Money Management Test - MoneyPower

Multiple Choice
Identify the choice that best completes the statement or answers the question.

___ 1. A person’s debt ratio shows the relationship between debt and net worth. The lower the ratio the
a. better off financially the person is.  c. more liquid assets the person has.
b. worse off financially the person is.  d. less liquid assets the person has.

___ 2. One of the benefits of holding an investment for over a year rather than selling it in less than a year is that the
a. capital gains on the investment will be taxed at a lower rate.
b. fees will not be charged by brokers for selling the investment.
c. money earned on the investment will be considered tax-free.
d. profits on the investment can be averaged over the length of time the investment is held.

___ 3. A person complains about how expensive it is to be a cigarette smoker. One of the reasons cigarettes are so expensive is that
a. the tobacco supply is controlled by the Federal Trade Commission (FTC).
b. the tobacco industry imports most of the tobacco.
c. their cost is controlled by the Food and Drug Administration (FDA).
d. the government imposes an excise tax on them.

___ 4. A man budgeted $200 a month for clothing. This month the man spent $150 on clothing therefore that budget item is considered to have
a. an outflow deficit.  c. a budget variance.
b. an income overage.  d. a budget deficit.

___ 5. Jane saw a breakfast cereal being advertised on TV and insisted that her mother purchase this cereal. This is an example of advertising’s:
 a. power of persuasion in creating demand
b. influence on consumer discipline
c. failure to reach parents
d. focus on discouraging demand for products

___ 6. A good example of a well-stated financial goal is:
a. buy a $25,000 car.
b. pay off $5,000 in credit card debt in two years.
c. buy a house.
d. become financially independent.

___ 7. The term that best describes money left over after paying taxes, fixed and other essential living expenses, is:
a. net pay.  c. net surplus.
b. play money.  d. disposable income.

___ 8. A clear understanding of our personal values will:
a. encourage us to spend money on material goods.
b. enable us to make choices that reflect what is important to us.
c. enable us to save effectively.
d. cause anxiety as we make consumer and financial decisions.
9. A stock broker or financial consultant:
   a. gives financial advice to clients.
   b. sells money orders and certified checks.
   c. guarantee a return on investment.
   d. do not have to be licensed.

10. Which of the following careers would be possible choices for someone interested in money and finance?
   a. psychologist
   b. social worker
   c. insurance actuary
   d. musician

11. I find myself using my credit card to cover the cost of food or rent because I’m regularly short on cash at the end of each month. The best thing to do is:
   a. ignore it. Things are bound to get better.
   b. make a budget and consider ways to reduce expenses or increase income.
   c. borrow money from a relative.
   d. apply for additional credit cards.

12. Something you are working to achieve within a defined period of time is a(an):
   a. value
   b. goal
   c. ideal
   d. dream

13. Another term for the dollar amount of your paycheck after taxes and other withholdings is:
   a. discretionary income
   b. adjusted gross income
   c. net income
   d. gross income

14. Electricity and food expenditures are:
   a. variable expenses that change from one period to another.
   b. discreet expenses that do not have to be paid monthly.
   c. fixed expenses that remain the same from one period to another.
   d. personal expenses for an individual or family.

15. Goals:
   a. need to be realistic, have a target date, and, if possible, an associated cost.
   b. remain the same year after year, throughout life.
   c. need to reflect current income.
   d. are generally the same for middle class families.

16. Financial plans need to:
   a. include income but not expenses.
   b. be changed during different stages in life.
   c. include income and eliminate risk.
   d. to be approved by an accountant.

17. You want to gain control over your income and spending so that you will be able to save money. Which step will help you the most?
   a. developing a retirement plan.
   b. developing a budget.
   c. getting advice from a friend.
   d. applying for a loan.

18. A term that best describes your gross pay after taxes are deducted is:
   a. take-home pay
   b. new worth
   c. assets
   d. total revenues
19. Discretionary income is:
   a. wages plus investment income.
   b. a capital gain.
   c. the difference between your total income and your essential living expense.
   d. income and has been spent.

20. What does a well-designed, successful financial plan include?
   a. wants and needs
   b. unexpected income
   c. retirement planning
   d. bank statements.

21. Our values are:
   a. what we want to achieve
   b. the basic principles that guide our actions
   c. our expectations of our people
   d. same as our goals.

22. Money set aside to grow
   a. a budget
   b. discretionary income
   c. net income
   d. savings or investments

23. Which of the following careers would be a possible choice for someone interested in money and finance?
   a. Banker
   b. Statistician
   c. Retail store manager
   d. Social worker

24. Which of the following will help you the LEAST in managing your money?
   a. pay your rent/mortgage payment and utility bills on time.
   b. plan ahead for large expenses, shop with a list, and resist impulse buying.
   c. set goals and keep a budget for your net income.
   d. get advice from your friends.

25. Financial planning helps individuals to:
   a. guarantee future income.
   b. achieve all goals by set target dates.
   c. have strategies for saving and investing.
   d. eliminate risk on investments.

26. An example of a fixed expense is:
   a. entertainment.
   b. apartment rent.
   c. restaurants.
   d. vacations.

27. Spreading one’s assets across several types of saving and investment products to manage risk is called:
   a. allocation
   b. pooling
   c. diversification
   d. budgeting

28. Financial planning is important because it helps you to:
   a. have higher expectations.
   b. eliminate risk on investments.
   c. reach financial goals and protect your assets.
   d. achieve all person goals.

29. An important consideration when saving money for emergencies is:
   a. high growth potential.
   b. high degree of safety and liquidity.
   c. diversification.
   d. return on investment.
30. In terms of their finances, when a couple has a baby, they will
   a. receive an additional tax exemption because of the baby.
   b. need to obtain a W-2 form for the baby.
   c. have to file a separate income tax form for the baby.
   d. automatically start paying Social Security payments for the baby.

31. When deciding between two job offers with a similar salary offer, a person should first consider:
   a. travel time to the work location and the size of the organization.
   b. retirement and health plans.
   c. tuition reimbursement and bonus potential.
   d. reputation of the organization.

32. The following is usually considered a variable expense:
   a. mortgage payment
   b. electric bill payment
   c. rent payment
   d. car payment

33. You can set up an Individual Retirement Account at:
   a. an insurance agency
   b. a bank
   c. a small loan company
   d. a real estate agency

34. In addition to monthly mortgage payments, each year a homeowner can expect to pay
   a. an assessment fee.
   b. title insurance.
   c. property taxes.
   d. a broker’s fee.

35. A well stated financial goal is:
   a. realistic with a target date.
   b. related to one’s age group.
   c. a map of steps to be taken in the future.
   d. logical and specific.

36. Can Cathy withdraw money from her IRA savings account?
   a. Money cannot be withdrawn from an IRA before age 59.
   b. There is a 10% penalty on any money she takes out before age 59.
   c. She can take out the money at any time since she made the deposits.
   d. There is a 50% penalty if she does not start withdrawing money at age 59.

37. Which of the following is necessary for successful budgeting?
   a. A copy of credit card report.
   b. The location of your banks.
   c. The ability to adjust spending to money available.
   d. A list of unexpected income.

38. Rossi has a part time job delivering pizzas to raise money for college in two years. Going to college is one of Rossi’s:
   a. goals.
   b. hopes.
   c. values.
   d. dreams.

39. John’s company will match his pre-tax contributions to the company’s retirement plan, known as:
   a. a 401(k)
   b. a Roth IRA
   c. a defined benefit plan
   d. a traditional IRA
40. Ben’s annual income is $30,000, and he contributed $3,000 to a traditional IRA in his local bank. What is his taxable income?
   a. $33,000  
   b. $30,000  
   c. $27,000  
   d. $0 because he contributed to an IRA

41. The financial planning process:
   a. includes lifetime goals.
   b. needs to be adjusted for changing needs and goals in different stages of life.
   c. does not need to be revised for changing income and needs.
   d. guarantees that assets will increase.

42. Julian is a single and recent college graduate who just got his first full-time job. Which of the following should be his first financial goal?
   a. buying a house.  
   b. buying a life insurance policy.  
   c. establishing a fund for emergencies.  
   d. creating a stock portfolio.

43. In creating her budget, Ann realizes that her expenses exceed her income. Ann should immediately try to:
   a. apply for a loan.  
   b. reduce or eliminate some expenses.  
   c. ignore her budget until she has more income.  
   d. open an IRA account.

44. In terms of retirement income, a person should realize that the amount of money the person will receive from the Social Security System’s benefits depends on the person’s:
   a. earnings over a lifetime of work.  
   b. net income from the person’s last job.  
   c. contributions minus the money the person will receive from other pension plans.  
   d. average gross income from the last five years of employment.
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Answer Section

MULTIPLE CHOICE

1. ANS: A
   Since the debt ratio is calculated by dividing liabilities by net worth, the lower the debt ratio the better; that is the better off the person is financially.
   PTS: 1

2. ANS: A
   Capital gains are profits made from the sale of capital assets such as stocks and bonds and are tax deferred until the asset is sold. Capital assets that are held over one year are considered long-term capital gains and are taxed at a lower tax rate or in some cases are not taxed at all.
   PTS: 1

3. ANS: D
   The government may impose a tax on specific goods and services such as alcohol, cigarettes, gasoline, and airline services, which are called excise taxes. These taxes produce revenue for the government and are usually placed on items not considered necessities. Often, as in the case of alcohol and cigarettes, these taxes are also levied as a way to try to deter certain behaviors. As a result, these taxes have become known as “sin taxes”?
   PTS: 1

4. ANS: C
   The difference between the amount of money budgeted for items ($200 for clothing) and the actual amount of money spent for those items ($150 for clothing) is called a budget variance.
   PTS: 1

5. ANS: A
   The TV commercial for the cereal helped to persuade Jane to ask her mother to purchase the advertised cereal. This is called the power of persuasion. Many ads and commercials have strong powers to persuade us to buy particular products or services.
   PTS: 1

6. ANS: B
   "Pay off $5,000 in credit card debt in two years" is a meaningful financial goal because it states the action in specific terms (pay off $5,000 in credit card debt) and sets a target date or deadline (in two years). This goal is precisely measurable, attainable and expressed with a precise time frame.
   PTS: 1
7. **ANS: D**
   The income left over after paying taxes, fixed expenses and other essential living expenses is called discretionary income. Discretionary income is used for extras such as additional savings and investments, vacations, entertainment, and special purchases.

   **PTS: 1**

8. **ANS: B**
   The better we understand our values, the more likely it is that we will be able to make choices consistent with our beliefs.

   **PTS: 1**

9. **ANS: A**
   Stockbrokers represent individual investors who want to buy or sell stocks, bonds, and other securities, give financial advice to their clients and they work for a securities firm also known as a broker-dealer.

   **PTS: 1**

10. **ANS: C**
    An insurance agent or insurance actuary has a career related to money and finance.

    **PTS: 1**

11. **ANS: B**
    Paying for basic needs because you don't have enough money at the end of the month is a sign of credit stress. Ignoring it won't make it go away, and paying only minimums while continuing to charge only increases your balance and your problem. Doing a budget discourages over-spending and helps you save.

    **PTS: 1**

12. **ANS: B**
    A goal is something you are working toward in the future. Examples include graduates from high school or college, saving enough money to buy a specific item, and getting a full-time job in the field of your choice after completing school. Goals are divided into short-term, intermediate-term, and long-term, goals based on the amount of time it will take for the goal to be achieved. A goal should be clearly stated, have a target date and, if possible, have an associated cost.

    **PTS: 1**

13. **ANS: C**
    Gross income minus all taxes and other required withholdings equals net income, sometimes called take-home pay. Gross pay is your salary or wage before any taxes or other withholdings, such as child support, health insurance, and union dues, have been subtracted. Net income is the dollar amount of your paycheck and is also called take-home pay.

    **PTS: 1**
14. ANS: A

All expenses can be divided into fixed and variable expenses. Variable expenses are those that change each time period. These include the cost of utility bills, food, clothing, entertainment, and education. Fixed expenses are those that are the same dollar amount each time period. They generally include mortgage, rent, and car payments.

PTS: 1

15. ANS: A

Goals usually differ for individual and family. Goals change as we achieve some and set new ones, as we move into new life stages, and as we experience major changes such as marriage, birth of a child, divorce, layoff, or retirement. Goals also need to be clearly stated with target dates. Short-term goals change most frequently. Long-term goals usually change the least over time.

PTS: 1

16. ANS: B

Financial planning is the process of developing and implementing a coordinated series of actions to achieve financial success. Financial plans need to be reviewed and adjusted to accommodate changing needs and goals. They also need to be adjusted when an individual or family moves from one life stage to another, or when an event changes the individual's or family's financial conditions (for example, marriage, birth of a child, divorce, layoff, major disability, or retirement).

PTS: 1

17. ANS: B

A budget is a realistic estimate of your sources and amounts of income and your expenses for a period of time. Developing and using a realistic budget can help you gain control over your income and spending. Developing, but not using a budget, does not help you gain control. Expenses may need to be reduced or eliminated, in order to develop have money left over (discretionary) to use for savings

PTS: 1

18. ANS: A

Gross pay minus taxes and other items, such as health insurance, child support, union dues or United Way contributions, is take-home pay. The dollar amount of your paycheck is your take-home pay, and is also referred to as your net income.

PTS: 1

19. ANS: C

Discretionary income (disposable income) is the amount of take-home income left after an individual pays for basic expenses, such as food, clothing, and shelter. It can be used to build an emergency fund or invested for long-term goals such as buying a house or retirement.

PTS: 1
20. ANS: C
A well-designed, successful financial plan includes financial strategies for saving and investing, tax management, risk management, retirement planning and estate planning.

PTS: 1

21. ANS: B  PTS: 1

22. ANS: D
Current income that is not spent on current expenses or discretionary income can be saved for future use. It can be used to build an emergency fund to cover short-term emergencies or invested for long-term goals such as buying a house or retirement.

PTS: 1

23. ANS: A
Financial analysts, bankers, and insurance agents all have careers related to money and finance.

PTS: 1

24. ANS: D
Paying your bills on time, planning ahead for large expenses, setting goals, keeping a budget for your net income, shopping with a list to resist impulsive buying, and monitoring your spending to determine which expenses can be avoided or reduced (eating out frequently or buying an expensive lunch daily) can help you to manage money.

PTS: 1

25. ANS: C
Financial planning is the process of identifying individual financial priorities and tailoring activities and resources toward their achievement. The goal of financial planning is to make money work for you rather than against you and to help you live within, instead of beyond, your means. Financial planning includes strategies to help you save and invest, and protect your assets from taxes and unforeseen events.

PTS: 1

26. ANS: B
A fixed expense remains constant and includes rent. Fixed expenses are in contract to variable costs that change and do not remain constant. Since rent does not change during the term of a lease, it is considered a fixed expense.

PTS: 1

27. ANS: C
Diversification is dividing investment money among several different types of investments that have different risk levels as a way to reduce the portfolio's market risk.

PTS: 1
28. ANS: C

Financial planning is the process of identifying individual financial goals and tailoring activities and resources toward their achievement. The goal of financial planning is to make money work for you rather than against you and to help you live within, instead of beyond, your means. Financial planning includes strategies to protect your assets from taxes and unforeseen events.

PTS: 1

29. ANS: B

An emergency fund account needs to have a high degree of safety and liquidity. High safety means that there is very little chance of losing the principal (dollar amount in the account). High liquidity means it is easy to get cash out of the account quickly.

PTS: 1

30. ANS: A

When a baby is born, the baby is considered a qualified dependent. A separate deduction or tax exemption is allowed from the parent’s(s’) adjusted gross income for this qualified dependent. The parent must provide more than half the support of the dependent and the dependent must live with the parent(s).

PTS: 1

31. ANS: B

Health and retirement plans supplement salaries and can comprise a sizeable portion of total compensation, often as much as one-third. Given the importance of these benefits, new employees should ask lots of questions and learn as much as they can about their company's health and retirement plans.

PTS: 1

32. ANS: B

All expenses can be divided into fixed and variable expenses. Variable expenses change from one specific time period (for example, each month, twice a year, once a year) to another. Examples of monthly variable expenses are gas and electric bills, and the cost of food, clothing, and entertainment. An example of a semiannual variable expense is tuition. Fixed expenses are the same from one time period to another. Examples of fixed monthly expenses are mortgage, rent, and car payments.

PTS: 1

33. ANS: B

An IRA can be set up by an employed person at a bank, credit union or investment firm.

PTS: 1
34. ANS: C
Real estate taxes are a major expense of homeowners and may increase yearly. These taxes are used to pay for a community’s schools, police, fire, road repairs and many other town budget items.

PTS: 1

35. ANS: A
A goal is something you are working toward in the future. Examples include graduates from high school or college, saving enough money to buy a specific item, and getting a full-time job in the field of your choice after completing school. Goals are divided into short-term, intermediate-term, and long-term, goals based on the amount of time it will take for the goal to be achieved. A goal should be clearly stated, have a target date and, if possible, have an associated cost.

PTS: 1

36. ANS: B
If you withdraw money from a qualified retirement plan before you are:
If you withdraw money from a qualified retirement plan before you are 59 - years old, you have to pay taxes on the amount withdrawn and a 10 percent penalty.

Similarly, you must start making regular withdrawals (that are taxable) from your retirement account no later than April 1 of the year following the year you are age 70 . If you fail to make withdrawals, you will pay a penalty equal to 50 percent of the money that was required to be withdrawn.

A person can access retirement plan funds earlier than age 59 if he or she becomes totally and permanently disabled. years old, you have to pay taxes on the amount withdrawn and a 10 percent penalty.

Similarly, you must start making regular withdrawals (that are taxable) from your retirement account no later than April 1 of the year following the year you are age 70 1/2. If you fail to make withdrawals, you will pay a penalty equal to 50 percent of the money that was required to be withdrawn.

A person can access retirement plan funds earlier than age 59 if he or she becomes totally and permanently disabled.

PTS: 1

37. ANS: C
The steps in developing a realistic, usable budget once goals have been established are (1) identify the source and amount of all expected income, (2) identify probable fixed and variable expenses, and (3) adjust spending to match the expected income.

PTS: 1
38. ANS: A

Some goals can be achieved with little time, energy, money and other resources. Other goals, like graduating from college, require the use of extensive resources. You usually have to fulfill several short-term and intermediate-term goals in order to reach a major long-term goal.

PTS: 1

39. ANS: A

A 401(k) retirement plan is called a salary-reduction plan because the employee must make contributions. Then, the employer may match the employee's contributions up to limits set by the employer. Both the employee and employer contributions are pretax and the earnings are tax-deferred until withdrawn. Employees who choose not to become part of their company's 401(k) plan by contributing part of their wage or salary to the plan also lose the employer's contribution. They are, in effect, "leaving free money on the table."

PTS: 1

40. ANS: C

Ben's annual income is low enough that he can deduct his IRA contribution from his taxable income. His taxable income after deducting the contribution is $27,000 ($30,000 - $3,000), so the amount of tax he has to pay is lower than it would have been if he hadn't made the contribution.

PTS: 1

41. ANS: B

Financial planning is the process of developing and implementing a coordinated series of actions to achieve financial success. Financial plans need to be reviewed and adjusted from time to time to accommodate changing needs and goals annually. They also need to be adjusted when an individual or family moves from one life stage into another, or when an event changes an individual's or family's financial conditions (for example, marriage, birth of a child, divorce, layoff, major disability, or retirement).

PTS: 1

42. ANS: C

Julian should first build an emergency fund, equal to 3 to 6 months' income, so that there will be money to cover major unforeseen expenses, such as car repairs, or travel expenses to visit an ailing family member. An emergency fund should be held in a statement savings account or other liquid investment so that it can be accessed quickly and easily when needed. After he has built the emergency fund, Julian can set and start working toward other financial goals, such as buying a house, buying an adequate life insurance policy, or building a stock portfolio.

PTS: 1
43. ANS: B
Once you have estimated your income and fixed and variable expenses, the next step in the budgeting process is to balance the budget. Total your projected income for a month. Then, subtract all of your projected expenses for the same month. If projected expenses are greater than projected income, you need to adjust some of the projected expenses so that total income equals or is greater than total expenses. Extra income can be added to savings.

PTS: 1

44. ANS: A
Social Security retirement benefits are based on a person’s total earnings over a lifetime of work. To qualify for benefits, people born after 1928, need to have worked at least 40 quarters (a quarter is equal to three months). Except for approximately 03% of the working population (mostly state and federal workers), every waged employee and their employers pays into the Social Security System. The size of a person’s benefits depends on the length of time a person pays into the system and the amount paid into the system. There are also currently proposals being discussed to permit younger individuals to put part of their savings into private-sector investments. This is a decision that would have to be made by Congress.

PTS: 1