

# FINANCIAL LITERACY REVIEW

Chapter One contains an outline of the material. Chapters 2-8 contain practice questions.

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- An answer key to the practice exams will be posted online Sunday, December \_\_

## WHAT IS FINANCIAL LITERACY?

Financial literacy refers to the basic skills people need to manage money and make financial decisions.

People are said to be financially literate when they understand money, income and taxes, budgeting, banking, saving, investing, credit, insurance, retirement planning, and managing money for economic self-sufficiency and to build wealth.

Financial Literacy begins early in life and is a life-long pursuit. Think about the first time you learned something about money.

Basic financial literacy is essential and empowering; it increases social and economic equality. It allows people to take control of their financial lives.

Through financial education, we can create informed and responsible citizens who can make wise financial plans and decisions.

## HOW TO TAKE PRACTICE EXAMS AT HOME

1. Go to [www.moneypower.org](http://www.moneypower.org)
  - a. Username: Shs15
  - b. Password: hS4300

Both are case sensitive!
2. You must fill in the information in the fields with red asterisks (\*) next to them.
  - a. Zip Code
  - b. City
  - c. Birth Year
3. Choose Student
4. Click Submit
5. Choose the type of test that you want to take, either online or printed, and click on "Continue".

Select one of the options below:

**Practice Certification Test - New Test - Difficult**  
 35 questions from all categories (35 minutes timed)

**Standard Quiz - Difficult**  
 10 questions from all categories (10 minutes timed)

**Customized Quiz**  
10 questions from the category you choose timed  
Categories (choose one)

Money, Intro Finance  
 Investing  
 Banking  
 Insurance  
 Interest, Cost of Money  
 Credit  
 Money Management

**Practice Test - Very Difficult**  
 15 Question Test from all categories (20 minutes timed)

**Practice Test - Hard**  
 50 Questions - 50 minutes timed

## PERSONAL FINANCE OUTLINE

### I. MONEY

- A. What is money and why is money important
  - 1. Money vs. barter
- B. Description and characteristics of money
- C. Reason U.S. currency has value
  - 1. Accepted by all institutions in the U.S
  - 2. U.S. money is now fiat currency, meaning that there is no real backing other than the government's word.
- D. Role of Treasury Department: printing, minting currency
- E. Connection between money, income, savings, spending and financial literacy
- F. Methods for receiving and/or earning money or paying for goods & service other than cash, which is leading to a cashless society
  - 1. Cash card/gift card (store specific cash cards that have a \$ balance on the card; e.g., Starbucks, phone cards, or agency specific, e.g. metro card, etc.)
  - 2. Debit card (\$ withdrawn directly from checking account)
  - 3. Check
  - 4. Money order
  - 5. Credit card
  - 6. Electronic transfer (automatic payment of bills)
  - 7. Earning interest and dividends

### II. Sources of Income (how money enters our lives).

- A. Employment, investments, self-employment, rental income, profits on the sale of goods or services
- B. Transfer payments (welfare social security, pensions, gifts)
- C. Windfall income (gambling, lottery, inheritance, gift, etc).
- D. Factors influencing income
  - 1. Capacity to earn, knowledge, skills, level of education
  - 2. Job opportunities (supply and demand, upward mobility opportunities, etc.)
  - 3. Variables (life-cycle (age) and membership in labor/professional organizations)
- E. Employment benefits (monetary and non-monetary)
- F. Characteristics inflation and depression and the impact of each on income, purchasing power, and money in circulation
- G. Paycheck
  - 1. Gross wage vs.net pay
- H. Pay stub
  - 1. Mandatory vs. optional payroll deductions (taxes, including Social Security (FICA) and Medicare), child support, garnishments, contributions to a 401(k) plans that are taken out of gross pay)
  - 2. Role of payroll exemptions. When does a person increase or decrease their exemptions? What happens to net pay and/or gross pay when there is an increase or decrease in exemptions?
- I. Benefits
  - 1. Tuition reimbursement, matching pension contributions, health insurance.
    - a. Most employers today are requiring employees to contribute to health and a 401K.
    - b. Non-contributory (not deducted from pay) benefits are generally vacation and sick days.

### III. BUDGETING

- A. Financial goals and characteristics of a meaningful goal that provides direction
  - 1. Specific with a time frame
  - 2. Goal timelines
    - a. Long-term (more than 3 years)
    - b. Intermediate (1-3 years)
    - c. Short-term (less than one year)
- B. Purpose of a budget

## PERSONAL FINANCE OUTLINE

1. Recommend that individuals start by tracking income & expenses for one or two months
  2. Value of having a spending plan/budget
  3. Steps in preparing a budget
  - C. Create a budget/spending plan with a category for Income, Fixed Expenses, Variable Expenses and Investments and Savings
    1. Limited resources
    2. Needs vs. wants
    3. Opportunity cost
  - D. Income vs. fixed and variable expenses
  - E. Balancing a budget (based on the 3 R's -- reality, responsibility, and restraint)
    1. Determining surplus (also known as discretionary income) or deficit
  - F. Evaluating the budget
    1. Strategies to reduce a budget, have discretionary income
      - a. Coupons, luxuries, negotiation, spend less than earned
      - b. Purchasing strategies (comparison shopping, catalog, Internet)
  - G. Influence of advertising and peer pressure on spending (evaluating information)
  - H. Strategies to achieve long-term, medium (or intermediate)-term and short, term goals and importance of savings
  - I. Guideline for an Emergency Fund (three - six months of income) at different stages in life – "Pay yourself first"
  - J. Factors affecting a budget
    1. Inflation, Unemployment, etc...
- IV. COST OF MONEY
- A. Interest rates - the cost of the temporary use of somebody else's money
    1. Role of the Federal Reserve in establishing/regulating interest rates
      - a. Results of raising and lowering rates.
      - b. Who and what do they affect? Why?
  - B. Concepts
    1. Time value of money
    2. Rule of 72 (# of years it takes to double money = dollars/interest rate)
    3. The benefit of interest on principle or savings
    4. Simple interest vs. compounding (and the advantage of daily compounding)  
Benefit of daily compounding over weekly, monthly or quarterly compounding
    5. What is Annual Percentage Rate (APR)? When is it used, importance of knowing
    6. Impact of inflation on interest rates and on purchasing/buying power
- V. BANKING
- A. Define savings and understand the importance of saving
    1. Short, medium, long term, retirement
  - B. Importance of banking
  - C. Liquidity vs. illiquidity
  - D. Banks as vital financial intermediaries
  - E. Making money grow
    1. Putting money to work through savings that earns interest
    2. Safety in banking (FDIC)
    3. Role of the Federal Reserve (the banks' bank; protecting depositors/reserve requirements)
    4. Types of banks (similarities and differences)
      - a. Credit unions
      - b. Savings banks
      - c. Commercial banks
      - d. Brokerage (Securities) firms (also known as investment banks)
    5. Difference between banks, credit unions, pawn shops, check cashing centers, and finance companies
  - F. Factors to consider when shopping for a bank
    1. Available products and services

## PERSONAL FINANCE OUTLINE

- a. free checking
  - b. savings without a minimum balance or a very low balance
  - c. online banking
  - d. ATM availability
  - e. hours that the bank is open
  - f. safe deposit boxes
  - g. drive-up window
  - h. weekend or evening hours
  - i. Interest rate
  - j. CD's
  - k. mortgages, personal or business loans, etc...
  - l. Information a person needs to open an account
  - m. Debit cards
  - n. Automatic/direct withdrawal from checking
  - o. Savings or money market accounts
  - p. Agency or store cash cards that mayor may not be replenished
    - i.e. - Starbucks or metro card
  - q. Money order
  - r. Cashier's (Bank) check (guaranteed by bank)
  - s. Certified check
  - t. U.S. Savings bonds
- G. Checking
- 1. Regular Checking
    - a. Monthly and per check fees
  - 2. Free checking
  - 3. Account guidelines/benefits
  - 4. Minimum balance is required
  - 5. How to write a check & parts of a check
  - 6. Check register
  - 7. Consequences of insufficient funds (fee by bank and fee by or to payee)
  - 8. Overdraft protection (a feature used to avoid the consequence of insufficient funds)
  - 9. Potential problem with checks made payable to cash.
  - 10. Reconciliation of check register with the checking account bank statement
  - 11. Savings account (advantages of and how to establish)
  - 12. Electronic transfer/automatic bill payment (value and how it works)
  - 13. Direct deposit (value and how it works)
  - 14. Safety deposit boxes (main reason to rent a box)
  - 15. Loans
    - a. Student loans
    - b. Real estate loans, i.e., Mortgages or equity loans
    - c. Cash loans
    - d. Car loans
    - e. Line of credit loan
    - f. How loans work
      - Down payment and impact on monthly payments
      - Length of loan
      - Interest rate
      - Total cost (greater length of time borrowing the higher the cost of the loan)
      - Pre-payment penalty (condition of some loans)
      - Collateral vs. no collateral
      - Co-sign requirement (circumstances)
      - Cost comparison of using savings vs. taking a loan
- H. How banks make money, get money to pay interest to depositors, and serve businesses

## PERSONAL FINANCE OUTLINE

### VI. CREDIT

- A. Define credit and how it works
- B. Sources/benefits/cost and risk of credit
  - 1. Banks, credit unions
  - 2. Finance companies
  - 3. Credit card companies
  - 4. Mortgage brokers/lenders
  - 5. Auto finance companies
  - 6. Payday loans
  - 7. Pawn shops
  - 8. check cashers
  - 9. Government
  - 10. Insurance companies against cash balance
  - 11. Benefits of credit
    - a. convenience of not having to carry cash
    - b. emergency funds
    - c. short-term financing
  - 12. Factors affecting credit and criteria needed to establish credit
  - 13. How to establish credit
  - 14. Secured loans vs. unsecured loans
  - 15. Cosigned loans and joint credit vs. individual credit
  - 16. Collateral
  - 17. Effect of a down payment on the monthly payments
- C. Three C's of credit
- D. Capacity, character & capital
  - 1. Credit history and score.
    - a. Influence of credit score on the interest
- E. Cost and risks of using credit
  - 1. Costs
    - a. Interest [APR] (variable rate vs. fixed interest) (The Truth in Lending Act)
    - b. Finance charges & fees (annual, late fees, fee for awards programs)
    - c. The shorter the loan, the cheaper the price of the product purchased on credit because less interest is being paid, and the inverse i.e., effect of loan length on the cost of credit/the purchase
    - d. The higher the interest rate, the more a consumer pays for the product purchased on credit and the inverse when interest rates are lower, i.e., the effect of interest rate on the cost of the price
  - 2. Why credit score/rating (determined by # of credit products, balances, and record of payments) influences the rate of interest charged by lenders
  - 3. Effect of prepaying a loan (paying the loan before it is due)
  - 4. Risks of using credit
    - a. Default/foreclosure/repossession
    - b. Overspending
    - c. Problems in the U.S. concerning credit card debt and the level of bankruptcy for young people
    - d. Difficult to save when consumer is constantly spending and owing
    - e. Length of time to pay credit when a minimum amount due is paid towards the balance owed
- F. Credit products (advantages and disadvantages)
  - 1. Credit cards (also known as revolving credit, e.g., VISA, MasterCard)
  - 2. Charge cards (retail stores, e.g., Bloomingdale's, Macy's, Home Depot).
  - 3. Installment loans (equal monthly payments e.g., mortgages, student loans, auto loans, furniture loans, etc.)
  - 4. Ownership/title for goods when purchased on installment vs. revolving credit
  - 5. Mortgages and home equity loans-how they work and advantages
- G. Importance of credit history and credit score (rating)

## PERSONAL FINANCE OUTLINE

1. Credit Reports
  2. Role of credit reporting agencies
  3. Kind of information on credit reports
  4. Consumer's responsibility and process to correct errors on credit
  5. Right to obtain a free credit report
  6. once a year and within 60 days of denial of consumer credit, or 6 months if denial of employment
  7. Access to credit reports given to landlords, employers, and lenders
  8. Credit Score
    - a. Factors that influence the Score
    - b. Steps to improve one's credit Score
    - c. Effect of open credit card account on credit Score
- H. Elements related to the use of credit cards
1. Cash advances (costs and disadvantages)
  2. Credit Limit
    - a. amount cardholder is permitted to charge up to.
  3. College students can also apply for prepaid credit cards (acts like a debit card)
  4. Grace period
    - a. the time from the date of the credit card bill to the date payment is due.
  5. Minimum Amount Due
  6. time to repay in full and w/b charged interest on the balance owed
  7. Variable interest vs. fixed rate of interest
  8. Finance charge
  9. Late fees
  10. APR (Annual Percentage Rate)
  11. Due date and related misunderstandings
- I. Credit problems,
1. High cost, sales abuses, addiction to spending
  2. Overpaying for loans and taking unnecessary loans
    - a. e.g. tax refund loans
  3. Payment problems
    - a. consequences of late payment or inability to pay
  4. Consequences for default on a loan
    - a. Fair Debt Collection Practices Act
  5. Lost or stolen credit cards
    - a. steps to take, rights, potential consequences, cardholders responsibility
- J. Resolving credit problems
1. Truth in Lending Act of 1968
  2. Strategies/best practices
    - a. call creditors, pay on time, pay in full, close unnecessary credit card accounts, notify credit card company immediately when faced with payment problems
  3. How to close a credit card account
  4. Credit repair through credit counseling
    - a. CCCS: Consumer Credit Counseling Services)
  5. Bankruptcy and impact on credit -Chapter 7, 11, and 13
    - a. Effect of bankruptcy on credit and a person's credit report
  6. Consolidation loans
    - a. Abuses and remedies
  7. Identity Theft
  8. Predatory lending
  9. Advance on income tax refund
  10. Use and protection of your personal identification number (PIN)
  11. Phishing (internet scams)
- K. Customer/consumer responsibility for:
1. Spouse on a credit card or co-signor for credit

## PERSONAL FINANCE OUTLINE

2. who is responsible for payment of debt
3. what happens to card debt in event of divorce or death
4. Avoiding identity theft or credit card fraud
5. Evaluating credit deals
  - a. e.g. zero interest, low payment schedule, transferring balances

### VII. INSURANCE

- A. The purpose of insurance
- B. Risk management
  1. What is risk?
  2. How does it determine the cost of premiums?
- C. Determine insurance needs affordability
- D. Terminology
  1. Premium
  2. Coverage
  3. Deductible
  4. Claim
  5. Benefit
  6. Face value
  7. Benefit period
- E. Types of insurance, who they are for and how do they work
  1. Automobile
    - a. Factors affecting cost
      - Age
      - Gender
      - marital status
      - type of car
      - cost of \_ repairs
      - mileage
      - location
      - driving record
    - b. Coverage required by the state
    - c. Collision
    - d. Assigned risk
    - e. Strategies to reduce the cost of car insurance
      - Increase the deductible
      - Cancel collision insurance
      - Garage the car
      - Install security alarm
      - Maintain a good driving record
      - Avoid submitting small claims
- F. Health Insurance
  1. Non-HMO/network vs. HMO/network policy
  2. The employer today rarely pays health insurance in full. Most often the employee pays for a percentage of health insurance.
  3. What is a co-pay?
    - a. The portion paid by the employee is deducted from his/her pay.
    - b. How do co-payments work when you go to the doctor?
  4. Annual deductible
  5. How it works.
  6. How the amount/level of the deductible influences the cost of the premium
- G. Life (term vs. whole-life/universal-life insurance)
  1. The difference between term life insurance and whole life or universal life insurance
  2. Death benefit/face value
  3. Cash value (how does cash value work)



## PERSONAL FINANCE OUTLINE

4. Factors to consider in determining the amount of life insurance coverage needed
  5. Value upon cancellation of policy
  - H. Property Insurance and how to determine the amount of coverage needed
    1. Renters, homeowners, and mortgage
    2. How the deductible works
    3. How replacement value works
    4. Strategies to reduce cost for each type of insurance, right amount of insurance
      - a. alarm systems
      - b. non-smokers
- VIII. INVESTING
- A. What is an investment and different strategies for putting money to work (difference between investing and saving) in order to increase assets and produce wealth Investment products
    1. Stocks
    2. Bonds
    3. Real estate
    4. Collectibles (antiques, coins, sports cards, comic books, etc.)
    5. Mutual funds
    6. Long-term value of investing
    7. Brokers (financial consultants) vs. investment online services
    8. Markets (Market for buying and selling stocks and bonds)
      - a. Stock Exchanges
        - NYSE, American, NASDAQ
      - b. Major indexes
        - S&P 500
        - Dow
      - c. Bear, bull, and volatile markets
  - B. Securities --Investment products/choices
    1. Treasury Bills (T-Bills)
    2. backed by the U.S. government
    3. non-interest-bearing instrument
    4. bought as a short-term security for a min. \$1,000 for a period of 1 month to a year.
    5. The difference between the face amount and the purchase is the return to the investor.
    6. Stocks (also known as equities)
      - a. Definition and stockholders rights
      - b. Why do companies issue stocks
        - need money to grow or expand
      - c. How to read the stock market table
      - d. stock symbol, high, low, closing price, volume of trading
      - e. Difference between common stock and preferred stock
      - f. Sale of stock and figuring capital gains/losses
        - $\text{Selling Price} - \text{Purchase Price} \times \text{shares of stock} = \text{capital gains or losses}$
      - g. Required reporting of capital gains or losses to the IRS and their impact on income taxes
      - h. Factors that influence stock prices
        - news, economy, new product, etc...
      - i. Risk
      - j. Risk tolerance
      - k. Risk and return
      - l. Dividends (purpose, who declares, calculation what investor receives (shares x \$dividends) dividend listed on stock table)
      - m. Stock Classifications

## PERSONAL FINANCE OUTLINE

- Blue chip stocks
  - Growth stocks
  - Income (stock with dividends)
  - Speculative
7. Mutual Funds
    - a. What is a mutual fund?
    - b. Purpose of mutual funds
      - Diversification & moderate risk
    - c. How are mutual funds packaged?
      - e.g. equity and bond funds
  8. Bonds
    - a. Purpose
    - b. Reason issued
    - c. Why purchased by an investor
    - d. Components
      - Principal (the price you pay for the bond before commission)
      - interest rates (what the bond pays to lender, face value; etc.
    - e. Types of Bonds
      - US Government
      - Municipal
      - Corporate bonds
      - Series EE bonds & interest earned
    - f. Reason consumers buy each type of bond
    - g. Tax consequences on interest earned
    - h. How an increase or decrease in interest rates affects the price of bonds
    - i. Monitoring groups and regulating agencies
      - The Securities Exchange Commission (SEC)
      - The National Association of Security Dealers (NASD)
- C. Investment strategies
1. Circumstances for investors to buy or sell their investments
    - a. Changes in goals, spending needs, starting a new business, college education, retirement, etc.
    - b. Avoiding stocks and bonds (securities) when there is a need for liquidity
  2. Investor cannot afford to lose the capital
    - a. i.e., needs the money to live on
  3. The investor is retired and needs to have low risk
  4. What to do before buying a stock in a particular corporation
  5. Reducing/lowering risk through diversification
  6. Stage in life considerations
    - a. going to school
    - b. being single
    - c. marriage
    - d. children
    - e. divorce
    - f. retirement
    - g. career change
- IX. MONEY MANAGEMENT/FINANCIAL PLAN (5 class periods)
- A. Determine net worth
  - B.  $\text{assets} - \text{liabilities} = \text{net worth}$
  - C. How stages of life and inflation influence money management
    1. budgets, spending, insurance needs, etc...
  - D. Consumer Price Index (Inflation)
  - E. Financial plans
  - F. goals and priorities
  - G. financial planners

## PERSONAL FINANCE OUTLINE

- H. Strategies for being a smart consumer
  - 1. Why comparative shopping and reading research reports on products are important steps
  - 2. Why lowest price is not always the best factor in making a decision
  - 3. Problems associated with impulse buying or being addicted to spending
- I. Housing
  - 1. Renting VS. Owning
  - 2. Owning
    - a. tax deductibility of mortgage interest and building equity
    - b. When does a homeowner have title (full ownership) of his or her home?
    - c. Benefits related to a single family home vs. a two family home
  - 3. Renting
    - a. Fewer responsibilities, not building equity, costs associated with renting or owning
    - b. Rent, security deposit, insurance, repairs, utilities/oil & heat, moving
    - c. Landlord's legal responsibility and rights related to security deposits
  - 4. Banks vs. finance companies
  - 5. The relationship to the amount for a down payment to the amount of the monthly mortgage payment
    - a. the higher the down payment, the lower the mortgage and the lower the mortgage payments
  - 6. Homeowners Insurance Retirement/Long-term planning
- J. College tuition and expenses
- K. Retirement (Have sufficient \$ for retirement)
  - 1. Social Security Income
  - 2. Pensions - Value of having and/or contribution to a pension. Meaning of tax deferred (taxes due on pension funds when received or withdrawn)
- L. 401(k)
  - 1. How does this financial product/benefit work?
  - 2. Companies make a contribution to the plan and employees can make contributions
- M. What are the benefits of making contributions?
  - a. tax deferred savings - reduces taxable income
  - 2. When does a person have to pay taxes on 401(k) contributions for retirement?
  - 3. What happens to employer and employee 401(k) contributions when employee leaves employer?
  - 4. Employee needs to rollover funds into an IRA or another 401(k). If pension retirement funds (contributions) are withdrawn when leaving a company and not deposited in a 401k or IRA account the contributions are taxable.
  - 5. If employee is retiring, taxes due on money withdrawn from the plan
  - 6. Employee is normally entitled to dollars contributed by the employer (after being vested) and dollars employee contributed to, the 401(k) pension account.
- N. Traditional vs. Roth IRA - How each work/benefits or advantages/penalty for early withdrawal/when are taxes payable for each annually for Roth or upon withdrawal for traditional
- O. Impact of inflation on income, spending, savings and investment and various groups of people: fixed incomes, borrowers and lenders.
- X. READING FINANCIAL DOCUMENTS (integrate throughout)
  - A. Credit report
  - B. Credit Application
  - C. Credit Statement
  - D. Stock market table
  - E. Loan statements
  - F. Checking Account Bank Statement
  - G. Savings Account Statement
  - H. Investment Account Statement

**Question 1** Which of the following does the Federal Reserve use to regulate the nation's money supply?

- Answer A Fiscal policy
- Answer B Proposing legislation
- Answer C Monetary policy
- Answer D Regulations

**Question 2** Nora needed to make a long-distance call from a pay phone and did not have the cash. She was able to make the call by using her:

- Answer A Credit card
- Answer B Identification card
- Answer C Cash card
- Answer D Traveler's check

**Question 3** Which statement best describes the relationship between a person's educational level and that person's potential earning power?

- Answer A Education has no effect on a person's potential earning power
- Answer B A person with a professional degree is likely to earn at least four times as much per year as a person who did not complete high school
- Answer C Attaining a higher educational level affects the earning potential only for people over 40 years old
- Answer D Attaining a higher educational level decreases potential earning power

**Question 4** Which of the following is a disadvantage of using phone cards, debit cards, electronic transfers, and ATM cards?

- Answer A Consumers can make purchases without of writing check
- Answer B They expose consumers to greater likelihood of identity theft
- Answer C They slow down the economy's recovery
- Answer D They decrease availability of currency in the economy

**Question 5** New coins and currency make their way into the general economy, consumers and businesses, through the distribution system of the:

- Answer A Treasurer of the United States
- Answer B Secretary of the Department of Treasury
- Answer C Federal Reserve System
- Answer D U.S. Federal Mint

**Question 6** A cash card generally:

- Answer A Can be used in the same way that someone uses a check to pay bills by mail
- Answer B Is purchased with a specific amount of money that can be used to pay for goods or services
- Answer C Is the same as a credit card which means you can use it to pay the minimum on a bill
- Answer D Is the same as a debit card and is always linked to a specific checking account

**Question 7** The primary sources of income for most people between the ages of 20 and 35 who are not living on a pension or social security are:

- Answer A Profits from business
- Answer B Dividends and interest
- Answer C Rents
- Answer D Salaries, wages, and tips

**Question 8** Which statement is FALSE about most ATM (Automated Teller Machine) cards?

- Answer A You must have an account with a financial institution to have an ATM card.

- Answer B You can always get cash anywhere in the world with no fee.
- Answer C You can generally obtain information concerning your account balance(s) at an ATM machine.
- Answer D You can generally get cash 24 hours a day, seven days a week.

**Question 9** Money for saving, investing, or spending cannot be from:

- Answer A An inheritance from someone who has died
- Answer B Discretionary income or a gift of money
- Answer C Capital gains from a sale of stock
- Answer D Capital losses from the sale of stock

**Question 10** A type of electronic funds transfer (EFT) is:

- Answer A A transaction made with a check
- Answer B A deposit made with a bank teller
- Answer C Not widely used by consumers
- Answer D An ATM transaction

**Question 1** Buying a treasury bill (T-bill) is best for investors who are looking for

- Answer A a place to invest between \$100-\$500.
- Answer B a secure, low risk investment.
- Answer C a higher yield on their investment than corporate bonds offer.
- Answer D an investment that matures in 10-30 years.

**Question 2** An investor bought 40 shares of ABC corporation's stock at \$80 a share. Two weeks later, the investor receives notice that the corporation has approved a 2-for-1 stock split. Based on this information, the investor would own at the moment of the split

- Answer A 20 shares of the stock and the price of each share is \$80.
- Answer B 40 shares of the stock and the price of each share is \$40.
- Answer C 80 shares of the stock and the price of each share is \$40.
- Answer D 80 shares of the stock and the price of each share is \$80.

**Question 3** Before the Kiss Corporation can issue stocks or bonds, it must register the issue with:

- Answer A Its Board of Directors
- Answer B The Federal Reserve
- Answer C The World Bank
- Answer D The Securities and Exchange Commission (SEC)

**Question 4** Using a brokerage firm, a qualified investor buys 1000 shares of a common stock at \$50 a share on 50% margin. This means that the

- Answer A investor will pay only \$5000 for the shares.
- Answer B investor is buying 2000 shares.
- Answer C brokerage firm is lending the investor 50% of the money.

Answer D brokerage firm will own 50% of the 1000 shares of stock that were purchased.

**Question 5** A pharmacy is to drugs as the American Stock Exchange is to:

Answer A Interest

Answer B Stock advisors

Answer C Securities

Answer D Mutual funds

**Question 6** As an investment, a person decides to buy a small house that has three rental apartments. The profits from this investment may be lower than expected if the

Answer A tenant in an apartment decides to paint the hallways.

Answer B mortgage on the house is paid off.

Answer C taxes on the house are lowered.

Answer D one of the apartments is not rented.

**Question 7** A person owns a stock that pays a \$2.00 a share dividend. If the person chooses to reinvest that dividend, this means that the \$2.00 will go toward buying

Answer A more of the same stock.

Answer B stocks that are similar to those already owned.

Answer C preferred stock in the corporation.

Answer D bonds in the corporation.

**Question 8** What is the largest equities market in the world?

Answer A American Stock Exchange (AMEX)

Answer B NASDAQ market

Answer C New York Stock Exchange (NYSE)

Answer D Over-the-counter (OTC) market

**Question 9** The interest earned on United States Series EE Savings Bonds is



- Answer A exempt from state and local taxes.
- Answer B paid in a lump sum at the time the face value on the bond is reached.
- Answer C equal to the money paid to purchase it.
- Answer D deducted at the time of the bond's purchase.

**Question 10** A blue-chip stock can be described as:

- Answer A A preferred stock
- Answer B A stock with a good reputation for quality management, products and services
- Answer C A speculative stock
- Answer D A stock that pays interest

**Question 1** If a person makes a deposit of \$10,000 or more into a bank account, the bank must notify the

- Answer A US Treasury Department.
- Answer B Federal Deposit Insurance Corporation. (FDIC).
- Answer C State Banking Commission.
- Answer D Federal Reserve Board.

**Question 2** A teenage boy has opened a checking account. He is surprised to find that though he is getting a written bank statement each month he is not getting his cancelled checks returned. The teenager should be aware that the reason cancelled checks are NOT returned is to

- Answer A protect him from providing opportunities for forgery.
- Answer B insure that he does not receive important materials he is likely to lose.
- Answer C lessen the bank's need to maintain records of check transactions.
- Answer D save the bank money associated with returning copies of these checks.

**Question 3** Travelers checks, often used for vacations:

- Answer A Are equivalent to credit cards
- Answer B Are free at most banks
- Answer C Function as cash and are easily replaced if lost
- Answer D Are FDIC insured

**Question 4** Doug wants to buy a car in two months, but does not have enough money. What is the best way for Doug to get the money he needs?

- Answer A Purchase a certificate of deposit
- Answer B Take out a cash loan
- Answer C Open a money market account

Answer D Apply for a thirty year mortgage

**Question 5** "The Fed" is short for:

Answer A The Federal Reserve System

Answer B Congress

Answer C FBI

Answer D The Federal Deposit Insurance Corporation

**Question 6** The financial institution where Ms. Sanchez has her checking account will continue to pay out money for the checks she writes as long as:

Answer A She uses checks from her checkbook

Answer B The financial institution has sufficient funds

Answer C There is enough money in Ms. Sanchez's account to cover the amount of the checks

Answer D She maintains a good record of deposits and handles her account responsibly

**Question 7** Employees prefer direct deposits because:

Answer A There is a small fee for the service

Answer B The danger of losing a paycheck is slightly reduced

Answer C The money is generally deposited in their checking account sooner than it would be if they had to deposit it in person

Answer D Direct deposits earn a higher rate of interest

**Question 8** Patty is selling her car through a newspaper advertisement. When she finds a buyer, she wants a form of payment which is guaranteed to be good. Which form of payment should she avoid?

Answer A Cash

Answer B Certified check

Answer C Cashiers check

Answer D A check

**Question 9** Which financial product has the most predictable income?

- Answer A Stock
- Answer B Real estate
- Answer C Certificate of deposit
- Answer D Option/future contract

**Question 10** Which financial product can you buy for \$25, is safe, and will be worth \$50 at a future date?

- Answer A Series EE savings bond
- Answer B Certificate of deposit
- Answer C 50 shares of ABC Co. stock
- Answer D ABC Co. bond

[Print](#)[Answer Keys](#)**Practice Certification Test**[Home](#)

- Question 1** A person buys a flat screen, plasma, theater-like television. The person has homeowner's insurance. Why would it be appropriate to add a personal property floater to that insurance?
- Answer A To reduce the premium on the homeowner's insurance.
- Answer B To protect the person who owns the television from liability for damages.
- Answer C To show the insurance company a good faith investment has been made.
- Answer D To cover the cost of replacement should the television get damaged or stolen.
- Question 2** A woman has just received a very expensive piece of jewelry. The woman has homeowner's insurance. Which statement would it be most appropriate for her to make to her insurance agent?
- Answer A "I think I need a personal property floater."
- Answer B "I think I should get speculative risk insurance."
- Answer C "I will deduct the cost of the jewelry from my premium."
- Answer D "I realize that if this jewelry is stolen it will be considered vicarious liability."
- Question 3** For the past five years, a person has had a \$20,000 whole life insurance policy that has a cash value clause. The person decides to surrender the policy. At the time of surrender, the person will receive
- Answer A one-fifth of the \$20,000 face value.
- Answer B \$20,000 less the premiums paid.
- Answer C a calculated amount of money which includes the premiums paid as well as the interest on that money.
- Answer D a calculated amount of money that must be converted to a term life insurance policy.
- Question 4** Debbie owns a clothing store. She is concerned that a customer who is injured in the store will sue. Which type of insurance should Debbie purchase?

- Answer A Social insurance
- Answer B Life insurance
- Answer C Surety bonds
- Answer D Liability insurance

**Question 5** Richard's auto insurance policy expired on 5/15/2002. Richard was upset with his insurance agent and decided to change insurance companies. At 10:00 a.m. on 5/16/2002, as he drove to a different agent to buy a new policy, he had an accident. Who is liable for damage to his car and his personal injuries?

- Answer A The old agent
- Answer B The new agent
- Answer C Richard
- Answer D The old agent is liable for damage to your car and the new agent for personal injuries

**Question 6** Neil will be traveling by air in Southeast Asia for a six-week vacation. Which step will not provide protection during the trip?

- Answer A Buy baggage claim insurance
- Answer B Take his passport
- Answer C Buy flight insurance
- Answer D Buy medical insurance that covers him when he travels internationally

**Question 7** When Jessie needs health care, she must first go to her primary care physician who coordinates her care and decides whether Jessie should see a specialist. Jessie pays \$10 as the co-pay when she sees her primary care doctor. Jessie has which type of health insurance?

- Answer A Fee-for-service health plan
- Answer B Managed care health plan
- Answer C Medicaid health plan
- Answer D Comprehensive health plan

**Question 8** Which of the following insurance covers vehicles?

- Answer A Mortgage

- Answer B Racing
- Answer C Automobile
- Answer D Life

**Question 9** Lucy has no insurance. The situation(s) should she consider insuring against first are:

- Answer A Death so her financial obligations are paid
- Answer B Losses resulting from an illness, accident, or disability
- Answer C Property losses and auto accidents
- Answer D Auto collision, and burglary

**Question 10** Insurance is frequently described as a method of "sharing the risk" because the:

- Answer A Risk of loss is shared with the insurance company sales person
- Answer B Insured shares the risk of loss with all the other policy holders
- Answer C Insured can share the risk by spreading the cost over a number of years
- Answer D Risk of loss is shared with the government

**Question 1** To determine the time value of depositing \$100 in a savings account, a person needs to know the interest rate and

- Answer A her total income.
- Answer B the rate of inflation.
- Answer C whether the account is FDIC protected.
- Answer D whether the bank offers overdraft protection.

**Question 2** Interest earned on interest is known as:

- Answer A Simple interest
- Answer B True interest
- Answer C Compounded interest
- Answer D Variable interest

**Question 3** Money received today is worth more than the same amount of money received sometime in the future is:

- Answer A The Rule of 72
- Answer B The time value of money
- Answer C Not true
- Answer D Investing

**Question 4** Which of the following is the federal law that requires the cost of credit be disclosed to consumers in bold print on loan agreement?

- Answer A Fair Credit Reporting Act
- Answer B Equal Credit Opportunity Act
- Answer C Truth in Lending Act
- Answer D Fair Debt Collection Practices Act

**Question 5** The amount a lender charges to borrow money is called the:

- Answer A Principal
- Answer B Annual Percentage Rate (APR)
- Answer C Loan balance



Answer D Finance charge

**Question 6** Why might rising interest rates depress stock prices:

Answer A Stock investors are lured away from interest-paying investments to stocks

Answer B Rising interest rates can result in lower business profits

Answer C Rising interest rates usually means the economy has less

Answer D Rising interest rates can result in higher business profits

**Question 7** If a person has \$1,000 in a savings account and earns \$20 a year in interest on that account, the rate of return on the money is close to

Answer A 5%.

Answer B 2%.

Answer C 10%.

Answer D 20%.

**Question 8** The annual percentage rate (APR) is:

Answer A The true cost of credit that must be disclosed on a loan agreement

Answer B Always expressed in dollars

Answer C Required by the Securities Exchange Commission

Answer D Required by the Comptroller of the Currency

**Question 9** What should a person do when he believes he is being charged too high a rate of interest for a loan by a lending institution?

Answer A Accept the loan but pay it off early.

Answer B Ask the lending institution to lower its rates.

Answer C Notify the lending institution about state usury laws.

Answer D Notify the local Better Business Bureau.

**Question 10** The time value of money refers to the concept that money:

Answer A Received today is worth more than the same amount of money received in the future

Answer B Changes in value along with interest rates

Answer C Money will double in value over seven years

Answer D Is the foundation for developing a financial plan

- Question 1** To qualify for a Federal Housing Administration (FHA) loan, a person must generally
- Answer A have at least a high school diploma.
  - Answer B have one-quarter of the cost of the home for a down-payment.
  - Answer C fulfill income guidelines.
  - Answer D provide two individuals to co-sign the loan.
- Question 2** Which of the following is considered to be open-end credit?
- Answer A A mortgage.
  - Answer B A car loan.
  - Answer C Department store charge cards.
  - Answer D Installment loans.
- Question 3** When a person declares bankruptcy that fact will appear on the person's credit report
- Answer A for a 3 year period.
  - Answer B for a 10 year period.
  - Answer C until the person repays all debts owed.
  - Answer D until the person is able to receive a new credit card.
- Question 4** What is meant by an uncollateralized loan?
- Answer A A loan not backed by a co-signer who agrees to cover the amount of the loan.
  - Answer B A personal loan without assets to cover the loan amount.
  - Answer C A home equity loan.
  - Answer D A loan taken on a life insurance policy.
- Question 5** A person has three credit cards with very large outstanding balances and is unable to make payments on any of them. Which action should the person take?

- Answer A Notify a credit reporting agency in order to avoid a late fee.
- Answer B File for bankruptcy in order to maintain ones current credit score.
- Answer C Notify the credit card companies in order to negotiate a new payment plan.
- Answer D Contact the Internal Revenue Service in order to avoid paying income tax this year.

**Question 6** When a person brings an item to a pawnshop to obtain cash, the transaction is considered

- Answer A a collateralized loan.
- Answer B a custodial payment.
- Answer C an unsecured loan.
- Answer D a sales agreement.

**Question 7** A savings account earns the greatest amount of money when the interest on the account is compounded

- Answer A yearly.
- Answer B quarterly.
- Answer C monthly.
- Answer D daily.

**Question 8** Debbie was behind on her stereo installment credit contract payments. As a result, the creditor seized and sold the stereo. The sale price did not cover all of the loan balance, the creditor got a court to order her employer to withhold part of her wages. This court order is called:

- Answer A Wage assignment
- Answer B Bankruptcy
- Answer C Garnishment
- Answer D Deficiency judgment

**Question 9** If you are denied credit based on your credit report, you are entitled to a:

- Answer A Free copy of the credit report if you request it within 60 days
- Answer B Hearing with the credit counseling agent
- Answer C Free copy of the credit report at any time
- Answer D A free copy of the credit card report within one year

**Question 10** Approximately, what is the annual finance charge for each \$100 owed on a credit card with a 16% annual interest rate (APR)?

- Answer A \$.84
- Answer B \$1.60
- Answer C \$8.40
- Answer D \$16.00

**Question 1** One of the benefits of holding an investment for over a year rather than selling it in less than a year is that the

- Answer A capital gains on the investment will be taxed at a lower rate.
- Answer B fees will not be charged by brokers for selling the investment.
- Answer C money earned on the investment will be considered tax-free.
- Answer D profits on the investment can be averaged over the length of time the investment is held.

**Question 2** A person complains about how expensive it is to be a cigarette smoker. One of the reasons cigarettes are so expensive is that

- Answer A the tobacco supply is controlled by the Federal Trade Commission (FTC).
- Answer B the tobacco industry imports most of the tobacco.
- Answer C their cost is controlled by the Food and Drug Administration (FDA).
- Answer D the government imposes an excise tax on them.

**Question 3** A person's debt ratio shows the relationship between debt and net worth. The lower the ratio the

- Answer A better off financially the person is.
- Answer B worse off financially the person is.
- Answer C more liquid assets the person has.
- Answer D less liquid assets the person has.

**Question 4** A man budgeted \$200 a month for clothing. This month the man spent \$150 on clothing therefore that budget item is considered to have

- Answer A an outflow deficit.
- Answer B an income overage.

Answer C a budget variance.

Answer D a budget deficit.

**Question 5** A good example of a well-stated financial goal is:

Answer A Buy a \$25,000 car

Answer B Pay off \$5,000 in credit card debt in two years

Answer C Buy a house

Answer D Become financially independent

**Question 6** A well stated financial goal is:

Answer A Realistic with a target date

Answer B Related to one's age group

Answer C A map of steps to be taken in the future

Answer D Logical and specific

**Question 7** A clear understanding of our personal values will:

Answer A encourage us to spend money on material goods

Answer B enable us to make choices that reflect what is important to us

Answer C enable us to save effectively

Answer D cause anxiety as we make consumer and financial decisions

**Question 8** Financial planning is important because it helps you to:

Answer A have higher expectations

Answer B eliminate risk on investments

Answer C reach financial goals and protect your assets

Answer D achieve all personal goals

**Question 9** Which of the following careers would be possible choices for someone interested in money and finance?

- Answer A Psychologist
- Answer B Social worker
- Answer C Insurance actuary
- Answer D Musician

**Question 10** Can Cathy withdraw money from her IRA savings account?

- Answer A Money cannot be withdrawn from an IRA before age 59
- Answer B There is a 10% penalty on any money she takes out before age 59
- Answer C She can take out the money at any time since she made the deposits
- Answer D There is a 50% penalty if she does not start withdrawing money at age 59