



SAMPLE EXAM

PERSONAL FINANCIAL LITERACY

THE PERSONAL FINANCIAL LITERACY EXAM IS USED
FOR THE FOLLOWING EVENT:

PERSONAL FINANCIAL LITERACY **PFL**

These test questions were developed by Working in Support of Education (w|se). A descriptive test key, including answer rationale, has been provided.

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1. One way that leads a person to earn additional income is for the person to
 - A. discuss financial goals with her supervisor.
 - B. increase budgeted monthly expenses.
 - C. increase her knowledge or improve skills.
 - D. volunteer at a successful corporation.

2. Entrepreneurs who start a new business with the hope of making a profit are
 - A. working fewer hours than people who have an employer.
 - B. earning higher wages than most people.
 - C. taking advantage of government protection against financial loss.
 - D. accepting the risk of financial loss if unsuccessful.

3. Income can be earned or unearned. Which of the following is an example of unearned income?
 - A. Money from a part-time second job.
 - B. Tips from customers.
 - C. Interest from bank accounts.
 - D. Paid vacation days from work.

4. Which of the following terms is correctly matched?
 - A. Capital Gains – Scholarships.
 - B. Rent – Tax free income.
 - C. Gross Income – Salary before taxes.
 - D. Deductions – Earned Income.

5. What strategy is an effective way to build adequate financial resources for a family to pay for college tuition?
 - A. Opening a 529 College Savings Plan in the first year of a child's birth.
 - B. Taking a greater risk by purchasing speculative stocks until a child is age 16.
 - C. Reducing taxes by investing money in mutual funds.
 - D. Increasing contributions to Social Security.

6. Which of the following factors, other than job performance, will result in higher wages being given to many workers?
 - A. An increase in the number of vacation days per year.
 - B. A decrease in corporate borrowing.
 - C. A higher number of college graduates who have the same major.
 - D. A low number of available qualified workers looking for a job.

7. Read the information below about the profiles of individuals regarding their federal income tax

Mr. Chu – Married with two children, contributes to a retirement plan

Mr. Ortiz – Single, age 35, rents an apartment

Ms. Lallo – Single, age 58, contributes to a Roth IRA

Ms. Feldman – Married, no children, rents a house.

Which person listed above is likely to have the greatest number of payroll tax exemptions which lowers taxable income?

- A. Mr. Chu.
- B. Mr. Ortiz.
- C. Ms. Lallo.

D. Ms. Feldman.

8. The terms “job” and “career” are often used interchangeably. However, there is a major difference in the meaning of the terms. A career is characterized as

- A. responsibilities without risk because it involves different tasks.
- B. responsibilities that result in earning income from an hourly wage.
- C. a profession or vocation requiring special education or training.
- D. work that includes the benefit of short hours or little responsibility.

Review the information in the graph below before answering Question 9.

FIGURE 1. ANNUAL INCOME BY EDUCATION LEVEL AT CAREER MIDPOINT



9. Which of the following explains why a person with an Associate’s Degree from a two-year community college earns \$10,700 more than someone with a high school (HS) diploma?

- A. They are more productive because they have better writing, reading, and thinking skills.
- B. Community colleges place graduates in jobs with higher salaries.
- C. They have less student debt as a result of their higher income.
- D. The income gains shown are only during the first five years after graduating college.

10. Which of the following is the **best** advice for a student with college loans?

- A. After graduation, have a budget that includes money for paying more on the loan than is required monthly.
- B. Get a full time job with a large company that has a tuition reimbursement policy for its employees.
- C. Refinance the loan by transferring the amount of money owed to a credit card with a low-interest rate.
- D. After five years of working, if the loan is not fully repaid apply for personal bankruptcy.

11. A person is age 16 and looking for part-time work at a restaurant that is part of a national chain. Which of the following is the employer allowed to ask for on a job application?
- A. Copy of a major credit card.
 - B. Social Security number.
 - C. Parents' occupations.
 - D. List of medical problems.
12. What is the opportunity cost of a person selling her stocks and bonds worth \$5,000 to spend on a winter vacation?
- A. Loss of the ability to go out of town during the cold weather.
 - B. Loss of the chance for the money to grow in value.
 - C. Ability to have a balanced budget.
 - D. There is none since they are equal opportunities.
13. Which of the following will help to create discretionary income?
- A. Having payroll taxes deducted from each paycheck.
 - B. Contributing to an emergency savings account.
 - C. Spending less than total income each month.
 - D. Paying credit card bills at the end of the month.
14. When a consumer is disappointed with the quality of a product purchased, which of the following should the person try to do **first**?
- A. Return the product with a receipt.
 - B. Write to the manufacturer complaining about the product.
 - C. Try to sell the product online.
 - D. Use social media to post comments about the product.
15. An example of a change in a person's life situation requiring a review of their financial goals and plans is
- A. graduating from middle school.
 - B. purchasing a new car.
 - C. buying life insurance.
 - D. becoming a parent.
16. An important responsibility for young adults living independently is to
- A. purchase cell phone product insurance.
 - B. pay the principal if they have a mortgage.
 - C. purchase vacation homes.
 - D. monitor credit card expenses and debt.
17. A college student wants to buy a bike to ride from a rented apartment to the college campus. Which of the following should be part of the research?
- A. Finding out which is the most popular bike sold in the area.
 - B. Determining which bike is safe and affordable for the intended user.
 - C. Comparing the cost of a repair and an accessory from three bike shops.
 - D. Checking to see if the bicycle was made in America.
18. When selecting a financial planner for advice, it is important to know the
- A. person's age.
 - B. whether the person has a license or certification.
 - C. credit history of the person.
 - D. discount being offered by the person to new clients.

19. An individual or family should consult with a lawyer when
- A. deciding between term or whole life/universal life insurance policies.
 - B. establishing a 529 College Education Fund.
 - C. estate planning that includes a will.
 - D. receiving an inheritance or windfall income.
20. Which of the following can cause a person to become a victim of consumer fraud?
- A. Having accounts at more than one bank.
 - B. Responding to an email from an unknown sender.
 - C. Filing income taxes online.
 - D. Registering for the "Do Not Call" list.
21. For the past two years, the price of gasoline increased 10%, while incomes did not increase. Which of the following will impact the monthly budget and financial plans of most people as a result of this price increase?
- A. Insurance premiums.
 - B. Property taxes.
 - C. Use of an automobile.
 - D. Automobile repairs.
22. A highly successful high school student applied to public and private colleges and he was accepted to all of them, including one very prestigious university. The tuition at these colleges ranges from \$15,000 to \$55,000 a year. His mother lost her job. What is the **first** thing the family should do to address this situation?
- A. Use their emergency fund to pay for tuition.
 - B. Charge the cost of the son's first semester tuition on a low-interest rate credit card.
 - C. Have the son postpone going to college for one year.
 - D. Contact all of the colleges to explain the current financial situation to see if they can help.
23. Which of the following types of personal information should **never** be sent in an email or text message?
- A. Birthdate.
 - B. Credit or Debit card number.
 - C. Name of high school or college the person attended.
 - D. Name of the town where the person lives.
24. When making a will, a person will choose a trusted individual to make sure that the will is carried out as intended. This individual is the
- A. beneficiary.
 - B. executor.
 - C. proxy.
 - D. probate lawyer.
25. A person who owns a house needs to reduce her monthly expenses. Which of the following is good advice to help her save money?
- A. Buy environmentally safe cleaning products for home use.
 - B. Make purchases for home products online.
 - C. Lower the thermostat for heat when no one is home.
 - D. Pay home repair bills with a debit card.

26. A suggested amount of savings in order to pay for emergencies is
- A. 10% of assets.
 - B. 1 month of variable expenses.
 - C. 2 to 3 months of fixed expenses.
 - D. 3 to 9 months of living expenses.
27. An example of a tax that raises the price of a product to reduce its popularity is
- A. an excise tax on tobacco.
 - B. federal payroll tax on salary.
 - C. state income tax.
 - D. property tax.
28. Impulse shopping usually results in
- A. an increase in personal debt.
 - B. a decrease in the buying of goods at department stores.
 - C. an increase in credit scores.
 - D. a decrease in the number of items purchased online.
29. A risk of using a debit card for buying goods and services is that
- A. there may be insufficient funds in the bank account.
 - B. there may be a hidden fee for each purchase.
 - C. the card may have expired.
 - D. the repayment period may be shorter than thirty days.
30. The result of 4% inflation on the value of money when bank interest rates are 2% is that
- A. the value of the money increases at a faster rate.
 - B. consumers are able to buy more than they did last year.
 - C. the value of money doubles at a faster rate.
 - D. consumers will have less money for spending.
31. Which of the following is included when determining a person's net worth?
- A. Rented apartment.
 - B. Health insurance.
 - C. Gold coins.
 - D. Bank safe deposit box.
32. Which of the following is generally considered a tax deduction and may reduce a person's federal income taxes?
- A. A donation to a charitable organization.
 - B. Insurance premiums.
 - C. Heating expense.
 - D. The fees credit card company charge.
33. Maintaining organized records for income and expenses is important in order for a person to know where her money is going. What is an effective strategy?
- A. Request a free annual report from the Internal Revenue Service.
 - B. Track monthly income and spending in a notebook or spreadsheet.
 - C. Get help by hiring someone.
 - D. Open a checking account at a bank and review the monthly statements.
34. People in the U.S. spend 5.5% of their income on food consumed in the home and spend 4.5% of their income on food outside of the home. What does this say about how they spend their money?
- A. They have little value for healthy food.

- B. Eating out is less expensive than making food at home.
 - C. They value eating out.
 - D. Food prices are high since supermarkets are profitable.
35. Which of the following is an advantage of people increasing their personal savings?
- A. The economy grows faster when people save money rather than spend it.
 - B. The government benefits from taxes on savings.
 - C. People are better able to afford items such as a future down payment on a home.
 - D. Banks can use the money from deposits to make profits on loans to the public.
36. Which of the following risks can a person cover by having insurance to protect against financial loss?
- A. A flood in a home.
 - B. A traffic violation.
 - C. A divorce.
 - D. Losing a job.
37. What is an acceptable way for people to lower the cost of their automobile insurance?
- A. Cancel their insurance after their car is registered.
 - B. Use the car for work as well as for pleasure.
 - C. Have their car inspected by a mechanic certified by the state.
 - D. Increase the amount of the deductible.
38. When making online transactions, it is important to minimize the threat of identity theft by
- A. using a unique password and changing it frequently.
 - B. using a desktop computer instead of a mobile device.
 - C. shutting down the computer and erasing the memory each day.
 - D. doing all online transactions from home using Wi-Fi.
39. The premium of a person's life insurance policy is likely to be more expensive as a result of
- A. traveling.
 - B. smoking.
 - C. where the person lives.
 - D. the person's net worth.
40. What kind of insurance is extremely important for a single 25-year-old person to buy?
- A. Renters insurance.
 - B. Long term care insurance.
 - C. Health insurance.
 - D. Life insurance.
41. Which of the following is an example of insurance fraud?
- A. A person's claim that another car hit his car causing an injury that existed before the accident.
 - B. A person with his own insurance drives a rented car.
 - C. A person installs a radar detector in his car.
 - D. A person excludes his daughter living at college out-of-state as a driver on his car insurance policy.
42. To reduce the cost of homeowners or renters insurance, policy holders should
- A. install an alarm system for fire and burglary.
 - B. recycle paper and plastic trash daily in the same trash bin.

- C. keep emergency numbers for police, fire, and ambulance on the refrigerator.
D. install a backup generator for electric power.
43. Which of the following is included in a standard homeowners or renters policy?
A. Disability insurance.
B. Appliance repairs.
C. Theft of personal property.
D. Damage from earthquake.
44. Which of the following is likely to **DECREASE** the auto insurance premium on a policy?
A. Taking a drivers education course.
B. Having a car accident.
C. Adding a driver to an existing policy.
D. Getting a parking ticket.
45. A woman parked her car and went shopping. When she returned she discovered that her car was damaged while it was parked. When filing a claim, what does she have to provide to her insurance company?
A. The name of the person who damaged the car.
B. The Social Security number of the person who damaged the car.
C. Proof that she has enough money to pay for the deductible.
D. A copy of the police report that she got from the police department.
46. Which of the following government programs would provide partial income to support someone who is permanently disabled?
A. Affordable Care Act.
B. Americans with Disabilities Act.
C. Social Security.
D. Meals on Wheels.
47. The purpose of long-term care insurance policies is to pay for
A. catastrophic medical conditions after age 85.
B. funeral expenses.
C. medicine for people age 65 and older.
D. assisted living and nursing care costs.
48. Banks and other companies are willing to issue credit cards because these financial institutions
A. make money on the interest they charge on unpaid balances.
B. own credit counseling agencies.
C. are required by recent laws to make money available.
D. are responsible for keeping inflation low.
49. "I pay my credit card bill in full five-to-seven days before the due date each month!"
Someone who does this is likely to have
A. a very high interest rate.
B. adequate insurance coverage.
C. monthly dividends from bonds.
D. an excellent credit score.

Answer Question 50 based on the image of the card below:



50. Based on the information on this card, it is
- A. a debit card.
 - B. provided by Simplicity.
 - C. a store gift card.
 - D. provided by Citi, a bank.
51. Ms. Jones graduated from college when she was age 30. She had a \$10,000 college loan. She did not pay back the loan and still owes \$8,000. Now she is 60 years old. Ms. Jones needs to know that
- A. if a student loan is unpaid, it may result in the borrower not being able to get Social Security retirement checks.
 - B. many people do not pay the full amount of their student loans because they filed for personal bankruptcy.
 - C. since this happened more than ten years ago, the loan does not have to be repaid.
 - D. the government will require monies in an investment account be used to repay the loan.
52. A person has three credit cards with a total of \$15,000 owed and a credit score of 500. She does not have a savings account and wants to improve her credit score and decrease her debt. What is the **first** thing she should do to address her problem?
- A. Ask her employer for a payday loan to help pay the outstanding debts.
 - B. Choose the credit card with the highest interest rate and only pay that card's invoice monthly.
 - C. File for bankruptcy if she is less than 30 years old.
 - D. Contact credit card companies to negotiate a lower interest rate and a repayment plan.
53. A person's credit report includes his
- A. medical history and driving record.
 - B. history of loans and credit activities.
 - C. retirement and savings account balances.
 - D. cost of insurance premiums and amount of federal tax refunds.
54. Negative or inaccurate information on a person's credit report will make it difficult for a person to
- A. travel.
 - B. retire.
 - C. get a home mortgage.
 - D. apply for life insurance.

55. Which of the following federal laws protects borrowers?
- A. Social Security Act.
 - B. National Privacy Act.
 - C. Truth in Lending Act.
 - D. Homeland Security Act.
56. Which of the following is an example of collateral?
- A. Real estate.
 - B. Personal check.
 - C. Bank credit card.
 - D. Term life insurance.
57. One example of using credit responsibly is
- A. charging an expensive item that is on sale for one day when cash will be available next week.
 - B. paying less than the minimum balance on a monthly bill.
 - C. buying a leather coat with the intention of paying the cost over four years.
 - D. charging wanted items by purchasing them online.
58. Credit card transactions are considered a form of borrowing because
- A. consumers need to sign the receipt given by the store.
 - B. credit results in the money charged being immediately deducted from a bank account.
 - C. the credit limit is based on a person's ability to repay debt.
 - D. someone else's money is being used in exchange for the promise of repaying in the future.
59. Review the following information on financing a new car that costs \$25,000 with a 48-month (four year) loan.

Person	Down payment	Bank Loan	Dealer Loan	Monthly Payment
25 Year old Male	\$5,000	5%		\$460
30 Year old Female	\$5,000	6%		\$470

- The 30-year-old female's monthly payment of \$470 is **more** than the 25-year-old male's monthly payment of \$460 because of the
- A. applicant's age.
 - B. gender discrimination.
 - C. interest rate.
 - D. down payment.
60. In order to be sure that the checking or savings account linked to the account owner's debit card has sufficient funds for purchases, banks offer "easy-access" credit as an option. Which of the following explains how "easy access" credit works?
- A. A person monitors his bank account balances and can use a computer to transfer funds.
 - B. The bank provides a line of credit to automatically replenish bank account balances.
 - C. The bank sends a text message to the debit card holder when the linked account balance is low.
 - D. A person has all of her credit cards linked together and, therefore, money is always available.

61. A major difference between leasing and borrowing to buy is that
- A. Leasing is less expensive for the consumer.
 - B. Leasing does not require that the consumer give a down payment.
 - C. Borrowing requires the consumer to be at least age 25.
 - D. Borrowing requires the consumer to make monthly payments with interest.
62. A credit card offers a grace period of 21 days, which mean that the card holder
- A. needs to have the payment posted by the 21st day or a late fee will be charged.
 - B. can miss one payment per year if all other monthly payments that year are made by the 21st day.
 - C. receives rewards points if the bill is paid before the 21st day.
 - D. can have cash advances that are interest-free during the 21 days.
63. When a credit card company contacts a person's employer or asks for a copy of a school transcript with grades, they are generally evaluating a person's
- A. capacity.
 - B. character.
 - C. collateral.
 - D. conditions.
64. The feature of a fixed-rate mortgage loan that is it different from an adjustable-rate mortgage loan is that the fixed-rate mortgage has
- A. a down payment on the loan is 30% of the selling price of the home.
 - B. a down payment on the loan is only 5% of the selling price of the home.
 - C. an interest rate that remains the same throughout the length of the loan.
 - D. an interest rate that changes annually throughout the length of the loan.
65. How does having a loan to pay for a college education affect a person's net worth?
- A. Education is an investment in the future which increases net worth.
 - B. Only the amount of interest affects net worth.
 - C. Private bank loans decrease net worth while federal loans do not.
 - D. Net worth decreases by the amount of the total loan plus interest.
66. A neighborhood restaurant wants to add a place for outdoor dining. In order to do this, the owners need a loan of \$50,000. Which of the following can influence getting a new loan approved?
- A. Using a personal three- year car loan as collateral for a business loan.
 - B. Asking for a loan from family and friends.
 - C. Using a good credit history from a business credit card to get a business loan.
 - D. Getting a cosigner on the loan.
67. Anthony's friend Donald asks to borrow Anthony's computer for the weekend while Donald's computer is being repaired. What is **most** important for Anthony to consider before allowing Donald to borrow the computer?
- A. The length of time Donald and Anthony have been friends.
 - B. Donald's credit score.
 - C. The items that Donald has that Anthony might need to borrow.
 - D. Donald's level of responsibility and honesty.
68. Lilia borrows a diamond necklace from her friend Jane for a special event. The necklace is very expensive and is insured on Jane's parents' homeowner's policy. When the necklace is returned, Jane notices that a diamond is missing. Jane should handle this situation by
- A. calling the insurance company and filing a claim.

- B. telling her parents that she lost the diamond somewhere in their home.
 - C. informing Lilia that she is responsible and asking Lilia to have the necklace repaired.
 - D. using Lilia's ATM pin to withdraw money from Lila's account to replace the missing diamond.
69. The Fair Credit Reporting Act (FCRA) is a major law that protects consumers who apply for loans and people using credit. Which of the following is one of the **major** rights of consumers under this law?
- A. Consumers must be told why their loan application was denied.
 - B. Consumers cannot be denied loans because of their criminal record.
 - C. Credit card companies cannot charge fees in excess of \$50.
 - D. Credit can only be issued to citizens of the US.
70. One of the reasons lenders review the credit history of individuals applying for credit and loans is to determine
- A. place of residence.
 - B. the amount of life insurance coverage.
 - C. how much is owed.
 - D. health history.
71. A person received a free copy of her credit report and found inaccurate information. What should she do?
- A. Contact her employer about the mistake
 - B. Inform the Consumer Financial Protection Bureau (CFPB).
 - C. Send a letter to the Internal Revenue Service (IRS) about her problem.
 - D. Write to the credit-reporting agency about the mistake.
72. The purpose of bankruptcy laws is to
- A. teach people who cannot control their spending a lesson.
 - B. to help those in financial trouble with government money.
 - C. protect people from losing all of their property to creditors.
 - D. separate "good debt" from "bad debt."
73. The Federal Trade Commission provides information to consumers about
- A. interest rates.
 - B. international trade laws.
 - C. identity theft.
 - D. bankruptcy.
74. How does credit help borrowers?
- A. Borrowing is not on a person's credit report until all payments are made.
 - B. A person can buy a big ticket item on credit and use it while paying for it.
 - C. Buying on credit helps a person to increase her credit score.
 - D. A person who borrows can satisfy her wants and needs without concern.
75. Which of the following is an agency that helps people with credit problems or debt?
- A. Chamber of Commerce.
 - B. Governor's Office.
 - C. Consumer Protection Agency.
 - D. Small Business Administration.
76. A young man owes \$6,000 in income taxes that was due three years ago. To collect this debt, the Internal Revenue Service is able to
- A. take possession of property equal to the unpaid balance.

- B. notify the police to make a citizen's arrest.
- C. garnish his salary.
- D. suspend voting rights.

77. Four friends each deposited \$1,000 in a savings account at their local bank on the same day. After two years, from the date of deposit, the friend who had the most amount of money is the one whose bank compounded interest

- A. daily.
- B. weekly.
- C. monthly.
- D. yearly.

78. A person bought 100 shares of stock for \$6,000. After selling these 100 shares for \$10,000, the investor is

- A. prohibited from buying stocks for a period of six months.
- B. required to report the sale to the Securities and Exchange Commission (SEC).
- C. responsible to report the \$4,000 profit on his federal tax return.
- D. unable to collect the money until a broker finds a buyer.

Review the information below before answering Question 79.

Boy: Age 10	Deposited \$1,000 earning 4% Interest	Value at age 20 = \$1,492.00
Boy: Age 17	Deposited \$1,000 earning 6% Interest	Value at age 20 = \$1,197.00

79. The ten-year-old boy has more money in his savings account because the money was deposited

- A. in an insured bank account.
- B. at an earlier age.
- C. in an account with a higher interest rate.
- D. in an account at a credit union.

80. An individual with a high tolerance for risk and volatility in financial markets would be most comfortable with more than 50% of his investments in which of the following?

- A. Insured bank savings accounts.
- B. Government bonds.
- C. Mutual Funds.
- D. Common stocks.

81. Which of the following is an example of how a stock may provide income?

- A. Insurance.
- B. Dividends.
- C. Principal.
- D. Premium.

82. An investor bought 100 shares of stock in a technology company for \$3,000 and three years later, sold all the shares for \$4,000. The \$1,000 profit is known as

- A. diversification.
- B. a yield.
- C. a capital gain.
- D. dollar cost averaging.

83. The amount of savings in a bank account that is protected by the Federal Deposit Insurance Corporation (FDIC) is

- A. \$ 50,000.
- B. \$100,000.
- C. \$250,000.
- D. \$500,000.

84. A woman invested \$10,000 in a corporate bond offered by a technology company. The interest rate on the bond is 6% and the bond matures in seven years. The company went bankrupt three years after the bond was bought. What happened to her investment?
- A. She probably lost most of the \$10,000 because corporate bonds are not insured.
 - B. She was paid interest for the full seven years because the bond was bought through a broker.
 - C. The bond was probably converted into stocks.
 - D. \$10,000 was deposited in a retirement account.
85. Which of the following people can take the **greatest** amount of investment risk?
- A. A married couple who have teenage children and a high-interest mortgage loan on their new home.
 - B. A single person with a full time job earning minimum wage.
 - C. An elderly married couple whose only income is social security.
 - D. A young college graduate who is single and has a leadership position in a profit-making company.
86. An investor who is interested in diversifying his stock portfolio should buy
- A. speculative stocks, such as new companies without a history of profits.
 - B. stocks in different sectors, such as health care, finance and technology.
 - C. stocks offering a fixed rate of return.
 - D. stocks with high dividends.
87. Investment education help investors avoid scams and protect themselves against fraud. Which statement is a red flag that something is wrong?
- A. The stocks being recommended all have some risk.
 - B. Do research before purchasing an investment product.
 - C. This investment is guaranteed to make a profit.
 - D. The return on this investment may be high.
88. When people invest money in stocks, bonds, or real estate, they are
- A. insuring that they get a steady source of future income.
 - B. letting their assets work for them to create more money.
 - C. preventing an increase in inflation.
 - D. taking advantage of another person's wealth.
89. Which of the following is a correct calculation of simple interest on \$1,000 at the end of one year?
- A. 3% = \$30 or \$1,030.00
 - B. 4% = \$400 or \$1,400.00
 - C. 5% = \$150 or \$1,150.00
 - D. 6% = \$ 600 or \$1,600.00
90. When an employee is vested in his retirement plan, it means that the employee is now entitled to
- A. all of the money contributed by the employer to the pension.
 - B. only the money that he contributed to the pension.
 - C. contribute any amount of income to the pension.
 - D. begin to collect pension checks in ten years.

91. What is the difference between a stock and a bond?
- A. Stockholders have voting rights and bondholders do not.
 - B. Bondholders own part of the company and stockholders do not.
 - C. Stocks can be sold if owned for 30 days and bonds cannot.
 - D. Interest is paid on bonds daily and on stocks quarterly.
92. In addition to a Social Security number or taxpayer ID, which of the following documents will a bank require to open a new account?
- A. Driver's license and a copy of a recent credit report.
 - B. Proof of citizenship and a recent medical examination.
 - C. Photo identification and proof of address.
 - D. Name of employer and a character reference.
93. In 2010, the U.S. Congress established The Consumer Financial Protection Bureau (CFPB). The purpose of this organization is to
- A. protect consumers against abusive credit practices, promote financial education, and research financial behavior.
 - B. set annual interest rates to prevent inflation, regulate banks nationally, and protect against identity theft.
 - C. insure stocks against loss, investigate investor complaints, and certify stockbrokers.
 - D. enforce bank regulations, advocate loans for the poor, and audit bank records.
94. How are stocks on the secondary market bought and sold?
- A. For every stock that is bought there needs to be a seller of the stock.
 - B. The New York Stock Exchange does the processing for all stock purchases.
 - C. Stocks can only be bought and sold in a package costing a minimum of \$10,000.
 - D. Stocks are sold after the investor gets permission from the public company.
95. Which of the following is an important benefit of long-term investing in the stock market?
- A. Getting to know a financial advisor well over many years.
 - B. Historically, investing in stocks for a long period of time generates higher returns than savings accounts.
 - C. There are no fees for investments held for longer than five years.
 - D. After ten years, profits on investments in the stock market are protected from price fluctuations.
96. What is the main function of the Securities and Exchange Commission (SEC)?
- A. To combat investment fraud and protect investors.
 - B. To regulate the credit industry.
 - C. To stop identity theft and computer hacking.
 - D. To collect taxes on the profits people receive from selling their stocks.
97. A person, who is reluctant to invest in stocks because she has a low tolerance for risk, should consider
- A. trading stocks frequently to avoid taxes.
 - B. buying on margin by borrowing from the brokerage firm.
 - C. choosing speculative stocks since they pay interest.
 - D. buying mutual funds because they are professionally managed.
98. Which of the following is an advantage of opening a Roth Individual Retirement Account (IRA) as a young person with a full time job?
- A. The money in the account can be used to pay income taxes.
 - B. It is a convenient way to save money for a vacation.

- C. The money can be used to pay credit card debt if monthly expenses are high.
- D. Some of the money can be used for buying a qualified first-time home.

99. Which of the following investments provides the **greatest** amount of liquidity?

- A. Mutual Funds.
- B. Real Estate.
- C. Certificate of Deposit (CD).
- D. Collectibles.

100. One reason that young people benefit from having a tax advantaged Traditional Individual Retirement Account (IRA) savings account for retirement is that

- A. Their income is generally lower during retirement years resulting in a lower tax bracket.
- B. They can deposit any amount of their income into these accounts while working.
- C. They generally get a debit card for withdrawals.
- D. The management fees for these accounts are lower during their retirement years.

Exam Key

1. C

Increase her knowledge or improve skills

Knowledge Statement: Workers can improve their ability to earn income by gaining new knowledge, skills and experiences.

Rationale: Knowledge and experience are valued by most employers and are often rewarded with a promotion, salary increase or merit pay. Knowledge can be gained by taking additional courses, matriculating in a degree, taking professional development courses, and leadership training. In addition to knowledge and experience, interpersonal skills, a strong work ethic, and organization may also lead to recognition and additional income.

2. D

Accepting the risk of financial loss if unsuccessful

Knowledge Statement: Entrepreneurs, who work for themselves by starting new businesses, hope to earn a profit, but accept the risk of a loss if unsuccessful.

Rationale: Entrepreneurs knowingly take on the risk of losing money if unsuccessful because they hope to be successful by having a profitable business. Some entrepreneurs will have money to cover expenses for at least three years. They can limit their financial loss of personal assets by opening a limited liability company.

3. C

Interest from bank accounts

Knowledge Statement: Income can be earned or unearned.

Rationale: Earned income is money received from a salary and/or tips in exchange for work. The Internal Revenue Service (IRS) determines the definition of earned and unearned income because it is taxed differently. Unearned income is money received from sources other than work and it may or may not be taxed. Unearned income includes interest and dividends, unemployment compensation, Social Security benefits, and money from a retirement account. Paid vacation days are NOT income but are a benefit from an employer in exchange for work.

4. C

Gross Income – salary before taxes

Knowledge Statement: Wages and salaries minus payroll deductions equal net income (take-home pay).

Rationale: Gross income is the salary a person is paid before his taxes and deductions. The net income is the amount of the paycheck the employee receives after deductions which usually includes taxes, medical insurance, retirement accounts, and miscellaneous deductions such as union dues.

5. A

Opening a 529 College Savings Plan in the first year of a child's birth

Knowledge Statement: Early planning can provide more options to pay for post-secondary training and education.

Rationale: The cost of college tuition at either a public or private college is more than what most people can afford as part of their monthly budget. Although scholarships, work-related programs, and loans are ways to supplement college expenses, the best way is to plan for college as a long-term financial goal. A 529 College Savings Plan can be opened for a child after birth. Each state has different regulations for 529 plans regarding how the money is invested, but in all cases the money is considered tax-free. Mutual funds are often one of the investment choices for a 529 plan but investing in mutual funds outside of a College Savings Account plan is taxed.

6. D

A low number of available qualified workers looking for a job

Knowledge Statement: The wages or salaries paid for a given job depend on a worker's skills, education and the supply of and demand for qualified workers.

Rationale: Supply and demand of qualified workers for a specific type of job is a determining factor in the salary being offered to job applicants. When companies are expanding, they need employees with specific skills and a level of experience. As the unemployment rate drops, skilled workers are in short supply and wage/salary offers increase to attract workers from one company to another. College graduates with the skills needed often lack the experience and their wages will not increase until they can perform at the level needed. For example, although the current rate of unemployment is around 5%, the unemployment rate for people with a college education is around 3%.

7. A

Mr. Chu

Knowledge Statement: Deductions, exemptions and tax credits reduce tax liability.

Rationale: A tax exemption, also known as an allowance, reduces the income that is taxed. The Internal Revenue Service allows employees to take one exemption for the employee and his dependents that he supports financially. This usually includes a spouse, each child and sometimes parents.

8. C

A profession or vocation requiring special education or training

Knowledge Statement: Explain the difference between a career and a job.

Rationale: A "job" is considered a employment to earn money and a "career" is considered the pursuit of a life-long ambition. Education may be considered as a career but a substitute teacher or an aide is consistent with the definition of a job. Individuals may have several jobs in their career path and a career often involves some additional training and a desire to make a contribution to society.

9. A

They are more productive because they have better writing, reading, and thinking skills

Knowledge Statement: Give an example of how education and training can affect lifetime income.

Rationale: Although students learn the skills of reading, research, writing, and thinking in high school, the additional training and experience in college can result in a person being offered a higher salary or hourly wage after graduation. An important part of the application and interview process for employment is a person's work ethic, communication skills, ability to analyze data or offer solutions to problems, and thinking. Although high school students may have some of these qualifications, the data indicates that students with a minimum of two years of college education are paid higher salaries than students with a high school diploma.

10. A

After graduation, have a budget that includes money for paying more on the loan than is required monthly

Knowledge Statement: Devise a strategy to minimize the costs of postsecondary education.

Rationale: Interest on loans accumulates over time and a loan with a low interest rate of 4% will result in a repayment that is greater than the amount of money borrowed. If possible, it is important to pay more than the monthly amount to reduce the principal of the original loan. It may be possible to refinance a loan at a lower interest rate, but the interest rates on credit cards are substantially higher than a government or bank loan for education. Student loans are not forgiven if a person files for personal bankruptcy. There is some loan forgiveness when a college graduate works at qualified organizations.

11. B

Social Security number

Knowledge Statement: Complete an age-appropriate, part-time job application.

Rationale: Income taxes and Social Security taxes (FICA) are paid to the government out of an employee's payroll. Employers need the Social Security number of someone they hire and are likely to request this on the application form. People without citizenship are also eligible for a Social Security number and benefits

providing they entered the country legally with a visa or as a refugee. Employers may also conduct a criminal background and credit history check on potential candidates and they must ask for permission to do this. Medical records are private and it may violate anti-discrimination laws if a qualified person is denied a job because of a medical condition or pregnancy.

12. B

Loss of the chance for the money to grow in value

Knowledge Statement: Every spending decision has an opportunity cost.

Rationale: There is an opportunity cost for the decisions we make. In this case, if the person sells her stocks she is giving up the opportunity for the investment to grow in value building her wealth in order to go on vacation. If she keeps her stocks, the opportunity cost is forgoing the vacation.

13. C

Spending less than total income each month

Knowledge Statement: A key to financial well-being is to spend less than one earns.

Rationale: Spending less on expenses, getting a raise, starting a business and earning a profit, or having income from investments are ways to create discretionary income. Discretionary income is usually described as the amount of an individual's income that is left for spending, investing or saving after taxes and personal necessities (such as food, shelter, and clothing) have been paid. Discretionary income includes money spent on luxury items, vacations and non-essential goods and services.

14. A

Return the product with a receipt

Knowledge Statement: Buyers may resolve problems with goods and services through formal complaint procedures.

Rationale: After purchasing a product, it is possible that it needs to be returned. Although a product may not be damaged, a person may want to return it because it was too expensive, is not appropriate for home or apartment use, or does not fit. At the time of purchase it is important to understand the terms of the return policy. Most stores will ask that the product is returned in good condition with a receipt of some evidence of proof of purchase.

15. D

Becoming a parent

Knowledge Statement: Periodic review of financial goals and actions is important as life circumstances change.

Rationale: A person's budget and financial plan is subject to changes as a person has children, changes jobs, attains goals and has unexpected sources of money or expenses. Becoming a parent is a life changing event in many ways but from a financial perspective it is estimated, by the U.S. Department of Agriculture, that the cost of raising a child is \$245,000 for a middle income family through age 18, which does not include the cost of college. The average cost per child per year is \$13,600.

16. D

Monitor credit card expenses and debt

Knowledge Statement: Analyze money-handling decisions that young adults commonly face.

Rationale: At the age of 18, young adults become independent adults who are legally responsible for their finances and decisions. It is important to keep track of expenses, pay bills on time, and avoid debt.

Although there are software programs and apps to assist with money management, young adults can also write down the amount of money they spend on everything to understand how they are using their money.

17. B

Determining which bike is safe and affordable for the intended user

Knowledge Statement: Identify reliable sources of information when comparing products such as a bike.

Rationale: Before making a decision about purchasing an item, it is recommended to compare prices and review the research on the product. There are many styles of bicycles, sneakers, and mobile devices. In the example above, a person does not “need” a mountain bike with many different gear settings to travel the short distance of a few miles to school or work. As a consumer, it is helpful to prioritize needs and evaluate the safety, durability, and cost of repairs before making a purchase.

18. B

Whether the person has a license or certification

Knowledge Statement: Summarize factors to consider when selecting a professional financial advisor.

Rationale: It is recommended to interview and conduct a background or reference check on a financial planner before sharing personal financial information with this person. Some financial planners may not be licensed or have taken courses or certification tests for a considerable period of time. One should always use caution in selecting a financial planner who is unsolicited or recommended at a seminar a person is invited to.

19. C

Estate planning that includes a will

Knowledge Statement: Explain why an individual or household may want to consult with an attorney for financial advice or representation.

Rationale: In addition to considering information from a financial planner, it may be helpful to have the perspective of a lawyer. The area of writing a will and planning how to distribute a person’s estate (property) or inheritance may involve technical areas requiring the advice of an expert. Elder law, tax law, and health care law are highly specialized areas.

20. B

Responding to an email from an unknown sender

Knowledge Statement: Give examples of behaviors that make consumers vulnerable to fraud.

Rationale: There are many safeguards to be aware of regarding people who try to steal private information by phishing, hacking, and scamming. One of the most important strategies for protecting personal information from identity theft is to ignore and delete unsolicited emails and text messages and to hang up on unsolicited phone calls. When conducting financial business online, such as paying taxes, credit card bills and checking bank statements, use a secure network from your home computer.

21. C

Use of an automobile

Knowledge Statement: Describe how inflation affects financial decisions, including the price of goods and services.

Rationale: The economy is based on supply and demand for products. There is a relationship between the miles people drive and the price of gasoline. In the example above, the inflated price of oil and gasoline at 5% a year is the result of increased demand and having to produce more oil and gas by paying workers. Although there is a relationship between automobile repairs and an increase in miles driven, this is not a direct relationship and repairs will decrease as the higher cost for gasoline results in fewer miles driven. When the monthly budget for transportation is greater than the budgeted amount, money needs to be reallocated from another budget category or savings.

22. D

Contact all of the colleges to explain the current financial situation to see if they can help

Knowledge Statement: Analyze how discussing important financial matters with household members can help reduce conflict.

Rationale: When there is an unexpected decrease in a family’s finances, it is recommended to discuss the situation as a family. In this situation, the student was accepted to several prestigious universities and to decline the acceptance offer will have a lasting consequence while the unemployment may be temporary.

Colleges have resources and it is recommended to consult with them first before considering other alternatives with missed opportunities.

23. B

Credit or Debit card number

Knowledge Statement: List types of personal information that should not be disclosed to others in person or online.

Rationale: A person's Social Security number provides access to various sources of personal and financial information. It is often required for receiving a check, college application, and medical insurance claims. It is recommended to provide this information in the secure location of an office and not by a text message, email, or over the phone to someone you cannot trust or do not know.

24. B

Executor

Knowledge Statement: List the main components of a simple will.

Rationale: In the language of a will, the executor named will guarantee that the intentions of the person who signed the will are completed in the way the will defines them. The executor will also need to handle outstanding expenses and taxes, have the will probated in a local court and convert undesignated assets to cash before distributing the inheritance to others.

25. C

Lower the thermostat for heat when no one is home

Knowledge Statement: Many factors and experiences, such as role models and peer pressure, affecting spending patterns.

Rationale: *For this question, the best recommendation is to lower the thermostat to save money on heat and in the summer to raise the thermostat to save money on air conditioning costs.*

26. D

3 to 9 months of living expenses

Knowledge Statement: A spending plan (budget) is a guide to help people balance money coming in (income) and money going out (expenses).

Rationale: *Unexpected things, such as the loss of a job, a major home expense, or medical expenses, can put an individual or family into debt. The current guideline is for an emergency savings account between three and nine months of living expenses. This is in addition to savings for college, retirement, and other intermediate or long-range goals.*

27. A

An excise tax on tobacco

Knowledge Statement: People are required to pay taxes, for which they receive government services.

Rationale: *Excise taxes increase the price of a product. The purpose of adding an excise tax on tobacco, for example, is to discourage people from using this product.*

28. A

An increase in personal debt

Knowledge Statement: Spending behaviors and habits affect personal satisfaction.

Rationale: *Impulse shopping is often very costly and a reason why people overspend. When credit or debit cards are used for impulse purchases, there is a risk of having a credit card bill that is higher than the budget permits for this expense. Interest payments and late fees are costly and make it difficult for people to pay their bills.*

29. A

There may be insufficient funds in the bank account

Knowledge Statement: Some payment methods include hidden fees and the risk of insufficient funds being available.

Rationale: Although people may prefer to use a debit card instead of cash or a credit card when shopping locally, the risk of a debit card is having insufficient funds in the account. The balance posted for a checking or savings account may not be accurate since checks take time to clear. Stores prefer a debit card payment to a credit card because they receive the money at the time of the transaction and do not need to wait for payment from the credit card company at a later date.

30. D

Consumers will have less money for spending

Knowledge Statement: Inflation reduces consumer purchasing power over time.

Rationale: Inflation is defined as the increase in the price of a product or service without improving the quality of the product. People with fixed incomes or wages that increase less than the rate of inflation will see that they have less money for spending over time. For example, a person with a savings of \$1,000 will earn \$200 in interest at 2% when the prices of goods and services for the same time period increased \$400.

31. C

Gold coins

Knowledge Statement: Wealth consists of accumulated assets that represent net worth.

Rationale: Net worth is determined by subtracting liabilities (what is owed) from assets (items owned that have a monetary value). Gold coins, jewelry, and collectibles are worth money and can be sold for cash. The value of a home or property that is owned is counted as an asset while the mortgage or home equity loan is considered a liability, which reduces the value of the asset. A safe deposit box is rented and health insurance is a product without any cash value.

32. A

A donation to a charitable organization

Knowledge Statement: Certain expenses, such as home loan interest and charitable donations, might be tax deductible.

Rationale: The federal government allows people who file a 1040 Form to deduct some of their expenses from their gross income. Examples of deductions include charitable gifts, property taxes, interest paid on a home mortgage and equity loan, contributions to some retirement and college savings accounts, and children, who are dependents. The cost of insurance, utilities, and credit card fees are not deductions.

33. B

Track monthly income and spending in a notebook or spreadsheet

Knowledge Statement: Create a way to keep track of money spent.

Rationale: Although there are apps and computer software to track how money is spent and managed, the old-fashioned method of keeping fairly accurate records is useful for people. If a person only keeps a record of their checks and credit card expenses, they are likely to miss the many cash expenses for food, local transportation, and social visits with friends.

34. C

They value eating out

Knowledge Statement: Assess how spending priorities reflect goals and values.

Rationale: People in the United States value eating out. The Bureau of Labor Statistics releases an annual report of the spending and savings activities and reports the changes from the previous year. It is less expensive to prepare meals at home because when consuming food outside of the home restaurants need to be profitable, pay employees, and have fixed costs of rent, taxes, and utilities in addition to the cost of food.

35. C

People are better able to afford items such as a future down payment on a home

Knowledge Statement: Compare the advantages and disadvantages of saving for financial goals.

Rationale: The leading advantages for saving money is to achieve goals. Also, a person has greater control over decisions involving money, less stress, and more financial security. Whether the interest rate is low or high on savings, it is necessary to save for big-ticket items such as a house, car, college education, wedding, and retirement.

36. A

A flood in a home

Knowledge Statement: Risk of financial loss is a reality for all consumers.

Rationale: Everything in life involves some risk but damage to possessions from a flood, fire, or earthquake can be devastating. A traffic violation, losing a job and divorce all involve the loss of money and the risk cannot be transferred to an insurance company. It is important to document with photographs and receipts the possessions in a home that are insured to receive reimbursement in the event of a loss from flood, fire, or earthquake.

37. D

Increase the amount of the deductible

Knowledge Statement: People must weigh the cost and benefits of insurance coverage.

Rationale: *There are many ways to reduce the cost of automobile insurance. Good grades, marriage, experience, a driver education course, high credit score, and being age 25 and older are all factors that can lower the cost of insurance. One of the ways to receive the largest reduction is to take a higher deductible and therefore, accept some of the risk instead of transferring it to the insurance company.*

38. A

Using a unique password and changing it frequently

Knowledge Statement: Online transactions and careless handling of documents can make consumers vulnerable to privacy infringement and identity theft.

Rationale: Identity theft is an increasing problem as hackers have gained access to personal information in computers of large corporations and government files. Encryption software, a unique password that is changed frequently, and carefully screening unsolicited phone calls and emails are effective ways of reducing the risk of identity theft. Although using Wi-Fi and mobile devices may have a higher risk than conducting online transactions from home, it is the network or unprotected data in a mobile device that is lost or stolen that may result in the misuse of personal information.

39. B

Smoking

Knowledge Statement: Discuss factors that affect insurance premiums.

Rationale: Life insurance rates are determined by the amount of risk to an insurance company. People with a history of smoking, and even people who live with someone who smokes, are at a higher risk of sickness and death than non-smokers. Other factors that may increase life insurance premiums because of risk are age, hypertension, diabetes, weight, and some occupations. This is why some people consider applying for life insurance at a younger age when they are in excellent health.

40. C

Health insurance

Knowledge Statement: Identify common types of risks and basic risk management methods.

Rationale: Under the terms of the Affordable Care Act, individuals are legally required to have health insurance. They can be covered on a parent policy until age 26, at which time they are responsible for their own health care insurance. Life insurance and homeowners or renters insurance are important to have but

not required by the law. Long-term care applies to persons who may need an aide or placement in a residence for assisted or nursing care.

41. A

A person's claim that another car hit his car causing an injury that existed before the accident

Knowledge Statement: Investigate consequences of insurance fraud.

Rationale: Insurance fraud involves any claim for insurance payments that is inaccurate, incomplete, misrepresented or false information on an insurance application. Examples of fraud include not registering a car, not reporting drivers in the home, filing for unrelated medical claims, and dumping a car and reporting it stolen. Many insurance policies protect licensed drivers of rented cars, radar detectors are illegal in some states and a violation which is separate from insurance fraud, and many families can reduce the amount of car insurance premiums when a young driver attends college more than 250 miles from home.

42. A

Install an alarm system for fire and burglary

Knowledge Statement: List actions that homeowners and renters can take to reduce physical risks to themselves and others.

Rationale: Homeowners and renters should discuss ways to reduce the cost of insurance with their insurance agents. Examples of discounts available are alarm systems, access to a fire hydrant, indoor sprinkler system, excluding some luxury items from insurance, using the same company for auto and home insurance, and higher deductibles.

43. C

Theft of personal property

Knowledge Statement: Categorize the kinds of expenses that typical renters' policies and typical homeowners' policies cover.

Rationale: Fire and theft are common risks for the homeowner, renter and insurance company. A standard policy will include protection from the risk of someone becoming injured, a fire, theft. Insurance from floods and earthquakes are not part of most standard policies and will cost extra money. Disability and life insurance policies are separate from a homeowners or renters policy, although they may be purchased through the same company or independent agent.

44. A

Taking a drivers education course

Knowledge Statement: Justify reasons to use property and liability insurance.

Rationale: There are numerous ways to lower the cost of automobile insurance. People who complete a driver education or accident prevention course have records of being safer drivers than individuals without this specialized training. When there is less risk to the insurance company, premiums are reduced. Other ways to lower the cost of insurance premiums for an automobile(s) include: higher deductibles, safe driving record of multiple years, gender, experience, location, and annual miles driven.

45. D

A copy of the police report that she got from the police department

Knowledge Statement: Demonstrate how to file an insurance claim.

Rationale: When a driver is in an automobile accident the police may or may not be called to the scene. Both drivers need to exchange information about their driver's license, automobile registration, and automobile insurance. A hit and run accident or damage to a car parked on the street or in a parking lot requires the documentation of a police report with details regarding the time and place, a description and pictures of the damage. Then, an insurance claims adjuster will evaluate the damage.

46. C

Social Security

Knowledge Statement: Identify government programs that provide financial assistance for income loss due to illness, disability or premature death.

Rationale: Social Security provides some income to support a person who is permanently disabled and no longer able to work. The Social Security Disability Insurance Act (SSDI) and the Supplementary Security Income Act are the largest sources of federal assistance for people with permanent disabilities and includes those who become blind.

47. D

Assisted living and nursing care costs

Knowledge Statement: Explain the purpose of long-term care insurance.

Rationale: With people living longer, many individuals are experiencing the need for assistance with health care aides, assisted living, and nursing home expenses. Long-term care insurance provides coverage for these expenses, which are thousands and thousands of dollars a month. Some people pre-pay their funeral expenses and Medicare Part D provides some insurance coverage for prescription medications, although secondary insurance to supplement the additional costs is an important recommendation.

48. A

Make money on the interest they charge on unpaid balances

Knowledge Statement: Borrowing money to buy something usually costs more than paying cash because there is a price (interest and fees) for buying on credit.

Rationale: Lenders, such as banks, credit card companies, and stores are willing to offer credit cards to individuals who are considered credit worthy and age 18 or older. Most people do not pay the balance due in full by the end of the month resulting in the credit card company making money by charging interest on the unpaid balance. In addition, when people use a credit card for cash advances, the interest rate is often higher than the amount charged for interest on a purchase. While the interest on a home mortgage or car loan is approximately 5%, the interest on a credit card is around 20% and can be as high as 29.9% on many cards.

49. D

An excellent credit score

Knowledge Statement: Borrowers who repay as promised show that they are worthy of using credit in the future.

Rationale: When a person pays the total amount due on his credit card each month, he will NOT be charged interest because there is no unpaid balance. Most important, he is likely to have an excellent credit score. When a person only pays the minimum amount due or any amount that is less than the total payment, interest will be charged and continues to be charged on future purchases.

50. D

Provided by Citi, a bank

Knowledge Statement: Consumers can choose to borrow from a variety of credit sources.

Rationale: Sometimes changing circumstances affect people's ability to repay what they have borrowed, which can have consequences such as repossession, garnishment, tarnished borrowing reputation and increased credit costs.

51. A

If a student loan is unpaid, it may result in the borrower not being able to get Social Security retirement checks

Knowledge Statement: Sometimes changing circumstances affect people's ability to repay what they have borrowed, which can have consequences such as repossession, garnishment, tarnished borrowing reputation and increased credit costs.

Rationale: Student loans are different than most other loans, especially if they were issued through a government agency. Most student loans must be paid in full, including interest. Many students who graduate college only have enough money for the basic expenses of rent, food, and transportation. This is one reason why the time to maturity for repayment of the loan may not have a fixed time period for payment. Students should research ways in which their loans may be partially forgiven. If a loan remains unpaid, the borrower will not be able to collect his/her social security retirement checks.

52. D

Contact credit card companies to negotiate a lower interest rate and a repayment plan

Knowledge Statement: Consumers with excessive debt can work directly with lenders to regain control, with options that include loan consolidation and renegotiation of repayment schedules, rather than by paying a third-party "credit repair" company.

Rationale: When faced with large outstanding credit card debts, it is best to contact the credit card company and negotiate a payment plan. Possible solutions might be a lower interest rate, paying the principal first on some purchases, or making regular monthly payments over a period of several months or years. It will also be important for the person to avoid further spending on credit.

53. B

History of loans and credit activities

Knowledge Statement: Credit bureaus maintain credit reports, which record borrowers' histories of repaying loans.

Rationale: A credit report includes the history of loans and repayment for each loan. When the loan has been paid in full (closed), it is reported. When payments are missed or late, they are also recorded.

54. C

Get a home mortgage

Knowledge Statement: Negative information in credit reports can affect a person's credit score and financial options.

Rationale: A person's credit history, credit report, and credit score are used to determine loans, interest rates, car insurance rates, and sometimes employment. If a person has negative information on his credit report, lenders will feel less confident and it will be more difficult for the individual to get a home mortgage.

55. C

Truth in Lending Act

Knowledge Statement: Federal and state laws and regulations offer specific protections for borrowers.

Rationale: The Truth in Lending Act was passed by Congress and signed by President Johnson in 1968. It includes consumer protections on clearly stating the interest rate calculations as an Annual Percentage Rate and settling consumer disputes on purchases. If a consumer's credit card is stolen, he is only liable for \$50 in credit card purchases, has the right to cancel a purchase, and may submit a written report of inaccurate information.

56. A

Real estate

Knowledge Statement: Lenders sometimes request collateral to secure a loan.

Rationale: Collateral is providing a lender with the option of keeping or selling property that is owned by the borrower in the event the borrower fails to make loan payments. For example, if a mortgage is not paid, the bank or mortgage lender has the right to auction or sell the home and keep the amount owed to them. A person may offer a private lender a piece of jewelry or furniture as collateral for a small loan.

57. A

Charging an expensive item that is on sale for one day when cash will be available next week

Knowledge Statement: Summarize the advantages and disadvantages of using credit.

Rationale: When a person knows they will be able to pay for a purchase in full before the credit card's payment will be due, it is a wise decision to buy an item that is needed and on sale. When a person has limited available funds and pays less than the required minimum balance he has broken the agreement with the credit card company and is charged a late fee. Late payments are on a person's credit history. Purchasing items that a person wants but does not need, should only be made with a charge card when the bill can be paid in full before the next billing cycle begins.

58. D

Someone else's money is being used in exchange for the promise of repaying in the future

Knowledge Statement: Explain why using a credit card is a form of borrowing.

Rationale: Credit is a loan extended to a person or business, which must be paid back. Credit card companies and banks lend their money in return for the revenue they receive by charging the companies or vendors using them a fee and they also make money on the interest charged for payments that are not received within the terms of the grace period.

59. C

Interest rate

Knowledge Statement: Calculate the total cost of repaying a loan under various rates of interest and over different periods.

Rationale: It is important to understand how interest works when taking out a loan or investing money. A lower interest rate will lower the monthly payments and the total cost of the loan. A larger down payment will make the amount of principal that needs to be borrowed smaller and this will also reduce the total amount to be repaid. An applicant's age and gender do not affect the terms of the loan, providing the applicant is eligible and qualified. Other factors affecting the interest rate are the person's credit history and FICO credit score.

60. B

The bank provides a line of credit to automatically replenish bank account balances

Knowledge Statement: Discuss potential consequences of using "easy access" credit.

Rationale: Easy access credit provides a personal loan that saves a person from worrying about having funds available for everyday purchases. It can be linked to a Checking Account so when a person writes a check or uses a debit card for purchases, the funds are withdrawn automatically from the Easy-Access Line of Credit in increments of \$100 to cover the purchase instead of overdrafting. Since it is a line of credit, the person pays off the loan each month, the funds become available to the person after each payment – similar to a credit card. Rates are usually lower than credit card rates. A person only needs to apply for the loan once.

61. D

Borrowing requires the consumer to make monthly payments with interest

Knowledge Statement: Leasing, borrowing to buy and rent-to-own options have different contract terms and costs.

Rationale: Borrowing to buy a car requires the buyer to make monthly payments that include interest. A down payment is required for both a lease and a car loan, although the amounts may be different. When a person is age 18, they can legally sign a contract for a loan or lease, although if they do not have a good credit history, they will need collateral or someone, such as a parent, to co-sign the agreement. A key advantages of borrowing is that the person is receiving ownership in the car.

62. A

Needs to have the payment posted by the 21st day or a late fee will be charged

Knowledge Statement: Explain how credit card grace periods, methods of interest calculation and fees affect borrowing costs.

Rationale: It is important to understand the Terms of Agreement with a credit card company or bank. The grace period allows for payment to be made for purchases in a timely manner without a penalty, late fee, or charges for interest. When a credit card holder makes a payment for the full balance, there are no charges for interest. The amount of interest depends on the Terms of Agreement and the cardholder's credit history. When only the minimum balance is paid or any amount less than the full balance, interest charges begin to accumulate.

63. B

Character

Knowledge Statement: Categorize the types of information needed when applying for credit.

Rationale: An application for a credit card or loan to a bank, store, or credit card company is carefully reviewed before credit is extended. The application process for a person's character will depend on their age and for a young person with a limited credit history, a school or college may be contacted. When a person is employed, contact with the employer will likely be made. Additional information generally includes personal financial information on bank accounts and investments and the applicant's credit history.

64. C

An interest rate that remains the same throughout the length of the loan

Knowledge Statement: Differentiate between adjustable- and fixed-rate mortgages.

Rationale: It is important to understand the advantages and disadvantages of the terms of a mortgage loan regarding the rate of interest, length of the loan, and terms for paying off the loan. Fixed-rate mortgages charge the same rate of interest for the term of the loan, which may be offered as a 5, 10, 15, 20, 25, or 30-year loan. The longer the time period for the loan, the lower the monthly payment but the greater the amount of interest paid to the bank or financial institution. An Adjustable-Rate Mortgage (ARM) allows for the interest rate to be changed during a specific period of time. It is important to understand the potential for an increased rate of inflation in the economy when applying for an Adjustable Rate Mortgage because this can result in higher monthly payments in the future.

65. D

Net worth decreases by the amount of the total loan plus interest

Knowledge Statement: Explain the effect of debt on a person's net worth.

Rationale: A person's liabilities or debts are subtracted from the total value of assets (what a person owns that has monetary value) to determine their net worth. As a result, student loan debt lowers (decreases) a person's net worth.

66. C

Using a good credit history from a business credit card to get a business loan

Knowledge Statement: Explain how business owners use debt as leverage.

Rationale: It is important to understand how leverage works to a person's advantage when applying for a loan. A person with an excellent credit history should be eligible for the lowest interest rate. It is also important that a person's debt does not exceed their ability to repay the amount of the loan. The owner of a small business may see the potential to make a profit by borrowing money to expand a currently successful business. In the example above, the asset of the profits from the business and the amount of credit available through a credit card or line of equity can be used as leverage to get a second or third loan.

67. D

Donald's level of responsibility and honesty

Knowledge Statement: Describe the qualities that would be desirable in a person who borrows a favorite personal possession.

Rationale: At times, friends and neighbors may ask to use somebody's personal property and even for a short-term loan. Friends may ask to borrow a computer, snow blower, car, luggage, or a vacation home. It may be difficult to make a decision because the property may not be returned in the same condition as it was loaned and a loan may not be paid back as quickly as expected. Trust is an important consideration when allowing friends to use personal property and depending on the request, friends should consider putting an informal agreement in writing.

68. C

Informing Lilia that she is responsible and asking Lilia to have the necklace repaired

Knowledge Statement: Give examples of reasonable conditions to set for the use of borrowed personal property.

Rationale: This can be a difficult situation if both parties did not check the necklace at the time it was exchanged and when it was returned. Any situation involving damage needs to be handled in a timely manner. Although the matter can be reported to the Homeowner's Insurance, there is likely a deductible amount to be paid and the possibility that the annual premium for insurance will be increased. This is why it is best to discuss the situation with the person who borrowed the necklace, request an estimate, and decide the way to resolve the situation.

69. A

Consumers must be told why their loan application was denied

Knowledge Statement: Summarize online information about the Fair Credit Reporting Act.

Rationale: Congress has made laws protecting people from discrimination and making credit card information transparent and understandable. A consumer needs to know the reason why an application was denied so the person can have an opportunity to investigate, appeal, or make a correction. This is why it is important to request annually a free copy of your credit history to check it for errors. It is also important to know if the denial is based on information from an employer or bank.

70. C

How much is owed

Knowledge Statement: Explain the value of credit reports to borrowers and to lenders.

Rationale: Banks and credit card companies review the personal financial information of applicants for credit to be sure they have the capacity to pay debt.

71. D

Write to the credit-reporting agency about the mistake

Knowledge Statement: Explain the rights that people have to examine their credit reports.

Rationale: The information in a person's credit history is accurate only when the data entered is correct and complete. A credit history may have errors for people with common last names, people who have different home addresses, victims of identity theft, and because of data entry errors with social security, and bank and credit account numbers. When there is an error in a credit report, the person needs to contact one of the three credit reporting agencies (Experian, Equifax, and TransUnion) in writing explaining the error and providing documentation for the correct information and request that they share this information with the other credit reporting agencies. The individual with the error can also send a letter to each credit-reporting agency.

72. C

Protect people from losing all of their property to creditors

Knowledge Statement: Investigate the purpose of bankruptcy and its possible negative effects on assets, employability and credit cost and availability.

Rationale: Filing an application for bankruptcy should be considered after all other means for making payments on debt have been tried and after a person has met with a credit counselor. An application for bankruptcy will remain on a person's credit history for a period of up to ten years. The purpose of

bankruptcy laws is to protect a person from losing all of their property or assets and debt counseling is required as part of the application process. There are two paths for personal bankruptcy regarding the liquidation or selling of some of a person's property and having a trustee distribute the money to lenders (Chapter 7) and to negotiate a repayment schedule to lenders over a period of time. (Chapter 13)

73. C

Identity theft

Knowledge Statement: Research online information about consumer credit rights available from the Federal Trade Commission.

Rationale: The Federal Trade Commission is one of the first regulatory agencies established by the federal government to protect consumers from fraud and unfair practices. It has an education program for consumers about scams and ways to avoid identity theft.

74. B

A person can buy a big ticket item on credit and use it while paying for it

Knowledge Statement: Credit allows borrowers to use big-ticket items while paying for them.

Rationale: An advantage of using credit is that a person can purchase something expensive, use the item purchased and pay for the item at a later date. This is especially valuable when a big ticket item such as a refrigerator needs to be replaced quickly.

75. C

Consumer Protection Agency

Knowledge Statement: Research state agencies with responsibility for consumer protection.

Rationale: When a person experiences a credit problem, it is recommended that they first contact in writing the credit card company or bank about the problem. If the problem is not resolved at this level, the second step is to contact the state consumer protection agency. If the situation is not resolved at the state level, then the Federal Trade Commission is the appropriate federal agency to contact in writing.

76. C

Garnish his salary

Knowledge Statement: Describe debtors' and creditors' rights related to wage garnishment and repossession when an overdue debt is not paid.

Rationale: The IRS has the authority to garnish a person's salary and bank account(s) to collect the amount that is due to the government providing they have given the person(s) written notice and the opportunity to appeal their decision. A spouse is also responsible for back taxes even when individual tax reports were filed. The IRS cannot take property from your home or have a person arrested, unless criminal activity or fraud is suspected. The problem with owing taxes to the Internal Revenue Service (IRS) is that interest accumulates on the amount owed. It is important for a person to have his written documentation of all federal and income tax records for income, investments, and deductions.

77. A

Daily

Knowledge Statement: Compound interest is money earned on both principal and previously earned interest.

Rationale: One of the safest ways to increase wealth and take advantage of the time value of money is understanding the difference between simple interest and compounded interest. Simple interest is only paid on the principal amount and is generally paid once a year and compounded interest has a cumulative effect of earning interest on the principal amount and interest already paid. Although interest that is paid monthly and weekly has a benefit, interest that is paid daily offers a depositor the most money over time. Although simple interest of 5% on \$1,000 pays \$50 in interest at the end of the year and \$51 with compounding daily may not seem to be a significant difference, the amount on \$100,000 gives the investor an additional \$127 when compounded daily.

78. C

Responsible to report the \$4,000 profit on his federal tax return

Knowledge Statement: Every investing decision has alternatives, consequences and opportunity costs.

Rationale: A capital gain is a profit made on the sale of stocks, bonds, and mutual funds and a capital loss means the investment was sold for less than the purchase price. A capital gain is reported to the federal government and taxed. A long-term capital gains tax is generally less than a short-term-capital gains tax.

79. B

At an earlier age

Knowledge Statement: An effective way to build wealth is to begin regular investing at an early age.

Rationale: The time value of money uses the advantage of time and young people have this advantage. Even with the higher interest rate of 6%, it will take 11 years (age 28) for the boy who invested at the age of 17 to catch up with the boy who invested at age 10.

80. D

Common stocks

Knowledge Statement: Determining personal risk tolerance for financial volatility and potential loss is an important investment skill.

Rationale: Investments include risks. Even a person with an insured bank account needs to be mindful of the risk of inflation should the rate of return be equal to or less than the rate of inflation. Government bonds are backed by the "full faith and credit" clause in Article IV of the U.S. Constitution and municipal bonds may be backed private insurance or taxes having lower risk. Common stocks are ownership in a public corporation have a substantial level of risk as they may decline in value because of economic conditions, loss of profits, law suits, and poor management.

81. B

Dividends

Knowledge Statement: Savings accounts, bonds, certificates of deposit and dividend-paying stocks are examples of investments that may produce income.

Rationale: Many stocks pay dividends providing income for the investor. In addition to making a profit on the sale of investments, such as stocks, bonds, or mutual funds, it is important to many investors to receive regular "income" from their investment in the form of dividends.

82. C

A capital gain

Knowledge Statement: The earnings from growth investments are realized at the time of sale and may result in a capital gain or loss.

Rationale: Investments in stocks and mutual funds may provide substantial investment gains in a short period of time or over several years. The profit is a capital gain and is subject to federal tax and in some cases local tax. It is generally suggested to diversify investments by investing in several stocks, mutual funds, bonds, and having some money as cash in an insured bank account. Some people use the strategy of dollar cost averaging by budgeting a fixed amount of money to buy investments with each paycheck. This strategy takes advantage of the daily fluctuations in the value of some investments.

83. C

\$250,000

Knowledge Statement: Money invested in basic depository accounts, such as saving and checking accounts, is insured up to certain limits by the federal government.

Rationale: The Federal Deposit Insurance Corporation is an independent agency created by Congress in the Great Depression to protect the deposits of savers. The current amount of \$250,000 was increased from \$100,000 in 2008, when the economy was experiencing a serious recession and banks were failing.

84. A

She probably lost most of the \$10,000 because corporate bonds are not insured

Knowledge Statement: Stocks, bonds, mutual funds and other non-deposit investment products are not guaranteed or insured.

Rationale: Corporate bonds are different from government bonds or “treasuries.” Corporate bonds will pay a higher rate of interest than most government bonds, which also compensates for the additional risk.

Companies issue bonds as debt to borrow money from the public instead of taking out a loan from a bank or financial institution. The prices of bonds fluctuate on a daily basis and may increase or decrease, in this case \$10,000. Fortunately, bondholders are paid from the sale of the company’s assets before investors with stock, which is why this person lost most but probably not all of the \$10,000.

85. D

A young college graduate who is single and has a leadership position in a profit-making company

Knowledge Statement: A person’s tolerance for investment risk can change depending on factors such as life circumstances, financial goals and economic conditions.

Rationale: When people are ready to begin investing they need to find the proper balance between risk and reward. People with children, a home mortgage, student debt, college expenses, and living on a fixed income in retirement should generally be conservative about how they invest their money. It is important to have money saved before making investments in stocks and mutual funds. A young person, who is able to save money regularly can take the greatest amount of risk because they have time to save money and can wait for stock prices to rise.

86. B

Stocks in different sectors, such as health care, finance and technology

Knowledge Statement: Diversification is a risk management technique that includes owning a variety of investments among various asset classes.

Rationale: An important strategy for investing money is diversification. Although diversification may imply investments in stocks, mutual funds, bonds, and cash, it can also apply to investments across different sectors of stocks. Stocks are categorized as technology, health care, financial, transportation according to their products or services.

87. C

This investment is guaranteed to make a profit

Knowledge Statement: Investor education may help investors take responsibility to protect themselves from fraud.

Rationale: Examples of warning signs that something is wrong and might be a scam includes guarantees that investments will make a profit in a short period of time, asking for money without time to think about the investment, unsolicited calls, and suggesting to put a lot of money in a single investment. An investor should never invest in a product they do not understand. It is smart to discuss investments with certified financial planners and investment firms. Investors can also interview and conduct a background check on financial advisors and planners. Some financial advisors may receive a commission from specific investments, which may or may not meet the needs of the investor.

88. B

Letting their assets work for them to create more money

Knowledge Statement: Explain how investing may build wealth and help meet financial goals.

Rationale: People who save and or invest in stocks, bonds, or real estate are putting their money (assets) to work in order to create more money. When people invest they often earn more money over time than savings. There is, however, risk of losing money when investing. Savings at a bank are safe because they are usually insured by FDIC. As situations in the economy or the investor’s life change, investments need to be carefully analyzed to determine if they should be kept or changed.

89. A

3% = \$30 or \$1,030.00

Knowledge Statement: Calculate simple interest earnings.

Rationale: Simple interest is calculated by multiplying the amount invested by the rate of return or the amount of interest defined as a percent. Simple interest is paid once a year whereas compounded interest accumulates daily, monthly, or quarterly. In the above example, the calculation is \$30 or $\$1,000 \times 0.03$. The amount of \$1,400 would be for a rate of return of 40% and the \$1,600 would be for a rate of return of 60%. The choice of 5% would be \$50 and not \$150.

90. A

All of the money contributed by the employer to the pension

Knowledge Statement: Give examples of how employer matching contributions to employer-sponsored retirement savings plans and vesting schedules affect participating employees.

Rationale: Vesting is a guarantee to employees that the money their employer contributed to their retirement plan is for them to keep should they leave the company or be laid off from work. To be vested, the employee is expected to work for the employer for the required number of years set by the company. Employees are always entitled to their own contributions to the retirement plan. If they leave their job they may rollover their retirement monies to another plan.

91. A

Stockholders have voting rights and bondholders do not

Knowledge Statement: Explain the difference between stocks and bonds.

Rationale: There are several important differences between stocks and bonds. A stock provides ownership in a company and the price of the stock should increase when the company increases its profit. An investor indirectly gives the company money to use as it determines because stocks are traded between people who already own the stock. The company receives money directly when the stock is initially offered to the public. Bonds are a form of debt and investors loan the company or a government money with an expected rate of return (interest or dividend) to be paid on a set schedule. Stocks and bonds can be sold at any time, providing there is a buyer.

92. C

Photo identification and proof of address

Knowledge Statement: Demonstrate how to open a basic deposit account at a financial institution or brokerage firm.

Rationale: Banks require valid photo identification (such as a driver's license), or an unexpired passport, proof of residence, and a taxpayer identification number or Social Security number in order to open a bank account.

93. A

Protect consumers against abusive credit practices, promote financial education, and research financial behavior

Knowledge Statement: Summarize the types of information, assistance, and protection that individual investors can receive from:

- Securities and Exchange Commission
- Financial Industry Regulatory Authority
- Consumer Financial Protection Bureau

Rationale: There are several laws to protect consumer interests regarding credit, investments, and financial education. The Consumer Financial Protection Bureau was created to protect consumer interests regarding credit, investments and financial education. This organization also aims to promote financial education and research financial behavior.

94. A

For every stock that is bought there needs to be a seller of the stock

Knowledge Statement: Explain how stock markets facilitate the buying and selling of securities.

Rationale: When a company first issues shares of stock, it is called an Initial Public Offering (IPO). The company issuing the stock benefits from the money received for these shares that were sold on the "primary market". Once shares are owned by investors they are bought and sold through the secondary market. If an investor wants to buy shares in a company, there needs to be an investor who wants to sell shares.

95. B

Historically, investing in stocks for a long period of time generates higher returns than savings accounts

Knowledge Statement: Discuss the potential benefits of a long-term investing strategy.

Rationale: The prices of stocks are volatile and are affected by economic, political, and business events. Historically, over time, monies invested in stocks increase more than having the monies in a savings account.

96. A

To combat investment fraud and protect investors

Knowledge Statement: Government and independent agencies combat fraud and oversee various financial services industries.

Rationale: The Securities and Exchange Commission is a regulatory agency of the U.S. government that was established in 1935 to supervise the stock market. Although its primary purpose is to ensure orderly markets it also protects investors by supervising the stock exchanges, stock brokers, checks that information is accurate, monitors insider trading, and looks for situations of fraud

97. D

Buying mutual funds because they are professionally managed

Knowledge Statement: Suggest types of investments appropriate for people who have a low risk tolerance for investment volatility.

Rationale: Mutual funds that are professionally managed can be tailored to individual needs. If a person has a low tolerance for risk, the professional can select investments in a mutual fund that generally have lower risk.

98. D

Some of the money can be used for buying a qualified first-time home

Knowledge Statement: Compare the advantages of taxable, tax-deferred and tax-advantaged investments for new savers, including Roth IRAs and employer-sponsored retirement vehicles.

Rationale: A Roth IRA is a very advantageous retirement plan for a person. Money is invested in a Roth IRA after income tax has been paid, so the withdrawals during retirement are tax-free. In addition to withdrawing the money during retirement, the money can be withdrawn for a qualified first-time home purchase tax- and penalty-free or to pay education expenses.

99. C

Certificate of Deposit (CD)

Knowledge Statement: Investments may differ in type of risk, liquidity and opportunity for growth and income.

Rationale: For this question, the best answer is Certificates of Deposit (CD) since they provide the greatest amount of liquidity because the money can be accessed and converted to cash quickly. If the CD is cashed before maturity, there is generally a penalty for early redemption. With mutual funds, real estate and collectibles, it will take longer to convert the money to cash.

100. A

Their income is generally lower during retirement years resulting in a lower tax bracket

Knowledge Statement: Illustrate the benefits of tax-advantaged investments for young people.

Rationale: People benefit from a Traditional IRA savings account because they pay less tax on their income in the year they make a deposit into the account. Money in an IRA savings account is invested before taxes, and when it is withdrawn during retirement, taxes the account owner must pay taxes on the amount withdrawn. Since most retired people earn less money during retirement, they are in a lower tax bracket resulting in paying lower taxes on withdrawals.