Chapter 1
Personal Financial Planning

Reviewing Key Concepts

1. Explain personal financial planning and its importance.

Personal financial planning is arranging to spend, save, and invest money to live comfortably, have financial security, and achieve goals. Planning your personal finances is important because it will help you to reach your goals, no matter what they are. Some of the benefits of planning are:

- You have more money and financial security.
- You know how to use money to achieve your goals.
- You have less chance of going into debt you cannot handle.
- You can help your partner and support your children, if you have a family.

Chapter 1
Personal Financial Planning

Reviewing Key Concepts

2. Describe the six strategies of financial planning.

The six steps of financial planning are

- Determine your current financial situation
- Develop your financial goals
- Identify your options
- Evaluate your alternatives
- Create and use your financial plan of action
- Review and revise your plan

Reviewing Key Concepts

3. Describe the factors that affect personal financial decisions.

The three most important factors that influence your day-to-day decisions about finances are:

- Life situations
- Personal values
- Economic factors

Reviewing Key Concepts

4. Explain opportunity costs and how they might affect your personal financial decisions.

An opportunity cost is what is given up when making one choice instead of another. Whenever you make a choice, you have to give up, or trade off, some of your other options.
You should consider both personal and financial opportunity costs before making your financial decisions and plans.

Reviewing Key Concepts

5. List eight strategies for achieving financial goals.

The following are eight strategies for achieving financial goals:

- Obtain
- Plan
- Spend Wisely
- Save
- Borrow Wisely
- Invest
- Manage Risk
- Plan for Retirement

Chapter 2
Finances and Career Planning

Reviewing Key Concepts

1. List some of the personal issues you will need to consider when planning your career.

Personal issues to consider when choosing a career include your:

- Aptitudes
- Interests
- Personality
- Current financial situation

Reviewing Key Concepts

2. Describe factors that affect your potential earning power.

Your potential earning power will be influenced by:

- Your level of education and training
- The field of study you select

Chapter 2
Finances and Career Planning

Reviewing Key Concepts

3. Explain how current demographic trends might influence your choice of career.

Demographic trends can affect your employment opportunities

Some examples of demographic trends that have affected the job

market are:

- **More working parents**
- **More leisure time**
- **More elderly people in the overall population**
- **Greater demand for ongoing employment training**

Reviewing Key Concepts

4. List some ways you might obtain job-related experience.

You can gain experience through:

- Part-time work
- Volunteer work
- Internships
- Cooperative education
- Class projects

Reviewing Key Concepts

5. Identify sources of information to find out more about the career in which you are interested.

To evaluate career opportunities, use sources such as:

- The Internet
- Libraries
- Newspapers
- School guidance offices
- Community organizations
- Networking with people working in the field you choose

Chapter 2
Finances and Career Planning

Reviewing Key Concepts

6. Explain your rights as an employee.

As an employee, you have certain legal rights; you also have certain legal rights during the hiring process:

- An employer cannot refuse to hire a woman or terminate her employment because she is pregnant.
- An employer cannot discriminate against a person for any reason related to age, race, color, religion, gender, marital status, national origin, or any mental or physical disabilities.
- An employer must pay for unemployment insurance, contribute to Social Security, and provide for workers' compensation funds in case of a work-related injury or illness.

Chapter 3
Money Management Strategy

Reviewing Key Concepts

1. List at least three examples from your own experience of opportunity costs.

Reviewing Key Concepts

2. Explain the benefits of keeping and organizing financial records and documents.

   - Plan and measure progress.
   - Handle routine money matters.
   - Know how much money is available.
   - Make effective decisions.

Reviewing Key Concepts

3. Identify documents to store in home files, safe-deposit boxes, or on a computer.

- Birth certificates and Social Security cards
- Mortgage loan papers
- Title deeds
- Copy of will
- Tax records
- Résumé

Chapter 3
Money Management Strategy

Reviewing Key Concepts

4. Describe what you learn from a balance sheet and personal cash flow statement.

A personal balance sheet helps you to:

- Determine your net worth.
- Manage your money to meet financial goals.

A personal cash flow statement helps you to:

- Determine the amount of cash you receive.
- Determine how you use this cash.

Chapter 3
Money Management Strategy

Reviewing Key Concepts

5. List the steps in preparing a personal balance sheet and a personal cash flow statement.

To create a personal balance sheet, you will need to:

- Determine your assets
- Determine your liabilities
- Calculate your net worth
- Evaluate your financial situation

To create a personal cash flow statement, you will need to:

- Record your income
- Record your expenses
- Determine your net cash flow

Chapter 3
Money Management Strategy

Reviewing Key Concepts

6. Identify the steps in preparing a personal budget.

To create a budget, you will need to:

- Set financial goals.
- Estimate your income.
- Budget for unexpected expenses and savings.
- Budget for fixed expenses.
- Budget for variable expenses.
- Record what you spend.
- Review your spending and saving patterns.

Reviewing Key Concepts

7. Explain how you can use your budget to identify ways to increase your savings.

By creating and using a budget, you can decide to:

- Set aside a fixed amount as savings before you sit down to pay your bills.
- Take advantage of your employer's payroll savings deduction.
- Make an effort to spend less each day.

Reviewing Key Concepts

1. Explain two advantages and two disadvantages of online banking.

At any time of the day, you can use a bank's electronic services to:

- Check the status of your account.
- Make a transaction.

Security is the number one issue for online customers. You will need to be careful to ensure that you do not become a victim of identity theft.

Reviewing Key Concepts

2. Identify the services offered by the different financial institutions.

The three primary types of financial services are:

- Savings
- Payment services
- Borrowing

Chapter 5
Banking

Reviewing Key Concepts

3. Explain why a large, nationally chartered bank may be the safest place to deposit your money.

The Federal Deposit Insurance Corporation (FDIC) protects deposits in federally chartered banks and insures each account up to $100,000 per account.

Reviewing Key Concepts

4. Discuss how you benefit when interest is compounded monthly as opposed to annually.

The more frequently your balance is compounded, the greater your rate of return will be.

Reviewing Key Concepts

5. Explain the circumstances under which a person should choose a regular checking account, activity checking account, or interest-earning checking account.

Regular checking accounts usually do not require a minimum balance.

An activity account might be right for you if you:

- Write only a few checks each month.
- Are unable to maintain a minimum balance.

Interest-earning accounts pay interest if you maintain a minimum balance. If your account balance goes below the limit:

- You may not earn any interest.
- You may have to pay a service charge.

Reviewing Key Concepts

6. List the steps to take to use a checking account effectively.

To use a checking account:

- Write checks carefully.
- Endorse checks you deposit.
- Reconcile your checkbook against bank statements.

Chapter 8
Saving and Investing

Reviewing Key Concepts

1. Explain why it is important to have a goal before making investments.

Before investing, you should set financial goals that are compatible with your values.

Chapter 8
Saving and Investing

Reviewing Key Concepts

2. Describe sources of funds for investing.

You can obtain money to start investing by:

- Setting aside funds before you buy other things
- Contributing to employer-sponsored retirement plans and savings programs
- Saving gifts of money and unexpected windfalls

Reviewing Key Concepts

3. Describe a demographic group that may not prefer investment risk. Describe another demographic group that may be more comfortable with a greater degree of risk.

Beginning investors may be afraid of the risk associated with some investments. However, it helps to remember that without risk, it is impossible to obtain returns that make investments grow.

It may be easier to take risks when you:

- Are younger
- Have more experience as an investor

Reviewing Key Concepts

4. Compare the main types of investment alternatives in terms of their risk and liquidity.

The following are the main types of investment alternatives:

- Stocks
- Bonds
- Mutual funds
- Real estate

Reviewing Key Concepts

5. Write an investment plan for yourself.

A savings or investment plan starts with a specific, measurable goal. You can reach that goal through:

- A savings account
- An investment

You might also decide that you should begin saving money in an emergency fund.

Reviewing Key Concepts

6. Describe the role of the investor in the investment process.

To be a successful investor:

- Develop a plan.
- Put it into action.

Chapter 8
Saving and Investing

Reviewing Key Concepts

7. List four specific sources of financial information.

Five widely used and useful publications are:

- *Standard & Poor's Stock and Bond Guide*
- *Value Line Investment Survey*
- *Handbook of Common Stocks*
- *Morningstar Mutual Funds*
- *Wiesenberger Investment Companies Yearbook*

Reviewing Key Concepts

1. Explain why corporations prefer to issue common stock to raise funds for their operations.

Companies issue common stock to:

- Raise money to start up their businesses
- Help pay for ongoing activities

Reviewing Key Concepts

2. Explain how cumulative preferred and convertible preferred stock offer advantages to users.

Investors choose preferred stocks because they:

- Are less risky than common stocks
- Provide a steady income in the form of dividends

Chapter 9
Stocks

Reviewing Key Concepts

3. Describe why a small-cap stock is more likely to be a growth stock rather than an income stock.

Since small-cap stocks are issued by smaller, less-established companies, they are considered to be a higher investment risk.

Reviewing Key Concepts

4. Identify the advantages and disadvantages of a stock advisory service to evaluate a stock.

You can use stock advisory services to evaluate potential stock investments. Many stock advisory services charge fees for their information.

Reviewing Key Concepts

5. Describe why the price-earnings ratio is a good measure of a stock investment.

The price-earnings (PE) ratio is commonly used to compare the corporate earnings to the market price of a corporation's stock. A low PE ratio indicates that a stock may be a good investment. A high PE ratio tells you that it might be a poor investment. Generally, you should study the price-earnings ratio for a corporation over a period of time so that you can see a range.

Chapter 9
Stocks

Reviewing Key Concepts

6. List the differences among market order, limit order, and stop order.

A market order is a request to buy or sell a stock at the current market value.
A limit order is a request to buy or sell a stock at a specified price.
A stop order is a type of limit order to sell a particular stock at the next available opportunity when the market price reaches a specified amount.

Reviewing Key Concepts

7. Identify the tax advantages of long-term investment strategies.

To avoid loss in your investments, you will want to use long-term techniques such as:

- The buy-and-hold technique
- Dollar cost averaging
- Direct investment
- Dividend reinvestment

Chapter 10
Bonds and Mutual Funds

Reviewing Key Concepts

1. Explain the advantages of the call feature on bonds to corporations and to investors.

A corporation may choose to buy back its bonds early when interest rates drop a certain percentage to keep from paying bondholders interest at the higher rate.

When a company calls its bonds, it may have to pay bondholders a premium.

Chapter 10
Bonds and Mutual Funds

Reviewing Key Concepts

2. Explain why corporations may prefer to issue bonds to raise funds for their operations.

Corporations sell bonds to:

- Raise money when it is difficult or impossible to sell stock
- Finance regular business activities
- Reduce the amount of tax a corporation must pay because the interest paid to bondholders is tax-deductible

Chapter 10
Bonds and Mutual Funds

Reviewing Key Concepts

3. Explain how the market value of a bond is determined.

A bond's value can be affected by:

- The financial condition of the company that issues it
- Changes in the economy
- The law of supply and demand

Chapter 10
Bonds and Mutual Funds

Reviewing Key Concepts

4. List three examples of reasons state and local governments might issue bonds.

The federal government sells bonds and other securities to:

- Help fund its regular activities and services
- Finance the national debt

Municipal bonds may pay for major projects, such as the building of:

- Airports
- Schools
- Highways

Reviewing Key Concepts

5. Describe the characteristics of a municipal bond, including tax factors.

A municipal bond is a security issued by a state or local government to pay for its ongoing activities. The interest on municipal bonds may be exempt from federal taxes. Tax-exempt status depends on how the funds generated by the bonds are used.

Chapter 10
Bonds and Mutual Funds

Reviewing Key Concepts

6. Explain the meaning of bond rating and their impact on buying decisions.

Before you invest in a particular corporate or municipal bond, you should check its rating. This rating will give you a good idea of the quality and risk associated with that bond.

Reviewing Key Concepts

7. Describe the characteristics of a closed-end, open-end, load, and no-load mutual fund.

A closed-end fund is a mutual fund with a fixed number of shares that are issued by an investment company when the fund is first organized.

An open-end fund is a mutual fund with an unlimited number of shares that are issued and redeemed by an investment company at the investors' request.

A load fund is a mutual fund for which you pay a commission every time you buy or sell shares.

A no-load fund is a mutual fund that has no commission fee.

Reviewing Key Concepts

8. Describe a mutual fund prospectus.

The prospectus usually provides the following information:

- A description of the fund’s objective
- The risk factor associated with the fund
- A fee table
- A description of the fund’s past performance
- A description of services provided to investors

Chapter 10
Bonds and Mutual Funds

Reviewing Key Concepts

9. Compare the three ways you can purchase mutual funds.

When you buy shares in an open-end mutual fund from an investment company, you can choose:

- Regular account transactions
- Voluntary savings plans
- Payroll deduction plans
- Contractual savings plans
- Reinvestment plans

Reviewing Key Concepts

1. Identify each type of risk and list the four methods of managing risk.

Risk is the probability of loss or injury.

Peril is something that may cause a loss.

Hazards increase the probability of loss.

Negligence is failing to take reasonable care to prevent accidents.

Ways of managing risk are:

- Risk avoidance
- Risk reduction
- Risk assumption
- Risk shifting

Chapter 13
Home and Motor Vehicle Insurance

Reviewing Key Concepts

2. Describe how insurance uses different risk management methods to reduce risk.

Insurance involves the risk management method of shifting risk: In exchange for fees, the insurance company pays for losses.

Reviewing Key Concepts

3. Explain how property and liability insurance protect.

Property insurance protects from losses resulting from:

- Natural causes
- Fire
- Criminal activity

Liability insurance covers legal responsibility for the cost of losses to others.

Chapter 13
Home and Motor Vehicle Insurance

Reviewing Key Concepts

4. Identify reasons that home mortgage lenders require homeowners insurance.

A homeowners insurance policy provides coverage for the following:

- The home, building, or any other structures on the property
- Additional living expenses
- Personal property
- Personal liability and related coverages
- Specialized coverages

Reviewing Key Concepts

5. Explain the difference between actual cash value and replacement value.

Actual cash value is the replacement cost of an item minus depreciation.

Replacement value is the full cost of repairing or replacing an item.

Reviewing Key Concepts

6. List advantages and disadvantages of the no-fault insurance system.

In the no-fault system:

- It does not matter who caused the accident.
- Each company pays the insured up to the limits of his or her coverage.

Reviewing Key Concepts

7. Discuss why lenders require drivers to carry bodily injury and property damage coverage.

Bodily injury liability coverage pays for expenses related to a crash if pedestrians, people in other vehicles, or passengers in your vehicle are injured or killed.

Property damage coverage protects you from financial loss if:

- You damage someone else's property.
- Your vehicle is damaged.

Chapter 14
Health, Disability, and Life Insurance

Reviewing Key Concepts

1. Explain how increasing co-payments and deductibles affects premium rates.

The cost of a health insurance policy is affected by the size of the deductible, which is the set amount that the policyholder must pay toward medical expenses before the insurance company pays benefits.

It can also be affected by the terms of the coinsurance provision.

Chapter 14
Health, Disability, and Life Insurance

Reviewing Key Concepts

2. Discuss basic health insurance coverage and major medical expense insurance.

Health insurance plans vary, they might cover:

- Hospital stays and doctors' visits
- Medications
- Vision and dental care

Major medical expense insurance pays the large costs involved in:

- Long hospital stays
- Multiple surgeries

Reviewing Key Concepts

3. Compare government health care programs and those offered by private companies.

Private health care plans are offered by:

- Private insurance companies
- Hospital and medical service plans
- Health maintenance organizations
- Preferred provider organizations
- Home health care agencies
- Employer self-funded health plans

Government health care programs are Medicare and Medicaid.

Reviewing Key Concepts

4. Explain the importance of disability insurance in financial planning.

Disability insurance provides regular cash income for people who are unable to work due to:

- Pregnancy
- A non-work-related accident
- Illness

Reviewing Key Concepts

5. Describe the advantages of worker's compensation.

If your disability is the result of an accident or illness that occurred on the job, you may be eligible to receive worker's compensation benefits. The amount of benefits will depend on:

- Your salary
- Your work history

Reviewing Key Concepts

6. Identify the types of term and whole life insurance.

Term insurance comes in many different forms:

- Renewable term
- Multiyear level term
- Conversion term
- Decreasing term

Whole life insurance is a permanent policy for which you pay a specified premium each year for the rest of your life.

Reviewing Key Concepts

7. Explain the key provisions of life insurance.

The key provisions in a life insurance policy include:

- Naming a beneficiary
- An incontestability clause
- A suicide clause
- Policy riders

Reviewing Key Concepts

1. Identify three ways expenses decrease at retirement.

When you retire, you may spend less money on:

- Transportation
- Clothing
- Federal income taxes

Reviewing Key Concepts

2. Describe alternative living and housing arrangements for retirement.

Many retirees want a home that is easy and inexpensive to maintain, such as:

- A smaller house
- A condominium
- An apartment

Reviewing Key Concepts

3. Identify two reasons Social Security should not be a primary source of retirement funds.

Social Security was not designed to provide 100 percent of retirement income.
In addition, current and future revisions to the program may Reduce retirement benefits in years to come.

Reviewing Key Concepts

4. Define employer-sponsored defined-contribution plans and defined-benefit plans.

A defined-contribution plan is an individual retirement account for each employee.

A defined-benefit plan is a retirement plan that specifies the benefits an employee will receive at retirement age, based on total earnings and years on the job.

Reviewing Key Concepts

5. Explain the advantages of the Roth IRA over a regular IRA.

Unlike a regular IRA, a Roth IRA allows you to continue to make annual contributions to your IRA even after age 70½.

Reviewing Key Concepts

6. Explain why creating a living will is an important part of estate planning.

At some point in your life, you may become physically or mentally disabled and unable to act on your own behalf.

If that happens, a living will can help ensure that you will be cared for according to your wishes.

Reviewing Key Concepts

7. Describe the major advantages of trusts.

Some of the common reasons for setting up a trust are to:

- Reduce or provide for payment of estate taxes
- Avoid probate and transfer your assets immediately to your beneficiaries
- Free yourself from managing your assets while you receive a regular income from the trust
- Ensure that your property serves a desired purpose after your death

Reviewing Key Concepts

8. Explain what it means to be an executor of an estate.

An executor is a person who is willing and able to perform the tasks involved in carrying out a will.

Reviewing Key Concepts

9. List some estate planning methods to reduce inheritance taxes.

One way to reduce the tax liability of your estate is to reduce the size of the estate while you are alive by giving away portions of it as gifts.