

Each question is worth one mark unless otherwise stated.

Please be sure that the colour of the test page matches the colour at the top of the scantron page.

### MULTIPLE CHOICE.

Choose the one alternative that best completes the statement or answers the question.

Some answers are already rounded and some can be rounded to two decimal points.

- 1) 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.

A) Only Statement 1 is correct	B) Only Statement 2 is correct
C) Both statements are correct	D) Both statements are false
  
- 2) 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
  
- 3) Car loans and mortgages are annuities in the form of
  - A) balloon loans.
  - B) discount loans.
  - C) line of credit loans.
  - D) amortized loans.
  - E) perpetuities.
  
- 4) 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) one to three years, three to ten years, more than ten years
  - C) less than one year, one to three years, three to five years
  - D) less than six months, six months to ten years, more than ten years
  - E) one month to one year, one to two years, more than two years
  
- 5) 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) 17.46%
  - C) 9.60%
  - D) Not possible to calculate - error 5 results on calculator
  - E) None of the above answers are correct

- 6) 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 the future value in one year is lower.
  - 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 it has a higher effective annual rate.
- 7) Which of the following statements regarding emergency funds is not correct.
- A) emergency funds help pay for unexpected expenses
  - B) emergency funds should be invested in low-risk investments..
  - C) emergency fund investments usually offer moderate to high rates of return.
  - D) emergency funds should cover three to six months of expenses.
- 8) 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) check an automotive Red Book or other Internet site to determine the value of your auto.
  - C) record the payment amounts for utilities or other monthly bills that are currently due and payable.
  - D) complete all of these financial tasks.
- 9) Which of the following is not a realistic short-term financial goal?
- A) paying off the \$2500 balance on your credit card.
  - B) saving enough money for the down payment on a house.
  - C) saving \$500 to fund a vacation.
  - 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) The Correct formula for calculating net worth is
- A) assets minus liabilities
  - B) assets minus investment assets.
  - C) assets minus long-term liabilities.
  - D) assets minus equity
- 12) 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) \$1,462.43
  - C) \$1,498.56
  - D) \$437.63
  - E) None of the above answers are correct

- 13) 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) 13.93%
  - B) 11.88%
  - C) 13.40%
  - D) 6.93%
  - E) None of the above answers are correct
- 14) Which of the following statements applies to obtaining a college/university degree?
- A) One should wait to create a financial plan until marriage, so one can plan together with a spouse.
  - B) A majority of wealthy householders have finished college/university.
  - C) Education is the single best investment she could make.
  - D) They are young and have plenty of time to prepare for the future.
  - E) both B and C
- 15) Reinvesting interest paid on an investment's principal is earning interest on interest or
- A) reinvesting.
  - B) future value.
  - C) simple interest.
  - D) compound interest.
  - E) compounding semi-annually.
- 16) Which of the following are not typically found on a balance sheet?
- A) automobiles
  - B) personal property
  - C) fair market value of your home
  - D) monetary assets
  - E) mortgage payments
- 17) 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) \$2,329.39      B) \$132.74      C) \$4,237.67      D) \$241.48      E) \$13,161.55
- 18) Under what conditions should one hire a professional financial planner?
- A) when it is apparent their financial planning skills are limited
  - B) when they have run out of suggestions for improving it
  - C) when they run into complex tax or legal issues
  - D) when they need someone to validate the plan they prepared themselves
  - E) all of the above
- 19) 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 5      C) stage 2      D) stage 4      E) stage 3

- 20) 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.
- A) \$8,909.65
  - B) \$16,162.26
  - C) \$8,481.90
  - D) \$8,967.10
  - E) None of the above answers are correct
- 21) How long will it take a sum to triple if you can earn 7% interest? ( 2 marks )
- A) 24 years
  - B) 10.29 years
  - C) 16.23 years
  - D) 33 years
  - E) 16 months
- 22) 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) \$40,076.92
  - B) \$24,095.23
  - C) \$50,000.00
  - D) \$39,841.19
  - E) \$39,199.75
- 23) What is the primary factor in determining your income level?
- A) your age
  - B) your spouse's occupation
  - C) education attained
  - D) who you know
  - E) the company you work for
- 24) The discount rate is used to bring \_\_\_\_\_ back to the \_\_\_\_\_.
- A) future interest, present
  - B) current interest, present
  - C) future dollars, future
  - D) current dollars, present
  - E) future dollars, present
- 25) \_\_\_\_\_ is found by dividing monetary assets by current liabilities.
- A) Current ratio
  - B) Debt affordability
  - C) Net worth
  - D) Positive balance
  - E) Debt ratio
- 26) 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) \$18,370.19
  - B) \$9,380.97
  - C) \$9,819.48
  - D) \$8,824.99
  - E) none of the above answers are correct

- 27) \_\_\_\_\_ states that a dollar today is worth more than a dollar in the future.
- A) Present value of an annuity
  - B) Compounded value
  - C) Time value of money
  - D) Present value
  - E) Future value
- 28) Which of the following could one accomplish with personal financial planning as outlined in the text?
- A) save for retirement
  - B) manage the unplanned
  - C) cover your assets
  - D) minimize your tax payments
  - E) all of the above
- 29) 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?
- A) \$119,331.74
  - B) \$94,620.63
  - C) \$122,133.00
  - D) \$120,724.24
  - E) \$125,000.00
- 30) The correct formula for calculating net worth is
- A) assets minus liabilities.
  - B) assets minus equity.
  - C) assets minus long-term liabilities.
  - D) assets minus investment assets.
- 31) The term "agency problem" refers to
- A) professionals selling financial products, services, and advice who may actually be acting in their own best interest rather than your best interest.
  - B) the efficient market system where the price of any investment always reflects the best estimate of its value based on all publicly available information.
  - C) the method of interest calculation where interest paid on the investment during the first period is added to the principal and this new sum becomes the balance on which interest is paid for the subsequent period.
  - D) spreading investment dollars over a variety of different investments rather than sticking to one safe, sure investment that pays a consistent return.
- 32) 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. Liquid financial assets that can easily be turned into cash with little or no loss of value are categorized as investment assets
  2. Monetary assets include cash, chequing accounts, money market accounts, and equities
- A) Only Statement 1 is correct
  - B) Only Statement 2 is correct
  - C) Both statements are correct
  - D) Both statements are false
- 33) 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) 6.58 years
  - B) 8.42 years
  - C) 18.78 years
  - D) 14.58 years
  - E) 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)
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
- 35) 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 you paid for asset.
  - C) how much an item would be worth if sold today.
  - D) the anticipated value at some future date.
- 36) Which financial planning document should you use to measure your current level of wealth?
- A) cash budget
  - B) income statement
  - C) statement of financial ratios
  - D) budget
  - E) balance sheet
- 37) If the interest rate is 1% per month, then the Nominal Annual Rate (APR) is...
- A) 12%
  - B) 1%
  - C) 12.68%
  - D) 12.36%
  - E) none of the above answers are correct
- 38) 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
- 39) Assets are best described as
- A) your net worth.
  - B) financial debts and obligations for which you owe.
  - C) adjusted gross income.
  - D) items of value that you own.
  - E) paid up bills and credit cards.
- 40) 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) \$9,684.00
  - B) \$8,338.22
  - C) \$743.49
  - D) \$8,443.72
  - E) None of the above answers are correct

- 41) Practical uses of an income statement include
- A) knowing where your money is going.
  - B) spot problem areas of overspending.
  - C) determine whether you are earning more than you spend.
  - D) determine if money is available for saving or investment.
  - E) all of the above
- 42) Find the accumulated value of \$900 payable semi-annually at the beginning of each half-year over 8 years if interest is 3% per annum compounded semi-annually.
- A) \$16,381.22      B) \$6,838.39      C) \$5,906.04      D) \$12,908.91      E) \$5,887.88
- 43) 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.
- 44) The current value in today's dollars of a future sum of money is called
- A) present value.
  - B) compound interest.
  - C) future worth.
  - D) future value.
  - E) compounded value.
- 45) 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. To calculate a present value you need to know only the amount to be received and the discount rate
  2. 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.
- A) Only Statement 1 is correct      B) Only Statement 2 is correct  
 C) Both statements are correct      D) Both statements are false
- 46) 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. Investors demand additional expected return as compensation for choosing "riskier" investments.
  2. Diversification allows an investor to reduce the risk associated with some investments, but not all risk can be removed through diversification.
- A) Only Statement 1 is correct      B) Only Statement 2 is correct  
 C) Both statements are correct      D) Both statements are false

- 47) Net worth, or your general level of worth, is found by
- A) subtracting liabilities from assets.
  - B) subtracting expenses from income.
  - C) subtracting current liabilities from monetary assets.
  - D) dividing monthly debt (less mortgage payment) by monthly income.
  - E) dividing monetary assets by current liabilities.
- 48) 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
- 49) 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
- 50) If the interest rate is 1% per month, then the Effective Annual Interest Rate (EFF) is.....
- A) 1%
  - B) 12.61
  - C) 12.36%
  - D) 12%
  - E) none of the above answers are correct
- 51) Fair market value refers to
- A) the cost of your assets.
  - B) the current value of assets less depreciation.
  - C) the cost of assets less depreciation.
  - D) the current value of assets or what an asset could be sold for.
  - E) the value of assets a year from now.
- 52) 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) \$143.00                      B) \$133.00                      C) \$33.00                      D) \$147.20
- 53) The purpose of reviewing your progress, reevaluating, and revising your plan (step 5) is to
- A) not be embarrassed by the tax preparation person.
  - B) prevent an income tax audit.
  - C) create a perfect document.
  - D) adjust as necessary to keep you on target to reach your goals.
  - E) establish a fixed plan for life.

- 54) Which of the following typically occur during stage one of the financial life cycle?
- A) insurance planning
  - B) initial goal setting
  - C) saving for goals
  - D) home purchase
  - E) all the above
- 55) The major reason to make a financial plan is to
- A) serve as a tax planning guide.
  - B) allow for a surplus.
  - C) achieve financial goals.
  - D) see where you are over or under spending.
  - E) account for your spending.
- 56) 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 10<sup>th</sup> year if the deposits earned 8% each year?
- A) \$7,822.74
  - B) \$7,596.47
  - C) \$1,079.46
  - D) \$7,243.28
  - E) None of the above answers are correct
- 57) John Madrid put \$1,000 into a mutual fund yielding 18%. According to the Rule of 72, when will it double in value?
- A) two years
  - B) six years
  - C) three years
  - D) not enough information is provided to answer
  - E) none of the above answers are correct