

Chapter 8: Assessment Answer Keys

**Please note that assessment questions are randomized in our FoundationsDigital platform for each student. Therefore, the order these questions will appear for each student will vary.*

Chapter 8 Pre/Post-test

1. A young investor willing to take moderate risk for above-average growth would be most interested in:
 - Single stocks
 - Bonds
 - Mutual funds
 - Real estate
2. If you leave a job and have money saved in your employer's retirement plan, always roll that money into an IRA using a direct rollover, which allows you to avoid taxes and penalties.
 - True
 - False
3. A mutual fund portfolio that is properly diversified will have all investment dollars located in just one of four different classes of financial assets.
 - True
 - False
4. Savings accounts and money-market accounts are most appropriate for:
 - Long-term investments like retirement
 - Earning a high rate of return
 - Emergency funds and short-term goals
 - Savings accounts and money-market accounts should be avoided since they carry high risk

5. You should start investing as soon as you have your college education funded.

- True
- False

6. Which statement is false about liquidity?

- The more liquid an investment, the more return
- The less liquid the investment, the less return
- The more liquid an investment, the less return
- Both A and B

7. A savings plan operated by a state or educational institution designed to help families set aside funds for future college costs

- 529 Plan
- Guaranteed Investment Contract

8. The benefit of diversification in your investments is:

- Reduced risk
- Reduced tax liability
- Increased return
- Increased risk

9. The government agency responsible for regulating the stock market

- Federal reserve
- Securities exchange commission

10. Saving and investing have nothing to do with the amount of money you make.

- True
- False

11. A reason that people need to save and invest is to:

- Enable their money to make money
- Increase the money supply
- Be able to get anything they want
- Have an opportunity to talk with financial service providers

12. When buying and selling investments, you should not:

- Switch your investment strategy often, based on market conditions
- Understand basic investment strategies and identify ones that will help you reach your goals
- Set your investment goals and consider a time frame
- Learn the different types of investments

13. Which of the following statements about the stock market is false?

- The terms bull market and bear market describe upward and downward market trends.
- The stock market is a generic term that encompasses the trading of securities.
- The Dow Jones Industrial Average is one measure of the stock market.
- Formed in 1792, the New York Stock Exchange (NYSE) is the smallest organized stock exchange in the United States.

14. In some cases, employers will match the employee contribution, but you should fund your plan whether your company matches or not. This statement refers to:

- Single stocks
- Roth IRA
- Bond funds
- 401(k)

15. Which of the following is a good investment option?
 - Gold
 - Viaticals
 - Mutual funds
 - Futures
16. Money that is invested, either tax deferred or tax free, within a retirement plan
 - Tax-favored dollars
 - Dividend
17. Long-term investments, properly diversified, include the following mutual funds:
 - Growth, balanced, international, bond
 - Growth, growth and income, international, aggressive growth
 - International, bond, aggressive growth, growth
 - Growth, growth and income, bond, aggressive growth
18. The purpose of war bonds is to finance military operations during war time. The last time the United States issued war bonds was during the Vietnam War
 - True
 - False
19. Single stocks and mutual funds carry the same amount of risk.
 - True
 - False

20. To ensure that some of your retirement savings will not be subject to income tax upon withdrawal, you would contribute to:
- A 401(k)
 - A Roth IRA
 - An annuity
 - A traditional IRA
21. 11. A retirement plan found in nonprofit organizations such as churches, hospitals and schools.
- GIC
 - 457
 - 401(k)
 - 403(b)
22. Securities that represent part ownership or equity in a corporation
- Stocks
 - Bonds
23. Company X's board of directors has decided to issue a portion of its earnings to its shareholders. If you own stock in Company X, you can expect to receive a(n):
- Investment
 - Dividend
 - Buy-out
 - Yield
24. If you get into financial trouble, borrowing against your retirement plan is a good option.
- True
 - False

25. Relationship of substantial reward compared to the amount of risk taken

- Risk-return ratio
- Investment strategy

26. Federal agency responsible for collecting taxes and for the interpretation and enforcement of the Internal Revenue Code

- Internal Revenue Service
- Federal Deposit Insurance Corporation

27. Employee benefits packages:

- Should not be a consideration when looking for a job
- Are the same regardless of the company you work for
- Never include retirement plans
- Are non-wage compensations provided to employees in addition to their normal wages or salaries

28. A list of your investments

- Bank statement
- Portfolio

29. Quality of an asset that permits it to be converted quickly into cash without loss of value; availability of money

- Risk
- Liquidity

30. A savings account sold by an insurance company, designed to provide payments to the holder at specified intervals, usually after retirement.

- Money market
- Mutual fund
- Single stock
- Annuity

31. You can start investing with a small amount of money.
- True
 - False
32. Good investment portfolios are extremely complex.
- True
 - False
33. Distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders
- Interest
 - Dividend
34. Money markets are great for your emergency fund due to their liquidity and stability.
- True
 - False
35. Piece of ownership in a company, mutual fund or other investment
- 401k
 - Share

Chapter 8, Section 1 (Video 1:1b) Quiz “Investment Tips”

1. Never, ever, ever buy something that you don't

_____.

- Like
- Need
- Understand
- Want

2. What does the KISS Principle stand for?

- Keep it simple, stupid
- Keep it securely saved
- Keep it stock safe
- Keep it selling softly

3. People often become wealthy by using a painfully simple strategy.

- True
- False

4. How do you know if someone has a heart of a teacher?

- You'll see it in their passion
- They'll have good reviews
- You'll learn from them
- They will be the most expensive

Chapter 8, Section 1 (Video 1:2a) Quiz “Never Invest Using Borrowed Money”

1. Diversification means to spread around your assets.

- True
- False

2. Never invest using _____ money.

- Family
- Borrowed
- Diversified
- Pre-tax

3. Your primary motivation for investing is for tax savings.

- True
- False

4. The best investments are quick and are only available for a limited time.

- True
- False

Chapter 8, Section 1 (Video 1:2c) Quiz “Risk-Return Ratio and Liquidity”

1. As risk goes up, your return on investment should go up.

- True
- False

2. Liquidity means that your money is tied up and unavailable.

- True
- False

3. What is one common type of investment that often goes over-looked?

- Automobiles
- Antiques
- Homes
- Land

4. Saving is for 5 years or _____.

- More
- Less

5. Investing is for 5 years or _____.

- More
- Less

Chapter 8, Section 2 (Video 2:1b) Quiz “Types of Investments”

1. A _____ account is the same as a C.D. except you have check writing privileges, and you don't have to pay fees to withdrawal money.
 - Savings Plus
 - Stock Monitoring
 - Mutual Fund
 - Money Market
2. A Certificate of Deposit (C.D.) is a great way to invest your money.
 - True
 - False
3. Which of the following is NOT a trait of a millionaire?
 - Hard working
 - Fanatical integrity
 - Honest
 - Charismatic

Chapter 8, Section 2 (Video 2:1b) Quiz “Stocks and Bonds”

1. Bonds are a(n) _____ instrument.
 - Savings
 - Investing
 - Debt
 - Spending
2. When you own a stock and the company increases in value, your return goes down.
 - True
 - False
3. When you buy a stock, you're actually buying a piece of _____ in the company.
 - Value
 - Investment
 - Ownership
 - Profitability
4. Taking money out of a stock investment is called a dividend.
 - True
 - False

Chapter 8, Section 2 (Video 2:2a) Quiz “What is a Mutual Fund?”

1. When investing with a mutual fund, your return comes when the value of the fund increases.
 - True
 - False
2. Diversification increases risk.
 - True
 - False
3. If you invested in foreign countries' company stocks, you would call that a:
 - Foreign Savings Fund
 - International Stock Mutual Fund
 - Global Investment Fund
 - International Growth Opportunity Fund

Chapter 8, Section 2 (Video 2:2c) Quiz “Long-Term Investments”

1. Which of these is NOT one of the 4 areas to invest your mutual fund?
 - Growth stock
 - Growth & Income
 - Intense growth
 - International
2. You want to invest in mutual funds that have a positive track record for at least the last 5-10 years.
 - True
 - False
3. It is impossible for find a 12% rate of return on your investment.
 - True
 - False

Chapter 8, Section 2 (Video 2:3a) Quiz “Qualified Plans”

1. A Roth IRA is an after-tax retirement plan that grows _____ free.

- Duty
- Fee
- Interest
- Tax

2. What is the average rate of return on a standard savings account?

- 1%
- 2%
- 3%
- 4%

3. An annuity is a great way to invest your money while "playing it safe."

- True
- False

4. The Rule of 72 is a way to determine how long an investment will take to double.

- True
- False

5. You should do all of these before you start investing, except which of the following?

- Have a fully funded emergency fund
- Have a fully funded college education
- Own a home
- Be 100% debt-free

Chapter 8, Section 2 (Video 2:3b) Quiz “Real Estate”

1. In real estate, you make your money at the _____.

- Auction
- Buy
- Sell
- Bank

2. When buying real estate, you should negotiate the best deal on your own.

- True
- False

3. Real estate is a short-term investment.

- True
- False

Chapter 8, Section 3 (Video 3:1a) Quiz “Employer Benefits and Retirement Plans”

1. Employer benefits are designed to increase employee's financial security.

- True
- False

2. There are many different types of retirement plans including: SEPP, 401k, 403b, and 457.

- True
- False

3. Which of the following is NOT an example of an employee benefit?

- Sick days
- Vacation days
- Income
- Educational reimbursements

4. It's okay to borrow from some types of retirement plans.

- True
- False