Understanding Business, 12e **(Nickels)**
Bonus Chapter D Managing Personal Finances

1) The value of education is often exaggerated when searching for a good job.

Answer: FALSE
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

2) The U.S. government provides several types of financial incentives to encourage people to attend college.

Answer: TRUE
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

3) The first step in getting control of your finances is to prepare a budget.

Answer: FALSE
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

4) Your personal balance sheet will reflect the same fundamental accounting equation as the balance sheet for a business: assets = liabilities + owners' equity.

Answer: TRUE
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

5) On your personal balance sheet, your assets should include anything of value that you own.

Answer: TRUE
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

6) If your personal liabilities exceed your assets, you are on the road to financial security.

Answer: FALSE
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

7) Your computer and car should both be listed on the asset side of your personal balance sheet.

Answer: TRUE
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

8) Credit-card debt represents an asset on a consumer's balance sheet.

Answer: FALSE
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

9) A major source of revenue on your personal income statement is your salary or wages from your job.

Answer: TRUE
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

10) One step toward the goal of taking control of your finances is to keep track of all your expenses.

Answer: TRUE
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

11) If you find yourself regularly running out of cash, your only real option is to focus your attention on finding ways to increase your income.

Answer: FALSE
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

12) Once you have evaluated your current financial situation and know your sources of income and expenses, you have reached the point where you can establish a personal budget.

Answer: TRUE
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

13) Managing the finances of a household is similar to managing the finances of a small business.

Answer: TRUE
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

14) With respect to personal financial planning, the first thing to do with any extra money you have is to start a savings plan.

Answer: FALSE
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

15) In order to get in the habit of saving, personal financial advisors suggest that you save first and wait to pay off any debts until you've accumulated at least $10,000 in cash, savings accounts, CDs, and other liquid assets.

Answer: FALSE
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

16) It is usually better to use any money left after paying monthly bills to pay off debts that carry high interest rates rather than putting that money into a savings account.

Answer: TRUE
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

17) Financial planners regularly suggest that you borrow money to pay for large purchases.

Answer: FALSE
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

18) The best way to save money is to pay yourself first.

Answer: TRUE
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

19) Most financial experts will tell you to save about one month's earnings for contingency purposes.

Answer: FALSE
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

20) Borrowing money for ordinary expenses is a necessary part of life.

Answer: FALSE
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

21) Your big-screen HDTV would be listed as an asset on your personal balance sheet. However, the loan you took out to buy the TV would be listed as a personal liability.

Answer: TRUE
Explanation: Assets are things of value that you own. Liabilities represent your debts.
Difficulty: 2 Medium
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

22) Listing all of your personal assets is the first step in preparing your own income statement.

Answer: FALSE
Explanation: Assets are found on the balance sheet, not the income statement.
Difficulty: 2 Medium
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

23) Tracking business and personal spending by categories is an important technique to control expenditures.

Answer: TRUE
Explanation: Individuals and businesses often experience cash flow problems. One way to get control of your cash outflows is to keep track of every cent you spend. Developing certain categories can make this task easier and more informative.
Difficulty: 2 Medium
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

24) Your personal budget is the same thing as your personal income statement.

Answer: FALSE
Explanation: An income statement identifies *actual* revenue (everything you earned from your job, investments, etc.) and subtracts costs, and expenses to determine your actual net income over a given period. A budget is a financial *plan* that helps you think about how you can achieve future goals.
Difficulty: 2 Medium
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

25) Financial planners encourage individuals to borrow only to cover immediate expenses.

Answer: FALSE
Explanation: If you have to borrow money, only borrow to buy assets that have the potential to increase in value or generate income, such as a house.
Difficulty: 2 Medium
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

26) For individuals, budgets are usually more trouble than they are worth.

Answer: FALSE
Explanation: Creating a financial plan and tracking expenses can be tedious. However, you will gain the benefit of controlling your finances in order to reach your goals.
Difficulty: 2 Medium
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

27) A good way to save money is to spend all of your regular income, but have a strict rule to put any money from unexpected or unusual sources (such as overtime pay, bonuses, gifts, gambling payouts, or contest prizes) into a savings account.

Answer: FALSE
Explanation: The best way to save money is to pay yourself first. That is, take your paycheck and immediately take out money for savings. Unexpected or unusual income cannot be counted on, and would be too erratic and uncertain to ensure an adequate level of saving.
Difficulty: 2 Medium
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

28) You should never borrow to cover regular expenses, but it makes perfectly good sense to use credit to cover unexpected expenses such as car or home repairs.

Answer: FALSE
Explanation: Financial experts advise that it is better to budget for emergencies by establishing a contingency fund of highly liquid assets such as savings accounts or money market funds to cover most unexpected expenses. Except in highly unusual circumstances, borrowing should only be used to buy assets that will appreciate in value or generate income.
Difficulty: 2 Medium
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

29) Serena is attending her local community college with the goal of getting a good job someday. She knows that financial planning begins first with making money.

Answer: TRUE
Explanation: Benjamin Franklin said investment in education always pays the best interest. Today, a person with an undergraduate degree earns about twice as much as someone with only a high school diploma.
Difficulty: 3 Hard
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

30) Luke wants to get better control of his personal finances. He should begin by setting up a personal balance sheet and a personal income statement.

Answer: TRUE
Explanation: The first step towards taking control of your personal finances is to take inventory of your current situation. This is accomplished by preparing a personal balance sheet and a personal income statement.
Difficulty: 3 Hard
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

31) Even though they are in debt, most of today's college graduates are capital-rich.

Answer: FALSE
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

32) Most people find it relatively easy to live frugally.

Answer: FALSE
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

33) In order to accumulate enough wealth to get started toward achieving their goals, many people have to make significant sacrifices in their standard of living for several years.

Answer: TRUE
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

34) Once they've accumulated enough money, buying a low-priced home is often a good investment for young adults.

Answer: TRUE
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

35) Personal financial planners recommend renting a home, rather than incurring the cost of buying a home.

Answer: FALSE
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

36) Before getting married, a couple should discuss and agree upon a financial strategy.

Answer: TRUE
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

37) After marriage, one great financial strategy is to live on one income and to save the other.

Answer: TRUE
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

38) If possible, it is almost always better to buy a single home rather than an attached home.

Answer: FALSE
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

39) One drawback to buying a home compared to renting is that your monthly mortgage payments will increase, while rental payments are fixed.

Answer: FALSE
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

40) When you buy a home, the monthly payments for the home may remain relatively fixed, but your payments for taxes and utilities are likely to increase.

Answer: TRUE
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

41) Interest paid on a home loan is deductible from taxable income.

Answer: TRUE
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

42) The federal government discourages home ownership through high tax rates.

Answer: FALSE
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

43) The three keys that have the greatest influence on how the value of your home increases over time are: (1) size (square feet), (2) age, and (3) design features.

Answer: FALSE
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

44) From an investment viewpoint, it is a good idea to buy a large home in an area of town where homes are less expensive.

Answer: FALSE
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

45) Historically, the best place to invest has been in U.S. government savings bonds.

Answer: FALSE
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

46) Most financial experts believe that the stock market is likely to grow more slowly in the future than it did in the last 50 years.

Answer: TRUE
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

47) Though stock prices do sometimes go down, investing in the stock market has generally provided very attractive returns over the long run.

Answer: TRUE
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

48) A contrarian would advise you to buy stock when stock prices are falling and most other people are selling.

Answer: TRUE
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

49) Funds invested in savings accounts and certificates of deposit (CDs) have traditionally outperformed stocks as a means of generating long-term financial gains.

Answer: FALSE
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

50) A person using a credit card to make a purchase may end up paying much more than if he or she had paid cash.

Answer: TRUE
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

51) A good manager of personal finances, like a good businessperson, uses borrowed funds whenever possible.

Answer: FALSE
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

52) If you use a credit card to make purchases, you should make a strong effort to pay off the balance in full each month.

Answer: TRUE
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

53) Credit cards can be used to categorize and track your purchases.

Answer: TRUE
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

54) Excessive debt is as much a problem of young consumers as it is of other age groups.

Answer: TRUE
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

55) More than half of all debtors seeking help at the National Foundation for Credit were between the ages of 18 and 32.

Answer: TRUE
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

56) One danger of a credit card is that consumers often buy items they wouldn't normally buy if they had to pay cash.

Answer: TRUE
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

57) Accumulating money through savings allows you to participate in the growth of a capitalist society.

Answer: TRUE
Explanation: The path to success in a capitalist system is to have capital (money) to invest.
Difficulty: 2 Medium
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

58) Buying an attached home and living in one side, while renting the other side, generally turns out to be more trouble than it is worth, since you have to satisfy not only your own needs, but also the needs of the renters.

Answer: FALSE
Explanation: For many young investors, buying two attached homes has proven to be a very attractive investment. The rental income from the attached unit will help cover the mortgage payment, the mortgage interest and real estate taxes are tax deductible, and the values of the attached homes usually appreciate over time.
Difficulty: 2 Medium
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

59) When young people decide to buy a house, the best approach is to buy a house in an inexpensive part of town so they can get a larger house for less money.

Answer: FALSE
Explanation: The key to success when investing in housing is location. It is usually better from a financial standpoint to buy a small home in a great part of town rather than a larger home in a not-so-great setting.
Difficulty: 2 Medium
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

60) House payments tend to rise at a faster rate than do rent payments on a similar sized house.

Answer: FALSE
Explanation: Other than taxes and utilities, house payments on a fixed-interest rate mortgage are relatively fixed. As your income rises, the house payments get easier to make, but renters often find that rents tend to go up as fast as or faster than income.
Difficulty: 2 Medium
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

61) The tax shelter offered by home ownership increases the overall cost of owning your home.

Answer: FALSE
Explanation: Interest on home loans and real estate taxes paid are both deductible from taxable income on an individual's federal income tax return. This, in effect, lowers the cost of home ownership.
Difficulty: 2 Medium
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

62) Investors who desire a very stable and predictable income from their investments (such as people who are nearing retirement) would be reluctant to invest heavily in the stock market.

Answer: TRUE
Explanation: The stock market has consistently proven to be a good place to invest money for long-term growth. However, as evidenced by the recent sharp decline in stock prices, the stock market definitely has its ups and downs. Also, though some analysts are bullish, many experts predict that the market will grow more slowly over the next few years than it has in the past, increasing the time it will take to recover from any market reversals. Younger investors who are patient will still have time to recover from short-term drops in the stock market. However, older investors do not have as long a time horizon and may want a more stable and predictable place to invest their money.
Difficulty: 2 Medium
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

63) During the first few years of a home mortgage, almost all the payments go for interest on the loan. This high interest is a reason it is better for young people to rent rather than buy.

Answer: FALSE
Explanation: The federal government allows homeowners to deduct interest on their mortgage from income, thus reducing their income tax liability. Thus, the fact that almost all of the mortgage payment in the first few years goes to interest means that the homeowner can deduct almost the entire cost of the mortgage payment from his or her taxable income.
Difficulty: 2 Medium
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

64) One of the keys to financial success is never to apply for a credit card.

Answer: FALSE
Explanation: Credit cards can be expensive if they are used extensively. However, credit cards can be a convenient and safe way to make certain types of purchases, and if users pay off the monthly balance before interest is charged, they can avoid the expense of finance charges. Many merchants demand credit cards as a form of identification. Credit cards also provide a recordkeeping system for purchases. Finally, credit cards offer some protection against theft: if cash is stolen, it is simply gone; if a credit card is lost or stolen, the holder can simply cancel the card, thus limiting the loss.
Difficulty: 2 Medium
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

65) The best strategy to follow in using credit cards is to pay only the minimum amount required each month.

Answer: FALSE
Explanation: Relatively high interest rates are charged on credit-card balances not paid within the grace period. Paying only the monthly minimum can result in very high finance charges.
Difficulty: 2 Medium
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

66) If you are in the 25 percent tax bracket and your home mortgage interest is $1,000 per month, then your after-tax mortgage interest cost is $750 per month.

Answer: TRUE
Explanation: The tax deduction allowed by the Internal Revenue Service is $250 (25% times $1,000 interest per month). This is then subtracted from the $1,000 interest payment per month, resulting in an after-tax mortgage interest cost of $750.
Difficulty: 3 Hard
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

67) Shulei graduated from college two years ago. She has already accumulated enough money in her savings account and money market to meet her basic needs, and now wants to begin investing a portion of each paycheck to earn a high rate of return over the long run. Shulei's best choice as a young woman would be to put money into a bank savings account regularly.

Answer: FALSE
Explanation: Though it has its ups and downs, over the long run the stock market has consistently outperformed other popular investment vehicles. In particular, stocks have generally offered a much higher long-run return than savings accounts.
Difficulty: 3 Hard
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

68) During a recent drop in the stock market, Damon took the opportunity to buy a wide variety of stocks even though many of his friends and relatives were selling. His investment strategy appears to be consistent with contrarian views.

Answer: TRUE
Explanation: The contrarian approach is to buy when everyone else is selling and sell when others are buying. Most people tend to sell when the stock market suffers a big drop, but contrarians look at such a drop as an opportunity to buy at a low price. This approach takes courage, but it can be a way to great financial success. After all, the way to make money is to buy low and sell high.
Difficulty: 3 Hard
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

69) Term life insurance is a combination insurance plan and savings plan.

Answer: FALSE
Difficulty: 1 Easy
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

70) Term life insurance offers pure insurance with no savings feature.

Answer: TRUE
Difficulty: 1 Easy
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

71) The younger you are when you buy term life insurance, the lower the premiums tend to be.

Answer: TRUE
Difficulty: 1 Easy
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

72) Multiyear level-premium insurance is a form of term insurance with fixed premiums for the life of the policy.

Answer: TRUE
Difficulty: 1 Easy
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

73) Whole life insurance premiums provide the insured with both pure insurance and a savings plan.

Answer: TRUE
Difficulty: 1 Easy
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

74) Unlike whole life policies, a universal life insurance policy typically invests part of the premium in very aggressive, high-risk assets.

Answer: FALSE
Difficulty: 1 Easy
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

75) The death benefits of a variable life insurance policy vary depending upon the performance of the investment.

Answer: TRUE
Difficulty: 1 Easy
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

76) An annuity is a contract to make regular payments to a person for life or for a fixed period.

Answer: TRUE
Difficulty: 1 Easy
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

77) Fixed annuities have become much more popular than variable annuities.

Answer: FALSE
Difficulty: 1 Easy
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

78) Variable annuities offer investment choices identical to mutual funds.

Answer: TRUE
Difficulty: 1 Easy
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

79) People who have health insurance seldom need disability insurance.

Answer: FALSE
Difficulty: 1 Easy
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

80) If you are relatively healthy, there is no real reason to buy disability insurance.

Answer: FALSE
Difficulty: 1 Easy
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

81) Everything else constant, the higher the deductible on your car insurance policy, the higher the premium for your car insurance.

Answer: FALSE
Difficulty: 1 Easy
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

82) Many employers offer health insurance coverage for their full-time employees.

Answer: TRUE
Difficulty: 1 Easy
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

83) Disability insurance provides a relatively low-cost way of protecting against lost income due to an accident or illness that prevents you from working for an extended period of time.

Answer: TRUE
Difficulty: 1 Easy
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

84) Due to the high cost of the insurance premiums, many people have found that it makes financial sense to carry medical insurance only if their employer provides it.

Answer: FALSE
Difficulty: 1 Easy
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

85) The chances of becoming disabled at an early age are much higher than your chances of dying from an accident.

Answer: TRUE
Difficulty: 1 Easy
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

86) Guaranteed replacement cost insurance coverage provides the insured with the depreciated cost of assets.

Answer: FALSE
Difficulty: 1 Easy
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

87) Most homeowner's insurance policies do not cover certain types of expensive items unless you purchase a rider for the additional coverage.

Answer: TRUE
Difficulty: 1 Easy
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

88) An umbrella policy is an inexpensive policy that provides financial protection only in the event of clearly defined major catastrophes such as hurricanes or earthquakes—events which are referred to in the insurance industry as "rainy days."

Answer: FALSE
Difficulty: 1 Easy
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

89) One strategy used to lower car insurance premiums is to choose a policy with a large deductible.

Answer: TRUE
Explanation: By being willing to cover relatively small losses yourself, you reduce the risk of payment for the insurance company. This will result in a lower premium.
Difficulty: 2 Medium
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

90) Mike is young and newly married. He and his wife plan to have children in the near future, and Mike wants to get a significant amount of life insurance coverage at as low a cost as possible. He would be well advised to purchase a term insurance policy.

Answer: TRUE
Explanation: Term insurance would most likely be the preferred approach in this situation. If Mike's primary concern is insurance protection for his family, straight term insurance would provide the greatest amount of coverage per dollar spent.
Difficulty: 3 Hard
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

91) Casey wants to obtain life insurance at the lowest possible cost, but is leery of term insurance because she has heard the premiums tend to go up every few years. One way for her to avoid this concern would be to purchase multiyear level-premium insurance.

Answer: TRUE
Explanation: Generally, term insurance is less expensive than whole life or universal life because it provides pure protection. A new form of term insurance, called multiyear level-premium insurance, guarantees the same premium for the life of the policy. Using this approach, many term insurance policies today offer fixed premiums for 20 years or more.
Difficulty: 3 Hard
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

92) Cynthia is trying to find a way to reduce her car insurance premium. She would be well advised to decrease her insurance policy's deductible.

Answer: FALSE
Explanation: Other things held constant, the higher the deductible, the lower the insurance premium.
Difficulty: 3 Hard
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

93) Joe wants life insurance to provide benefits for his family if he were to die. He also wants part of his premium to go into a savings plan that he will need if he lives to retirement age. His best strategy to achieve insurance and savings with one premium is term insurance.

Answer: FALSE
Explanation: Term insurance is strictly insurance protection. Whole life insurance and variable life insurance policies would offer Pete the opportunity to achieve his goals.
Difficulty: 3 Hard
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

94) As a recent college graduate just starting out on his own, Tyrone needs health, disability, home, and auto insurance. He may be able to save money by obtaining an umbrella policy.

Answer: TRUE
Explanation: An umbrella policy allows people to meet all of their insurance needs for things like health, home, and auto through one carrier. Most firms offer discounts to clients who purchase umbrella policies.
Difficulty: 3 Hard
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

95) About half of the U.S. population accumulates enough money to afford a comfortable retirement.

Answer: FALSE
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

96) About 35% of U.S. households do not have a retirement account.

Answer: FALSE
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

97) Social Security is the term used to describe the Old Age, Survivors, and Disability Insurance Program.

Answer: TRUE
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

98) One problem with the Social Security system is that the number of people retiring and living longer is declining dramatically.

Answer: FALSE
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

99) It is likely that young adults today will benefit from the recent trend in the Social Security system to increase benefits and expand the cost-of-living adjustments.

Answer: FALSE
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

100) The number of workers paying into Social Security per retired individual receiving benefits is decreasing.

Answer: TRUE
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

101) Regardless of potential changes, you can count on Social Security to provide you with a comfortable retirement.

Answer: FALSE
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

102) An individual retirement account (IRA) is a tax-deferred investment plan that encourages workers to save for retirement.

Answer: TRUE
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

103) A traditional IRA affords workers who qualify the opportunity to deduct from their reported income the money they put into a qualified retirement account.

Answer: TRUE
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

104) Both the Roth and traditional IRA allow individuals to put as much money as they want into their retirement account.

Answer: FALSE
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

105) A Roth IRA allows workers who qualify to get an up-front deduction for any money they invest in the plan.

Answer: FALSE
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

106) An advantage of both traditional and Roth IRAs is that both the income invested and the earnings from these investments are never taxed.

Answer: FALSE
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

107) The benefit of opening an IRA while you're young is the compounding of the money invested tax-free over your working lifetime.

Answer: TRUE
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

108) Funds deposited into an IRA cannot be withdrawn until you retire.

Answer: FALSE
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

109) In order to qualify as a tax shelter, IRA saving plans must be invested in mutual funds.

Answer: FALSE
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

110) Withdrawals from an IRA prior to age 59½ generally are subject to taxes and a penalty.

Answer: TRUE
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

111) Earnings from traditional IRA investments are taxable at the time they are earned.

Answer: FALSE
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

112) A simple IRA, which allows workers to contribute larger amounts than a regular IRA, is available to employees who work for firms with fewer than 100 employees.

Answer: TRUE
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

113) MyRA is a Roth IRA-type retirement savings plan for low and middle-income individuals.

Answer: TRUE
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

114) The money a worker invests in a 401(k) retirement account reduces that worker's present taxable income.

Answer: TRUE
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

115) Employers often match part of the contribution of their employees into a 401(k) retirement plan.

Answer: TRUE
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

116) Only large corporations with at least 500 employees can offer their employees a simple 401(k) retirement plan that allows for greater contribution maximums.

Answer: FALSE
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

117) Many small-business owners invest in 401(k) plans for their retirement.

Answer: FALSE
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

118) The best way to invest in a 401(k) plan is to use all of the money to buy stock in the company where you work.

Answer: FALSE
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

119) Keogh plans are intended to help small business owners save for retirement.

Answer: TRUE
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

120) Keogh plans are most useful for stockholders of major corporations who earn most of their income from dividends rather than wages or salaries.

Answer: FALSE
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

121) Employees of small businesses can contribute to a Keogh plan.

Answer: FALSE
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

122) IRAs, 401(k), and Keogh plans all include incentives to encourage saving for retirement.

Answer: TRUE
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

123) Earnings of Keogh plans are not taxed until the funds are withdrawn from the retirement account.

Answer: TRUE
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

124) The best financial planners are actually insurance salespeople.

Answer: FALSE
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

125) If you have minor children, the first step in estate planning is to select their guardian.

Answer: TRUE
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

126) The person who is named in your will to assemble the assets in your estate, handle taxes, and distribute the assets is called your proxy.

Answer: FALSE
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

127) The reason you would prepare a durable power of attorney is to make sure that someone was named to take over your finances if you become incapacitated.

Answer: TRUE
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

128) Recent demographic trends suggest that the financial condition of the Social Security program soon will begin to improve.

Answer: FALSE
Explanation: The number of people retiring is increasing dramatically, and on average retirees are living longer. At the same time, the number of people paying into the Social Security system is declining. This will put a great strain on the system in upcoming years and is likely to result in some or all of the following: cuts in benefits, later retirement ages, reduced cost of living adjustments, and higher Social Security taxes.
Difficulty: 2 Medium
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

129) An individual retirement account (IRA) is a tax-deferred investment plan designed to encourage workers to save for retirement.

Answer: TRUE
Explanation: Within certain income limits, both the initial investment and the earnings of a traditional IRA are tax-deferred until the funds are removed from the retirement plan.
Difficulty: 2 Medium
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

130) IRA funds are not available for withdrawal until you are 59½ years old.

Answer: FALSE
Explanation: The funds can be withdrawn prior to the investor turning 59½ years old; however a 10 percent penalty for early withdrawal must be paid as well as the taxes due on the IRA's earnings. The government recently relaxed these restrictions even further, allowing people with IRAs to withdraw a certain amount to help pay for education or a first home.
Difficulty: 2 Medium
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

131) A person in the 25 percent tax bracket who invests $1,000 in a traditional IRA immediately postpones $250 in taxes.

Answer: TRUE
Explanation: Funds invested in a traditional IRA are sheltered from current taxes. Earnings of $1,000 would have been taxed at the 25 percent rate, $1,000 x 25% = $250. If the $1,000 is invested in a traditional IRA, the tax liability is deferred until the funds are withdrawn at retirement.
Difficulty: 3 Hard
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

132) Bree expects to be in a much higher tax bracket when she retires than she is now, so she wants to invest in a retirement account in which her withdrawals will be tax-free. One way for her to achieve this is through a traditional IRA.

Answer: FALSE
Explanation: The earnings of a traditional IRA are tax-deferred, not tax-free. With a traditional IRA, earnings are taxed as income at the time they are withdrawn. A better choice for Bree would be a Roth IRA. With a Roth IRA, Bree would not receive a deduction in the period when she contributed to the IRA, but would be able to withdraw the earnings tax-free after she retires (assuming that she is at least 59½).
Difficulty: 3 Hard
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

133) Ricky wants to decrease his current taxable income and save for retirement. He should consider a traditional IRA.

Answer: TRUE
Explanation: A traditional IRA gives qualified individuals an incentive to save for retirement by allowing them to deduct from their reported income the money they put into an account.
Difficulty: 3 Hard
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

134) Elizabeth has just opened a 401(k) retirement plan. The money she invests in this plan will reduce her present taxable income.

Answer: TRUE
Explanation: Both the money invested and the earnings from the plan are tax-deferred until the funds are withdrawn.
Difficulty: 3 Hard
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

135) Carlton owns a small sports memorabilia shop. He can participate in a Keogh plan to save for his retirement.

Answer: TRUE
Explanation: Keogh plans are like an IRA for entrepreneurs. Self-employed individuals invest in a Keogh plan because they do not have the benefit of a corporate retirement system.
Difficulty: 3 Hard
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

136) Ryan is in need of advice regarding investments, taxes, and insurance for himself and his family. He would be well advised to seek the advice of an insurance salesperson.

Answer: FALSE
Explanation: Personal financial advisors can help you to develop a comprehensive plan that covers investments, taxes, insurance, and other financial matters. Not all insurance salespeople will have the expertise to develop a comprehensive plan. Moreover, such salespeople often are more interested in selling the products offered by their companies than in providing unbiased advice about a variety of alternatives.
Difficulty: 3 Hard
Topic: Financial Planning
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

137) Arlene has just made out a will. The will names her brother Aaron as the executor. This means that Aaron will have the authority to take over Arlene's finances if she becomes incapacitated.

Answer: FALSE
Explanation: An executor named in a will normally is responsible only for situations in which the owner of the estate dies, not cases where the person is incapacitated. Thus, the executor named in a will is not normally given the authority to take over an incapacitated person's finances. A durable power of attorney is used to name someone to handle a person's finances if he or she becomes incapacitated.
Difficulty: 3 Hard
Topic: Estate Planning
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

138) Financial planning begins with
A) spending money wisely.
B) earning money.
C) insuring your assets against an unexpected loss.
D) saving money.

Answer: B
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

139) Throughout history an investment in ________ has yielded an excellent return, regardless of the state of the economy or political changes.
A) antiques
B) a good education
C) government bonds
D) savings accounts

Answer: B
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

140) The only way to accumulate enough money to do all of the things you want to do late in life is to
A) take an inventory of your financial assets.
B) make more than you spend.
C) avoid bankruptcy.
D) satisfy the demands of your creditors.

Answer: B
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

141) Which of the following would be included as an asset in the preparation of a personal balance sheet?
A) credit-card debt
B) home mortgage
C) your salary from a part-time job
D) your computer

Answer: D
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

142) In preparing an income statement for yourself, the wages from your job would be shown as
A) your revenue.
B) an expense.
C) an asset.
D) your owner's equity.

Answer: A
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

143) When you prepare your personal balance sheet, remember that your ________ is equal to your total assets minus any liabilities you have.
A) net income
B) net worth
C) tax base
D) cash equivalent value

Answer: B
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

144) The first step you would take to get control of your personal finances is to
A) keep track of all your expenses.
B) prepare a budget.
C) take inventory of your assets.
D) start a savings program.

Answer: C
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

145) Personal financial planners often encourage their clients to write down every single penny they spend each day. The main purpose of this is to
A) focus attention on the spending levels for each item.
B) eliminate the need for accountants.
C) do a better job of tax planning.
D) accumulate data needed to prepare a personal balance sheet.

Answer: A
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

146) A(n) ________ is a personal financial plan that allows you to take control of future spending.
A) expense tracker
B) revenue sheet
C) budget
D) debt manager

Answer: C
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

147) Budgets are
A) useful for businesses, but too restrictive to be used by individuals or households.
B) a financial plan of projected revenues and expenses.
C) just another name for cash flow statements.
D) only helpful to people who earn more than $50,000 per year.

Answer: B
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

148) Preparing and living with a personal budget is
A) not necessary if you have sufficient income.
B) similar to activities needed to handle the finances of a small business.
C) often more trouble than the benefits justify.
D) an excellent technique to prepare for a career in accounting.

Answer: B
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

149) A financial planner would encourage you to borrow money
A) only to buy assets that are likely to generate income or increase in value.
B) to pay your day-to-day expenses and then to invest your income.
C) only when facing bankruptcy.
D) in order to reduce your debt level.

Answer: A
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

150) Many financial experts advise that you set up a contingency fund equal to about ________ of your earnings and keep these funds in highly liquid accounts.
A) two months
B) six months
C) one year
D) three years

Answer: B
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

151) Once you have set up a budget and handled your ordinary expenses, the first thing to do with any extra money you have is to
A) start a savings plan.
B) pay off your debts.
C) start your own business.
D) spend it on the things you would like but that aren't included in your budget.

Answer: B
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

152) Which of the following accounting statements would assist an individual in taking inventory of personal assets and liabilities?
A) income statement
B) balance sheet
C) budget
D) statement of cash flows

Answer: B
Explanation: The balance sheet will reflect the accounting equation: assets = liabilities plus owners' equity (or net worth).
Difficulty: 2 Medium
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

153) Young married couples that find themselves running out of money at the end of the month might be well advised to
A) keep track of all of their expenses.
B) keep track of cash spent on major purchases.
C) prepare a balance sheet.
D) apply for additional credit cards.

Answer: A
Explanation: The only way to get control of your cash outflow is to keep track of every cent you spend. This discipline will highlight the various categories of your spending so that you can see where you are spending too much, and will help you control the vague "miscellaneous" expenditures.
Difficulty: 2 Medium
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

154) The best way to save money is to
A) pay yourself first by taking out money for savings from each paycheck before deciding what to do with the remaining money.
B) start your own business designed to create business tax deductions.
C) prepare a balance sheet.
D) pay yourself last.

Answer: A
Explanation: The best way to save money is to pay yourself first. When you receive your paycheck, take out money for savings, and then plan what to do with the rest.
Difficulty: 2 Medium
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

155) Alvin's credit card charges him 18% interest on his unpaid balance. His bank is offering him 1% interest on a savings account. The first thing Alvin should do with any extra money he may have is to
A) invest in the stock market.
B) open a savings account at the bank.
C) pre-pay for necessities, like rent and utilities.
D) pay off the credit card balance.

Answer: D
Explanation: The risk-free return generated by paying off the credit card balance is greater than the other options. While the stock market has the potential of earning more than the credit card debt, it is important to adjust the potential earnings for the risk inherent in stock market investing.
Difficulty: 3 Hard
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

156) Recent college graduates, Jason and Elizabeth, are newlyweds. Although they acquired a significant amount of debt during college, both recently got good-paying jobs and appear to have promising careers. Given their situation, down the road Jason and Elizabeth
A) are almost certain to be able to retire comfortably when the time comes, given the high level of income they are likely to earn.
B) could be able to retire comfortably, but doing so will take planning and discipline on their part.
C) have little chance of enjoying a comfortable retirement because the college debts will take years to repay and become a major burden.
D) will probably find that Social Security will provide an adequate retirement, but that they may need to supplement this with a modest pension if they really want to enjoy the fine life in their golden years.

Answer: B
Explanation: It's true that the first step in financial planning involves making money, and Jason and Elizabeth appear in good shape to earn attractive incomes. However, making money is only the first step; it is also necessary to spend wisely and to save. This takes planning and discipline.
Difficulty: 3 Hard
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

157) Brad and Tori are experiencing marriage difficulties regarding money. One technique to help them control and forecast their future financial situation, as well as allow them to achieve their financial goals, would be to prepare a(n)
A) income statement.
B) balance sheet.
C) budget.
D) asset inventory.

Answer: C
Explanation: A budget will allow the couple to plan for their financial goals (perhaps retirement and college for kids). The budgeting process involves keeping records of expenses that will assist the couple in controlling cash outflows.
Difficulty: 3 Hard
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

158) Dani has prepared her personal balance sheet and found that her total assets are $54,000 and her total liabilities (largely college loans) are $48,000. What does this show for Dani?
A) Her net income is only $6,000.
B) Her net worth is $6,000.
C) Her cash flow will not be sufficient to repay her college loans.
D) Her balance sheet is out of balance.

Answer: B
Explanation: A balance sheet is based on the fundamental accounting equation: Assets = Liabilities + Owners' equity (or net worth). Thus, to find her net worth, Lucy can subtract her debts from her assets.
Difficulty: 3 Hard
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

159) Denny plans to start his business program this semester at a local university. Denny will likely find that
A) his time would be better spent pursuing a career after high school.
B) he will have more fun and excitement than his friends that don't attend college.
C) his choice of a business major will virtually guarantee him a comfortable retirement income if he sticks with it.
D) his investment in his education will be important in his future.

Answer: D
Explanation: Throughout history, an investment in business education has paid off. One way to start the path to becoming a millionaire is to finish college.
Difficulty: 3 Hard
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

160) The path to success in a capitalist system is to
A) spend more on capital goods than you do on consumer goods.
B) have access to debt markets.
C) have money to invest.
D) work hard with the goal of moving up in the management of your employer.

Answer: C
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

161) In order to accumulate capital, young adults are likely to have to
A) accept a lifestyle that sacrifices some amenities.
B) live beyond their means.
C) rely on credit cards for basic purchases in order to conserve on cash.
D) borrow funds from a bank.

Answer: A
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

162) The key to generating enough capital for investment for many individuals is to
A) obtain as many credit cards as possible in order to maximize spending power.
B) live frugally.
C) borrow money from friends and family.
D) buy only high-quality consumer goods.

Answer: B
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

163) Investing in a home is generally considered a
A) poor choice when compared to renting.
B) wise investment.
C) luxury that should be postponed as long as possible.
D) good decision, but only if you've saved enough to pay in full with cash.

Answer: B
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

164) Which of the following is a benefit of buying a home rather than renting?
A) Real estate taxes and utilities will be fixed.
B) It reduces the need to carry insurance.
C) Paying for a home is a good way to force yourself to save.
D) The entire purchase price of the home can be deducted from taxable income, but this deduction must be spread over at least 15 years.

Answer: C
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

165) Buying ________ is often an attractive strategy for young couples, since they can live in one unit and rent the other half to supplement their income, while taking tax deductions on interest and real estate taxes.
A) a semiprivate housing unit
B) a ranch apartment
C) a biplex
D) attached homes

Answer: D
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

166) The goal of accumulating capital is to allow an individual to
A) buy the things that satisfy present wants and needs.
B) have funds available to invest.
C) buy now, pay later.
D) establish a good credit rating.

Answer: B
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

167) Real estate professionals agree that the key to getting the optimum return on the purchase of a home is
A) construction quality.
B) location.
C) tax advantages.
D) design features.

Answer: B
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

168) About ________ of all U.S. households own stock in corporations.
A) 16 percent
B) 30 percent
C) half
D) three-fourths

Answer: C
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

169) According to contrarians, the big decline in the stock market during the Great Recession was
A) a great opportunity to invest in stocks.
B) proof that the stock market was not as sound an investment as most people thought.
C) a sign that more government regulation was needed to prevent big losses.
D) proof that the future of capitalism should rely more on small, unincorporated businesses rather than big corporations.

Answer: A
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

170) Real estate taxes and mortgage interest payments are both
A) expenses of home ownership on which the government levies a tax.
B) tax deductible for renters.
C) tax deductible for homeowners.
D) taxable income for renters and homeowners.

Answer: C
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

171) The total cost of purchasing a sound system or HDTV with cash is ________ the cost when using credit cards to finance the same assets.
A) the same as
B) greater than
C) less than
D) less stable than

Answer: C
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

172) A benefit of using credit cards is that they
A) have lower interest rates than other forms of credit.
B) provide a record that makes it possible to keep track of purchases easily.
C) help consumers be more disciplined when it comes to spending decisions.
D) allow the consumer to spread out payments and reduce overall costs.

Answer: B
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

173) When purchasing with a credit card, it's important to remember that ________ if you do not pay the balance in full within a stated time period.
A) the credit limit is reduced
B) no returns are allowed
C) interest is charged on the remaining balance
D) discounts are available

Answer: C
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

174) One disadvantage of having credit cards for personal use is that
A) they offer no protection if they are stolen.
B) they are less convenient than other forms of credit.
C) many companies have a policy that prevents employees from having both personal credit cards and credit cards for business use.
D) they can make it easy to pile up a large amount of debt quickly.

Answer: D
Difficulty: 1 Easy
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

175) Which of the following is a benefit unique to buying two attached homes, as opposed to the purchase of a single-family home?
A) Real estate taxes are tax deductible.
B) The rent income will help make the mortgage payment.
C) Mortgage interest payments are tax deductible.
D) The value of the home may increase over time.

Answer: B
Explanation: Only attached homes allow for rental income to help cover the payment on the mortgage.
Difficulty: 2 Medium
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

176) The factor likely to have the greatest impact on how fast the value of a home appreciates over time is the
A) interest rate on the mortgage.
B) style and design features built into the home.
C) location of the home.
D) size of the home.

Answer: C
Explanation: The three keys to making the optimum return on the investment in a home are location, location, and location. A small home in a good location is usually a better investment than a large home in a less desirable area.
Difficulty: 2 Medium
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

177) Mortgage interest payments and property taxes are
A) tax deductible for homeowners.
B) expenses that make home ownership less attractive than renting.
C) both likely to increase each year at a faster rate than your income.
D) both likely to decline the longer you own the home.

Answer: A
Explanation: IRS rules allow homeowners to deduct mortgage interest and property taxes from taxable income. This makes owning a home more financially attractive than it might first appear. Mortgage interest will decline over the years as more of the loan is repaid. However, property taxes may increase.
Difficulty: 2 Medium
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

178) The greatest return over a period of several years is likely to be earned by investing in a
A) small home in a great location.
B) savings account in a bank.
C) large home in a deteriorating neighborhood.
D) moderate size home in a rural setting.

Answer: A
Explanation: Location is the key factor in real estate value. It's better, from a financial viewpoint, to buy a smaller home in the part of town near the services that people desire. Historically, bank savings accounts have not performed as well as many other investments such as real estate.
Difficulty: 2 Medium
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

179) For a young person, one of the worst places to invest money for the long-term is:
A) a duplex.
B) a bank savings account.
C) a home.
D) the stock market.

Answer: B
Explanation: Bank savings accounts, while safe, offer a very low return relative to other investments—a fact many young people do not seem to know. Though riskier, real estate and the stock market are usually better choices for long-term investments than a bank account. The stock market does tend to go up and down, but over a longer period of time, it has proven to be one of the best investments.
Difficulty: 2 Medium
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

180) From a financial viewpoint, it is best to buy a
A) large home in a good neighborhood.
B) very large home in a neighborhood where homes are relatively inexpensive.
C) medium-sized home in a neighborhood where homes are the least expensive.
D) small home in an excellent neighborhood.

Answer: D
Explanation: A home in an excellent location usually is the best financial investment. It is better to buy a smaller home in a great location.
Difficulty: 2 Medium
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

181) Which of the following is true of credit cards?
A) They are a cheaper way to finance your education.
B) They are an efficient way to keep track of purchases.
C) They are an effective way of controlling the amount of debt the consumer incurs.
D) They are less convenient than carrying cash or writing a check.

Answer: B
Explanation: The danger of a credit card is the flip side of its convenience. Too often, consumers buy goods and services that they would not normally buy if they had to pay cash or write a check on funds in the bank. Consumers often pile up debts they are unable to pay. One advantage of credit cards is that they are an efficient way to keep track of purchases.
Difficulty: 2 Medium
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

182) Which of the following is an advantage of home ownership?
A) Home ownership is a good way to control the costs of utilities, maintenance, and insurance.
B) Mortgage interest and real estate taxes are tax deductible.
C) Money invested in a house is a highly liquid investment.
D) Home ownership provides a guaranteed rate of return that is more stable than the return earned by investing in the stock market.

Answer: B
Explanation: IRS rules allow homeowners to deduct mortgage interest payments and property taxes from their taxable income, thus lowering their income tax payments.
Difficulty: 2 Medium
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

183) Which of the following is the *best* advice about the use of credit cards?
A) Except for very small purchases, credit cards should always be used instead of cash.
B) The best approach to credit cards is never even to apply for one.
C) Credit cards are an important part of a personal financial system, but pay the balance in full during the period when no interest is charged.
D) Credit cards are most useful when making large purchases (over $500), because they allow you to spread out the payments to fit into your budget.

Answer: C
Explanation: Credit cards are an important element in a personal financial system. For example, they can be used as a form of identification, can help track purchases, and can offer some protection against loss in the event of theft or robbery. However, credit cards also have disadvantages: they generally carry relatively high interest rates and can encourage people to spend beyond their means. Thus, people should make sure they pay off the balance each month to avoid these problems.
Difficulty: 2 Medium
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

184) Dmitry emigrated to the United States from a formerly communist country. He is looking to you for advice on how to succeed in a capitalist system. He would be well advised to
A) find a job and live frugally in order to save money to invest.
B) rely heavily on government assistance programs to maintain a relatively comfortable life style.
C) get a credit card, even if it has a very low credit limit, and use it to establish a good credit rating.

D) follow the buy now, pay later rule of personal finance.

Answer: A
Explanation: The path to success in a capitalist system is to have capital (money) to invest. For most people, this requires gaining employment (making money), then saving it by living frugally.
Difficulty: 3 Hard
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

185) Joe and Megan are newly married college graduates. Both have jobs with bright futures. One strategy that they could use to accumulate capital for investment purposes, would be to
A) borrow heavily to buy a house.
B) use their credit cards to acquire assets while prices are relatively low.
C) live on just one of their incomes and save the other.
D) quit their jobs and return to school to earn graduate degrees.

Answer: C
Explanation: Living on one income is difficult for most couples to do. However, an early life style of sacrifice can provide a pool of savings for investment purposes. Ultimately, buying a home is likely to be a good investment, but it makes sense to accumulate the capital for a sizable down payment before doing so.
Difficulty: 3 Hard
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

186) During her sophomore year in college Carrie received an email from First Bank telling her she was eligible for a credit card along with a free gift. Carrie was excited until she remembered that any cash she has usually "burns a hole" in her pocket, and she spends it quickly. Carrie would likely not be successful with a credit card because
A) she has difficulty in getting access to credit.
B) she would use it to make impulse purchases that she could not afford.
C) she would not spend up to the limit immediately.
D) her dad would not agree to cosign for her.

Answer: B
Explanation: The danger of a credit card is the flip side of its convenience. Too often consumers buy goods and services that they wouldn't normally buy if they had to pay cash or write a check on funds in the bank. Carrie is not the type who can stick to a financial plan so it may be better for her not to have a credit card at all.
Difficulty: 3 Hard
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

187) Given a 25% tax bracket, the after-tax cost of a house mortgage interest payment of $1,000 would be:
A) $ 250.
B) $ 750.
C) $1,000.
D) $1,250.

Answer: B
Explanation: Interest on a home mortgage is tax deductible. The $1,000 interest is sheltered from the tax rate of 25 %. This saves the taxpayer $250, yielding an after-tax cost of $750.
Difficulty: 3 Hard
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

188) Dylan and Wyatt are good friends who have similar jobs that pay them well. Both have established budgets that allow them to invest several hundred dollars each month. Dylan has a strategy of putting most of his money in bank CDs and a savings account. Wyatt has opted for a strategy of investing in the stock market. According to the evidence of the past 50 years, it is likely that over the long run
A) Dylan and Wyatt will experience very similar rates of return.
B) Dylan will experience a significantly higher return than Wyatt.
C) Wyatt will experience a significantly higher return on his investments than Dylan, but will also experience more ups and downs over the years.
D) Dylan will experience a slightly higher return, but Wyatt's return will be more stable and predictable.

Answer: C
Explanation: This question asks the student to consider the evidence of the past 50 years. Although it has had its ups and downs, during this period the stock market has proven to provide a more attractive long-run return than other types of investments.
Difficulty: 3 Hard
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

189) Nancy has been following the stock market, and has noticed that it has been declining for the last several weeks. While many of her friends and family have sold stock, Nancy looks at this situation as a good opportunity to buy. Nancy's views are consistent with the ________ approach to investing in the stock market.
A) contrarian
B) revisionist
C) arbitrarian
D) negativist

Answer: A
Explanation: The average investor tends to sell stocks when their values have declined and buy stocks when their values have risen. Contrarians go against the grain. They tend to buy when most others are selling. The logic of this approach is that the best time to buy stock is when prices are low—i.e. when the market is in decline.
Difficulty: 3 Hard
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

190) Quinn is excited about getting her first credit card. However, she should be aware of the fact that
A) credit cards are no longer accepted in many places as a valid source of credit.
B) credit cards require that at least 25% of the balance be paid each month.
C) there will be a finance charge even if Hannah pays her entire credit card balance in full and on time.
D) the convenience of credit cards can lead to excessive debt.

Answer: D
Explanation: The convenience of credit cards can lead consumers to buy goods and services that they would not normally buy if they had to pay cash or write a check on funds in the bank.
Difficulty: 3 Hard
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

191) Patrick is in the habit of using his credit card for expenditures made on business trips. The most likely reason he does this is to
A) lower his business expenses.
B) take a deduction on the interest he pays on his credit card balance.
C) pad his expense account.
D) keep track of his purchases.

Answer: D
Explanation: Credit cards are an easy way to keep track of purchases for budgeting and financial planning purposes. It's sometimes easier to write one check at the end of the month for several purchases than to carry cash around.
Difficulty: 3 Hard
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

192) ________ life insurance offers pure insurance protection for a given period of time.
A) Term
B) Temporary
C) Managed premium
D) Equity-based

Answer: A
Difficulty: 1 Easy
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

193) One disadvantage of term life insurance is that
A) when renewed it usually is at a higher premium.
B) the risk of lost income from the death of the insured is shifted to the insurance company.
C) it is pure insurance protection for a given time period.
D) it is generally not available to young people.

Answer: A
Difficulty: 1 Easy
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

194) Which of the following is a form of term insurance that guarantees fixed premiums for the life of the policy?
A) universal life insurance
B) planned annuity life insurance
C) declining coverage, fixed payment insurance
D) multiyear level-premium insurance

Answer: D
Difficulty: 1 Easy
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

195) ________ is a form of life insurance that provides both a savings plan and pure insurance coverage.
A) Term life insurance
B) Growth-centered life insurance
C) Whole life insurance
D) Multiyear level-premium insurance

Answer: C
Difficulty: 1 Easy
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

196) Which of the following is a form of whole life insurance that provides a death benefit that varies with the performance of the investments of the insurance company?
A) flexible whole life insurance
B) variable life insurance
C) adjustable benefit insurance
D) multiyear level-premium insurance

Answer: B
Difficulty: 1 Easy
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

197) A contract that calls for regular payments to an individual for life or for a fixed period of time is called a(n)
A) annuity.
B) fixed dividend plan.
C) mutual fund.
D) level premium agreement.

Answer: A
Difficulty: 1 Easy
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

198) Your chances of becoming disabled at an early age are ________ than your chance of dying from an accident.
A) the same
B) much less
C) much greater
D) slightly less

Answer: C
Difficulty: 1 Easy
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

199) Purchasing ________ insurance is a relatively low cost way of protecting yourself from lost income due to an accident or prolonged illness.
A) flexible term
B) health
C) contingent annuity
D) disability

Answer: D
Difficulty: 1 Easy
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

200) ________ insurance provides protection from the cost of medical care for illnesses and injuries.
A) Term
B) Health
C) Renters
D) Homeowner's

Answer: B
Difficulty: 1 Easy
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

201) ________ insurance provides protection from losses of furniture, appliances, and clothes.
A) Term
B) Health
C) Disability
D) Homeowner's

Answer: D
Difficulty: 1 Easy
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

202) A homeowner's insurance policy that includes a provision for ________ would provide the homeowner with enough cash to replace the items lost with new items.
A) actual book value protection
B) cash in lieu of coverage
C) guaranteed replacement cost
D) full collateral damage protection

Answer: C
Difficulty: 1 Easy
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

203) One strategy to lower the cost of automobile insurance is to purchase a policy with a
A) low deductible.
B) high deductible.
C) liability coverage rider.
D) health coverage rider.

Answer: B
Difficulty: 1 Easy
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

204) A(n) ________ can be added to a homeowner's insurance policy that provides for coverage at a reasonable cost for items that the policy otherwise would not cover.
A) rider
B) opener
C) extender
D) modifier

Answer: A
Difficulty: 1 Easy
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

205) Many insurance providers offer ________ policies that give a discount to families who buy several types of insurance coverage from them.
A) umbrella
B) universal
C) multi-use
D) rider-enhanced

Answer: A
Difficulty: 1 Easy
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

206) A comparison of variable life insurance to a standard whole life plan would reveal that
A) they are essentially identical.
B) variable life offers only pure insurance but does so at a very low cost, while a standard whole life plan costs more but offers both insurance and a savings plan.
C) both a standard whole life and variable life insurance offer both life insurance and savings, but variable life invests the savings more aggressively than whole life.
D) variable life is only available to people who want at least $1 million in coverage—and are willing to pay for it.

Answer: C
Explanation: Variable life is a variation of whole life that invests savings more aggressively than do ordinary whole life plans. This can lead to higher returns on saving, but is a riskier strategy that could result in a variation in the death benefit.
Difficulty: 2 Medium
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

207) A common purpose of a rider added to a homeowner's policy is to
A) provide coverage for items that the standard policy does not cover.
B) limit the insurance company's liability for certain types of losses.
C) waive the provision that requires the owners to get a health exam.
D) allow the policy holder to obtain health, disability, and auto insurance under their homeowner's plan.

Answer: A
Explanation: Most homeowner's policies do not automatically cover things like expensive jewelry or silverware. However, insurance companies offer riders to their standard policies which provide additional protection for these types of items at a reasonable cost.
Difficulty: 2 Medium
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

208) Which of the following deductible levels would result in the lowest premium for automobile insurance?
A) $ 200
B) $ 500
C) $ 750
D) $1,000

Answer: D
Explanation: The higher the deductible, the lower the premium.
Difficulty: 2 Medium
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

209) Nate and Audrey are married and have careers in business. If one of the two were to die, there would be a sudden drop in income. To provide protection from this risk the couple should purchase
A) disability insurance.
B) life insurance.
C) health insurance.
D) car insurance.

Answer: B
Explanation: Life insurance is used to protect a family or business from the sudden loss of income that occurs as the result of the death of an income earner.
Difficulty: 3 Hard
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

210) Mateo and Maya have decided to take out an umbrella policy from an insurance company. The main reason they would probably want to do this would be to
A) protect against major disasters, which are known as "rainy days."
B) ensure that any children they have will be guaranteed the right to buy insurance at some future date.
C) save money by having one company provide a variety of different types of coverage.
D) take out one life insurance policy that covers both of them.

Answer: C
Explanation: Under an umbrella policy, one insurance company provides a variety of different types of insurance, such as homeowner's, auto, and health coverage. This may be attractive because companies often provide substantial discounts for this type of policy arrangement.
Difficulty: 3 Hard
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

211) Although he has a good health insurance policy, Shaun is concerned that a serious accident or lengthy illness would still be devastating to his family because of the lost income and other expenses not covered by his policy. Shaun would probably be interested in obtaining
A) disability insurance.
B) a premium waiver provision.
C) health extension coverage.
D) a rider on his homeowner's policy.

Answer: A
Explanation: Health insurance usually covers much of the cost of treating an illness or accident, but it does not usually cover lost income or other expenses associated with long-term health problems. Disability insurance can be used to supplement health insurance and cover many of these extra costs.
Difficulty: 3 Hard
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

212) Henry and Mila are newlyweds and received some very expensive wedding gifts, including some beautiful silverware and jewelry. Their homeowner's policy
A) automatically covers these items.
B) does not automatically cover such items and they must take out a separate policy specifically for those types of items.
C) does not automatically cover these items, but a rider can be used to add this coverage.
D) automatically covers these items from theft, but not from damage due to fire, explosion, or vandalism.

Answer: C
Explanation: Most homeowner's policies do not cover expensive items such as wedding rings and silver items. However, it is possible to purchase riders to the standard policies which will cover such items at a reasonable cost.
Difficulty: 3 Hard
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

213) Almost ________ U.S. adults has accumulated enough money by retirement age to live comfortably.
A) 1 in 10
B) 1 in 4
C) 1 in 2
D) 8 in 10

Answer: A
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

214) The Social Security program was established in
A) 1889.
B) 1935.
C) 1953.
D) 1976.

Answer: B
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

215) The number of workers paying into Social Security for each retiree receiving Social Security benefits is
A) fixed by law.
B) increasing.
C) decreasing.
D) not fixed by law, but has remained relatively constant for several decades.

Answer: C
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

216) In the future, the Social Security system is likely to
A) raise taxes and reduce benefits.
B) increase cost-of-living adjustments.
C) establish a younger retirement age.
D) adequately provide for all the retirement income the typical retiree needs to live comfortably.

Answer: A
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

217) Trends in the number of workers contributing to the Social Security system and the number of workers drawing benefits from the system suggest that future generations will
A) have more frequent cost-of-living adjustments.
B) see significant improvements in the level of benefits.
C) face a later retirement age in order to qualify for full Social Security benefits.
D) not be allowed to invest in private pension plans.

Answer: C
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

218) The tax-deferred investment plan that allows employees to save part of their income for retirement is called a(n)
A) 60/40 plan.
B) individual retirement account (IRA).
C) 704(i) plan.
D) Keogh plan.

Answer: B
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

219) The earnings on a traditional IRA are
A) never taxed, in order to encourage people to invest for their retirement.
B) tax-free until the Social Security system is improved.
C) taxed as income when they are withdrawn after retirement.
D) available to the investor without a penalty.

Answer: C
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

220) A Roth IRA offers employees an incentive to save for their retirement by
A) deferring taxes on income contributed to the IRA.
B) eliminating taxes on the withdrawals from the IRA.
C) eliminating taxes on the income contributed to the IRA.
D) allowing employers to match the employee's contribution to the IRA.

Answer: B
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

221) Investments in IRA accounts
A) are limited to money market funds and government bonds.
B) can be in stocks, bonds, mutual funds, or even precious metals.
C) are matched by the employer.
D) are taxed at the lowest individual tax rate regardless of the actual tax bracket of the investor.

Answer: B
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

222) One benefit of a simple IRA is that it allows
A) employees of small companies to save more than a regular IRA.
B) employees to invest in the corporate bonds of their employers.
C) business owners to use employee retirement funds to help finance their small business.
D) employees to withdraw funds from the IRA prior to retirement without penalty.

Answer: A
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

223) A retirement plan where employers often match part of an employee's contribution is known as a
A) simple IRA.
B) Roth IRA.
C) Keogh plan.
D) 401(k) plan.

Answer: D
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Knowledge thinking
Accessibility: Keyboard Navigation

224) Withdrawals from a traditional IRA prior to the age of 59½ are
A) tax deferred until you reach 65 years of age.
B) tax-free.
C) normally subject to a penalty and taxes on the income that is withdrawn from the IRA.
D) subject to a possible denial after review by the Internal Revenue Service.

Answer: C
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

225) The simple IRA plans allow employees of ________ companies to contribute larger amounts than the traditional IRA.
A) nonprofit
B) small
C) big
D) international

Answer: B
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

226) The tax-sheltered program to encourage self-employed people to accumulate retirement funds is called a(n)
A) 401(k) plan.
B) IRA plan.
C) COLA plan.
D) Keogh plan.

Answer: D
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

227) The people who assist families in developing a comprehensive program that covers investments, taxes, insurance, and retirement plans are called
A) insurance salespeople.
B) financial planners.
C) portfolio managers.
D) stockbrokers.

Answer: B
Difficulty: 1 Easy
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

228) For someone with a family that includes young children, the first step in estate planning should be to
A) establish a will.
B) set up a trust fund for each child.
C) select a guardian for the children.
D) give each child his or her own savings account.

Answer: C
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

229) A ________ is a document that names a guardian for your children, states how you want your assets distributed, and names an executor to handle your estate when you die.
A) trust arrangement
B) durable power of attorney
C) proxy sheet
D) will

Answer: D
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

230) A(n) ________ is the person named in a will to assemble and value the assets of the deceased, handle tax matters, and distribute the assets.
A) executor
B) guardian
C) arbiter
D) intermediator

Answer: A
Difficulty: 1 Easy
Topic: Financial Planning
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

231) The earnings of a traditional individual retirement account (IRA) are
A) taxed at the time they are earned.
B) not taxed.
C) taxed when the funds are withdrawn.
D) subject to the double taxation of all dividends.

Answer: C
Explanation: The earnings of an IRA are tax-deferred until they are withdrawn. At that time, the applicable tax rate should be lower for the retiree.
Difficulty: 2 Medium
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

232) The biggest advantage of the Roth IRA is that
A) income contributed to the retirement plan is tax-free.
B) withdrawals from the retirement plan are tax-free.
C) taxes on the income contributed to the retirement plan are deferred until the funds are withdrawn.
D) withdrawals from the retirement plan are tax-deferred until the individual reaches 59½ years of age.

Answer: B
Explanation: People who invest in a Roth IRA do not get the up-front deductions on their taxes offered by a traditional IRA. The biggest advantage lies in the provision that the earnings of the fund are tax-free when they are withdrawn.
Difficulty: 2 Medium
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

233) The increase in the number of retirement plans approved by the federal government likely indicates that
A) the government budget is approaching a surplus.
B) most people have faith in the troubled Social Security system.
C) Social Security cannot be counted on to provide an individual with ample funds for retirement.
D) as a nation our values have shifted so that we now enjoy the value of saving more and consuming less.

Answer: C
Explanation: The government has established incentives for you to save money now for retirement because of the problems foreseen in the Social Security system.
Difficulty: 2 Medium
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

234) For workers who qualify, the earnings from income invested in a traditional IRA are
A) not taxed until the funds are withdrawn.
B) never taxed.
C) taxed at the time they are earned, but at the lowest individual rate.
D) taxed both at the time the money is earned and at the time the earnings are withdrawn.

Answer: A
Explanation: Neither the money invested nor the earnings of an IRA are taxable for qualified employees until the funds are withdrawn. Part of the tax advantage is that when workers retire, they will likely then be taxed at a lower rate.
Difficulty: 2 Medium
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

235) A Keogh retirement plan would be used by a(n)
A) self-employed engineering consultant.
B) employee at a small manufacturing firm.
C) CEO of a major corporation.
D) librarian at a city library.

Answer: A
Explanation: A Keogh plan is like an IRA for people who are self-employed, but it permits much larger contributions (currently up to $54,000 per year). It is intended to encourage self-employed people to accumulate retirement funds. The only self-employed individual listed in the answers is the engineering consultant.
Difficulty: 2 Medium
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

236) Financial planners encourage individuals to begin contributing funds into an IRA as early as possible. The major benefit of early and regular contributions is that
A) the earnings will be able to grow over a longer time span, which can result in major financial gains.
B) the financial planners will earn a commission for a longer period of time.
C) the inflation rate is very low now and will probably rise in the future, thus reducing the real value of future contributions.
D) the tax rates are likely to be lower in the future, so higher tax savings on contributions will be maximized by making the contributions now.

Answer: A
Explanation: The key decision for workers is to begin early to contribute into an IRA, so that the magic of compounding can turn that money into a sizable retirement fund.
Difficulty: 2 Medium
Topic: Financial Planning
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

237) Which of the following is an indication that the government recognizes Social Security money will not provide you with ample funds for retirement?
A) The government has provided cost-of-living adjustments to Social Security recipients.
B) The government has invested the contributions in high-yielding investment securities.
C) The government has established incentives for workers to save their own money for retirement.
D) The government has passed legislation to require Social Security to maintain a balanced budget.

Answer: C
Explanation: Congress has authorized tax shelters for individuals saving for their own retirement. Individual retirement accounts IRAs, 401(k) plans, and Keogh plans all offer the benefit of postponing the tax liability of earnings on investments until the money is withdrawn at retirement.
Difficulty: 2 Medium
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

238) John is thinking about preparing a durable power of attorney. This indicates that he wants to
A) ensure that a single lawyer will be able to handle all of his legal needs.
B) declare that his current will is invalid.
C) eliminate the taxes on his estate when he dies.
D) appoint someone to take over his finances if he should become incapacitated.

Answer: D
Explanation: A durable power of attorney is a document that gives an individual you name the power to take care of your finances if you become incapacitated.
Difficulty: 3 Hard
Topic: Financial Planning
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

239) As an employee of Marshall Manufacturing, Sherry has an opportunity to invest pre-tax income in an employer-sponsored retirement plan. Her employer will contribute 50 cents for every dollar that Sherry contributes to this fund. What is this an example of?
A) individual retirement account (IRA) plan
B) 401(k) plan
C) Keogh plan
D) restricted private investment (RPI) plan

Answer: B
Explanation: Many firms offer 401(k) retirement plans. In addition to the benefit of tax-deferred investment and earnings, employers often match a portion of the employee's contribution as part of the firm's fringe benefits package.
Difficulty: 3 Hard
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

240) Christian quit his job to open his own online consulting business. He now realizes that he no longer has the benefit of a corporate retirement system. He should consider investing in a(n)
A) simple 401(k) plan.
B) simple IRA plan.
C) automated trust account.
D) Keogh plan.

Answer: D
Explanation: The tax-deferred alternative for self-employed people is to establish a Keogh plan. It's like an IRA for entrepreneurs. One big advantage of Keogh plans is that the maximum that can be invested is much greater than for a traditional IRA. (Keogh's maximum currently is $54,000. The government is allowing a gradual increase in IRA contributions, but even in 2017 the maximum contribution to an IRA is only $5,500.)
Difficulty: 3 Hard
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

241) Thomas contributed $2,800 to a Roth IRA. He is currently in the 25% tax bracket. How will his contribution affect his income tax for the current year?
A) It will reduce the amount of taxes he owes in the current tax year by $700.
B) It will increase the amount of taxes he owes in the current year by $700.
C) It will reduce the amount of taxes he owes in the current year by $2,100.
D) It will have no effect on the amount of taxes he owes this year.

Answer: D
Explanation: A contribution to a Roth IRA does not reduce taxes in the year of the contribution. The advantage of a Roth IRA is that the withdrawals are not taxed (at least as long as they occur after age 59½.)
Difficulty: 3 Hard
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

242) Terrence is in the 30% tax bracket. What is the after-tax cost of a $3,000 contribution to his traditional IRA account?
A) $900
B) $1,440
C) $2,100
D) zero

Answer: C
Explanation: Contributions to a traditional IRA create a tax shelter in the same year the contribution is made. The taxes on the $3,000 would have been $900 ($3,000 × 30%). Therefore, the after-tax cost of the $3,000 contribution is $2,100 ($3,000 – $900).
Difficulty: 3 Hard
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

243) Claire has contributed to a Roth IRA for the last several years. She is now in her late sixties and has just retired. She plans to withdraw $3,000 this year from her Roth IRA. If she is in the 25 percent tax bracket, how much tax will she have to pay on her withdrawal?
A) $ 750
B) $1,000
C) $2,250
D) She will not owe any taxes on this withdrawal.

Answer: D
Explanation: The Roth IRA does not offer an up-front tax advantage when the contributions are made. The advantage of this newest IRA is that the withdrawals of earnings from the Roth IRA are tax-free.
Difficulty: 3 Hard
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

244) Connor is worried that his health may soon deteriorate to the point where he will no longer be able to take care of his own finances. One way he could ease his mind would be to
A) name an executor to his will.
B) prepare a durable power of attorney.
C) transfer title to all of his real estate and financial assets to a relative he trusts.
D) invest all of his financial assets into a Keogh plan.

Answer: B
Explanation: A durable power of attorney is a document that gives an individual you name the power to take over your finances if you become incapacitated.
Difficulty: 3 Hard
Topic: Financial Planning
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

245) What advice might a personal financial advisor offer a recent college graduate desiring to become financially secure?

Answer: The first step is to recognize that success in a capitalist system requires capital (money) to invest. This is accomplished by having a job and spending less than you earn.

Once the graduate has money to invest, a capital-generating strategy requires that for the first five or six years after graduation, the graduate should live frugally. The lifestyle is one of sacrifice, not luxury.

The first real estate investment might be to purchase two attached homes. This investment offers the advantage of rent income and the tax advantages of home ownership.

Savings should likely be in stocks rather than the bank because the return is higher and the graduate has a long-term view of investing.

Finally the graduate should learn to manage credit by paying off the cards each month and using them only for convenience or to have an efficient record of purchases.
Difficulty: 3 Hard
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

246) What are the advantages of investing in a home?

Answer: One of the better investments persons can make is home ownership. Homes historically have grown in value each year, particularly if located in the "best part of town." Once you buy a home, the payments are relatively fixed. As income rises, the house payments get easier and easier to make. Paying for a home is a good way of forcing yourself to save. You must make the payments every month. Home ownership also offers tax relief in that both real estate taxes and mortgage interest are deductible from federally taxed income. Finally, a home is the one investment in which you can live.
Difficulty: 3 Hard
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

247) Identify and discuss the six steps that individuals can take to gain control of their personal finances.

Answer: Step 1. Take inventory of your financial position. This is accomplished by the preparation of a personal balance sheet and an income statement.

Step 2. Keep track of all your expenses. This can be a chore, but a necessary one. The goal here is to identify clearly where the money is going when it is spent.

Step 3. Prepare a budget. Once you know your financial position and the sources of revenues and expenses, a budget can be prepared. This will enable you to plan for the achievement of financial goals, as well as control the family cash flow.

Step 4. Pay off your debts. The first thing to do with any extra money identified in the budget is to pay off high-interest debt. It is better to pay off high-cost debt than to save the money in a lower-interest savings account.

Step 5. Start a savings plan. The best way to save money is to pay yourself first. That is, take out money for savings before any other expenditure is made.

Step 6. If you have to borrow money, only borrow to buy assets that have the potential to increase in value, such as a house. Don't borrow for day-to-day expenses.
Difficulty: 3 Hard
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

248) Compare the basic features of the traditional IRA and Roth IRA.

Answer: Both the traditional and Roth IRAs offer tax incentives to encourage people to save for their retirement. The difference is when the tax incentives occur.

The traditional IRA offers a tax deduction from taxable income for contributions made by qualified employees and allows the earnings to grow tax-free, but taxes any withdrawals made at the time of retirement.

The newer Roth IRA does not offer a tax deduction for the contributions made to the retirement plan, but it does allow earnings to grow tax-free and it also allows retirees to make tax-free withdrawals after age 59½.
Difficulty: 3 Hard
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

249) How does term insurance differ from whole life insurance? Describe the newer types of life insurance that have been offered in recent years.

Answer: Term life insurance offers pure insurance with no savings feature. Whole life insurance offers insurance protection, but also offers savings. Because term insurance does not offer savings it is less expensive than whole life.

One drawback of term insurance is that it provides coverage for only a limited number of years, and the premiums can increase over time. A new version of term insurance, called multiyear level-premium life insurance attempts to address this problem, by guaranteeing a fixed premium for the life of the policy, which may run for many years. This has proven very popular. In fact, about 40 percent of recent term insurance policies have guaranteed a set rate for at least 20 years. Because of its saving feature, whole life insurance may be attractive to people who have a hard time sticking to a saving plan. However, the typical whole life policy tends to invest funds very conservatively. This is a safe approach, but the earnings tend to be modest. A newer version, called variable life insurance, tends to take a more aggressive approach, investing savings in stocks and other assets that offer the potential of high yields. The death benefit provided by variable life will depend on the performance of the investments. During the Great Recession, returns often were disappointing, but history suggests that over the long term this type of policy will offer an attractive alternative to the traditional whole life policy.
Difficulty: 3 Hard
Topic: Insurance Policies
Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

250) Describe the major steps involved in estate planning.

Answer: For people with young children, the first step in estate planning is to select a guardian. The person selected should have a genuine concern for the children, and should have a compatible parenting style and moral beliefs. It is also important to ensure that adequate resources will be available to take care of the children's needs.

The second step in estate planning is to prepare a will. This document should name the guardian for any children, state how assets are to be distributed, and name an executor to handle, assemble, and value the estate's assets, deal with tax issues, and carry out the terms described in the will.

The third step is to prepare a durable power of attorney. This document names an individual who could manage the estate's finances if the owner became incapacitated. It is also possible to establish a durable power of attorney for health care to make medical decisions if the person who owns the estate is unable to make those decisions.
Difficulty: 3 Hard
Topic: Financial Planning
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

Mini-Case

Ira Roth and Penny Weiss met and married in the early 2000s, during their days at State University. Both came from families with limited financial resources. They had to work at part-time jobs during school, and still needed student loans to help pay for their college education. Ira and Penny shared a strong work ethic and had a great desire to succeed financially and enjoy the good life.

Penny and Ira quickly experienced financial success. Ira used his finance degree and extensive knowledge of computers to obtain a high-paying job in banking. Penny, who cleaned homes to earn money during college, used her experience to start her own business. Her entrepreneurial spirit surprised Ira and their friends, and she built a successful cleaning business with a growing base of residential clients and even a few commercial customers. She soon had to hire several part-time employees to keep up with demand. With money rolling in, Ira and Penny began to live the good life, buying an expensive new car, a state-of-the-art home electronics, and expensive wardrobes. As busy as they were, and as hard as they both worked, they often found it easier to dine at a nice restaurant rather than fix meals at home.

When the Great Recession hit later in the decade, Ira was lucky enough to keep his job, but was forced to take a significant pay cut. The economic downturn forced some of the households and businesses that used Penny's company to cut back on professional cleanings, so her business suffered too. Soon the couple was struggling to pay the rent on their upscale apartment. They began relying on credit cards to cover expenses, but after a few months the credit limits on their cards had been reached. They fell behind in paying off their student loans and started getting some unpleasant calls from bill collectors. The stress and frustration led to arguments that began to threaten their personal relationship. With their personal finances out of control, Ira and Penny knew that they had to make changes to save not only their financial dreams, but also their marriage. However, they were at a loss as to where to start. Family members encouraged them to seek the advice of a financial planner. The couple reluctantly agreed that this was something they needed to do.

251) One of the first things the financial planner is likely to have them do would be to
A) open an individual retirement account (IRA).
B) borrow money to pay for their excess expenses.
C) take inventory of their financial position.
D) return to school and pursue a graduate degree.

Answer: C
Explanation: Preparing a personal balance sheet and income statement will allow the couple, as well as the financial planner, to gain better insights into the couple's financial situation.
Difficulty: 3 Hard
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

252) By using the financial planner's advice, Penny and Ira were able to find ways to cut back on their spending and began to live more modestly. They began to have a few hundred dollars left over each month after handling their normal expenses. Which of the following is the first thing they should do with their extra money?
A) buy one nice household item that they will both enjoy as a reward for their thriftiness
B) pay off their debts, starting with the ones that have the highest finance costs
C) start a savings account at a local bank
D) buy bonds in a major corporation

Answer: B
Explanation: Saving and investing money is certainly a desirable goal, but before doing so Ira and Penny should pay off any debts, especially those with high interest rates, such as credit cards. Many credit cards charge interest rates in double digits. Paying off a credit card that charges 17 percent is essentially like earning a 17 percent tax-free return on an investment. In recent years few bonds, much less bank savings accounts, have come close to matching that sort of return.
Difficulty: 3 Hard
Topic: Financial Planning
Learning Objective: D-01 Outline the six steps for controlling your assets.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

253) As their situation began to improve, the financial adviser began discussing investment strategies with Penny and Ira. He suggested that they might want to invest in the stock market. He surprised them by saying that they should try to buy stocks during a major downturn in the market—just when most people were trying to sell. This statement suggests that the financial advisor agreed with the
A) ontrarian approach to investing.
B) concept of "buying short."
C) use of leverage in the stock market.
D) random walk theory of investment strategy.

Answer: A
Explanation: When it comes to investing, contrarians go against the grain. They tend to buy when most others are selling. The logic of this approach is that the best time to buy stock is when prices are low—i.e., when the market is in decline.
Difficulty: 3 Hard
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

254) Once Ira and Penny achieved a more solid financial foundation, they began to consider the purchase of a home. From a financial standpoint, a sound strategy for them to consider would be to
A) buy a large house in a modest neighborhood.
B) buy a house in one of the best areas of town, even if they can afford only a relatively small house.
C) buy a house that will minimize their total real estate taxes.
D) make sure that their house payments are less than the rent they were paying on their old apartment.

Answer: B
Explanation: The key to housing values is location. It is usually a better investment to buy a small house in a great neighborhood than to buy a bigger house in a less desirable part of town.
Difficulty: 3 Hard
Topic: Building a Financial Base
Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

255) In saving for retirement, Penny could take advantage of the unique tax shelter offered only to small-business owners in a
A) 401(k) plan.
B) simple IRA plan.
C) Roth plan.
D) Keogh plan.

Answer: D
Explanation: The Keogh plan is like an IRA for entrepreneurs. It offers the same tax shelter that an IRA does, but allows for a greater sum of money to be contributed each year tax-free.
Difficulty: 3 Hard
Topic: Retirement
Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation