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1. In order for a contract between two parties to be legally binding, one party must make an offer and the other party must accept the offer. This offer and acceptance meet the __________ provision.
   A. consideration
   B. competent parties
   C. jurisdiction
   D. agreement

2. Which of the following is an example of consideration in a contract:
   A. Putting the price in writing
   B. Selling an item for $500
   C. Promising to make a gift
   D. Giving away an item worth $500

3. Which of the following is an example of involuntary debt:
   A. Automobile loan
   B. Court judgment lien
   C. Fixed-rate mortgage
   D. Unsecured line of credit

4. What type of debtor-creditor relationship involves the acquisition and use of credit cards?
   A. Unintentional
   B. Voluntary
   C. Customary
   D. Implied

5. A primary component of the Dodd-Frank Act involves tightening the regulation of financial institutions and preventing them from
   A. accessing customers’ credit scores.
   B. approving mortgage applications.
   C. selling money market accounts.
   D. engaging in risky lending practices.

6. Which of the following does the SEC recommend for investors to protect themselves:
   A. Trust your friends.
   B. Start with a small, “trial” investment.
   C. Research the company.
   D. Check the Internet for verification.

7. The president of an international company tells reporters at a press conference that the company is doing well and will be meeting quarterly projections. Investors jump on the stock as a sound investment, driving the price of the stock up. On the side, the president sells her/his shares in the company. When the company's financials are released, the truth comes out: the company is in bad financial shape. The president of the company is guilty of
   A. phishing.
   B. pyramid scheme.
   C. affinity fraud.
   D. insider trading.

8. What do finance professionals need to do to build long-term relationships with their clients?
   A. Follow up with clients every two years
   B. Invest all clients’ money conservatively
   C. Be honest, open, and trustworthy
   D. Require clients to sign a short-term contract
9. Jonathan, an insurance agent, explains both the pros and cons of his products to all of his customers to help them decide which policies to purchase. Hank, also an insurance agent, explains to his customers why they should purchase his products, but he doesn’t talk about anything negative before making a sale. Based on this information, which agent is more likely to retain and grow his client base?
   A. Jonathan, because his customers feel that they can trust him.
   B. Jonathan, because he gives his customers too much information.
   C. Hank, because he doesn’t scare his customers away.
   D. Hank, because he is a very optimistic, upbeat person.

10. Which of the following is not a natural resource?
   A. Soil
   B. Equipment
   C. Water
   D. Oil

11. Which of the following is an example of a capital good:
   A. A cashier
   B. A highway
   C. Coal
   D. A pine forest

12. What are producers most likely to do if they decide their incomes are inadequate?
   A. Choose not to make goods and services
   B. Continue to increase production
   C. Choose not to supply needed resources
   D. Continue to buy more resources

13. What do all owners of resources try to obtain from their limited resources?
   A. The greatest satisfaction
   B. The greatest consumption
   C. The most efficiency
   D. The most compensation

14. Which of the following is an example of an uninsurable risk:
   A. Customer buying habits
   B. Business interruption
   C. Fire
   D. Personal injury

15. When Marlon buys a new oven for his bakery, he receives a three-year warranty from the oven company. If the oven breaks or has any problems within three years, the company promises to repair or replace it free of charge. This is an example of ___________ business risk.
   A. avoiding
   B. transferring
   C. preventing/controlling
   D. retaining

16. The prices of goods and services remaining fairly steady is an indication that the economy is
   A. depressed.
   B. stable.
   C. elastic.
   D. risky.
17. Why is deflation bad for the economy?
   A. It raises prices for both consumers and businesses.
   B. It causes shortages of goods.
   C. It encourages too much spending.
   D. It reduces output and can lead to layoffs.

18. The primary goal of negotiation is to
   A. improve relationships.
   B. reach an agreement.
   C. develop self-confidence.
   D. encourage unrealistic expectations.

19. Claire said, “We need to resolve this quantity-discount issue and reach agreement by next Tuesday. If we can't, I will solicit bids from other vendors.” What negotiating strategy is Claire using with her vendor?
   A. Limited authority
   B. Good cop/Bad cop
   C. Deadline driven
   D. Compromise

20. Which of the following is a business opportunity that requires a person to purchase the right to sell an established good or service under the parent company’s name:
   A. Franchise
   B. Incorporation
   C. Foreign
   D. Brokerage

21. Which of the following statements is true about business start-up requirements:
   A. Purchasing a franchise is usually easy and inexpensive for start-up business owners.
   B. New business owners usually need to register for patent protection.
   C. The financial needs to start a new business depend on the nature of the venture.
   D. Equipment is the least expensive requirement for a start-up business.

22. Which of the following situations is an example of a social risk that is associated with starting a new business:
   A. Adam is working 14 hours a day at his new company and is not spending time with friends.
   B. As a new business owner, Cassidy is so worried about failing that she develops an ulcer.
   C. When Nigel started his new business, he took out a bank loan and used his home as collateral.
   D. Julie, a successful businessperson, is willing to quit her job to start a new business.

23. When using a debit card to pay for goods and services, the funds are electronically transferred from a(n)
   A. expense or interest account.
   B. savings or checking account.
   C. checking or credit account.
   D. interest or savings account.

24. Which of the following is a disadvantage of a checking account:
   A. Overdraft protection
   B. Direct payroll deposit
   C. Account balance requirement
   D. Online transaction options

25. Lisa charges another sole proprietor to use the extra office in the building she owns. Which of the following is Lisa's source of income:
   A. Salary
   B. Rent
   C. Dividends
   D. Interest
26. Every two weeks, Jana receives an automatic deposit in her checking account from her employer for work she has performed. This is an example of which form of income:
   A. Rent
   B. Wages
   C. Interest
   D. Dividends

27. Putting $100 in a savings account today and earning 4% interest over the next year illustrates the concept of
   A. principal modification.
   B. the time value of money.
   C. opportunity cost.
   D. inflationary impact.

28. What source of credit buys borrowers' contracts from sellers?
   A. Sales finance companies
   B. Commercial banks
   C. Credit unions
   D. Savings and loan associations

29. To cover the extra cost of offering credit services, businesses often adjust their marketing strategy by charging customers
   A. higher prices.
   B. finance charges.
   C. annual fees.
   D. interest rates.

30. What course of action can a lender take if a debtor's account is past due?
   A. Claim defamation
   B. File a judicial lien
   C. Apply for bankruptcy
   D. Liquidate assets

31. Each pay period, Luke's employer takes a set amount of money out of his paycheck to help the business pay for group insurance that lowers the costs associated with doctor visits, x-rays, and surgeries. What type of insurance does Luke have?
   A. Health
   B. Life
   C. Liability
   D. Homeowners

32. Which of the following is an example of an individual setting a financial goal:
   A. Making a will to distribute personal assets
   B. Saving enough money to retire in 10 years
   C. Reviewing various health insurance options
   D. Obtaining a credit card for emergencies

33. A critical aspect of financial planning involves
   A. investing money in high-risk securities.
   B. obtaining several credit cards.
   C. saving money for unexpected situations.
   D. setting broad financial goals.
34. Valerie is developing a personal budget for the first time. Which of the following is the first step she should take:
   A. Know her income
   B. Set her financial goals
   C. Estimate her fixed expenses
   D. Adjust her debt payments

35. Why do businesses make investments?
   A. To monitor markets
   B. To pay dividends
   C. To balance cash
   D. To increase wealth

36. Which of the following is an example of a personal liability:
   A. Mortgage
   B. Vacation home
   C. Mutual funds
   D. Treasury bills

37. When monies are withheld from an employee's paycheck to cover taxes and insurance, these funds are the employee's
   A. credit expenses.
   B. gross earnings.
   C. net pay.
   D. payroll deductions.

38. What are you doing when you compare your bank statement with your checkbook register?
   A. Reviewing your credit card balances
   B. Managing your mutual funds
   C. Reconciling your checking account
   D. Endorsing your paycheck

39. Ian's employer electronically places Ian's paycheck directly into his bank checking account every pay period. In what column on Ian's bank statement will he find these transactions?
   A. Deposits and debits
   B. Withdrawals and debits
   C. Deposits and credits
   D. Withdrawals and credits

40. Individuals charging only the amount they can afford to pay in full every month is an example of
   A. saving money for the future.
   B. the wise use of credit.
   C. a way to avoid identity theft.
   D. making a cash transaction.

41. Limiting the number of credit cards that you have will help you
   A. exceed your credit limit.
   B. purchase most of the items that you want.
   C. waive the transaction fees for each card.
   D. manage your spending.
42. Eric wants to buy a new house, and to do so he needs good credit. He has made all his rent, car, and credit card payments on time, so he should have a good credit score. Before he goes to purchase the house, he checks his credit report and finds that he has a low credit score because one of the agencies mishandled his report. This example shows the importance of
   A. buying a house.
   B. validating credit history.
   C. paying rent on time.
   D. good credit.

43. Why do many financial advisors recommend that you validate your financial credit history annually?
   A. Most universities review your financial credit report before accepting you as a student.
   B. The return on your stock investments is based on your financial credit history.
   C. Information in your credit report can impact how much you pay to borrow money.
   D. Information in your credit report appears in your social networking profiles.

44. What can you do to prevent identity thieves from getting your personal information?
   A. Shred or tear up important financial documents.
   B. Review your credit report every five years.
   C. Pay the entire balance on credit cards monthly.
   D. When borrowing money, insist on a fixed-rate loan.

45. State Street Bank sends text messages to its customers when $100 or more are withdrawn from their bank accounts. The bank sends these notifications to reduce the risks associated with
   A. identity theft.
   B. loan fraud.
   C. money laundering.
   D. firewall intrusion.

46. While preparing her annual income tax return, Kate determined that she had her employer withhold more tax than necessary. As a result, Kate is eligible for a government
   A. deduction.
   B. refund.
   C. due bill.
   D. reference.

47. When preparing her tax return, Lynnette listed the interest that she paid on her student loan as
   A. a tax-exempt investment.
   B. investment income.
   C. an itemized deduction.
   D. taxable earnings.

48. What is a tip to aid in paying bills on time?
   A. Set aside two times a month to pay bills.
   B. Pay bills as soon as they arrive.
   C. Require businesses to use direct deposit into your account.
   D. Notify businesses to let them know that time extensions will be needed.

49. Which of the following types of broker usually charges the highest commissions:
   A. Stock
   B. Discount
   C. Online
   D. Full-service
50. What type of deposit-taking institution is owned by its members or customers?
   A. Discount broker
   B. Investment bank
   C. Full-service broker
   D. Credit union

51. When shopping for an investment broker, which of the following things should you always do:
   A. Read the broker's advertisements.
   B. Disclose how much money you have to invest.
   C. Choose the same broker as your parents.
   D. Run a background check.

52. Which of the following is a question that investors should ask prospective financial planners:
   A. What is your income?
   B. How many references do I need to provide?
   C. How are your fees structured?
   D. Where did you attend school?

53. If you are investing for a goal that you hope to reach within three years, you are investing for a(n)
   A. intermediate-term time horizon.
   B. short-term time horizon.
   C. long-term time horizon.
   D. risk-tolerant time horizon.

54. Why do financial advisors conduct a fundamental analysis of a business before recommending it as an
   investment to clients?
   A. To determine intrinsic value
   B. To negotiate a fair price
   C. To calculate a commission rate
   D. To prepare a written report

55. The Coca-Cola Company's brand, which is valuable and known world-wide, is not reflected in book value
   because it is
   A. a hard asset.
   B. an intangible asset.
   C. part of stockholders' equity.
   D. property and equipment.

56. Investing in growth stocks is a strategy that builds wealth through
   A. a regular fixed income.
   B. capital appreciation.
   C. paid dividends.
   D. buying low and selling high.

57. Which of the following strategies would enable investors to take advantage of fluctuations in stock prices:
   A. Value stock investments
   B. Diversification
   C. Growth stock investments
   D. Dollar-cost averaging

58. Which of the following is not true about Form 8-K:
   A. Companies are required to file it within 15 days of a significant event.
   B. Companies are required to file it for the first three quarters of the fiscal year.
   C. The form describes changes in management, products, acquisitions, or legal actions.
   D. The form is important because it alerts investors to events that might affect a company's
     fundamental value.
59. What might a company’s higher-than-usual sales volume for a day indicate?
   A. Investors have reacted to news about the company.
   B. Investors have received their dividends.
   C. Investors believe the yield percentage has changed.
   D. Investors have recalculated the PE.

60. Geraldo, who is considering whether or not to invest in Coffee Dreams, Inc., is studying information about the company on a stock table. One piece of data that he is interested in reviewing is the difference between the stock’s closing price and the previous day’s closing price. Geraldo should review the
   A. 52-week high and low.
   B. ticker symbol.
   C. price-earnings ratio.
   D. net change.

61. Which of the following is an example of a lending investment:
   A. Antiques
   B. Homes
   C. Bonds
   D. Stocks

62. Which of the following is a factor that determines how much investment risk a person can handle:
   A. Social status
   B. Income
   C. Goals
   D. Banking institution

63. Which of the following statements is true of retirement plans:
   A. A 401(k) is a type of defined-contribution retirement plan.
   B. Employees cannot access their own contributions prior to retirement.
   C. Retirement plans are only necessary for older employees.
   D. Employers are legally required to offer retirement plans.

64. The most important factor to consider when choosing investments is
   A. the investor’s ability to influence company decisions.
   B. the short-term profitability of the investment.
   C. whether or not the investment supports one’s financial goals.
   D. whether or not the security pays an annual dividend.

65. Which of the following is the most common investment for an individual who hopes to lessen the financial burden for dependent children with a case settlement in the event of the individual’s death:
   A. Business investments
   B. Securities such as stocks and bonds
   C. Life insurance
   D. Real estate purchases

66. How does insurance benefit a business?
   A. Enhances economic utility
   B. Reduces security needs
   C. Lowers personal tax obligation
   D. Protects against financial loss

67. Tom needs to verify the accuracy of an invoice for a magazine advertisement that he placed, so he compares the bill with the
   A. rate-card price.
   B. retainer price list.
   C. media-packet cover.
   D. secondary circulation.
68. Which of the following is important to consider when calculating the value of money that has been invested:
   A. Exchange rate
   B. Time factor
   C. Cash flow
   D. Credit report

69. What is the most negative information possible on a credit report?
   A. Bankruptcy
   B. Late payment
   C. Lien
   D. Collection agency report

70. Though he tries to pay his bills each month, Pete struggles with his payments. This month, for the first time, he won't be able to pay his car payment. What is the first thing he should do?
   A. Charge his car payment to his credit card
   B. Nothing. He hopes he can catch up next month
   C. Contact the institution that loaned him money for the car
   D. File for bankruptcy

71. Which of the following documents will allow the beneficiary of an estate to avoid probate:
   A. Will
   B. Living will
   C. Living trust
   D. Power of attorney

72. Lower APR means __________ monthly payments.
   A. higher
   B. lower
   C. stable
   D. fluctuating

73. Businesses evaluate the quality and source of the information they obtain to make sure the information is
   A. useful.
   B. scientific.
   C. technical.
   D. random.

74. Rhonda is doing research for a paper in her business class. She should use sources that
   A. emotionally present one side of an issue.
   B. were written by authors who are reputable.
   C. are no more than 20 years old.
   D. could be considered propaganda.

75. The purpose of filing an insurance claim is to obtain
   A. profit from the premium.
   B. discounts on the deductible.
   C. dividends on the investment.
   D. compensation for the loss.

76. A business might be involved in insurance fraud if it
   A. attempts to reduce the coverage.
   B. overestimates the amount of loss.
   C. calculates the value of property.
   D. limits its scope of liability.
77. Which of the following would you do last in achieving a goal:
   A. Record progress.
   B. Keep at it.
   C. List mistakes.
   D. Tell others.

78. What is likely to be the result if you fail to set goals?
   A. You will be better able to measure your progress.
   B. You will be highly flexible.
   C. You will focus your efforts in one direction.
   D. You will waste a lot of time and effort.

79. Mel is about to decide which job to take—using only the facts. As she compares and contrasts information about each job opportunity, Mel is showing that she is aware of which decision-making influence:
   A. Framing
   B. Logic
   C. Input
   D. Style

80. Which of the following is a career search tool for determining what you are capable of doing now and might be good at doing with additional training or education:
   A. Interest survey
   B. Intelligence test
   C. Aptitude test
   D. Personality test

81. Why is it important to select an occupation that matches your aptitudes?
   A. Considering your aptitudes will make achieving your career goals realistic.
   B. Matching aptitudes to careers leads to the highest possible income.
   C. A positive aptitude will allow you to succeed in any career.
   D. Selecting a career based on your aptitudes will require less time in college.

82. Which of the following offers stable employment opportunities because they are usually well established and do not need to pay stockholders or investors:
   A. Corporations
   B. Partnerships
   C. Nonprofit institutions
   D. Sole proprietorships

83. Most businesses today are looking for employees who have at least basic __________ skills.
   A. accounting
   B. computer
   C. management
   D. legal

84. What information is usually best to discuss in person rather than to provide in an employment application?
   A. Personal references
   B. Job expectations
   C. Salary requirements
   D. Special qualifications
85. Which of the following is appropriate to include in a letter of application:
   A. The reasons for frequent job changes
   B. The ages of your children
   C. Your work experiences that relate to the job opening
   D. Your list of references

86. When writing a letter of application, it is important for individuals to state that
   A. they are in need of a job.
   B. they have many references.
   C. a friend works for the business.
   D. a résumé is attached.

87. Which of the following must appear on your résumé:
   A. Marital status
   B. Education
   C. Date of birth
   D. List of references

88. Which of the following information should you include in your résumé:
   A. Reasons for leaving a previous job
   B. Relevant volunteer experience
   C. Your salary expectations
   D. Your personal references

89. What type of service might a bank provide a business that needs to borrow funds for a short period of time?
   A. Mortgage
   B. Line of credit
   C. Installment loan
   D. Certificate of deposit

90. The purpose of loan products is to provide
   A. financing.
   B. collateral.
   C. income.
   D. interest.

91. At a stock exchange, specialists have responsibility for
   A. all of the trades made on a particular stock.
   B. keeping a stock's price as high as possible.
   C. keeping a stock's price as low as possible.
   D. all of the trades made for institutional investors.

92. Maggie wants to buy stock in Pepsico, but only when the price drops to a certain amount. She is interested in placing a __________ order.
   A. limit
   B. market
   C. stop
   D. trade

93. A government agency that enforces laws passed to protect consumers' health is the
   A. Interstate Commerce Commission.
   B. Small Business Administration.
   D. Food and Drug Administration.
94. Which of the following is not an example of a business's efforts to protect consumers:
   A. Labeling products accurately
   B. Participating in brand licensing
   C. Testing products carefully
   D. Providing complete product-use instructions

95. Recently, Joseph signed a lease for a new car. Unfortunately, Joseph was involved in an automobile accident, and the car was totaled. Because Joseph's insurance company paid out less than the payoff amount of the lease, Joseph still owes the leasing company several thousand dollars for the car. What type of insurance would have covered Joseph from this type of loss?
   A. Uninsured motorist
   B. Adaptable
   C. Comprehensive
   D. Gap

96. Which of the following statements is true about health maintenance organizations (HMOs):
   A. HMO members' fees vary annually and are based on the frequency of their visits to physicians.
   B. HMOs provide comprehensive health services but often restrict the insured's choice of physicians.
   C. To control costs, HMOs cover doctor's visits but require members to pay for X-ray and laboratory services.
   D. Because HMOs emphasize preventative care to members, they do not impose co-payment policies on patients' visits to the doctor.

97. In addition to basic homeowner's insurance coverage, insurance agents whose clients live in flood or earthquake zones might suggest that they purchase
   A. assisted-living coverage.
   B. rental-unit coverage.
   C. limited-term riders.
   D. optional-perils endorsements.

98. A primary characteristic of a whole-life insurance policy is that it
   A. accumulates cash value over time.
   B. covers the insured for a time period of 25 years.
   C. covers only the insured's burial expenses.
   D. requires policyholders to pay low premiums annually.

99. A person who wants to start a new company and needs financial support should develop a business plan to present to potential
   A. competitors.
   B. investors.
   C. clients.
   D. promoters.

100. Since Alana's company will build a new facility next year, she should write a business plan to
    A. prepare for an expansion.
    B. assess a new product or promotion.
    C. place a value on the business.
    D. obtain a specific contract or agreement.
Personal Financial Literacy Exam

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1. D
Agreement. In order for a contract to be legally binding, an offer must be made by one party and accepted by the other party. In effect, the two parties are agreeing. The competent parties provision requires those entering a contract to be of legal age and meet other criteria. Jurisdiction is a court's authority to resolve a legal issue, and consideration requires something of value be exchanged.
SOURCE: BL:002

2. B
Selling an item for $500. In a contract, consideration is what one party gives or receives in exchange for something else. If a person contracts with another person to sell an item for a certain amount, the consideration is giving up the item in exchange for $500. In this situation, the buyer's consideration is the $500 paid for the item. Consideration is not putting the price in writing, promising to make a gift, or giving away an item worth $500.
SOURCE: BL:002

3. B
Court judgment lien. A debtor-creditor relationship can be based on two different types of debt—voluntary and involuntary. Voluntary debt includes any debt that a person or business willingly creates. Examples include automobile loans, mortgages, and lines of credit. Involuntary debt is debt that a person or business does not ask for nor willingly assume. For example, if a court of law finds a business liable for a customer's injuries resulting from a fall on the business's premises, the court may place a judgment lien on the business's property to ensure that the business compensates the customer for her/his injuries. The business doesn't want to take on the debt; instead, the court determines that the business owes the customer money and requires the business to pay the debt. The lien is an involuntary debt for the business.
SOURCE: BL:071

4. B
Voluntary. The debtor is the individual or business that owes money to another individual or business (creditor). An individual or business that obtains a credit card from a financial institution or retailer is entering into a voluntary debtor-creditor relationship, which means that both the debtor and the creditor enter the relationship willingly and understand the risks and expectations regarding the extension and use of credit. Unintentional, customary, and implied are not types of debtor-creditor relationships.
SOURCE: BL:071
5. D
Engaging in risky lending practices. The U.S. government enacted the Dodd-Frank Act in response to the financial crisis of 2008. During the crisis, many banks engaged in risky lending practices by extending mortgages to unqualified individuals and businesses who eventually defaulted on their loans. As a result, the government used taxpayers' money to bail out struggling banks. The act's overall provisions involve protecting consumers' rights by regulating and enforcing transparency and accountability in the financial-services industry and preventing financial-service businesses from engaging in risky business behavior. The Dodd-Frank Act does not prevent financial institutions from approving loans—it forces the businesses to tighten their approval processes, which includes careful consideration of all loan applicants' credit information. The legislation does not involve preventing financial institutions from selling financial products such as money market accounts.

SOURCE: BL:140

6. C
Research the company. One of the SEC's recommendations to investors for protecting themselves is to research the company thoroughly. This sheds a great deal of light on the decision to invest in the company or not. Even a small or "trial" investment is not a good idea if the investment turns out to be a scam. Although many of your friends may be trustworthy, nothing is safer than research and independent verification. What you find on the Internet may or may not be legitimate.

SOURCE: BL:104

7. D
Insider trading. The president was selling the company's stock on the basis of information that had not been made public. This is an unlawful practice. A pyramid scheme is a fraudulent activity in which people recruit others to pay them for the chance to earn money from those below them in the hierarchy. With affinity fraud scams, the scammer appeals to members of groups to invest. Investors falsely believe they can trust the scammer, and they lose their investments. Phishing is an identity-theft scam in which people receive official-looking emails asking that they go to a website and provide sensitive, personal information such as their Social Security number, account numbers, etc. People follow the scammer's instructions and have their identities stolen.

SOURCE: BL:104

8. C
Be honest, open, and trustworthy. While it is important for finance professionals to help their clients manage their finances and grow their wealth, it is also important that they earn their clients' trust. Finance professionals earn their clients' trust by behaving ethically and being honest and open. By doing so, finance professionals are more likely to build long-term relationships with their clients. Finance professionals must help clients set financial goals with which the clients are comfortable—some clients can or want to make risky investments, while others take a more conservative approach. Earning trust and helping clients meet their financial goals also involve ongoing, consistent, and frequent communication with clients. Requiring clients to sign a short-term contract will not always help finance professionals build long-term relationships with their clients.

SOURCE: CR:012
9. A
Jonathan, because his customers feel that they can trust him. Jonathan educates his customers about his products, explaining the positives as well as the negatives. By doing so, Jonathan presents himself as a truthful, trustworthy individual. Customers are much more likely to return to Jonathan and refer others to him because they see him as a person they can trust. There is no indication that Jonathan provides his customers with too much information. Hank is not likely to retain and grow his client base simply because he is optimistic. And, while customers appreciate an upbeat salesperson, they are likely to get angry with Hank if something goes wrong that Hank could have warned them about. Angry, displeased customers are unlikely to return to Hank or refer others to him in the future.

SOURCE: CR:012

10. B
Equipment. Equipment is a capital good. Capital goods are manufactured or constructed items that are used to produce goods and services. Water, oil, and soil are all natural resources. Natural resources are items that are found in nature and used to produce goods and services.

SOURCE: EC:003
SOURCE: EC LAP 14—Be Resourceful (Economic Resources)

11. B
A highway. Capital goods are manufactured or constructed items that are used in the production of goods and services. Highways enable producers to distribute goods to consumers. A pine forest and coal are examples of natural resources, items that are found in nature and used to produce goods and services. A cashier is someone who works to produce goods and services, or a human resource.

SOURCE: EC:003
SOURCE: EC LAP 14—Be Resourceful (Economic Resources)

12. A
Choose not to make goods and services. Producers must receive enough income so that they are able to continue making or providing goods and services. If they decide that their incomes are inadequate, they may choose not to make goods and services, and production would cease. If their incomes are inadequate, producers probably would not buy more resources or continue to increase production. Resource owners, not producers, supply needed resources.

SOURCE: EC:001
SOURCE: EC LAP 6—Are You Satisfied? (Economics and Economic Activities)

13. A
The greatest satisfaction. All owners of resources try to obtain the greatest satisfaction from their limited resources. The process that is used in deciding which goods and services to purchase or provide so that the most satisfaction can be obtained is known as economizing. Economizing involves deciding how scarce resources will be used. Obtaining the most compensation, the greatest consumption, and the most efficiency may be factors in the economizing process depending on which resource is involved. However, the overriding goal is to obtain the greatest satisfaction.

SOURCE: EC:001
SOURCE: EC LAP 6—Are You Satisfied? (Economics and Economic Activities)

14. A
Customer buying habits. Buying habits can change quickly and for many unpredictable reasons; therefore, insurance companies will not assume risk coverage. The other alternatives are considered insurable risks which can be covered by various types of insurance policies.

SOURCE: EC:011
SOURCE: EC LAP 3—Lose, Win, or Draw (Business Risk)
15. B
Transferring. Contractual agreements, such as warranties, are one way to transfer risks to another
person or business. This option enables businesses to move forward with their decisions without bearing
the risks involved. Marlon might not be able to afford to pay for a new oven if this one breaks, but
because he’s transferred the risk to the oven company, he knows they’ll replace it if he has any problems.
Avoiding risk is demonstrated by not taking a chance, as a risk not encountered presents no danger.
Preventing or controlling a risk happens when a business takes measures to prevent or reduce the risk.
Businesses retain a risk if they do nothing to reduce or eliminate it.
SOURCE: EC:011
SOURCE: EC LAP 3—Lose, Win, or Draw (Business Risk)

16. B
Stable. Price stability means that price levels remain fairly constant. When prices are stable, they do not
drastically fluctuate up or down. Price stability is one way to measure the condition of a country’s
economy. If prices are stable, the economy is also stable. Large upswings or downswings in prices
indicate that the economy is not stable and may be depressed. Elastic is a form of demand for products
in which changes in price correspond to changes in demand. Steady prices are not an indication that the
economy is risky.
SOURCE: EC:083
SOURCE: EC LAP 28—Up, Up, and Away (Inflation)

17. D
It reduces output and can lead to layoffs. Deflation, or decreasing prices, causes businesses to lose
money when they have to cut their prices to stay competitive. This reduces output and can lead to layoffs
and even economic depression. Deflation discourages spending because people hold on to their money,
knowing it will buy more later. Hyperinflation, not deflation, causes shortages of goods. Deflation lowers
prices; it doesn’t raise them.
SOURCE: EC:083
SOURCE: EC LAP 28—Up, Up, and Away (Inflation)

18. B
Reach an agreement. Negotiation is the process of reaching an agreement with another party. In any
negotiation, one person or group attempts to get another person or group to agree to a certain course of
action. People often negotiate to improve relationships, but not in all situations. Self-confidence is
important for a successful negotiation; however, it is not the primary goal. Unrealistic expectations are not
always a factor when people are in a negotiation.
SOURCE: EI:062
SOURCE: EI LAP 8—Make It a Win-Win (Negotiation in Business)

19. C
Deadline driven. The deadline-driven strategy involves one party giving the other party a time limit to take
action. In the example, Claire gave her vendor a deadline—next Tuesday—to resolve a particular point.
Good cop/Bad cop is a negotiating strategy that involves at least two people on one side of the
negotiation; of the two people, one person is reasonable and agrees with the opposing party, while the
other is unreasonable and disagrees with the opposing party. Limited authority is a negotiating strategy
in which one person claims that s/he does not have the authority to make a decision and must consult
another person who is not present during the negotiation process. Bargaining is a negotiating technique
that involves giving one person something s/he wants, and receiving something desired in return, which
involves compromising.
SOURCE: EI:062
SOURCE: EI LAP 8—Make It a Win-Win (Negotiation in Business)
20. A
Franchise. The requirements (e.g., time, money) that a person needs to start a business differ and usually depend on the nature of the business. For example, when a person opens a franchise, s/he usually purchases the right to operate under the parent company's name. This fee may run several hundred to several thousands of dollars. Depending on the nature of the business, the franchisee may be required to use certain vendors or purchase specific, expensive equipment. When a person incorporates a business, s/he establishes a corporation, or forms a company, using a specific legal structure. A foreign business opportunity occurs in another country. A brokerage is a type of firm that acts as an intermediary (agent) on behalf of a buyer.


21. C
The financial needs to start a new business depend on the nature of the venture. The requirements (e.g., time, money) that a person needs to start a business differ and usually depend on the nature of the business. For example, a person who starts a home-based consulting business does not require as much money for the start-up as a restaurant franchisee does. The franchisee needs to lease space or build a facility, purchase kitchen equipment, obtain supplies, hire employees, and pay franchise fees, which can be very expensive. A patent is legal protection that provides an owner the sole rights to an invention or process for a specific time period. Business owners do not always invent goods or processes, so not all of them need to obtain patent protection.


22. A
Adam is working 14 hours a day at his new company and is not spending time with friends. There are many types of risks when starting a new business. Because many new business owners focus their attention on their businesses, they often neglect relationships with family and friends. This is social risk because there is a possibility of losing personal relationships when people do not spend time together in social situations. Another type of risk is physical risk. This occurs when a new business owner is under stress and develops an illness or physical ailment, such as an ulcer. Obtaining a bank loan is a financial risk, while quitting a job may present a career risk.


23. B
Savings or checking account. Debit cards are a common method of payment for goods and services. Issued by financial institutions (e.g., banks), a cardholder or business employee simply scans the card into a machine when purchasing a product. The information is transmitted to the appropriate location, and the funds are electronically transferred from the cardholder's savings or checking account. An expense account is an arrangement between an employee and the employer in which the employee keeps track of business-related expenses and reports them to the employer for reimbursement. Interest is the money payments for the use of borrowed money. Credit is the arrangement by which businesses or individuals can purchase now and pay later.

24. C
Account balance requirement. Financial institutions often require customers to maintain a certain amount of money in their bank accounts. The account holder may be charged fees if the minimal account balance requirements are not met. Direct payroll deposit, overdraft protection, and online transaction options are benefits or services that many types of checking-account products offer that customers may need to pay fees to obtain.
SOURCE: FI:058

25. B
Rent. Income is the money resource owners receive for supplying goods and services. As a resource owner, Lisa is supplying office space and receiving rent payments from the sole proprietor, so she is receiving income. A salary is a form of income that is money payment for labor. A dividend is the sum of money paid to an investor or stockholder as earnings on an investment. Interest is the money payment for the use of borrowed money.
SOURCE: FI:061

26. B
Wages. A common source of income is the money a person earns for work that s/he performs. This source of income is a worker's wages. Businesses usually pay their employees at regular intervals, such as every week or every other week. In many situations, the businesses will deposit the employee's wages in their savings or checking accounts rather than pay them by check. Rent, interest, and dividends are other sources of income that are not associated with the work that an employee performs.
SOURCE: FI:061

27. B
The time value of money. The term "time value of money" refers to the increase of an amount of money as a result of interest or dividends earned. A basic illustration of the time value of money is money and the interest it earns in a savings account. Principal is the deposited amount, which is not modified. Opportunity cost is what you have to give up when you make a choice. In this case, the opportunity cost of depositing $100 is spending it on something else. Inflation has a negative impact on the time value of money.
SOURCE: FI:062

28. A
Sales finance companies. After a sales finance company buys borrowers' contracts from sellers, the borrowers make their payments to the sales finance company. The sales finance company retains a legal interest in the items purchased until all payments are completed. Commercial banks are full-service financial institutions that offer checking and savings accounts, secured and unsecured loans, installment credit, and bank credit cards. Savings and loan associations are financial institutions that offer savings accounts and make loans to borrowers. Many of their loans are for real estate purchases. Credit unions are financial cooperatives set up to provide savings and credit services to their members.
SOURCE: FI:002
SOURCE: FI LAP 2—Give Credit Where Credit Is Due (Credit and Its Importance)
29. A
Higher prices. Businesses that offer credit to their customers usually charge higher prices for their goods and services than those that do not. This change in the pricing element of the marketing mix helps businesses recover the costs of extending credit. Interest rates are fees the lender charges the borrower for the use of the money. Annual fees are yearly fees charged for the privilege of using a bank credit card. Finance charges are interest charges on credit accounts that are not paid in full at the end of each payment period. They are usually a percentage of the total amount due.

SOURCE: FI:002
SOURCE: FI LAP 2—Give Credit Where Credit Is Due (Credit and Its Importance)

30. B
File a judicial lien. A lien is a legal claim to an item of property that protects the seller if the buyer does not complete his/her payments. If a debtor does not make payments as promised, the lender can take legal action to obtain the debtor's assets or items of collateral, such as a home, car, etc. The debtor, rather than the lender, may need to liquidate assets to fulfill her/his legal obligation to the lender. If the debtor doesn't have any assets, s/he may need to file for bankruptcy. Defamation involves writing or saying something that damages an individual's or an organization's reputation.

SOURCE: FI:063

31. A
Health. Individuals purchase different types of insurance to protect their financial well-being. Obtaining healthcare insurance through your employer can offset medical and dental costs, which have been substantially increasing over the past several years. Because businesses usually obtain lower rates for groups of employees, it is usually more cost effective to purchase healthcare insurance through employers rather than through independent agencies. An individual purchases life insurance to protect others (e.g., family members) from financial losses related to his/her death. An individual purchases liability insurance to cover costs associated with others' potential property losses or injuries due to negligence on the part of the insurance owner. Homeowners insurance covers losses associated with the theft or damage of household belongings.

SOURCE: FI:064

32. B
Saving enough money to retire in 10 years. Financial goals are objectives that individuals want to achieve. Individuals often set financial goals based on a time factor because they have a need that they want to satisfy. In this situation, retiring in 10 years is the need that can be satisfied by saving money every month. Making a will to distribute personal assets, reviewing various health insurance options, and obtaining a credit card for emergencies are not examples of financial goals.

SOURCE: FI:065

33. C
Saving money for unexpected situations. Financial goals are objectives measured in terms of money. Setting financial goals involves financial planning, which is the determination of how to achieve the financial goals. An important aspect of financial planning involves saving money for unexpected situations. Saving money for unexpected situations provides you with funds to pay your bills if you are unable to earn an income for some reason, such as job loss or illness. Obtaining and using several credit cards is problematic if you cannot pay the balances due in a timely manner. The level of investment risk depends on many factors including the individual's comfort level with risk, income level, and age. Financial goals should be specific rather than broad.

SOURCE: FI:065
SOURCE: QS LAP 31—Set Yourself Up (Setting Financial Goals)
34. B
Set her financial goals. Valerie should first figure out what amount she would like to have at her disposal in the short-term, say next year, and then in the long-term, or about five years from now. Then she should look at her income, expenses, and debt payments to figure out where she can afford to decrease her spending in order to reach her financial goals.
SOURCE: Fi:066

35. D
To increase wealth. Many businesses have cash remaining after all of the expenses have been paid. As a result, they often invest these funds to increase the wealth of the business. For example, a business that invests $5,000 in a stock that appreciates 8% in value in a year, then has an asset worth $5,400. As the business continues to invest, its wealth continues to increase. Stock is a type of investment in which shareholders receive dividends. Businesses do not make investments to balance cash or monitor markets.
SOURCE: Fi:270

36. A
Mortgage. Personal liabilities are any debts that an individual owes. A mortgage is a loan used to purchase real estate. A person who takes out a mortgage owes a certain amount to the lender that must be paid back over time. Therefore, a mortgage is a personal liability. A vacation home, mutual funds, and treasury bills are all examples of personal assets, which are anything of value that a person owns that can be converted into cash.
SOURCE: Fi:562

37. D
Payroll deductions. Payroll deductions are monies that an employer withholds from an employee's gross earnings. A large portion of the deductions is the various income taxes, which the employer pays to the government on behalf of the employee. Other deductions might include health insurance premiums, voluntary savings, and child-support payments. Gross earnings are the employee's wages before the deductions are calculated. Net pay is the amount the employee receives in his/her paycheck after the deductions have been subtracted from the gross earnings. Credit expenses are loan balances on credit cards.
SOURCE: Fi:068

38. C
Reconciling your checking account. The check register is a central location to record and track all of the checks that you write and the amount of money you spend in your checking account. Each month, you receive a bank statement that details your checking account activity. You should reconcile your check register with your bank statement to ensure that they match. This step is important for many reasons. For example, if you forget to enter transactions in your checkbook register, you may overdraft your account and be fined for insufficient funds. When you compare your bank statement with your checkbook register, you are not managing your mutual funds, reviewing credit card balances, or endorsing your paycheck.
SOURCE: Fi:069
39. C
Deposits and credits. A bank statement is a summary of all transactions that occur for a certain period of time, usually one month. The bank statement will indicate the day, amount, and transaction type on the statement. The account holder compares the bank statement with his/her checkbook to determine problems or discrepancies. Ian's employer is electronically putting his paycheck into his account; therefore, the amount will be recorded as a deposit (credit) since money is being added to the account on Ian's behalf. The withdrawals and debits column on the bank statement records all of Ian's withdrawals (debts). Ian's bills are located in this column—rent, car payment, groceries, etc.

SOURCE: FI:070

40. B
The wise use of credit. Credit is the arrangement by which individuals can purchase now and pay later. Many individuals have credit cards because the cards allow them to pay for purchases without using cash. Then, they receive statements on a monthly basis indicating the amount due. If individuals charge only the amount they can afford to pay in full every month, they are using credit wisely. By paying in full, they avoid interest charges which may be high and significantly increase the cost of the purchases. Charging only the amount they can afford to pay in full every month will not necessarily help individuals save money for the future. Charging only the amount they can afford to pay in full every month is not a way to avoid identity theft or an example of making a cash transaction.

SOURCE: FI:071

41. D
Manage your spending. When you have one or two credit cards, it is easier to manage your spending because you have a limited amount of purchases that you can place on each card. With fewer cards, it is easier to track your purchases and this may enable you to pay more than the minimum amount due on each card, which helps you to reduce your debt more quickly. Having one or two credit cards may not enable you to buy everything that you want, but it can help you prioritize your needs and wants so you don't overspend. The credit card service provider establishes the policies for transaction fees and credit limits, regardless of the number of credit cards that you hold.

SOURCE: FI:071

42. B
Validating credit history. If Eric had not checked his credit score, he would not have known that the credit bureaus mishandled his report. This example shows one of the steps for buying a house, but it is not an example of the importance of buying a house. Paying rent on time is one way to develop good credit; neither are truly illustrated in this example.

SOURCE: FI:072
43. C
Information in your credit report can impact how much you pay to borrow money. Many financial advisors recommend that you validate your financial credit history annually for several reasons. First of all, information in your credit report can impact whether you get a loan as well as how much you pay to borrow money. Secondly, you should review your credit report annually to ensure that information that appears in the report is correct, complete, and current. Thirdly, by reviewing your credit report, you can ensure that you are not the victim of identity theft. Your financial credit history does not impact your return on stock investment nor appear in your social networking profiles. Although many employers review your financial credit report before hiring you, most universities do not review your credit history before accepting you as a student.
SOURCE: FI:072

44. A
Shred or tear up important financial documents. To prevent identity thieves from getting your personal information, you should always shred or tear up important financial documents before you dispose of them. These documents might include credit card statements, credit offers, expired credit cards, bank statements, etc. You should review your credit report at least once a year (not every five years) to verify your accounts and account balances. While paying the entire balance on your credit cards monthly and insisting on a fixed-rate loan when borrowing money are wise financial decisions, they do not necessarily prevent identity thieves from getting your personal information.
SOURCE: FI:073

45. A
Identity theft. Identity theft occurs when an individual obtains and uses another person's information (e.g., credit cards) without that person's consent. It is important for people to monitor their bank and credit card accounts on a regular basis, and financial institutions are implementing internal policies to help flag possible identity-theft activities. Banks and credit card companies send email and text messages under certain conditions to alert their customers of possible fraudulent activities. For example, financial institutions notify customers when their systems detect sizable ATM withdrawals or charges are made to credit cards over a certain amount of money. Although these actions detect fraud after it occurs, it allows customers time to freeze their accounts to prevent further activity. Loan fraud involves lying on loan applications to obtain loans. Money laundering is the process of creating the appearance that money obtained from criminal activities came from acceptable or legal sources. Firewall applications are designed to protect the organization's computer systems from external hacking activities.
SOURCE: FI:073

46. B
Refund. Because Kate had too much income tax taken out of her wages, she is eligible for a tax refund check, which is issued by the government upon receipt of Kate's completed tax return. The government does not issue a deduction, due bill, or reference when income tax is overpaid.
SOURCE: FI:074
47. C
An itemized deduction. The government allows taxpayers to itemize or list certain expenses on their tax returns to reduce the amount of taxable income. These expenses include charitable donations, a percentage of medical expenses, business expenses, and interest paid on some types of loans. Investment earnings, such as dividend payments, are taxable income. The federal government does not tax certain types of investments, such as municipal bonds.
SOURCE: FI:074

48. A
Set aside two times a month to pay bills. By establishing a schedule for bill paying, you can help yourself pay your bills on time. Generally, paying bills at the middle and the end of each month is an effective schedule to follow. Paying bills as soon as they arrive results in lost interest that could be earned on your money. Many businesses offer customers the option of having the amount of their monthly bills directly deposited into the businesses' accounts rather than the businesses making deposits into customer accounts. Notifying businesses that you will be late making your payments will not keep the businesses from charging late fees on your bills.
SOURCE: FI:565

49. D
Full-service. Full-service brokers usually charge the highest commissions because they provide in-house research and personalized investment guidance. Discount brokers have lower commissions, and online brokers often have even lower commissions than discount brokers. All of these types of brokers trade stocks.
SOURCE: FI:075

50. D
Credit union. A credit union is a nonprofit financial cooperative set up to provide savings and credit services to its members, who own the credit union. An investment bank is a financial intermediary that underwrites securities, and facilitates mergers. Brokers trade stocks. Full-service brokers usually charge the highest commissions because they provide in-house research and personalized investment guidance. Because discount brokers offer fewer services than full-service brokers, they have lower commissions.
SOURCE: FI:075

51. D
Run a background check. When shopping for an investment broker, you should always run a background check. You're entrusting your money and your financial future to this person, so it's important to make sure s/he deserves that trust. It's not necessary to disclose to a potential broker how much money you have to invest. Certain brokers are more suited to certain investors—what works for your parents will not necessarily work for you. You may want to read the broker's advertisements, but advertisements don't tell the whole story. A background check will provide much more useful information.
SOURCE: FI:076
52. C
How are your fees structured? Because financial planners are compensated in different ways, it is important to consider the fee structure when selecting a financial-services provider. Some financial planners charge a flat fee, while others base their fees on the number and size of transactions. Some financial planners charge for research and consulting time. Therefore, it is important to ask financial planners about their fee structures, so investors can determine if they can afford the fees. A financial planner may provide references for a potential client, but the potential client does not generally need to provide the financial planner with references. It is inappropriate to ask the financial planner about his/her personal income. Where the financial planner attended school is irrelevant.
SOURCE: FI:076

53. B
Short-term time horizon. A short-term time horizon means you are investing for a goal you want to reach in less than five years; if you are investing for a three-year goal, you are on a short-term time horizon. An intermediate-term time horizon is 5 to 15 years, and a long-term time horizon is longer than 15 years. Risk-tolerant time horizon is not a term that is used in investing.
SOURCE: FI:279

54. A
To determine intrinsic value. A fundamental analysis is the study of all aspects of a company: the way it makes money, products, position in the industry, sales, earnings, etc. The purpose of conducting a fundamental analysis is to determine the intrinsic value of a business before recommending it as an investment to clients. Financial advisors want to find out if the business is performing well now, which is an indication of possible performance in the future. By determining the value of a business, financial advisors will know if it is a good investment. Financial advisors do not conduct a fundamental analysis of a business to negotiate a fair price or calculate a commission rate. Although they might prepare a written report to provide clients, that is not the reason for conducting the analysis.
SOURCE: FI:280

55. B
An intangible asset. Book value is what the company is worth from an accounting point of view, so it does not include intangible assets such as brands, patents, or human capital. It does include hard assets such as property and equipment. Stockholders’ equity is another name for book value.
SOURCE: FI:280

56. B
Capital appreciation. Investing in growth stocks is an appealing strategy because instead of paying dividends, growth companies tend to reinvest profit, thereby building wealth for investors through capital appreciation. Growth companies typically do not provide a regular fixed income, such as a paid dividend. Investing in growth stocks is a long-term strategy that does not mean buy low and sell high.
SOURCE: FI:283
57. D
Dollar-cost averaging. Dollar-cost averaging involves putting a predetermined amount of money into an investment on a regular basis, such as quarterly or monthly. The effect is that you buy more shares when prices are low and fewer shares when prices are high. This keeps investors from worrying about purchase timing. Diversification involves determining a mix of total investment—minimizing the effect of a single losing investment. An investment portfolio is diversified by type of stock, by sector/industry, and by cap size. Growth stocks appreciate steadily over time, carry moderate-to-high risk, and bring a moderate-to-high return. Value stocks are trading at a lower price than their fundamentals indicate they should be.

SOURCE: FI:283

58. B
Companies are required to file it for the first three quarters of the fiscal year. Companies are required to file 10-Qs for the first three quarters of the fiscal year. Form 8-Ks must be filed within 15 days of a significant event. The 8-K is an important form because it alerts investors to events that might affect a company's fundamental value; it describes changes in management, products, acquisitions, or legal actions.

SOURCE: FI:274

59. A
Investors have reacted to news about the company. A higher-than-usual sales volume might mean that investors have heard something about the company that they feel could affect the stock price. Receiving dividends or thoughts about the yield percentage or PE are not usually factors that would lead to a day's abnormal sales volume.

SOURCE: FI:275

60. D
Net change. The net change, which is commonly identified on stock tables, indicates the difference between the stock's closing price and the previous day's closing price. The ticker symbol is a system of letters that uniquely identifies a company. It is often based on the company name. The price-earnings ratio is determined by dividing the share price of the stock by the earnings per share. The price-earnings ratio is a common heading on stock tables. The 52-week high and low are the highest and lowest prices paid for the stock during the past year.

SOURCE: FI:275

61. C
Bonds. A lending investment is one in which a lender allows a borrower to use his/her money during a period of time for a specified fee or rate of interest. A bond is a type of lending investment in which individuals lend money to a government, municipality, or corporation to earn a set rate of interest for a specified time period. Homes, antiques, and stocks are ownership investments.

SOURCE: FI:077

62. C
Goals. The three factors that determine an investor's risk tolerance are goals, time frame, and personality. Social status, banking institution, and income do not necessarily influence how much risk an investor should take.

SOURCE: FI:077
SOURCE: FI LAP 77—Invest for Success (Types of Investments)
63. A
A 401(k) is a type of defined-contribution retirement plan. If an employee has a defined-contribution plan, s/he and his/her employer contribute toward the employee's retirement plan. Unlike a defined-benefit retirement plan, an employee isn't guaranteed a certain amount at retirement. In some cases, employees can access their own contributions to their retirement plans prior to retiring, although there are some restrictions. Employees do not immediately have access to their employer's contributions. Retirement plans are necessary for younger employees as well as older ones—the sooner a person starts saving, the better off s/he'll be when it comes time for retirement. Employers are not legally required to offer retirement plans for employees.

SOURCE: FI:569

64. C
Whether or not the investment supports one's financial goals. When choosing investments, the most important factor to consider is whether or not the investment supports your financial goals. Don't focus on short-term profitability because long-term profitability is not always affected by short-term changes. Although investors (as shareholders) can influence a company's decisions to a certain extent, their influence is not the most important factor to consider when selecting investments. Also, it's not as important to look for an investment that pays an annual dividend as it is to determine if the investment supports your financial goals.

SOURCE: FI:284

65. C
Life insurance. Life insurance has become an important investment for many people. Often, large settlements are disbursed to beneficiaries, such as dependent children, after a person passes away. Many financial institutions offer this service with the sole purpose of providing financial assistance in repaying mortgages, loans, debts, or death benefits. Although other financial services such as securities will produce revenue, they often involve a higher level of risk. Business investments provide long-term financial growth but take time to turn into cash. Like business investments, real estate purchases often are lucrative, but take time to liquidate.

SOURCE: FI:081

66. D
Protects against financial loss. Insurance is a contractual agreement in which one company (insurer) will pay for specified losses incurred by the other company (insured) in return for installment payments (premium). For example, a company that loses its inventory and equipment in a fire can file a claim with its property insurance carrier to obtain money to purchase new inventory and equipment if the policy premiums are up to date and the policy covers such losses. Insurance does not necessarily reduce a business's security needs, lower personal tax obligation, or enhance economic utility.

SOURCE: FI:081
67. A
Rate-card price. If Tom believes he was billed incorrectly for an ad, he can compare the magazine's invoice with its rate card. A rate card is a price list that provides advertising placement rates and other relevant information. A magazine rate card usually includes pricing information for advertisements based on ad size, color, and placement location within the magazine. Other rate-card information might include format specifications, artwork due dates, publication dates, and applicable discounts. Media vehicles do not publish their rates on a retainer price list or a media-packet cover. Secondary circulation refers to the number of pass-along readers of a publication who do not purchase the publication.

SOURCE: FI:327

68. B
Time factor. The goal of most investors is to increase the value of money. An important consideration is the time factor, or the length of time that the money will be invested. As a rule, the value of money increases more the longer the money remains invested. For example, a $2,000 investment at 5% interest per year will have a value of $25,156 in five years. However, at the end of 40 years, that same investment will have a value of $241,600. The exchange rate involves the value of one country's currency in relation to another country's currency. Cash flow is the money going into and coming out of a business. A credit report is not a factor to consider when calculating the value of money.

SOURCE: FI:238

69. A
Bankruptcy. Bankruptcy is the last-resort action for poor credit. Late payments, liens, and collection agency reports all appear on a credit report, but none have as negative of an impact as bankruptcy.

SOURCE: FI:568

70. C
Contact the institution that loaned him money for the car. Financial institutions will often assist borrowers by creating more manageable payment options. It is in the institution's best interest that the borrower pays back the loan in some manner. Doing nothing costs him more in interest and charges, and may also decrease his credit score. Charging the payment to his credit card simply moves a debt to another lender, and oftentimes one that charges higher interest than the original lender. Shuffling payments will not solve the problem in the long term. Bankruptcy is the last resort for those who cannot pay their bills. It should only be pursued after other options (such as restructured payment plans) have been explored.

SOURCE: FI:568

71. C
Living trust. A living trust is a legal arrangement that can serve as an alternative to a will. It transfers control of a living person's assets to a trustee. Upon death, the assets are transferred to the beneficiary without going through probate. This saves considerable time and expense. A living will is a legal document that outlines a person's wishes for medical treatment under specific circumstances. A will provides details of how an estate should be handled upon death, but does not avoid probate. A power of attorney assigns someone the right to act on another's behalf.

SOURCE: FI:572
72. B
Lower. APR stands for annual percentage rate, which represents the amount of interest on your total loan that you'll pay annually. It takes into account the interest rates, the length of the loan agreement, and other fees or charges. If you have a lower APR, your monthly payments will be lower. A higher APR means higher monthly payments. Whether or not monthly payments are stable or fluctuating depends on whether or not the interest rate is fixed or adjustable.
SOURCE: FI:625

73. A
Useful. Not all information is useful to businesses. Therefore, businesses evaluate the quality and source of the information they obtain to make sure it is useful. For it to be useful, information must be accurate and relevant to the situation or problem being addressed. Businesses do not evaluate the quality and source of the information they obtain to make sure it is scientific, technical, or random.
SOURCE: NF:079

74. B
Were written by authors who are reputable. When evaluating a source, it’s important to make sure that the author is reputable, credible, and respected. Sources that are emotional instead of objective should be avoided. Propaganda is not considered a reputable source. Sources that are no more than twenty years old may or may not be reliable, depending on the subject.
SOURCE: NF:079

75. D
Compensation for the loss. Policyholders file insurance claims because they have incurred some type of loss that is covered by the type of insurance they have. The purpose of filing an insurance claim is to obtain compensation for that loss. For example, a business that has property insurance is damaged during a tornado. The business files a claim to be compensated for the damage so it can make repairs to the property. The purpose of filing an insurance claim is not to obtain discounts on the deductible, dividends on the investment, or profit from the premium.
SOURCE: OP:188

76. B
Overestimates the amount of loss. Fraud is a deception purposely carried out to secure unfair or unlawful gain. If a business deliberately overestimates the amount of loss in an attempt to receive a larger settlement, it might be involved in insurance fraud. The business is trying to obtain compensation for a loss it did not incur. A business is not involved in insurance fraud if it attempts to reduce the coverage, calculates the value of property, or limits its scope of liability.
SOURCE: OP:187

77. B
Keep at it. People need perseverance, the ability to keep at something until it is finished, in order to achieve goals. The major reason most people fail to reach their goals is that they give up too soon. Recording progress, listing mistakes, and telling others are earlier steps in achieving a goal.
SOURCE: PD:018
SOURCE: PD LAP 16—Go for the Goal (Goal Setting)
78. D
You will waste a lot of time and effort. Without goals, you may put out a lot of time and effort without getting ahead. Many people are unsuccessful simply because they haven't set goals for themselves. Setting goals focuses your efforts in one direction and gives you a way to measure your progress. Failing to set goals does not make you highly flexible.
SOURCE: PD:018
SOURCE: PD LAP 16—Go for the Goal (Goal Setting)

79. B
Logic. Logic is a way to make sense of the facts—apart from personal or outside influence. The way information is presented to you is called framing. Input is the actual information received from others—not the way it is presented. Style is the method for including others in the decision-making process.
SOURCE: PD:017
SOURCE: PD LAP 10—Weigh Your Options (Decision Making in Business)

80. C
Aptitude test. An aptitude test measures what a person is capable of doing and what s/he might be capable of doing with additional training or education. Interest surveys measure interest in various occupations. Intelligence tests measure current knowledge. Personality tests measure personality traits.
SOURCE: PD:023

81. A
Considering your aptitudes will make achieving your career goals realistic. An aptitude is your potential for learning a skill. It is similar to having a knack for something. Pursuing a career in an area that comes naturally to you will make it more realistic to achieve your career goals. Though matching aptitudes to a career is likely to lead to career success and satisfaction, it does not consider income. Aptitudes are neither positive nor negative. Each person has a different set of aptitudes. Time spent in college is not necessarily affected by aptitude. As an example, although a person has an aptitude for medicine, s/he must still complete college and medical school.
SOURCE: PD:023

82. C
Nonprofit institutions. Nonprofit institutions are businesses and organizations whose intent is to make enough money to support their mission. They are in business to help others rather than to reward stockholders, investors, or owners. They usually provide stable employment opportunities because they are well established and do not have to make a profit to continue to exist. Partnerships, corporations, and sole proprietorships are in business to earn a profit and pay stockholders, investors, and owners.
SOURCE: PD:025
SOURCE: PD LAP 15—Go For It! (Careers in Business)

83. B
Computer. Today, most businesses expect employees to have at least basic computer skills because many business functions and activities involve the use of computers. Businesses communicate with employees, customers, and vendors by email. Many businesses have websites and offer online ordering. As a result, most employees need to know how to use a computer even if only to send an email or to access a competitor's website. Accounting, management, and legal skills are more specialized. Therefore, most employees are not expected to have these skills.
SOURCE: PD:025
SOURCE: PD LAP 15—Go For It! (Careers in Business)
84. C
Salary requirements. Some employment applications ask you to indicate your salary expectations or requirements. This type of information is better to discuss in person because the wage you are willing to accept may depend on other factors such as paid benefits, vacation time, tuition reimbursement, etc. It is acceptable to write "open" or "negotiable" in this section, which will give you the opportunity to find out more about the position in an interview before making salary decisions. Information that you should routinely provide in an employment application includes your job expectations, personal references, and any special qualifications you may have.
SOURCE: PD:027

85. C
Your work experiences that relate to the job opening. The letter of application is intended to provide information about the job applicant so that the reader understands how the applicant is qualified for a specific job opening. It should stress the applicant's strengths so that the reader knows the person's qualifications and feels positively about them. Negative subjects, such as frequent job changes, should be avoided. References should be cited in the resume. Only relevant information should be presented in the letter of application. The ages of the applicant's children are not considered relevant for most job openings.
SOURCE: PD:030

86. D
A résumé is attached. The purpose of writing a letter of application is to indicate the job being applied for and the individual's interest in and qualifications for the job. Since the letter should be brief, it is important to attach a résumé that more fully explains the applicant's education and previous work experience. However, the letter should state that a résumé is attached so the business will know to look for the résumé and to read it to obtain additional information about the applicant. It is not important for individuals to state that they have many references, that a friend works for the business, or that they are in need of a job when writing a letter of application.
SOURCE: PD:030

87. B
Education. Employers want information about an applicant's educational background and work experience to determine the applicant's qualifications. Marital status and date of birth are personal information that an applicant can include if desired, but they are not required. A list of references can be presented to the employer at the time of the job interview.
SOURCE: PD:031
88. B

Relevant volunteer experience. Don't limit yourself to including just work or school experience on your résumé. If you learned relevant skills while volunteering, let your potential employers know! It's important to remember that you don't have to include everything about your life on your résumé. In fact, there's some information you should definitely leave out. While honesty is always the best policy, you shouldn't mention why you left a previous job on your résumé. Save that information for your interview (if the interviewer asks). Don't disclose your salary expectations, either. If an employer wants to know your salary expectations, s/he will ask for them. Otherwise, giving a number that's either too high or too low could take you out of the running. You shouldn't list your personal references on a résumé because employers usually only end up calling your references if you've advanced in the interview process. An interviewer will ask to see your references if s/he needs them. It's also important to show respect for your references and only give out their contact information when it's absolutely necessary.

SOURCE:  PD:031

89. B

Line of credit. A line of credit is a type of short-term loan that banks often provide to businesses. For example, a business might need to borrow funds for a short period of time until it collects its accounts receivable. When that money is received, the business repays the bank. In most cases, a business establishes a line of credit with a bank in advance so it knows it will have funds available when needed. A mortgage is a loan for property. An installment loan usually is long term rather than for a short period of time. A certificate of deposit is a type of investment.

SOURCE:  PD:154

90. A

Financing. The purpose of loan products is to provide short-term or long-term financing. There are various types of loan products depending on the need. For example, a business might obtain a short-term loan to cover expenses during the off season. Or, it might obtain a long-term loan to build a new facility and expand. The loans provide the financing, or money, needed to meet those needs. Collateral is anything of value belonging to the borrower that is pledged to the lender to guarantee that the loan will be repaid. Income is money received by resource owners and by producers for supplying goods and services to consumers. Interest is money payments for the use of borrowed money.

SOURCE:  PD:155

91. A

All of the trades made on a particular stock. The role of specialists is to maintain a fair and orderly market for the security they trade. They are not responsible for keeping a stock's price high or low, nor do they trade solely on the behalf of institutional investors.

SOURCE:  PD:236

92. A

Limit. A limit order sets the highest or lowest price at which one is willing to buy or sell. In this example, Maggie is willing to buy only at a certain low price; she is limiting the order. A market order is an order to buy or sell immediately at the best available price. A stop order, also called a stop-loss order, is an order to sell a stock if the price drops to a certain level. Trade order is not a term used to describe securities trading.

SOURCE:  PD:236
93. D
Food and Drug Administration. The Food and Drug Administration (FDA) administers laws that apply to foods, drugs, medical devices, and cosmetics. The agency covers such areas as product development, packaging, advertising, and labeling. The Better Business Bureau is not a government agency but an organization to which consumers can report unethical business practices they encounter. The Small Business Administration is a federal agency established to assist small businesses through counseling, advocacy, loans, etc. The Interstate Commerce Commission regulates transportation between states.
SOURCE: PM:017
SOURCE: PP LAP 7—Protect and Serve (Consumer Protection)

94. B
Participating in brand licensing. Brand licensing is the legal authorization by a brand owner to allow another company to use the brand in exchange for a fee. It is not a consumer-protection measure. All of the other alternatives are ways businesses try to protect consumers.
SOURCE: PM:017
SOURCE: PP LAP 7—Protect and Serve (Consumer Protection)

95. D
Gap. The purpose of gap insurance is to cover the difference between the amount of money an insurance provider will pay for a totaled car and the remaining amount owed on the vehicle. Because the value of a vehicle depreciates quickly, the insurance provider may pay the depreciated value rather than the purchase price of the vehicle. As in Joseph's situation, this can be very costly if a large amount of money is still owed on an unusable vehicle. Comprehensive insurance pays for vehicle repairs that result from situations such as fire, hail, vandalism, and theft. Uninsured motorist insurance pays for costs associated with driver and passenger injuries and/or vehicle damages that are caused by uninsured, underinsured, or hit-and-run drivers. Adaptable is not a type of insurance.
SOURCE: SE:406

96. B
HMOs provide comprehensive health services but often restrict the insured's choice of physicians. A health maintenance organization (HMO) provides comprehensive healthcare services to its members for a fixed fee, which is usually paid on a monthly basis. HMOs do not base members' fees on the frequency of their visits to the doctor. Some HMO services require small co-payments for standard medical services, but not all do. To control costs, HMOs usually restrict the insured's choice of physicians to those who are within the HMO network. Some HMOs allow members to obtain medical services outside the network, but members who choose out-of-network physicians often encounter much higher deductibles and co-payments. Because HMOs provide comprehensive services, members' fees cover services such as doctor's visits, hospitalization, and X-ray and laboratory services.
SOURCE: SE:412
97. D
Optional-perils endorsements. Some homeowners live in areas that are prone to earthquakes or floods. Because basic homeowner insurance policies do not cover these types of incidents, insurance agents might encourage clients living in high-risk areas to purchase optional-perils endorsements. Optional-perils endorsements (riders) are provisions that clients can add to their basic homeowner insurance policies to increase their protection from losses associated with certain risks, such as earthquakes and floods. Rental unit coverage is a provision that covers a dwelling that an owner rents to others for certain timeframes, such as a condominium that is located in a resort or recreational area and is rented by vacationers. Term insurance is a type of life insurance that provides financial protection to the insured's beneficiaries for a certain timeframe. Assisted-living insurance is an insurance rider that protects the personal property of a family member who is placed in a care facility, such as a nursing home.


98. A
Accumulates cash value over time. Life insurance is a contract between a policyholder and an insurance carrier and states that the insurance carrier will provide the beneficiary of the insured with a certain amount of money upon the insured's death. A policyholder who purchases a whole-life insurance policy pays a level premium at specific intervals for the insured's entire life from the time of purchase. There are no time limits (e.g., 25 years) on insurance coverage for whole-life insurance policies. Coverage continues as long as the premiums are being paid. Because the whole life insurance policy accumulates cash, money can be borrowed or withdrawn from the cash value of the policy, if certain criteria are met. After the insured's death, the policy's beneficiary may use some of the money to cover the insured's burial expenses. Premium amounts for whole-life insurance vary by policy and do not need to be paid on an annual basis. The premiums are paid according to the terms of the contract, which are usually monthly, quarterly, or annually.


99. B
Investors. A business plan is a set of procedures or strategies that outlines how a person plans to take an idea and turn it into an organized effort to produce and/or distribute goods and services. Some people who start businesses do not have enough money to start out, so they seek financial assistance through lenders (e.g., banks) or private investors. The investors usually want to see a detailed business plan before investing money into a venture. A business owner does not distribute his/her business plan to competitors, clients, or promoters to obtain financial support.


100. A
Prepare for an expansion. A company that hopes to expand its product line, office space, or workforce can prepare for the change by planning ahead. Building a new facility is certainly an expansion that warrants a business plan. Writing a business plan forces the company to analyze the effectiveness of new products or promotions. If business owners want to sell the company, they can use the process of writing a business plan to help them set a value. To snag a valuable client account, companies can write a business plan that describes how successful they intend to be.

SOURCE: SM LAP 7—Plan Now, Succeed Later (Nature of Business Plans)