All of these answer choices are correct.

Answer: D

Explanation: Human capital is your ability and willingness to work, learn, earn, and make wise decisions about how to save and invest money. Your earnings are an indicator of the value of your human capital in the labor market. Earnings are often closely associated with your level of formal education, continuing professional education and skill development, and your health.

Diff: 2

LO: 1.2, Section 1.2

Bloom: C

AACSB / IMA: none; none

AICPA: FC: none

Min: 1