

***Personal Finance, 7e (Madura)***  
**Chapter 1 Overview of a Financial Plan**

1.1 Developing the Financial Plan

1) Most Americans will never be able to understand and develop a personal financial plan.

Answer: FALSE

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

2) The simple objective of financial planning is to make the best use of your resources to achieve your financial goals.

Answer: TRUE

Diff: 2

Question Status: Carryover

AACSB: Application of Knowledge

3) An understanding of personal finance is not necessary to judge the quality of advice that a financial adviser may give.

Answer: FALSE

Diff: 1

Question Status: Carryover

AACSB: Reflective Thinking

4) The first step in budgeting is to evaluate your current financial position by looking at just your income and expenses.

Answer: FALSE

Diff: 2

Question Status: Carryover

AACSB: Application of Knowledge

5) The current market value of what you own minus the value of what you owe is called your net worth.

Answer: TRUE

Diff: 2

Question Status: Major Change

AACSB: Application of Knowledge

6) Various government agencies have conducted surveys that show most people have a good understanding of personal finance.

Answer: FALSE

Diff: 1

Question Status: Carryover

AACSB: Reflective Thinking

7) A good understanding of the financial planning process will allow you to make informed decisions without relying on the advice of financial advisers.

Answer: FALSE

Diff: 2

Question Status: Carryover

AACSB: Application of Knowledge

8) A thorough understanding of this personal finance book qualifies you to become a financial adviser.

Answer: FALSE

Diff: 2

Question Status: Carryover

AACSB: Reflective Thinking

9) If a person focuses their budget on "spending" vs. "saving," it is more likely they will

A) oversave.

B) overspend.

C) save just the right amount.

D) all of these

Answer: B

Diff: 1

Question Status: New

AACSB: Application of Knowledge

10) Personal finance does **not** include the process of planning your

A) spending.

B) financing.

C) investing.

D) spirituality.

Answer: D

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

11) Which item is **not** one of the components of a personal financial plan?

A) Setting aside money for season tickets to your favorite football team is an example of

B) Investing your money

C) Planning your retirement

D) Budgeting

Answer: A

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

12) A personal financial plan specifies financial goals and describes

- A) saving, investing, and asset valuation.
- B) spending, saving, and credit card financing.
- C) spending, financing, and investment plans.
- D) saving and spending only.

Answer: C

Diff: 3

Question Status: Carryover

AACSB: Application of Knowledge

13) All of the following are true with regard to the demand for financial advisers, **except**

- A) many people lack an understanding of personal finance.
- B) many people prefer to rely on advisers rather than making their own decision.
- C) many people are just not interested in making their own financial decisions.
- D) only financial advisers can purchase mutual funds for a person's 401(k).

Answer: D

Diff: 2

Question Status: Major Change

AACSB: Application of Knowledge

14) "Big spenders" focus their budgeting decisions on

- A) reducing expenses.
- B) increasing income.
- C) spending most of their income.
- D) saving most of their income.

Answer: C

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

15) "Big savers" focus their budget decisions on

- A) reducing expenses.
- B) increasing income.
- C) spending most of their income.
- D) saving as much of their income as possible.

Answer: D

Diff: 1

Question Status: Minor Change

AACSB: Application of Knowledge

- 16) Which of the following is **not** an asset?
- A) Your house that you rent
  - B) Your car that you financed
  - C) Your coin collection given to you by your grandfather
  - D) Your textbooks

Answer: A

Diff: 2

Question Status: Carryover

AACSB: Application of Knowledge

- 17) Which of the following items is **not** a liability?
- A) The balance due on your credit card
  - B) Your college loans
  - C) The wages you give up to take a class
  - D) An IOU to your roommate

Answer: C

Diff: 2

Question Status: Carryover

AACSB: Application of Knowledge

- 18) A measure of your wealth is
- A) the highest level of education you've attained.
  - B) the amount of your annual income.
  - C) the current market value of what you own minus the value of what you owe.
  - D) your tax bracket.

Answer: C

Diff: 1

Question Status: Major Change

AACSB: Application of Knowledge

- 19) Which of the following is **not** a financing decision?
- A) Should you buy Apple stock with savings?
  - B) Should you borrow on your home equity loan to buy Apple stock?
  - C) Should you take a loan and buy a car?
  - D) Should you take a 15- or 30-year mortgage to buy a house?

Answer: A

Diff: 2

Question Status: Major Change

AACSB: Application of Knowledge

- 20) Which of these statements is true with regards to the 2008-2009 financial crisis?
- A) More than half of the people in the United States lost their jobs.
  - B) The values of many homes were cut in half or more.
  - C) The values of most investments declined by no more than 10%.
  - D) Having a financial plan is of no help when economic conditions are as weak as they were during the crisis.

Answer: B

Diff: 2

Question Status: Carryover

AACSB: Application of Knowledge

- 21) Amanda has cash of \$100, a car worth \$5,000, and books worth \$200. Her liabilities include a car loan of \$2,000 and a credit card balance of \$100. What is the total of her assets, liabilities, and net worth?

Answer: Assets of \$5,300, liabilities of \$2,100, and a net worth of \$3,200.

Diff: 2

Question Status: Carryover

AACSB: Analytical Thinking

## 1.2 How Personal Finance Can Enhance Your Job Marketability

- 1) Making personal finance decisions enhances your employability because

- A) employers prefer to hire people with significant assets.
- B) making decisions increases your decisiveness.
- C) you are managing yourself and showing initiative.
- D) None of these are correct.

Answer: C

Diff: 1

Question Status: New

AACSB: Reflective Thinking

- 2) Organizational skills are an important component in developing a personal financial plan because

- A) decisions related to one component of the plan may affect all other components.
- B) you can apply organizational skills on the job.
- C) it is hard to make a decision when your desk is a mess.
- D) Both A and B are correct.

Answer: D

Diff: 2

Question Status: New

AACSB: Reflective Thinking

### 1.3 Components of a Financial Plan

1) A complete financial plan consists of budgeting, taxes, financing, and investing.

Answer: FALSE

Diff: 2

Question Status: Carryover

AACSB: Application of Knowledge

2) If you do not have access to money to cover cash needs, you may have insufficient liquidity.

Answer: TRUE

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

3) Liquidity cannot be enhanced using sound money and credit management.

Answer: FALSE

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

4) Money management decisions include deciding how much credit to obtain to support your spending and what sources of credit to use.

Answer: FALSE

Diff: 2

Question Status: Carryover

AACSB: Application of Knowledge

5) Credit should be used only when necessary, since it usually involves borrowed funds that you will need to pay back with interest.

Answer: TRUE

Diff: 2

Question Status: Carryover

AACSB: Application of Knowledge

6) Your financial plan should include a plan for protecting and enhancing your assets and income through carrying excess insurance coverage so you can profit in the event of a loss.

Answer: FALSE

Diff: 1

Question Status: Major Change

AACSB: Application of Knowledge

7) One of the considerations that determines your investment choices is the level of risk you are willing to tolerate.

Answer: TRUE

Diff: 1

Question Status: Carryover

AACSB: Reflective Thinking

8) People do not need to determine how much money to set aside for retirement and how those funds should be invested until they near their retirement age.

Answer: FALSE

Diff: 2

Question Status: Carryover

AACSB: Application of Knowledge

9) Effective estate planning will ensure that your wealth is distributed according to your wishes, but will do nothing to reduce the potential taxes your estate is subject to.

Answer: FALSE

Diff: 2

Question Status: Carryover

AACSB: Application of Knowledge

10) Retirement planning should begin

A) as early as possible in order that you accumulate sufficient funds for retirement.

B) as soon as you start working full time.

C) a few years before you plan on retiring.

D) you do not need to plan since Social Security and your firm's pension will be sufficient.

Answer: A

Diff: 2

Question Status: Carryover

AACSB: Application of Knowledge

11) As a result of the increased estate tax exemption limits enacted with the 2018 Federal income tax law changes, it is no longer necessary for a family to do estate planning.

Answer: FALSE

Diff: 2

Question Status: New

AACSB: Reflective Thinking

12) \_\_\_\_\_ is the process of forecasting future expenses and savings.

A) Budgeting

B) Planning

C) Predicting

D) Fortune-telling

Answer: A

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

13) \_\_\_\_\_ involves having access to funds to cover any short-term cash needs.

- A) Investment
- B) Money
- C) Liquidity
- D) Risk

Answer: C

Diff: 1

Question Status: Minor Change

AACSB: Application of Knowledge

14) \_\_\_\_\_ management involves decisions regarding how much money to retain in a liquid form and how to allocate funds among short-term investment instruments.

- A) Investment
- B) Money
- C) Credit
- D) Liquidity

Answer: B

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

15) \_\_\_\_\_ management involves decisions regarding how much credit you need to support spending and which sources of credit to use.

- A) Investment
- B) Money
- C) Credit
- D) Liquidity

Answer: C

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

16) Which of the following is a credit management decision?

- A) Purchasing a used car with cash
- B) Investing your savings in the stock market
- C) Obtaining a student loan to attend college
- D) Putting money into your retirement account

Answer: C

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge



17) Which of the following is an example of money management?

- A) Putting your money in a savings account at your bank
- B) Shopping around for the credit card with the best interest rate
- C) Deciding to delay buying a new car until you can pay cash
- D) Paying off a loan early to reduce the interest charges

Answer: A

Diff: 2

Question Status: Carryover

AACSB: Application of Knowledge

18) A plan for \_\_\_\_\_ is needed to determine how much you could afford to borrow, the length of the loan, and how to select a loan that charges competitive interest rates.

- A) buying
- B) financing
- C) spending
- D) saving

Answer: B

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

19) Which of the following is **not** a way that insurance is designed to protect your wealth?

- A) Protecting the assets that you own
- B) Limiting your exposure to potential liabilities
- C) Enhancing your income in the event of a loss
- D) Protecting your investments from downturns in the stock market
- E) B and D are both correct

Answer: E

Diff: 2

Question Status: Major Change

AACSB: Application of Knowledge

20) What is the core purpose of buying insurance?

- A) Protect your wealth and assets
- B) Make sure you make money on any claim
- C) Insurance is an expense a careful investor needs to minimize
- D) Make sure you leave an estate when you are gone

Answer: A

Diff: 2

Question Status: Carryover

AACSB: Application of Knowledge

21) Which of the following does **not** protect your assets and/or income?

- A) Money insurance
- B) Disability insurance
- C) Automobile insurance
- D) Life and health insurance

Answer: A

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

22) Potential investments include all of the following instruments, **except**

- A) stocks and bonds.
- B) mutual funds.
- C) real estate.
- D) lottery tickets.

Answer: D

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

23) Which of the following would **not** be considered an investment?

- A) A membership in a golf or swim club
- B) An art collection
- C) A savings account
- D) A mutual fund of stocks and bonds

Answer: A

Diff: 1

Question Status: Minor Change

AACSB: Reflective Thinking

24) Retirement planning should begin

- A) when you retire.
- B) shortly after you retire.
- C) well before you retire.
- D) at any time.

Answer: C

Diff: 2

Question Status: Carryover

AACSB: Application of Knowledge

25) From a financial standpoint when should a person start retirement planning and saving?

- A) When he or she first starts receiving a salary
- B) At 45-50 years of age
- C) At 50-55 years of age
- D) At 55-60 years of age

Answer: A

Diff: 2

Question Status: Carryover

AACSB: Application of Knowledge

26) Estate planning

- A) protects your wealth against unnecessary taxes.
- B) shelters your wealth against **all** taxes.
- C) ensures that your wealth is distributed in the manner that you determine.
- D) A and C are correct.

Answer: D

Diff: 2

Question Status: Major Change

AACSB: Application of Knowledge

27) The act of determining how wealth will be distributed before or upon death is

- A) estate planning.
- B) retirement planning.
- C) not needed for most people.
- D) liquidity planning.

Answer: A

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

28) \_\_\_\_\_ is the uncertainty surrounding the potential return on an investment.

Answer: Risk

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

29) Your ability to access funds to cover any short-term cash deficiencies is your \_\_\_\_\_.

Answer: liquidity

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

30) During his \_\_\_\_\_ your Uncle Harvey decides to cut you out of his will.

Answer: estate planning

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

31) Most investments are subject to \_\_\_\_\_, which is the uncertainty surrounding their potential return.

Answer: risk

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

32) List the six components of a financial plan.

Answer:

(a) Budgeting and tax planning

(b) Managing liquidity

(c) Financing your large purchases

(d) Protecting your assets and income

(e) Investing your money

(f) Planning your retirement and estate

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

#### 1.4 How Financial Plan Decisions Affect Your Cash Flows

1) The major source of cash outflow for most people is the income they receive from employers.

Answer: FALSE

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

2) Which of the following is **not** a decision that you would probably encounter in managing your budget?

A) What expenses you should anticipate

B) How much money you should attempt to save each month

C) How you will allocate your estate among your heirs

D) How long you will take to pay off a specific loan

Answer: C

Diff: 2

Question Status: Carryover

AACSB: Application of Knowledge

3) The first step in developing your financial plan is

A) establish your financial goals.

B) pay off all your credit cards.

C) buy a cool car then begin saving money.

D) get a good job.

Answer: A

Diff: 2

Question Status: Carryover

AACSB: Application of Knowledge

4) Budgeting helps set goals by estimating \_\_\_\_\_ on a monthly basis to determine how much to save and spend.

- A) assets and income
- B) liabilities and expenses
- C) income and expenses
- D) net worth and income

Answer: C

Diff: 2

Question Status: Carryover

AACSB: Application of Knowledge

5) A budget does **not**

- A) require thinking and planning.
- B) require an evaluation of your current financial position.
- C) help you account for all your income and expenses.
- D) require the preparation of a will.

Answer: D

Diff: 2

Question Status: Carryover

AACSB: Application of Knowledge

6) When estimating expenses for a budget,

- A) last month's and last year's expenses are not a good starting point.
- B) many of the same expenses do not occur each month.
- C) large unusual expenses such as car or hospital bills should be included.
- D) estimating your future assets is a good starting point.

Answer: C

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

7) If your income exceeds the amount you spend, you should \_\_\_\_\_ your investments or \_\_\_\_\_ loans.

- A) reduce; repay existing
- B) reduce; obtain more
- C) increase; repay existing
- D) increase; obtain more

Answer: C

Diff: 2

Question Status: Carryover

AACSB: Application of Knowledge

- 8) To increase your savings,  
A) income must be increased or expenses decreased.  
B) expenses must be increased.  
C) income must be decreased.  
D) net worth must be decreased.

Answer: A

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

- 9) Which of the following would **not** be a factor in evaluating your current financial position?  
A) Income  
B) Expenses  
C) Possible lottery winnings  
D) Assets

Answer: C

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

- 10) Your net worth will **not** be increased by which of the following actions?  
A) Increasing your savings from 10% to 15% of your earnings  
B) Receiving a \$100 birthday present from your grandmother  
C) Buying a new home entertainment system and putting the entire amount on your credit card  
D) Receiving an inheritance

Answer: C

Diff: 2

Question Status: Carryover

AACSB: Application of Knowledge

- 11) The income in your budget is **not** affected by  
A) your education.  
B) your career decisions.  
C) the tax laws.  
D) the standard of living you experienced as a child.

Answer: D

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

12) Which of the following is **not** a decision involved in managing your liquidity?

- A) Deciding how much money to keep in savings
- B) Choosing between credit cards
- C) Determining how much money to save versus how much to spend
- D) Building and maintaining a monthly/yearly budget with allocations to expenses and investments

Answer: B

Diff: 2

Question Status: Carryover

AACSB: Application of Knowledge

13) Which of the following is **not** a decision involved in managing your financing?

- A) Whether to obtain a 3-year versus 4-year loan on a new car
- B) Whether to obtain a 15-year versus 30-year loan on a new home
- C) Whether to pay off an existing loan
- D) Whether to invest income in a savings account or in a stock

Answer: D

Diff: 2

Question Status: Carryover

AACSB: Application of Knowledge

14) Cash flows are affected by financial planning decisions. Which of the following is **not** correct?

- A) Insurance payments are a cash outflow.
- B) Investing in stock is a cash outflow.
- C) Paying off a loan early is not an outflow since you are reducing a debt.
- D) Income is a cash inflow.

Answer: C

Diff: 1

Question Status: Minor Change

AACSB: Application of Knowledge

15) Cash flows are affected by financial planning decisions. Which of the following is correct?

- A) Car payments you make are cash outflows.
- B) Investments you make in stock are cash inflows.
- C) Your routine monthly expenses are cash inflows.
- D) Your income is a cash outflow.

Answer: A

Diff: 2

Question Status: Carryover

AACSB: Application of Knowledge

16) Your financial position is highly influenced by all of the following, **except**

- A) the amount of education you pursue.
- B) the current pay level you receive.
- C) the current economy.
- D) the bonus check your best friend just received.

Answer: D

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

17) Your decision about one component of your financial plan can affect all other components. Which statement is true?

- A) The amount of life insurance you choose to carry has no effect on your future estate value.
- B) There will never be any trade-offs to consider when making decisions about your financial plan.
- C) If you make poor investment decisions, you may have to work longer than planned.
- D) You should contribute all of your extra money to your retirement account even if it means you don't have money available for products and services today.

Answer: C

Diff: 1

Question Status: Minor Change

AACSB: Application of Knowledge

18) Jessie has \$4,000 in a bank account, \$2,800 in a 401(k) plan at work, a car with a current value of \$28,000, and a house that she purchased for \$92,000 that has a current value of \$118,000. The current balance of her home mortgage is \$81,000, she has one credit card with a \$3,000 balance, and a student loan with a balance of \$6,000. What is Jessie's current net worth?

- A) \$62,800
- B) \$46,800
- C) (\$242,800)
- D) (\$62,800)

Answer: A

Explanation:

Assets:  $\$4,000 + \$2,800 + \$28,000 + \$118,000 = \$152,800$

Liabilities:  $\$3,000 + \$81,000 + \$6,000 = \$90,000$

Net worth =  $\$62,800$

Diff: 2

Question Status: Carryover

AACSB: Analytical Thinking



19) Jakob received a \$1,000-a-year raise in January, sold stocks in March for \$6,000 that were originally purchased for \$4,000, and in July had a \$100 monthly increase in mortgage payments on his adjustable rate mortgage. The increased mortgage payment started in July and was in effect for the remainder of the year. What was the total impact on Jakob's cash flow for the year?

- A) \$1,000
- B) \$5,400
- C) \$6,400
- D) \$7,600

Answer: C

Explanation:

Raise	\$1,000
Sale of stock	\$6,000
Increased mortgage payments	<u>(600)</u>
Net cash inflows	\$6,400

Diff: 2

Question Status: Carryover

AACSB: Analytical Thinking

20) Opportunity cost refers to

- A) money needed for major consumer purchases.
- B) what you give up or forego as a result of making a decision.
- C) the amount paid for taxes when a purchase is made.
- D) evaluating different alternatives for financial decisions.

Answer: B

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

21) Josh has decided to take a course at the local community college that could help him get a promotion at work. The course begins at 5 p.m. and goes until 9 p.m. on Monday nights. Josh normally works until 5 p.m. each day, but because of the drive time to the community college, he will need to leave work at 3 p.m. on class days. Josh currently earns \$18.50 per hour. His employer contributes 10% of Josh's gross earnings to a 401(k) retirement plan. If the class meets 16 times, what is Josh's total before-tax opportunity cost for the class?

- A) \$592.00
- B) \$800.00
- C) \$651.20
- D) None

Answer: C

Explanation:

$2 \text{ hours} \times \$18.50 = \$37.00$ ;  $\$37.00 \times 10\% = \$3.70$ ;  $\$37.00 + \$3.70 = \$40.70/\text{class}$ ;  $\$40.70/\text{class} \times 16 \text{ classes} = \$651.20$

Diff: 2

Question Status: Revised Minor Change

AACSB: Analytical Thinking

22) A worker making \$20 per hour decides to take a day of unpaid leave from work to attend a graduation ceremony. The worker ordinarily works an 8-hour day and is subjected to a total tax rate of 20%. What is the worker's total opportunity cost from the day of unpaid leave?

- A) \$8.00
- B) \$128.00
- C) \$112.00
- D) \$160.00

Answer: B

Explanation:  $(\$20 \times 8) \times (1 - .2) = \$128.00$

Diff: 2

Question Status: Revised Major Change

AACSB: Analytical Thinking

### 1.5 Developing the Financial Plan

1) Goals should be set as high as possible regardless of reality because they may eventually be obtainable.

Answer: FALSE

Diff: 2

Question Status: Carryover

AACSB: Reflective Thinking

2) Goals with a time frame of five or more years into the future are called intermediate-term goals.

Answer: FALSE

Diff: 2

Question Status: Carryover

AACSB: Application of Knowledge

3) If you set realistic goals rather than unrealistic ones, your plan becomes more useful.

Answer: TRUE

Diff: 1

Question Status: Carryover

AACSB: Reflective Thinking

4) Your budget is influenced by your income, which in turn is influenced by your education and career decisions.

Answer: TRUE

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

5) In addition to the text, Web sites and financial magazines are good sources for help in financial planning.

Answer: TRUE

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

6) If prepared properly, financial plans are set for life and should not need to be adjusted.

Answer: FALSE

Diff: 2

Question Status: Carryover

AACSB: Application of Knowledge

7) Which of the following is **not** a reason to set realistic financial goals?

A) So you have something to refer to every time you get paid

B) So you have a high likelihood of achieving them

C) If the goal is too onerous, you will be unwilling to follow the plan.

D) If you fail, you will be discouraged and lose interest in planning.

Answer: A

Diff: 2

Question Status: Carryover

AACSB: Application of Knowledge

8) Which of the following is **not** a relevant consideration when identifying alternatives for achieving your financial goals?

A) Choosing a large versus small university

B) Pursuing additional education

C) Choosing a state versus private university

D) Choosing a major for study that enhances earning power

Answer: A

Diff: 2

Question Status: Carryover

AACSB: Application of Knowledge

9) Which of the following goals would be easiest to measure?

A) Reduce debt payments

B) Save funds for an annual vacation

C) Save \$100 a month to create a \$4,000 emergency fund

D) Invest for a comfortable retirement

Answer: C

Diff: 2

Question Status: Carryover

AACSB: Analytical Thinking

10) By establishing high and unrealistic financial goals, you will probably

- A) improve the likelihood of achieving at least some success.
- B) become discouraged and lose interest in planning.
- C) increase the viability of your plan.
- D) impress your spouse or significant other.

Answer: B

Diff: 2

Question Status: Carryover

AACSB: Reflective Thinking

11) Goals with a time frame of between one and five years are classified as

- A) short-term.
- B) long-term.
- C) intermediate term.
- D) unrealistic.

Answer: C

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

12) Which of the following would be classified as a short-term goal?

- A) Purchasing a house in three years
- B) Buying new clothes this month
- C) Retiring in ten years
- D) Paying for your two-year-old child's college education

Answer: B

Diff: 1

Question Status: Minor Change

AACSB: Application of Knowledge

13) Which of the following would be a long-term goal?

- A) Paying off a school loan in three years
- B) Purchasing a car within six months
- C) Saving enough money to retire in 20 years
- D) Paying for two years of college

Answer: C

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

- 14) If you are interested in achieving a long-term savings goal, then
- A) you are not concerned with paying off your current debt.
  - B) you will try to save a small amount because that is better than saving nothing at all.
  - C) you will buy a new car because your best friend just bought one.
  - D) you believe that 'retail therapy' is the answer to your occasional depression.

Answer: B

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

- 15) Which of the following could save a smaller proportion of their earnings to achieve the same level of wealth as the others?

- A) Social workers
- B) School teachers
- C) Medical doctors
- D) All would save the same percentage of earnings to reach the same level of wealth.

Answer: C

Diff: 2

Question Status: Carryover

AACSB: Analytical Thinking

- 16) On which of the following Web sites should you question the accuracy of the information provided?

- A) The Internal Revenue Service's Web site lists current tax rates and rules used for tax planning.
- B) The Securities and Exchange Commission's Web site explains new regulations for stockbrokers.
- C) A major bank's Web site lists new rules used for retirement plans.
- D) An online blog posts articles written by many individual investors.

Answer: D

Diff: 1

Question Status: Minor Change

AACSB: Application of Knowledge

- 17) Which of the following would **not** help protect you from unethical or incompetent advice from a financial adviser?

- A) Educating yourself on various financial products
- B) Testing questionable advice with another financial adviser/broker
- C) Relying entirely on the adviser as to when to buy and sell
- D) Knowing your risk tolerance

Answer: C

Diff: 1

Question Status: Minor Change

AACSB: Application of Knowledge

18) Which of the following statements is **not** true regarding education and financial position?  
A) Your financial position is highly influenced by the amount of education you pursue.  
B) Higher education always guarantees a higher income.  
C) The more education you have, the higher your earnings will likely be.  
D) Before you choose a major, you should consider your skills, interests, and the career paths that will be available to you.

Answer: B

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

19) Your financial plan is usually strongly influenced by

- A) your parents.
- B) your tolerance for risk and your self-discipline.
- C) your peers.
- D) your age.

Answer: B

Diff: 2

Question Status: Carryover

AACSB: Application of Knowledge

20) Although career choices affect your income, you should choose the career that

- A) pays the highest salary even if you dislike the work.
- B) will be enjoyable and will suit your skills.
- C) will be the easiest to find employment in.
- D) requires the least amount of training or education so you can begin working as quickly as possible.

Answer: B

Diff: 2

Question Status: Carryover

AACSB: Reflective Thinking

21) The financial crisis of 2008-09 affected the financial position of individuals in all of the following ways, **except** which of these?

- A) There was a reduction in new job opportunities.
- B) Employers could not afford to give their employees a raise.
- C) The value of many investments declined.
- D) The demand for homes increased because more homeowners were trying to sell their homes.

Answer: D

Diff: 2

Question Status: Carryover

AACSB: Application of Knowledge

22) Which of the following is **not** a step in developing a financial plan?

- A) Establish your financial goals
- B) Consider your current financial position
- C) Identify and evaluate alternative plans that could achieve your goals
- D) Put your plan away for three to five years and then review it for accuracy and progress

Answer: D

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

23) After your financial plan is developed it should be

- A) locked away for safe-keeping so it isn't stolen.
- B) reviewed every five years.
- C) monitored and updated annually.
- D) sold to others.

Answer: C

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

24) Put the following six steps in order for a financial plan:

- (a) identify and evaluate plans that could achieve your goals
- (b) consider current financial position
- (c) revise the plan
- (d) establish financial goals
- (e) evaluate the plan
- (f) select and implement the best plan

Answer: d, b, a, f, e, c

Diff: 2

Question Status: Minor Change

AACSB: Application of Knowledge

Match the goals in the first column with the items in the second column:

- A) To purchase a home in three years
- B) To retire in 25 years
- C) To save enough money for books and tuition for next term

25) short-term goal

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

26) intermediate goal

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

27) long-term goal

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

Answers: 25) C 26) A 27) B

28) Why is it important to monitor and revise your financial plan from time to time?

- A) Your financial position changes over time as does your personal, job, and family situation.
- B) As you get older you will want to lower your goals.
- C) So that you remember the goals you were striving for.
- D) You may decide enjoying consumption now is more important than saving for retirement years.

Answer: A

Diff: 2

Question Status: Carryover

AACSB: Application of Knowledge

29) Why is it important to understand how taxes impact your personal financial planning?

- A) Taxes paid reduce your net income and cash flow available to save as well as the returns on your investments.
- B) Paying too much in taxes can result in penalties and jail time.
- C) It is not that important since savings are not taxable.
- D) It is only important for estate tax purposes.

Answer: A

Diff: 2

Question Status: Minor Change

AACSB: Application of Knowledge



Use the following description of terms to answer the matching questions below:

- A) forecasting future expenses and savings
- B) uncertainty on a potential return on an investment
- C) what you own
- D) determining how much money you should set aside for retirement
- E) what you owe
- F) decisions regarding how much money to hold in liquid form and how to allocate funds among short term investments
- G) determining how your wealth will be distributed before or upon your death
- H) current value of what you own minus what you owe
- I) source of current information about a variety of topics
- J) access to funds to cover any short-term cash deficiencies

30) assets

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

31) net worth

Diff: 1

Question Status: Minor Change

AACSB: Application of Knowledge

32) liabilities

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

33) estate planning

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

34) liquidity

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

35) money management

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

36) risk

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

37) retirement planning

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

38) budgeting

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

39) Web site

Diff: 1

Question Status: Carryover

AACSB: Application of Knowledge

Answers: 30) C 31) H 32) E 33) G 34) J 35) F 36) B 37) D 38) A 39) I