

- 7) Which of the following statements applies to obtaining a college/university degree?
- A) They are young and have plenty of time to prepare for the future.
 - B) A majority of wealthy householders have finished college/university.
 - C) Education is the single best investment she could make.
 - D) One should wait to create a financial plan until marriage, so one can plan together with a spouse.
 - E) both B and C
- 8) The Correct formula for calculating net worth is
- A) assets minus liabilities
 - B) assets minus investment assets.
 - C) assets minus equity
 - D) assets minus long-term liabilities.
- 9) Which of the following is not a realistic short-term financial goal?
- A) saving \$500 to fund a vacation.
 - B) saving enough money for the down payment on a house.
 - C) paying off the \$2500 balance on your credit card.
 - D) All of the above represent appropriate short-term financial goals.
- 10) Learning personal finance management skills can be difficult because
- A) some families choose not to openly discuss money matters.
 - B) there are lots of financial products for meeting insurance, investment, retirement and estate planning needs and each group seems to have language of its own.
 - C) some people develop a "fear of finance" because of family disagreements and fights about money.
 - D) all of the above reasons.
- 11) Constructing a balance sheet may require you to
- A) call the bank, or other lending institution, to determine the outstanding balance on your auto loan.
 - B) record the payment amounts for utilities or other monthly bills that are currently due and payable.
 - C) check an automotive Red Book or other Internet site to determine the value of your auto.
 - D) complete all of these financial tasks.
- 12) Which of the following statements regarding emergency funds is not correct.
- A) emergency fund investments usually offer moderate to high rates of return.
 - B) emergency funds help pay for unexpected expenses
 - C) emergency funds should cover three to six months of expenses.
 - D) emergency funds should be invested in low-risk investments..
- 13) _____ states that a dollar today is worth more than a dollar in the future.
- A) Compounded value
 - B) Present value of an annuity
 - C) Time value of money
 - D) Present value
 - E) Future value
- 14) You need \$2,000 to buy a new stereo for your car. If you have \$800 to invest at 5% compounded annually, how long will you have to wait to buy the stereo?
- A) 18.78 years
 - B) 14.58 years
 - C) 6.58 years
 - D) 8.42 years
 - E) none of the above answers are correct

- 15) Under what conditions should one hire a professional financial planner?
- A) when they run into complex tax or legal issues
 - B) when it is apparent their financial planning skills are limited
 - C) when they need someone to validate the plan they prepared themselves
 - D) when they have run out of suggestions for improving it
 - E) all of the above
- 16) The discount rate is used to bring _____ back to the _____.
- A) future dollars, future
 - B) future interest, present
 - C) current dollars, present
 - D) current interest, present
 - E) future dollars, present
- 17) Car loans and mortgages are annuities in the form of
- A) perpetuities.
 - B) discount loans.
 - C) line of credit loans.
 - D) balloon loans.
 - E) amortized loans.
- 18) Net worth, or your general level of worth, is found by
- A) dividing monetary assets by current liabilities.
 - B) subtracting expenses from income.
 - C) dividing monthly debt (less mortgage payment) by monthly income.
 - D) subtracting liabilities from assets.
 - E) subtracting current liabilities from monetary assets.
- 19) The purpose of reviewing your progress, reevaluating, and revising your plan (step 5) is to
- A) adjust as necessary to keep you on target to reach your goals.
 - B) prevent an income tax audit.
 - C) create a perfect document.
 - D) establish a fixed plan for life.
 - E) not be embarrassed by the tax preparation person.
- 20) Fair market value refers to
- A) the cost of assets less depreciation.
 - B) the value of assets a year from now.
 - C) the current value of assets or what an asset could be sold for.
 - D) the cost of your assets.
 - E) the current value of assets less depreciation.
- 21) Marie inherited an ordinary annuity that will pay her \$300 monthly for another 2.5 years. What is the present value of this ordinary annuity, assuming an annual interest assumption of 6% compounded monthly?
- A) \$8,443.72
 - B) \$9,684.00
 - C) \$8,338.22
 - D) \$743.49
 - E) None of the above answers are correct

- 22) How much would have to be deposited today in an investment fund paying 9%, compounded monthly to have \$800 in seven years' time?
- A) \$427.08
 - B) \$1,498.56
 - C) \$1,462.43
 - D) \$437.63
 - E) None of the above answers are correct
- 23) Which one of the following is not one of the five basic steps in personal financial planning?
- A) Let an accountant review your plan.
 - B) Evaluate your financial health.
 - C) Develop a plan of action.
 - D) Define your financial goals.
 - E) Implement your plan.
- 24) If the interest rate is 1% per month, then the Effective Annual Interest Rate (EFF) is.....
- A) 1%
 - B) 12.61
 - C) 12%
 - D) 12.36%
 - E) none of the above answers are correct
- 25) Which of the following could one accomplish with personal financial planning as outlined in the text?
- A) minimize your tax payments
 - B) manage the unplanned
 - C) save for retirement
 - D) cover your assets
 - E) all of the above
- 26) What is the value today of \$750 to be placed in a bank account at the end of each year for the next ten years if you expect to earn 12% on these deposits?
- A) \$13,161.55 B) \$132.74 C) \$2,329.39 D) \$4,237.67 E) \$241.48
- 27) What is the significance of the financial life cycle?
- A) to help you to keep up with other people
 - B) to allow you to focus on typical concerns earlier and to plan ahead with fewer problems
 - C) to better understand the timing and areas of financial concern you'll experience
 - D) only B and C
 - E) all the above
- 28) Which financial planning document should you use to measure your current level of wealth?
- A) statement of financial ratios
 - B) budget
 - C) income statement
 - D) balance sheet
 - E) cash budget

- 29) Assets are best described as
- items of value that you own.
 - paid up bills and credit cards.
 - adjusted gross income.
 - your net worth.
 - financial debts and obligations for which you owe.
- 30) Reinvesting interest paid on an investments principal is earning interest on interest or
- simple interest.
 - compound interest.
 - compounding semi-annually.
 - future value.
 - reinvesting.
- 31) Read the following two statements - decide if each statement is true or false - and then choose the appropriate answer from below (A) to (D)
- To calculate a present value you need to know only the amount to be received and the discount rate
 - A retiree's pension fund benefits are a good example of an annuity because the payments come at regular intervals over a certain time period.
- Only Statement 1 is correct
 - Only Statement 2 is correct
 - Both statements are correct
 - Both statements are false
- 32) As part of the payment for the purchase of her consulting practice, Samantha has been offered a \$125,000 promissory note from the purchaser, which is due at the end of six months from now. Assuming an annual nominal return of 4.75% compounded annually, what is the present value of the promissory note?
- \$119,331.74
 - \$120,724.24
 - \$122,133.00
 - \$125,000.00
 - \$94,620.63
- 33) Harriett has just leased a new car that her brother-in-law has agreed to purchase from her for \$12,000 at the end of the five-year lease period. Using an annual interest assumption of 6% compounded quarterly, calculate the present value of the \$12,000 that Harriett will receive in five years.
- \$8,967.10
 - \$16,162.26
 - \$8,909.65
 - \$8,481.90
 - None of the above answers are correct
- 34) Read the following two statements - decide if each statement is true or false - and then choose the appropriate answer from below (A)to (D)
- Liquid financial assets that can easily be turned into cash with little or no loss of value are categorized as investment assets
 - Monetary assets include cash, chequing accounts, money market accounts, and and equities
- Only Statement 1 is correct
 - Only Statement 2 is correct
 - Both statements are correct
 - Both statements are false

- 35) Bob and Carol feel that it is important to begin saving now for their children's university costs. They estimate that they have 11 years to save. After meeting all of the expenses of daily living, Bob and Carol feel that they can save \$200.00 at the end of each month and can achieve an annual return of 7.1%, compounded monthly. Calculate the total amount that they will have saved.
- A) \$39,199.75 B) \$50,000.00 C) \$24,095.23 D) \$40,076.92 E) \$39,841.19
- 36) You have learned that a budget
- A) includes only expenses that have already been spent.
B) is a process of setting spending goals for the upcoming month or year.
C) is a plan for controlling cash inflows and cash outflows.
D) is never accurate—so don't try.
E) both B and C
- 37) Suppose that you placed \$500 in a bank account at the end of each year for the next 10 years. How much would be on deposit at the end of the 10th year if the deposits earned 8% each year?
- A) \$7,596.47
B) \$7,243.28
C) \$7,822.74
D) \$1,079.46
E) None of the above answers are correct
- 38) _____ is found by dividing monetary assets by current liabilities.
- A) Debt ratio
B) Net worth
C) Positive balance
D) Debt affordability
E) Current ratio
- 39) Practical uses of an income statement include
- A) spot problem areas of overspending.
B) knowing where your money is going.
C) determine if money is available for saving or investment.
D) determine whether you are earning more than you spend.
E) all of the above
- 40) Which of the following are not typically found on a balance sheet?
- A) automobiles
B) monetary assets
C) personal property
D) mortgage payments
E) fair market value of your home
- 41) David has purchased an annuity due that pays \$1,070 each year for the next 12 years starting today. Using an interest assumption of 6.3% compounded annually, solve for the present value of David's annuity due.
- A) \$8,824.99
B) \$9,819.48
C) \$18,370.19
D) \$9,380.97
E) none of the above answers are correct

- 42) You know you are insolvent when
- A) your debt ratio is too high.
 - B) your assets are less than your liabilities.
 - C) your net worth is negative.
 - D) your expenses exceed your income.
 - E) both B and C
- 43) The correct formula for calculating net worth is
- A) assets minus equity.
 - B) assets minus long-term liabilities.
 - C) assets minus investment assets.
 - D) assets minus liabilities.
- 44) The term "fair market value" used to value assets on a personal balance sheet is
- A) the retail value of the asset if purchased today at a store
 - B) how much an item would be worth if sold today.
 - C) the anticipated value at some future date.
 - D) how much you paid for asset.
- 45) What periods of time do short-term, intermediate-term, and long-term goals cover?
- A) less than one year, one to ten years, more than ten years
 - B) less than six months, six months to ten years, more than ten years
 - C) one to three years, three to ten years, more than ten years
 - D) less than one year, one to three years, three to five years
 - E) one month to one year, one to two years, more than two years
- 46) Thomas invests \$110 in an account that pays 6 percent simple interest. How much money will Thomas have at the end of 5 years?
- A) \$147.20
 - B) \$33.00
 - C) \$133.00
 - D) \$143.00
- 47) Read the following two statements - decide if each statement is true or false - and then choose the appropriate answer from below (A) to (D).
1. The term compound interest means that interest is paid more often than once per year
 2. The present value of a future sum of money is inversely related to the discount rate.
- A) Only Statement 1 is correct
 - B) Only Statement 2 is correct
 - C) Both statements are correct
 - D) Both statements are false
- 48) Assume that you retire at age 65 and have been living off your retirement plan. According to the text, what stage of the financial life cycle are you in?
- A) stage 1
 - B) stage 2
 - C) stage 3
 - D) stage 5
 - E) stage 4
- 49) If the interest rate is 1% per month, then the Nominal Annual Rate (APR) is...
- A) 12.36%
 - B) 1%
 - C) 12.68%
 - D) 12%
 - E) none of the above answers are correct

- 50) Which of the following typically occur during stage one of the financial life cycle?
- A) initial goal setting
 - B) home purchase
 - C) insurance planning
 - D) saving for goals
 - E) all the above
- 51) In 1889, Vincent Van Gogh's painting, "Wallflowers", sold for \$100. One hundred years later it sold for \$46 million. Had the painting been purchased by your great-grandfather and passed on to you, what annual return on investment would your family have earned on the painting?
- A) 13.40%
 - B) 11.88%
 - C) 13.93%
 - D) 6.93%
 - E) None of the above answers are correct
- 52) What is the primary factor in determining your income level?
- A) the company you work for
 - B) your spouse's occupation
 - C) your age
 - D) who you know
 - E) education attained
- 53) You have \$500 that you would like to invest. You have two choices: Savings account A which earns 8% compounded annually, or savings account B which earns 7.75% compounded monthly. Which would you choose and why?
- A) A because it has a higher effective annual rate.
 - B) A because it has the higher quoted rate.
 - C) B because it has a higher effective annual rate.
 - D) B because the future value in one year is lower.
 - E) A because the future value in one year is lower.
- 54) John Madrid put \$1,000 into a mutual fund yielding 18%. According to the Rule of 72, when will it double in value?
- A) six years
 - B) two years
 - C) three years
 - D) not enough information is provided to answer
 - E) none of the above answers are correct
- 55) Read the following two statements - decide if each statement is true or false - and then choose the appropriate answer from below (A) to (D)
1. The current ratio equals current liabilities divided by monetary assets
 2. Cash expenditures are the easiest transactions to track
- A) Only Statement 1 is correct
 - B) Only Statement 2 is correct
 - C) Both statements are correct
 - D) Both statements are false

56) Your grandfather placed \$1,000 in a trust fund for you. In 10 years the fund will be worth \$5,000. What is the rate of return on the trust fund?

- A) 5.98%
- B) 9.60%
- C) 17.46%
- D) Not possible to calculate - error 5 results on calculator
- E) None of the above answers are correct

57) Read the following two statements - decide if each statement is true or false - and then choose the appropriate answer from below (A) to (D)

1. The process of setting goals and determining an appropriate personal financial plan is ongoing.
2. The textbook states that an emergency fund should be equal to three months of expenses.

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| A) Only Statement 1 is correct | B) Only Statement 2 is correct |
| C) Both statements are correct | D) Both statements are false |