FIN 230-01 Name ____________________________
Fall 2010
Quiz I
Rusty Smith

Section I: Multiple Choice (1 point each) Choose the one best answer from the choices provided and place the letter corresponding to that answer in the space provided to the left of the question number.

_____ 1. John used to live in Memphis, TN - where the price index is 120. He earned $48,000 per year. He recently accepted a job in Lexington, KY – where the price index is 110. His salary in Lexington is $55,000. Which of the following is true?
a. The "real" salary gap between the two jobs is $7,000.
b. John's real salary is equal in either city.
c. John's real income is $10,000 greater in Lexington than it was in Memphis
d. The cost of living in Memphis is lower.

_____ 2. In marginal analysis, imperfect information
a. may be lessened with research.
b. may lead to a "bad" decision.
c. causes us to spend a great deal of time on research for decisions when the cost of a bad decision is high.
d. All of the above are true.

Use the time value of money tables to answer questions 3 through 5.

_____ 3. Dean Venture may receive an annuity of $40,000 per year for the next 15 years or he can receive one lump sum payment today. If the interest rate is 8%, what lump sum payment will he need to receive to have equal value to the annuity payments?
a. $342,360.
b. $1,086,080.
c. $126,880.
d. $189,000.

_____ 4. Jules Winfield is set to receive a one-time payment of $300,000 eight years from now. If the interest rate is 7%, what amount would he need to be paid today to have equal value to the future payment?
a. $468,000.
b. $240,000.
c. $174,600.
d. $515,400.

_____ 5. If Jack Hodgins saves $4,000 each year at a rate of 9%, how much money will he have saved 18 years from now – assuming no withdrawals and compounding interest?
a. $175,680.
b. $18,868.
c. $165,204.
d. $72,320.

Section II Short Answer/Essay Use the information provided to completely answer the following questions. Points as indicated.

1. Briefly answer the questions below regarding items we have discussed in class. **(2 points each)**

   Why is it necessary to evaluate your financial plan on a routine basis?

   What is disposable income?

   Why is it important that financial goals be realistic (why shouldn't you just "shoot for the moon") and measurable?

   Give an example of an event that would necessitate a change in a financial plan and explain why a change would be necessary.

2. Briefly answer the following questions regarding marginal analysis. **(2 points each)**

Define marginal benefit –

Briefly explain how marginal cost and marginal benefit are used in marginal analysis –

What is imperfect information?

When will a person be not likely to research a decision?

Give a theoretical example in which you utilize marginal analysis (don't just identify a scenario in which you would utilize marginal analysis, go through the process) -