



TEXTBOOK TESTBANKS

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Kapoor, Dlabay, Hughes, Hart*

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Answers are located at the end of each chapter.

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

- 1) If inflation is expected to be 8.80 percent, how long will it take for prices to double?
 - A) 12.18 years
 - B) 18.18 years
 - C) 6.18 years
 - D) 8.18 years
 - E) 7.18 years

- 2) If a \$12,000 investment earns interest of \$1,200 in 1 year, what is its rate of return?
 - A) 100 percent
 - B) 20 percent
 - C) 55 percent
 - D) 75 percent
 - E) 10 percent

- 3) If a \$10,000 investment earns a 4.1 percent annual return, what should its value be after 1 year?
 - A) \$4,200
 - B) \$10,410
 - C) \$10,041
 - D) \$4,100
 - E) \$10,000

- 4) If a \$10,000 investment earns a 5 percent annual return, what should its value be after 4 years? Use Exhibit 1-A (opens in a new tab).
 - A) \$10,500
 - B) \$12,000
 - C) \$14,500
 - D) \$12,160
 - E) \$10,025

- 5) If a new graduate estimates that her \$200 weekly grocery bill will increase at an annual inflation rate of 3 percent, what should her weekly grocery bill be in 2 years?
- A) \$40.00
 - B) \$60.00
 - C) \$212.18
 - D) \$314.20
 - E) \$221.30
- 6) If you deposit \$500 into a certificate of deposit earning 3.5 percent, what would be your earnings after 12 months?
- A) \$20.00
 - B) \$500.00
 - C) \$535.00
 - D) \$15.00
 - E) \$17.50
- 7) An accountant wants to retire in 25 years with \$1,000,000. If he can earn 8 percent per year on his investments, how much does he need to deposit each year to reach his goal? Use Exhibit 1-B (opens in a new tab).
- Note: Round your answer to the nearest dollar.
- A) \$13,679
 - B) \$20,000
 - C) \$40,000
 - D) \$7,311
 - E) \$9,769

Answer Key

Test name: Chapter 01-01

- 1) D
- 2) E
- 3) B
- 4) D
- 5) C
- 6) E
- 7) A

Answers are located at the end of each chapter.

TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.

- 1) Personal financial planning is the process of managing your money to achieve personal economic satisfaction.
 - ☐ true
 - ☐ false

- 2) A financial plan is an informal report that analyzes past financial decisions.
 - ☐ true
 - ☐ false

- 3) A financial plan can only be created using a money management software package.
 - ☐ true
 - ☐ false

- 4) Financial plans are only created by financial planners.
 - ☐ true
 - ☐ false

- 5) The life situation of a household includes a combination of personal factors such as age, income, household size, and personal beliefs.
 - ☐ true
 - ☐ false

- 6) The financial activities for a young, single person will probably be the same as those for an older couple with no dependent children at home.
 - ☐ true
 - ☐ false

- 7) Inflation is most harmful to people with incomes that are expected to increase.
 - ☐ true
 - ☐ false

- 8) Inflation is a rise in the general level of prices and it reduces the buying power of the dollar.
- ☐ true
 - ☐ false
- 9) When prices are increasing at a rate of 4 percent, the cost of products will double in about 18 years.
- ☐ true
 - ☐ false
- 10) As borrowing by consumers and businesses increases, interest rates are likely to decrease.
- ☐ true
 - ☐ false
- 11) Planned spending through budgeting is part of the "investing" component of financial planning activities.
- ☐ true
 - ☐ false
- 12) Retirement planning includes thinking about your housing situation, recreational activities, and possible volunteer or part-time work.
- ☐ true
 - ☐ false
- 13) Short-term goals are usually achieved within the next year or so.
- ☐ true
 - ☐ false
- 14) Intermediate goals are usually achieved within the next year or so.
- ☐ true
 - ☐ false

- 15) Purchasing an appliance is an example of a consumable-product goal.
- ☐ true
 - ☐ false
- 16) Purchasing a car is an example of a durable-product goal.
- ☐ true
 - ☐ false
- 17) Opportunity costs refer to money already spent.
- ☐ true
 - ☐ false
- 18) Personal opportunity costs refer to resources, such as time, health, and energy that are given up when a choice is made.
- ☐ true
 - ☐ false
- 19) Interest earned is calculated by multiplying the principal times the time value of money.
- ☐ true
 - ☐ false
- 20) Risks associated with most financial decisions are easy to identify and evaluate.
- ☐ true
 - ☐ false
- 21) \$500 on deposit at 6 percent for 6 months would earn \$20.
- ☐ true
 - ☐ false
- 22) Three methods are commonly used to calculate time value of money.
- ☐ true
 - ☐ false

23) There are only three possible courses of action when developing alternatives for decision making.

- ☐ true
- ☐ false

24) Financial plans are created by individuals as well as by financial planners or by using a money management software package.

- ☐ true
- ☐ false

25) Inflation is most harmful to people with fixed incomes.

- ☐ true
- ☐ false

26) An opportunity cost is what a person gives up when a choice is made.

- ☐ true
- ☐ false

27) Short-term goals are usually achieved within three years.

- ☐ true
- ☐ false

28) Risks associated with many financial decisions are difficult to identify and evaluate.

- ☐ true
- ☐ false

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

- 29) A formalized report that summarizes your current financial situation, analyzes your financial needs, and recommends future financial activities is a(n):
- A) Insurance prospectus.
 - B) Financial plan.
 - C) Budget.
 - D) Investment forecast.
 - E) Bank Statement.
- 30) The major function of personal financial planning is to:
- A) reduce taxes.
 - B) increase savings.
 - C) achieve personal economic satisfaction.
 - D) improve your credit rating.
 - E) obtain adequate insurance protection.
- 31) An advantage of effective personal financial planning is:
- A) the use of low-interest savings.
 - B) increased impulse spending.
 - C) increased control of financial affairs.
 - D) more credit card debt.
 - E) less monitoring of investments.
- 32) The stages in the family situation and financial needs of an adult is called the:
- A) financial planning process.
 - B) budgeting procedure.
 - C) personal economic cycle.
 - D) adult life cycle.
 - E) tax planning process.

- 33) Jim Johnson was laid off from his job two months ago. He just received an offer for a position that pays $\frac{3}{4}$ the salary of his old job. Why should he set up a financial plan?
- A) To increase the effectiveness of obtaining, using, and protecting his financial resources
 - B) To decrease control of his financial affairs regarding debt
 - C) To accept the loss of freedom from financial worries due to his new position
 - D) To learn how to manage depending more on others
 - E) To find out why he was laid off
- 34) The consumer price index measures:
- A) the prices of a fixed basket of goods and services in the United States.
 - B) the prices of goods and services in rural areas across the globe.
 - C) the average change in prices urban consumers pay for a fixed basket of goods and services in the United States.
 - D) the change in prices of a fixed basket of goods and services globally.
 - E) the increase in prices for retail sales in the United States over a three-year period.
- 35) The actual cost of living increase for a household will be:
- A) greater than the inflation rate as reported by the CPI since the index excludes the product or service with the highest inflation rate for the past 12 months.
 - B) lower than the inflation rate as reported by the CPI since the index excludes the product or service with the lowest inflation rate for the past 12 months.
 - C) equal to the inflation rate as reported by the CPI since it includes all products and services whether or not the prices have changed in the past 12 months.
 - D) either greater than or less than the inflation rate as reported by the CPI depending on the household's cost of necessities purchased.
 - E) zero since the CPI does not measure consumer price changes.
- 36) The Rule of 72 is:
- A) a tool to determine the number of years until retirement for an employee.
 - B) used to estimate how fast prices will double using a given annual inflation rate.
 - C) the legal code for requiring companies to provide a match on retirement savings.
 - D) used to calculate interest rates for savings.
 - E) the number of steps required to complete a financial plan.

- 37) Who is less likely to be harmed by inflation?
- A) Retired people
 - B) Lenders
 - C) Borrowers
 - D) Fixed-income consumers
 - E) Financial regulators
- 38) Increased consumer saving and investing is likely to be accompanied by:
- A) lower union wages.
 - B) higher interest rates.
 - C) lower production costs.
 - D) lower interest rates.
 - E) higher inflation.
- 39) An investor should expect to receive a *risk premium* for:
- A) higher interest rates.
 - B) lower consumer prices.
 - C) higher uncertainty about getting her money back.
 - D) reduced credit ratings.
 - E) expected lower inflation.
- 40) Which of the following would increase the interest rate for a loan?
- A) Poor credit rating
 - B) Higher down payment
 - C) Expected lower inflation
 - D) Lower consumer prices
 - E) Short time to maturity

- 41) Patrick Guitman recently graduated from college with \$30,000 in student loans and \$5,000 in credit card debt. He usually makes minimum payments on his debt and he has been late with three payments in the last year. He wants to buy a new car but was told that his interest rate on a loan would be very high. What is the most likely reason this might be so?
- A) General interest rates are very low.
 - B) His credit rating is below average due to missed payments.
 - C) He already has a student loan outstanding.
 - D) Recent graduates are not allowed to have more than \$25,000 in debt outstanding.
 - E) Interest rates must be tied to the CPI.
- 42) Attempts to increase income through employment are part of the _____ component of financial planning.
- A) obtaining
 - B) planning
 - C) saving
 - D) borrowing
 - E) spending
- 43) The 'borrowing' component in a financial plan relates to:
- A) acquiring adequate insurance coverage.
 - B) investing for long-term growth.
 - C) setting up a budget.
 - D) obtaining financial resources from employment, investments or ownership.
 - E) maintaining control over credit-buying habits.
- 44) The problem of bankruptcy is associated with overuse and misuse of credit in the _____ component of financial planning.
- A) sharing
 - B) saving
 - C) obtaining
 - D) borrowing
 - E) protecting

- 45) The saving component of financial planning focuses on long-term security and includes:
- A) a regular savings plan for emergencies.
 - B) a current will.
 - C) bankruptcy counseling.
 - D) a realistic budget for your current financial situation.
 - E) minimizing transportation expenses through careful planning.
- 46) Which of the following *short-term* goals is stated most clearly using the SMART approach?
- A) Within the next 6 months, buy a car for less than \$18,000.
 - B) Retire in 10 years at age 65 with \$2,000,000 in my 401(k) account.
 - C) Purchase a house with a mortgage no greater than \$200,000 within 5 years.
 - D) Set up an emergency fund.
 - E) Invest \$50 per month for the next 12 years for my nephew's college fund.
- 47) Which of the following *long-term* goals is stated most clearly using the SMART approach?
- A) Buy a car for less than \$18,000 within 6 months.
 - B) Retire in 10 years at age 65.
 - C) Purchase a house with a mortgage no greater than \$200,000 within 5 years.
 - D) Set up an emergency fund.
 - E) Invest \$50 per month for the next 12 years for my nephew's college fund.
- 48) Which of the following *intermediate goals* is stated most clearly using the SMART approach?
- A) Buy a car for less than \$18,000 within 6 months.
 - B) Retire in 10 years at age 65 with \$2,000,000 in my 401(k) account.
 - C) Purchase a house within the next 5 years with a mortgage no greater than \$200,000.
 - D) Set up an emergency fund.
 - E) Invest \$50 per month for the next 12 years for my nephew's college fund.
- 49) Which of the following goals contains elements for implementation and measurement?
- A) Put money into an investment fund.
 - B) Reduce credit card debt.
 - C) Save funds for an annual vacation.
 - D) Save \$100 a month to create a \$2,400 emergency fund in 2 years.
 - E) Spend less each month.

- 50) The goal of investing \$50 per month for the next 12 years for your nephew's college fund is a(n) _____ goal.
- A) short-term
 - B) intermediate
 - C) long-term
 - D) intangible
 - E) durable
- 51) Many Americans have money problems because of:
- A) poor planning and weak money management habits.
 - B) too many clearly defined goals.
 - C) proper use of credit.
 - D) insufficient advertising to make effective decisions.
 - E) controlled spending.
- 52) A person has a goal of saving \$25 per month for a patio furniture set. Considering the SMART approach, this person's goal lacks:
- A) measurable terms.
 - B) a realistic perspective.
 - C) an action orientation.
 - D) a specific objective.
 - E) a time frame.
- 53) Which of the following is correct?
- A) A car purchase is a consumable-product goal.
 - B) Entertainment is a durable-product goal.
 - C) Appliances and sporting equipment are intangible-purchase goals.
 - D) Leisure and education are durable-product goals.
 - E) Food and clothing are consumable-product goals.

- 54) _____ goals relate to infrequently purchased, expensive tangible items.
- A) Short-term
 - B) Intangible-purchase
 - C) Durable-product
 - D) Consumable-products
 - E) Intermediate
- 55) To develop financial goals, one should:
- A) set several general goals for the short-term.
 - B) only set long-term goals after short-term goals have been accomplished.
 - C) focus on intermediate goals first.
 - D) identify specific, realistic goals that are measurable along with a time frame and an action plan.
 - E) not worry about whether or not the goals can be achieved based on one's income and life situation.
- 56) The goal of purchasing a long-term care insurance policy would be most appropriate for:
- A) a young couple without children.
 - B) a single parent with a preschool daughter.
 - C) an unmarried couple without children.
 - D) an older single person with children.
 - E) a young single individual.
- 57) Opportunity cost refers to:
- A) money needed for major consumer purchases.
 - B) what you give 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.

- 58) A student is interested in attending a concert next weekend. Unfortunately, he is scheduled to work. If he finds a substitute for his shift so he can attend the concert, what kind of cost is he incurring?
- A) Personal opportunity cost relating to health
 - B) Personal opportunity cost relating to time
 - C) Personal opportunity cost relating to abilities
 - D) Personal opportunity cost relating to knowledge
 - E) Unexpected personal opportunity cost
- 59) Which of the following is an example of a financial opportunity cost?
- A) Renting an apartment near school
 - B) Forgoing wages to attend school
 - C) Organizing income tax records
 - D) Purchasing automobile insurance
 - E) Using a personal computer for financial planning
- 60) An example of a personal opportunity cost would be:
- A) interest lost by using savings to make a purchase.
 - B) higher earnings achieved on savings that must be kept on deposit a minimum of six months.
 - C) wages lost due to continuing as a full-time student.
 - D) time spent comparing several brands of personal computers.
 - E) having to pay a tax penalty due to not having enough withheld from your monthly salary.
- 61) Which of the following best describes the concept of the time value of money?
- 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 amounts of money as a result of interest earned
 - E) Changes to demographic trends in our society

- 62) If I can invest a dollar today and earn interest on it, then it should be worth _____ in the future.
- A) less
 - B) the same
 - C) more
 - D) either less or the same
 - E) either the same or more
- 63) To calculate the time value of money, we need to consider all of the following *except* the:
- A) amount of the savings.
 - B) annual interest rate.
 - C) length of time the money is on deposit.
 - D) liquidity of the principal.
 - E) principal.
- 64) Future value computations are often referred to as:
- A) discounting.
 - B) presenting.
 - C) compounding.
 - D) simple interest.
 - E) annuities.
- 65) Present value computations are also referred to as:
- A) discounting.
 - B) forecasting.
 - C) compounding.
 - D) simple interest.
 - E) annuities.

- 66) A new graduate wants to deposit \$150 per month into an account earning 4 percent for the next 3 years so he can purchase a used car at that time. What type of computation would he use to determine the amount he will have accumulated for his purchase?
- A) Present value of a single amount
 - B) Future value of a single amount
 - C) Simple interest
 - D) Present value of an annuity
 - E) Future value of an annuity
- 67) A college student wants to take out a 4-year loan to purchase a car. What type of computation would she use to calculate her monthly payments?
- A) Present value of a single amount
 - B) Future value of a single amount
 - C) Simple interest
 - D) Present value of an annuity
 - E) Future value of an annuity
- 68) A student received a \$500 gift from his grandparents. He wants to invest this money for the down payment of a house that he plans to purchase in 3 years. What type of computation should he use?
- A) Present value of a single amount
 - B) Future value of a single amount
 - C) Simple interest
 - D) Present value of an annuity
 - E) Future value of an annuity
- 69) An undergraduate student plans to attend graduate school in 5 years. She thinks that she will need a total of \$32,000 to pay for school, and she wants to save money each month to reach her goal. What type of computation should she use?
- A) Present value of a single amount
 - B) Future value of a single amount
 - C) Simple interest
 - D) Present value of an annuity
 - E) Future value of an annuity

- 70) A student wants to deposit a lump sum of money today for a vacation that he plans to take to Asia after he graduates from graduate school. Which formula should he use to determine the amount of money he will have available for his vacation?
- A) Present value of a single amount
 - B) Future value of a single amount
 - C) Simple interest
 - D) Present value of an annuity
 - E) Future value of an annuity
- 71) The first step of the financial planning process is to:
- A) develop financial goals.
 - B) implement the financial plan.
 - C) determine your current financial situation.
 - D) evaluate and revise the financial plan.
 - E) create a financial action plan.
- 72) Making financial decisions related to income involves all of the following *except*:
- A) spending.
 - B) saving.
 - C) sharing.
 - D) taking.
 - E) discounting.
- 73) Place the following steps for a personal financial plan in the proper order:
1. Review and revise the financial plan
 2. Identify alternative courses of action
 3. Create and implement your financial action plan
 4. Determine current financial situation
 5. Evaluate alternatives
 6. Develop your financial goals
- A) 6, 1, 2, 5, 3, 4.
 - B) 4, 2, 6, 5, 3, 1.
 - C) 3, 6, 4, 2, 5, 1.
 - D) 4, 6, 2, 5, 3, 1.
 - E) 6, 2, 5, 4, 1, 3.

74) Every decision involves uncertainty, which is referred to as:

- A) consequences of choices.
- B) alternative courses of action.
- C) financial goals.
- D) personal values.
- E) evaluating risk.

75) Changes in the cost of money is referred to as _____ risk.

- A) interest rate
- B) inflation
- C) income
- D) personal
- E) liquidity

76) The rising or falling of prices that causes changes in buying power is referred to as _____ risk.

- A) interest rate
- B) inflation
- C) income
- D) personal
- E) liquidity

77) The loss of a job or encountering an illness results in _____ risk.

- A) interest rate
- B) inflation
- C) income
- D) liquidity
- E) personal

78) The tangible and intangible factors that create a less than desirable situation is referred to as _____ risk.

- A) interest rate
- B) inflation
- C) income
- D) liquidity
- E) personal

79) The difficulty of converting savings and investments to cash is referred to as _____ risk.

- A) interest rate
- B) inflation
- C) income
- D) personal
- E) liquidity

80) Changes in personal, social, and economic factors may require you to:

- A) review and revise your financial plan more frequently.
- B) implement your financial action plan.
- C) develop your financial goals.
- D) determine your current financial situation.
- E) create your financial plan of action.

81) The step in the personal financial planning process that follows immediately after the step "Create and implement your financial action plan" is:

- A) review and revise your financial plan.
- B) identify alternative courses of action.
- C) determine your current financial situation.
- D) evaluate alternatives.
- E) develop your financial goals.

- 82) Using the services of financial institutions or financial specialists (such as insurance agents, certified financial planners or investment advisers) to seek relevant information is done in which step in the financial planning process?
- A) Develop your financial goals.
 - B) Review and revise your financial plan.
 - C) Determine your current financial situation.
 - D) Evaluate your alternatives.
 - E) Brainstorm a wishlist of goals.
- 83) If inflation is expected to be 8 percent, how long will it take for prices to double?
- A) 6 years
 - B) 7 years
 - C) 9 years
 - D) 12 years
 - E) 18 years
- 84) If a \$10,000 investment earns interest of \$500 in 1 year, what is its rate of return?
- A) 5 percent
 - B) 10 percent
 - C) 50 percent
 - D) 75 percent
 - E) 100 percent
- 85) If a \$10,000 investment earns a 4 percent annual return, what should its value be after 1 year?
- A) \$100
 - B) \$400
 - C) \$4,000
 - D) \$10,000
 - E) \$10,400

- 86) If a \$10,000 investment earns a 7 percent annual return, what should its value be after 6 years? Use Exhibit 1-A (opens in a new tab).
- A) \$10,000
 - B) \$10,700
 - C) \$15,000
 - D) \$15,010
 - E) \$15,100
- 87) If a new graduate estimates that her \$350 weekly grocery bill will increase at an annual inflation rate of 4 percent, what should her weekly grocery bill be in 3 years?
- A) \$105.00
 - B) \$140.00
 - C) \$393.75
 - D) \$495.75
 - E) \$402.85
- 88) If you deposit \$500 into a certificate of deposit earning 3 percent, what would be your earnings after 12 months?
- A) \$5.00
 - B) \$15.00
 - C) \$25.00
 - D) \$30.00
 - E) \$500.00
- 89) An accountant wants to retire in 20 years with \$1,000,000. If he can earn 10 percent per year on his investments, how much does he need to deposit each year to reach his goal? Use Exhibit 1-B (opens in a new tab).
- Note: Round your answer to the nearest dollar.
- A) \$17,460
 - B) \$18,000
 - C) \$5,727
 - D) \$25,000
 - E) \$13,550

- 90) You are planning to buy a house in five years. Approximately how much do you need to deposit today to have a \$10,000 down payment if your investment will make 6 percent?

Note: Do not round intermediate calculations. Round your final answer to the nearest dollar amount.

- A) \$6,000
- B) \$6,593
- C) \$7,473
- D) \$9,405
- E) \$10,000

- 91) Raymond is planning to go to graduate school in a program that will take three years.

Raymond wants to have \$10,000 available each year for his school and living expenses. If he earns 6 percent on his investments, approximately how much must be deposited at the start of his studies for him to withdraw \$10,000 a year for three years?

Note: Do not round intermediate calculations. Round your final answer to the nearest dollar amount.

- A) \$10,000
- B) \$18,390
- C) \$26,730
- D) \$29,100
- E) \$30,000

Answer Key

Test name: Chapter 01-02

- 1) TRUE
- 2) FALSE
- 3) FALSE
- 4) FALSE
- 5) TRUE
- 6) FALSE
- 7) FALSE
- 8) TRUE
- 9) TRUE
- 10) FALSE
- 11) FALSE
- 12) TRUE
- 13) TRUE
- 14) FALSE
- 15) FALSE
- 16) TRUE
- 17) FALSE
- 18) TRUE
- 19) FALSE
- 20) FALSE
- 21) FALSE
- 22) TRUE
- 23) FALSE
- 24) TRUE
- 25) TRUE
- 26) TRUE
- 27) FALSE
- 28) TRUE
- 29) B
- 30) C
- 31) C
- 32) D
- 33) A
- 34) C
- 35) D
- 36) B
- 37) C

- 38) D
- 39) C
- 40) A
- 41) B
- 42) A
- 43) E
- 44) D
- 45) A
- 46) A
- 47) E
- 48) C
- 49) D
- 50) C
- 51) A
- 52) E
- 53) E
- 54) C
- 55) D
- 56) D
- 57) B
- 58) B
- 59) B
- 60) D
- 61) D
- 62) C
- 63) D
- 64) C
- 65) A
- 66) E
- 67) D
- 68) B
- 69) E
- 70) B
- 71) C
- 72) D
- 73) D
- 74) E
- 75) A
- 76) B
- 77) C

- 78) E
- 79) E
- 80) A
- 81) A
- 82) D
- 83) C
- 84) A
- 85) E
- 86) D
- 87) C
- 88) B
- 89) A
- 90) C
- 91) C