Personal Finance 8th edition Madura Test Bank

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Personal Finance, 8e **(Madura)**
Chapter 1 Overview of a Financial Plan

1.1 How Personal Finance Can Enhance Your Wealth

1) Most Americans will never be able to understand and develop a personal financial plan.
Answer: FALSE
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

2) The simple objective of financial planning is to make the best use of your resources to achieve your financial goals.
Answer: TRUE
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

3) An understanding of personal finance is not necessary to judge the quality of advice that a financial adviser may give.
Answer: FALSE
Diff: 1
Question Status: Carryover
AACSB: Reflective Thinking

4) It is critical to consider the potential financial consequences of personal finance decisions that are financed with credit.
Answer: TRUE
Diff: 2
Question Status: New
AACSB: Application of Knowledge

5) Making good financial decisions increases your wealth and allows you to more easily afford purchases of products or services in the future.
Answer: TRUE
Diff: 2
Question Status: New
AACSB: Application of Knowledge

6) Various government agencies have conducted surveys that show most people have a good understanding of personal finance.
Answer: FALSE
Diff: 1
Question Status: Carryover
AACSB: Reflective Thinking

7) A good understanding of the financial planning process will allow you to make informed decisions without relying on the advice of financial advisers.
Answer: FALSE
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

8) A thorough understanding of this personal finance book qualifies you to become a financial adviser.
Answer: FALSE
Diff: 2
Question Status: Carryover
AACSB: Reflective Thinking

9) Personal finance decisions
A) have limited impact on you today.
B) all have consequences.
C) typically have good outcomes.
D) have consequences that are within your control.
Answer: B
Diff: 1
Question Status: New
AACSB: Application of Knowledge

10) Personal finance does NOT include the process of planning your
A) spending.
B) financing.
C) investing.
D) spirituality.
Answer: D
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

11) Which item is **not** one of the components of a personal financial plan?
A) Educational goals
B) Investing your money
C) Planning your retirement
D) Budgeting
Answer: A
Diff: 1
Question Status: Minor Revision
AACSB: Application of Knowledge

12) A personal financial plan specifies financial goals and describes
A) saving, investing, and asset valuation.
B) spending, saving, and credit card financing.
C) spending, financing, and investment plans.
D) saving and spending only.
Answer: C
Diff: 3
Question Status: Carryover
AACSB: Application of Knowledge

13) All of the following are true with regard to the demand for financial advisers, EXCEPT
A) many people lack an understanding of personal finance.
B) many people prefer to rely on advisers rather than making their own decision.
C) many people are just not interested in making their own financial decisions.
D) only financial advisers can purchase mutual funds for a person's 401(k).
Answer: D
Diff: 2
Question Status: Major Change
AACSB: Application of Knowledge

14) During the four-year period from 2019 through 2022, ________ people in the United States filed for personal bankruptcy.
A) less than 100,000
B) over 5 million
C) more than 2 million
D) approximately 200,000
Answer: C
Diff: 1
Question Status: New
AACSB: Application of Knowledge

15) A first step in achieving your financial goals is to
A) establish a financial plan.
B) increase your income.
C) get a good job.
D) save as much of your income as possible.
Answer: A
Diff: 1
Question Status: New
AACSB: Application of Knowledge

16) Making good personal finance decisions does not require you to be a genius but it does require
A) common sense and discipline.
B) a college degree.
C) the services of a financial advisor.
D) years of experience.
Answer: A
Diff: 2
Question Status: New
AACSB: Application of Knowledge

17) Personal finance information that you find online
A) is accurate since posting false financial information online is illegal.
B) should be used sparingly.
C) may not always be accurate.
D) is rarely accurate.
Answer: C
Diff: 2
Question Status: New
AACSB: Application of Knowledge

18) Which of the following statements is NOT true with respect to personal finance?
A) All personal finance decisions have consequences.
B) Making spending sacrifices today will help you accumulate wealth over time.
C) There is very little difference in financial advisors since they are all licensed.
D) Having a financial plan helps you achieve your goals.
Answer: C
Diff: 2
Question Status: New
AACSB: Application of Knowledge

19) Explain how good personal finance decisions might result in bad outcomes.
Answer: Not all bad outcomes following personal finance decisions are self-induced. There are many types of economic events or medical catastrophes out of your control that can cause financial problems. For example, the COVID pandemic affected the financial futures of millions of people and it was beyond their control.
Diff: 2
Question Status: New
AACSB: Analytical Thinking

1.2 Components of a Financial Plan

1) A complete financial plan consists of budgeting, taxes, financing, and investing.
Answer: FALSE
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

2) If you do not have access to money to cover cash needs, you may have insufficient liquidity.
Answer: TRUE
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

3) Liquidity cannot be enhanced using sound money and credit management.
Answer: FALSE
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

4) Money management decisions include deciding how much credit to obtain to support your spending and what sources of credit to use.
Answer: FALSE
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

5) Credit should be used only when necessary, since it usually involves borrowed funds that you will need to pay back with interest.
Answer: TRUE
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

6) Your financial plan should include a plan for protecting and enhancing your assets and income through carrying excess insurance coverage so you can profit in the event of a loss.
Answer: FALSE
Diff: 1
Question Status: Major Change
AACSB: Application of Knowledge

7) One of the considerations that determines your investment choices is the level of risk you are willing to tolerate.
Answer: TRUE
Diff: 1
Question Status: Carryover
AACSB: Reflective Thinking

8) People do not need to determine how much money to set aside for retirement and how those funds should be invested until they near their retirement age.
Answer: FALSE
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

9) Effective estate planning will ensure that your wealth is distributed according to your wishes, but will do nothing to reduce the potential taxes your estate is subject to.
Answer: FALSE
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

10) Retirement planning should begin
A) as early as possible in order that you accumulate sufficient funds for retirement.
B) as soon as you start working full time.
C) a few years before you plan on retiring.
D) you do not need to plan since Social Security and your firm's pension will be sufficient.
Answer: A
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

11) A measure of your wealth is
A) the current market value of what you own minus the value of what you owe.
B) your marginal tax rate.
C) your annual income.
D) the highest level of education you have attained.
Answer: A
Diff: 2
Question Status: New
AACSB: Application of Knowledge

12) ________ is the process of forecasting future expenses and savings.
A) Budgeting
B) Planning
C) Predicting
D) Fortune-telling
Answer: A
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

13) ________ involves having access to funds to cover any short-term cash needs.
A) Investment
B) Money
C) Liquidity
D) Risk
Answer: C
Diff: 1
Question Status: Minor Change
AACSB: Application of Knowledge

14) ________ management involves decisions regarding how much money to retain in a liquid form and how to allocate funds among short-term investment instruments.
A) Investment
B) Money
C) Credit
D) Liquidity
Answer: B
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

15) ________ management involves decisions regarding how much credit you need to support spending and which sources of credit to use.
A) Investment
B) Money
C) Credit
D) Liquidity
Answer: C
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

16) Which of the following is a credit management decision?
A) Purchasing a used car with cash
B) Investing your savings in the stock market
C) Obtaining a student loan to attend college
D) Putting money into your retirement account
Answer: C
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

17) Which of the following is an example of money management?
A) Putting your money in a savings account at your bank
B) Shopping around for the credit card with the best interest rate
C) Deciding to delay buying a new car until you can pay cash
D) Paying off a loan early to reduce the interest charges
Answer: A
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

18) A plan for ________ is needed to determine how much you could afford to borrow, the length of the loan, and how to select a loan that charges competitive interest rates.
A) buying
B) financing
C) spending
D) saving
Answer: B
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

19) Which of the following is NOT a way that insurance is designed to protect your wealth?
A) Protecting the assets that you own
B) Protecting you from financial loss due to potential liabilities
C) Protecting your income in the event of health issues
D) Protecting your investments from downturns in the stock market
Answer: D
Diff: 2
Question Status: Major Revision
AACSB: Application of Knowledge

20) What is the core purpose of buying insurance?
A) Protect your wealth and assets
B) Make sure you make money on any claim
C) Insurance is an expense a careful investor needs to minimize
D) Make sure you leave an estate when you are gone
Answer: A
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

21) Which of the following does NOT protect your assets and/or income?
A) Money insurance
B) Disability insurance
C) Automobile insurance
D) Life and health insurance
Answer: A
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

22) Potential investments include all of the following instruments, EXCEPT
A) stocks and bonds.
B) mutual funds.
C) real estate.
D) lottery tickets.
Answer: D
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

23) Which of the following would NOT be considered an investment?
A) A membership in a golf or swim club
B) An art collection
C) A savings account
D) A mutual fund of stocks and bonds
Answer: A
Diff: 1
Question Status: Minor Change
AACSB: Reflective Thinking

24) Retirement planning should begin
A) when you retire.
B) shortly after you retire.
C) well before you retire.
D) at any time.
Answer: C
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

25) From a financial standpoint when should a person start retirement planning and saving?
A) When he or she first starts receiving a salary
B) At 45-50 years of age
C) At 50-55 years of age
D) At 55-60 years of age
Answer: A
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

26) Estate planning
A) protects your wealth against unnecessary taxes.
B) shelters your wealth against ALL taxes.
C) ensures that your wealth is distributed in the manner that you determine.
D) A and C are correct.
Answer: D
Diff: 2
Question Status: Major Change
AACSB: Application of Knowledge

27) The act of determining how wealth will be distributed before or upon death is
A) estate planning.
B) retirement planning.
C) not needed for most people.
D) liquidity planning.
Answer: A
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

28) Which of the following is NOT a potential source of cash?
A) Withdraw from savings
B) Work more hours
C) Buy Walmart stock
D) Get a loan
Answer: C
Diff: 1
Question Status: Major Change
AACSB: Application of Knowledge

29) Which of the following is NOT a financing decision?
A) Should you buy Apple stock with savings?
B) Should you borrow on your home equity loan to buy Apple stock?
C) Should you take a loan and buy a car?
D) Should you take a 15- or 30-year mortgage to buy a house?
Answer: A
Diff: 2
Question Status: Major Change
AACSB: Application of Knowledge

30) The income in your budget is NOT affected by
A) your education.
B) your career decisions.
C) the tax laws.
D) the standard of living you experienced as a child.
Answer: D
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

31) Which of the following is NOT a decision involved in managing your liquidity?
A) Deciding how much money to keep in savings
B) Choosing between credit cards
C) Determining how much money to save versus how much to spend
D) Building and maintaining a monthly/yearly budget with allocations to expenses and investments
Answer: B
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

32) Which of the following is NOT a decision involved in managing your financing?
A) Whether to obtain a 3-year versus 4-year loan on a new car
B) Whether to obtain a 15-year versus 30-year loan on a new home
C) Whether to pay off an existing loan
D) Whether to invest income in a savings account or in a stock
Answer: D
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

33) Cash flows are affected by financial planning decisions. Which of the following is NOT correct?
A) Insurance payments are a cash outflow.
B) Investing in stock is a cash outflow.
C) Paying off a loan early is not an outflow since you are reducing a debt.
D) Income is a cash inflow.
Answer: C
Diff: 1
Question Status: Minor Change
AACSB: Application of Knowledge

34) Cash flows are affected by financial planning decisions. Which of the following is correct?
A) Car payments you make are cash outflows.
B) Investments you make in stock are cash inflows.
C) Your routine monthly expenses are cash inflows.
D) Your income is a cash outflow.
Answer: A
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

35) Your financial position is highly influenced by all of the following, NOT
A) the amount of education you pursue.
B) the current pay level you receive.
C) the current economy.
D) the bonus check your best friend just received.
Answer: D
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

36) Your decision about one component of your financial plan can affect all other components. Which statement is true?
A) The amount of life insurance you choose to carry has no effect on your future estate value.
B) There will never be any trade-offs to consider when making decisions about your financial plan.
C) If you make poor investment decisions, you may have to work longer than planned.
D) You should contribute all of your extra money to your retirement account even if it means you don't have money available for products and services today.
Answer: C
Diff: 1
Question Status: Minor Change
AACSB: Application of Knowledge

37) Your ability to access funds to cover any short-term cash deficiencies is your ________.
Answer: liquidity
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

38) ________ is the uncertainty surrounding the potential return on an investment.
Answer: Risk
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

39) During his ________ your Uncle Harvey decides to cut you out of his will.
Answer: estate planning
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

40) Most investments are subject to ________, which is the uncertainty surrounding their potential return.
Answer: risk
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

41) List the six components of a financial plan.
Answer:
(a) Budgeting and tax planning
(b) Managing liquidity
(c) Financing your large purchases
(d) Protecting your assets and income
(e) Investing your money
(f) Planning your retirement and estate
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

1.3 A Process for Making Financial Decisions

1) The first step in making a major financial decision is to determine your most important financial goal.
Answer: TRUE
Diff: 1
Question Status: New
AACSB: Application of Knowledge

2) Goals should be set as high as possible regardless of reality because they may eventually be obtainable.
Answer: FALSE
Diff: 2
Question Status: Carryover
AACSB: Reflective Thinking

3) Goals with a time frame of five or more years into the future are called intermediate-term goals.
Answer: FALSE
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

4) If you set realistic goals rather than unrealistic ones, your plan becomes more useful.
Answer: TRUE
Diff: 1
Question Status: Carryover
AACSB: Reflective Thinking

5) If prepared properly, financial plans are set for life and should not need to be adjusted.
Answer: FALSE
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

6) Which of the following is NOT a reason to set realistic financial goals?
A) So you have something to refer to every time you get paid
B) So you have a high likelihood of achieving them
C) If the goal is too onerous, you will be unwilling to follow the plan.
D) If you fail, you will be discouraged and lose interest in planning.
Answer: A
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

7) Which of the following is NOT a relevant consideration when identifying alternatives for achieving your financial goals?
A) Choosing a large versus small university
B) Pursuing additional education
C) Choosing a state versus private university
D) Choosing a major for study that enhances earning power
Answer: A
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

8) Which of the following goals would be easiest to measure?
A) Reduce debt payments
B) Save funds for an annual vacation
C) Save $100 a month to create a $4,000 emergency fund
D) Invest for a comfortable retirement
Answer: C
Diff: 2
Question Status: Carryover
AACSB: Analytical Thinking

9) By establishing high and unrealistic financial goals, you will probably
A) improve the likelihood of achieving at least some success.
B) become discouraged and lose interest in planning.
C) increase the viability of your plan.
D) impress your spouse or significant other.
Answer: B
Diff: 2
Question Status: Carryover
AACSB: Reflective Thinking

10) Goals with a time frame of between one and five years are classified as
A) short-term.
B) long-term.
C) intermediate term.
D) unrealistic.
Answer: C
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

11) Which of the following would be classified as a short-term goal?
A) Purchasing a house in three years
B) Buying new clothes this month
C) Retiring in ten years
D) Paying for your two-year-old child's college education
Answer: B
Diff: 1
Question Status: Minor Change
AACSB: Application of Knowledge

12) Which of the following would be a long-term goal?
A) Paying off a school loan in three years
B) Purchasing a car within six months
C) Saving enough money to retire in 20 years
D) Paying for two years of college
Answer: C
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

13) If you are interested in achieving a long-term savings goal, then
A) you are not concerned with paying off your current debt.
B) you will try to save a small amount because that is better than saving nothing at all.
C) you will buy a new car because your best friend just bought one.
D) you believe that 'retail therapy' is the answer to your occasional depression.
Answer: B
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

14) Which of the following is the second step in financial decision making?
A) Determine your most immediate financial goal
B) Consider your alternatives
C) Evaluate your current financial position
D) Implement the best strategy for achieving your goal
Answer: C
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

15) The first step in developing your financial plan is
A) establish your financial goals.
B) pay off all your credit cards.
C) buy a cool car then begin saving money.
D) get a good job.
Answer: A
Diff: 2
Question Status: New
AACSB: Application of Knowledge

16) Which of the following would NOT be a factor in evaluating your current financial position?
A) Income
B) Expenses
C) Possible lottery winnings
D) Assets
Answer: C
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

17) Which of the following is NOT a step in developing a financial plan?
A) Establish your financial goals
B) Consider your current financial position
C) Identify and evaluate alternative plans that could achieve your goals
D) Put your plan away for three to five years and then review it for accuracy and progress
Answer: D
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

18) After your financial plan is developed it should be
A) locked away for safe-keeping so it isn't stolen.
B) reviewed every five years.
C) monitored and updated annually.
D) sold to others.
Answer: C
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

19) Your net worth will NOT be increased by which of the following actions?
A) Increasing your savings from 10% to 15% of your earnings
B) Receiving a $100 birthday present from your grandmother
C) Buying a new home entertainment system and putting the entire amount on your credit card
D) Receiving an inheritance
Answer: C
Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

20) The income in your budget is NOT affected by
A) your education.
B) your career decisions.
C) the tax laws.
D) the standard of living you experienced as a child.
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21) Which of the following is NOT a decision involved in managing your liquidity?
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B) Whether to obtain a 15-year versus 30-year loan on a new home
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Question Status: Carryover
AACSB: Application of Knowledge

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Diff: 2
Question Status: Carryover
AACSB: Application of Knowledge

25) Your financial position is highly influenced by all of the following, EXCEPT
A) the amount of education you pursue.
B) the current pay level you receive.
C) the current economy.
D) the bonus check your best friend just received.
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Question Status: Carryover
AACSB: Application of Knowledge

26) Your decision about one component of your financial plan can affect all other components. Which statement is true?
A) The amount of life insurance you choose to carry has no effect on your future estate value.
B) There will never be any trade-offs to consider when making decisions about your financial plan.
C) If you make poor investment decisions, you may have to work longer than planned.
D) You should contribute all of your extra money to your retirement account even if it means you don't have money available for products and services today.
Answer: C
Diff: 1
Question Status: Minor Change
AACSB: Application of Knowledge

27) Jessie has $4,000 in a bank account, $2,800 in a 401(k) plan at work, a car with a current value of $28,000, and a house that she purchased for $92,000 that has a current value of $118,000. The current balance of her home mortgage is $81,000, she has one credit card with a $3,000 balance, and a student loan with a balance of $6,000. What is Jessie's current net worth?
A) $62,800
B) $46,800
C) ($242,800)
D) ($62,800)
Answer: A
Explanation: Assets: $4,000 + $2,800 + $28,000 + $118,000 = $152,800
Liabilities: $3,000 + $81,000 + $6,000 = $90,000
Net worth = $62,800
Diff: 2
Question Status: Carryover
AACSB: Analytical Thinking

28) Jakob received a $1,000-a-year raise in January, sold stocks in March for $6,000 that were originally purchased for $4,000, and in July had a $100 monthly increase in mortgage payments on his adjustable rate mortgage. The increased mortgage payment started in July and was in effect for the remainder of the year. What was the total impact on Jakob's cash flow for the year?
A) $1,000
B) $5,400
C) $6,400
D) $7,600
Answer: C
Explanation:

Raise	$1,000
Sale of stock	$6,000
Increased mortgage payments	(600)
Net cash inflows	$6,400

Diff: 2
Question Status: Carryover
AACSB: Analytical Thinking

29) Opportunity cost refers to
A) money needed for major consumer purchases.
B) what you give up or forego as a result of making a decision.
C) the amount paid for taxes when a purchase is made.
D) evaluating different alternatives for financial decisions.
Answer: B
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge

30) Josh has decided to take a course at the local community college that could help him get a promotion at work. The course begins at 5 p.m. and goes until 9 p.m. on Monday nights. Josh normally works until 5 p.m. each day, but because of the drive time to the community college, he will need to leave work at 3 p.m. on class days. Josh currently earns $18.50 per hour. His employer contributes 10% of Josh's gross earnings to a 401(k) retirement plan. If the class meets 16 times, what is Josh's total before-tax opportunity cost for the class?
A) $592.00
B) $800.00
C) $651.20
D) None
Answer: C
Explanation: 2 hours × $18.50 = $37.00; $37.00 × 10% = $3.70; $37.00 + $3.70 = $40.70/class; $40.70/class × 16 classes = $651.20
Diff: 2
Question Status: Revised Minor Change
AACSB: Analytical Thinking

31) A worker making $20 per hour decides to take a day of unpaid leave from work to attend a graduation ceremony. The worker ordinarily works an 8-hour day and is subjected to a total tax rate of 20%. What is the worker's total opportunity cost from the day of unpaid leave?
A) $8.00
B) $128.00
C) $112.00
D) $160.00
Answer: B
Explanation: ($20 × 8) × (1 - .2) = $128.00
Diff: 2
Question Status: Revised Major Change
AACSB: Analytical Thinking

32) Opportunity cost refers to
A) money needed for major consumer purchases.
B) what you give up or forego as a result of making a decision.
C) the amount paid for taxes when a purchase is made.
D) evaluating different alternatives for financial decisions.
Answer: B
Diff: 1
Question Status: Carryover
AACSB: Application of Knowledge