**Chapter 1 Test Bank**

**To accompany *Personal Finance*, 1st edition, by Vickie Bajtelsmit**

Summary: 45 questions

LO1-1: 1 T/F; 3 MC; 2 MS

LO1-2: 4 T/F; 9 MC; 1 MS

LO1-3: 2 T/F; 3 MC

LO1-4: 1 T/F; 6 MC; 1 MS

LO1-5: 3 T/F; 9 MC

Easy: 20

Medium: 22

Hard: 3

Knowledge: 9

Comprehension: 24

Application: 9

Analysis: 1

Evaluation: 2

1. Personal finance is a specialized area of study that focuses exclusively on investments and retirement planning.
2. True
3. False

Answer: B

Format: True/False

Learning Objective: 1.1

Difficulty: Easy

Bloomcode: Knowledge

AACSB:

1. A comprehensive financial plan includes three steps: establishing a firm foundation, securing basic needs, and
2. building and protecting wealth.
3. monitoring progress.
4. setting short-term goals.
5. setting long-term goals.

Answer: A

Format: Multiple Choice

Learning Objective: 1.1

Difficulty: Easy

Bloomcode: Comprehension

AACSB:

1. The financial planning process includes five steps. Four of the steps are listed below:

* Analyze your current financial status.
* Implement your financial plan.
* Monitor your Progress and revise your plan as needed.
* Organize your financial information and set short-term and long term goals.

What is the missing step?

1. Identify and evaluate alternative strategies for meeting your goals.
2. Understand the personal financial planning process.
3. Acquire the necessary decision-making skills and tools.
4. Build wealth and protection against emergencies.

Answer: A

Format: Multiple Choice

Learning Objective: 1.1

Difficulty: Easy

Bloomcode: Comprehension

AACSB:

1. Which of the following is NOT one of the steps in the personal financial planning process?
2. Develop short-term and long-term financial goals
3. Identify and evaluating alternative strategies for achieving goals
4. Implement a plan for achieving goals
5. Purchase life insurance

Answer: D

Format: Multiple Choice

Learning Objective: 1.1

Difficulty: Medium

Bloomcode: Comprehension

AACSB:

1. Personal financial planning includes which of the following? Select all that apply.
2. Investing
3. Saving
4. Buying insurance
5. Budgeting
6. Assessing attitude toward risk
7. Deciding which make and model of car to buy

Answer: A, B, C, D, and E

Format: Multiple Select

Learning Objective: 1.1

Difficulty: Easy

Bloomcode: Comprehension

AACSB:

1. Which of the following events are likely to require reevaluation of your financial plan? Select all that apply.
2. Having a child
3. Graduating from college
4. Getting a divorce
5. Receiving an annual bonus
6. Winning a big lottery
7. Being invited to serve on a local charity’s board

Answer: A, B, C, and E

Format: Multiple Select

Learning Objective: 1.1

Difficulty: Easy

Bloomcode: Application

AACSB:

1. Personal financial planning skills are only applicable in the early years of a person's life.
2. True
3. False

Answer: B

Format: True/False

Learning Objective: 1.2

Difficulty: Easy

Bloomcode: Knowledge

AACSB:

1. If your debts are larger than your assets, you have a negative wealth position.
2. True
3. False

Answer: A

Format: True/False

Learning Objective: 1.2

Difficulty: Medium

Bloomcode: Comprehension

AACSB:

1. A person’s fundamental beliefs concerning what is important in life are referred to as
2. values
3. attitudes
4. opinions
5. judgments

Answer: A

Format: Multiple Choice

Learning Objective: 1.2

Difficulty: Medium

Bloomcode: Knowledge

AACSB:

1. When inflation, as measured by the change in the consumer price index (CPI), is high,
2. the prices of goods and services are likely to increase.
3. you can buy goods and services cheaper.
4. the value of the dollar is high.
5. you will earn less on your investments.

Answer: A

Format: Multiple choice

Learning Objective: 1.2

Difficulty: Easy

Bloomcode: Comprehension

AACSB: Analytic

1. As inflation increases, the purchasing power of money decreases.
2. True
3. False

Answer: A

Format: True/False

Learning Objective: 1.2

Difficulty: Medium

Bloomcode: Comprehension

AACSB:

1. Your salary was $32,000 in 2014. It increased to $35,000 in 2015. What was the percentage increase in your salary from 2014 to 2015?
2. 8.57%
3. 9.38%
4. 9.14%
5. 33.5%

Answer: B

Format: Multiple Choice

Learning Objective: 1.2

Difficulty: Medium

Bloomcode: Application

AACSB: Analytic

1. Your salary was $28,000 in 2013 and $30,000 in 2014. In 2015, your salary was $34,000. What was the percentage increase in your salary from 2013 to 2015?
2. 7.14%
3. 14.29%
4. 21.43%
5. 11.76%

Answer: C

Format: Multiple Choice

Learning Objective: 1.2

Difficulty: Medium

Bloomcode: Application

AACSB: Analytic

1. Your salary increased from $20,000 to $30,000 in five years. What is the percentage increase?
2. 33 percent
3. 50 percent
4. 100 percent
5. 150 percent

Answer: B

Format: Multiple choice

Learning Objective: 1.2

Difficulty: Hard

Bloomcode: Application

AACSB: Analytic

1. Your salary has increased 50 percent in five years. What is the annual percentage increase?
2. 8.5%
3. 8.7%
4. 10%
5. 11.2%

Answer: A

Format: Multiple choice

Learning Objective: 1.2

Difficulty: Hard

Bloomcode: Analysis

AACSB: Analytic

1. The Federal Reserve often \_\_\_\_\_\_\_\_\_\_ the \_\_\_\_\_\_\_\_\_\_ rate to stimulate the economy.
2. lowers; fed funds
3. raises; fed funds
4. lowers; prime
5. raises; prime

Answer: A

Format: Multiple Choice

Learning Objective: 1.2

Difficulty: Medium

Bloomcode: Comprehension

AACSB:

1. Differences in interest rates on different types of loans at the same point in time are primarily due to differences in maturities of the loans.
2. True
3. False

Answer: B

Format: True/False

Learning Objective: 1.2

Difficulty: Medium

Bloomcode: Comprehension

AACSB:

1. The federal funds rate is the rate that
2. banks charge customers for short-term loans.
3. the Federal Reserve charges banks for short-term loans.
4. banks charge each other for short-term loans.
5. credit card issuers use as the teaser rate.

Answer: C

Format: Multiple choice

Learning Objective: 1.2

Difficulty: Easy

Bloomcode: Knowledge

AACSB:

1. An expansion is a phase in the economic cycle that is characterized by
2. decreasing business investment and decreasing employment opportunities.
3. decreasing business investment and increasing employment opportunities.
4. increasing business investment and decreasing employment opportunities.
5. increasing business investment and increasing employment opportunities.

Answer: D

Format: Multiple choice

Learning Objective: 1.2

Difficulty: Easy

Bloomcode: Comprehension

AACSB:

1. Which of the following is part of the economic cycle? Select all that apply.
2. Recession
3. Expansion
4. Crisis
5. Unemployment
6. Recovery
7. Inflation

Answer: A, B, and E

Format: Multiple Select

Learning Objective: 1.2

Difficulty: Medium

Bloomcode: Comprehension

AACSB:

1. Which of the following in NOT one of the recommended SMART guidelines for personal financial goals?
2. Realistic
3. Attainable
4. Manageable
5. Specific

Answer: C

Format: Multiple choice

Learning Objective: 1.3

Difficulty: Easy

Bloomcode: Knowledge

AACSB:

1. Rosa has set the following goal as part of her financial plan: ***Graduate from college with a B.S. in Business Management.*** Which aspect of the SMART goal model is missing from her goal?
2. The goal is not specific.
3. The goal is not measureable.
4. The goal is not attainable.
5. The goal is not time-specific.

Answer: D

Format: Multiple choice

Learning Objective: 1.3

Difficulty: Medium

Bloomcode: Evaluation

AACSB:

1. Andre graduated from college this year and obtained a well-paid job with a large accounting firm. Andre has developed the following goal: ***Save for retirement.*** This goal meets all five criteria of the SMART goal model.
2. True
3. False

Answer: B

Format: True/False

Learning Objective: 1.3

Difficulty: Easy

Bloomcode: Evaluation

AACSB:

1. Once you have developed a list of short, intermediate, and long-term goals you should reevaluate your list regularly as circumstances in your life change.
2. True
3. False

Answer: A

Format: True/False

Learning Objective: 1.3

Difficulty: Easy

Bloomcode: Comprehension

AACSB:

1. For a person in their 20s the goal to save for retirement is considered a(n)
2. short-term goal.
3. intermediate-term goal.
4. long-term goal.
5. unrealistic goal.

Answer: C

Format: Multiple Choice

Learning Objective: 1.3

Difficulty: Easy

Bloomcode: Comprehension

AACSB:

1. Financial planners must have a college degree with an emphasis or major in business.
2. True
3. False

Answer: B

Format: True/False

Learning Objective: 1.4

Difficulty: Medium

Bloomcode: Knowledge

AACSB:

1. Which of the following would NOT be a major factor when choosing a personal financial planner?
2. affiliation
3. reputation
4. certification
5. education

Answer: A

Format: Multiple Choice

Learning Objective: 1.4

Difficulty: Medium

Bloomcode: Comprehension

AACSB:

1. Which of the following has passed a comprehensive examination covering all the topic areas considered necessary in the practice of consumer financial planning and has at least three years of work experience in the field?
2. Certified Financial Planner (CFP®)
3. Accredited Financial Planner (AFC)
4. Chartered Financial Consultant (ChFC)
5. Certified Public Accountant (CPA)

Answer: A

Format: Multiple Choice

Learning Objective: 1.4

Difficulty: Easy

Bloomcode: Knowledge

AACSB:

1. Which of the following describes a Certified Financial Planner (CFP®)?
2. A CFP® majored in financial planning in college.
3. A CFP® has passed a rigorous exam.
4. A CFP® has at least five years of experience.
5. A CFP® has worked in the banking industry.

Answer: B

Format: Multiple Choice

Learning Objective: 1.4

Difficulty: Easy

Bloomcode: Knowledge

AACSB:

1. In a \_\_\_\_\_\_\_\_\_\_ arrangement, the planner is compensated for every financial product sold but does not receive any payment for developing a personal financial plan.
2. fee only
3. commission only
4. fee plus commission
5. fee offset by commission

Answer: B

Format: Multiple Choice

Learning Objective: 1.4

Difficulty: Medium

Bloomcode: Comprehension

AACSB:

1. In a fee-based arrangement, the planner is compensated with an annual fee that is usually

1. based on the number of financial products purchased.
2. waived for large investment portfolios.
3. a set amount for all clients.
4. based on the size of the client’s asset portfolio being managed.

Answer: D

Format: Multiple Choice

Learning Objective: 1.4

Difficulty: Medium

Bloomcode: Comprehension

AACSB:

1. Which of the following describes a financial advisor who is paid based on a percentage of products sold or purchased by clients?
2. Commission-only
3. Fee-based
4. Fee plus commission
5. Fee-only

Answer: A

Format: Multiple Choice

Learning Objective: 1.4

Difficulty: Easy

Bloomcode: Comprehension

AACSB:

1. In selecting a financial planner or advisor, which of the following factors should you consider? Select all that apply.
2. Education
3. Certifications
4. Experience
5. Advertisements
6. Number of employees in his or her office
7. Fee structure

Answer: A, B, C, and F

Format: Multiple Select

Learning Objective: 1.4

Difficulty: Easy

Bloomcode: Comprehension

AACSB:

1. One of the biggest mistakes people make in their financial planning assumptions is to be overly pessimistic.
2. True
3. False

Answer: B

Format: True/False

Learning Objective: 1.5

Difficulty: Easy

Bloomcode: Knowledge

AACSB:

1. If you are considering working part-time at a second job in addition to your regular one, you should only consider marginal costs and marginal benefits, not the total costs and benefits of both jobs.
2. True
3. False

Answer: True

Format: True/False

Learning Objective: 1.5

Difficulty: Hard

Bloomcode: Application

AACSB:

1. You are considering adding a wood shop to your home. You enjoy woodworking and could make items for sale. In considering this addition, you only look at the extra cost of the shop and the potential benefits of having the shop. This is an example of
2. opportunity cost decision-making.
3. sensitivity analysis.
4. marginal reasoning.
5. reasonable assumptions.

Answer: C

Format: Multiple Choice

Learning Objective: 1.5

Difficulty: Medium

Bloomcode: Application

AACSB:

1. In deciding whether to go to graduate school, evaluating the benefit based on the potential change in your earnings is an example of
2. marginal reasoning.
3. sensitivity analysis.
4. future value.
5. opportunity cost.

Answer: A

Format: Multiple choice

Learning Objective: 1.5

Difficulty: Medium

Bloomcode: Application

AACSB:

1. A major opportunity cost for college students is the income they will forego over the years they are in college.
2. True
3. False

Answer: A

Format: True/False

Learning Objective: 1.5

Difficulty: Medium

Bloomcode: Comprehension

AACSB:

1. You decide to take a part-time job to help with your college expenses. The hours available for study are thus reduced. The reduction in study hours would be your:
2. fixed cost
3. direct cost
4. variable cost
5. opportunity cost

Answer: D

Format: Multiple Choice

Learning Objective: 1.5

Difficulty: Easy

Bloomcode: Comprehension

AACSB:

1. Holly used savings to pay for the books for her college courses. In choosing to take money from her savings she gives up the interest that could have been earned on that investment. What is this trade-off called?
2. Marginal reasoning
3. Opportunity cost
4. Future value
5. Sensitivity analysis

Answer: B

Format: Multiple Choice

Learning Objective: 1.5

Difficulty: Easy

Bloomcode: Comprehension

AACSB:

1. You are calculating your potential return on your stock investments. If you calculate different possible returns based on assuming a variety of interest rates and stock market conditions, this is an example of
2. reasonable assumptions
3. sensitivity analysis
4. marginal analysis
5. opportunity cost

Answer: B

Format: Multiple Choice

Learning Objective: 1.5

Difficulty: Medium

Bloomcode: Application

AACSB:

1. You have estimated that if your investments earn 10 percent per year, you can retire at age 65. If you re-estimate your retirement date assuming a lower investment return, you are using
2. sensitivity analysis.
3. marginal reasoning.
4. future value.
5. opportunity cost.

Answer: A

Format: Multiple Choice

Learning Objective: 1.5

Difficulty: Medium

Bloomcode: Application

AACSB:

1. If you seek advice from a number of people before making a decision, you would be considered a (an)
2. rational decision-maker.
3. intuitive decision-maker.
4. external decision-maker.
5. agonizer.

Answer: C

Format: Multiple Choice

Learning Objective: 1.5

Difficulty: Medium

Bloomcode: Comprehension

AACSB:

1. Which of the following is a possible negative consequence for rational decision-makers?
2. reduced investment returns
3. difficulty staying on a budget
4. too much debt
5. avoiding professional help

Answer: A

Format: Multiple Choice

Learning Objective: 1.5

Difficulty: Medium

Bloomcode: Comprehension

AACSB:

1. Which type of decision maker is most likely to have trouble sticking to a budget and as a result may fall into debt?
2. Rational decision maker
3. External decision maker
4. Avoider
5. Agonizer

Answer: C

Format: Multiple choice

Learning Objective: 1.5

Difficulty: Medium

Bloomcode: Comprehension

AACSB: