*This is an updated version of the PFIN Test Bank. A variety of questions that appeared on the original Test Bank found in the ExamView and Word formats on your IRCD have been altered or deleted as a result of adopter feedback. (Feb. 2011)*

**Chapter 1—Understanding the Financial Planning Process**

**TRUE/FALSE**

1. Standard of living is defined as the necessities, comforts, and luxuries desired by an individual or group.

ANS: T PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

2. Your propensity to consume is the percentage of each dollar of income, on the average, that is spent for current needs rather than savings.

ANS: T PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

3. A good financial plan completed when one is in their 30s will typically last a lifetime.

ANS: F PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

4. Financial planning is a continuing, life-long process.

ANS: T PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

5. Financial planning can improve your standard of living.

ANS: T PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

6. Current consumption is inversely related to saving for the future.

ANS: T PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

7. About 20% of Americans say retirement planning is their most pressing financial concern.

ANS: F PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

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

ANS: T PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

9. Defining financial goals is an important first step in personal financial planning process.

ANS: T PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

10. Two persons with equal average propensities to consume will not necessarily have equal standards of living because of differences in income.

ANS: T PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

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

ANS: F PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

12. Current consumption effects future consumption.

ANS: T PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

13. A person who has $2,000 monthly income and spends $1,800 monthly has an average propensity to consume of 90%.

ANS: T PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

14. A person making $35,000 and spending $30,800 has an average propensity to consume of 80%.

ANS: F PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

15. Most families find it difficult to discuss money matters.

ANS: T PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

16. Average propensity to consume refers to how much of your money you plan to save in your financial plan.

ANS: F PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

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

ANS: F PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

18. Financial assets are paper assets, such as savings accounts and securities.

ANS: T PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

19. Mutual funds are examples of financial assets.

ANS: T PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

20. Spending for your child's private-school education is an example of deferred consumption.

ANS: F PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

21. Wealth can be defined as the total value of all the things you own.

ANS: T PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

22. Wealth is the key consideration is establishing financial goals as it is the measure of value in financial transactions.

ANS: F PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

23. Financial assets include investments such as stocks and bonds.

ANS: T PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

24. Utility refers to the amount of satisfaction a person gets from buying certain items.

ANS: T PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

25. A successful financial plan will be based on a person's goals.

ANS: T PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

26. Your personal value system will shape your attitude toward money and wealth accumulation.

ANS: T PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

27. It is possible to draw up one financial plan that will work for most people.

ANS: F PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

28. Financial planning is a dynamic process.

ANS: T PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

29. The first step in the financial planning process is to develop financial plans and strategies to achieve goals.

ANS: F PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

30. Money can be an emotional factor that may affect a person's financial plans.

ANS: T PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

31. Long-term goals are typically for periods of over 6 years.

ANS: T PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

32. Saving $3,000 for a large, flat-screen TV within the next 3 years is an example of a short-term goal.

ANS: F PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

33. Short-term goals include things one wants to achieve in a year or less.

ANS: T PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

34. Debt is another word for liability.

ANS: T PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

3357. Insurance provides a way to make money on unfortunate events.

ANS: F PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

36. Employee benefits can typically be transferred to a new job when one changes employers.

ANS: F PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

37. Your house is an example of a tangible asset.

ANS: T PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

38. For most people working in large firms, employee benefits are an important part of their financial planning.

ANS: T PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

39. A financial goal that would be important in all stages of the life cycle is creating and maintaining an emergency fund.

ANS: T PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

40. Government controls consumers and businesses by regulation and taxation.

ANS: T PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

41. Businesses are a key part of the circular flow of income that sustains our free enterprise system.

ANS: T PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

42. Consumer choices ultimately determine the kinds of goods and services businesses will provide.

ANS: T PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

43. Consumers affect businesses by their choices of what goods and services to purchase and by choosing whether they will spend or save their incomes.

ANS: T PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

44. How long you invest is not nearly as important as the rate of interest you can earn on your investments.

ANS: F PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

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

ANS: T PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

46. Inflation means price levels have declined.

ANS: F PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

47. The Consumer Price Index (CPI) is the amount of goods and services each dollar buys at a given point in time.

ANS: F PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

48. Typically, higher levels of education are rewarded with higher income over the lifetime.

ANS: T PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

49. Cities with higher costs of living also experience higher rates of inflation.

ANS: F PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

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

ANS: F PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

**MULTIPLE CHOICE**

1. Personal financial management is important because it

|  |  |
| --- | --- |
| a. | controls inflation. |
| b. | limits consumption. |
| c. | uses money as an end. |
| d. | makes personal financial goals easier to achieve. |
| e. | lessens economic differences among individuals. |

ANS: D PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

2. Financial planning can help us to

|  |  |
| --- | --- |
| a. | control inflation. |
| b. | spend wisely. |
| c. | control unemployment rates. |
| d. | a and b. |
| e. | a, b, and c. |

ANS: B PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

3. The last step in the financial planning process is to

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

ANS: D PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

4. The term most closely associated with quality of life is

|  |  |
| --- | --- |
| a. | wealth. |
| b. | consumption. |
| c. | education. |
| d. | standard of living. |
| e. | money. |

ANS: D PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

5. A primary determinant of your quality of life is

|  |  |
| --- | --- |
| a. | a tax bill. |
| b. | tangible property. |
| c. | wealth. |
| d. | motivation. |
| e. | income potential. |

ANS: C PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

6. The average propensity to consume refers to the

|  |  |
| --- | --- |
| a. | dollars of income spent for current consumption. |
| b. | percentage of income saved. |
| c. | expenditures for the minimum necessities of life. |
| d. | percentage of income spent for current consumption. |
| e. | fact that people with higher incomes spend more for the necessities of life. |

ANS: D PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

7. Becky graduated with a master degree in Personal Financial Planning. After working two years in a small financial planning firm, Becky earns $60,000 annually and saves $10,000 a year. What is her average propensity to consume?

|  |  |
| --- | --- |
| a. | 16.7% |
| b. | 25.5% |
| c. | 75.7% |
| d. | 83.3% |
| e. | 95.5% |

ANS: D PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

8. When setting financial goals, one should typically start by setting

|  |  |
| --- | --- |
| a. | short-term goals. |
| b. | Intermediate-term goals. |
| c. | long-term goals. |
| d. | a and b |
| e. | b and c |

ANS: C PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

9. Which of the following goals is stated in a way that is most useful for developing a financial plan?

|  |  |
| --- | --- |
| a. | Make a $12,000 down payment on an automobile in 4 years |
| b. | Retire with a comfortable lifestyle in 25 years |
| c. | Buy a $125,000 house in 6 years |
| d. | Purchase a $40,000 boat |
| e. | Join the country club when retired in 20 years |

ANS: A PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

10. Generally, as income rises, the average propensity to consume

|  |  |
| --- | --- |
| a. | stabilizes. |
| b. | drops to zero. |
| c. | increases. |
| d. | becomes erratic. |
| e. | decreases. |

ANS: E PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

11. The amount of money we set aside for future consumption will be determined by

|  |  |
| --- | --- |
| a. | our level of current wealth. |
| b. | how much we currently earn and spend. |
| c. | our education level. |
| d. | the current needs of our family. |
| e. | the cost of life's necessities. |

ANS: B PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

12. Money is

|  |  |
| --- | --- |
| a. | the reason for all transactions. |
| b. | a medium of exchange. |
| c. | the purpose of our economy. |
| d. | a medium of consumption. |
| e. | a measure of propensity to consume. |

ANS: B PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

13. Family financial goals should be

|  |  |
| --- | --- |
| a. | very general in nature. |
| b. | realistically attainable. |
| c. | individually determined. |
| d. | set once for a lifetime. |
| e. | reserved for retirement planning. |

ANS: B PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

14. Utility refers to

|  |  |
| --- | --- |
| a. | the satisfaction you receive from purchasing something. |
| b. | how much money you receive during the year. |
| c. | the total of your spending for the year. |
| d. | the value of your investments at any given time. |
| e. | none of these. |

ANS: A PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

15. The main reason to do personal financial planning is to

|  |  |
| --- | --- |
| a. | minimize overall costs. |
| b. | minimize overall utility. |
| c. | assign monetary value to consumption. |
| d. | maximize overall utility. |
| e. | stabilize overall utility. |

ANS: D PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

16. The most important financial planning for young people concerns

|  |  |
| --- | --- |
| a. | career. |
| b. | insurance. |
| c. | investment. |
| d. | taxes. |
| e. | retirement. |

ANS: A PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

17. Martha is 80 and has a very high net worth. Her most important financial concern is probably her

|  |  |
| --- | --- |
| a. | career. |
| b. | employee benefits. |
| c. | estate. |
| d. | insurance. |
| e. | savings. |

ANS: C PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

18. Sam and Ann are in their late 20s with 3 young children. Their most important financial planning concerns would probably include all of the following except

|  |  |
| --- | --- |
| a. | asset acquisition planning. |
| b. | liability and insurance planning. |
| c. | retirement and estate planning. |
| d. | savings and investment planning. |
| e. | employee benefit planning. |

ANS: C PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

19. Employee benefits may include

|  |  |
| --- | --- |
| a. | retirement plans |
| b. | health insurance |
| c. | employee discounts |
| d. | tuition reimbursements |
| e. | all of these |

ANS: E PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

20. Employee benefits may include

|  |  |
| --- | --- |
| a. | health insurance |
| b. | disability insurance |
| c. | life insurance |
| d. | only a and b above |
| e. | a, b, and c above |

ANS: E PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

21. Tax planning is most commonly done to

|  |  |
| --- | --- |
| a. | reduce debt balances. |
| b. | change income patterns to avoid taxes. |
| c. | minimize taxes. |
| d. | pay extra taxes. |
| e. | learn the tax code. |

ANS: C PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

22. Investments are distinguished from savings on the basis of

|  |  |
| --- | --- |
| a. | length of time held. |
| b. | initial dollar outlay. |
| c. | depreciation. |
| d. | voting rights. |
| e. | level of risk and expected return. |

ANS: E PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

23. Estate planning involves

|  |  |
| --- | --- |
| a. | considering how your wealth can be most effectively passed on to heirs. |
| b. | payment of all back taxes. |
| c. | dissolution of all privately held corporations. |
| d. | valuation and auctioning of your valuables. |
| e. | planning retirements. |

ANS: A PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

24. While you are still working, you should be managing your finances for retirement planning. Which of the following is not a goal of your retirement planning?

|  |  |
| --- | --- |
| a. | maintaining your standard of living |
| b. | effectively passing wealth on to heirs |
| c. | a vacation home or boat |
| d. | travel |

ANS: B PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

25. The three key groups in the economic environment are

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

ANS: E PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

26. Government places controls on the personal financial environment by use of

|  |  |
| --- | --- |
| a. | taxation and fiscal policy. |
| b. | taxation and regulation. |
| c. | taxation and competition. |
| d. | regulation and competition. |
| e. | regulation and fiscal policy. |

ANS: B PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

27. Businesses provide

|  |  |
| --- | --- |
| a. | stores. |
| b. | money payments. |
| c. | land and capital. |
| d. | labor. |
| e. | goods and services. |

ANS: E PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

28. The individual consumer is

|  |  |
| --- | --- |
| a. | a member of the business group. |
| b. | the party around which the personal financial environment is centered. |
| c. | an important force in government. |
| d. | an advocacy group. |
| e. | relatively unimportant to business or government. |

ANS: B PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

29. The four stages of an economic cycle would not include

|  |  |
| --- | --- |
| a. | depression. |
| b. | expansion. |
| c. | recession. |
| d. | recovery. |
| e. | stagnation. |

ANS: E PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

30. Inflation refers to

|  |  |
| --- | --- |
| a. | rising prices. |
| b. | declining interest rates. |
| c. | the opposite of wealth. |
| d. | the opposite of stagflation. |
| e. | declining prices. |

ANS: A PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

31. As the rate of inflation increases,

|  |  |
| --- | --- |
| a. | the cost of living goes down. |
| b. | interest rates decrease. |
| c. | pay checks decrease. |
| d. | retirement plans have more difficulty meeting their goals. |
| e. | purchasing power of a dollar increases. |

ANS: D PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

32. The amount of goods and services each dollar buys at a given point in time is:

|  |  |
| --- | --- |
| a. | inflation |
| b. | consumer price index (CPI) |
| c. | purchasing power |
| d. | none of these |

ANS: C PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

33. This is a measure of inflation based on changes in the cost of a market basket of consumer goods and services:

|  |  |
| --- | --- |
| a. | inflation |
| b. | consumer price index (CPI) |
| c. | purchasing power |
| d. | none of these |

ANS: B PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

34. Your income is directly related to your

|  |  |
| --- | --- |
| a. | geographic location. |
| b. | age. |
| c. | education. |
| d. | all of these |
| e. | none of these |

ANS: D PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

35. Typically people with the lowest incomes tend to be

|  |  |
| --- | --- |
| a. | educated. |
| b. | very old. |
| c. | very young or very old. |
| d. | middle aged. |
| e. | childless. |

ANS: C PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

36. \_\_\_\_ tends to increase and then decrease over the life cycle.

|  |  |
| --- | --- |
| a. | Debt |
| b. | Income |
| c. | Emergency funds |
| d. | a and b |
| e. | a, b, and c |

ANS: D PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

37. Financial goals should be

|  |  |
| --- | --- |
| a. | specific. |
| b. | attainable. |
| c. | prioritized. |
| d. | all of these |
| e. | none of these |

ANS: D PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Financial markets and/or interest rates

38. Ideally, retirement planning should begin

|  |  |
| --- | --- |
| a. | during the year before retirement. |
| b. | when the last child has left home. |
| c. | as soon as the mortgage is paid off. |
| d. | when you get married. |
| e. | none of these. |

ANS: E PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

39. \_\_\_\_ is the financial goal most people think is least important.

|  |  |
| --- | --- |
| a. | Living well now |
| b. | Being financially independent |
| c. | Sending children to college |
| d. | Providing for retirement |
| e. | Leaving a large estate |

ANS: E PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

**COMPLETION**

**INSTRUCTIONS:** Choose the word or phrase in [ ] which will correctly complete the statement. Select A for the first item, B for the second item, and C if neither item will correctly complete the statement.

1. The best way to achieve your financial objectives is to [*save every extra dollar you can* | *develop a sound financial plan*].

ANS: b

PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

2. Financial planning [*does* | *does not*] guarantee a sound financial future.

ANS: b

PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

3. [*Putting money into a retirement fund* | *Buying a car*] would be an example of current consumption.

ANS: b

PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

4. [*Vacations* | *Education*] would be considered a necessity of life.

ANS: c

PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

5. The average [*self employed* | *retired*] household has higher income.

ANS: a

PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

6. The average [*self employed* | *retired*] household has higher levels of assets.

ANS: a

PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

7. The average American's [*home equity* | *home mortgage*] is higher.

ANS: b

PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

8. [*More than* | *less than*] the majority of Americans believe that money cannot buy happiness.

ANS: a

PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

9. [*Disney stock* | *Your car*] would be considered a financial asset.

ANS: a

PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

10. [*Stocks* | *Your house*] would be considered to be real property.

ANS: b

PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

11. [*Money* | *Inflation*] is the common denominator for gauging all financial transactions.

ANS: a

PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

12. [*Inflation* | *Consumer Price Index*] is the amount of goods and services each dollar buys at a given point in time.

ANS: c

PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

13. [*Utility* | *Propensity to consume*] refers to the satisfaction you receive from buying certain items.

ANS: a

PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

14. It is [*fairly simple* | *impossible*] to find a financial plan that will work for everyone.

ANS: b

PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

15. Most families find it [*easy* | *difficult*] to discuss money matters.

ANS: b

PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

16. "1 want to accumulate a comfortable retirement fund" [*would* | *would not*] be a specific financial goal.

ANS: b

PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

17. Income tends to [*increase* | *decrease*] between the ages of 55 and 75.

ANS: b

PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

18. Your level of formal education is a [*controllable* | *non controllable*] factor that has a considerable effect on your income.

ANS: a

PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

19. For most people, debts [*increase constantly* | *increase and then decrease*] during their lifetimes.

ANS: b

PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

20. Most people graduate from college with [*no* | *some*] debts.

ANS: b

PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

21. The two principal constraints which government places upon us are regulations and [*tariffs* | *taxes*].

ANS: b

PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

22. The Consumer Price Index is a measure of [*unemployment* | *inflation*].

ANS: b

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Financial markets and/or interest rates

23. Two key indicators of economic activity in the U.S. are production levels and [*employment levels* | *cost of living*].

ANS: a

PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

24. [*Tax* | *Liability and insurance*] planning is introduced early in the life cycle.

ANS: b

PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

25. During the expansion phase of the business cycle, the unemployment rate will [*increase* | *decrease*].

ANS: b

PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

26. As the rate of inflation increases, the purchasing power of your dollars will [*increase* | *decrease*].

ANS: b

PTS: 1 NAT: Tier 1: Analytic skills

LOC: Tier 2: Financial markets and/or interest rates

27. The primary determinant of your standard of living is your [*wealth* | *propensity to consume*].

ANS: a

PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

28. Your [*level of education* | *age*] will usually have no effect on your earning capacity.

ANS: c

PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

29. After reaching adulthood, your financial goals will [*stabilize* | *continue to change*].

ANS: b

PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

30. For most people, employee benefits are of [*little* | *major*] importance.

ANS: b

PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

31. Typically, your salary will be [*higher* | *lower*] if you live in a large metropolitan area rather than a small town or rural area.

ANS: a

PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates

32. The average income of household heads increase until age [*55* | *65*] then income starts decreasing.

ANS: a

PTS: 1 NAT: Tier 1: Reflective thinking

LOC: Tier 2: Financial markets and/or interest rates