1. The SMART approach ensures that your financial goals to be achieved and no review and revision will be needed.
   Ans: F
   Even though you have taken a smart approach when set up your goals, there may be changes in personal and economic factors which preclude you from achieving the goals. Also, they may affect the need and priority of the current goals. Regular revision is needed.

2. When a budget variance exists, it is necessary to revise our plan.
   Ans: F
   A budget variance exists when there is a difference between the expected and actual income/expenditure. We should not revise our plan for a small and occasionally exist variance only if the size to be significant large and it exists consistently.

3. Home foreclosure allows banks to recover the full amount of loan when homeowners suffer from negative equity.
   Ans: F
   Negative equity means the value of outstanding liability is larger than the current value of the home. Even though banks can sell the homes out through home foreclosure, the value can't cover the full value of the loan.

4. If a person enjoys high net worth, he may still suffer from financial difficulties, like insolvency.
   Ans:T
   High net worth does not calculate the money available to use, as some of the assets are ill liquid. If they fall short of liquidity, they may not be able to meet the short term debts when they are due.

5. The total debt payments of a person should be limited to one-third of his disposable income.
   Ans: F
   The total debts including consumer credits and mortgage payments. Financial guideline suggests that consumer credits payments should be limited to 20% and mortgage payments should be no more than one-third of disposable income. So, the total amounts should be less than 53-60%.

6. "I want to buy a car at $50,000 next year" is not a smart goal.

Ans: T

It is measurable and time framed. However, there is no action connected to the goal, so not action oriented. Also, it is not specific enough as no type and model of the car are specified.

7. Both saving and borrowing are the solutions of the inconsistent between the flow of income and expenditure, enhancing the effectiveness in using our financial resources.

   Ans: T

   Both saving and borrowing allow the transfer of funding from the future to the present. They allow us to transfer our excess funding with lower value to the time we need it and hence increasing the value of the money used.

8. Rising property price will not increase the cost of home ownership.

   Ans: F

   Even though the price of the property does not count as a part of opportunity cost of home ownership, some costs depending on the property price will increases. Interest on mortgage loans, for example, will be larger if the size of the loan increase.

9. Below shows the information of two saving options offered by Citibank in HK and HSBC in UK:

	Interest rate	Compound period
Citibank (HK)	3% per annum	Annually
HSBC (UK)	0.9%	Quarterly

   As the annual percentage yield (APY) on the saving with HSBC is higher, it is a better choice for saving.

   Ans: F

   The APY on HSBC is 3.65% > APY on Citibank 3%. However, the savings are in different countries, we need to know the taxation system before making the final decision.

10. A pay rise may not improve the living standard of a worker.

    Ans: T

    The pay rise will increase the nominal income of the worker. The living standard is measured in terms of purchasing power (real income). If the inflation rate is higher than the rate of pay rise, the purchasing power (real income) decreases.

11. A regular saving may be regarded as a fixed expense.
    Ans: T
    Money set aside each money for payments due once or twice a year is counted as fixed expense.

12. The stated interest rate of an Add-on single payment loan does not tell the actual cost of the loan as the compounding effect is not considered.
    Ans: F
    The interest on an Add On loan is calculated by simple interest and hence no compounding effect will be generated. It doesn't tell the actual cost of borrowing because the interest is charged by the time when the loan is made, such that the loan amount is reduced. So, the actual interest rate, annual percentage rate (APR), is higher than the stated interest rate.

13. The table below shows the transactions with a credit card charging interest monthly.

Date	Spending	Repayment
2nd March	\$2,000	
4th March	\$3,500	
7th March		\$2,000
14th March		\$200

Assuming that interest is the only finance charge, no grace period, and the interest is calculated by the Average Daily Balance method and the interest rate is 24% per annum, the interest charged will be \$67.35.
Ans: T
interest = (104400/31)x(0.36/12)=67.35

14. Carrie purchased her home with a 20-year mortgage loan with a monthly repayment of \$8,000. If there are five payments left, \$40,000 will be record as long-term liability on her personal balance sheet.
    Ans: F
    Liability is a debt you owe now, not you may owe in the future. The interests to be charged on the future payments are not a liability. Also, as the mortgage will be repaid in full in a year, it is counted as current liability.

15. Different combination 5Cs is used to measure the willingness and ability in repaying loans for an individual according to his personal factor.
Ans: F
The 5Cs are Character, capacity, collateral, capital and condition. Character, capacity, collateral, and capital are personal factors, but condition is about the general economic condition.

16. Closed-end loan, instead of open-end loan, should be used for financing long term goals.
Ans: T
As no new application and no fixed repayment are required for open-end loan, it is more flexible. The interest rate charged on open-end loans is generally higher then closed-end loan.

17. A saving of $1,000 will become $1,269.73 after two years if the yield is 12% and interest is compounded monthly.
Ans: F
Rate of return (or Yield) is the percentage of increase in the value of savings because of interest earned. There is no adjustment for the time period and compounding needed. When the yield is 12%, the amount will become $1,200.

18. The deposit protection scheme protects banks from the existence of bank run due to the spread of rumors about the healthiness of the banking system.
Ans: T
As depositors with saving less than a certain amount can get their deposits back, they don't worry much about a bank run. This reduces the chance of massive withdrawal at the same time and hence the chance of a bank run.

19. John is considering purchasing a car by taking a 5-year loan which charges him an annual interest rate of 8%. If he can afford a down payment of $40,000 and a monthly payment of $5,000 which is paid at the end of each month, the maximum amount he can spend on the car is $286,592.
Ans: T
$286,592 = 5,000 x [1-1/(1+8%/12)^60]/(8%/12) + 40000

20. Given that the maximum loan-to-value ratio is 70%, mortgage plan A is more suitable to a home buyer if he is going to buy a flat at $6.8M and afford a maximum down payment of $2.1M and he will sell the flat out after 5 years. (Ignore the mortgage insurance programme)

	A	B
Mortgage rate	2.6%	2%
Estimated value	7M	6.5M
Cash reimbursement	0.8% of loan value	1.5% of loan value
Interest penalty period	5% of loan value within the first two years.	5% of loan value within the first four years.

Ans: T

The minimum loan amount needed is 6.8M – 2.1M = 4.7M. The loan amounts for plan A and B are 7Mx0.7=4.9M and 6.5Mx0.7=4.55M. Plan A is more suitable as it provides sufficient loan amount although the interest rate to be higher.