1. The most important financial planning for young people concerns

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| --- | --- | --- |
|  | a. | career. |
|  | b. | insurance. |
|  | c. | investment. |
|  | d. | taxes. |
|  | e. | retirement. |

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| *ANSWER:* | a |

2. Inflation refers to

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|  | a. | rising prices. |
|  | b. | declining interest rates. |
|  | c. | the opposite of wealth. |
|  | d. | the opposite of stagflation. |
|  | e. | declining prices. |

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| *ANSWER:* | a |
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3. Which of the following is a measure of inflation based on changes in the cost of a market basket of consumer goods and services?

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|  | a. | Inflation |
|  | b. | Consumer price index (CPI) |
|  | c. | Purchasing power |
|  | d. | None of these |

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| *ANSWER:* | b |
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| 4. A strong economy leads to   |  |  |  |  | | --- | --- | --- | --- | |  |  | a. | lower inflation. | |  |  | b. | lower interest rates. | |  |  | c. | higher employment. | |  |  | d. | lower productivity. | |  |  | e. | higher unemployment. |  |  |  | | --- | --- | | *ANSWER:* | c | |  |  | |

5. Effective financial plans should

|  |  |  |
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|  | a. | consider your wants and needs. |
|  | b. | consider your financial resources. |
|  | c. | reflect your personality. |
|  | d. | reflect your emotional reactions to money. |
|  | e. | do all of these. |

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| *ANSWER:* | e |

7. Sonny and Cher have a net worth of $35,000 and total assets of $200,000. If their revolving credit and unpaid bills total $2,200, what are their long-term liabilities?

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| --- | --- | --- |
|  | a. | $115,000 |
|  | b. | $140,000 |
|  | c. | $142,200 |
|  | d. | $162,800 |
|  | e. | $165,000 |

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| *ANSWER:* | d |

8. You would not include \_\_\_\_ on an income and expense statement.

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| --- | --- | --- |
|  | a. | the value of your stock portfolio |
|  | b. | taxes withheld |
|  | c. | utilities paid |
|  | d. | mortgage payments |
|  | e. | charitable payments |

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| *ANSWER:* | a |

9. Using personal balance sheet information, the \_\_\_\_ ratio indicates your ability to meet current debt payments.

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|  | a. | solvency |
|  | b. | liquidity |
|  | c. | cash |
|  | d. | savings |
|  | e. | debt service |

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| *ANSWER:* | b |

10. The need for budget adjustments is indicated when

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|  | a. | income is stable. |
|  | b. | account deficits and surpluses balance out. |
|  | c. | account deficits are more than surpluses. |
|  | d. | a new calendar year begins. |
|  | e. | short-term financial goals are achieved. |

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| *ANSWER:* | c |

11. A lump sum deposit of $8,000 left in the bank for 12 years at 9% compounded annually will result in an ending balance of (select the closest answer)

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| --- | --- | --- |
|  | a. | $11,600. |
|  | b. | $16,640. |
|  | c. | $22,500. |
|  | d. | $52,938. |
|  | e. | $96,000. |

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| *ANSWER:* | c |

12. Lower interest rates on certificates of deposit are associated with

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|  | a. | higher account balances. |
|  | b. | shorter time periods. |
|  | c. | longer time periods. |
|  | d. | both a and b. |
|  | e. | both a and c. |

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| *ANSWER:* | b |

13. If you write a check for an amount greater than your account balance, the result will be

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|  | a. | an endorsement. |
|  | b. | a reconciliation. |
|  | c. | an overdraft. |
|  | d. | a share draft. |
|  | e. | a stop payment. |

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| *ANSWER:* | c |

14. If interest on a savings account is compounded semiannually, the effective rate of interest will be

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|  | a. | higher than the nominal rate. |
|  | b. | lower than the nominal rate. |
|  | c. | the same as the simple rate. |
|  | d. | equal to the nominal rate. |
|  | e. | lower than the simple rate. |

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| *ANSWER:* | a |

15. Compared to other types of deposit, checking account

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| --- | --- | --- |
|  | a. | offers the lowest rate of return |
|  | b. | provides the most convenient form in making payment |
|  | c. | can only be offered by Licensed Banks in Hong Kong |
|  | d. | a, b, and c. |
|  | e. | none of the above. |

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| *ANSWER:* | d |

16. \_\_\_\_ is a reason for owning your own home.

|  |  |  |
| --- | --- | --- |
|  | a. | Pride of ownership |
|  | b. | A feeling of permanence |
|  | c. | A sense of stability |
|  | d. | A tax shelter |
|  | e. | Any of these |

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| *ANSWER:* | e |

17. Phil and Christina are recently married and unsure of where they will be relocated after Christina finishes her residency in 9 months. Based on this information, which of the following housing recommendations would be most appropriate for them?

|  |  |  |
| --- | --- | --- |
|  | a. | Rent an apartment. |
|  | b. | Buy a condominium. |
|  | c. | Buy a single-family dwelling. |
|  | d. | Buy a cooperative apartment. |
|  | e. | Buy a manufactured home. |

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| *ANSWER:* | a |

18. If the maximum loan-to-value ratio that a lender will accept on a $100,000 home is 90 percent, then the borrower must make

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| --- | --- | --- |
|  | a. | a minimum down payment excluding closing costs of $10,000. |
|  | b. | a minimum down payment including closing costs of $10,000. |
|  | c. | closing costs plus points of $10,000. |
|  | d. | a maximum down payment of $10,000. |
|  | e. | none of these. |

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| *ANSWER:* | a |
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19. The seller of the house typically pays the

|  |  |  |
| --- | --- | --- |
|  | a. | loan application fee. |
|  | b. | real estate agent's commission. |
|  | c. | appraisal fee. |
|  | d. | points. |
|  | e. | title search and insurance. |

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| *ANSWER:* | b |

20. When refinancing your mortgage, you should consider

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|  | a. | the interest rates of the old and new mortgages. |
|  | b. | the years you expect to remain in the home. |
|  | c. | any prepayment penalties on the old mortgage. |
|  | d. | closing costs of the new mortgage. |
|  | e. | all of these. |

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| *ANSWER:* | e |

21. A \_\_\_\_ is an agency that provides credit information about individual borrowers to lenders.

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|  | a. | credit bureau |
|  | b. | consumer bureau |
|  | c. | credit statement |
|  | d. | bank |
|  | e. | credit scoring house |

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| *ANSWER:* | a |
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22. All of the following are key items lenders look at in granting credit *except*

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| --- | --- | --- |
|  | a. | income. |
|  | b. | outstanding debt. |
|  | c. | stability in employment and housing. |
|  | d. | religious affiliations. |
|  | e. | credit history. |

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| *ANSWER:* | d |

23. Besides the finance charge, you should also consider \_\_\_\_ when you shop for a consumer loan.

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| --- | --- | --- |
|  | a. | loan maturity |
|  | b. | total cost of the loan |
|  | c. | collateral requirements |
|  | d. | prepayment penalties |
|  | e. | all of the above |

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| --- | --- |
| *ANSWER:* | e |
|  |  |

24. A single-payment loan

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| --- | --- | --- |
|  | a. | is generally unsecured by collateral. |
|  | b. | usually matures in one year or less. |
|  | c. | usually matures in five to seven years. |
|  | d. | is generally used to finance auto purchases. |
|  | e. | is provided by sales finance companies. |

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| *ANSWER:* | b |

25. Sometimes it may be better to use savings rather than credit to make a purchase. This would be recommended when

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| --- | --- | --- |
|  | a. | the borrower has adequate savings. |
|  | b. | interest rates are rising. |
|  | c. | interest rates are falling. |
|  | d. | the cost of borrowing is greater than the interest earned on the savings. |
|  | e. | interest earned on savings is greater than the interest paid on the loan. |

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| --- | --- |
| *ANSWER:* | d |