

Budgeting

The cash flow statement reports a person's or family's

- A) net worth.
- B) current income and payments.
- C) plan for borrowing.
- D) value of investments.

The primary goal of financial planning is to

- A) increase earnings.
- B) maximize cash inflows.
- C) maximize wealth.
- D) minimize financial risk.

Which of the following is **not** a cash inflow?

- A) Interest received
- B) Dividend income
- C) Car payment
- D) Salary

Which of the following is **not** an asset you might find on a personal balance sheet?

- A) Liquid assets
- B) Inventory
- C) Household assets
- D) Personal investments

Which of the following is a liquid asset?

- A) Cash in a savings account
- B) A swimming pool
- C) Real estate
- D) Stock held in a retirement account

The amount you would receive if you sold an asset today is called the asset's

- A) market value.
- B) book value.
- C) sales value.
- D) cost.

Balance sheet assets should be valued at

- A) original purchase price.
- B) replacement value.
- C) insured value.
- D) market value.

The difference between assets and liabilities is called

- A) surplus.
- B) deficit.
- C) net income.
- D) net worth.

Time Value of Money

The time value of money refers to

- A) personal opportunity costs such as time lost on an activity.
- B) financial decisions that require borrowing funds from a bank.
- C) changes in interest rates due to changes in the supply and demand for money in the national economy.
- D) the difference in the value of money depending on when it is received.

The earning of interest on interest over time is called

- A) an annuity.
- B) an ordinary annuity.
- C) compounding.
- D) present value.

Everything else being equal, the _____ the interest rate, the _____ the final accumulation of money.

- A) higher; higher
- B) lower; lower
- C) higher; lower
- D) Both A and B are correct.

If you invest \$12,000 today at an interest rate of 10%, how much will you have in 10 years?

- A) \$31,125
- B) \$25,940
- C) \$13,860
- D) \$40,712

As the time period until receipt of an amount of money increases, the present value of the amount at a fixed interest rate

- A) remains the same.
- B) increases.
- C) decreases.
- D) not enough information to make a decision.

What is the present value of \$5,000 received 10 years from now, discounted at 7%?

- A) \$3,040
- B) \$2,000
- C) \$2,542
- D) \$4,000

Annuities

An ordinary annuity can be defined as

- A) a series of unequal payments received or paid at equal intervals at the beginning of each period.
- B) a series of equal payments received or paid at equal intervals of time at the end of each period.
- C) a lump sum.
- D) intermittent payments for ordinary expenses.

Which stream of cash flows is not an example of an annuity?

- A) Fixed rate mortgage payment
- B) Mortgage payment where the interest rate is reset annually
- C) 48-month car payment
- D) Interest payment on a 10-year Treasury bond

What is the effective annual rate if a bank charges you an APR of 8.25 percent, compounded quarterly?

- A) 8.32 percent
- B) 8.38 percent
- C) 8.42 percent
- D) 8.51 percent
- E) 8.61 percent

Taxes

FICA taxes include two components, which consist of

- A) accident and disability insurance.
- B) unemployment compensation and disability insurance.
- C) Social Security and Medicare contributions.
- D) old age and unemployment compensation.

Different tax rates are associated with each filing status such as single, married filing jointly, and head of household.

True

False

A long-term capital gain results from profit on the sale of capital assets that were held 12 months or more.

True

False

All reportable income from any source is called

- A) wages and salaries.
- B) gross income.
- C) interest income.
- D) dividend income.

The standard deduction (assuming you are not over 65 or blind) is largest for

- A) single filers.
- B) head of household filers.
- C) married filing jointly.
- D) married filing separately.