1

Student: ____

1. Financial planning has specific techniques that will be effective for every individual and household.
True False

2. Personal financial planning is the process of managing one's money to achieve personal economic satisfaction.
True False

3. Household size is a major influence on personal financial planning decisions.
True False

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

5. Inflation reduces the buying power of money.
True False

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

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

8. When prices are increasing at a rate of 6 percent, the cost of products would double in about 12 years.
True False

9. A decrease in the demand for a product or service may result in a decrease in wages for people producing that item.
True False

10. Higher inflation usually results in lower interest rates.
True False

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

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

13. Short-term goals are usually achieved within the next year or so.
True False

14. Planning to buy a house is an example of an intangible goal.
True False

15. Opportunity costs refer to what a person gives up when making a decision.
True False

16. Opportunity costs refer to time, money, and other resources that are given up when a decision is made.
True False

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

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

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

20. Most decisions have only a few alternatives from which to choose.
True False

21. Risks associated with most financial decisions are fairly easy to measure.
True False

22. Developing financial goals is the first step in the financial planning process.
True False

23. Analyzing your current financial position is a part of the first stage of the financial planning process.
True False

24. The financial planning process is complete once you implement your financial plan.
True False

25. The main goal of personal financial planning is:
A. saving and investing for future needs.
B. reducing a person's tax liability.
C. achieving personal economic satisfaction
D. spending to achieve financial objectives.
E. saving, spending, and borrowing based on current needs.

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

27. Who is *most likely* to benefit from inflation?
A. retired people
B. lenders
C. borrowers
D. low-income consumers
E. government

28. 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.

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

30. 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.

31. 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.

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

33. Which of the following would increase the risk of a loan?
    A. rising consumer prices
    B. a short time to maturity
    C. lower consumer prices
    D. constant interest rates
    E. a good credit rating

34. The stages that an individual goes through based on age, financial needs, and family situation is called the:
    A. financial planning process.
    B. budgeting procedure.
    C. personal economic cycle.
    D. adult life cycle.
    E. tax planning process.

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

36. The main economic influence that determines prices is:
    A. the stock market.
    B. interest rates.
    C. employment.
    D. government spending.
    E. supply and demand.

37. *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.

38. 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.

39. 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

40. Which of the following would cause prices to drop?
A. increased taxes on business
B. higher levels of demand by consumers
C. a demand for higher wages
D. a reduction in the money supply
E. increased production by business

41. Attempts to increase income are part of the _____________ component of financial planning.
A. planning
B. obtaining
C. saving
D. sharing
E. protecting

42. 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.
E. establishing a line of credit.

43. The ability to convert financial resources into usable cash with ease is referred to as:
A. bankruptcy.
B. liquidity.
C. investing.
D. saving.
E. opportunity cost.

44. The problem of bankruptcy is associated with poor decisions in the _______________ component of financial planning.
A. sharing
B. saving
C. obtaining
D. borrowing
E. protecting

45. 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?

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

47. When an individual makes a purchase without considering the financial consequences of that purchase, they are ignoring the aspect of financial planning.
A. Borrowing
B. Risk Management
C. Spending
D. Retirement and Estate Planning
E. Obtaining

48. The success of a financial plan will be determined by:
A. the amount of income available.
B. the stage of the adult life cycle.
C. a person's tax status.
D. how resources are used.
E. current economic conditions.

49. As Jean 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

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

51. Brad Opper 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.

52. 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."

53. 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.

54. 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.

55. The time value of money refers to:
A. personal 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.
E. changing demographic trends in our society.

56. 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.

57. 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

58. Which type of computation would a person use to determine current value of a desired amount for 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. present value of a series of deposits

59. 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

60. 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

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

62. If you put $1,000 in a saving 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

63. The first step of the financial planning process is to:
A. develop financial goals.
B. implement the financial plan.
C. analyze your current personal and financial situation.
D. evaluate and revise your actions.
E. create a financial plan of action.

64. _____________ risk refers to the danger of lost buying power during times of rising prices.
A. Trade-off
B. Economic
C. Personal
D. Inflation
E. Interest-rate

65. 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

66. The changing cost of money is referred to as _____________ risk.
A. interest-rate
B. inflation
C. economic
D. trade-off
E. personal

67. The uncertainty associated with decision making is referred to as
A. opportunity cost.
B. selection of alternatives.
C. financial goals.
D. personal values.
E. risk.

68. The financial planning process concludes with efforts to
A. develop financial goals.
B. create a financial plan of action.
C. analyze your current personal and financial situation.
D. review the financial plan.
E. review and revise your actions.

69. Using the services of financial institutions will be *most* evident in your effort to
A. develop financial goals.
B. evaluate and revise your actions.
C. analyze your current personal and financial situation.
D. implement the financial plan.
E. create a financial plan of action.

70. Changes in income, values, and family situation make it necessary to
A. evaluate and revise your actions.
B. implement the financial plan.
C. develop financial goals.
D. analyze your current personal and financial situation.
E. create a financial plan of action.

71. 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 growth mutual fund to accumulate retirement funds
E. purchasing auto insurance to cover the needs of dependents

72. 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

73. Lynn Roy wants to travel after she retires as well as pay off the balance of the loan she has on the home that 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

74. 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

75. 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

76. Lynn Roy has decided to take retirement from her job and use the time she has gained 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

77. 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

78. 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

79. 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

80. 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

81. Mary Sheets 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

82. John Garic 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-products goal
B. Durable-products goal
C. Intangible goal
D. Intermediate goal
E. Long term goal

83. Melanie Barest 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-products goal
B. Durable-products goal
C. Intangible goal
D. Intermediate goal
E. Long term goal

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

85. One aspect of financial planning is to make wise decisions 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

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

87. 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

88. 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

89. If you desire your money 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

90. A family spends $40,000 on living expenses. With an annual inflation rate of 3 percent, they can expect to may approximately ________ in three years.
   A. $40,300
   B. $41,200
   C. $42,000
   D. $43,700
   E. $46,000

91. The future value of $1,000 deposited a 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

92. What are the main components of personal financial planning?

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

94. 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?

95. Hope Appleton 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?

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

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

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

1 Key

1. Financial planning has specific techniques that will be effective for every individual and household.
(p. 2)
FALSE

Blooms: Comprehension
Difficulty: Medium
Kapoor - Chapter 001 #1
Learning Objective: 1-1

2. Personal financial planning is the process of managing one's money to achieve personal economic satisfaction.
(p. 2)
TRUE

Blooms: Knowledge
Difficulty: Easy
Kapoor - Chapter 001 #2
Learning Objective: 1-1

3. Household size is a major influence on personal financial planning decisions.
(p. 11-12)
TRUE

Blooms: Knowledge
Difficulty: Easy
Kapoor - Chapter 001 #3
Learning Objective: 1-3

4. Increased demand for a product or service will usually result in lower prices for the item.
(p. 13)
FALSE

Blooms: Knowledge
Difficulty: Medium
Kapoor - Chapter 001 #4
Learning Objective: 1-3

5. Inflation reduces the buying power of money.
(p. 14)
TRUE

Blooms: Knowledge
Difficulty: Easy
Kapoor - Chapter 001 #5
Learning Objective: 1-3

6. Lenders benefit more than borrowers in times of high inflation. .
(p. 4)
FALSE

Blooms: Comprehension
Difficulty: Hard
Kapoor - Chapter 001 #6
Learning Objective: 1-1

7. Economics is the study of using money to achieve financial goals.
(p. 12)
FALSE

Blooms: Knowledge
Difficulty: Medium
Kapoor - Chapter 001 #7
Learning Objective: 1-3

8. When prices are increasing at a rate of 6 percent, the cost of products would double in about 12 years.
(p. 16)
TRUE

Blooms: Application
Difficulty: Hard
Kapoor - Chapter 001 #8
Learning Objective: 1-4

9. A decrease in the demand for a product or service may result in a decrease in wages for people producing that item.
(p. 4)
TRUE

Blooms: Comprehension
Difficulty: Medium
Kapoor - Chapter 001 #9
Learning Objective: 1-1

10. Higher inflation usually results in lower interest rates.
(p. 5) **FALSE**

Blooms: Knowledge
Difficulty: Medium
Kapoor - Chapter 001 #10
Learning Objective: 1-1

11. Developing and using a budget is part of the "obtaining" component of financial planning.
(p. 20) **FALSE**

Blooms: Knowledge
Difficulty: Easy
Kapoor - Chapter 001 #11
Learning Objective: 1-5

12. A financial plan is another name for a budget.
(p. 23) **FALSE**

Blooms: Knowledge
Difficulty: Medium
Kapoor - Chapter 001 #12
Learning Objective: 1-5

13. Short-term goals are usually achieved within the next year or so.
(p. 8) **TRUE**

Blooms: Knowledge
Difficulty: Easy
Kapoor - Chapter 001 #13
Learning Objective: 1-2

14. Planning to buy a house is an example of an intangible goal.
(p. 8) **FALSE**

Blooms: Comprehension
Difficulty: Medium
Kapoor - Chapter 001 #14
Learning Objective: 1-2

15. Opportunity costs refer to what a person gives up when making a decision.
(p. 15) **TRUE**

Blooms: Knowledge
Difficulty: Medium
Kapoor - Chapter 001 #15
Learning Objective: 1-4

16. Opportunity costs refer to time, money, and other resources that are given up when a decision is made.
(p. 15-16) **TRUE**

Blooms: Knowledge
Difficulty: Medium
Kapoor - Chapter 001 #16
Learning Objective: 1-4

17. Time value of money refers to changes in consumer spending when inflation occurs.
(p. 16) **FALSE**

Blooms: Knowledge
Difficulty: Medium
Kapoor - Chapter 001 #17
Learning Objective: 1-4

18. Interest on savings is calculated by multiplying the money amount times the opportunity cost times the annual interest rate.
(p. 16) **FALSE**

Blooms: Knowledge
Difficulty: Hard
Kapoor - Chapter 001 #18
Learning Objective: 1-4

19. Present value is also referred to as compounding.
(p. 16) **FALSE**

Blooms: Knowledge
Difficulty: Medium
Kapoor - Chapter 001 #19
Learning Objective: 1-4

20. (p. 15) Most decisions have only a few alternatives from which to choose.
FALSE

Blooms: Knowledge
Difficulty: Easy
Kapoor - Chapter 001 #20
Learning Objective: 1-4

21. (p. 5) Risks associated with most financial decisions are fairly easy to measure.
FALSE

Blooms: Comprehension
Difficulty: Medium
Kapoor - Chapter 001 #21
Learning Objective: 1-1

22. (p. 3) Developing financial goals is the first step in the financial planning process.
FALSE

Blooms: Knowledge
Difficulty: Medium
Kapoor - Chapter 001 #22
Learning Objective: 1-1

23. (p. 3) Analyzing your current financial position is a part of the first stage of the financial planning process.
TRUE

Blooms: Knowledge
Difficulty: Easy
Kapoor - Chapter 001 #23
Learning Objective: 1-1

24. (p. 7) The financial planning process is complete once you implement your financial plan.
FALSE

Blooms: Knowledge
Difficulty: Medium
Kapoor - Chapter 001 #24
Learning Objective: 1-1

25. (p. 2) The main goal of personal financial planning is:
A. saving and investing for future needs.
B. reducing a person's tax liability.
C. achieving personal economic satisfaction
D. spending to achieve financial objectives.
E. saving, spending, and borrowing based on current needs.

Blooms: Knowledge
Difficulty: Easy
Kapoor - Chapter 001 #25
Learning Objective: 1-1

26. (p. 14) Higher prices are likely to result from:
A. lower demand by consumers.
B. increased production by business.
C. lower interest rates.
D. increased spending by consumers without increased production.
E. an increase in the supply of a product.

Blooms: Comprehension
Difficulty: Medium
Kapoor - Chapter 001 #26
Learning Objective: 1-3

27. (p. 14) Who is *most likely* to benefit from inflation?
A. retired people
B. lenders
C. borrowers
D. low-income consumers
E. government

Blooms: Comprehension
Difficulty: Medium
Kapoor - Chapter 001 #27
Learning Objective: 1-3

28. Higher consumer prices are likely to be accompanied by:
(p. 14)
A. lower union wages.
B. lower interest rates.
C. lower production costs.
D. higher interest rates.
E. higher exports.

Blooms: Comprehension
Difficulty: Hard
Kapoor - Chapter 001 #28
Learning Objective: 1-3

29. With an inflation rate of 9 percent, prices would double in about ___________ years.
(p. 14)
A. 4
B. 6
C. 8
D. 10
E. 12

Blooms: Application
Difficulty: Medium
Kapoor - Chapter 001 #29
Learning Objective: 1-3

30. Increased consumer spending will usually cause:
(p. 14)
A. lower consumer prices.
B. reduced employment levels.
C. lower tax revenues.
D. lower interest rates.
E. higher employment levels.

Blooms: Comprehension
Difficulty: Medium
Kapoor - Chapter 001 #30
Learning Objective: 1-3

31. Higher interest rates can be caused by:
(p. 13)
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.

Blooms: Comprehension
Difficulty: Hard
Kapoor - Chapter 001 #31
Learning Objective: 1-3

32. The risk premium you receive as a *saver* is based in part on:
(p. 15)
A. your credit rating
B. the amount of money you are borrowing
C. the uncertainty associated with getting your money back
D. the expected rate of inflation
E. C & D above

Blooms: Knowledge
Difficulty: Hard
Kapoor - Chapter 001 #32
Learning Objective: 1-3

33. Which of the following would increase the risk of a loan?
(p. 16)
A. rising consumer prices
B. a short time to maturity
C. lower consumer prices
D. constant interest rates
E. a good credit rating

Blooms: Knowledge
Difficulty: Hard
Kapoor - Chapter 001 #33
Learning Objective: 1-3

34. The stages that an individual goes through based on age, financial needs, and family situation is called the:
(p. 12)
A. financial planning process.
B. budgeting procedure.
C. personal economic cycle.
D. adult life cycle.
E. tax planning process.

Blooms: Knowledge
Difficulty: Easy
Kapoor - Chapter 001 #34
Learning Objective: 1-3

35. The study of how wealth is created and distributed is:
(p. 12)
A. financial planning.
B. opportunity cost.
C. inflation.
D. economics.
E. a market economy.

Blooms: Knowledge
Difficulty: Easy
Kapoor - Chapter 001 #35
Learning Objective: 1-3

36. The main economic influence that determines prices is:
(p. 12)
A. the stock market.
B. interest rates.
C. employment.
D. government spending.
E. supply and demand.

Blooms: Knowledge
Difficulty: Medium
Kapoor - Chapter 001 #36
Learning Objective: 1-3

37. *The Fed* refers to:
(p. 12)
A. government regulation of business.
B. Congress.
C. the Federal Reserve System.
D. the Federal Deposit Insurance Corporation.
E. spending by the federal government.

Blooms: Knowledge
Difficulty: Medium
Kapoor - Chapter 001 #37
Learning Objective: 1-3

38. The main responsibility of *The Fed* is to:
(p. 12)
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.

Blooms: Knowledge
Difficulty: Medium
Kapoor - Chapter 001 #38
Learning Objective: 1-3

39. 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:
(p. 5)
A. Inflation risk
B. Interest rate risk
C. Income risk
D. Personal risk
E. Liquidity risk

Blooms: Knowledge
Difficulty: Medium
Kapoor - Chapter 001 #39
Learning Objective: 1-1

40. Which of the following would cause prices to drop?
(p. 14)
A. increased taxes on business
B. higher levels of demand by consumers
C. a demand for higher wages
D. a reduction in the money supply
E. increased production by business

Blooms: Comprehension
Difficulty: Hard
Kapoor - Chapter 001 #40
Learning Objective: 1-3

41. Attempts to increase income are part of the ____________ component of financial planning.
(p. 20-22)
A. planning
B. obtaining
C. saving
D. sharing
E. protecting

Blooms: Knowledge
Difficulty: Easy
Kapoor - Chapter 001 #41
Learning Objective: 1-1

42. A major activity in the planning component of financial planning is:
(p. 20-21)
A. selecting insurance coverage.
B. evaluating investment alternatives.
C. gaining occupational training and experience.
D. allocating current resources for spending.
E. establishing a line of credit.

Blooms: Knowledge
Difficulty: Medium
Kapoor - Chapter 001 #42
Learning Objective: 1-5

43. The ability to convert financial resources into usable cash with ease is referred to as:
(p. 21)
A. bankruptcy.
B. liquidity.
C. investing.
D. saving.
E. opportunity cost.

Blooms: Knowledge
Difficulty: Easy
Kapoor - Chapter 001 #43
Learning Objective: 1-5

44. The problem of bankruptcy is associated with poor decisions in the _____________ component of financial planning.
(p. 21)
A. sharing
B. saving
C. obtaining
D. borrowing
E. protecting

Blooms: Knowledge
Difficulty: Easy
Kapoor - Chapter 001 #44
Learning Objective: 1-5

45. A question associated with the saving component of financial planning is:
(p. 21)
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?

Blooms: Comprehension
Difficulty: Easy
Kapoor - Chapter 001 #45
Learning Objective: 1-5

46. A formalized report that summarizes your current financial situation, analyzes your financial needs, and recommends a direction for your financial activities is a(n):
(p. 23)
A. insurance prospectus.
B. financial plan.
C. budget.
D. investment forecast.
E. statement.

Blooms: Knowledge
Difficulty: Medium
Kapoor - Chapter 001 #46
Learning Objective: 1-5

47. When an individual makes a purchase without considering the financial consequences of that purchase, they are ignoring the aspect of financial planning.
(p. 22)
A. Borrowing
B. Risk Management
C. Spending
D. Retirement and Estate Planning
E. Obtaining

Blooms: Comprehension
Difficulty: Easy
Kapoor - Chapter 001 #47
Learning Objective: 1-5

48. The success of a financial plan will be determined by:
(p. 23)
A. the amount of income available.
B. the stage of the adult life cycle.
C. a person's tax status.
D. how resources are used.
E. current economic conditions.

Blooms: Comprehension
Difficulty: Medium
Kapoor - Chapter 001 #48
Learning Objective: 1-5

49. As Jean Tyler plans to set aside funds for her young children's college education, she is setting a(n) ____________ goal.
(p. 8)
A. intermediate
B. long-term
C. short-term
D. intangible
E. durable

Blooms: Knowledge
Difficulty: Easy
Kapoor - Chapter 001 #49
Learning Objective: 1-2

50. ____________ goals relate to personal relationships, health, and education.
(p. 8)
A. Durable-product
B. Short-term
C. Consumable-product
D. Intangible-purchase
E. Intermediate

Blooms: Knowledge
Difficulty: Medium
Kapoor - Chapter 001 #50
Learning Objective: 1-2

51. Brad Opper has a goal of "saving $50 a month for vacation." Brad's goal lacks:
(p. 8-9)
A. measurable terms.
B. a realistic perspective.
C. specific terms.
D. the type of action to be taken.
E. a time frame.

Blooms: Comprehension
Difficulty: Medium
Kapoor - Chapter 001 #51
Learning Objective: 1-2

52. Which of the following goals would be the easiest to implement and measure its accomplishment?
(p. 8-9)
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."

Blooms: Comprehension
Difficulty: Medium
Kapoor - Chapter 001 #52
Learning Objective: 1-2

53. Opportunity cost refers to:
(p. 5)
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.

Blooms: Knowledge
Difficulty: Medium
Kapoor - Chapter 001 #53
Learning Objective: 1-1

54. An example of a *personal* opportunity cost would be:
(p. 15)
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.

Blooms: Comprehension
Difficulty: Medium
Kapoor - Chapter 001 #54
Learning Objective: 1-4

55. The time value of money refers to:
(p. 16)
A. personal 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.
E. changing demographic trends in our society.

Blooms: Knowledge
Difficulty: Medium
Kapoor - Chapter 001 #55
Learning Objective: 1-4

56. The amount of interest is determined by multiplying the amount in savings by the:
(p. 16)
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.

Blooms: Knowledge
Difficulty: Medium
Kapoor - Chapter 001 #56
Learning Objective: 1-4

57. If a person deposited $50 a month for 6 years earning 8 percent, this would involve what type of computation?
(p. 16)
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

Blooms: Comprehension
Difficulty: Hard
Kapoor - Chapter 001 #57
Learning Objective: 1-4

58. Which type of computation would a person use to determine current value of a desired amount for the future?
(p. 16)
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

Blooms: Comprehension
Difficulty: Medium
Kapoor - Chapter 001 #58
Learning Objective: 1-4

59. 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?
(p. 14)
A. 30 years
B. 24 years
C. 18 years
D. 12 years
E. 6 years

Blooms: Application
Difficulty: Hard
Kapoor - Chapter 001 #59
Learning Objective: 1-3

60. When prices are increasing at a rate of 6 percent, the cost of products would double in about how many years?
(p. 14)
A. 7.2 years
B. 10 years
C. 6 years
D. 12 years
E. 18 years

Blooms: Application
Difficulty: Medium
Kapoor - Chapter 001 #60
Learning Objective: 1-3

61. Future value calculations involve:
(p. 17)
A. discounting.
B. add-on interest.
C. compounding.
D. simple interest.
E. an annuity.

Blooms: Knowledge
Difficulty: Medium
Kapoor - Chapter 001 #61
Learning Objective: 1-4

62. If you put $1,000 in a saving account and make no further deposits, what type of calculation would provide you with the value of the account in 20 years?
(p. 17)
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

Blooms: Comprehension
Difficulty: Medium
Kapoor - Chapter 001 #62
Learning Objective: 1-4

63. The first step of the financial planning process is to:
(p. 3)
A. develop financial goals.
B. implement the financial plan.
C. analyze your current personal and financial situation.
D. evaluate and revise your actions.
E. create a financial plan of action.

Blooms: Knowledge
Difficulty: Easy
Kapoor - Chapter 001 #63
Learning Objective: 1-1

64. ____________ risk refers to the danger of lost buying power during times of rising prices.
(p. 5)
A. Trade-off
B. Economic
C. Personal
D. Inflation
E. Interest-rate

Blooms: Knowledge
Difficulty: Medium
Kapoor - Chapter 001 #64
Learning Objective: 1-1

65. Which of the following is an example of opportunity cost?
(p. 5)
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

Blooms: Comprehension
Difficulty: Medium
Kapoor - Chapter 001 #65
Learning Objective: 1-1

66. The changing cost of money is referred to as ____________ risk.
(p. 5)
A. interest-rate
B. inflation
C. economic
D. trade-off
E. personal

Blooms: Knowledge
Difficulty: Medium
Kapoor - Chapter 001 #66
Learning Objective: 1-1

67. The uncertainty associated with decision making is referred to as
(p. 5)
A. opportunity cost.
B. selection of alternatives.
C. financial goals.
D. personal values.
E. risk.

Blooms: Knowledge
Difficulty: Easy
Kapoor - Chapter 001 #67
Learning Objective: 1-1

68. The financial planning process concludes with efforts to
(p. 7)
A. develop financial goals.
B. create a financial plan of action.
C. analyze your current personal and financial situation.
D. review the financial plan.
E. review and revise your actions.

Blooms: Knowledge
Difficulty: Easy
Kapoor - Chapter 001 #68
Learning Objective: 1-1

69. Using the services of financial institutions will be *most* evident in your effort to
(p. 7)
A. develop financial goals.
B. evaluate and revise your actions.
C. analyze your current personal and financial situation.
D. implement the financial plan.
E. create a financial plan of action.

Blooms: Comprehension
Difficulty: Hard
Kapoor - Chapter 001 #69
Learning Objective: 1-1

70. Changes in income, values, and family situation make it necessary to
(p. 5)
A. evaluate and revise your actions.
B. implement the financial plan.
C. develop financial goals.
D. analyze your current personal and financial situation.
E. create a financial plan of action.

Blooms: Comprehension
Difficulty: Easy
Kapoor - Chapter 001 #70
Learning Objective: 1-1

71. Which of the following is usually considered a long-term financial strategy?
(p. 8)
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 growth mutual fund to accumulate retirement funds
E. purchasing auto insurance to cover the needs of dependents

Blooms: Comprehension
Difficulty: Medium
Kapoor - Chapter 001 #71
Learning Objective: 1-2

72. 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?
(p. 3)
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

Blooms: Comprehension
Difficulty: Medium
Kapoor - Chapter 001 #72
Learning Objective: 1-1

73. Lynn Roy wants to travel after she retires as well as pay off the balance of the loan she has on the home that she owns. Which step in the financial planning process does this situation demonstrate?
(p. 3-4)
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

Blooms: Comprehension
Difficulty: Medium
Kapoor - Chapter 001 #73
Learning Objective: 1-1

74. 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?
(p. 4)
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

Blooms: Comprehension
Difficulty: Medium
Kapoor - Chapter 001 #74
Learning Objective: 1-1

75. 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?
(p. 5-6)
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

Blooms: Comprehension
Difficulty: Medium
Kapoor - Chapter 001 #75
Learning Objective: 1-1

76. Lynn Roy has decided to take retirement from her job and use the time she has gained 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?
(p. 6-7)

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

Blooms: Comprehension
Difficulty: Medium
Kapoor - Chapter 001 #76
Learning Objective: 1-1

77. 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?
(p. 4-9)

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

Blooms: Comprehension
Difficulty: Medium
Kapoor - Chapter 001 #77
Learning Objective: 1-1

78. 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?
(p. 7)

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

Blooms: Comprehension
Difficulty: Medium
Kapoor - Chapter 001 #78
Learning Objective: 1-1

79. 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?
(p. 7)

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

Blooms: Comprehension
Difficulty: Medium
Kapoor - Chapter 001 #79
Learning Objective: 1-1

80. (p. 5) 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

Blooms: Comprehension
Difficulty: Medium
Kapoor - Chapter 001 #80
Learning Objective: 1-1

81. (p. 5) Mary Sheets 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

Blooms: Comprehension
Difficulty: Medium
Kapoor - Chapter 001 #81
Learning Objective: 1-1

82. (p. 8-9) John Garic 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-products goal
B. Durable-products goal
C. Intangible goal
D. Intermediate goal
E. Long term goal

Blooms: Comprehension
Difficulty: Easy
Kapoor - Chapter 001 #82
Learning Objective: 1-2

83. (p. 8) Melanie Barest 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-products goal
B. Durable-products goal
C. Intangible goal
D. Intermediate goal
E. Long term goal

Blooms: Comprehension
Difficulty: Medium
Kapoor - Chapter 001 #83
Learning Objective: 1-2

84. (p. 12) Paul Carter is 43 years old, married and has three children, ages 13, 10 and 5. Which influence on financial planning does this demonstrate?

A. Adult Life Cycle
B. Economic Factors
C. Global Influences
D. Opportunity Costs
E. None of the choices

Blooms: Comprehension
Difficulty: Medium
Kapoor - Chapter 001 #84
Learning Objective: 1-3

85. One aspect of financial planning is to make wise decisions as to what to purchase and when to purchase it. Which aspect of financial planning does this deal with?
(p. 22)

A. Borrowing
B. Spending
C. Managing Risk
D. Investing
E. Retirement and Estate Planning

Blooms: Comprehension
Difficulty: Medium
Kapoor - Chapter 001 #85
Learning Objective: 1-5

86. One aspect of financial planning is to control your use of credit. Which aspect of financial planning does this deal with?
(p. 21)

A. Borrowing
B. Spending
C. Managing Risk
D. Investing
E. Retirement and Estate Planning

Blooms: Comprehension
Difficulty: Medium
Kapoor - Chapter 001 #86
Learning Objective: 1-5

87. 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?
(p. 22)

A. Borrowing
B. Spending
C. Managing Risk
D. Investing
E. Retirement and Estate Planning

Blooms: Comprehension
Difficulty: Medium
Kapoor - Chapter 001 #87
Learning Objective: 1-5

88. 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?
(p. 22)

A. Borrowing
B. Spending
C. Managing Risk
D. Investing
E. Retirement and Estate Planning

Blooms: Comprehension
Difficulty: Medium
Kapoor - Chapter 001 #88
Learning Objective: 1-5

89. If you desire your money to double in 6 years, what rate of return would you need to earn?
(p. 14)

A. 6 percent
B. 8 percent
C. 9 percent
D. 10 percent
E. 12 percent

Blooms: Application
Difficulty: Medium
Kapoor - Chapter 001 #89
Learning Objective: 1-1

90. A family spends $40,000 on living expenses. With an annual inflation rate of 3 percent, they can
(p. 14) expect to may approximately _______ in three years.

A. $40,300
B. $41,200
C. $42,000
D. $43,700
E. $46,000

Blooms: Application
Difficulty: Medium
Kapoor - Chapter 001 #90
Learning Objective: 1-3

91. The future value of $1,000 deposited a year for 5 years earning 4 percent would be approximately
(p. 17)

A. $5,000
B. $5,250
C. $5,400
D. $6,500
E. $8,200

Blooms: Application
Difficulty: Medium
Kapoor - Chapter 001 #91
Learning Objective: 1-4

92. What are the main components of personal financial planning?
(p. 20-22)

The main components of personal financial planning are obtaining, planning, saving, borrowing, spending, managing risk, investing, and retirement and estate planning.

Blooms: Knowledge
Difficulty: Medium
Kapoor - Chapter 001 #92
Learning Objective: 1-5

93. People are commonly overwhelmed by the many influences on personal financial decisions. What are
(p. 11-12) the factors affecting financial planning?

Students answers will vary. Factors might include personal values, household situation, age, income level, employment situation, and economic conditions.

Blooms: Knowledge
Difficulty: Medium
Kapoor - Chapter 001 #93
Learning Objective: 1-3

94. What types of risks are commonly associated with personal financial decisions? How can these risks
(p. 5) be evaluated and minimized to reduce personal and financial difficulties?

Common risks are inflation risk, interest rates 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: Comprehension
Difficulty: Medium
Kapoor - Chapter 001 #94
Learning Objective: 1-1

95. Hope Appleton 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?
(p. 16)

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

Blooms: Comprehension
Difficulty: Medium
Kapoor - Chapter 001 #95
Learning Objective: 1-4

96. What are the six steps in the financial planning process?
(p. 5)

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: Knowledge
Difficulty: Easy
Kapoor - Chapter 001 #96
Learning Objective: 1-1

97. Explain why borrowers benefit more than lenders in times of high inflation.
(p. 14)

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: Comprehension
Difficulty: Hard
Kapoor - Chapter 001 #97
Learning Objective: 1-3

98. What is meant by the term "Time Value of Money?"
(p. 16)

Time value of money refers to the increase of an amount of money as a result of interest earned.

Blooms: Knowledge
Difficulty: Hard
Kapoor - Chapter 001 #98
Learning Objective: 1-4

1 Summary

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