**FINANCIAL LITERACY**

**Questions and Answers**

1. Personal financial planning is the process of managing your money to achieve personal economic satisfaction. Is the defination true or false?
2. True B. False
3. Which of the following is NOT an advantage of financial planning process?
4. Increased effectiveness in obtaining, using and protecting your financial resources throughout your life.
5. Reduced your savings account.
6. Increased control of your financial activities by avoiding excessive debt
7. Enhanced freedom from financial worries.
8. Edward Boston wants to reduce his fixed expenses. Which action would be appropriate?

A. Get a part-time job

B. Eat more meals at home rather than in restaurants

C. Find a place to live with a lower rent

D. Save more money for the future

1. Improvements in a person's financial position are the result of:
2. increasing liabilities.
3. reducing earnings.
4. saving current income and investing
5. increasing purchases on credit.
6. John uses a computer to organize her personal financial records and update his budget activities. These activities are an example of:

A. money management.

B. a balance sheet.

C. creative accounting.

D. electronic analysis.

1. One of the main purposes of personal financial statements is to:

A. Measure your progress toward financial goals.

B. Maintain information about your professional work activities.

C. Provide data you can use when rating a restaurant.

D. Provide data you can use when applying for a job.

1. Which of the following are reasons for keeping a spending journal?
2. To become more aware of what you are buying and how much it costs
3. To help you think about the value of what you are buying before you spend
4. To track where your money goes so you can stop the "little leaks" by making changes in your spending habits
5. All of the options are correct.
6. What is a good way to keep track of spending?

A. Keep a spending journal

B. Don't think; just spend

C. Have your parents pay for everything

D. Trust someone else keep track of it for you

1. Which is *not* a way to save money?

A. Pay yourself first

B. Use credit cards and debit cards exclusively

C. Automatically transfer money to savings and investments

D. Sit down and create a budget each week or month and follow it

1. If you want to save money, what is the most important lesson you need to learn?
2. Do not change anything
3. Create a budget via excel
4. Spend more money
5. Get a credit card
6. Which is an example of a budget?

A. Making a plan around your income, savings, and spending

B. Spending your money at will

C. Balancing your checkbook

D. Assuming someone will give you money every month

1. Which is NOT a step in building your own personal budget?
2. List all of your fixed payments
3. List all of your variable expenses
4. Record the amount of income and when you receive it
5. Omit expenses you only have once a year
6. What is a budget?

A. A checkbook

B. Spending habits

C. Estimated income and expenditures in a given period

D. Something you don't need

1. Which of the following is the step of the financial planning process?
2. Determine your current financial situation
3. Develop financial goals
4. Create and implement your financial action plan
5. All of the options are correct.
6. Which of the following is NOT the main purpose of a budget?
7. Live within your income
8. Reach your financial goals
9. Spend your money without thinking
10. Prepare for financial emergencies
11. Which is a source of income?
12. Wages/salaries
13. Interest
14. Scholarships
15. All of the options are correct.
16. A successful budget should be:
17. Limited
18. Imaginary
19. Well planned
20. Random
21. What is the definition of written budget?
22. Exists only in your head
23. Detailed plan for spending in a spreadsheet or notebook
24. Use envelopes for your expenses such as food, rent, etc.
25. Use bank or financial institution website
26. Which of the following is deposit financial institutions?
27. Commercial bank, credit union, mutual savings banks, savings and loan associations.
28. Commercial bank, credit union, life insurance company, mortgages
29. ATM/debit cards, credit union, mutual savings banks, check cashing
30. ATM/debit cards, credit union, savings and loan associations.
31. Which of the following is the type of financial services?
32. Cash availability
33. Payment services
34. Credit services
35. All of the options are correct.
36. Which of the following is the reason for saving?
37. Increase current spending
38. Meet unnecessary needs
39. Achieve personal and financial goals
40. Get a credit card
41. Which of the following is a drawback of regular savings account?
42. Low minimum balance
43. Insured
44. Low rate of return
45. Ease of withdrawal
46. Which of the following is NOT one of the factors of evaluating savings plan?
47. Rate of return
48. Liquidity
49. Inflation
50. None of the options listed
51. What is the Fisher effect formula?
52. Nominal rate of interest = Real interest rate + Expected inflation
53. Nominal rate of interest = Real interest rate − Expected inflation
54. Real interest rate = Nominal rate of interest+ Expected inflation
55. Expected inflation = Real interest rate − Nominal rate of interest
56. Real interest rate is %10 and expected inflation is %70. What is the nominal rate of interest?
57. %60
58. %80
59. %7
60. None of the options listed
61. Which of the following is deposit accounts?
62. E-savings account
63. TL time deposit account
64. Foreign currency time deposit account
65. All of the options are correct.
66. What is “total credit limit”?
67. It indicates the maximum amount that you can use on cash draw and shopping transactions.
68. It indicates previous period debt status.
69. It indicates the minimum amount due to be paid until the last payment date.
70. It indicates the date when your credit card statement is arranged.
71. Which of the following is one of the bank risks?
72. Liquidity risk, trading risk
73. Interest**-**rate risk, credit risk
74. Interest**-**rate risk, liquidity risk,
75. All of the options are correct.
76. What is the future value of $10,000 on deposit for 2 years at 6% simple interest?
77. $10,600
78. $11,236
79. $11,200
80. $13,382.26

FV = $10,000 + (2 × 0.06 × 10,000) = $11,200

1. Assume the total expense for your current year in college equals $20,000. How much would your parents have needed to invest 21 years ago in an account paying 8% compounded annually to cover this amount?

A. $952.46

B. $1,600.00

C. $1,728.08

D. $3,973.11

PV =$ Future payment x \frac{1 }{(1 + r)t}$

PV = $20,000 / (1.08)21

PV = $3,973.11

Excel: =PV(8%;21;;-20000) = 3,973.11

1. Given the future value, which of the following will contribute to a *lower* present value?

A. Higher discount rate

B. Fewer time periods

C. Less frequent discounting

D. Lower discount factor

32. What will be the approximate population of the United States, if its current population of 300 million grows at a compound rate of 2% annually for 25 years?

A. 413 million

B. 430 million

C. 488 million

D. 492 million

FV = PV(1 + r)t

FV = 300 million × (1.02)25

FV = 492.2 million ≈ 492 million

Excel: =FV(2%;25;;-300) = 492,18

1. If you invest $100 and receive a 12% APR (annual percentage rate), what will your balance be at the end of the year?
2. $121.12
3. $121.00
4. $112.00
5. $100.12

FV = PV(1 + r)t

FV = 100 × (1.12)1

FV = 112,00

Excel: =FV(12%;1;;-100) = 112,00

34. When interest is added to your initial deposit and you begin to earn interest on interest, this is known as

1. the annual percentage rate.
2. the time value of money.
3. compounding.
4. the future value of money.
5. If you have $3,000 today with a 5% APY, how much will you have 2 years from now?
6. $3,200.50
7. $3,307.50
8. $3,100.50
9. $3,500.25

FV = PV(1 + r)t

FV = 3000 × (1.05)2 FV = 3.307,50

Excel: =FV(5%;2;;-3000) = 3.307,50

1. What is earning interest on interest?
2. Compounding
3. APR (annual percentage rate)
4. Savings
5. Investing
6. If Phil has a $100,000 bond with a 6% interest rate, compounded annually, how much will he have in 8 years?
7. $163,452.83
8. $170,978.42
9. $149,867.49
10. $159,384.81

FV = PV(1 + r)t

FV = 100000 × (1.06)8

FV = 159.384,81

Excel: =FV(6%;8;;-100000)= 159.384,81

1. If you put $1,000 into an account earning 5% interest annually, how much will you have in five years?
2. $5,000.00
3. $1,276.28
4. $1,050.50
5. $1,500.00

FV = PV(1 + r)t

FV = 1000 × (1.05)5

FV = 1.276,28

Excel: =FV(5%;5;;-1000) = 1.276,28

39. Calculate the future value when PV = $1,000, the interest rate is 8%, and there are 9 years (periods).

1. $1,999.00
2. $2,100.16
3. $3,370.60
4. $3,454.28

FV = PV(1 + r)t

FV = 1000 × (1.08)9

FV = 1.999,00

Excel: =FV(8%;9;;-1000) = 1.999,00

1. A rate of 5% for 3 years on a principal balance of $100. Interest earned?
2. $15,76
3. $86,38
4. $120,15
5. $90,14

Excel: =FV(5%;3;;-1000) = 115,76

Interest earned = 15,76

1. Which of the following correctly defines future value?
2. Interest earned on interest
3. Interest earned only on the original investment
4. Amount to which an investment will grow after earning interest
5. Interest rate used to compute present values of future cash flows