

Student name: _____

Which of the following is the market-established worth of a product or a financial instrument?

Market value

Fair value

Cash flow

Investments

Book value

Which of the following best defines personal finance?

The study of how people minimize risk for a given level of return

The study of how people maximize return for a given level of risk

The study of how people develop the cash flows necessary to support their operations and provide for their well-being

The study of how ethics should influence financial management decisions

The study of how people maximize risk for a given level of return

Which of the following statements about personal financial planning is inaccurate?

Personal financial planning is used by people to anticipate and plot their future actions to reach their goals.

Personal financial planning is used to solve a problem or to structure a plan for the future.

Personal financial planning is the analysis and decision-making extension of personal finance.

All of these statements are accurate.

None of these statements are accurate.

Which of the following is not a step in the personal financial planning decision making process?

Establish the scope of the activity

Identify and report tax evasion to the authorities

Gather data and identify goals

Compile and analyze the data

All of these steps in the personal financial planning decision making process

The underlying goal of a household when making personal financial planning decisions is to:

Minimize expenditures

Minimize risk

Maximize cash inflows

Maximize leisure time

Maximize standard of living

Which of the following is not a reason why financial planning procedures must be monitored and reviewed periodically?

Incomes change

Life situations change

Individual goals change

The financial environment changes

All of these are reasons why financial planning procedures must be monitored and reviewed periodically

What is the objective of financial integration?

To look at how actions in one part of personal financial planning can affect other areas.

To use corporate financial managerial techniques in personal financial planning.

To place cash flow into assets designed to provide future funds for consumption.

To look at the functioning of the entire economy or a major section of it.

To reduce risk in a tax efficient manner.

Which of the following designations does not have a broad educational requirement in financial planning?

Chartered Financial Consultant (CHFC)

Personal Financial Specialist (PFS)

Chartered Financial Analyst (CFA)

Certified Financial Planner (CFP)

National Association of Personal Financial Advisors (NAPFA) Registered Financial Advisor

Which of the following characterizes personal financial planning services before 1970?

It was widely available to the general population.

It was primarily available to the very wealthy.

It primarily focused on tax issues.

It primarily focused on insurance issues.

None of these characterizes personal financial planning services before 1970.

The buying and selling of tangible goods and financial instruments is a feature of:

a market

an investment

a household

a market structure

None of the choices are correct.

Which of the following best defines household finance?

The study of how a household and the people in it develop the cash flows necessary to support operations and provide for the well-being of its members.

The study of how much it costs to purchase a home.

The study of how a household and the people in it can minimize the risk of bankruptcy.

The study of how the number of people in a household can be maximized.

The study of how a household and the people in it limit expenditures and maximize cash inflows.

Why do the disciplines of psychology and sociology have a role in the practice of personal financial planning?

They provide logical, rather than emotional, explanations for how people act.

They provide behavioral, rather than logical, explanations for how people act.

They explain how people should act.

They help us understand how people and households allocate scarce resources.

They provide therapies that can reduce the anxiety faced by clients.

Which of the following is not a personal finance issue?

Consumption and savings

Risk management

Investments

Financing

All of these are personal finance issues

In practice, most clients ask their personal financial planner to:

Provide free consultation

Provide assistance with a specific problem

Recommend a lawyer or accountant

Provide tax advice

Provide a comprehensive financial plan

Which of the following issues can be categorized as a consumption and savings issue?

The need to resolve a debt problem.

The desire to improve investment returns.

Discomfort with the current risk profile.

All of the choices are correct.

None of the choices are correct.

A financial planner establishes the scope of the activity during the personal financial planning process through:

Determining the number of people in the household.

Defining the specific financial planning services that will be provided.

Determining the cash inflow to the household.

Determining the number of years until the client expects to retire.

None of the choices are correct.

During the personal financial planning process, a financial planner will not gather data related to:

Household financial assets.

Household income and expenditures.

Age and health of members in the household.

The household's tolerance of risk

Data will be gathered in relation to all of this choices.

Which of the following steps in the personal financial planning process comes last?

Implement.

Monitor and review.

Compile and analyze data.

Establish scope of activity.

Develop solutions and present the plan.

Planning for yourself and others while you are alive, and for current and former members of your household and other people or institutions upon your death, is designated:

Special circumstances planning

Retirement planning

Estate planning

Cash flow planning

Investment planning

What is the goal of cash flow planning?

To plan income and expense flows so that work, cost of living, savings and investment and financing issues interact in an optimal way to provide the highest returns possible.

To minimize payments to the government.

To enable our net cash flows to grow as rapidly as possible, subject to our tolerance for risk.

To present a current picture of the household's financial condition.

None of the choices are correct.

Which of the following is not a finance tool?

Time value of money

Cash flow analysis

Investment models of behavior

Optimization

All of these are finance tools

Which of the following are not considered part of the financial plan?

Tax planning

Investment planning

Capital budgeting

Risk Management

Employee benefits

Financial planners are best characterized as:

People with designations, education, and experience, who are trained to practice personal financial planning.

People with households that recognize that they must plan for their household's financial future.

People that integrate macroeconomic theories into capital budgeting decisions using a logical, scientific approach.

People that integrate psychology and sociology theories into investment decisions using a behavioral approach.

None of these characterizes financial planners.

Which of the following is not an example of a service that financial planners typically provide?

Comprehensive financial plan construction.

Elimination of debt difficulties.

Retirement planning.

Taxes reduction through planning, products and structures.

All of these are examples of services that financial planners typically provide.

Similar to a medical doctor, a financial planner:

Is typically compensated through an insurance company.

Must be familiar with the overall state of the client's financial health, regardless of the service being provided.

Must specialize in one area.

All of the choices are correct.

None of the choices are correct.

Employee benefits are best defined as:

The satisfaction employees feel when working for a successful company.

The benefits that flow to employers from hiring additional employees.

Forms of employee compensation other than salary.

Tax-deductible compensation employees receive for retirement purposes.

None of the choices are correct.

Market structure is the term used to describe:

The study of how people develop the cash flows necessary to support their operations and provide for their well-being.

Places where tangible goods and financial instruments like stocks and bonds are bought and sold.

A structure through which you can establish and integrate all of your goals and needs.

The economic operations of the business, the government, and the household that facilitate the purchase and sale of items.

None of the choices are correct.

Risk management is best defined as:

The uncertainty of outcomes.

The process of controlling the level of household risk.

The activity of minimizing household risk.

The risk of minimizing the household's activity.

The outcome of uncertainty.

What factor explains expanded financial planning services in the 1970s?

A middle class with increased discretionary income.

The growing complexity of financial instruments and services.

Personal financial planning developing as a profession.

Magazines and other media that increased awareness of personal finance issues.

All of the choices are correct.

Capital is best defined as:

The places where tangible goods and financial instruments like stocks and bonds are bought and sold.

The economic operation of the organization based on the cash it generates.

The real, financial, and human related assets that are generated by individuals and organizations or bought and sold in the marketplace.

None of the choices are correct.

All of the choices are correct.

Personal financial planning must satisfy four broad categories of personal-finance decisions: consumption and savings, investments, financing, and risk management. Into which category does each of the following five examples belong?

- Inability to save properly.
- Need to resolve a debt problem.
- Desire to improve investment returns.
- Desire to retire comfortably on time.
- Discomfort with present risk profile.

Outline the origins of personal financial planning. Your outline should include details regarding finance tools, other disciplines used in financial planning, personal finance categories, and the parts of personal financial planning.

Answer Key

Test name: CH1 Personal Financial Planning E2

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C

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Essay

Essay