Student name:\_\_\_\_\_\_\_\_\_\_

1. Risks associated with most financial decisions are fairly easy to measure.
* true
* false

1. The financial planning process is complete once you implement your financial plan.
* true
* false

1. Intermediate goals are usually achieved within the next year or so.
* true
* false

1. Planning to buy a car is an example of a durable product goal.
* true
* false

1. Household size is a major influence on personal financial planning decisions.
* true
* false

1. Increased demand for a product or service will usually result in lower prices for the item.
* true
* false

1. Lenders benefit less than borrowers in times of high inflation.
* true
* false

1. When prices are increasing at a rate of 6 percent, the cost of products would double in about 12 years.
* true
* false

1. A decrease in the demand for a product or service may result in a decrease in wages for people producing that item.
* true
* false

1. Higher inflation usually results in lower interest rates.
* true
* false

1. Opportunity costs refer to time, money, and other resources that are given up when a decision is made.
* true
* false

1. Time value of money refers to changes in consumer spending when inflation occurs.
* true
* false

1. Gross domestic product (GDP) can be described as the difference between a country's exports and its imports.
* true
* false

1. Present value is also referred to as compounding.
* true
* false

1. Liquidity is the ability to convert financial resources into usable cash with ease.
* true
* false

1. Risks associated with most financial decisions are difficult to measure.
* true
* false

1. Personal financial planning has the main goal of:

Savings and investing for future needs.

Reducing a person's tax liability.

Managing money to achieve personal economic satisfaction.

Spending to achieve financial objectives.

Savings, spending, and borrowing based on current needs.

1. The first step of the financial planning process is to

develop financial goals.

implement the financial plan.

determine your current personal and financial situation.

evaluate and revise your actions.

create a financial plan of action.

1. Opportunity cost refers to:

money needed for major consumer purchases.

something that you must give up as a result of making a decision

the amount paid for taxes when a purchase is made.

current interest rates.

evaluating different alternatives for financial decisions.

1. The uncertainty associated with decision making is referred to as:

opportunity cost.

selection of alternatives.

financial goals.

personal values.

risk.

1. 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:

Inflation risk

Interest rate risk

Income risk

Personal risk

Liquidity risk

1. Which one the following is a personal risk?

Interest rates may fall

Assets may be stolen

Inflation made erode your capital

You may be locked into an investment when you need the funds

A product might be defective

1. Changes in income, values, and family situation make it necessary to:

develop financial goals

implement the financial plan.

evaluate and revise your actions.

analyze your current personal and financial situation.

create a financial plan of action.

1. As parents plan to set aside funds for their young children's college education, they are setting a(n) \_\_\_ goal.

intermediate

short term

long-term

intangible

durable

1. \_\_\_ goals relate to personal relationships, health, and education.

Short-term

Intangible-purchase

Consumable-product

Durable-product

Intermediate

1. A goal of "saving $50 a month for vacation" lacks

measurable terms.

a realistic perspective.

specific actions.

a tangible end.

a time frame.

1. Afton has a goal of "saving $5,000 for a vacation in 3 years." Afton's goal lacks

measurable terms.

a realistic perspective.

specific actions.

a tangible end.

a time frame.

1. Which of the following goals would be the easiest to implement and measure its accomplishment?

"Reduce our debt payments."

"Save funds for an annual vacation."

"Save $100 a month to create a $4,000 emergency fund."

"Clear credit card debt

"Invest $2,000 a year for retirement."

1. An example of a durable good is:

A refrigerator

Therapy sessions

Food

Books

A Bank Account

1. Your life situation is affected by which of the following?

Buying a car

Vacations

Getting a raise at work

Getting Divorced from your spouse

Grades

1. Your life situation is affected by which of the following?

Buying a car

Vacations

Getting a raise at work

Graduation from college

Grades

1. Your life situation is affected by which of the following?

Buying a car

Vacations

Getting a raise at work

Changes in health

Grades

1. Your life situation is affected by which of the following?

Buying a car

Vacations

Getting a raise at work

Retirement

Grades

1. In the middle years (mid 30s to 50s) your financial focus will likely be on

Creating an Emergency Fund.

Saving for a down payment for a home purchase.

Purchasing life insurance.

Building Wealth.

Providing adequate retirement funds.

1. One of the ways our society has changed in the last 20 years is

People are getting married at a younger age.

People are living longer.

Canadians aged 45-64 no longer care for their aging parents.

Fewer households have two incomes.

People with children have to work more hours in response to increased demands.

1. A specialized financial activity that single parent with young children might have is

To obtain adequate amounts of health, life and disability insurances.

To minimize purchases on credit.

To implement a plan for retirement goals.

To consolidate financial assets.

To consider income splitting.

1. Higher prices are likely to result from:

increased spending by consumers.

increased production by business.

lower interest rates.

lower demand by consumers

an increase in the supply of a product.

1. Who is *most* *likely* to benefit by inflation?

retired people

lenders

borrowers

low-income consumers

government

1. Higher consumer prices are likely to be accompanied by:

lower union wages.

lower interest rates.

lower production costs.

higher interest rates.

higher exports.

1. Increased consumer spending will usually cause:

lower consumer prices.

reduced employment levels.

lower tax revenues.

higher employment levels.

lower interest rates.

1. The changing cost of money is referred to as \_\_\_ risk.

interest-rate

inflation

economic

trade-off

personal

1. A *risk* *premium* associated with interest rates refers to:

higher earnings due to uncertainty of getting your money back

lower consumer prices.

the opportunity cost of borrowing

the amortization period of your loan

expected lower inflation.

1. Consumer spending measures:

The value of the dollar; compared to other currencies

The demand for goods and services by individuals and households

The cost of money; the cost of credit when you borrow; the return on your money when you save or invest

The dollars available for spending in our economy

The number of people without employment who are willing and able to work

1. Interest rates measures:

The value of the dollar; changes in inflation

The demand for goods and services by individuals and households

The cost of money; the cost of credit when you borrow; the return on your money when you save or invest

The dollars available for spending in our economy

The number of people without employment who are willing and able to work

1. The Money supply measures:

The value of the dollar; changes in inflation

The demand for goods and services by individuals and households

The cost of money; the cost of credit when you borrow; the return on your money when you save or invest

The dollars available for spending in our economy

The number of people without employment who are willing and able to work

1. What does Gross Domestic Product measure?

The total value of goods and services produced within a country's borders, including items produced with foreign resources

The demand for goods and services by individuals and households

The cost of money; the cost of credit when you borrow; the return on your money when you save or invest

The dollars available for spending in our economy

The number of people without employment who are willing and able to work

1. What does the unemployment rate measure?

The total value of goods and services produced within a country's borders, including items produced with foreign resources

The demand for goods and services by individuals and households

The cost of money; the cost of credit when you borrow; the return on your money when you save or invest

The dollars available for spending in our economy

The number of people without employment who are willing and able to work

1. What does the trade balance measures?

The total value of goods and services produced within a country's borders, including items produced with foreign resources

The difference between a country's exports and its imports

The cost of money; the cost of credit when you borrow; the return on your money when you save or invest

The dollars available for spending in our economy

The number of people without employment who are willing and able to work

1. The stages that an individual goes through based on age, financial needs, and family situation is called the:

adult life cycle.

budgeting procedure.

personal economic cycle.

financial planning process

tax planning process.

1. You have been putting $200 per month into a savings account for the last 4 years. The current balance is $10,602. If the account compounds interest monthly, what rate of return have you earned? (Round your answer)

5%

5.3%

6%

6.7%

28%

1. The main economic influence that determines prices is:

the stock market.

supply and demand.

employment.

government spending.

interest rates

1. Reduced funds available for investment in our economy could result from

expanded savings by consumers.

higher imports than exports.

reduced spending for consumer goods.

higher exports than imports.

higher opportunity costs.

1. Which of the following would cause prices to drop?

a demand for higher wages

increased production by business

increased taxes on business

a reduction in the money supply

high levels of demand by customers

1. An example of a *personal* opportunity cost would be:

lost wages due to continuing as a full time student

higher earnings on savings that must be kept on deposit a minimum of six months.

time comparing several brands of personal computers

Interest lost by using savings to make a purchase

having to pay a tax penalty due to not having enough withheld from your monthly salary.

1. The amount of simple interest earned is determined by multiplying the amount in savings by the:

annual interest rate.

time period.

number of months in a year.

time period and number of months.

annual interest rate and the time period.

1. What is the future value of $20,000 received today, if it is invested at 6% compounded annually for the next six years?

$7,200

$27,200

$28,370

$32,772

$35,817

1. If a person deposited $10,000 earning 9 percent for 11 years, this would involve what type of computation?

simple interest

future value of a single amount

future value of a series of deposits

present value of a single amount

present value of a series of deposits

1. If a person deposited $100 a month for 5 years earning 9 percent, this would involve what type of computation?

simple interest

future value of a single amount

future value of a series of deposits

present value of a single amount

present value of a series of deposits

1. Which type of computation would a person use to determine current value of a desired amount for the future?

simple interest

future value of a single amount

future value of a series of deposits

present value of a single amount

present value of a series of deposits

1. Future value calculations consider:

compounding.

add-on interest.

discounting

simple interest.

an annuity.

1. 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?

future value of a single amount

simple interest

present value of a single amount

present value of a series of deposits

future value of a series of deposits

1. An individual invests $10,000 at a rate of 5% per annum. What will be its value in 10 years' time?

$15,000

$15,853

$16,289

$18,000

$19,000

1. An individual invests $9,000 at a rate of 6% per annum. What will be its value in 11 years' time?

$15,000

$15,853

$16,289

$18,000

$17,085

1. An individual invests $12,000 at a rate of 4% per annum. What will be its value in 9 years' time?

$15,000

$15,853

$16,289

$18,000

$17,080

1. A major activity in the planning component of financial planning is

selecting insurance coverage.

evaluating investment alternatives.

gaining occupational training and experience.

allocating current resources for spending.

establishing a line of credit.

1. Liquidity refers to

the earnings on savings.

the risk of an investment.

the ease of converting a financial resource into cash.

the amount of insurance coverage a person has.

a person's inability to pay his or her debts.

1. A question associated with the saving component of financial planning is:

Is your will current?

Do you have an adequate emergency fund?

Is your investment program appropriate to your income and tax situation?

Do you have a realistic budget for your current financial situation?

Are your transportation expenses minimized through careful planning?

1. The major function of a financial plan is to:

reduce taxes.

increase savings.

achieve financial goals.

improve your credit rating.

obtain adequate insurance protection.

1. A graduating student wants to pay down their student loans, purchase a vehicle to get them to their new job and also establish an emergency reserve. Which stage of the financial planning process does this demonstrate?

Determining the student’s current financial situation

Developing the student’s financial goals

Identifying alternative courses of action

Evaluating the student’s alternatives

Implementing the student’s financial plan

1. Which of the following is usually considered a long-term financial strategy?

creating a budget

using savings to pay off a loan early

renting an apartment to save for the purchase of a home

investing in a growth mutual fund to accumulate retirement funds

purchasing life insurance to cover current needs of dependents

1. You wish to accumulate $15,000 within five years. If you are starting with a zero balance, how much would you have to save each year for five years to attain your goal if you were able to earn an annual interest rate of 4%.

$2,662

$2,769

$2,905

$3,000

$3,500

1. Your goal is to pay off your student loan in 3 years. The balance today is $9,434. If you are charged a rate of 9%, compounded monthly, what will be your monthly, end-of-period payment?

$527

$406

$300

$262

$193

1. The first step of the financial planning process is to

develop financial goals.

implement the financial plan.

determine your current personal and financial situation.

evaluate and revise your actions.

create a financial plan of action.

1. Decreased consumer spending will usually cause:

lower supply.

reduced employment levels.

lower tax revenues.

lower interest rates.

higher employment levels.

1. A student has goal of "saving some money for vacation next summer". The student’s goal lacks

measurable terms.

a realistic perspective.

specific actions.

a tangible end.

a time frame.

1. You want to get a car loan for $20,000 and pay it off over 4 years. If the rate is 14% compounded monthly, how much would your payments be at the end of each month? (round your answer)

$417

$475

$547

$610

$675

1. Assume that you start a new savings plan of $100 at the end of each week. The funds earn 6% compounded monthly. After exactly one year, you increase the amount you contribute to $150 at the end of each week (still earning 6% compounded monthly). How much would you have saved after 4 years from your initial start date? (Round your answer)

$7,377

$27,377

$28,600

$32,027

$32,034

1. Time value of money calculations consider:

present value.

interest rate.

payment

time period.

all of the above.

1. An individual invests $5,000 at a rate of 5% per annum. What will be its value in 10 years' time?

$7,500

$7,927

$8,144

$9,000

$9,542

1. Your goal is to pay down your student loan in 3 years. The balance today is $9,434. If you are charged a rate of 4%, compounded monthly, what will be your monthly, end-of-period payment?

$262

$406

$279

$377

$300

1. The result of successful financial planning is

Outperforming the market in your investment portfolio.

Establishing and Maintaining a good credit score.

Paying off all of your debt within a reasonable timeframe.

Financial and Personal satisfaction.

Maintaining your budget and living within your means.

1. Which of the following is NOT a specific advantage of personal financial planning?

Ensuring your investment return is maximized.

Protecting your financial resources.

Avoiding bankruptcy.

Improving personal relationships.

Freedom from financial worries.

1. If you regard money as a form of security, you are likely to

give lavish gifts to friends and family.

be a good saver.

overspend.

take excessive risks with your money.

have a lot of outstanding debt.

1. Retailers not honouring their obligations is a \_\_\_ risk.

Asset

Product

Purchase

Avoidable

Inevitable

1. Many Canadians have money problems because

Canada is among the poorest countries in the world

Canadians have bad habits when it comes to using credit.

It is difficult to find help and information on financial planning.

Canadians usually have very good management of spending.

There is limited product availability of personal wants in Canada.

1. Which of the following is an example of a long-term goal?

Saving $40,000 over five years, for a down payment on a home.

Paying off a $400,000 mortgage on a home over 25 years.

Buying $10,000 worth of furniture for your home with savings from your account.

Selling your current home for $600,000 and using the proceeds to purchase another home.

Renting out a room in your home for $400/month to a tenant who signed a two year lease.

1. Which of the following represent an intangible-purchase goal?

A car owner opts to repair the existing vehicle rather than replace it with a new one.

A new home owner waits for a sale before purchasing a new refrigerator.

A store employee uses the employee discount to purchase new clothing.

A retired couple budget appropriately to pay for their weekly grocery bill.

A single parent reduces their work hours to spend more time with the children.

1. If Canada imports more goods Internationally than it exports

The amount available for domestic investment will be reduced.

More foreign currency will come to Canada than Canadian dollars leaving the country.

The domestic money supply would be increased.

It could result in a decrease to interest rates.

More funds would be available for domestic spending.

1. Higher interest rates

Increase consumer spending.

Encourages borrowing.

Increase the number of new homes being built.

Make saving more attractive.

Does not affect the cost of money.

1. What is the main cause of inflation?

Supply increasing less than demand.

Country exporting more than it imports.

Decreasing interest rates.

Increasing interest rates.

A high unemployment rate.

1. Who is responsible for maintaining the Canadian Money Supply?

The Federal Government.

The Provincial Government.

The Central Bank.

The Minister of Finance.

Charter banks, credit unions, insurance companies and investment companies

1. Which of the following most heavily influence your personal financial decisions?

The unemployment rate

Housing starts

GDP (Gross domestic product)

Trade balance

Consumer spending

1. The opportunity cost of making a large purchase using your credit card is

Credit payments from future earnings

The annual interest rate charged on your credit card

The length of time it takes you to pay off the full balance on your credit card

Forgoing purchasing something you consider less desirable

The money in your wallet which you could have used instead to purchase the item

1. Which of the following is a financial resource?

Time required to evaluate different financial decisions.

Income generated from investments.

Financial knowledge and experience.

A comprehensive financial plan.

Your health.

1. What is the opportunity cost of investing in a low-risk investment?

Inflation.

That interest rates may decrease.

That interest rates may increase.

The higher rate of return on a riskier investment.

There is no opportunity cost with a low risk investment.

1. Two friends each invest $1000 at 7% for 5 years. The first receives $70 at the end of each year and spends it. The second receives nothing until the end of the 5 years, but then receives $1,402.55. Why does the second receive more in total than the first?

Inflation

Opportunity Cost

Simple Interest

Compounding

Budgeting

1. If you invest $100 per month into an investment which pays 3% compounded semi-annually, you will have a total of $6,461.65 after 5 years. What action would not result in greater amount accumulated?

Increasing your payment amount.

Decreasing your compounding periods

Increasing your interest rate

Decreasing your payment frequency

Extending your investment period.

1. A Financial Plan

Should only be prepared once you have accumulated significant wealth.

Should only be prepared by a Certified Financial Planner.

Cannot be changed once put in place.

Is an informal wish list of your future financial hopes and dreams.

Can be created on your own.

1. How many major areas are part of the financial planning process?

5

7

8

10

100

1. What do individuals hope to accomplish with personal financial planning?

To save on interest costs of credit

To earn higher wages

To accumulate more wealth

To achieve personal economic satisfaction

To protect against inflation

1. Before developing your financial goals, it is important to

analyze your values and beliefs you hold with respect to money

create an emergency reserve

pay off all of your outstanding debt

ensure that your income is greater than your expenses

establish a savings plan

1. Which of the following is a possible course of action in the implementation of a financial plan?

Continue the same course of action

Expand the current situation

Change the current situation

Take a new course of action

All of the choices are correct

1. Sometimes, when individuals receive a salary increase, they start to overspend instead of maintaining their savings and spending pattern. This is known as

Wealth accumulation strategy

Lifestyle Inflation

Debt seeking strategy

Comprehensive financial planning

Opportunity Cost

1. An employee wants to retire in 10 years. After setting up a savings plan, the employee realizes that with such large investments going into retirement savings, they do not have enough cash flow to pay for current expenses. What has the employee failed to do?

The employee has not correctly calculated the time value of money

The employee has not taken inflation into consideration

The employee has not considered income needs for the short and long term

The employee has overestimated how much is require for retirement

The employee has not set a S.M.A.R.T. goal.

1. Why is the final step of the financial plan to re-evaluate and revise your plan?

Because many people fail to properly implement their financial plan

Because financial planning is a process, and many personal and economic factors will change over time

Because financial planning is difficult, and many people make mistakes when they first begin the process

Because you are likely to meet a variety of financial advisors during your lifetime who will convince you to change your plan

You should NEVER change your plan once you have implemented it.

1. All of these are specific advantages of personal financial planning except

Increased protection of your financial resources

Economic Security

Improved personal relationships

A sense of freedom

Guaranteed increased rate of return

1. Another name for “personal financial planning” is

Personal Money Management

Personal Budgeting

Personal Retirement Planning

Personal Investing

Personal Credit management

1. Clearly defining your financial goals involves

Taking full inventory of all of your available resources

Maintaining your financial plan over time

Minimizing the use of credit in your financial plan

Fully understanding the risks associated with various investments

Differentiating between your needs and your wants

1. Which of the following factors will influence your financial goals the MOST?

Your life situation

Interest rates

Exchange rates

Inflation rates

Performance of the stock market

1. A full-time student without a part time job has a financial goal of buying a new car every year. The problem with this goal is that:

It is not stated in measurable terms

It does not have a timeframe

It does not indicate the action that should be taken

It is not realistic

The student did not consider which life cycle stage they are in

1. “I want to save $5000 for an emergency reserve in the next 12 months” is not a SMART goal because it is not

Specific

Measurable

Action-Oriented

Realistic

Timely

1. What is the time frame of an “intermediate” goal?

More than 1 year but less than 2 years

From 2-5 years

From 5-10 years

More than 5 years but less than 15 years

It depends on whether the goal is financial or personal.

1. Economics is the study of

How wealth is created and distributed

How interest rates are set

How inflation is calculated

How imports and exports effect demand

How imports and exports effect supply

1. The role of financial institutions in Canada is to

Set interest rates

Ensure inflation rates do not exceed accepted levels

Create wealth for individuals and businesses

Maintain the nation’s money supply

Facilitate financial activities in our economy

1. Who is responsible for maintaining the money supply in Canada?

Chartered banks

The federal Government

The Provincial Governments

The Central Bank

The minister of finance

1. Which of the following provide an indication of the general movement of stock prices?

Chartered banks

The Central Bank

Accredited Financial Advisors

The Minister of Finance

Stock market indexes

1. Who does inflation harm the most?

Borrowers

Lenders

People living on fixed incomes

People who have indexed pension plans

Savers

1. What is a personal opportunity cost associated with attending school?

The cost of tuition

The cost of books

The cost of commuting to school

Rental costs which would be incurred whether or not you attended classes

Forfeiting the opportunity to travel because you are in school

1. When considering the time value of money, which will result in the highest future value?

Daily compounding

Weekly compounding

Bi-weekly compounding

Monthly compounding

Annual compounding

1. An example of a short-term financial goal is

To save first and last month’s rent on an apartment you plan on moving into in 4 months

To take a much-needed vacation when you graduate in three years

To pay off your student loans within the next 7 years

To ensure that you attend all the classes you already paid for this semester

To make time on a daily basis for regular exercise to maintain your physical and mental wellbeing.

1. The key to achieving goals and future financial security is

Earning higher wages

Using credit prudently

Planned spending through budgeting

Maintaining an adequate emergency reserve

Investing regularly

1. Achieving your financial objectives require two things:

Commitment/willingness to learn and appropriate information sources

A high income and low expenses

Large Assets and small liabilities

A financial degree and a reputable financial advisor

Appropriate insurance protection and a sound financial plan

1. A family spends $49,000 on living expenses. With an annual inflation rate of 5 percent, they can expect to spend approximately \_\_\_\_\_\_\_\_\_\_blank in one year.

$59,042

$56,742

$54,342

$55,042

$51,450

1. The future value of $2,500 deposited each year for 6 years earning 7 percent would be *approximately* how much? Use Exhibit 1-B.
**Note: Round time value factors to 3 decimal places and final answer to the nearest dollar amount.**

$17,883.

$15,000.

$20,683.

$18,983.

$16,050.

**Answer Key**Test name: Kapoor9CeCh01

FALSE

FALSE

FALSE

TRUE

TRUE

FALSE

TRUE

TRUE

TRUE

FALSE

TRUE

FALSE

FALSE

FALSE

TRUE

TRUE

C

A

B

E

E

B

C

C

B

E

C

C

A

D

D

D

D

D

B

A

A

C

D

D

A

A

B

C

D

A

E

B

A

A

PY, CY = 12
PV = 0
N = 48
PMY = -$200
FV = $10602.98
CPT I/Y = 5%.

B

B

B

C

E

C

B

C

D

A

A

C

E

E

D

C

B

C

B

D

B

FV = 15000
 i/y =4
 pv = 0
 n = 5
 cpt pmt

C

Cy = py =12
 Pv = 9434
 Fv = 0
 I/y = 9
 N = 36
 Cpt pmt

A

B

A

C

P/Y, CY = 12
PV = $20000
N = 48
I/Y = 14
FV = O
CPT PMT = $546.53.

D

P/Y = 52
C/Y = 12
PV = 0
N = 52
I/Y = 6
PMT = -$100
CPT FV = $5355.68
PV = -$5355.58
N = 156
I/Y = 6
PMT = -$150
FV = $32026.63.

E

C

C

D

A

B

B

B

B

E

A

D

A

C

E

A

B

D

D

B

E

C

D

A

E

B

C

B

E

A

E

A

D

C

B

A

D

D

E

C

E

A

A

C

A

E

Future spending: [$49,000 + ($49,000 × 0.05 × 1 year)] = $51,450.

A

Future value of a series of deposits (annuity): $2,500 × 7.153 (Exhibit 1-B in Chapter 1 appendix) = $17,882.50 = approximately $17,883.