
SECTION I: Multiple Choice (2 points each) Choose the one best answer from the selections provided and place the letter corresponding to that answer in the space to the left of the question number.

- _____ 1. In marginal analysis, imperfect information
- a. can be eliminated with enough research.
 - b. may contribute to a "bad" decision.
 - c. will cause someone much time and money researching a decision when the cost of a "bad" decision is low.
 - d. All of the above are true.
- _____ 2. When would FDIC insurance cover deposits at a credit union?
- a. If the credit union failed.
 - b. If the credit union was robbed.
 - c. The FDIC doesn't insure deposits at credit unions.
 - d. If the credit union experienced an earthquake.
- _____ 3. A borrower defaults on a loan and the creditor repossesses the loan collateral and sells it but a balance remains after the collateral is sold. Which of the following is true?
- a. The borrower is responsible to pay the lender the deficiency balance.
 - b. A co-signer is not responsible for repaying the deficiency since the collateral was repossessed.
 - c. The creditor may not seek wage garnishment from the borrower to pay the deficiency balance because of the repossession.
 - d. All of the above are true.
- _____ 4. Which of the following best describes a personal financial statement (also known as a balance sheet)?
- a. It itemizes assets and liabilities.
 - b. It itemizes income and expenses.
 - c. It is used to calculate net worth.
 - d. Both "a" and "c" are true.
- _____ 5. Which of the following is **NOT a necessary** step in financial planning?
- a. Identifying your current financial position.
 - b. Identifying your goals.
 - c. Canceling all of your credit cards.
 - d. All of the above **are** necessary steps to financial planning.
- _____ 6. The term depreciation refers to
- a. the decrease in the value of an asset over time.
 - b. the increase in the value of an asset over time.
 - c. the increase in net worth over time.
 - d. None of the above.
- _____ 7. Discretionary income is
- a. pre-tax income.
 - b. after-tax income after necessities have been purchased.
 - c. income minus taxes.
 - d. income needed to pay for necessities.

- _____ 8. An income statement
- is a report that totals assets, liabilities, and net worth.
 - is a plan that outlines your financial goals and the methods you have chosen to achieve those goals.
 - is only useful for businesses with annual gross revenues in excess of \$1,000,000.
 - is a report that tracks your income and expenses for a given time period (usually one month).

Use the time value of money tables to answer questions 9 through 12.

- _____ 9. Hank Venture can receive an annuity of \$50,000 per year for the next 15 years or he can receive one lump sum payment **today**. If the interest rate is 7%, what lump sum payment will he need to receive to have equal value to the annuity payments?
- \$271,500.
 - \$455,400.
 - \$1,256,450.
 - \$137,950.
- _____ 10. If Maggie Fitzgerald saves \$4,000 per year at a rate of 5%, how much money will she have saved 10 years from now - assuming no withdrawals and compounding interest?
- \$50,312.
 - \$30,888.
 - \$67,200.
 - \$65,160.
- _____ 11. Jules Winfield is set to receive a one-time payment of \$500,000 from Marcellus Wallace eight years from now. If the interest rate is 6% and Marcellus offers to instead pay Jules \$350,000 today, which of the following is true?
- Jules would receive less than the net present value by taking the \$350,000 offer.
 - Jules would receive exactly the net present value by taking the \$350,000 offer.
 - Jules would receive more than the net present value by taking the \$350,000 offer.
 - None of the above apply to this problem.
- _____ 12. Bill Lumbergh has \$60,000 in the bank today. If the interest rate is 8%, how much will he have in the bank in 15 years if he makes no further deposits or withdrawals and the interest compounds annually?
- \$1,629,120.
 - \$132,000.
 - \$144,000.
 - \$190,320.
- _____ 13. Financial assets
- are tangible property like stereo equipment.
 - are a person's most liquid assets.
 - include cash, coins and deposit balances.
 - Both "b" and "c" are true.

Answer questions 14 through 18 using the following pieces information from Pete White's personal financial statement and his cash flow statement.

Financial Assets (Cash, Checking, and Savings)	\$30,000	Net Monthly Income	\$7,000
Other Assets	\$270,000	Total Monthly Expenses	\$5,000
Liabilities	\$225,000	Total Monthly Debt Payments	\$3,500

- _____ 14. Pete's Net Worth equals
- \$75,000.
 - \$45,000.
 - \$35,000.
 - \$15,000
- _____ 15. What is Pete's liquidity ratio?
- 2.00.
 - 6.00.
 - 0.13.
 - 0.71.
- _____ 16. What is Pete's Financial Assets to Net Worth Ratio?
- 0.67.
 - 0.86.
 - 2.00.
 - 0.40.
- _____ 17. Pete's debt to total assets ratio is
- 0.83.
 - 0.75.
 - 0.94.
 - 6.00.
- _____ 18. Pete's debt service ratio (debt to income ratio) is
- 0.50.
 - 2.00.
 - 0.71.
 - 1.40.
- _____ 19. Mick lives in Truth or Consequences, New Mexico - where the price index is 110 - earning a nominal income of \$55,000 per year. He has been offered a job in Denver, Colorado - where the price index is 90. What nominal income would he need to earn in Denver in order for his real income to double?
- \$100,000.
 - \$110,000.
 - \$90,000.
 - \$45,000.

- _____ 20. Approximately how long will it take an amount in a savings account to double, assuming annual compounding and retention of interest, at an interest rate of 3%?
- 24 years.
 - 33.3 years.
 - 35 years.
 - It will never double.
- _____ 21. What is the maximum amount of time a bank may withhold the availability of funds from a deposited check if it has no specific reason to place the hold?
- 7 days.
 - 2 days.
 - 90 days.
 - A bank may never delay the availability of deposited funds.
- _____ 22. You have received a letter in the mail with a cashier's check for \$10,000. The letter explains that you have won a prize and that the \$10,000 is the first installment. You only need to send \$5,000 to them to pay processing fees and they will send you \$90,000 more. Which of the following is true?
- This is an example of dumpster diving.
 - This is most likely an example of advance fee fraud.
 - You can't lose because you received a cashier's check and they're always good.
 - None of the above are true.
- _____ 23. Which of the following may legally own a NOW account?
- Donnie Baker, a sole proprietor operating a boat business.
 - Damage Incorporated, a for-profit organization that sells officially licensed Metallica merchandise.
 - Johnson & Johnson real estate partnership.
 - Both "a" and "b" may legally own a NOW account.
- _____ 24. What is a budget?
- A statement that shows what income and expenses were for the previous year.
 - The ratio of income to monthly expenses.
 - A spending plan.
 - A statement that shows a person's income, net worth, assets and liabilities.
- _____ 25. The Equal Credit Opportunity Act
- Prohibits credit discrimination on the basis of poor credit history.
 - Prohibits lenders from specifying who a co-signer on a loan shall be.
 - Requires lenders to give loans to every applicant.
 - All of the above are true.

SECTION II - Essay/Problem/Short Answer

Use the information provided to completely answer the following questions. Points as indicated.

1. Complete an itemized personal financial statement for Dale Denton given the following information - be sure to total assets, liabilities, and net worth. **(10 points)**

Stock in Microsoft - \$7,500; Savings account - \$500; Mortgage payable to Wells Fargo Bank - \$49,400; Residence at 195 Maple Street Murray, KY - \$60,000; 2005 Ford automobile- \$9,300; Chase Manhattan Visa - \$4,300; Home Equity Loan payable to Ditech Mortgage Company - \$4,800; Checking account - \$1,300; Personal property - \$9,200; Loan payable to Ford credit - \$7,800; Dillard's credit card - \$350.

2. You have taken out a 2-year loan where you make four payments each year. You have borrowed \$5,000. The interest rate is 5.00%. Your payment is \$660.67. Complete an amortization table for this loan. What is the total amount of interest that you paid? Complete a separate amortization table and indicate total interest paid and how much less interest you would pay if you made payments of \$755.00 instead. **(10 points)**

Balance	Payment	Interest	Principal Reduction	New Balance

Total interest paid =

Balance	Payment	Interest	Principal Reduction	New Balance

Total interest paid =

Savings from larger payment =

3. Use the time value of money tables to make the following calculations. (15 points)
- a) Assume you deposit \$40,000 into a savings account today. If the interest rate is 7%, how much money will be in your account in 15 years (assuming compounding of interest and no withdrawals)?

 - b) You are entitled to receive a one-time payment of \$500,000 10 years from today. How much would you have to receive today to have the same value if the interest rate were 8%?

 - c) You just won the lottery. If the prize is 20 annual payments of \$200,000 or a one-time payment, what should the one-time payment be if the interest rate is 5%?

 - d) When Sylvio retires he wants to have enough money saved up to be able to withdraw \$60,000 per year for 20 years. During the 20 years he is retired the interest rate will be 9%. Sylvio wants to retire 20 years from now. If the interest rate for the next 20 years is going to be 6%, how much will he have to save each year to meet his retirement goal?

 - e) Assume that you save \$1,000 per year. If the interest rate is 5%, how much money will you have at the end of 15 years?

4. Briefly answer the following questions. (4 points each)

A person who files for bankruptcy must attend 2 "classes". What classes are they and when must they attend them?

How much current coverage does each depositor at a financial institution have with regards to FDIC insurance "per account per capacity of ownership"?

How often are you entitled to a free copy of your credit report (not counting identity theft victims or persons who were denied credit requests based on information found in their credit report)?

If you apply for credit and are denied, what must the creditor send you and what information must be contained in that notification?

List 4 of the 8 reasons for which the Equal Credit Opportunity Act prohibits discrimination in credit application

OOPS!

If you made a mistake on problem # 2 on page 6, here's another table that you can use.

Balance	Payment	Interest	Principal Reduction	New Balance

Total interest paid =

Balance	Payment	Interest	Principal Reduction	New Balance

Total interest paid =

Savings from larger payment =