Chapter 01 Testbank - Static

Student: ____

1. Increased demand for a product or service will usually result in lower prices for the item.
True False

2. Inflation reduces the buying power of the dollar.
True False

3. Lenders benefit more than borrowers in times of high inflation.
True False

4. Economics is the study of using money to achieve financial goals.
True False

5. A decrease in the demand for a product or service may result in unemployment from staff reduction.
True False

6. Developing and using a budget is part of the "obtaining" component of financial planning.
True False

7. A financial plan is another name for a budget.
True False

8. Planning to buy a car is an example of an intangible goal.
True False

9. Opportunity costs refer to what a person gives up when making a choice.
True False

10. Personal opportunity costs refer to time, effort, and health that are given up when a decision is made.
True False

11. Time value of money refers to changes in consumer spending when inflation occurs.
True False

12. Interest on savings is calculated by multiplying the principal amount times the opportunity cost times the annual interest rate.
True False

13. Present value is also referred to as compounding.
True False

14. Opportunity costs may be viewed only in terms of financial resources.
True False

15. Gross Domestic Product (GDP) measures the total value of goods and services produced within a country's borders, excluding items produced with foreign resources.
True False

16. Trade balance is defined as the difference between a country's exports and its imports.
True False

17. The main goal of personal financial planning is managing your money to:
A. save and invest for future needs.
B. reduce a person's tax liability.
C. achieve personal economic satisfaction.
D. spend to achieve financial objectives.
E. save, spend, and borrow based on current needs.

18. Higher prices are likely to result from:
A. lower demand by consumers.
B. increased production by business.
C. lower interest rates.
D. increased demand by consumers without increased supply.
E. an increase in the supply of a product.

19. Who is *most likely* to benefit from inflation?
A. Retired people
B. Lenders
C. Borrowers
D. Low-income consumers
E. Government

20. Higher consumer prices are likely to be accompanied by:
A. lower union wages.
B. lower interest rates.
C. lower production costs.
D. higher interest rates.
E. higher exports.

21. With an inflation rate of 9 percent, prices would double in about ___________ years.
A. 4
B. 6
C. 8
D. 10
E. 12

22. Increased consumer spending will usually cause:
A. lower consumer prices.
B. reduced employment levels.
C. lower tax revenues.
D. lower interest rates.
E. higher employment levels.

23. Higher interest rates can be caused by:
A. a lower money supply.
B. an increase in the money supply.
C. a decrease in consumer borrowing.
D. lower government spending.
E. increased saving and investing by consumers.

24. The risk premium you receive as a *saver* is based:
A. on your credit rating.
B. on the amount of money you are borrowing.
C. only on the uncertainty associated with getting your money back.
D. only on the expected rate of inflation.
E. in part on the uncertainty associated with getting your money back and the expected rate of inflation.

25. Which of the following would increase the risk of a loan to the lender?
A. Inflation rate greater than loan rate
B. A short time to maturity
C. Consumer Price Index
D. Rule of 72
E. Inflation rate lower than loan rate

26. The stages in the family and financial needs of an adult are called the:
A. financial planning process.
B. budgeting procedure.
C. personal economic cycle.
D. adult life cycle.
E. tax planning process.

27. The study of how wealth is created and distributed is:
A. financial planning.
B. opportunity cost.
C. inflation.
D. economics.
E. a market economy.

28. The main economic influence that causes inflation is:
A. Changes in the stock market.
B. Decreases in interest rates.
C. Increases in employment.
D. Decreases in government spending.
E. Increases in demand without increases in supply.

29. *The Fed* refers to:
A. government regulation of business.
B. Congress.
C. the Federal Reserve System.
D. the Federal Deposit Insurance Corporation.
E. spending by the federal government.

30. The main responsibility of *The Fed* is to:
A. maintain an adequate supply of money.
B. approve spending by Congress.
C. set federal income tax rates.
D. determine illegal business activities.
E. maintain a balanced budget for the federal government.

31. Some savings and investment choices have the potential for higher earnings. However, these may also be difficult to convert to cash when you need the funds. This problem refers to:
A. inflation risk.
B. interest rate risk.
C. income risk.
D. personal risk.
E. liquidity risk.

32. Which of the following would cause consumer prices to drop?
A. Increased consumer borrowing
B. Higher spending by consumers
C. A demand for higher wages
D. Hidden inflation
E. Increased supply by business without increased consumer demand.

33. Attempts to increase financial resources are part of the ____________ component of financial planning.
A. planning
B. obtaining
C. saving
D. sharing
E. protecting

34. A major activity in the planning component of financial planning is:
A. selecting insurance coverage.
B. evaluating investment alternatives.
C. gaining occupational training and experience.
D. allocating current resources for spending through budgeting.
E. establishing a line of credit.

35. The ability to readily convert financial resources into cash without loss of value is referred to as:
A. bankruptcy.
B. liquidity.
C. investing.
D. saving.
E. opportunity cost.

36. The problem of bankruptcy is associated with misuse of credit in the ______________ component of financial planning.
A. sharing
B. saving
C. obtaining
D. borrowing
E. protecting

37. A question associated with the saving component of financial planning is:
A. Do you have an adequate emergency fund?
B. Is your will current?
C. Is your investment program appropriate to your income and tax situation?
D. Do you have a realistic budget for your current financial situation?
E. Are your transportation expenses minimized through careful planning?

38. A formalized report that summarizes your current financial situation, analyzes your financial needs, and recommends future financial activities is a(n):
A. insurance prospectus.
B. financial plan.
C. budget.
D. investment forecast.
E. statement.

39. When an individual makes a purchase without considering the financial consequences of that purchase, he/she ignores the ______________ aspect of financial planning.
A. borrowing
B. risk management
C. spending
D. retirement and estate planning
E. obtaining

40. The success of a financial plan will be determined by:
A. the amount of debts owed.
B. the stage of the adult life cycle.
C. a person's tax status.
D. the individual’s financial habits.
E. current economic conditions.

41. As Cynthia Tyler plans to set aside funds for her young children's college education, she is setting a(n) ____________ goal.
A. intermediate
B. long-term
C. short-term
D. intangible
E. durable

42. ____________ goals relate to personal relationships, health, and education.
A. Durable-product
B. Short-term
C. Consumable-product
D. Intangible-purchase
E. Intermediate

43. . Brad Johnson has a goal of "saving $50 a month for vacation." Brad's goal lacks:
A. measurable terms.
B. a realistic perspective.
C. specific terms.
D. the type of action to be taken.
E. a time frame.

44. Which of the following goals would be the easiest to implement and measure its accomplishment?
A. "Reduce our debt payments."
B. "Save funds for an annual vacation."
C. "Save $100 a month to create a $4,000 emergency fund."
D. "Invest $2,000 a year for retirement."
E. "Increase our emergency fund."

45. Opportunity cost refers to:
A. money needed for major consumer purchases.
B. what a person gives up by making a choice.
C. the amount paid for taxes when a purchase is made.
D. current interest rates.
E. evaluating different alternatives for financial decisions.

46. An example of a *personal* opportunity cost would be:
A. interest lost by using savings to make a purchase.
B. higher earnings on savings that must be kept on deposit a minimum of six months.
C. lost wages due to continuing as a full-time student.
D. time comparing several brands of personal computers.
E. having to pay a tax penalty due to not having enough withheld from your monthly salary.

47. The time value of money refers to:
A. Opportunity Costs such as time lost on an activity.
B. financial decisions that require borrowing funds from a financial institution.
C. changes in interest rates due to changes in the supply and demand for money in our economy.
D. increases in an amount of money as a result of interest earned.
E. changing demographic trends in our society.

48. The amount of interest is determined by multiplying the amount in savings by the:
A. annual interest rate.
B. time period.
C. number of months in a year.
D. time period and number of months.
E. annual interest rate and the time period.

49. If a person deposited $50 a month for 6 years earning 8 percent, this would involve what type of computation?
A. Simple interest
B. Future value of a single amount
C. Future value of a series of deposits
D. Present value of a single amount
E. Present value of a series of deposits

50. Which type of computation would a person use to determine the current value of a desired amount in the future?
A. Simple interest
B. Future value of a single amount
C. Future value of a series of deposits
D. Present value of a single amount
E. Compound interest

51. If inflation is increasing at 3 percent per year, and your salary increases at the same rate, how long will it take your salary to double?
A. 30 years
B. 24 years
C. 18 years
D. 12 years
E. 6 years Rule of 72: 72/3 = 24

52. When prices are increasing at a rate of 6 percent, the cost of products would double in about how many years?
A. 7.2 years
B. 10 years
C. 6 years
D. 12 years
E. 18 years

53. Future value calculations involve:
A. discounting.
B. add-on interest.
C. compounding.
D. simple interest.
E. an annuity.

54. If you put $1,000 in a savings account and make no further deposits, what type of calculation would provide you with the value of the account in 20 years?
A. Future value of a single amount
B. Simple interest
C. Present value of a single amount
D. Present value of a series of deposits
E. Future value of a series of deposits

55. The first step of the financial planning process is to:
A. develop financial goals.
B. implement the financial plan.
C. determine your current financial situation.
D. review and revise your financial plan.
E. create a financial action plan.

56. ____________ risk refers to the danger of changes in buying power during times of rising or falling prices.
A. Liquidity
B. Income
C. Personal
D. Inflation
E. Interest Rate

57. Which of the following is an example of opportunity cost?
A. Renting an apartment near school
B. Saving money instead of taking a vacation
C. Setting aside money for paying income tax
D. Purchasing automobile insurance
E. Using a personal computer for financial planning

58. The changing cost of money when borrowing is referred to as ____________ risk.
A. Interest Rate
B. Inflation
C. Income
D. Liquidity
E. Personal

59. The uncertainty associated with evaluating your alternatives is referred to as:
A. opportunity cost.
B. selection of alternatives.
C. financial goals.
D. personal values.
E. risk.

60. The financial planning process concludes with efforts to:
A. develop financial goals.
B. create a financial action plan.
C. determine your current financial situation.
D. implement the financial action plan.
E. review and revise your financial plan.

61. Using the services of financial institutions will be *most* evident in your effort to:
A. develop financial goals.
B. review and revise your financial plan.
C. Determine your current financial situation.
D. evaluate your alternatives.
E. create a financial action plan.

62. Changes in personal, social, and economic factors make it necessary to:
A. review and revise your financial plan.
B. implement the financial plan.
C. develop financial goals.
D. determine your current financial situation.
E. create a financial action plan.

63. Which of the following is usually considered a long-term financial strategy?
A. Creating a budget
B. Using savings to pay off a loan early
C. Renting an apartment to save for the purchase of a home
D. Investing in a mutual fund to accumulate retirement funds
E. Purchasing auto insurance to cover the needs of dependents

64. Lynn Roy will retire in the next year and has $675,000 in savings and investments and owns her own home that is worth $250,000. Which step in the financial planning process does this situation demonstrate?
A. Determining her current financial situation
B. Developing her financial goals
C. Identifying alternative courses of action
D. Evaluating her alternatives
E. Implementing her financial plan

65. Lynn Roy wants to travel after she retires as well as pay off the balance of the loan she has on the home she owns. Which step in the financial planning process does this situation demonstrate?
A. Determining her current financial situation
B. Developing her financial goals
C. Identifying alternative courses of action
D. Evaluating her alternatives
E. Implementing her financial plan

66. Lynn Roy wants to travel around the world. Lynn Roy has several options she can pursue. She can continue to work full time to earn the money she needs for her trip. She can work part time so that she can still earn some money but have the time necessary to complete her trip. She can take full retirement so that she has all the time necessary to complete her trip. Which step in the financial planning process does this scenario demonstrate?
A. Determining her current financial situation
B. Developing her financial goals
C. Identifying alternative courses of action
D. Evaluating her alternatives
E. Implementing her financial plan

67. Lynn Roy knows that if she continues to work full time, it will be difficult for her to get the time off she needs to be able to travel around the world. However, if she continues to work full time she will more easily earn the money she needs to take her trip and still have money left for her living expenses after she gets back from her trip. Which step in the financial planning process does this scenario demonstrate?
A. Determining her current financial situation
B. Developing her financial goals
C. Identifying alternative courses of action
D. Evaluating her alternatives
E. Implementing her financial plan

68. Lynn Roy has decided to take retirement from her job and use the time she has earned to travel around the world. She has decided to start her trip around the world in Europe by train and bus and will use her savings to pay for her trip. Which step in the financial planning process does this scenario demonstrate?
A. Developing her financial goals
B. Identifying alternative courses of action
C. Evaluating her alternatives
D. Implementing her financial plan
E. Reviewing and revising her financial plan

69. Lynn Roy's goal has been to travel around the world. She has now been traveling for six months and she has decided she is a little tired of living out of a suitcase. She has decided to go home, look for a part time job and take shorter trips to locations around the world that appeal to her. Which step in the financial planning process does this scenario most likely demonstrate?
A. Developing her financial goals
B. Identifying alternative courses of action
C. Evaluating her alternatives
D. Implementing her financial plan
E. Reviewing and revising her financial plan

70. John Gleason is interested in purchasing a 46" rear projection TV for his living room. John knows that right now the TV will cost approximately $1500. John is not sure he can afford this TV right now but is worried that if he waits, the cost of the TV will rise to $1800. Which type of risk is John worried about?
A. Inflation risk
B. Interest rate risk
C. Income risk
D. Personal risk
E. Liquidity risk

71. John Gleason is interested in purchasing a 46" rear projection TV for his living room. He knows that right now the TV will cost approximately $1500. John wants to borrow the money to purchase the TV but is a little concerned because he thinks interest rates are going to fall in the future. He is worried that he might get stuck with a loan at a high interest rate. What type of risk is John worried about?
A. Inflation risk
B. Interest rate risk
C. Income risk
D. Personal risk
E. Liquidity risk

72. John Gleason is interested in purchasing a 46" rear projection TV for his living room. He knows that right now the TV will cost approximately $1500. However, John is a little concerned about his job. John is a pilot for Delta Airlines and he thinks it is possible that he could be laid off in the near future. What type of risk is John worried about?
A. Inflation risk
B. Interest rate risk
C. Income risk
D. Personal risk
E. Liquidity risk

73. Mary Smith is considering investing in 30 year Corporate Bonds issued by Duke Energy Company. She knows that she will earn an interest rate of 8% by purchasing these bonds. However, she is concerned because she might need to take her money out of this investment in a year, and she has heard that she might have to sell the bonds at a significantly lower price than she will purchase them for. What type of risk is Mary concerned about?
A. Inflation risk
B. Interest rate risk
C. Income risk
D. Personal risk
E. Liquidity risk

74. John Dean has just moved into a new house and needs a lawn mower since he has always lived in apartments and now he has a lawn to mow. What type of goal would this be for John?
A. Consumable-product goal
B. Durable-product goal
C. Intangible goal
D. Intermediate goal
E. Long term goal

75. Melanie Walsh likes to go to the movies once a week. When she is at the movies, she generally gets a large popcorn and a drink. Melanie wants to be sure that she sets aside money each week so she can continue going to the movies. What type of goal would this be for Melanie?
A. Consumable-product goal
B. Durable-product goal
C. Intangible goal
D. Intermediate goal
E. Long term goal

76. Paul Carter is 43 years old, married and has three children, ages 13, 10 and 5. Which influence on financial decisions does this demonstrate?
A. Adult Life Cycle
B. Economic Factors
C. Global Influences
D. Opportunity Costs
E. None of these.

77. One aspect of financial planning is to make wise decisions using a plan as to what to purchase and when to purchase it. Which aspect of financial planning does this deal with?
A. Borrowing
B. Spending
C. Managing Risk
D. Investing
E. Retirement and Estate Planning

78. One aspect of financial planning is to use credit appropriately/wisely. Which aspect of financial planning does this deal with?
A. Borrowing
B. Spending
C. Managing Risk
D. Investing
E. Retirement and Estate Planning

79. One aspect of financial planning is to make sure you maintain adequate insurance coverage for your needs. Which aspect of financial planning does this deal with?
A. Borrowing
B. Spending
C. Managing Risk
D. Investing
E. Retirement and Estate Planning

80. One aspect of financial planning is to buy stocks, bonds and mutual funds with the potential for long term growth. Which aspect of financial planning does this deal with?
A. Borrowing
B. Spending
C. Managing Risk
D. Investing
E. Retirement and Estate Planning

81. When prices are rising at a rate of 2 percent, the cost of products and services would double in ______ years.
A. 3
B. 6
C. 18
D. 36
E. 72

82. Resources for financial planning can be found from:
A. print and media.
B. digital sources.
C. financial institutions.
D. financial experts.
E. All of these.

83. The annual price increase for consumer goods and services measured by the Bureau of Labor Statistics is called ________.
A. deflation
B. inflation
C. the consumer price index
D. the price calculator
E. the goods index

84. If you desire your savings to double in 6 years, what rate of return would you need to earn?
A. 6 percent
B. 8 percent
C. 9 percent
D. 10 percent
E. 12 percent Rule of 72, 72/x = 6, 6X = 72, 72/6 = 12

85. A family spends $40,000 on living expenses. With an annual inflation rate of 3 percent, they can expect to spend approximately _______ in three years.
A. $40,300
B. $41,200
C. $42,000
D. $43,720
E. $46,000

86. The future value of $1,000 deposited each year for 5 years earning 4 percent would be *approximately:*
A. $5,000
B. $5,250
C. $5,400
D. $6,500
E. $8,200

87. You are planning to buy a house in five years. How much do you need to deposit today to have a $10,000 down payment if your investment will make 6%?
A. $6,000
B. $6,590
C. $7,470
D. $9,400
E. $10,000

88. John is planning to go to graduate school in a program that will take three years. John wants to have $10,000 available each year for his school and living expenses. If he earns 6% on his investments, how much must be deposited at the start of his studies for him to withdraw $10,000 a year for three years?
A. $10,000
B. $18,390
C. $26,730
D. $29,100
E. $30,000

89. Mary Sander's new job is very demanding. She regularly works long hours and on the weekends. As a result, Mary has not had much time for her family and friends. This is an example of:
A. deflation.
B. financial opportunity cost.
C. personal opportunity cost.
D. time value of money.
E. inflation.

90. During __________, even though prices decline, spending slows because consumers expect prices to continue to decline.
A. deflation
B. depreciation
C. appreciation
D. economic recovery
E. inflation

91. Financial institutions include the following:
A. banks.
B. credit unions.
C. insurance companies.
D. investment companies.
E. All of these.

92. More recently, the annual price increase for most goods and services as measured by the consumer price index has been less than ____ percent.
A. 1
B. 2
C. 3
D. 4
E. 5

93. Increased home building results in:
A. increased job opportunities.
B. higher wages.
C. increased consumer spending.
D. overall economic expansion.
E. All of these.

94. Developing financial goals is the ______ step in the financial planning process.
A. first
B. second
C. third
D. fourth
E. fifth

95. The following are examples of intangible goals, except:
A. obtaining a college degree.
B. going on a cruise vacation.
C. buying a house.
D. losing weight.
E. getting more sleep.

96. Developing and using a budget is part of which component of financial planning?
A. Retirement and Estate Planning
B. Investing
C. Spending
D. Managing Risk
E. Planning

97. Determining your current financial situation is a part of which step in the financial planning process?
A. First
B. Second
C. Third
D. Fourth
E. Fifth

98. Measuring risk associated with making most financial decisions is difficult because of what factor(s)?
A. Inflation risk
B. Interest Rate risk
C. Personal risk
D. Liquidity risk
E. All of these.

99.

Financial planning information sources generally do not include:

A.

Print and Media

B. Financial Experts
C.

Financial Institutions

D. Personal Friends
E. Digital Sources

100. Inflation risk may include changes in buying power and:
A.

rising prices.

B. falling prices
C. decisions to buy later
D. decisions to buy now.
E. All of these.

101. Types of risks associated with financial decisions may include:
A. Income risk
B. Personal risk
C. Liquidity risk
D. Inflation risk
E. All of these

102.

Developing financial goals does not involve:

A. Analyzing your financial values several times a year
B. Differentiating your needs from your wants
C. Allowing others to decide which goals you should pursue
D. Creating specific financial goals
E. None of these

103. Analyzing your current financial position is a part of which step of the financial planning process:
A. Step 1, Determine current financial situation
B. Step 2, Develop financial goals
C. Step 3, Identify alternative courses of action
D. Step 4, Evaluate alternatives
E. Step 5, Create and implement the action plan

104. The advantages of personal financial planning include:
A.

Increased effectiveness in obtaining, using and protecting your financial resources

B. Increased control of your financial affairs by avoiding excessive debt and bankruptcy
C. Improved personal relationships resulting from better communicated financial decisions
D. All of these
E. None of these

105. Personal financial activities involve the following main decision areas:
A. Spending
B. Saving
C. Sharing
D. All of these
E. None of these

106. When identifying alternative courses of action, possible courses of action include:
A. Continue with the same course of action
B. Expand the past situation
C. Change the past situation
D.

Take an old course of action

E. All of these

107. If you are concerned about year-end tax payments and need an action plan, you may take the following action(s):
A. increase the amount withheld from each paycheck
B. file quarterly tax payments
C.

shelter current income in a tax-deferred retirement program

D. invest in tax-exempt securities
E. All of these

108. Describe the S-M-A-R-T approach to financial planning goal setting. Give an example.

109. What are the eight Components of Financial Planning?

110. People are commonly overwhelmed by the many influences on personal financial decisions. What are the factors affecting financial planning?

111. What types of risks are commonly associated with personal financial decisions? How can these risks be evaluated and minimized to reduce personal and financial difficulties?

112. Linda Ashworth is trying to decide whether to keep her money in a savings account or in a mutual fund. What would you tell her to help her analyze her decision?

113. What are the six steps in the financial planning process?

114. Explain why borrowers benefit more than lenders in times of high inflation.

115. What is meant by the term "Time Value of Money?"

116. Describe the relationship between the annual inflation rate and prices using the Rule of 72.

Chapter 01 Testbank - Static Key

1. Increased demand for a product or service will usually result in lower prices for the item.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning.
Level of Difficulty: Intermediate
Topic: Economic conditions and factors

2. Inflation reduces the buying power of the dollar.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning.
Level of Difficulty: Basic
Topic: Economic conditions and factors

3. Lenders benefit more than borrowers in times of high inflation.
FALSE

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning.
Level of Difficulty: Advanced
Topic: Economic conditions and factors

4. Economics is the study of using money to achieve financial goals.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning.
Level of Difficulty: Intermediate
Topic: Economic conditions and factors

5. A decrease in the demand for a product or service may result in unemployment from staff reduction.
TRUE

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning.
Level of Difficulty: Intermediate
Topic: Economic conditions and factors

6. Developing and using a budget is part of the "obtaining" component of financial planning.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-05 Identify strategies for achieving personal financial goals for different life situations.
Level of Difficulty: Basic
Topic: Components of Financial Planning

7. A financial plan is another name for a budget.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-05 Identify strategies for achieving personal financial goals for different life situations.
Level of Difficulty: Intermediate
Topic: Financial planning process

8. Planning to buy a car is an example of an intangible goal.
FALSE

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-03 Develop personal financial goals.
Level of Difficulty: Intermediate
Topic: Financial planning process

9. Opportunity costs refer to what a person gives up when making a choice.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-04 Calculate time value of money situations to analyze personal financial decisions.
Level of Difficulty: Intermediate
Topic: Opportunity Costs

10. Personal opportunity costs refer to time, effort, and health that are given up when a decision is made.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-04 Calculate time value of money situations to analyze personal financial decisions.
Level of Difficulty: Intermediate
Topic: Opportunity Costs

11. Time value of money refers to changes in consumer spending when inflation occurs.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-04 Calculate time value of money situations to analyze personal financial decisions.
Level of Difficulty: Intermediate
Topic: Time value of money - interest rates and inflation

12. Interest on savings is calculated by multiplying the principal amount times the opportunity cost times the annual interest rate.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-04 Calculate time value of money situations to analyze personal financial decisions.
Level of Difficulty: Advanced
Topic: Savings and money market accounts

13. Present value is also referred to as compounding.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-04 Calculate time value of money situations to analyze personal financial decisions.
Level of Difficulty: Intermediate
Topic: Present Value

14. Opportunity costs may be viewed only in terms of financial resources.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-04 Calculate time value of money situations to analyze personal financial decisions.
Level of Difficulty: Basic
Topic: Opportunity Costs

15. Gross Domestic Product (GDP) measures the total value of goods and services produced within a country's borders, excluding items produced with foreign resources.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning.
Level of Difficulty: Intermediate
Topic: Economic conditions and factors

16. Trade balance is defined as the difference between a country's exports and its imports.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning.
Level of Difficulty: Basic
Topic: Economic conditions and factors

17. The main goal of personal financial planning is managing your money to:
A. save and invest for future needs.
B. reduce a person's tax liability.
C. achieve personal economic satisfaction.
D. spend to achieve financial objectives.
E. save, spend, and borrow based on current needs.

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Basic
Topic: Financial Planning Process
Topic: Financial Planning Process

18. Higher prices are likely to result from:
A. lower demand by consumers.
B. increased production by business.
C. lower interest rates.
D. increased demand by consumers without increased supply.
E. an increase in the supply of a product.

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning.
Level of Difficulty: Intermediate
Topic: Economic conditions and factors

19. Who is *most likely* to benefit from inflation?
A. Retired people
B. Lenders
C. Borrowers
D. Low-income consumers
E. Government

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning.
Level of Difficulty: Intermediate
Topic: Economic conditions and factors

20. Higher consumer prices are likely to be accompanied by:
A. lower union wages.
B. lower interest rates.
C. lower production costs.
D. higher interest rates.
E. higher exports.

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning.
Level of Difficulty: Advanced
Topic: Economic conditions and factors

21. With an inflation rate of 9 percent, prices would double in about ___________ years.
A. 4
B. 6
C. 8
D. 10
E. 12

Rule of 72, 72/9 = 8

Accessibility: Keyboard Navigation
Blooms: Apply
Gradable: automatic
Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning.
Level of Difficulty: Intermediate
Topic: Time value of money - number of periods

22. Increased consumer spending will usually cause:
A. lower consumer prices.
B. reduced employment levels.
C. lower tax revenues.
D. lower interest rates.
E. higher employment levels.

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning.
Level of Difficulty: Intermediate
Topic: Economic conditions and factors

23. Higher interest rates can be caused by:
A. a lower money supply.
B. an increase in the money supply.
C. a decrease in consumer borrowing.
D. lower government spending.
E. increased saving and investing by consumers.

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning.
Level of Difficulty: Advanced
Topic: Economic conditions and factors

24. The risk premium you receive as a *saver* is based:
A. on your credit rating.
B. on the amount of money you are borrowing.
C. only on the uncertainty associated with getting your money back.
D. only on the expected rate of inflation.
E. in part on the uncertainty associated with getting your money back and the expected rate of inflation.

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning.
Level of Difficulty: Advanced
Topic: Economic conditions and factors

25. Which of the following would increase the risk of a loan to the lender?
A. Inflation rate greater than loan rate
B. A short time to maturity
C. Consumer Price Index
D. Rule of 72
E. Inflation rate lower than loan rate

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning.
Level of Difficulty: Advanced
Topic: Economic conditions and factors

26. The stages in the family and financial needs of an adult are called the:
A. financial planning process.
B. budgeting procedure.
C. personal economic cycle.
D. adult life cycle.
E. tax planning process.

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning.
Level of Difficulty: Basic
Topic: Life Cycle

27. The study of how wealth is created and distributed is:
A. financial planning.
B. opportunity cost.
C. inflation.
D. economics.
E. a market economy.

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning.
Level of Difficulty: Basic
Topic: Economic conditions and factors

28. The main economic influence that causes inflation is:
A. Changes in the stock market.
B. Decreases in interest rates.
C. Increases in employment.
D. Decreases in government spending.
E. Increases in demand without increases in supply.

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning.
Level of Difficulty: Intermediate
Topic: Economic conditions and factors

29. *The Fed* refers to:
A. government regulation of business.
B. Congress.
C. the Federal Reserve System.
D. the Federal Deposit Insurance Corporation.
E. spending by the federal government.

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning.
Level of Difficulty: Intermediate
Topic: Financial system

30. The main responsibility of *The Fed* is to:
A. maintain an adequate supply of money.
B. approve spending by Congress.
C. set federal income tax rates.
D. determine illegal business activities.
E. maintain a balanced budget for the federal government.

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning.
Level of Difficulty: Intermediate
Topic: Financial system

31. Some savings and investment choices have the potential for higher earnings. However, these may also be difficult to convert to cash when you need the funds. This problem refers to:
A. inflation risk.
B. interest rate risk.
C. income risk.
D. personal risk.
E. liquidity risk.

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Intermediate
Topic: Liquidity

32. Which of the following would cause consumer prices to drop?
A. Increased consumer borrowing
B. Higher spending by consumers
C. A demand for higher wages
D. Hidden inflation
E. Increased supply by business without increased consumer demand.

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning.
Level of Difficulty: Advanced
Topic: Economic conditions and factors

33. Attempts to increase financial resources are part of the ____________ component of financial planning.
A. planning
B. obtaining
C. saving
D. sharing
E. protecting

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-05 Identify strategies for achieving personal financial goals for different life situations.
Level of Difficulty: Basic
Topic: Components of Financial Planning

34. A major activity in the planning component of financial planning is:
A. selecting insurance coverage.
B. evaluating investment alternatives.
C. gaining occupational training and experience.
D. allocating current resources for spending through budgeting.
E. establishing a line of credit.

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-05 Identify strategies for achieving personal financial goals for different life situations.
Level of Difficulty: Intermediate
Topic: Components of Financial Planning

35. The ability to readily convert financial resources into cash without loss of value is referred to as:
A. bankruptcy.
B. liquidity.
C. investing.
D. saving.
E. opportunity cost.

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-05 Identify strategies for achieving personal financial goals for different life situations.
Level of Difficulty: Basic
Topic: Liquidity

36. The problem of bankruptcy is associated with misuse of credit in the ______________ component of financial planning.
A. sharing
B. saving
C. obtaining
D. borrowing
E. protecting

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-05 Identify strategies for achieving personal financial goals for different life situations.
Level of Difficulty: Basic
Topic: Components of financial planning

37. A question associated with the saving component of financial planning is:
A. Do you have an adequate emergency fund?
B. Is your will current?
C. Is your investment program appropriate to your income and tax situation?
D. Do you have a realistic budget for your current financial situation?
E. Are your transportation expenses minimized through careful planning?

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-05 Identify strategies for achieving personal financial goals for different life situations.
Level of Difficulty: Basic
Topic: Components of Financial Planning

38. A formalized report that summarizes your current financial situation, analyzes your financial needs, and recommends future financial activities is a(n):
A. insurance prospectus.
B. financial plan.
C. budget.
D. investment forecast.
E. statement.

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-05 Identify strategies for achieving personal financial goals for different life situations.
Level of Difficulty: Intermediate
Topic: Financial plan development

39. When an individual makes a purchase without considering the financial consequences of that purchase, he/she ignores the ______________ aspect of financial planning.
A. borrowing
B. risk management
C. spending
D. retirement and estate planning
E. obtaining

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-05 Identify strategies for achieving personal financial goals for different life situations.
Level of Difficulty: Basic
Topic: Components of Financial Planning

40. The success of a financial plan will be determined by:
A. the amount of debts owed.
B. the stage of the adult life cycle.
C. a person's tax status.
D. the individual's financial habits.
E. current economic conditions.

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-05 Identify strategies for achieving personal financial goals for different life situations.
Level of Difficulty: Intermediate
Topic: Components of Financial Planning

41. As Cynthia Tyler plans to set aside funds for her young children's college education, she is setting a(n) ____________ goal.
A. intermediate
B. long-term
C. short-term
D. intangible
E. durable

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-03 Develop personal financial goals.
Level of Difficulty: Basic
Topic: Financial Goals

42. ____________ goals relate to personal relationships, health, and education.
A. Durable-product
B. Short-term
C. Consumable-product
D. Intangible-purchase
E. Intermediate

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-03 Develop personal financial goals.
Level of Difficulty: Intermediate
Topic: Financial Goals

43. . Brad Johnson has a goal of "saving $50 a month for vacation." Brad's goal lacks:
A. measurable terms.
B. a realistic perspective.
C. specific terms.
D. the type of action to be taken.
E. a time frame.

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-03 Develop personal financial goals.
Level of Difficulty: Intermediate
Topic: Financial Goals

44. Which of the following goals would be the easiest to implement and measure its accomplishment?
A. "Reduce our debt payments."
B. "Save funds for an annual vacation."
C. "Save $100 a month to create a $4,000 emergency fund."
D. "Invest $2,000 a year for retirement."
E. "Increase our emergency fund."

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-03 Develop personal financial goals.
Level of Difficulty: Intermediate
Topic: Financial Goals

45. Opportunity cost refers to:
A. money needed for major consumer purchases.
B. what a person gives up by making a choice.
C. the amount paid for taxes when a purchase is made.
D. current interest rates.
E. evaluating different alternatives for financial decisions.

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Intermediate
Topic: Opportunity Costs

46. An example of a *personal* opportunity cost would be:
A. interest lost by using savings to make a purchase.
B. higher earnings on savings that must be kept on deposit a minimum of six months.
C. lost wages due to continuing as a full-time student.
D. time comparing several brands of personal computers.
E. having to pay a tax penalty due to not having enough withheld from your monthly salary.

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-04 Calculate time value of money situations to analyze personal financial decisions.
Level of Difficulty: Intermediate
Topic: Opportunity Costs

47. The time value of money refers to:
A. Opportunity Costs such as time lost on an activity.
B. financial decisions that require borrowing funds from a financial institution.
C. changes in interest rates due to changes in the supply and demand for money in our economy.
D. increases in an amount of money as a result of interest earned.
E. changing demographic trends in our society.

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-04 Calculate time value of money situations to analyze personal financial decisions.
Level of Difficulty: Intermediate
Topic: Future value

48. The amount of interest is determined by multiplying the amount in savings by the:
A. annual interest rate.
B. time period.
C. number of months in a year.
D. time period and number of months.
E. annual interest rate and the time period.

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-04 Calculate time value of money situations to analyze personal financial decisions.
Level of Difficulty: Intermediate
Topic: Time value of money - interest rates and inflation

49. If a person deposited $50 a month for 6 years earning 8 percent, this would involve what type of computation?
A. Simple interest
B. Future value of a single amount
C. Future value of a series of deposits
D. Present value of a single amount
E. Present value of a series of deposits

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-04 Calculate time value of money situations to analyze personal financial decisions.
Level of Difficulty: Advanced
Topic: Future Value

50. Which type of computation would a person use to determine the current value of a desired amount in the future?
A. Simple interest
B. Future value of a single amount
C. Future value of a series of deposits
D. Present value of a single amount
E. Compound interest

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-04 Calculate time value of money situations to analyze personal financial decisions.
Level of Difficulty: Intermediate
Topic: Present Value

51. If inflation is increasing at 3 percent per year, and your salary increases at the same rate, how long will it take your salary to double?
A. 30 years
B. 24 years
C. 18 years
D. 12 years
E. 6 years Rule of 72: 72/3 = 24

Accessibility: Keyboard Navigation
Blooms: Apply
Gradable: automatic
Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning.
Level of Difficulty: Advanced
Topic: Time value of money - number of periods

52. When prices are increasing at a rate of 6 percent, the cost of products would double in about how many years?
A. 7.2 years
B. 10 years
C. 6 years
D. 12 years
E. 18 years

Rule of 72: 72/6 = 12

Accessibility: Keyboard Navigation
Blooms: Apply
Gradable: automatic
Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning.
Level of Difficulty: Intermediate
Topic: Time value of money - number of periods

53. Future value calculations involve:
A. discounting.
B. add-on interest.
C. compounding.
D. simple interest.
E. an annuity.

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-04 Calculate time value of money situations to analyze personal financial decisions.
Level of Difficulty: Intermediate
Topic: Future Value

54. If you put $1,000 in a savings account and make no further deposits, what type of calculation would provide you with the value of the account in 20 years?
A. Future value of a single amount
B. Simple interest
C. Present value of a single amount
D. Present value of a series of deposits
E. Future value of a series of deposits

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-04 Calculate time value of money situations to analyze personal financial decisions.
Level of Difficulty: Intermediate
Topic: Future Value

55. The first step of the financial planning process is to:
A. develop financial goals.
B. implement the financial plan.
C. determine your current financial situation.
D. review and revise your financial plan.
E. create a financial action plan.

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Basic
Topic: Financial Planning Process
Topic: Financial Planning Process

56. ____________ risk refers to the danger of changes in buying power during times of rising or falling prices.
A. Liquidity
B. Income
C. Personal
D. Inflation
E. Interest Rate

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Intermediate
Topic: Investment risks and measures

57. Which of the following is an example of opportunity cost?
A. Renting an apartment near school
B. Saving money instead of taking a vacation
C. Setting aside money for paying income tax
D. Purchasing automobile insurance
E. Using a personal computer for financial planning

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Intermediate
Topic: Opportunity Costs

58. The changing cost of money when borrowing is referred to as ____________ risk.
A. Interest Rate
B. Inflation
C. Income
D. Liquidity
E. Personal

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Intermediate
Topic: Investment risks and measures

59. The uncertainty associated with evaluating your alternatives is referred to as:
A. opportunity cost.
B. selection of alternatives.
C. financial goals.
D. personal values.
E. risk.

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Basic
Topic: Financial planning process

60. The financial planning process concludes with efforts to:
A. develop financial goals.
B. create a financial action plan.
C. determine your current financial situation.
D. implement the financial action plan.
E. review and revise your financial plan.

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Basic
Topic: Financial Planning Process
Topic: Financial Planning Process

61. Using the services of financial institutions will be *most* evident in your effort to:
A. develop financial goals.
B. review and revise your financial plan.
C. Determine your current financial situation.
D. evaluate your alternatives.
E. create a financial action plan.

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Advanced
Topic: Financial plan implementation

62. Changes in personal, social, and economic factors make it necessary to:
A. review and revise your financial plan.
B. implement the financial plan.
C. develop financial goals.
D. determine your current financial situation.
E. create a financial action plan.

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Basic
Topic: Financial Planning Process
Topic: Financial Planning Process

63. Which of the following is usually considered a long-term financial strategy?
A. Creating a budget
B. Using savings to pay off a loan early
C. Renting an apartment to save for the purchase of a home
D. Investing in a mutual fund to accumulate retirement funds
E. Purchasing auto insurance to cover the needs of dependents

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-03 Develop personal financial goals.
Level of Difficulty: Intermediate
Topic: Financial Goals

64. Lynn Roy will retire in the next year and has $675,000 in savings and investments and owns her own home that is worth $250,000. Which step in the financial planning process does this situation demonstrate?
A. Determining her current financial situation
B. Developing her financial goals
C. Identifying alternative courses of action
D. Evaluating her alternatives
E. Implementing her financial plan

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Intermediate
Topic: Financial Planning Process
Topic: Financial Planning Process

65. Lynn Roy wants to travel after she retires as well as pay off the balance of the loan she has on the home she owns. Which step in the financial planning process does this situation demonstrate?
A. Determining her current financial situation
B. Developing her financial goals
C. Identifying alternative courses of action
D. Evaluating her alternatives
E. Implementing her financial plan

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Intermediate
Topic: Financial Planning Process
Topic: Financial Planning Process

66. Lynn Roy wants to travel around the world. Lynn Roy has several options she can pursue. She can continue to work full time to earn the money she needs for her trip. She can work part time so that she can still earn some money but have the time necessary to complete her trip. She can take full retirement so that she has all the time necessary to complete her trip. Which step in the financial planning process does this scenario demonstrate?
A. Determining her current financial situation
B. Developing her financial goals
C. Identifying alternative courses of action
D. Evaluating her alternatives
E. Implementing her financial plan

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Intermediate
Topic: Financial Planning Process
Topic: Financial Planning Process

67. Lynn Roy knows that if she continues to work full time, it will be difficult for her to get the time off she needs to be able to travel around the world. However, if she continues to work full time she will more easily earn the money she needs to take her trip and still have money left for her living expenses after she gets back from her trip. Which step in the financial planning process does this scenario demonstrate?
A. Determining her current financial situation
B. Developing her financial goals
C. Identifying alternative courses of action
D. Evaluating her alternatives
E. Implementing her financial plan

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Intermediate
Topic: Financial Planning Process
Topic: Financial Planning Process

68. Lynn Roy has decided to take retirement from her job and use the time she has earned to travel around the world. She has decided to start her trip around the world in Europe by train and bus and will use her savings to pay for her trip. Which step in the financial planning process does this scenario demonstrate?
A. Developing her financial goals
B. Identifying alternative courses of action
C. Evaluating her alternatives
D. Implementing her financial plan
E. Reviewing and revising her financial plan

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Intermediate
Topic: Financial Planning Process
Topic: Financial Planning Process

69. Lynn Roy's goal has been to travel around the world. She has now been traveling for six months and she has decided she is a little tired of living out of a suitcase. She has decided to go home, look for a part time job and take shorter trips to locations around the world that appeal to her. Which step in the financial planning process does this scenario most likely demonstrate?
A. Developing her financial goals
B. Identifying alternative courses of action
C. Evaluating her alternatives
D. Implementing her financial plan
E. Reviewing and revising her financial plan

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Intermediate
Topic: Financial Planning Process
Topic: Financial Planning Process

70. John Gleason is interested in purchasing a 46" rear projection TV for his living room. John knows that right now the TV will cost approximately $1500. John is not sure he can afford this TV right now but is worried that if he waits, the cost of the TV will rise to $1800. Which type of risk is John worried about?

A. Inflation risk
B. Interest rate risk
C. Income risk
D. Personal risk
E. Liquidity risk

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Intermediate
Topic: Components of financial planning

71. John Gleason is interested in purchasing a 46" rear projection TV for his living room. He knows that right now the TV will cost approximately $1500. John wants to borrow the money to purchase the TV but is a little concerned because he thinks interest rates are going to fall in the future. He is worried that he might get stuck with a loan at a high interest rate. What type of risk is John worried about?

A. Inflation risk
B. Interest rate risk
C. Income risk
D. Personal risk
E. Liquidity risk

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Intermediate
Topic: Components of financial planning

72. John Gleason is interested in purchasing a 46" rear projection TV for his living room. He knows that right now the TV will cost approximately $1500. However, John is a little concerned about his job. John is a pilot for Delta Airlines and he thinks it is possible that he could be laid off in the near future. What type of risk is John worried about?

A. Inflation risk
B. Interest rate risk
C. Income risk
D. Personal risk
E. Liquidity risk

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Intermediate
Topic: Components of financial planning

73. Mary Smith is considering investing in 30 year Corporate Bonds issued by Duke Energy Company. She knows that she will earn an interest rate of 8% by purchasing these bonds. However, she is concerned because she might need to take her money out of this investment in a year, and she has heard that she might have to sell the bonds at a significantly lower price than she will purchase them for. What type of risk is Mary concerned about?

A. Inflation risk
B. Interest rate risk
C. Income risk
D. Personal risk
E. Liquidity risk

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Intermediate
Topic: Components of financial planning

74. John Dean has just moved into a new house and needs a lawn mower since he has always lived in apartments and now he has a lawn to mow. What type of goal would this be for John?

A. Consumable-product goal
B. Durable-product goal
C. Intangible goal
D. Intermediate goal
E. Long term goal

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-03 Develop personal financial goals.
Level of Difficulty: Basic
Topic: Financial Goals

75. Melanie Walsh likes to go to the movies once a week. When she is at the movies, she generally gets a large popcorn and a drink. Melanie wants to be sure that she sets aside money each week so she can continue going to the movies. What type of goal would this be for Melanie?

A. Consumable-product goal
B. Durable-product goal
C. Intangible goal
D. Intermediate goal
E. Long term goal

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-03 Develop personal financial goals.
Level of Difficulty: Intermediate
Topic: Financial Goals

76. Paul Carter is 43 years old, married and has three children, ages 13, 10 and 5. Which influence on financial decisions does this demonstrate?
A. Adult Life Cycle
B. Economic Factors
C. Global Influences
D. Opportunity Costs
E. None of these.

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning.
Level of Difficulty: Intermediate
Topic: Life Cycle

77. One aspect of financial planning is to make wise decisions using a plan as to what to purchase and when to purchase it. Which aspect of financial planning does this deal with?
A. Borrowing
B. Spending
C. Managing Risk
D. Investing
E. Retirement and Estate Planning

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-05 Identify strategies for achieving personal financial goals for different life situations.
Level of Difficulty: Intermediate
Topic: Components of Financial Planning

78. One aspect of financial planning is to use credit appropriately/wisely. Which aspect of financial planning does this deal with?
A. Borrowing
B. Spending
C. Managing Risk
D. Investing
E. Retirement and Estate Planning

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-05 Identify strategies for achieving personal financial goals for different life situations.
Level of Difficulty: Intermediate
Topic: Components of Financial Planning

79. One aspect of financial planning is to make sure you maintain adequate insurance coverage for your needs. Which aspect of financial planning does this deal with?
A. Borrowing
B. Spending
C. Managing Risk
D. Investing
E. Retirement and Estate Planning

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-05 Identify strategies for achieving personal financial goals for different life situations.
Level of Difficulty: Intermediate
Topic: Components of Financial Planning

80. One aspect of financial planning is to buy stocks, bonds and mutual funds with the potential for long term growth. Which aspect of financial planning does this deal with?
A. Borrowing
B. Spending
C. Managing Risk
D. Investing
E. Retirement and Estate Planning

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-05 Identify strategies for achieving personal financial goals for different life situations.
Level of Difficulty: Intermediate
Topic: Components of Financial Planning

81. When prices are rising at a rate of 2 percent, the cost of products and services would double in ______ years.
A. 3
B. 6
C. 18
D. 36
E. 72

Rule of 72, 72/2 = 36

Accessibility: Keyboard Navigation
Blooms: Apply
Gradable: automatic
Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning.
Level of Difficulty: Intermediate
Topic: Time value of money - number of periods

82. Resources for financial planning can be found from:
A. print and media.
B. digital sources.
C. financial institutions.
D. financial experts.
E. All of these.

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Basic
Topic: Financial plan development

83. The annual price increase for consumer goods and services measured by the Bureau of Labor Statistics is called ________.
A. deflation
B. inflation
C. the consumer price index
D. the price calculator
E. the goods index

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning.
Level of Difficulty: Basic
Topic: Economic conditions and factors

84. If you desire your savings to double in 6 years, what rate of return would you need to earn?
A. 6 percent
B. 8 percent
C. 9 percent
D. 10 percent
E. 12 percent Rule of 72, 72/x = 6, 6X = 72, 72/6 = 12

Accessibility: Keyboard Navigation
Blooms: Apply
Gradable: automatic
Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning.
Level of Difficulty: Advanced
Topic: Time value of money - interest rates and inflation

85. A family spends $40,000 on living expenses. With an annual inflation rate of 3 percent, they can expect to spend approximately _______ in three years.
A. $40,300
B. $41,200
C. $42,000
D. $43,720
E. $46,000

Future value calculation (Exhibit 1-A in Chapter 1 appendix) $40,000 × 1.093 = $43,720.

Accessibility: Keyboard Navigation
Blooms: Apply
Gradable: automatic
Learning Objective: 01-04 Calculate time value of money situations to analyze personal financial decisions.
Level of Difficulty: Intermediate
Topic: Future Value

86. The future value of $1,000 deposited each year for 5 years earning 4 percent would be *approximately:*
A. $5,000
B. $5,250
C. $5,400
D. $6,500
E. $8,200

Future Value of an annuity (Exhibit 1-B in Chapter 1 appendix), $1,000 × 5.416 = $5416.

Accessibility: Keyboard Navigation
Blooms: Apply
Gradable: automatic
Learning Objective: 01-04 Calculate time value of money situations to analyze personal financial decisions.
Level of Difficulty: Intermediate
Topic: Future Value

87. You are planning to buy a house in five years. How much do you need to deposit today to have a $10,000 down payment if your investment will make 6%?
A. $6,000
B. $6,590
C. $7,470
D. $9,400
E. $10,000

Present Value (Exhibit 1-C in Chapter 1 appendix), $10,000 × .747 = $7470.

Accessibility: Keyboard Navigation
Blooms: Apply
Gradable: automatic
Learning Objective: 01-04 Calculate time value of money situations to analyze personal financial decisions.
Level of Difficulty: Intermediate
Topic: Present Value

88. John is planning to go to graduate school in a program that will take three years. John wants to have $10,000 available each year for his school and living expenses. If he earns 6% on his investments, how much must be deposited at the start of his studies for him to withdraw $10,000 a year for three years?
A. $10,000
B. $18,390
C. $26,730
D. $29,100
E. $30,000

Present Value of annuity (Exhibit 1-D in Chapter 1 appendix), $10,000 $\times$2.673 = $26,730

Accessibility: Keyboard Navigation
Blooms: Apply
Gradable: automatic
Learning Objective: 01-04 Calculate time value of money situations to analyze personal financial decisions.
Level of Difficulty: Intermediate
Topic: Present Value

89. Mary Sander's new job is very demanding. She regularly works long hours and on the weekends. As a result, Mary has not had much time for her family and friends. This is an example of:
A. deflation.
B. financial opportunity cost.
C. personal opportunity cost.
D. time value of money.
E. inflation.

Accessibility: Keyboard Navigation
Blooms: Apply
Gradable: automatic
Learning Objective: 01-04 Calculate time value of money situations to analyze personal financial decisions.
Level of Difficulty: Intermediate
Topic: Opportunity costs

90. During __________, even though prices decline, spending slows because consumers expect prices to continue to decline.
A. deflation
B. depreciation
C. appreciation
D. economic recovery
E. inflation

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning.
Level of Difficulty: Intermediate
Topic: Economic conditions and factors

91. Financial institutions include the following:
A. banks.
B. credit unions.
C. insurance companies.
D. investment companies.
E. All of these.

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Basic
Topic: Financial system

92. More recently, the annual price increase for most goods and services as measured by the consumer price index has been less than ____ percent.
A. 1
B. 2
C. 3
D. 4
E. 5

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning.
Level of Difficulty: Intermediate
Topic: Economic conditions and factors

93. Increased home building results in:
A. increased job opportunities.
B. higher wages.
C. increased consumer spending.
D. overall economic expansion.
E. All of these.

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning.
Level of Difficulty: Intermediate
Topic: Economic conditions and factors

94. Developing financial goals is the ______ step in the financial planning process.
A. first
B. second
C. third
D. fourth
E. fifth

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Intermediate
Topic: Financial Planning Process
Topic: Financial Planning Process

95. The following are examples of intangible goals, except:
A. obtaining a college degree.
B. going on a cruise vacation.
C. buying a house.
D. losing weight.
E. getting more sleep.

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-03 Develop personal financial goals.
Level of Difficulty: Basic
Topic: Financial Goals

96. Developing and using a budget is part of which component of financial planning?
A. Retirement and Estate Planning
B. Investing
C. Spending
D. Managing Risk
E. Planning

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-05 Identify strategies for achieving personal financial goals for different life situations.
Level of Difficulty: Intermediate
Topic: Components of Financial Planning

97. Determining your current financial situation is a part of which step in the financial planning process?
A. First
B. Second
C. Third
D. Fourth
E. Fifth

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Intermediate
Topic: Financial Planning Process
Topic: Financial Planning Process

98. Measuring risk associated with making most financial decisions is difficult because of what factor(s)?
A. Inflation risk
B. Interest Rate risk
C. Personal risk
D. Liquidity risk
E. All of these.

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Basic
Topic: Components of financial planning

99.

Financial planning information sources generally do not include:

A.

Print and Media

B. Financial Experts
C.

Financial Institutions

D. Personal Friends
E. Digital Sources

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Intermediate
Topic: Financial Planning Process
Topic: Financial Planning Process

100. Inflation risk may include changes in buying power and:
A.

rising prices.

B. falling prices
C. decisions to buy later
D. decisions to buy now.
E. All of these.

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Intermediate
Topic: Economic conditions and factors

101. Types of risks associated with financial decisions may include:
A. Income risk
B. Personal risk
C. Liquidity risk
D. Inflation risk
E. All of these

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Intermediate
Topic: Types of risk

102.

Developing financial goals does not involve:

A. Analyzing your financial values several times a year
B. Differentiating your needs from your wants
C. Allowing others to decide which goals you should pursue
D. Creating specific financial goals
E. None of these

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Intermediate
Topic: Financial Planning Process
Topic: Financial Planning Process

103. Analyzing your current financial position is a part of which step of the financial planning process:
A. Step 1, Determine current financial situation
B. Step 2, Develop financial goals
C. Step 3, Identify alternative courses of action
D. Step 4, Evaluate alternatives
E. Step 5, Create and implement the action plan

Accessibility: Keyboard Navigation
Blooms: Remember
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Basic
Topic: Financial Planning Process
Topic: Financial Planning Process

104. The advantages of personal financial planning include:
A.

Increased effectiveness in obtaining, using and protecting your financial resources

B. Increased control of your financial affairs by avoiding excessive debt and bankruptcy
C. Improved personal relationships resulting from better communicated financial decisions
D. All of these
E. None of these

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Intermediate
Topic: Financial Planning Process
Topic: Financial Planning Process

105. Personal financial activities involve the following main decision areas:
A. Spending
B. Saving
C. Sharing
D. All of these
E. None of these

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Intermediate
Topic: Financial Planning Process
Topic: Financial Planning Process

106. When identifying alternative courses of action, possible courses of action include:
A. Continue with the same course of action
B. Expand the past situation
C. Change the past situation
D.

Take an old course of action

E. All of these

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Intermediate
Topic: Financial Planning Process
Topic: Financial Planning Process

107. If you are concerned about year-end tax payments and need an action plan, you may take the following action(s):
A. increase the amount withheld from each paycheck
B. file quarterly tax payments
C.

shelter current income in a tax-deferred retirement program

D. invest in tax-exempt securities
E. All of these

Accessibility: Keyboard Navigation
Blooms: Understand
Gradable: automatic
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Intermediate
Topic: Financial Planning Process
Topic: Financial Planning Process

108. Describe the S-M-A-R-T approach to financial planning goal setting. Give an example.

Financial Goals should be specific, measurable, action-oriented, realistic and time-based. Examples will vary.

Blooms: Apply
Gradable: manual
Learning Objective: 01-03 Develop personal financial goals.
Level of Difficulty: Intermediate
Topic: Financial Goals

109. What are the eight Components of Financial Planning?

The main Components of Financial Planning are obtaining, planning, saving, borrowing, spending, managing risk, investing, and retirement and estate planning.

Blooms: Remember
Gradable: manual
Learning Objective: 01-05 Identify strategies for achieving personal financial goals for different life situations.
Level of Difficulty: Intermediate
Topic: Components of Financial Planning

110. People are commonly overwhelmed by the many influences on personal financial decisions. What are the factors affecting financial planning?

Students answers will vary. Factors might include life situation and personal values. Life situation is affected by household size, age, income level, marital status, employment, and values. The financial system and daily economic activities also influence financial planning.

Blooms: Remember
Gradable: manual
Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning.
Level of Difficulty: Intermediate
Topic: Components of financial planning

111. What types of risks are commonly associated with personal financial decisions? How can these risks be evaluated and minimized to reduce personal and financial difficulties?

Common risks are inflation risk, interest rate risk, income risk, personal risk, and liquidity risk. Risks can be evaluated and minimized by obtaining information, comparing alternatives before making a decision, and obtaining insurance.

Blooms: Understand
Gradable: manual
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Intermediate
Topic: Types of Risk

112. Linda Ashworth is trying to decide whether to keep her money in a savings account or in a mutual fund. What would you tell her to help her analyze her decision?

Students answers will vary. Suggested responses might mention gathering information, comparing alternatives, analyzing risks, assessing personal goals, and contacting financial planning experts.

Blooms: Understand
Gradable: manual
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Intermediate
Topic: Financial Planning Process
Topic: Financial Planning Process

113. What are the six steps in the financial planning process?

The personal financial planning process involves: (1) determine your current financial situation, (2) develop financial goals, (3) identify alternative courses of action, (4) evaluate alternatives, (5) create and implement a financial action plan, and (6) review and revise the financial plan.

Blooms: Remember
Gradable: manual
Learning Objective: 01-01 Analyze the process for making personal financial decisions.
Level of Difficulty: Basic
Topic: Financial Planning Process
Topic: Financial Planning Process

114. Explain why borrowers benefit more than lenders in times of high inflation.

Inflation can also adversely affect lenders of money. Unless an adequate interest rate is charged, amounts repaid by borrowers in times of inflation have less buying power than the money they borrowed. If you pay 10 percent interest on a loan and the inflation rate is 12 percent, the dollars you pay the lender have lost buying power.

Blooms: Understand
Gradable: manual
Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning.
Level of Difficulty: Advanced
Topic: Economic conditions and factors

115. What is meant by the term "Time Value of Money?"

Time value of money refers to the increase of an amount of money as a result of interest earned. You can calculate the increased value of your money in two ways: You can calculate the total amount that will be available later (future value) or you can determine the current value of an amount desired in the future (present value). Future value and present value can both be calculated by using a single sum or an annuity.

Blooms: Remember
Gradable: manual
Learning Objective: 01-04 Calculate time value of money situations to analyze personal financial decisions.
Level of Difficulty: Intermediate
Topic: Time Value of Money

116. Describe the relationship between the annual inflation rate and prices using the Rule of 72.

The Rule of 72 helps determine how fast prices (or your savings) will double using the following formula: 72 / annual inflation rate = number of years it takes to double prices (or your savings)

Blooms: Apply
Gradable: manual
Learning Objective: 01-02 Assess personal and economic factors that influence personal financial planning.
Level of Difficulty: Advanced
Topic: Time Value of Money: Interest Rates and Inflation

Chapter 01 Testbank - Static Summary

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