

Chapter 01: Understanding the Financial Planning Process

True / False

1. The average propensity to consume is commonly viewed as a key determinant of standard of living.

a. True

b. False

ANSWER: True

2. Financial planning can improve your standard of living.

a. True

b. False

ANSWER: True

3. Standard of living is defined as the necessities, comforts, and luxuries desired by an individual or a family.

a. True

b. False

ANSWER: True

4. The support of philanthropic organizations is a material item that contributes to our quality of life.

a. True

b. False

ANSWER: True

5. The most effective way to achieve financial objectives is through personal financial planning.

a. True

b. False

ANSWER: True

6. Two people with significantly different incomes can have equal average propensities to consume because of differences in their standard of living.

a. True

b. False

ANSWER: True

7. Mike's annual income is \$45,000, and he spends \$30,000 for current needs. Mike's average propensity to consume is 80 percent.

a. True

b. False

ANSWER: True

8. Tangible assets are earning assets that are held for the returns they promise.

a. True

b. False

ANSWER: True

9. It is easy to change your partner's financial style, so there is no need for financial planning to resolve conflicts regarding money matters.

a. True

b. False

ANSWER: True

10. The need for financial planning declines as your income increases.

a. True

b. False

ANSWER: True

11. When you get your first job, you should make a good financial plan that you can follow without making changes until you retire.

a. True

b. False

ANSWER: True

12. Saving \$400 for a large, flat-screen TV within the next 4 months is an example of a short-term goal.

a. True

b. False

ANSWER: True

13. Short-term planning should include creating and maintaining an emergency fund with at least 6 months' worth of income.

a. True

b. False

ANSWER: True

14. You should discuss your financial goals and attitudes toward money with your partner.

a. True

b. False

ANSWER: True

15. For employees of large firms, managing employee benefits is an important part of

financial planning.

a. True

b. False

ANSWER: True

16. Accumulating wealth for later years is called estate planning.

a. True

b. False

ANSWER: True

17. The longer you wait to begin retirement planning, the less you are likely to have in your retirement fund.

a. True

b. False

ANSWER: True

18. Tax plans are closely tied to investment plans.

a. True

b. False

ANSWER: True

19. Most people tend to be more liberal about their expenditures during a recession or crisis.

a. True

b. False

ANSWER: True

20. You should limit your spending to no more than 20 percent more than what you earn.

a. True

b. False

ANSWER: True

21. Commission-based financial planners charge fees for the financial products they sell.

a. True

b. False

ANSWER: True

22. Fee-only financial planners charge commissions for the products they sell.

a. True

b. False

ANSWER: True

23. Retirement planning includes taking advantage of and managing employer-sponsored benefits.

- a. True
- b. False

ANSWER: True

24. Recessions and financial crises will always result in job loss.

- a. True
- b. False

ANSWER: True

25. Financial planning takes place in a dynamic economic environment created by the actions of the government, business, and consumers.

- a. True
- b. False

ANSWER: True

26. Your purchase, saving, investment, and retirement plans and decisions are not influenced by the present state of the economy.

- a. True
- b. False

ANSWER: True

27. The federal government delegates its regulation of economic activity function to businesses and consumers.

- a. True
- b. False

ANSWER: True

28. Living costs are constant throughout the country.

- a. True
- b. False

ANSWER: True

29. Geographic factors affect your earning power.

- a. True
- b. False

ANSWER: True

30. Marital status affects the income level of individuals.

- a. True
- b. False

ANSWER: True

31. The decisions you make in career planning are independent of the decisions you make in financial planning.

- a. True
- b. False

ANSWER: True

32. Setting long- and short-term career goals helps in career planning.

- a. True
- b. False

ANSWER: True

33. In the United States, salaries tend to be higher in the Northeast and West than in the South.

- a. True
- b. False

ANSWER: True

Multiple Choice

34. Personal financial planning is important because it:

- a. controls inflation.
- b. limits consumption.
- c. reduces social disparity.
- d. results in an improved standard of living.
- e. reduces economic differences among individuals.

ANSWER: a, b, c, d, e

35. Financial planning helps us:

- a. control inflation.
- b. have flexibility to handle job loss.
- c. control unemployment rates.
- d. obtain a Social Security number.
- e. decrease national debt.

ANSWER: a, b, c, d, e

36. The best way to achieve your financial objectives is to:

- a. have a luxurious standard of living.
- b. spend your money at once to reach your objectives swiftly.
- c. develop a sound financial plan.
- d. create a good tax deferment strategy.
- e. monitor your spending.

ANSWER: a, b, c, d, e

37. An individual's quality of life is closely tied to his or her:

- a. political orientation.
- b. charitable contributions.
- c. pollution control efforts.
- d. standard of living.
- e. educational qualifications.

ANSWER: a, b, c, d, e

38. A key determinant of an individual's quality of life is his or her:

- a. tax bill.
- b. financial goals.
- c. wealth.
- d. motivation.
- e. growth potential.

ANSWER: a, b, c, d, e

39. ____ plans are most helpful in making decisions regarding retirement.

- a. Personal financial
- b. Insurance
- c. Estate
- d. Business
- e. Spending

ANSWER: a, b, c, d, e

40. The average propensity to consume refers to:

- a. the dollars of income spent on luxury goods.
- b. the dollars of income saved by an individual.
- c. expenditures on the basic necessities of life.
- d. the percentage of income spent for current needs.
- e. the fact that people with higher propensity to consume earn lower income.

ANSWER: a, b, c, d, e

41. Becky graduated with a master's degree in personal financial planning. After working for 2 years in a small financial planning firm, Becky earns \$85,000 annually and saves \$5,000 a year after spending on her current needs. What is her average propensity to consume?

- a. 5 percent
- b. 25 percent
- c. 60 percent
- d. 88 percent
- e. 94 percent

ANSWER: a, b, c, d, e

42. Which of the following is a reason for a decrease in the average propensity to consume with an increase in income?

- a. The amount of savings decreases, and the consumption of necessities increases.
- b. The expenditure on luxury goods increases, and the amount of savings decreases.
- c. The expenditure on luxury goods represents only a small portion of income.
- d. The amount of savings represents only a small portion of income.
- e. The cost of necessities represents only a small portion of income.

ANSWER: a, b, c, d, e

43. ____ is the net total value of all the items that an individual owns.

- a. Wealth
- b. Propensity to consume
- c. The consumer price index (CPI)
- d. Purchasing power
- e. Credit debt

ANSWER: a, b, c, d, e

44. Stocks, bonds, and mutual funds are ____ assets.

- a. physical
- b. earning
- c. fixed
- d. tangible
- e. real

ANSWER: a, b, c, d, e

45. The purchase of a car is an example of:

- a. consuming.
- b. investing.
- c. saving.
- d. deferring.
- e. distributing.

ANSWER: a, b, c, d, e

46. The purchase of ____ is an example of the purchase of a financial asset.

- a. a home
- b. stocks
- c. a car
- d. jewelry
- e. a vacation home

ANSWER: a, b, c, d, e

47. One trend with a profound effect on people's standard of living is the ____, which requires greater responsibility to manage money wisely.

- a. single-income family
- b. two-income family

- c. investment family
- d. retirement-income family
- e. government

ANSWER: a, b, c, d, e

48. A carefully developed financial plan should set aside a portion of ____ for deferred, future spending.

- a. retirement funds
- b. investment funds
- c. current income
- d. future income
- e. tangible assets

ANSWER: a, b, c, d, e

49. Personal ____ is a systematic process that considers important elements of an individual's financial affairs in order to fulfill financial goals.

- a. conflict resolution
- b. financial planning
- c. standard of living
- d. legal counseling
- e. wealth monitoring

ANSWER: a, b, c, d, e

50. The last step in the financial planning process is to:

- a. develop financial plans and strategies to achieve goals.
- b. use financial statements to evaluate results of plans and budgets, taking corrective action as required.
- c. implement financial plans and strategies.
- d. redefine goals and revise plans and strategies as personal circumstances change.
- e. periodically develop and implement budgets to monitor and control progress toward goals.

ANSWER: a, b, c, d, e

51. Money is an important motivator of personal behavior due to its strong effect on:

- a. self-image.
- b. productivity.
- c. relationships.
- d. attitude.
- e. self-esteem.

ANSWER: a, b, c, d, e

52. When setting financial goals, you should typically start by setting:

- a. short-term goals.
- b. intermediate goals.
- c. long-term goals.

- d. goals that are not time-bound.
- e. goals that are unrealistic.

ANSWER: a, b, c, d, e

53. Which of the following financial goals is most useful for developing a financial plan?

- a. Make a \$12,000 down payment on an automobile in 4 years.
- b. Retire with a comfortable lifestyle in 25 years.
- c. Buy a \$125,000 house.
- d. Purchase a \$40,000 boat.
- e. Join the county club upon retirement in 20 years.

ANSWER: a, b, c, d, e

54. Financial plans include setting goal dates, which are:

- a. dates in the future when the goals are expected to be achieved.
- b. dates in the future when the goals will be compared with other goals that have already been achieved.
- c. dates in the past when the goals were revised and redefined.
- d. dates in the past when the goals were set.
- e. dates in the future when the goals will be discussed with family members.

ANSWER: a, b, c, d, e

55. Which of the following statements about setting long-term goals is true?

- a. The goals should be very ambitious.
- b. The goals should be realistic.
- c. The goals should be attained in 6 months to a year.
- d. The goals should be easy to meet.
- e. The goals should be set and remain unchanged.

ANSWER: a, b, c, d, e

Which of the following is one of the most emotional issues in any relationship, including that with a partner, parents, or children?

56. 057: Which of the following is one of the most emotional issues in any relationship, including that with ...

- a. Career choices
- b. Hobbies
- c. Friends
- d. Money
- e. Retirement planning

ANSWER: a, b, c, d, e

57. The best way for a family to resolve money disputes is to:

- a. ensure that only one person in the family makes decisions regarding money.
- b. consistently communicate openly about money matters with family members.
- c. ensure that individuals do not interfere in other family members' financial matters.

- d. use a third party, who is not a part of the family, to settle disputes.
- e. maintain confidentiality regarding the reasons behind specific decisions.

ANSWER: a, b, c, d, e

58. ____ is an important part of the conflict resolution process when there are disputes relating to money matters in families.

- a. Life-cycle analysis
- b. Personality development
- c. Financial planning
- d. Personal counseling
- e. Stress management

ANSWER: a, b, c, d, e

59. Which of the following statements about money and relationships is true?

- a. It is highly possible to change a partner's financial style.
- b. One of the most important aspects of marriage is financial compatibility.
- c. Money does not cause emotional issues in any relationship.
- d. The best way to resolve a money dispute is to avoid such a discussion.
- e. Financial planning does not help in resolving conflicts related to money.

ANSWER: a, b, c, d, e

60. Which of the following practices helps an individual survive in a financial crisis?

- a. Spending more than his or her earnings to maintain a good lifestyle
- b. Investing small amounts regularly to achieve long-term financial goals
- c. Establishing an emergency fund with 6 months' worth of income
- d. Developing financial plans only after reaching the highest tax brackets
- e. Hiring a noncertified financial planner

ANSWER: a, b, c, d, e

61. Income tends to ____ between the ages of 65 and 80.

- a. increase
- b. decrease
- c. stabilize
- d. fluctuate
- e. decrease and then increase slowly

ANSWER: a, b, c, d, e

62. Which of the following are the three stages of the financial planning life cycle?

- a. Wealth accumulation, wealth preservation, and wealth transfer
- b. Wealth accumulation, wealth preservation, and wealth depletion
- c. Wealth accumulation, wealth conservation, and wealth transfer
- d. Wealth acquisition, wealth transfer, and wealth depletion
- e. Wealth accumulation, wealth conservation, and wealth maturation

ANSWER: a, b, c, d, e

63. Martha is 60 and has a very high net worth. Her most pressing financial concern is probably:

- a. asset acquisition planning.
- b. liability planning.
- c. estate planning.
- d. insurance planning.
- e. savings planning.

ANSWER: a, b, c, d, e

In addition to discussing your financial goals with your partner, you must allocate responsibility for ____ tasks and decisions.

64. 065: In addition to discussing your financial goals with your partner, you must allocate responsibility f...

- a. skill management
- b. stress management
- c. household management
- d. money management
- e. business-cycle management

ANSWER: a, b, c, d, e

65. ____ is something we owe, which is measured by the amount of debt we incur.

- a. An asset
- b. An estate
- c. A liability
- d. Insurance
- e. A goal

ANSWER: a, b, c, d, e

66. The financial planning process helps in:

- a. increasing assets.
- b. increasing debts.
- c. reducing utility.
- d. reducing financial flexibility.
- e. increasing financial risk.

ANSWER: a, b, c, d, e

67. Which of the following practices will help in dealing with unexpected negative "financial shocks"?

- a. Purchasing low-utility products
- b. Accumulating debt
- c. Acquiring assets with low financial value
- d. Setting up an emergency fund
- e. Planning for retirement

ANSWER: a, b, c, d, e

68. Which of the following is an example of a liquid asset?

- a. A mutual fund
- b. Stocks
- c. An automobile
- d. Land
- e. A savings account

ANSWER: a, b, c, d, e

69. ____ would be considered real property.

- a. Stocks
- b. Land
- c. Cash
- d. Bonds
- e. Clothing

ANSWER: a, b, c, d, e

70. Which of the following age groups tends to have the highest income?

- a. 18–24
- b. 25–34
- c. 35–44
- d. 45–64
- e. 65 and older

ANSWER: a, b, c, d, e

71. Managing life, health, and disability insurance is an important part of ____ planning.

- a. asset acquisition
- b. tax
- c. retirement
- d. estate
- e. employee benefit

ANSWER: a, b, c, d, e

72. Sarah starts investing in an individual retirement account (IRA) at the age of 30 and earns 10 percent for 35 years. At age 65, she will get less returns as compared to those returns if she:

- a. starts investing at the age of 25.
- b. invests at 12 percent.
- c. invests for 45 years.
- d. invests up to the age of 60.
- e. earns 10 percent for 5 years and then 12 percent for 30 years.

ANSWER: a, b, c, d, e

73. Which of the following are included in employee benefit plans?

- a. Career plans
- b. Retirement plans
- c. Tax deferment plans
- d. Personal asset plans
- e. Bankruptcy recovery plans

ANSWER: a, b, c, d, e

74. Which of the following statements about investments is true?

- a. As income increases, the need for investment planning decreases.
- b. Keeping money idle is a form of investment.
- c. Higher returns on investment will lead to the accumulation of less wealth.
- d. Investment is measured by the amount of debt incurred.
- e. The length of time for which money is invested is important.

ANSWER: a, b, c, d, e

75. Ben invests \$10,000 at a rate of interest of 5 percent for 40 years. Which of the following statements about the return on the investment is true?

- a. Ben will receive more money at the end of 30 years compared to the money received at the end of 40 years.
- b. Ben will receive more money at a 3 percent rate of interest instead of the existing rate.
- c. Ben will receive interest of \$5,000 at the end of 10 years.
- d. Ben will receive no interest on his investment at the end of the investment period.
- e. Ben will receive a significant amount at the end of the investment period, due to the feature of compounding.

ANSWER: a, b, c, d, e

76. Tax planning is most commonly done to:

- a. determine the tax penalty.
- b. evade taxes.
- c. minimize taxes.
- d. pay taxes the person considers to be fair.
- e. learn the tax code.

ANSWER: a, b, c, d, e

77. Estate planning involves:

- a. considering how your wealth can be most effectively passed on to your heirs.
- b. determining the income you need to maintain.
- c. the dissolution of all privately held corporations.
- d. the valuation and auctioning of your valuables by hiring a professional tax planner.
- e. planning for retirement.

ANSWER: a, b, c, d, e

78. Which of the following will legally reduce an investor's tax liability?

- a. Tax evasion

- b. Tax shelter
- c. Tax penalty
- d. Tax accounting
- e. Tax portfolio

ANSWER: a, b, c, d, e

79. Employee benefits may include all of the following EXCEPT:

- a. asset purchases.
- b. life insurance.
- c. child care assistance programs.
- d. pension plans.
- e. subsidized food services.

ANSWER: a, b, c, d, e

80. Tax planning is most common among individuals with ____ incomes.

- a. low
- b. high
- c. no
- d. erratic
- e. decreasing

ANSWER: a, b, c, d, e

81. Which of the following is a typical effect of an economic recession?

- a. An increase in the standard of living
- b. A decrease in unemployment
- c. An increase in the expenditure on luxury goods
- d. A decrease in the value of retirement accounts
- e. An increase in the value of insurance purchased

ANSWER: a, b, c, d, e

82. In ____ plans, the employer allocates a certain amount of money to each employee and lets the employee spend that money for benefits that suit him or her.

- a. cafeteria
- b. fixed-benefit
- c. estate
- d. profit-sharing
- e. saving

ANSWER: a, b, c, d, e

83. Professional financial planners:

- a. provide services on a fee or commission basis.
- b. provide services to wealthy investors only.
- c. set the financial goals of retired investors.
- d. make financial decisions for investors.
- e. are most effective during retirement years.

ANSWER: a, b, c, d, e

84. The three key groups in the economic environment are:

- a. government, regulators, and business.
- b. government, consultants, and business.
- c. consumers, economists, and business.
- d. consumers, business, and managers.
- e. government, consumers, and business.

ANSWER: a, b, c, d, e

85. The government places constraints on the personal financial environment by the use of:

- a. leverage policy.
- b. taxation.
- c. competition.
- d. budgetary deficits.
- e. the free-enterprise system.

ANSWER: a, b, c, d, e

86. Which of the following statements about businesses is true?

- a. Businesses provide consumers with goods and services and receive payment in the form of money.
- b. Businesses frame rules and regulations to maintain the law and order in a country.
- c. Businesses determine the kinds of goods and services that a government will use.
- d. Businesses do not interact with other players in the economy.
- e. Businesses are seldom affected by economic cycles.

ANSWER: a, b, c, d, e

87. The amount of goods and services each dollar buys at a given time is called:

- a. inflation.
- b. the consumer price index (CPI).
- c. purchasing power.
- d. the gross domestic product (GDP).
- e. the opportunity cost.

ANSWER: a, b, c, d, e

88. A decrease in the gross domestic product (GDP) would indicate that the economy is experiencing:

- a. an expansion.
- b. a contraction.
- c. deflation.
- d. stagflation.
- e. a growth spurt.

ANSWER: a, b, c, d, e

89. The consumer is:

- a. a member of the business group.
- b. the central player in the financial planning environment.
- c. an important force in the government.
- d. an advocacy group that fights corruption in the government.
- e. relatively unimportant to business or the government.

ANSWER: a, b, c, d, e

90. A strong economy leads to:

- a. a low gross domestic product (GDP).
- b. high tax percentages.
- c. high employment opportunities.
- d. low tax penalty rates.
- e. a low value of retirement accounts.

ANSWER: a, b, c, d, e

91. Following an economic trough, the economy will often enter:

- a. an expansion.
- b. a contraction.
- c. deflation.
- d. a peak.
- e. another trough.

ANSWER: a, b, c, d, e

92. The stage in which the economy hits a peak is called:

- a. expansion.
- b. contraction.
- c. stagnation.
- d. recession.
- e. depression.

ANSWER: a, b, c, d, e

93. The consumer price index (CPI) is a measure of:

- a. unemployment.
- b. inflation.
- c. stagnation.
- d. recession.
- e. saving.

ANSWER: a, b, c, d, e

94. Which of the following statements about Andy is true if the inflation rate is increasing every year by 1 percent and there is no growth in his salary?

- a. Andy can afford to buy more luxury items as prices go down.

- b. Andy's purchasing power will decrease.
- c. Andy's employment opportunities will increase.
- d. The lack of growth in Andy's salary will increase the average inflation rate.
- e. Andy's cost of borrowing will be reduced.

ANSWER: a, b, c, d, e

95. Which of the following statements about inflation is true?

- a. The most common measure of inflation is the consumer price index (CPI).
- b. Since 1980, inflation in the United States has risen dramatically.
- c. High inflation is good for interest rates and stock and bond prices.
- d. Inflation has no effect on what we earn in our jobs.
- e. High rates of inflation tend to drive down the cost of borrowing money.

ANSWER: a, b, c, d, e

96. An economy experiences ____ after a peak.

- a. a convulsion
- b. an expansion
- c. a contraction
- d. recovery
- e. prosperity

ANSWER: a, b, c, d, e

The ____ environment of your country affects the interest rates you pay on your mortgage and credit cards as well as those you earn on savings accounts and bonds.

97. 098: The ____ environment of your country affects the interest rates you pay on your mortgage and credit...

- a. economic
- b. educational
- c. technological
- d. social
- e. legal

ANSWER: a, b, c, d, e

98. Typically, an individual's salary will be lower if he or she lives in a(n) ____ area.

- a. metropolitan
- b. overpopulated
- c. industrial
- d. rural
- e. well-developed

ANSWER: a, b, c, d, e

99. Salaries vary across geographical areas because of ____ costs.

- a. legal
- b. living

- c. social
- d. psychological
- e. technological

ANSWER: a, b, c, d, e

100. Individuals who have more formal education ____ than do those with lesser degrees.

- a. pay more tax penalty
- b. earn higher annual income
- c. save less money
- d. have less wealth
- e. have careers with less decision-making responsibility

ANSWER: a, b, c, d, e

101. Which of the following statements about the earning power of an individual is true?

- a. Income varies across different geographic locations due to varying costs of living.
- b. Heads of households who have less formal education earn more.
- c. Career planning does not help in improving earning potential.
- d. People who are very old have high incomes.
- e. Marital status has no impact on an individual's personal income.

ANSWER: a, b, c, d, e

102. Career planning:

- a. does not require any goal setting.
- b. is not related to personal financial planning.
- c. does not influence an individual's lifetime earnings.
- d. impacts an employer's stability.
- e. helps in improving professional satisfaction.

ANSWER: a, b, c, d, e

103. A person's ____ generally leads to an increase in income potential in his or her career.

- a. formal education
- b. social status
- c. marital status
- d. corporate loyalty
- e. family size

ANSWER: a, b, c, d, e

Completion

104. Instructions: Choose the word or phrase in [] which will correctly complete the statement. Select A for the first item, B for the second item, and C if neither item will correctly complete the statement. The key to building a sound financial future is to [save every extra dollar you can | create a flexible financial plan and regularly revise it].

ANSWER: b

105. Instructions: Choose the word or phrase in [] which will correctly complete the statement. Select A for the first item, B for the second item, and C if neither item will correctly complete the statement. The portion of current income an individual commits to future needs depends on his or her [short-term financial goals | average propensity to consume].

ANSWER: b

106. Instructions: Choose the word or phrase in [] which will correctly complete the statement. Select A for the first item, B for the second item, and C if neither item will correctly complete the statement. [Vacations | Education] would be considered a necessity of life.

ANSWER: c

107. Instructions: Choose the word or phrase in [] which will correctly complete the statement. Select A for the first item, B for the second item, and C if neither item will correctly complete the statement. About [50% | 75%] of married adults say that they and their mate share all their money.

ANSWER: b

108. Instructions: Choose the word or phrase in [] which will correctly complete the statement. Select A for the first item, B for the second item, and C if neither item will correctly complete the statement. [Utility | Propensity to consume] refers to the amount of satisfaction received from purchasing certain types or quantities of goods and services.

ANSWER: a

109. Instructions: Choose the word or phrase in [] which will correctly complete the statement. Select A for the first item, B for the second item, and C if neither item will correctly complete the statement. [Wealth | Money] is the medium of exchange used to measure value in financial transactions.

ANSWER: b

110. Instructions: Choose the word or phrase in [] which will correctly complete the statement. Select A for the first item, B for the second item, and C if neither item will correctly complete the statement. Long-term financial goals should indicate wants and desires for a period covering about 6 years out to the next [10 or 20 | 30 or 40] years.

ANSWER: b

111. Instructions: Choose the word or phrase in [] which will correctly complete the statement. Select A for the first item, B for the second item, and C if neither item will correctly complete the statement. "I want to accumulate a comfortable retirement fund" [would | would not] be a specific financial goal.

ANSWER: b

112. Instructions: Choose the word or phrase in [] which will correctly complete the statement. Select A for the first item, B for the second item, and C if neither item will correctly complete the statement. Money can be withdrawn from tax-deferred retirement accounts beginning at age [$59\frac{1}{2}$ | $62\frac{1}{2}$] without penalty.

ANSWER: a

113. Instructions: Choose the word or phrase in [] which will correctly complete the statement. Select A for the first item, B for the second item, and C if neither item will correctly complete the statement. Two-income families tend to [save | spend] what they earn.

ANSWER: b

114. Instructions: Choose the word or phrase in [] which will correctly complete the statement. Select A for the first item, B for the second item, and C if neither item will correctly complete the statement. Movable property, such as automobiles, household furnishings, and jewelry, are considered [personal | real] property.

ANSWER: a

115. Instructions: Choose the word or phrase in [] which will correctly complete the statement. Select A for the first item, B for the second item, and C if neither item will correctly complete the statement. [Tax | Liability and insurance] planning is introduced early in the personal financial planning life cycle.

ANSWER: b

116. Instructions: Choose the word or phrase in [] which will correctly complete the statement. Select A for the first item, B for the second item, and C if neither item will correctly complete the statement. [Inflation | The consumer price index (CPI)] is the amount of goods and services each dollar buys at a given time.

ANSWER: c

117. Instructions: Choose the word or phrase in [] which will correctly complete the statement. Select A for the first item, B for the second item, and C if neither item will correctly complete the statement. The federal government's [fiscal | monetary] policy is used to stimulate or moderate economic growth.

ANSWER: b

118. Instructions: Choose the word or phrase in [] which will correctly complete the statement. Select A for the first item, B for the second item, and C if neither item will correctly complete the statement. Following an economic trough, the economy will often enter a period of [expansion | contraction].

ANSWER: a

119. Instructions: Choose the word or phrase in [] which will correctly complete the statement. Select A for the first item, B for the second item, and C if neither item will correctly complete the statement. During the expansion phase of the business cycle, the unemployment rate will [increase | decrease].

ANSWER: b

120. Instructions: Choose the word or phrase in [] which will correctly complete the statement. Select A for the first item, B for the second item, and C if neither item will correctly complete the statement. Typically, your salary will be [higher | lower] if you live in a large metropolitan area rather than a small town or rural area.

ANSWER: a

121. Instructions: Choose the word or phrase in [] which will correctly complete the statement. Select A for the first item, B for the second item, and C if neither item will correctly complete the statement. The average income of household heads increases until age [55 | 65] and then starts decreasing.

ANSWER: a

122. Instructions: Choose the word or phrase in [] which will correctly complete the statement. Select A for the first item, B for the second item, and C if neither item will correctly complete the statement. Your level of formal education is a [controllable | noncontrollable] factor that has a considerable effect on your income.

ANSWER: a

123. Instructions: Choose the word or phrase in [] which will correctly complete the statement. Select A for the first item, B for the second item, and C if neither item will correctly complete the statement. The average American starting a career today can expect to have at least [seven | ten] jobs during his or her lifetime.

ANSWER: b