

Personal Finance: Turning Money into Wealth, 8e (Keown)
Chapter 1 The Financial Planning Process

1.1 Facing Financial Challenges

1) Once a sound financial plan is in place, there should be no need to ever change it.

Answer: FALSE

Diff: 1

Topic: The Financial Planning Process

AACSB: Analytical Thinking

2) One purpose of financial planning is to help you legally reduce the amount of taxes you have to pay on your earnings.

Answer: TRUE

Diff: 1

Topic: Financial Planning

AACSB: Analytical Thinking

3) When comparing two different investment opportunities the investor should always choose the investment that minimizes the total amount of taxes paid.

Answer: FALSE

Diff: 2

Topic: Minimization of Taxes

AACSB: Analytical Thinking

4) Annual public school tuition and fees are three times more expensive than private school tuition and fees.

Answer: FALSE

Diff: 2

Topic: Financial Challenges

AACSB: Analytical Thinking

5) Being financially secure involves balancing what you earn with

A) your investments.

B) what you spend.

C) your retirement plans.

D) your current level of debt.

Answer: B

Diff: 1

Topic: Financial Planning

AACSB: Analytical Thinking

6) Financial planning might not help you earn more, but it can help you use the money you do earn to achieve your

- A) life's purpose.
- B) dreams.
- C) financial goals.
- D) desired lifestyle.

Answer: C

Diff: 1

Topic: Financial Goals

AACSB: Analytical Thinking

7) Which statement is true about managing personal finances?

- A) The ability to manage finances is a skill with which you are born.
- B) Personal finance courses are commonly offered in high school.
- C) Financial difficulties can be a major cause of marital problems.
- D) Personal financial management is not a skill worth learning.

Answer: C

Diff: 2

Topic: Finance Company

AACSB: Analytical Thinking

8) In order for your financial plan to be realistic and attainable it needs to be based upon your

- A) budget.
- B) income level.
- C) number of tax deductions, exemption, exclusions, and credits.
- D) balance sheet.
- E) none of the above.

Answer: B

Diff: 2

Topic: Financial Planning

AACSB: Analytical Thinking

9) Personal financial planning can help you to

- A) deal with unplanned health issues.
- B) minimize your tax payments to Uncle Sam.
- C) minimize your chances of personal bankruptcy.
- D) have enough money for a comfortable retirement.
- E) all of the above.

Answer: E

Diff: 2

Topic: Financial Planning

AACSB: Analytical Thinking

10) What elements are found in an effective financial plan?

- A) Flexibility to allow for changes in your situation
- B) Sufficient liquidity to meet unexpected needs
- C) Insurance protection from catastrophic events
- D) Helps you legally reduce the amount of taxes you owe
- E) All of the above

Answer: E

Diff: 1

Topic: Financial Planning

AACSB: Analytical Thinking

11) This course/text will assist you in accomplishing six financial objectives. What are they?

Answer:

1. Manage the unplanned.
2. Accumulate wealth for special expenses.
3. Realistically save for retirement.
4. Cover your assets.
5. Invest intelligently.
6. Minimize your payments to Uncle Sam.

Diff: 2

Topic: Financial Planning

AACSB: Analytical Thinking

12) How will a financial plan help you save for retirement?

Answer: A strong financial plan will help you forecast the costs of retirement and develop a plan that will allow you to live a comfortable life after you retire.

Diff: 2

Topic: Financial Planning

AACSB: Reflective Thinking

1.2 The Personal Financial Planning Process

1) Today, most Americans over the age of 65 have adequate savings and income available to them during retirement.

Answer: FALSE

Diff: 1

Topic: Financial Planning Life Cycle

AACSB: Analytical Thinking

2) The amount of current income that you earn today isn't relevant to setting your long term goals for the future.

Answer: FALSE

Diff: 1

Topic: Financial Planning

AACSB: Reflective Thinking

3) A financial plan is only concerned with your future earnings and expenses. An examination of your current financial situation is not so important.

Answer: FALSE

Diff: 1

Topic: The Financial Planning Process

AACSB: Analytical Thinking

4) While each person's financial plan is different, some common factors guide all sound financial plans: flexibility, liquidity, protection, and minimization of taxes.

Answer: TRUE

Diff: 2

Topic: The Financial Planning Process

AACSB: Analytical Thinking

5) Financial planning is an ongoing process. As your financial situation and position in life change, the plan changes.

Answer: TRUE

Diff: 1

Topic: The Financial Planning Process

AACSB: Analytical Thinking

6) Which of the following is one of the five basic steps in personal financial planning?

A) Evaluate your personal health.

B) Define your career goals.

C) Develop a plan of action.

D) Let an accountant review your plan.

Answer: C

Diff: 2

Topic: The Financial Planning Process

AACSB: Analytical Thinking

7) Which basic step to personal financial planning should be considered when examining your current financial situation?

A) Step 1

B) Step 2

C) Step 3

D) Step 4

Answer: A

Diff: 1

Topic: The Financial Planning Process

AACSB: Analytical Thinking

8) Which basic step to personal financial planning should be considered when establishing your personal financial goals?

- A) Step 1
- B) Step 2
- C) Step 3
- D) Step 4

Answer: B

Diff: 1

Topic: The Financial Planning Process

AACSB: Analytical Thinking

9) The personal financial planning process consists of _____ steps.

- A) three
- B) five
- C) seven
- D) ten

Answer: B

Diff: 1

Topic: The Financial Planning Process

AACSB: Analytical Thinking

10) While each person's financial plan is different, some common factors guide all sound financial plans. Which of the following is one of the common factors?

- A) Sustainability
- B) Illiquidity
- C) Protection
- D) Maximization of taxes

Answer: C

Diff: 2

Topic: The Financial Planning Process

AACSB: Analytical Thinking

11) Evaluating your financial health consists of

- A) preparing a personal balance sheet.
- B) determining what you are worth.
- C) preparing a personal income statement.
- D) determining where your money comes from and where it goes.
- E) all of the above.

Answer: E

Diff: 1

Topic: The Financial Planning Process

AACSB: Analytical Thinking

- 12) You need to review your progress and reevaluate and revise your plan (Step 5) because
- A) your financial needs change over the course of your life.
 - B) your employment situation changes over time.
 - C) your net worth changes over time.
 - D) your family situation might change over time.
 - E) all of the above are good reasons to periodically review your financial plan.

Answer: E

Diff: 3

Topic: The Financial Planning Process

AACSB: Analytical Thinking

- 13) Suppose that you just completed your first year of college with \$12,000 in loans and plan to borrow the maximum each year from now until graduation. You have never accounted for the way you spend your money, do not have a budget, and want to insure that you will be able to repay your loans after college. What is the most important thing you can do right now?

- A) Talk to your parents about an allowance.
- B) Visit your career counselor at school.
- C) Ask a friend who took the Personal Finance course for advice.
- D) Immediately begin to develop a personal financial plan.

Answer: D

Diff: 3

Topic: Financial Planning

AACSB: Reflective Thinking

- 14) Suppose you have just retired, have accumulated many luxury goods over the years, still owe a mortgage on your home, still have unpaid travel expenses on your credit cards, and have helped your adult children financially. Your spouse has recently passed away, and you miss his/her contribution to the household income. Which step in the personal financial planning process have you neglected?

- A) Develop your financial health.
- B) Define your financial goals.
- C) Develop a plan of action.
- D) Implement your plan.
- E) Review your progress, reevaluate, and revise your plan.

Answer: E

Diff: 2

Topic: Financial Planning

AACSB: Reflective Thinking

15) While reviewing your current financial plan, you discover that you most likely won't achieve your long term financial goals. What should you do now?

- A) Look at increasing your income.
- B) Look at cutting back on your expenses.
- C) Look at revising your goals.
- D) All of these would be realistic things to do.

Answer: D

Diff: 3

Topic: The Financial Planning Process

AACSB: Analytical Thinking

16) Step 3 of the personal financial planning process is "Develop a Plan of Action." According to your text, which of the following is not one of the "common concerns" that should guide all financial plans?

- A) Flexibility
- B) Long-term profitability
- C) Liquidity
- D) Protection
- E) Minimization of taxes

Answer: B

Diff: 2

Topic: The Financial Planning Process

AACSB: Analytical Thinking

17) The term that considers having money readily available when you need it is the concept of

- A) flexibility.
- B) liquidity.
- C) equity.
- D) solvency.
- E) none of the above.

Answer: B

Diff: 1

Topic: Financial Planning

AACSB: Analytical Thinking

18) Describe the five steps in the personal financial planning process.

Answer: Step 1: Evaluate your financial health by examining your current financial situation. Look at your whole financial picture. Keep records and determine your net worth.

Step 2: Define your financial goals by describing what, when, and how much you want to do. Written goals will draw you to them.

Step 3: Develop a plan of action to reach your goals. Don't just think about goals — decide how you will carry them out! Let flexibility, liquidity, protection, and minimization of taxes guide your plan.

Step 4: Implement your plan by carrying it out — just do it! Stick to your plan.

Step 5: Review your progress, reevaluate, and revise your plan periodically and as needed.

Diff: 2

Topic: The Financial Planning Process

AACSB: Analytical Thinking

19) Why do individuals need to plan for their finances?

Answer: Without financial planning individuals will suffer and be at a loss both in the present time and in the future. Too many people reach retirement broke and in poor health. Their financial means are so limited they live out a meager existence and become a burden upon family and society. Life is meant to be enjoyed and only by planning can we do that. Because it is always easier to spend than save, financial planning is a must!

Diff: 2

Topic: Financial Planning

AACSB: Diverse and Multicultural Work Environments

20) Elaborate upon the four common concerns that should guide all financial plans.

Answer: Your financial plan should be flexible enough to respond to changes in your life and unexpected events. Planning must allow some funds to be liquid to allow access to money when you need it quickly. Plan for protecting your assets and yourself with adequate insurance.

Finally, your financial plan should take taxes into account to pay as little as legally possible.

Diff: 3

Topic: The Financial Planning Process

AACSB: Reflective Thinking

21) What elements are included in a solid financial plan?

Answer: A solid personal financial plan includes an informed and controlled budget, outlines your investment strategy, and reflects your unique personal and financial goals.

Diff: 2

Topic: The Financial Planning Process

AACSB: Reflective Thinking

22) Why do you need to have liquidity?

Answer: Liquidity allows you to access your money with ease, when you need it. Life happens; at any moment, you could develop an illness, lose a job, or wreck your car. When unforeseen circumstances occur, you need to have access to enough money to make it through.

Diff: 2

Topic: Liquidity

AACSB: Reflective Thinking

23) Which step has you to prepare a personal balance sheet?

A) Step 1

B) Step 2

C) Step 3

D) Step 4

Answer: A

Diff: 1

Topic: Principle 2: Nothing happens without a plan

AACSB: Reflective Thinking

24) Which step has you to prepare a personal income statement?

A) Step 1

B) Step 2

C) Step 3

D) Step 4

Answer: A

Diff: 1

Topic: Financial Planning

AACSB: Reflective Thinking

25) Which step has you to identify what you are saving and what you need to save?

A) Step 1

B) Step 2

C) Step 3

D) Step 4

Answer: B

Diff: 1

Topic: Financial Planning

AACSB: Reflective Thinking

1.3 Establishing Your Financial Goals

1) Proper financial planning can help you use your current income to achieve your long term financial goals.

Answer: TRUE

Diff: 1

Topic: Financial Planning

AACSB: Analytical Thinking

2) A short-term goal might take from one to 10 years to accomplish.

Answer: FALSE

Diff: 1

Topic: Financial Goals

AACSB: Analytical Thinking

3) In the typical consumer's financial life cycle, one difference between stage 2 and stage 3 is that in stage 3 you will earn more than you spend, whereas in stage 2 you will spend more than you earn.

Answer: FALSE

Diff: 2

Topic: Financial Planning Life Cycle

AACSB: Analytical Thinking

4) Estate-planning tools such as wills, living wills, health proxies, powers of attorney, and record-keeping should all be in place to help protect you, your assets, and your heirs.

Answer: TRUE

Diff: 2

Topic: Estate Planning

AACSB: Analytical Thinking

5) The major reason to make a financial plan is to

A) account for your spending.

B) see where you are overspending or underspending.

C) achieve your financial goals.

D) allow for a surplus.

E) serve as a tax planning guide.

Answer: C

Diff: 1

Topic: Financial Goals

AACSB: Analytical Thinking

6) What is the significance of the financial life cycle?

A) To help you to compare your situation with other people's situation

B) To better understand how your financial needs will most likely change over time

C) To allow you to be more proactive in dealing with expected changes in the future and take steps today to prepare for them

D) To help you realize that your original plan is sufficient and doesn't need to change

E) Both B and C are significant aspects of the financial life cycle.

Answer: E

Diff: 3

Topic: Financial Planning Life Cycle

AACSB: Analytical Thinking

7) Which of the following typically occur(s) during stage 1 of the financial life cycle?

- A) Initial goal setting
- B) Insurance planning
- C) Saving for goals
- D) Home purchase
- E) All the above

Answer: E

Diff: 2

Topic: Financial Planning Life Cycle

AACSB: Analytical Thinking

8) Suppose that you are a 21-year-old college student. What stage of the financial life cycle are you currently in?

- A) Stage 1: wealth accumulation
- B) Stage 2: the golden years
- C) Stage 3: the retirement years
- D) Stage 4: the formative years
- E) Stage 5: the educational years

Answer: A

Diff: 2

Topic: Financial Planning Life Cycle

AACSB: Analytical Thinking

9) After retirement starts, which aspect of financial planning becomes imperative?

- A) Maintaining a regular pattern of saving
- B) Long-term borrowing commitments
- C) Estate planning
- D) Effects of inflation

Answer: C

Diff: 2

Topic: Financial Planning Life Cycle

AACSB: Analytical Thinking

10) What should you do with your goals on a frequent basis throughout your lifetime?

- A) Prioritize them
- B) Modify them
- C) Put them in writing
- D) All of the above

Answer: D

Diff: 2

Topic: Financial Goals

AACSB: Analytical Thinking

11) An economic condition in which rising prices reduce the purchasing power of money is termed

- A) deflation.
- B) inflation.
- C) stagflation.
- D) cash erosion.
- E) none of the above.

Answer: B

Diff: 1

Topic: Inflation

AACSB: Diverse and Multicultural Work Environments

12) When you are involved in _____ planning, you are planning for your eventual death and the distribution of your wealth to your heirs.

- A) prenatal
- B) beneficiary
- C) estate
- D) actuarial
- E) none of the above

Answer: C

Diff: 1

Topic: Estate Planning

AACSB: Analytical Thinking

13) Based on the Life Cycle of Financial Planning, when would be a good time to review and possibly adjust an effective financial plan?

- A) A really effective financial plan doesn't need to be adjusted.
- B) When you get married
- C) When you have children
- D) When the stock market goes up
- E) Both B and C are correct answers.

Answer: E

Diff: 2

Topic: Financial Planning

AACSB: Reflective Thinking

14) On his goals worksheet, James has written down his short-term goals for the next year. He has prioritized his goals and determined a feasible due date by which he wants to achieve his goals. According to the textbook, the final step James needs to complete in the goals process is to

- A) determine an appropriate cost for each of his listed goals.
- B) post his goals worksheet on his refrigerator so that he can see it every day.
- C) contact his financial advisor for approval of his goals.
- D) email himself a copy of the goals worksheet in case he loses the paper copy.

Answer: A

Diff: 2

Topic: Financial Goals

AACSB: Reflective Thinking

15) Which stage in the Financial Life Cycle is the longest in terms of years?

- A) Stage 1: wealth accumulation
- B) Stage 2: the golden years
- C) Stage 3: the retirement years
- D) Stage 4: the formative years

Answer: A

Diff: 1

Topic: Financial Planning Life Cycle

AACSB: Analytical Thinking

16) According to the Keown book, you might begin to think about estate planning during this stage of the financial life cycle.

- A) Stage 1: wealth accumulation
- B) Stage 2: the golden years
- C) Stage 3: the retirement years
- D) Stage 4: the formative years

Answer: B

Diff: 3

Topic: Estate Planning

AACSB: Analytical Thinking

17) Suppose that you are a 60-year-old business owner. What stage of the financial life cycle are you currently in?

- A) Stage 1: wealth accumulation
- B) Stage 2: the golden years
- C) Stage 3: the retirement years
- D) Stage 4: the formative years

Answer: B

Diff: 2

Topic: Financial Planning Life Cycle

AACSB: Analytical Thinking

18) During which stage of the financial life cycle do many people make their biggest investment, the purchase of a home?

- A) Stage 1: wealth accumulation
- B) Stage 2: the golden years
- C) Stage 3: the retirement years
- D) Stage 4: the formative years

Answer: A

Diff: 2

Topic: Financial Planning

AACSB: Analytical Thinking

19) What is one difference between stage 2 in the Financial Life Cycle and stage 3 in the Financial Life Cycle?

Answer: During stage 2, you will earn more than you spend; whereas during stage 3 you will spend more than you earn.

Diff: 2

Topic: Financial Planning Life Cycle

AACSB: Reflective Thinking

20) Explain the essence and importance of each of the stages in the financial life cycle.

Answer: The overall financial life cycle allows you to better understand the timing and areas of financial concern that you'll probably experience. It allows you to focus on those concerns earlier and to plan ahead to avoid future financial problems.

Stage 1 is a time of wealth accumulation, initial goal setting, home purchase, family formation, insurance planning, saving for goals, and some tax and estate planning. It's a time to develop a regular pattern of saving because it's tempting to spend rather than save. Consumers are ages 18 through 54 in this stage.

Stage 2 covers ages 55 to 64 or the golden years approaching retirement. This is a transition from the earning years when you will earn more than you spend. Much of the financial activities will be spent in fine tuning. Consumers put an emphasis on tax and estate planning, paying ourselves first, and insurance planning.

Stage 3 consists of the retirement years, for most people age 65 and older. Consumers reap the benefits of sound planning or the losses from unsound planning. You will attempt to ensure continued financial security and perhaps work part-time.

Diff: 2

Topic: Financial Planning Life Cycle

AACSB: Reflective Thinking

21) Differentiate between short-term, intermediate, and long-term goals. Give examples.

Answer: Short-term goals can be accomplished within one year, such as taking a vacation.

Intermediate goals take between one and ten years to reach, such as saving for a college education or the down payment on a house. Long-term goals take more than ten years to accomplish. Retirement planning is a common long-term goal.

Diff: 3

Topic: Financial Goals

AACSB: Reflective Thinking

22) Why should you prioritize your financial goals?

Answer: Prioritizing goals might make you realize that some of your goals are simply unrealistic, leading you to reevaluate them. However, once your final goals are in place, they become the cornerstone of your personal financial plan, serving as a guide to action and a benchmark for assessing the effectiveness of the plan.

Diff: 2

Topic: Financial Challenges

AACSB: Reflective Thinking

23) Give an example of a decision that might not be considered a financial decision but will have a major impact on your financial situation.

Answer: The decision to have a child will have a major impact on your financial situation. Although finances aren't considered the primary factor determining when to have children, the timing certainly has enormous financial implications, causing significant changes in housing, child care, and education costs. Considering that childrearing can cost \$9,683 to \$22,210 per child per year, saving to finance that child's college education might pose as a real challenge.

Diff: 3

Topic: Financial Challenges

AACSB: Diverse and Multicultural Work Environments

24) The longest stage of the Life Cycle of Financial Planning is?

A) Stage 1

B) Stage 2

C) Stage 3

D) They are all the same

Answer: A

Diff: 1

Topic: Financial Planning Life Cycle

AACSB: Reflective Thinking

25) What percent of people age 65 and older in the United States are financially dependant on relatives?

A) 50%

B) 75%

C) 45%

D) 33%

Answer: C

Diff: 1

Topic: Financial Planning Life Cycle

AACSB: Application of Knowledge

1.4 Thinking About Your Career

1) A well-educated and trained employee is virtually guaranteed job security by today's employers. Therefore, he or she doesn't need to worry about keeping his or her skills current.

Answer: FALSE

Diff: 1

Topic: Career Choices

AACSB: Reflective Thinking

2) The most important aspect of choosing a career is the amount of income that career will generate over your lifetime.

Answer: FALSE

Diff: 1

Topic: Career Choices

AACSB: Reflective Thinking

3) Salaries vary for individuals working in similar jobs for different companies, but one thing is clear: the more specialized skills and training a job requires, the higher the job tends to pay.

Answer: TRUE

Diff: 2

Topic: Determinants of Income

AACSB: Reflective Thinking

4) The first steps in career planning are conducting a self-assessment and developing an understanding of what sort of lifestyle you wish to lead.

Answer: TRUE

Diff: 1

Topic: Career Planning

AACSB: Analytical Thinking

5) According to a recruiting survey, the most common mistake made by job interviewees is talking too much.

Answer: TRUE

Diff: 2

Topic: Career Choices

AACSB: Reflective Thinking

6) What is the main factor in determining your potential income level?

A) Education and skills that you have attained

B) Who you know in your company administration

C) Your age and years of employment

D) The size of the company you work for

Answer: A

Diff: 1

Topic: Determinants of Income

AACSB: Analytical Thinking

7) Which of the following statements applies to obtaining an undergraduate college degree?

A) They are expensive and rarely pay off in increased earnings.

B) There is no relationship between personal wealth and earning a college degree.

C) It may be the single best investment you will ever make.

D) All of the above.

Answer: C

Diff: 1

Topic: Determinants of Income

AACSB: Analytical Thinking

8) Probably the most important determinant of your future earnings will be

- A) your highest level of education obtained.
- B) the size of the company where you will work.
- C) your seniority with your company.
- D) joining a labor union.

Answer: A

Diff: 1

Topic: Determinants of Income

AACSB: Diverse and Multicultural Work Environments

9) One of the most important factors to remember when hunting for your first job is to

- A) seize every opportunity.
- B) wait patiently.
- C) start early.
- D) procrastinate.

Answer: C

Diff: 1

Topic: Career Planning

AACSB: Analytical Thinking

10) _____ is the process of identifying a job that you feel is important and that will lead to the kind of lifestyle you desire.

- A) Financial planning
- B) Career planning
- C) Goal planning
- D) Retirement planning

Answer: B

Diff: 1

Topic: Career Planning

AACSB: Analytical Thinking

11) According to a recent recruiting survey, the most common mistake made by job interviewees is

- A) shaking hands softly.
- B) talking too much.
- C) dressing inappropriately.
- D) arriving late to an interview.

Answer: B

Diff: 2

Topic: Career Planning

AACSB: Analytical Thinking

12) What is the relationship between earnings, education, and standard of living?

Answer: There is a direct relationship between earnings and standard of living and education. The more education an individual has, the more he or she will earn in general and thus enjoy a higher standard of living. The opposite holds true also. The less education one has the lower the earnings and standard of living.

Diff: 2

Topic: Determinants of Income

AACSB: Reflective Thinking

13) Why is it important to conduct an effective self-assessment?

Answer: Conducting an effective self-assessment allows you to look honestly at many aspects of your life. After completing the assessment, you will have a valuable understanding of your interests, skills, values, personal traits, and desired lifestyle. Then you can research career options and identify those in which your abilities are valued. Once you've narrowed down a list of possibilities, weigh the positive and negative aspects of each profession.

Diff: 2

Topic: Career Planning

AACSB: Application of Knowledge

14) List some way to increase your value as an employee.

Answer: Do your best work.

Project the right image—one aligned with the organization's values.

Gain an understanding of the organization's power structure so that you can work within it.

Gain visibility. Make those with power aware of your contributions.

Request new assignments in order to gain experience and an understanding of the various operations of the organization.

Be loyal to and supportive of your boss. Remember, he or she controls your immediate future.

Continually acquire new skills—particularly skills that are not easy to duplicate.

Develop a strong network of people who can assist you when you look for a new job.

Pay attention to ethical considerations. The most damaging event that you can experience is for your coworkers to lose confidence in your ethical standards. Ethical violations end careers.

Diff: 2

Topic: Career Planning

AACSB: Reflective Thinking

1.5 Developing Skills for Your Career

1) A study conducted by the Society for Human Resource Management found what percent of U.S. companies run credit background checks on potential employees.

- A) 66%
- B) 15%
- C) 47%
- D) 32%

Answer: C

Diff: 2

Topic: Career Planning

AACSB: Reflective Thinking

2) A recent TD Ameritrade survey found what percent of respondents said credit card debt would make them less likely to date a person?

- A) 74%
- B) 32%
- C) 10%
- D) 44%

Answer: D

Diff: 2

Topic: Credit Scoring

AACSB: Reflective Thinking

1.6 Lessons from the Recent Economic Downturn

1) The economic downturn that began in 2008 resulted in negative consequences, including

- A) a dramatic increase in unemployment rates.
- B) disrupted financial markets.
- C) difficulty for consumers to borrow money from lending institutions.
- D) all consumers increased their wealth.
- E) only A, B, and C are correct.

Answer: E

Diff: 2

Topic: Financial Life Events

AACSB: Analytical Thinking

2) The economic downturn that began in 2008 demonstrated that many Americans have sufficient emergency funds.

Answer: FALSE

Diff: 2

Topic: Financial Life Events

AACSB: Analytical Thinking

3) It is important to take a close look at the 2008 economic downturn as a means to highlight how vulnerable American's finances are.

Answer: TRUE

Diff: 1

Topic: Financial Life Events

AACSB: Reflective Thinking

4) According to a recent Rockefeller Foundation report, the financial issue Americans worry about the most is the ability to pay

A) for medical expenses.

B) for retirement expenses.

C) debt expenses.

D) home mortgage expenses.

Answer: B

Diff: 3

Topic: Financial Life Events

AACSB: Analytical Thinking

5) What did the economic downturn that began in 2008 reveal about many Americans' financial concerns? How can you alleviate those concerns in your own personal financial planning?

Answer: Many Americans are not adequately prepared for retirement and have insufficient emergency funds, too much debt, and inadequate health insurance.

These concerns can be alleviated with proper financial planning, maintaining a sufficient emergency fund, avoiding excessive debt, and carrying adequate health insurance.

Diff: 3

Topic: Financial Life Events

AACSB: Reflective Thinking

6) A study conducted by the Society for Human Research Management found what percent of U.S. companies run credit background checks on potential employees.

A) 66%

B) 15%

C) 47%

D) 32%

Answer: C

Diff: 2

Topic: Career Planning

AACSB: Reflective Thinking

7) A recent TD Ameritrade survey found what percent of respondents said credit card debt would make them less likely to date a person?

- A) 74%
- B) 32%
- C) 10%
- D) 44%

Answer: D

Diff: 2

Topic: Credit Scoring

AACSB: Reflective Thinking

1.7 Ten Principles of Personal Finance

1) Most individuals will reach their financial goals without planning or budgeting.

Answer: FALSE

Diff: 1

Topic: Principle 2: Nothing happens without a plan

AACSB: Analytical Thinking

2) All else being equal, an increase in inflation will cause investors to require a higher rate of return on an asset.

Answer: TRUE

Diff: 1

Topic: Principle 8: Risk and return go hand in hand

AACSB: Diverse and Multicultural Work Environments

3) Diversification allows you to reduce risk.

Answer: TRUE

Diff: 1

Topic: Principle 8: Risk and return go hand in hand

AACSB: Analytical Thinking

4) Which of the following is outlined in the text as reason(s) why many people do not have an adequate financial plan?

- A) For most people it is easier to spend than save.
- B) Procrastination can affect everyone.
- C) Many of us lack the proper knowledge.
- D) There is never enough time for organizing and planning.
- E) All of the above are common excuses for not planning.

Answer: E

Diff: 3

Topic: Financial Planning

AACSB: Reflective Thinking

5) The concept of diversification is illustrated by the old saying

- A) "Sell eggs high and buy them low."
- B) "Don't put all your eggs in one basket."
- C) "Keep all your eggs in one basket."
- D) "Several baskets of eggs are better than one."

Answer: B

Diff: 2

Topic: Diversification

AACSB: Analytical Thinking

6) Chapter 1 discusses 10 principles that form the foundation of personal finance. The principle stating that a person can expect to earn additional return for increasing his or her investment risk is the _____ principle.

- A) "risk and return go hand in hand"
- B) "mind games, financial personality, and your money"
- C) "nothing happens without a plan"
- D) "the best protection is knowledge"

Answer: A

Diff: 2

Topic: Principle 8: Risk and return go hand in hand

AACSB: Diverse and Multicultural Work Environments

7) The concept that emphasizes that people should not put all their eggs in one basket is

- A) the time dimension of investing.
- B) the curse of competitive investment markets.
- C) diversification reduces risk.
- D) the farmers analogy.
- E) liquidity is first.

Answer: C

Diff: 2

Topic: Principle 8: Risk and return go hand in hand

AACSB: Diverse and Multicultural Work Environments

8) What piece of advice might you give to someone for whom the act of saving is an afterthought?

- A) Pay yourself first.
- B) Money isn't everything.
- C) Don't put all your eggs in one basket.
- D) None of the above.

Answer: A

Diff: 2

Topic: Principle 10: Just do it

AACSB: Reflective Thinking

9) Chapter 1 discusses 10 principles that form the foundation of personal finance. The principle that considers the value of compound interest is the _____ principle.

- A) all risk is not equal
- B) pay yourself first
- C) competitive inflation adjustment
- D) time value of money
- E) none of the above

Answer: D

Diff: 2

Topic: Principle 3: The time-value-of-money

AACSB: Analytical Thinking

10) Chapter 1 discusses 10 principles that form the foundation of personal finance. The principle that considers the importance of insurance is the _____ principle.

- A) agency problem — beware the sales pitch
- B) all risk is not equal
- C) time value of money
- D) protect yourself against major catastrophes
- E) none of the above

Answer: D

Diff: 2

Topic: Principle 7: Protect yourself against major catastrophes

AACSB: Analytical Thinking

11) Many people who signed up for adjustable-rate mortgages during the sub-prime mortgage debacle were no longer able to afford their payments. Many of these people were misled by their lenders. Which financial principle from Chapter 1 most applies?

- A) The best protection is knowledge.
- B) Mind games, financial personality, and your money
- C) Stuff happens, or the importance of liquidity.
- D) The time value of money

Answer: A

Diff: 3

Topic: Principle 1: The best protection is knowledge

AACSB: Analytical Thinking

12) In Chapter 1, Principle 3 espouses the time value of money. Why is this principle so important to financial planning?

- A) The principle allows us to determine how much money we will need to achieve our future goals.
- B) The principle shows us how inflation impacts our money over time.
- C) The principle helps us determine our savings needs today, in order to meet our future retirement goals.
- D) The principle shows us how important time and interest rates are to the accumulation of wealth.
- E) All of the above.

Answer: E

Diff: 3

Topic: Principle 3: The time-value-of-money

AACSB: Analytical Thinking

13) Without recognizing _____ it is impossible to understand compound interest, which allows investments to grow over time.

- A) that taxes affect personal finance decisions
- B) the time value of money
- C) the importance of liquidity
- D) that risk and return go hand in hand

Answer: B

Diff: 2

Topic: Principle 3: The time-value-of-money

AACSB: Analytical Thinking

14) If liquid funds are not available, an unexpected need, such as a job loss or injury may force you to

- A) cash in a longer-term investment.
- B) borrow money fast.
- C) take on unexpected debt repayments.
- D) all of the above.

Answer: D

Diff: 3

Topic: Principle 5: Stuff happens, or the importance of liquidity

AACSB: Analytical Thinking

15) Maiko lost her job and she was forced to sell a rental property because she did not have other funds (liquid, emergency, etc) available to meet her financial obligations. What financial principle best applies to this situation?

- A) The time value of money
- B) Waste not, want not—smart spending matters.
- C) Mind games, financial personality, and your money
- D) Stuff happens, the importance of liquidity.

Answer: D

Diff: 3

Topic: Principle 5: Stuff happens, or the importance of liquidity

AACSB: Analytical Thinking

16) What aspect of financial planning might you discuss with a friend who buys fancy coffee drinks twice a day, visits the mall at least once a week for recreational shopping, and prefers impulse buying to carefully researched purchasing?

- A) Just do it.
- B) Nothing happens without a plan.
- C) Mind games, financial personality, and your money
- D) Waste not, want not—smart spending matters.

Answer: D

Diff: 2

Topic: Principle 6: Waste not, want not, smart spending matters

AACSB: Reflective Thinking

17) Which of the following falls under the category of mind games, financial personality, and your money?

- A) The sunk cost effect
- B) Mental accounting
- C) Viewing your tax refund as "mad money"
- D) All of the above

Answer: D

Diff: 2

Topic: Principle 9: Mind games, your personality, and your money

AACSB: Reflective Thinking

18) Leticia is twenty-two years old and she has all of her savings in a Certificate of Deposit (CD) at the bank that currently pays an annual 1.5 percent yield. The account is protected by the FDIC so it is virtually risk free. She hopes to use her savings for a down payment on a new house in ten years. Inflation in house prices in her area has averaged 4 percent per year. What financial principle does she need to pay better attention to?

- A) Nothing happens without a plan.
- B) Waste not, want not, smart spending matters.
- C) Risk and return go hand in hand.
- D) All of the above are correct.

Answer: C

Diff: 3

Topic: Principle 8: Risk and return go hand in hand

AACSB: Diverse and Multicultural Work Environments

19) Charlie is sixty-four years old and is looking forward to his retirement next year. He currently has all of his 401(k) retirement money invested in the stock market. What financial principle from Chapter 1 does he need to understand better?

- A) Nothing happens without a plan.
- B) Knowledge is the best protection.
- C) Stuff happens, the importance of liquidity.
- D) Risk and return go hand in hand.

Answer: D

Diff: 3

Topic: Principle 8: Risk and return go hand in hand

AACSB: Diverse and Multicultural Work Environments

20) In 2008, the Bear Stearns Company collapsed could not be saved and was sold to JP Morgan Chase for \$10 per share, a price far below its pre-crisis 52-week high of \$133.20 per share. Prior to the collapse, many of the company's employees had all of their retirement money invested only in Bear Stearns common stock. This was a very risky financial strategy for just such a reason: What if the company dissolves? What financial principle from Chapter 1 did they need to understand better?

- A) Risk and return go hand in hand.
- B) Nothing happens without a plan.
- C) The time value of money
- D) Stuff happens, the importance of liquidity.

Answer: A

Diff: 3

Topic: Principle 8: Risk and return go hand in hand

AACSB: Diverse and Multicultural Work Environments

21) Matthew bought a used car last month for \$2,400. He just found out he needs a new transmission that will cost \$2,400 to install. He is asking you for advice as to what he should do. What financial principle would you use to base your advice on?

- A) Waste not, want not, smart spending matters.
- B) Mind games, financial personality, and your money
- C) Protect yourself from major catastrophes.
- D) None of the above would be correct.

Answer: B

Diff: 3

Topic: Principle 9: Mind games, your personality, and your money

AACSB: Reflective Thinking

22) Jessica is very proud of herself for having \$5,000 in her savings account that pays 4 percent interest. She currently has a balance of \$2,300 on her credit card account that charges 21 percent interest. Jessica thinks she is making a wise financial decision by keeping her money in her savings account instead of paying off her credit card balance. What financial principle from Chapter 1 would you use to give her good advice?

- A) Mind games, financial personality, and your money
- B) The time value of money
- C) Taxes affect personal financial decisions.
- D) Both A and B

Answer: D

Diff: 3

Topic: Principle 9: Mind games, your personality, and your money

AACSB: Diverse and Multicultural Work Environments

23) Which of the following adheres to the financial principle "just do it?"

- A) The amount you can spend is what's left after you put aside your savings.
- B) Pay yourself last.
- C) It's much easier to save than to spend.
- D) All of the above

Answer: A

Diff: 3

Topic: Principle 10: Just do it

AACSB: Reflective Thinking

24) A solid understanding of personal finance will

- A) enable you to protect yourself from an incompetent investment advisor.
- B) allow you to take advantage of changes in the economy.
- C) give you the ability to make intelligent investments.
- D) help you understand the importance of planning for your financial future.
- E) all of the above.

Answer: E

Diff: 3

Topic: Principle 1: The best protection is knowledge

AACSB: Reflective Thinking

25) List the ten principles of personal finance.

Answer: Principle 1: The best protection is knowledge.

Principle 2: Nothing happens without a plan.

Principle 3: The time value of money

Principle 4: Taxes affect personal finance decisions.

Principle 5: Stuff happens, or the importance of liquidity.

Principle 6: Waste not, want not—smart spending matters.

Principle 7: Protect yourself against major catastrophes.

Principle 8: Risk and return go hand in hand.

Principle 9: Mind games, your financial personality, and your money

Principle 10: Just do it!

Diff: 3

Topic: Ten Principles of Personal Finance

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