


Personal Finance (FINA 200)

Quiz 2: Submission Review

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Started on:	27/03/2014 2:01:28 PM
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Sections:	<ul style="list-style-type: none"> • Chapter 7: 0 / 0 • Ch. 7 - Learning Objective 1: 0.5 / 0.5 • Ch. 7 - Learning Objective 2: 0.5 / 0.5 • Ch. 7 - Learning Objective 3: 1.5 / 1.5 • Ch. 7 - Learning Objective 4: 1 / 1 • Ch. 7 - Learning Objective 5: 0.5 / 0.5 • Chapter 10: 0 / 0 • Ch. 10 - Learning Objective 1: 0.5 / 0.5 • Ch. 10 - Learning Objective 2: 0.5 / 0.5 • Ch. 10 - Learning Objective 3: 1.5 / 1.5 • Ch. 10 - Learning Objective 4: 1 / 1 • Ch. 10 - Learning Objective 5: 0.5 / 0.5 • Chapter 13: 0 / 0 • Ch. 13 - Learning Objective 1: 1.5 / 1.5 • Ch. 13 - Learning Objective 2: 0.5 / 0.5 • Ch. 13 - Learning Objective 3: 1 / 1 • Ch. 13 - Learning Objective 4: 0.5 / 0.5 • Chapter 14: 0 / 0 • Ch. 14 - Learning Objective 1: 0.5 / 0.5 • Ch. 14 - Learning Objective 2: 0.5 / 0.5 • Ch. 14 - Learning Objective 3: 0.5 / 0.5 • Ch. 14 - Learning Objective 5: 1.5 / 1.5 • Ch. 14 - Learning Objective 6: 0.5 / 0.5
Total Grade:	15 / 15 (100%) 

Legend:

Your correct response is highlighted in **green**.
 Your incorrect response is highlighted in **red**.
 If you did not select the correct answer, it will be highlighted in **blue**.

Chapter 7

Question 1: Traditionally, experts recommended that a home should cost no more than what multiple of your annual income? (This recommendation may not apply to today's housing market.)
 (0.5 Point)

- a. 1.5 times.
- b. 2.5 times.
- c. 1 time.
- d. 2 times.

Question 2: What is the major *financial* disadvantage of renting versus owning?

(0.5 Point)

- a. No participation in the rise in property values.
- b. Lifestyle limitations.
- c. Regulated rental increases.
- d. Legal complications.

Question 3: Given the following, what is the gross debt service (GDS) ratio? All figures are annual. Ignore heating costs.

(0.5 Point)

Gross income	\$70,000
Discretionary income	\$40,000
Mortgage principal and interest	\$15,000
Car lease payment	\$6,000
Property taxes	\$4,000

- a. 27.1%
- b. 35.7%
- c. 62.5%
- d. 47.5%

Question 4: The Home Buyers' Plan requires what minimum annual repayment of borrowed funds?

(0.5 Point)

- a. 1/20
- b. 1/10
- c. 1/25
- d. 1/15

Question 5: Refer to Step 4 of Exhibit 7-6. If your affordable monthly mortgage payment is \$800 and the mortgage payment factor for a 5%, 25-year mortgage is 5.83, what is your most affordable mortgage amount? (Rounded)

(0.5 Point)

- a. \$137,200
- b. \$466,400
- c. \$125,300
- d. \$225,000

Question 6: Which type of mortgage increases the borrower's interest rate risk (i.e. exposure to rising interest rates)?

(0.5 Point)

- a. Variable-rate.
- b. Monthly compound.
- c. Split.
- d. Vendor-take-back.

Question 7: Which document transfers ownership of property from one party to another?

(0.5 Point)

- a. Deed.
- b. Warranty.
- c. Escrow account.
- d. Mortgage.

Question 8: Which feature would most likely increase the appraised value of your home at time of sale?

(0.5 Point)

- a. An exercise room.
- b. A remodelled kitchen.
- c. Fewer bedrooms.
- d. A hot tub.

Chapter 10

Question 9: In order to start an investment program, you need money. Which technique refers to the idea of making savings a priority?

(0.5 Point)

- a. Take advantage of gifts and other windfalls to add to savings.
- b. Make a special savings effort for a period of time.
- c. Save the monthly net income that you don't spend.
- d. Pay yourself first through automatic deposits taken from your pay.

Question 10: You have invested in a U.S. corporation listed on the New York Stock Exchange. What will happen to your Canadian dollar return if the Canadian dollar appreciates with respect to the U.S. dollar?

(0.5 Point)

- a. The return will not be affected.
- b. The return will fall.
- c. The return will rise.

Question 11: Which statement concerning dividends is *false*?

(0.5 Point)

- a. A corporation is under no legal obligation to pay dividends.
- b. Common shareholders have priority with respect to dividends over preferred shareholders.
- c. Dividends are paid out of after-tax corporate earnings.
- d. Bonds and other forms of corporate debt do not pay dividends.

Question 12: What will cause the market value of a bond to fall?

(0.5 Point)

- I. The Bank of Canada increases interest rates.
 - II. The issuer of the bond experiences difficulty in paying the interest.
 - III. The stock market declines sharply and investors seek more secure investments.
- a. II and III, only.
 - b. I and II, only.
 - c. I and III, only.
 - d. I, II and III.

Question 13: Which type of investment offers the highest potential for growth (i.e. an increase in value)?

(0.5 Point)

- a. Corporate bonds.
- b. Preferred shares.

- c. Common shares.
- d. Guaranteed investment certificates.

Question 14: ABC pays a common share dividend of \$1.00 per share. ABC is quoted on the TSX. How much would an investor owning 100 shares have to declare as taxable dividend income?

(0.5 Point)

- a. \$100
- b. >\$125
- c. \$50
- d. \$125

Question 15: According to the text, what is the level of the dividend tax credit for eligible Canadian dividends?

(0.5 Point)

- a. 13.33%
- b. 25%
- c. 45%
- d. 18.97%

Question 16: If a firm wishes to sell new common shares to the public, what must it issue?

(0.5 Point)

- a. An income tax return.
- b. An annual report.
- c. A prospectus.
- d. A memorandum of information.

Chapter 13

Question 17: At the beginning of 2009, a mutual fund's net asset value per share was \$5.00. It grew to \$6.00 by the end of 2010 and to \$7.00 by the end of 2011. The fund charges a back-end load of 5%, that drops by 1% each year until it equals zero after 5 years. How much would an investor have received per unit by selling the fund at the end of 2011?

(0.5 Point)

- a. \$6.65
- b. \$6.79
- c. \$5.76
- d. \$5.70

Question 18: Which are the two major reasons investors purchase mutual funds?

(0.5 Point)

- I. Mutual funds are easier to purchase than stocks or bonds.
- II. Fees to acquire mutual funds are less than the commissions on stocks or bonds.
- III. Mutual funds are managed by professionals.
- IV. Mutual funds offer instant diversification.

- a. I and II, only.
- b. I and III, only.
- c. II and IV, only.
- d. III and IV, only.

Question 19: What type of mutual fund is of finite size?

(0.5 Point)

- a. An open-end fund.
- b. An exchange traded fund.
- c. A segregated fund.
- d. A closed-end mutual.

Question 20: Which type of mutual fund aims to provide a mixture of interest, dividends and capital gains?

(0.5 Point)

- a. Segregated funds.
- b. Bond funds.
- c. Balanced funds.
- d. Money market funds.

a. money market funds.

Question 21: What type of average is used to report a fund's performance over a period greater than one year?

(0.5 Point)

- a. Monthly arithmetic average.
- b. Annual compound average.
- c. Monthly compound average.
- d. Annual arithmetic average.

Question 22: What should investors receive from the investment company and be sure to review before they purchase a mutual fund?

(0.5 Point)

- a. The financial statements.
- b. The annual report.
- c. The prospectus.
- d. An independent assessment of mutual fund performance.

Question 23: Which type of payment is made to a mutual fund's shareholders resulting from the sale of securities in the fund's portfolio?

(0.5 Point)

- a. An income distribution.
- b. A dividend distribution.
- c. An interest distribution.
- d. A capital gains distribution.

Chapter 14

Question 24: Why has it become more important to plan for retirement?

(0.5 Point)

- I. Because people live longer and will spend more years in retirement. As a result, they need more retirement savings.
 - II. Because fewer companies are offering generous retirement plans.
 - III. Because people expect a higher standard of living in retirement than they enjoyed during their working years.
- a. II and III, only.
 - b. I, II and III.
 - c. I and II, only.
 - d. I and III, only.

Question 25: Which statement is false concerning a reverse mortgage?

(0.5 Point)

- a. Funds granted under a reverse mortgage are received tax-free.
- b. A reverse mortgage can be paid out as a lump sum or as a monthly income.
- c. Funds received under a reverse mortgage may reduce the individual's Old Age Security benefits due to the "claw-back".
- d. The homeowner is never forced to sell his/her home even if the accrued value of the mortgage exceeds the market value of the home.

Question 26: What expenses are likely to reduce in retirement?

(0.5 Point)

- a. Recreational expenses.
- b. Gifts and contributions.
- c. Retirement savings.
- d. Medical expenses.

Question 27: Whose cumulative contribution room is reduced when a contribution is made to a spousal RRSP?

(0.5 Point)

- a. The reduction is applied 50% to the contributing spouse and 50% to the beneficiary spouse.
- b. Spousal RRSP contributions have a global limit of \$50,000 and neither spouse's contribution room is affected.
- c. The spouse for whom the contribution has been made (the beneficiary spouse).
- d. **The contributing spouse.**

Question 28: For retirement planning purposes, which registered pension plan provides the most predictable retirement income?

(0.5 Point)

- a. Defined Contribution Pension Plan.
- b. **Defined Benefit Pension Plan.**
- c. Deferred Profit Sharing Plan.
- d. Group RRSP.

Question 29: Which term refers to an employee's right to benefits under an employer-sponsored pension plan in the event that she leaves the company's employment?

(0.5 Point)

- a. Allowance.
- b. **Vesting.**
- c. Accrual.
- d. Pension reversal.

Question 30: Which are major threats to an individual's retirement?

(0.5 Point)

- I. **Inflation.**
 - II. **Depletion of savings.**
 - III. **Unexpected health costs.**
-
- a. **I, II and III.**
 - b. I and II, only.
 - c. II and III, only.
 - d. I and III, only.