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Correct Answer

B

Reason

Most of the adverse information on a credit report appears for 7 years. After a declared bankruptcy, the limit is 10 years.

Question 2

Correct Answer

C

Reason

The Federal Housing Administration (FHA) insures lenders who make mortgage loans that are riskier than regular bank loans because FHA loans are made to individuals who usually would not qualify for regular low-cost mortgages from banks (usually first-time home buyers with lower income and a weaker credit score). The objective of this federal agency is to encourage home ownership while helping to protect the lenders at the same time.

Question 3

Correct Answer

C

Reason

When experiencing financial difficulties, the first action to take is to notify creditors, in this case the three credit card companies. Quite often the company will assist in negotiating new terms.

Question 4

Correct Answer

A

Reason

Since pawnshops make loans based on determining the value of collateral (a tangible object such as jewelry, cameras, musical instruments) they receive, the loan is considered a collateralized loan.

Question 5

Correct Answer

B

Reason

?Collateral? is a tangible asset that is used to secure a loan. In the case of a mortgage, the actual house or apartment serves as the collateral for that loan. The same is true of a car loan. If the person who takes the loan, defaults on that loan, the bank or other lending agency has the right to keep the collateral. Therefore, an ?uncollateralized loan? is one that does not have an asset to support the loan.

Question 6

Correct Answer

C

Reason

The Federal Reserve uses monetary policy to regulate the nation's money supply. Monetary policy is directed at expanding or contracting the supply of money and credit in the U.S. economy. In theory, if there is too little money in circulation, consumers will spend less, interest rates will be high, and unemployment will rise. In this situation, the Fed can deliberately increase the amount of money in circulation, leading to lower interest rates, increases in consumer spending, and higher employment rates. If there is too much money in circulation, however, prices rise and the value of the dollar decreases (inflation).

Question 7

Correct Answer

A

Reason

It is important to investigate a career with the idea of not only getting a sense of earning potential, types of positions available and the training necessary to acquire these positions but what are the chances that the individual will enjoy working in this field.

Question 8

Correct Answer

D

Reason

You should never write any PIN on something that might be stolen. Write your PIN down and keep it in a secure place in your home.

Question 9

Correct Answer

D

Reason

The primary sources of income for most people between the ages of 20 and 35 are salaries, wages, and tips from their employment, also known as earned income. Earned income is also the primary source of income for most other age groups. Very few people have sufficient unearned income - dividends, interest, rents, or profits - to live on without holding a job or running a business.

Question 10

Correct Answer

A

Reason

Since the debt ratio is calculated by dividing liabilities by net worth, the lower the debt ratio the better; that is the better off the person is financially.

Question 11

Correct Answer
Reason

C
The difference between the amount of money budgeted for items (\$200 for clothing) and the actual amount of money spent for those items (\$150 for clothing) is called a budget variance.

Question 12

Correct Answer
Reason

A
Capital gains are profits made from the sale of capital assets such as stocks and bonds and are tax deferred until the asset is sold. Capital assets that are held over one year are considered long-term capital gains and are taxed at a lower tax rate or in some cases are not taxed at all.

Question 13

Correct Answer
Reason

D
The government may impose a tax on specific goods and services such as alcohol, cigarettes, gasoline, and airline services, which are called excise taxes. These taxes produce revenue for the government and are usually placed on items not considered necessities. Often, as in the case of alcohol and cigarettes, these taxes are also levied as away to try to deter certain behaviors. As a result, these taxes have become known as ?sin taxes.?

Question 14

Correct Answer
Reason

A
Under normal circumstances, withdrawals from a Roth IRA before retirement age are subject to both taxes and a penalty. However, use of funds for education, purchase of a first home and medical emergencies are three situations which permit the holder of the IRA to use savings in the funds without incurring a penalty or paying taxes on the amount withdrawn.

Question 15

Correct Answer
Reason

B
A defined-contribution plan has an individual account for each employee. The document that explains the plan indicates how much the employer will contribute and does not promise any particular benefit. On retirement, or when

the individual becomes eligible for benefits, the benefit is the total amount in the participant's account, including investment earnings on the funds in the account.

Question 16

Correct Answer

A

Reason

A dividend reinvestment plan is designed to help the shareholder acquire additional shares (or partial shares if there is not enough money) of the stock by immediately reinvesting the dividend in the same company's stock as soon as the dividend is declared. The shareholder is still responsible for paying taxes on the dividends earned.

Question 17

Correct Answer

D

Reason

Before a company can raise capital by issuing stocks or bonds, it must register the stock or bond issue with the Securities and Exchange Commission (SEC). An investment banking firm assists the corporation in completing the registration forms and serves as an intermediary between the issuing corporation and the initial investors.

Question 18

Correct Answer

C

Reason

The largest of these markets is the New York Stock Exchange. It was founded in 1792 under a tree on Wall Street. Also known as the "Big Board" and "the Exchange," the NYSE has the most stringent listing requirements and is governed by a board of directors. Recent events have led the NYSE to develop and enforce stricter rules of corporate governance.

Question 19

Correct Answer

C

Reason

Margin is a speculative method whereby an investor borrows up to 50% of the money needed from a brokerage firm in order to buy a wanted stock and pays a fee for the privilege.

Question 20

Correct Answer

D

Reason

The investor regards the house as a small business. Any time that any apartment is not

rented, the investor is losing income and therefore profits on the investment.

Question 21

Correct Answer

B

Reason

The ?time value of money? is a way of looking at how much a saving or investment is worth at the end of a period of time when it is compared to the rate of inflation during that period and the person?s earning power. For example, it may not seem as though depositing \$100 a month in a retirement account when someone is 23 makes a whole lot of sense; why not wait until age 40 when it will probably be a lot easier to deposit \$250 or \$300 a month in the account. However, because of the miracle of compounding interest, that \$100 will be worth a lot more when the person is older than the money that is deposited at age 40. However, the other factor to consider in making deposits to a regular savings account is the rate of interest as compared to the rate of inflation. If the annual rate of inflation is 03% and the interest earned on money is 01%, the deposit is actually going to have less purchasing power at the end of the year than it did at the start.

Question 22

Correct Answer

C

Reason

By investing money in short-term savings instruments, your money will be available to invest in a higher interest instrument in the near future.

Question 23

Correct Answer

C

Reason

Credit unions usually pay the highest rates of interest because they have lower risks and costs of operation. They are not-for-profit organizations, and their members have something in common, such as their employer, geographic area, or religious affiliation. Credit unions also offer fewer services than a commercial bank.

Question 24

Correct Answer

A

Reason

Charging excessive interest rates on loans is known as ?usury? and that practice is prohibited by law.

Question 25

Correct Answer

C

Reason

By investing now in a long-term, fixed rate certificate of deposit, she will lock in the higher current rate over a long period of time. If she waited until later to invest and interest rates had fallen, the certificate of deposit would have a lower interest rate. This is an example of interest rate risk.

Question 26

Correct Answer

C

Reason

The cash value of a whole life insurance policy is based on premiums paid plus some of the interest earned.

Question 27

Correct Answer

D

Reason

An extremely expensive item such as furs or jewelry or, in this case, the theater-like television, would usually not be covered in a standard insurance policy. As a result, policy holders often opt to attach a rider or "floater" to the policy to cover replacement or repair of these items. The policy holder also must pay an additional premium for the "floater" coverage.

Question 28

Correct Answer

A

Reason

A personal floater is additional property insurance, which is available within a homeowner's policy, to cover damage or loss of a specific item of value.

Question 29

Correct Answer

B

Reason

The "deductible" is the amount of money that the policy holder pays when a claim is settled. If a person has damage to a car and the total bill is \$3000 and the insurance company agrees to settle for the full amount, the policy holder still receives less than the full \$3000 depending on the deductible agreed to (usually it is from \$250 - \$1000). The higher the deductible (if the policy holder agrees to pay the first \$1000 on any claim rather than only \$250 or \$500), the lower the insurance premium the insurance company charges the policy holder. In other words, the

company is willing to charge the policy holder less for the policy if the person agrees to pay more if there is a claim. A way to save money on car insurance is to agree to pay a higher deductible.

Question 30

Correct Answer

D

Reason

The largest cost for the surviving family if a spouse dies is ongoing income, especially until the children are grown. Dual-earner families usually need both incomes to maintain their lifestyles and financial obligations, such as mortgages, car loans, and credit card debt. When one wage-earner dies prematurely, the other one needs ongoing income until the debts are paid off and/or lifestyle changes are made. Being under-insured or lack of insurance typically results lowers the family's standard of living.

Question 31

Correct Answer

A

Reason

In order to track large deposits, the federal government requires that deposits of \$10,000 or more be reported to the Treasury Department. Some concerns may be that a person might be trying to avoid paying taxes on game winnings or perhaps illegal gains.

Question 32

Correct Answer

B

Reason

The basic financial functions offered by banks and credit unions are checking accounts, savings accounts, and personal and business loans. Insurance is sold only by insurance companies, stocks and bonds are sold by brokerage firms, and legal services are provided by attorneys. Banks can sell financial products if they sell the products on behalf of a partner or affiliate investment firm.

Question 33

Correct Answer

C

Reason

Instead of a negotiable check, the wage earner receives a pay stub which lists the amount that was directly deposited and the amounts withheld for taxes, health insurance, etc. Through direct deposit, earnings are transferred electronically into the recipient's bank account. Direct deposit is more convenient, safer, and usually faster

than receiving and manually depositing a paycheck.

Question 34

Correct Answer

A

Reason

Most supermarkets have a policy permitting patrons to add a cash withdrawal to a purchase made with a debit card or check without charging a fee. All of the other choices (using store ATMs, banks other than the issuing bank, and using any machine at night or the weekend) will most likely result in the person incurring ATM fees.

Question 35

Correct Answer

C

Reason

The financial institution is not obligated to honor a check if it is written for more money than the current checking account balance. The customer will be charged an insufficient funds penalty for each check not covered by a sufficient balance in the account.