Personal Finance 15th edition Garman Test Bank

SKU: 9798214057224-TEST-BANK

Chapter 1: Thinking like a Financial Planner

True / False

1. Financial literacy is knowledge of facts, concepts, principles, and tools of money management that are fundamental to being smart about money.
   a. True
   b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	Easy
REFERENCES:	1.1 Achieving Personal Financial Success
QUESTION TYPE:	True / False
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.01 - Recognize the keys to achieving financial success.
KEYWORDS:	Bloom's: Remember

2. Personal finance involves how people spend, save, protect, and invest their financial resources.
   a. True
   b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	Easy
REFERENCES:	1.1 Achieving Personal Financial Success
QUESTION TYPE:	True / False
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.01 - Recognize the keys to achieving financial success.
KEYWORDS:	Bloom's: Remember

3. Financial success is defined as having high wealth.
   a. True
   b. False

ANSWER:	False
POINTS:	1
DIFFICULTY:	Easy
REFERENCES:	1.1 Achieving Personal Financial Success
QUESTION TYPE:	True / False
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.01 - Recognize the keys to achieving financial success.
KEYWORDS:	Bloom's: Remember

4. Financial security is defined as having a high income.
   a. True
   b. False

ANSWER:	False
POINTS:	1
DIFFICULTY:	Easy
REFERENCES:	1.1 Achieving Personal Financial Success
QUESTION TYPE:	True / False
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.01 - Recognize the keys to achieving financial success.

KEYWORDS: Bloom's: Remember

5. People who save and invest are much more likely to have funds for future consumption.
   a. True
   b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
REFERENCES: 1.1 Achieving Personal Financial Success
QUESTION TYPE: True / False
LEARNING OBJECTIVES: PFIN.GARMAN.27.01.01 - Recognize the keys to achieving financial success.
KEYWORDS: Bloom's: Remember

6. Standard of living refers to an individual's level of spending and consumption.
   a. True
   b. False

ANSWER: False
POINTS: 1
DIFFICULTY: Easy
REFERENCES: 1.1 Achieving Personal Financial Success
QUESTION TYPE: True / False
LEARNING OBJECTIVES: PFIN.GARMAN.27.01.01 - Recognize the keys to achieving financial success.
KEYWORDS: Bloom's: Remember

7. Standard of living is what individuals or groups aspire to attain, and level of living is the level of wealth, comfort, materials goods, and necessities one is currently living with.
   a. True
   b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
REFERENCES: 1.1 Achieving Personal Financial Success
QUESTION TYPE: True / False
LEARNING OBJECTIVES: PFIN.GARMAN.27.01.01 - Recognize the keys to achieving financial success.
KEYWORDS: Bloom's: Remember

8. Financial security or wealth requires you to spend less than you earn.
   a. True
   b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Moderate
REFERENCES: 1.1 Achieving Personal Financial Success
QUESTION TYPE: True / False
LEARNING OBJECTIVES: PFIN.GARMAN.27.01.01 - Recognize the keys to achieving financial success.

KEYWORDS: Bloom's: Understand

9. A business cycle is a wavelike pattern of economic activity that includes an expansion, peak, contraction, and trough.
   a. True
   b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
REFERENCES: 1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE: True / False
LEARNING OBJECTIVES: PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS: Bloom's: Remember

10. The expansion phase is the preferred stage of the economic cycle.
   a. True
   b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
REFERENCES: 1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE: True / False
LEARNING OBJECTIVES: PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS: Bloom's: Remember

11. As it is impossible to make precise forecasts about economic trends, we can ignore inflation and interest rates when planning our finances.
   a. True
   b. False

ANSWER: False
POINTS: 1
DIFFICULTY: Moderate
REFERENCES: 1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE: True / False
LEARNING OBJECTIVES: PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS: Bloom's: Understand

12. The gross domestic product broadly measures the nation's economic health.
   a. True
   b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy

REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	True / False
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Understand

13. Procyclical economic indicators move in the same direction as the economy.
    a. True
    b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	Easy
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	True / False
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Remember

14. The index of leading economic indicators is a composite index reported monthly that suggests the future direction of the U.S. economy.
    a. True
    b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	Easy
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	True / False
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Understand

15. Leading economic indicators are relied upon to measure the state of the economy at any point in time.
    a. True
    b. False

ANSWER:	False
POINTS:	1
DIFFICULTY:	Easy
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	True / False
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Understand

16. An example of inflation is an increase in the price of coffee, gasoline, or other commodities.
    a. True

b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	True / False
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Understand

17. A steady rise in the general level of prices is called inflation.

a. True

b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	Easy
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	True / False
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Remember

18. Deflation is a period of declining prices.

a. True

b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	Easy
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	True / False
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Understand

19. Deflation occurs in an economy when there is an expansion in the money supply.

a. True

b. False

ANSWER:	False
POINTS:	1
DIFFICULTY:	Challenging
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	True / False
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Understand

20. The amount of goods and services that one's income will buy is called purchasing power.
    a. True
    b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	Easy
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	True / False
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Remember

21. Retirees or others on fixed incomes suffer during times of moderate to high inflation.
    a. True
    b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	Easy
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	True / False
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Understand

22. Nominal income is adjusted for inflation and thus reflects the actual purchasing power of one's income.
    a. True
    b. False

ANSWER:	False
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	True / False
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Understand

23. In times of high inflation, personal incomes generally keep up with the inflation rate.
    a. True
    b. False

ANSWER:	False
POINTS:	1
DIFFICULTY:	Easy
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	True / False

LEARNING OBJECTIVES: PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS: Bloom's: Understand

24. The consumer price index is a broad measure of price changes in all goods and services purchased for consumption by urban households.
    a. True
    b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
REFERENCES: 1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE: True / False
LEARNING OBJECTIVES: PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS: Bloom's: Remember

25. The term interest refers to the price of borrowing money.
    a. True
    b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
REFERENCES: 1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE: True / False
LEARNING OBJECTIVES: PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS: Bloom's: Remember

26. Interest rates on home mortgages and other loans tend to fall during high inflation.
    a. True
    b. False

ANSWER: False
POINTS: 1
DIFFICULTY: Moderate
REFERENCES: 1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE: True / False
LEARNING OBJECTIVES: PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS: Bloom's: Understand

27. All things considered, a saver who earns 4 percent interest on a savings account when the rate of inflation is 4 percent is losing real purchasing power.
    a. True
    b. False

ANSWER: True

POINTS:	1
DIFFICULTY:	Challenging
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	True / False
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Understand

28. Smart investors recognize that inflation risk is higher for long-term lending than for short-term lending.
    a. True
    b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	Easy
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	True / False
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Understand

29. Interest rates earned on short-term investments are generally lower than those earned on longer-term investments.
    a. True
    b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	True / False
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Understand

30. The rate of interest and the inflation rate generally move in the same directions; when one goes up, the other also goes up.
    a. True
    b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	True / False
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Understand

31. When one forgoes buying a new TV because they spend the money on college books, the TV is the opportunity cost of buying the books.
    a. True
    b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	Easy
REFERENCES:	1.3 Apply Economic Concepts in Financial Decisions
QUESTION TYPE:	True / False
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.03 - Apply economic concepts in financial decisions.
KEYWORDS:	Bloom's: Understand

32. By considering opportunity costs, we can optimize our financial decisions.
    a. True
    b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	Easy
REFERENCES:	1.3 Apply Economic Concepts in Financial Decisions
QUESTION TYPE:	True / False
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.03 - Apply economic concepts in financial decisions.
KEYWORDS:	Bloom's: Understand

33. The opportunity cost of a decision is the value of the next best alternative that must be foregone and addresses the personal consequences of choices.
    a. True
    b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	Easy
REFERENCES:	1.3 Apply Economic Concepts in Financial Decisions
QUESTION TYPE:	True / False
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.03 - Apply economic concepts in financial decisions.
KEYWORDS:	Bloom's: Understand

34. Marginal cost is the additional cost of one more unit of something.
    a. True
    b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	Easy
REFERENCES:	1.3 Apply Economic Concepts in Financial Decisions
QUESTION TYPE:	True / False
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.03 - Apply economic concepts in financial decisions.
KEYWORDS:	Bloom's: Understand

35. According to economic theory, people will seek additional utility if marginal utility exceeds marginal cost.
    a. True
    b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.3 Apply Economic Concepts in Financial Decisions
QUESTION TYPE:	True / False
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.03 - Apply economic concepts in financial decisions.
KEYWORDS:	Bloom's: Understand

36. One's average federal income tax rate is generally equal to one's marginal tax rate.
    a. True
    b. False

ANSWER:	False
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.3 Apply Economic Concepts in Financial Decisions
QUESTION TYPE:	True / False
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.03 - Apply economic concepts in financial decisions.
KEYWORDS:	Bloom's: Understand

37. Simple interest is the interest computed on the principal only, without adding the interest to the principal to determine future interest.
    a. True
    b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.4 Perform Time Value of Money Calculations
QUESTION TYPE:	True / False
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.04 - Perform time value of money calculations in personal financial decision making.
KEYWORDS:	Bloom's: Remember

38. Compounding occurs when interest earned is added to the principal so that, from that moment on, the added interest also earns interest.
    a. True
    b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	Easy
REFERENCES:	1.4 Perform Time Value of Money Calculations
QUESTION TYPE:	True / False

LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.04 - Perform time value of money calculations in personal financial decision making.
KEYWORDS:	Bloom's: Understand

39. Earning interest on interest is the effect of compounding.
   a. True
   b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.4 Perform Time Value of Money Calculations
QUESTION TYPE:	True / False
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.04 - Perform time value of money calculations in personal financial decision making.
KEYWORDS:	Bloom's: Remember

40. Compounding is the basis for all time value of money considerations.
   a. True
   b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	Easy
REFERENCES:	1.4 Perform Time Value of Money Calculations
QUESTION TYPE:	True / False
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.04 - Perform time value of money calculations in personal financial decision making.
KEYWORDS:	Bloom's: Remember

41. Future value is the valuation of an asset at some future date.
   a. True
   b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	Easy
REFERENCES:	1.4 Perform Time Value of Money Calculations
QUESTION TYPE:	True / False
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.04 - Perform time value of money calculations in personal financial decision making.
KEYWORDS:	Bloom's: Remember

42. Present value is the current value of an asset (or stream of assets) of a future value (or stream of assets) to be received on a future date.
   a. True
   b. False

ANSWER:	True

POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.4 Perform Time Value of Money Calculations
QUESTION TYPE:	True / False
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.04 - Perform time value of money calculations in personal financial decision making.
KEYWORDS:	Bloom’s: Understand

43. Financial well-being is a state in which a person can feel secure in their financial future.
 a. True
 b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	Easy
REFERENCES:	1.1 Recognize the Keys to Achieving Financial Success
QUESTION TYPE:	True / False
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.01 - Recognize the keys to achieving financial success.
KEYWORDS:	Bloom’s: Remember

44. Capitalism defines the U.S. economy.
 a. True
 b. False

ANSWER:	True
POINTS:	1
DIFFICULTY:	Easy
REFERENCES:	1.2 Understand How the Economy Affects Our Personal Financial Success
QUESTION TYPE:	True / False
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom’s: Remember

Multiple Choice

45. What aspect or aspects does the study of personal finance entail?
 a. How people spend their financial resources
 b. How people save their financial resources
 c. How people invest their financial resources
 d. How people spend their financial resources, save their financial resources and invest their financial resources.

ANSWER:	d
RATIONALE:	Personal finance is the study of how individuals spend, save, and invest financial resources. It also includes how they protect those financial resources.
POINTS:	1
DIFFICULTY:	Easy
REFERENCES:	1.1 Achieving Personal Financial Success
QUESTION TYPE:	Multiple Choice

LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.01 - Recognize the keys to achieving financial success.
KEYWORDS:	Bloom’s: Understand

46. Drew and Alex are saving monthly to buy a home, but they are currently renting an apartment. What is the apartment considered to be a part of?

a. Their standard of living
b. Their level of living
c. Their savings
d. Personal inflation rate

ANSWER:	b
RATIONALE:	The level of living is wealth, comfort, material goods, and necessities one is currently experiencing. The apartment represents their current living rather than where they would like to live.
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.1 Achieving Personal Financial Success
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.01 - Recognize the keys to achieving financial success.
KEYWORDS:	Bloom’s: Understand

47. To achieve one's financial objectives, it is necessary to restrain from which of the following?

a. Current consumption
b. Savings
c. Investment
d. Future earnings

ANSWER:	a
RATIONALE:	Financial success requires one to spend less than is earned.
POINTS:	1
DIFFICULTY:	Easy
REFERENCES:	1.1 Achieving Personal Financial Success
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.01 - Recognize the keys to achieving financial success.
KEYWORDS:	Bloom’s: Remember

48. How is financial success defined?

a. As the achievement of a financially secure retirement
b. As the achievement of desired, planned, or attempted financial aspirations
c. As the achievement of vast wealth
d. As the achievement of a comfortable lifestyle

ANSWER:	b
RATIONALE:	Not everyone describes success as being wealthy.
POINTS:	1
DIFFICULTY:	Easy
REFERENCES:	1.1 Achieving Personal Financial Success
QUESTION TYPE:	Multiple Choice

LEARNING OBJECTIVES: PFIN.GARMAN.27.01.01 - Recognize the keys to achieving financial success.
KEYWORDS: Bloom's: Understand

49. Which of the following should be the easiest for a person to forecast?
    a. Interest rates
    b. Inflation
    c. Income
    d. Economic growth

ANSWER: c
RATIONALE: Interest rates, inflation, and economic growth are beyond one's control.
POINTS: 1
DIFFICULTY: Moderate
REFERENCES: 1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE: Multiple Choice
LEARNING OBJECTIVES: PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS: Bloom's: Understand

50. Which of the following is the preferred phase of the economic cycle?
    a. Expansion
    b. Peak
    c. Trough
    d. Contraction

ANSWER: a
RATIONALE: Expansion is when the economy grows and interest rates, inflation, and unemployment are low.
POINTS: 1
DIFFICULTY: Easy
REFERENCES: 1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE: Multiple Choice
LEARNING OBJECTIVES: PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS: Bloom's: Understand

51. Which of the following is high during a period of expansion?
    a. Unemployment
    b. Inflation
    c. Interest rates
    d. Retail sales

ANSWER: d
RATIONALE: Unemployment, inflation, and interest rates are usually low during expansion.
POINTS: 1
DIFFICULTY: Moderate
REFERENCES: 1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE: Multiple Choice

LEARNING OBJECTIVES: PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS: Bloom's: Understand

52. Which economic phase makes it easy for consumers to buy homes, cars, and other goods?
   a. Expansion
   b. Trough
   c. Peak
   d. Contraction

ANSWER: a
RATIONALE: This is due to low interest rates and inflation during expansion.
POINTS: 1
DIFFICULTY: Easy
REFERENCES: 1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE: Multiple Choice
LEARNING OBJECTIVES: PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS: Bloom's: Understand

53. Interest rates and inflation rise at what phase of the economic cycle?
   a. Expansion
   b. Peak
   c. Contraction
   d. Trough

ANSWER: b
RATIONALE: The peak stage of the business cycle puts pressure on prices and interest rates.
POINTS: 1
DIFFICULTY: Moderate
REFERENCES: 1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE: Multiple Choice
LEARNING OBJECTIVES: PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS: Bloom's: Understand

54. Which of the following statements is correct?
   a. Long-term interest rates are generally higher than short-term interest rates.
   b. Stock market investors are positively affected when inflation rises.
   c. The degree of inflation risk is higher for short-term lending.
   d. During times of high inflation, interest rates for cars, home loans, and credit cards fall.

ANSWER: a
RATIONALE: Long-term rates are usually higher than short-term rates because lenders are less able to make accurate predictions about inflation.
POINTS: 1
DIFFICULTY: Moderate
REFERENCES: 1.2 The Economy Affects Our Personal Financial Success

Chapter 1: Thinking like a Financial Planner

QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Understand

55. The Great Recession began in 2007. How long did it last?
   a. 18 months
   b. 12 months
   c. Four years
   d. Continues to this day

ANSWER:	a
RATIONALE:	The Great Recession lasted 18 months with slow growth for four to five more years.
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Remember

56. Stock prices tend to be lower, making it a good time to invest in stocks, when the economy is
   a. in the prosperity of the expansion stage.
   b. in the trough of a recession.
   c. in a depression.
   d. entering the recovery stage.

ANSWER:	b
RATIONALE:	Stock prices are lowest at this point and poised for a rebound.
POINTS:	1
DIFFICULTY:	Challenging
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Understand

57. Which of the following helps to understand the future direction of the economy?
   a. Interest rates and inflation
   b. Interest rates and the gross domestic product
   c. The consumer confidence index and the index of leading economic indicators
   d. Inflation and the index of leading economic indicators

ANSWER:	c
RATIONALE:	Of the choices offered, only the consumer confidence index and the index of leading economic indicators includes statistics that predict the future direction of the economy.
POINTS:	1
DIFFICULTY:	Challenging

REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Remember

58. Which of the following measures the value of all goods and services produced in the United States?

a. Consumer price index

b. Index of leading economic indicators

c. Federal funds rate

d. Gross domestic product

ANSWER:	d
RATIONALE:	The consumer price index, index of leading economic indicators, and the federal funds rate, provide important information but do not measure the value of goods and services produced.
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Remember

59. Which of the following economic indicators tends to move in the opposite direction of where the economy is headed?

a. Procyclical indicators

b. Employment rate

c. Gross domestic product

d. Countercyclical indicators

ANSWER:	d
RATIONALE:	Procyclical indicators, the employment rate, and the gross domestic product tend to move in the same direction as the economy.
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Remember

60. Cameron Palmer received a $2,500 raise this year. This raise increased his salary as an associate TV producer from $50,000 to $52,500. What percentage increase in nominal income did Cameron receive?

a. 2.5 percent

b. 5.9 percent

c. 5.0 percent

d. 7.8 percent

ANSWER:	c

RATIONALE:	52,500 – 50,000/50,000 × 100 = 5%
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Apply

61. Jeremiah and Jasmine's family income increased from $60,000 to $63,600 in the past year. Inflation was 2 percent over the same time period. Which of the following is true regarding Jeremiah and Jasmine's income?

a. Their nominal income increased 6 percent.

b. Their nominal income increased 5 percent.

c. Their real income decreased 2 percent.

d. Their real income decreased 5 percent.

ANSWER:	a
RATIONALE:	63,600 – 60,000/60,000 × 100 = 6%
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Apply

62. Jeremiah and Jasmine's family income increased from $60,000 to $63,600 in the past year. Inflation was 2 percent over the same time period. How much is Jeremiah and Jasmine's real income after the $3,600 increase in income?

a. $62,353

b. $61,765

c. $60,000

d. $58,824

ANSWER:	a
RATIONALE:	$63,600 / (1.0 + 0.02) = 62,353
POINTS:	1
DIFFICULTY:	Challenging
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Apply

63. If your income increased from $21,000 to $26,000 during a period when the rate of inflation was 4 percent, your real income after the raise was

a. $23,000.

b. $24,000.

c. $25,000.
d. $26,000

ANSWER:	c
RATIONALE:	$26,000 / (1 + 0.04) = 25,000
POINTS:	1
DIFFICULTY:	Challenging
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Apply

64. Makayla, a college teaching assistant, received a raise of $800 from $18,000 to $18,800 this year. If inflation was 3 percent over the same period, which of the following is true?
a. Makayla's increase in real income was $800.
b. Makayla's increase in real income was 4.4 percent.
c. Makayla's increase in real income was $252.
d. Makayla's decrease in real income was $252.

ANSWER:	c
RATIONALE:	($18,800 / 1.03) − $18,000 = 252
POINTS:	1
DIFFICULTY:	Challenging
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Apply

65. The U.S. government measures inflation using which of the following?
a. Gross domestic product
b. Index of leading economic indicators
c. Consumer confidence index
d. Consumer price index

ANSWER:	d
RATIONALE:	The CPI measures the price changes in a representative market basket of goods and services that households purchase.
POINTS:	1
DIFFICULTY:	Easy
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Remember

66. If the consumer price index was 259 in 2020 and 297 in 2022, how much did prices increase during this time period?

a. 4.9 percent
b. 1.2 percent
c. 16 percent
d. 15 percent

ANSWER:	d
RATIONALE:	(297 − 259) / 259 = 15%
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Apply

67. If the consumer price index was 100 in 1984 and 297 in 2022, how much did prices increase during this period?
a. 36 percent
b. 72 percent
c. 144 percent
d. 197 percent

ANSWER:	d
RATIONALE:	(297 − 100) / 100 = 197%
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Apply

68. If the consumer price index was 100 in 1987 and 297 in the current year, the purchasing power of the dollar
a. fell 144 percent.
b. fell 66 percent.
c. rose 144 percent.
d. rose 59 percent.

ANSWER:	b
RATIONALE:	1.0 − (100 / 297) = 66.3%
POINTS:	1
DIFFICULTY:	Challenging
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Apply

69. What is the rate of increase in prices of items purchased by a particular individual called?

a. Personal inflation rate
b. Consumer confidence index
c. Federal funds rate
d. Consumer price index

ANSWER:	a
RATIONALE:	The consumer confidence index, the federal funds rate, and the consumer price index, are statistics that measure economic information for the entire country.
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Remember

70. In the current year Rashad earned $48,000. If inflation was 3.5 percent that year and continued at that rate, how long would it take for the purchasing power of that level of income to be cut in half?

a. 57 years
b. 24 years
c. 20 years
d. 10 years

ANSWER:	c
RATIONALE:	70 / 3.5 = 20; based on the Rule of 70.
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Apply

71. A rising inflation rate is good news for which of the following groups?

a. Stock investors
b. Borrowers
c. Savers
d. Lenders

ANSWER:	b
RATIONALE:	Borrowers will pay back their loans with dollars that are worth less.
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Understand

72. Which interest rate is important to focus on when trying to forecast interest rate trends in the future?
   a. Prime rate
   b. Federal funds rate
   c. Discount rate
   d. Mortgage rate

ANSWER: b
RATIONALE: The federal funds rate is the driver for all the other interest rates.
POINTS: 1
DIFFICULTY: Moderate
REFERENCES: 1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE: Multiple Choice
LEARNING OBJECTIVES: PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS: Bloom's: Understand

73. Which of the following explains why rising interest rates generally depress stock prices?
   a. Businesses have to pay higher interest rates to borrow money, thus reducing their profits.
   b. Stock investors tend to take their money out of the stock market and invest in interest-paying investments.
   c. Future earnings will not be worth as much as today.
   d. Businesses have to pay higher interest rates to borrow money, stock investors tend to take their money out of the stock market and invest in interest-paying investments, and future earnings will not be worth as much as today.

ANSWER: d
RATIONALE: High interest rates put a substantial damper on economic activity across the board.
POINTS: 1
DIFFICULTY: Challenging
REFERENCES: 1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE: Multiple Choice
LEARNING OBJECTIVES: PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS: Bloom's: Understand

74. Jamal spent $300 on some new clothes rather than using this money to go to his college team's away game last weekend. The benefits of attending the game are which type of cost?
   a. Marginal
   b. Utility
   c. Opportunity
   d. Present

ANSWER: c
RATIONALE: Buying the clothing precluded his ability to take the trip.
POINTS: 1
DIFFICULTY: Moderate
REFERENCES: 1.3 Apply Economic Concepts in Financial Decisions
QUESTION TYPE: Multiple Choice

LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.03 - Apply economic concepts in financial decisions.
KEYWORDS:	Bloom’s: Understand

75. Braxton and Kaih are shopping for their first home. They have found two houses that are nearly identical except for their locations. One house costs $250,000 and is 15 miles from their places of employment. The second house costs $275,000, but it is within five miles of their work. Now Braxton and Kaih are trying to decide if living 10 miles closer to their workplaces is worth the extra $25,000 in the house cost. Which decision-making concept are they using?

a. Opportunity cost
b. Marginal analysis
c. Time value of money
d. Total utility

ANSWER:	b
RATIONALE:	Comparing the relative costs and benefits of a purchase uses marginal analysis.
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.3 Apply Economic Concepts in Financial Decisions
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.03 - Apply economic concepts in financial decisions.
KEYWORDS:	Bloom’s: Apply

76. Brandon is going to purchase a hi-def, flat-screen TV. He has decided on everything except the screen size. The unit with the 50-inch screen costs $300, while the unit with the 55-inch screen costs $450. In making this decision, which concept should Brandon use?

a. Marginal utility
b. Time value of money
c. Total utility
d. Marginal tax rates

ANSWER:	a
RATIONALE:	The $150 additional (marginal) cost must be compared to the additional (marginal) utility of the larger screen.
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.3 Apply Economic Concepts in Financial Decisions
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.03 - Apply economic concepts in financial decisions.
KEYWORDS:	Bloom’s: Apply

77. Daniel just received a $2,000 end-of-year bonus from his employer. Suppose he pays a 22 percent marginal tax rate for federal income taxes, his state income tax is 5 percent, and the Social Security and Medicare tax rate is 7.65 percent. Approximately, how much of the $2,000 bonus will Daniel have left to spend on holiday gifts?

a. $2,000
b. $1,400
c. $1,307
d. $753

ANSWER:	c
RATIONALE:	$2,000 x (1.0 − 0.22 − 0.05 − 0.07650) = 1,307

POINTS:	1
DIFFICULTY:	Challenging
REFERENCES:	1.3 Apply Economic Concepts in Financial Decisions
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.03 - Apply economic concepts in financial decisions.
KEYWORDS:	Bloom's: Apply

78. Demarcus is a college student who has $5,000 in savings that he earned from his summer job. He plans to leave the $5,000 in a 6 percent certificate of deposit (CD) for three years, but his banker has asked Demarcus whether he wants the interest earned on the CD mailed to him at the end of each year or reinvested in the CD. Approximately how much more will Demarcus earn if he decides to reinvest the interest rather than withdraw the interest income each year?

a. $52

b. $55

c. $300

d. $955

ANSWER:	b
RATIONALE:	[(5,000 × 1.06 × 1.06 × 1.06) - 5,000] - (5,000 × 0.06 × 3) = 55.08
POINTS:	1
DIFFICULTY:	Challenging
REFERENCES:	1.4 Perform Time Value of Money Calculations
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.04 - Perform time value of money calculations in personal financial decision making.
KEYWORDS:	Bloom's: Apply

79. Grandma Wiley has just put $10,000 into an investment earning 6 percent a year for her grandson's college education. How much will be in the account in 10 years, assuming all the interest remains in the account?

a. $19,200

b. $21,490

c. $17,908

d. $21,259

ANSWER:	c
RATIONALE:	$10,000 × 1.7908 = 17,908 from Appendix A.1 or $10,000 × 1.06^10 = 17,908
POINTS:	1
DIFFICULTY:	Challenging
REFERENCES:	1.4 Perform Time Value of Money Calculations
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.04 - Perform time value of money calculations in personal financial decision making.
KEYWORDS:	Bloom's: Apply

80. Diamond and Roberto just won $10,000 in the Pennsylvania state lottery. They now decide to spend $3,000 and put the remaining $7,000 in an investment earning 8 percent compounded annually. If they use the money in that investment for a vacation in five years, approximately how much will they have available to spend on that vacation?

a. $14,693

b. $10,342
c. $10,285
d. $9,800

ANSWER: c
RATIONALE: $7,000 × 1.4693 = 10,285 from Appendix A.1 or $7,000 × 1.08^5 = 10,285
POINTS: 1
DIFFICULTY: Challenging
REFERENCES: 1.4 Perform Time Value of Money Calculations
QUESTION TYPE: Multiple Choice
LEARNING OBJECTIVES: PFIN.GARMAN.27.01.04 - Perform time value of money calculations in personal financial decision making.
KEYWORDS: Bloom’s: Apply

81. Housing values are appreciating at a rate of 3 percent a year. How much will your $100,000 house be worth in 10 years if this appreciation rate continues?

a. $134,390
b. $146,320
c. $155,080
d. $174,410

ANSWER: a
RATIONALE: $100,000 × 1.3439 = 134,390 from Appendix A.1 or $100,000 × 1.03^10 = 134,392
POINTS: 1
DIFFICULTY: Moderate
REFERENCES: 1.4 Perform Time Value of Money Calculations
QUESTION TYPE: Multiple Choice
LEARNING OBJECTIVES: PFIN.GARMAN.27.01.04 - Perform time value of money calculations in personal financial decision making.
KEYWORDS: Bloom’s: Apply

82. Sanjay invested $10,000 in a security that will double in value in eight years. Approximately what annual rate of return is this investment making?

a. 9.0 percent
b. 7.2 percent
c. 6.3 percent
d. 5.8 percent

ANSWER: a
RATIONALE: 72 / 8 years = 9 percent, based on the Rule of 72
POINTS: 1
DIFFICULTY: Moderate
REFERENCES: 1.4 Perform Time Value of Money Calculations
QUESTION TYPE: Multiple Choice
LEARNING OBJECTIVES: PFIN.GARMAN.27.01.04 - Perform time value of money calculations in personal financial decision making.
KEYWORDS: Bloom’s: Apply

83. The price of houses has been increasing at an annual rate of 6 percent nationally. How many years will it take for costs to double at this rate?

a. 7

b. 12

c. 15

d. 18

ANSWER:	b
RATIONALE:	72 / 6 percent = 12 years, based on the Rule of 72
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.4 Perform Time Value of Money Calculations
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.04 - Perform time value of money calculations in personal financial decision making.
KEYWORDS:	Bloom's: Apply

84. Alyssa has the opportunity to receive $15,000 now or $18,000 in four years. If Alyssa can earn 6 percent on her investments, what is the present value of the $18,000 payment?

a. $15,000

b. $13,785

c. $11,881

d. $14,258

ANSWER:	d
RATIONALE:	$18,000 × 0.7921 = 14,258 from Appendix A.2 or $18,000 / 1.2625 = 14,263 from Appendix A.1
POINTS:	1
DIFFICULTY:	Challenging
REFERENCES:	1.4 Perform Time Value of Money Calculations
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.04 - Perform time value of money calculations in personal financial decision making.
KEYWORDS:	Bloom's: Apply

85. What is the current value of an asset to be received in the future?

a. Present value

b. Future value

c. A benefit

d. Inflation

ANSWER:	a
RATIONALE:	The present value is also called the discounted value.
POINTS:	1
DIFFICULTY:	Easy
REFERENCES:	1.4 Perform Time Value of Money Calculations
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.04 - Perform time value of money calculations in personal financial

decision making.
KEYWORDS: Bloom's: Remember

86. Which of the following describes the present value of a stream of payments?
    a. Inflated
    b. Estimated
    c. Future
    d. Current

ANSWER: d
RATIONALE: The present value of an annuity is the current value of a series of payments.
POINTS: 1
DIFFICULTY: Moderate
REFERENCES: 1.4 Perform Time Value of Money Calculations
QUESTION TYPE: Multiple Choice
LEARNING OBJECTIVES: PFIN.GARMAN.27.01.04 - Perform time value of money calculations in personal financial decision making.
KEYWORDS: Bloom's: Understand

87. What is stagnant economic growth and high unemployment accompanied by rising prices called?
    a. Stagflation
    b. Deleveraging
    c. Implosion
    d. Inversion

ANSWER: a
RATIONALE: Stagflation is particularly bad because wage increases cannot keep up with inflation.
POINTS: 1
DIFFICULTY: Moderate
REFERENCES: 1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE: Multiple Choice
LEARNING OBJECTIVES: PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS: Bloom's: Remember

88. Which of the following terms describes a period when credit usage shrinks?
    a. Leveraging
    b. Deleveraging
    c. Compounding
    d. Tax-sheltering

ANSWER: b
RATIONALE: People recognize that borrowed funds may be difficult to repay during a recession.
POINTS: 1
DIFFICULTY: Moderate
REFERENCES: 1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE: Multiple Choice

LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Remember

89. Occasionally, the economy will dip into recession, emerge from the recession with a brief period of growth, then fall back into recession. What is this phenomenon called?

a. Depression

b. Recession

c. Double dip recession

d. Stagflation

ANSWER:	c
RATIONALE:	Double dip recession can occur due to weak wages and demand in a slow growth expansion.
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Remember

90. What is a method that compares cash flows across time, either as what a future cash flow is worth today (present value) or what an investment made today will be worth in the future (future value) called?

a. Time-value of money

b. Compounding

c. Simple interest

d. Marginal analysis

ANSWER:	a
RATIONALE:	The time value of money concept recognizes that money received at differing points cannot be compared directly.
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.4 Perform Time Value of Money Calculations
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.04 - Perform time value of money calculations in personal financial decision making.
KEYWORDS:	Bloom's: Remember

91. Tyler's pay raise was $3,500 in the past year. Inflation was 4 percent over the same time period. How much is Tyler's pay raise in real income?

a. $3,500

b. $3,365

c. $4,015

d. $835

ANSWER:	b
RATIONALE:	$3,500 / (1.0 + 0.04) = 3,365

POINTS:	1
DIFFICULTY:	Challenging
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Apply

92. Jackson Corporation's sales for the current year were $5 million. If sales increase by 10 percent per year, what will sales be in five years?

a. $8.053 million
b. $13.75 million
c. $11.52 million
d. $10 million

ANSWER:	a
RATIONALE:	5 × 1.6105 = 8.053 from Appendix A.1
POINTS:	1
DIFFICULTY:	Challenging
REFERENCES:	1.4 Perform Time Value of Money Calculations
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.04 - Perform time value of money calculations in personal financial decision making.
KEYWORDS:	Bloom's: Apply

93. Which action would best help someone who lives paycheck-to-paycheck improve long-term financial stability?

a. Refinancing credit-card debt into a single lower monthly payment
b. Tracking spending to identify savings opportunities
c. Applying for a higher-limit credit card to manage cash flow
d. Delaying student-loan payments to free up income

ANSWER:	b
RATIONALE:	Tracking spending builds awareness and control, a key step in the financial planning process. It addresses the root cause of financial instability by helping individuals identify areas to reduce expenses.
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.1 Achieving Personal Financial Success
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.01 - Recognize the keys to achieving financial success.
KEYWORDS:	Bloom's: Apply

94. During the early stage of an economic expansion, job growth and consumer confidence are rising while interest rates remain relatively low. If a household is deciding whether to take out a fixed-rate loan for home improvements, which decision best reflects an understanding of typical economic conditions during the business cycle?

a. Wait to borrow until the expansion matures because interest rates usually fall further later in the cycle.
b. Borrow now at a fixed rate before stronger growth leads to higher rates later in the expansion.

c. Delay borrowing until unemployment rises again and credit will be more available.

d. Avoid all borrowing during expansions because inflation always increases.

ANSWER:	b
RATIONALE:	At the start of an expansion, interest rates are generally still low, but they tend to rise as the economy strengthens. Borrowing earlier at a fixed rate allows households to lock in favorable financing before rates increase.
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Apply

95. During a recession, consumer spending and business investment are falling, and unemployment is rising. A policymaker who supports Keynesian economic principles would most likely recommend which policy action?

a. Cutting government spending to reduce the budget deficit

b. Increasing government spending to encourage demand and job growth

c. Reducing money supply to slow inflation

d. Raising taxes on individuals to balance the budget

ANSWER:	b
RATIONALE:	Keynesians advocate stimulus spending during recessions to boost demand and employment, even if it increases temporary deficits.
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Analyze

96. If a savings account earns 3 percent annual interest while inflation is 4 percent, what happens to the saver's purchasing power?

a. It declines because prices are rising faster than the saver's earnings.

b. It increases because interest income always adds to wealth.

c. It stays about the same because the rates are nearly equal.

d. It depends on the taxpayer's marginal tax rate.

ANSWER:	a
RATIONALE:	When inflation exceeds the nominal interest rate, the saver experiences a loss in real purchasing power because average prices rise faster than savings grow.
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial

	success.
KEYWORDS:	Bloom's: Apply

97. Javier earned $47,000 last year and $48,600 this year while inflation was 4 percent. To maintain his real purchasing power, approximately how much of a raise would he have needed?

a. $1,944
b. $1,600
c. $1,880
d. $1,601

ANSWER:	c
RATIONALE:	To keep pace with 4% inflation, Javier's salary must rise to $47,000 × 1.04 = 48,880. Subtracting his previous salary from this target amount shows that he would need a raise of 1,880 to maintain constant purchasing power.
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.2 The Economy Affects Our Personal Financial Success
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.02 - Understand how the economy affects our personal financial success.
KEYWORDS:	Bloom's: Apply

98. Laila is deciding between taking an unpaid internship that could lead to a full-time job later or working a summer job that pays income. What is the opportunity cost of accepting the internship?

a. The cost of commuting to and from the internship
b. The potential to gain full-time employment after graduation
c. The income she would have earned from the summer job
d. The professional experience and networking opportunities the internship provides

ANSWER:	c
RATIONALE:	The opportunity cost of any decision is the value of the next-best alternative that must be forgone. In this case, the opportunity cost is the income she gives up by not working the summer job.
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.3 Apply Economic Concepts in Financial Decisions
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.03 - Apply economic concepts in financial decisions.
KEYWORDS:	Bloom's: Apply

99. Sanjay considers upgrading his laptop from 512 GB storage to 1 TB for $200 more. The added storage will save him cloud subscription fees worth $150 per year. Applying which economic concept would help him to determine if the upgrade makes financial sense?

a. Total utility
b. Marginal analysis
c. Opportunity cost
d. Marginal tax rate

ANSWER:	b

RATIONALE:	Marginal analysis compares the additional cost of an action to the additional benefit to decide if it is worthwhile.
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.3 Apply Economic Concepts in Financial Decisions
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.03 - Apply economic concepts in financial decisions.
KEYWORDS:	Bloom's: Apply

100. Dana can invest $5,000 in either a municipal bond paying 4 percent (tax-free) or a corporate bond paying 5 percent (taxable). Her marginal tax rate is 22 percent. Which choice provides the better after-tax return?

a. The corporate bond because it earns a higher stated rate
b. The municipal bond because the after-tax return on the corporate bond is only 3.9 percent
c. Both provide the same return after taxes
d. The municipal bond because it offers a stable return regardless of the investor's tax rate

ANSWER:	b
RATIONALE:	The after-tax yield on the corporate bond is calculated as: $5\% \times (1 - 0.22) = 3.9\%$. Because the municipal bond pays 4 percent tax-free, it provides a slightly higher after-tax return and is therefore the better investment.
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.3 Apply Economic Concepts in Financial Decisions
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.03 - Apply economic concepts in financial decisions.
KEYWORDS:	Bloom's: Apply

101. Miguel is comparing two investment options: a taxable savings account earning 5 percent annually and a tax-deferred retirement account also earning 5 percent. If Miguel's marginal tax rate will be lower in retirement, which investment offers the greater long-term benefit?

a. The taxable savings account because it is more liquid and provides immediate access to funds
b. The tax-deferred account because earnings compound on the full pre-tax balance and taxes are paid later at a lower marginal rate
c. Both offer the same growth because they earn the same interest rate
d. The taxable savings account because it avoids future taxes altogether

ANSWER:	b
RATIONALE:	A tax-deferred account allows investment earnings to grow without being reduced by current taxes, which enhances compounding over time. Because Miguel expects to be in a lower marginal tax bracket when he withdraws the funds, postponing taxes until that time increases the total amount that can earn interest each year and provides a greater long-term benefit than paying taxes annually on a taxable account.
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.3 Apply Economic Concepts in Financial Decisions
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.03 - Apply economic concepts in financial decisions.
KEYWORDS:	Bloom's: Apply

102. Maria can invest $5,000 at 8 percent compounded annually, or the same rate compounded semiannually. She plans to keep the money invested for six years. Which statement best explains which option provides a greater return and why?

a. Both options provide the same return because the stated rate is 8 percent.

b. The annual compounding option provides a greater return because interest is added to the balance less often.

c. The semiannual compounding option provides a greater return because interest is applied more frequently to the balance.

d. Both options provide equal returns because the principal amount is the same.

ANSWER:	c
RATIONALE:	Compounding more frequently increases the effective yield because interest is credited more often, allowing interest to build upon prior interest.
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.4 Perform Time Value of Money Calculations
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.04 - Perform time value of money calculations in personal financial decision making.
KEYWORDS:	Bloom's: Analyze

103. A financial advisor tells her client that a new fund will double in eight years. Using the Rule of 72, what conclusion can the client draw about the fund's approximate annual return?

a. 9%

b. 11%

c. 8%

d. 10%

ANSWER:	a
RATIONALE:	Using the Rule of 72, 72 ÷ 8 = 9%. The fund's approximate annual return is 9 percent.
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.4 Perform Time Value of Money Calculations
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.04 - Perform time value of money calculations in personal financial decision making.
KEYWORDS:	Bloom's: Apply

104. Jordan can receive $10,000 today or $12,000 three years from now. If her investment options earn 9 percent annually, what's the more valuable choice, and why?

a. $10,000 today because its future value exceeds $12,000 in three years

b. $12,000 in three years because it's a higher nominal amount

c. Both options are equivalent when the discount rate equals 9 percent.

d. $12,000 in three years because money received later is always worth more.

ANSWER:	a
RATIONALE:	Using the future value factor for 3 years at 9% (Appendix A-1), $10,000 × 1.2950 = 12,950, which exceeds $12,000. Therefore, receiving $10,000 today is the better choice.
POINTS:	1
DIFFICULTY:	Challenging

REFERENCES:	1.4 Perform Time Value of Money Calculations
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.04 - Perform time value of money calculations in personal financial decision making.
KEYWORDS:	Bloom's: Apply

105. Landon wants to have $200,000 saved in 15 years. He plans to deposit an equal amount at the end of each year into an account earning 6 percent annual interest. Approximately how much must Landon deposit each year to reach his goal?

a. $13,333
b. $20,593
c. $8,593
d. $83,453

ANSWER:	c
RATIONALE:	Using the future value of an ordinary annuity factor for 15 years at 6% (Appendix A-3), required annual deposit = $200,000 ÷ 23.2760 = 8.593.
POINTS:	1
DIFFICULTY:	Challenging
REFERENCES:	1.4 Perform Time Value of Money Calculations
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.04 - Perform time value of money calculations in personal financial decision making.
KEYWORDS:	Bloom's: Apply

106. Marcus was injured on the job and is offered a workers' compensation settlement of either $40,000 today or $45,000 paid in three years. If Marcus believes he could earn 5 percent annually by investing, which option is more valuable, and why?

a. Take $45,000 in three years because it's the larger amount.
b. Take $40,000 now because investing it at 5% would grow to more than $45,000 in three years.
c. Take $40,000 now because the present value of $45,000 in three years is less than $40,000 today.
d. Take $45,000 later because the present value of $45,000 in three years is more than $40,000 today.

ANSWER:	c
RATIONALE:	Using the present value factor for three years at 5% (Appendix A-2), present value = $45,000 × 0.8638 = 38,871. Because the present value of $45,000 is less than $40,000 today, taking the immediate payment provides the greater value.
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.4 Perform Time Value of Money Calculations
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.04 - Perform time value of money calculations in personal financial decision making.
KEYWORDS:	Bloom's: Apply

107. Olivia can receive $6,000 at the end of each year for six years or take a single payment of $31,000 today. If her investment rate is 5 percent annually, which option offers the greater value?

a. Choose the six annual payments because the total of all payments exceeds $31,000.
b. Take $31,000 today because it's always better to have the money now than to wait for future payments.

c. Take $31,000 today because the present value of the six payments is less than the lump sum.
d. Choose the six annual payments because the lump sum is worth less than the present value of the six payments.

ANSWER:	c
RATIONALE:	Using the present value of an ordinary annuity factor for six years at 5% (Appendix A-4), PV = $6,000 × 5.0757 = 30,454. Because the present value of the payments is less than $31,000, taking the payment today provides the greater financial value.
POINTS:	1
DIFFICULTY:	Moderate
REFERENCES:	1.4 Perform Time Value of Money Calculations
QUESTION TYPE:	Multiple Choice
LEARNING OBJECTIVES:	PFIN.GARMAN.27.01.04 - Perform time value of money calculations in personal financial decision making.
KEYWORDS:	Bloom’s: Apply