Introduction to Personal Finance 3rd edition Grable Test Bank

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Introduction to Personal Finance, 3e **(Grable)**
Chapter 1 Beginning Your Financial Journey: The Interior Finance Point of View

1) Which of the following refers to one's ability to understand and use personal finance information?
A) Financial risk tolerance.
B) Financial well-being.
C) Financial knowledge.
D) Financial ability.
Answer: C
Explanation: Financial knowledge is the ability to understand personal finance information. Knowing who you are, where you want to go, and what skills you currently possess are essential factors shaping your financial journey.
Diff: 1
LO: 1.1, Section 1.1
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

2) People who believe that what happens to them is based on fate or luck might view their financial journey as being uncertain. This is an example of
A) financial risk tolerance.
B) financial literacy.
C) feelings of control.
D) financial ability.
Answer: C
Explanation: Feelings of control is the amount of control you feel you have when making financial decisions. People who believe that what happens to them is based on luck or fate might view their financial journey as uncertain.
Diff: 1
LO: 1.1, Section 1.1
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

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3) Internal finance includes your
A) financial knowledge.
B) financial risk tolerance.
C) feelings of control.
D) All of these answer choices are correct.
Answer: D
Explanation: Internal finance is essentially the combination of financial knowledge, financial risk tolerance, and feelings of control.
Diff: 1
LO: 1.1, Section 1.1
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

4) Which of the following refers to your confidence and peace of mind regarding your financial situation?
A) Financial literacy.
B) Financial well-being.
C) Financial knowledge.
D) Financial ability.
Answer: B
Explanation: Financial well-being is your confidence and peace of mind regarding your financial situation. Your financial well-being will increase as you apply your financial knowledge, develop skills, and organize your finances to achieve your personal goals.
Diff: 2
LO: 1.1, Section 1.1
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

5) In addition to financial knowledge, which of the following is important in shaping your view of the financial world?
A) Financial risk tolerance, only.
B) Feelings of control, only.
C) Financial well-being only.
D) Financial risk tolerance and feelings of control.
Answer: D
Explanation: Our financial decisions can be based on a biased view of the financial world, which is based on the combination of our financial knowledge, financial risk tolerance, and feelings of control.
Diff: 2
LO: 1.1, Section 1.1
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

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6) Which of the following refers to your willingness to engage in financial endeavors that have uncertain outcomes?
A) Financial literacy.
B) Financial risk tolerance.
C) Financial knowledge.
D) Financial ability.
Answer: B
Explanation: Your financial risk tolerance is your willingness to engage in financial endeavors that have uncertain outcomes.
Diff: 1
LO: 1.1, Section 1.1
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

7) Which of the following is measured by adding up how much the United States produces in goods and services in a year?
A) Gross domestic product.
B) The cost of goods sold.
C) Financial literacy.
D) Financial risk tolerance.
Answer: A
Explanation: Gross domestic product (GDP) is measured by adding up how much a country produces in goods and services in a year.
Diff: 1
LO: 1.1, Section 1.1
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

8) How much of GDP consists of consumer spending?
A) 46%.
B) 50%.
C) 60%.
D) 66%.
Answer: D
Explanation: In 2022, the U.S. GDP was $24.46 trillion and nearly two-thirds (66%) of GDP consists of consumer spending.
Diff: 1
LO: 1.1, Section 1.1
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

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9) Which of the following will help you outline exactly how to apply your financial knowledge to achieve your life vision?
A) Financial literacy.
B) Financial roadmap.
C) Financial knowledge.
D) Financial ability.
Answer: B
Explanation: Envisioning the future is not easy, but having a long-term life vision and a plan requires a financial roadmap, a course that will help you outline how to apply your financial knowledge to achieve your life vision.
Diff: 1
LO: 1.1, Section 1.1
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

10) An action item that should be a part of everyone's journey to financial well-being includes which of the following?
A) Keeping good records.
B) Spending less than you earn.
C) Maintaining appropriate insurance.
D) All of these answer choices are correct.
Answer: D
Explanation: The actions that can help you to manage your financial well-being include: keeping good records, earn money, manage taxes, spend less than you earn, save wisely, invest strategically, maintain appropriate insurance, and plan for your future.
Diff: 2
LO: 1.1, Section 1.1
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

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11) How does consumer spending affect GDP?
A) If spending decreases, GDP increases.
B) If spending increases, GDP decreases.
C) If spending increases, GDP increases.
D) Consumer spending doesn't affect GDP.
Answer: C
Explanation: Gross domestic product (GDP) is measured by adding up how much a country produces in goods and services in a year. Everything from the value of cars to the value of the shrubs and flowers purchased at a local store is included in GDP. Since nearly two-thirds (66%) of GDP consists of consumer spending; the more consumers spend, the larger GDP becomes. On the other hand, if consumption slows down, GDP goes down.
Diff: 2
LO: 1.1, Section 1.1
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

12) Financial literacy takes more than financial knowledge. You must also have some key personal behaviors, including which of the following?
A) Self-control.
B) A desire to apply financial information to the management of your household financial situation.
C) An interest in personal finance topics.
D) All of these answer choices are correct.
Answer: D
Explanation: Financial literacy is one of the most important predictors of savings and investment success and overall well-being. In addition to financial knowledge, you must possess financial discipline (self-control) and a desire to develop skills and apply your financial knowledge to achieve your personal goals.
Diff: 1
LO: 1.1, Section 1.1
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

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13) Which of the following is one of the most important predictors of savings and investment success, and overall well-being?
A) Financial literacy.
B) Financial well-being.
C) Financial knowledge.
D) Financial ability.
Answer: A
Explanation: Financial literacy is one of the most important predictors of savings and investment success and overall well-being.
Diff: 1
LO: 1.1, Section 1.1
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

14) Greater financial _____ is associated with improved financial decision-making, lower financial stress, and higher levels of well-being.
A) luck
B) financial knowledge
C) spending
D) income
Answer: B
Explanation: As you apply your financial knowledge, develop skills, and organize your finances to achieve your personal goals, your confidence and peace of mind regarding your financial situation, or your financial well-being, will increase.
Diff: 1
LO: 1.1, Section 1.1
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

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15) If you slow down or stop spending, what happens to GDP?
A) GDP increases.
B) GDP decreases.
C) GDP is unchanged.
D) GDP is not related to consumer spending.
Answer: B
Explanation: Gross domestic product (GDP) is measured by adding up how much a country produces in goods and services in a year. Everything from the value of cars to the value of the shrubs and flowers purchased at a local store is included in GDP. Since nearly two-thirds (66%) of GDP consists of consumer spending, the more consumers spend, the larger GDP becomes. On the other hand, if consumption slows down, GDP goes down.
Diff: 2
LO: 1.1, Section 1.1
Bloom: A
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

16) Scarcity refers to:
A) having unlimited resources available.
B) having too much debt.
C) having too little financial knowledge.
D) having limited resources available.
Answer: D
Explanation: Scarcity refers to having a limited number of resources available.
Diff: 1
LO: 1.1, Section 1.1
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

17) Your ability and willingness to work, learn, earn, and make wise decisions about how to save and invest money refers to what?
A) Financial literacy.
B) Financial well-being.
C) Social capital.
D) Human capital.
Answer: D
Explanation: Human capital is your ability and willingness to work, learn, earn, and make wise decisions about how to save and invest money.
Diff: 1
LO: 1.2, Section 1.2
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

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18) How well you are able to form connections with other people is referred to as what?
A) Financial literacy.
B) Financial well-being.
C) Social capital.
D) Human capital.
Answer: C
Explanation: Social capital is how well you are able to form connections with other people.
Diff: 1
LO: 1.2, Section 1.2
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

19) Human capital is your most valuable:
A) asset.
B) liability.
C) skill.
D) ability.
Answer: A
Explanation: Human capital is your ability and willingness to work, learn, earn, and make wise decisions about how to save and invest money. Human capital is your most valuable asset, as it determines your life-long earnings potential.
Diff: 1
LO: 1.2, Section 1.2
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

20) Example(s) of human capital include which of the following?
A) Formal education.
B) Health.
C) Skill development.
D) All of these answer choices are correct.
Answer: D
Explanation: Human capital is your ability and willingness to work, learn, earn, and make wise decisions about how to save and invest money. Your earnings are an indicator of the value of your human capital in the labor market. Earnings are often closely associated with your level of formal education, continuing professional education and skill development, and your health.
Diff: 2
LO: 1.2, Section 1.2
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

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21) Which of the following is NOT found in individuals themselves but rather in the space between individuals or the network of connections among people?
A) Financial literacy.
B) Financial well-being.
C) Social capital.
D) Human capital.
Answer: C
Explanation: Unlike human capital, social capital is not found in individuals themselves but rather in the space between individuals, or the network of connections among people. Social capital is how well you are able to form connections with other people. As such, your social capital will affect the value of your human capital, particularly how much you earn over your working life.
Diff: 1
LO: 1.2, Section 1.2
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

22) Social capital includes which of the following?
A) Informal and formal networks.
B) Financial well-being and financial knowledge.
C) Formal networks and financial knowledge.
D) Human capital and informal networks.
Answer: A
Explanation: Social capital is how well you are able to form connections with other people, such as informal and formal networks. Informal networks are the interpersonal relationships you form with your family and close friends. Formal networks connect you with people in professional, recreational, leisure, and social communities.
Diff: 1
LO: 1.2, Section 1.2
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

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23) Which of the following includes the interpersonal relationships you form with your family and close friends?
A) Informal networks.
B) Formal networks.
C) Financial capability.
D) Human capital.
Answer: A
Explanation: Informal networks are the interpersonal relationships you form with your family and close friends. Informal networks can provide encouragement and support.
Diff: 1
LO: 1.2, Section 1.2
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

24) Which of the following connects you with people in professional and social communities?
A) Informal networks.
B) Formal networks.
C) Financial capability.
D) Human capital.
Answer: B
Explanation: Formal networks connect you with people in professional, recreational, leisure, and social communities. Formal networks include clubs, organizations, and professional associations.
Diff: 1
LO: 1.2, Section 1.2
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

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25) Which of the following can both help and seriously deplete your social capital?
A) Informal networks.
B) Formal networks.
C) Social media sites.
D) Human capital.
Answer: C
Explanation: Be wary of how you present yourself on social media sites and with whom you are sharing your personal information. Employers, for example, routinely monitor such sites when hiring and might be making skewed evaluations about your personal and professional qualifications based on what they see. While social media sites may help you engage more people, the information can be misinterpreted in a negative way.
Diff: 1
LO: 1.2, Section 1.2
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

26) Which of the following is the point where returns through job placements, income, and human capital outweigh the costs of attendance?
A) Informal networks.
B) Formal networks.
C) Financial capability.
D) Educational value.
Answer: D
Explanation: Educational value is the point where returns through job placements, income, and human capital outweigh the costs of school attendance as a worthwhile activity. Costs can include educational expenses, reduced earnings while in school, and student debt.
Diff: 2
LO: 1.2, Section 1.2
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

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27) Individuals with a professional degree can expect to earn what amount more than those with only a high school diploma over a lifetime?
A) $500,000.
B) $1 million.
C) $2 million.
D) $2.5 million.
Answer: C
Explanation: If you look at the long-term payoff over a lifetime of employment, those with a professional degree will generally earn over $2 million more than those with only a high school diploma (U.S. Bureau of Labor Statistics, *Unemployment Rates and Earnings by Educational Attainment*, 2016).
Diff: 1
LO: 1.2, Section 1.2
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

28) How does relocating to where specific types of human capital are more valued affect how much you can earn?
A) It can increase earnings.
B) It can decrease earnings.
C) It can double earnings.
D) It can triple earnings.
Answer: A
Explanation: Those who are willing to relocate tend to earn a higher income over their lifetime financial journey because they can take advantage of location-specific higher income from their work, making it easier to save more money over their work life.
Diff: 1
LO: 1.2, Section 1.2
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

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29) Generally, healthy people work _____ hours and for a _____ period of years over their life span compared to those with impaired health histories.
A) fewer; shorter
B) more; longer
C) the same; shorter
D) fewer; longer
Answer: B
Explanation: Generally, healthy people work more hours and for a longer period of years over their life span compared to those with health problems. Thus, healthy people tend to earn more money on an annual basis, as well as over their lifetimes.
Diff: 2
LO: 1.2, Section 1.2
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

30) Poor health may result in a(n) _____ standard of living across the life span.
A) lower
B) higher
C) lower or higher
D) unchanged
Answer: A
Explanation: Generally, healthy people work more hours and for a longer period of years over their life span compared to those with health problems. Healthy people tend to earn more money on an annual basis, as well as over their lifetimes. Poor health may result in a lower standard of living across the life span.
Diff: 2
LO: 1.2, Section 1.2
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

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31) From the beginning of your career until retirement, human capital _____ and financial wealth _____.
A) increases; increases
B) increases; decreases
C) decreases; increases
D) decreases; decreases
Answer: A
Explanation: Early in your career and continuing throughout your career, your human capital will increase which in turn will cause your wealth to increase. Once you retire, your human capital will begin to decrease along with your wealth since you are no longer working and earning a paycheck.
Diff: 2
LO: 1.2, Section 1.2
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

32) Nate is considering a Master's degree that will enable him to upgrade his job. The program would mean that he would have to miss a year of work. It would cost him $25,000 in tuition and another $25,000 in additional living expenses that he can pay for with a student loan. He currently earns $45,000, and the promotion would pay him $65,000. What is his payback period?
A) 1.46.
B) 2.50.
C) 3.50.
D) 4.75.
Answer: D
Explanation:

$$\text{Payback Period} = \frac{\text{Total Costs}}{\text{Increase in Annual Income}}$$

$$\mathbf{4.75} = \frac{\$25{,}000 \text{ tuition} + \$25{,}000 \text{ living exp} + \$45{,}000 \text{ lost income}}{\$20{,}000 \text{ increased earnings}}$$

Diff: 2
LO: 1.2, Section 1.2
Bloom: A
AACSB / IMA: none; none
AICPA: FC: none
Min: 3

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33) Marginal cost is the:
A) added income from producing one more unit of something.
B) added benefits of producing one more unit of something.
C) added cost of producing one more unit of something.
D) None of these answer choices are correct.
Answer: C
Explanation: Marginal cost is the added cost of producing one more unit of something.
Diff: 1
LO: 1.2, Section 1.2
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

34) Marginal benefit is:
A) added revenue from producing one more unit of something.
B) added revenue from producing one more unit of something less the added cost of producing one more unit of something.
C) added cost of producing one more unit of something.
D) the additional enjoyment resulting from consuming one more unit of something.
Answer: D
Explanation: Marginal benefit is the additional enjoyment resulting from consuming one more unit of something.
Diff: 1
LO: 1.2, Section 1.2
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

35) Risk is the _____ associated with any physical, social, emotional, environmental, workplace, or financial activity.
A) uncertainty
B) financial implication
C) projected result
D) benefit
Answer: A
Explanation: Risk is the uncertainty associated with any physical, social, emotional, environmental, labor market, or financial activity.
Diff: 1
LO: 1.3, Section 1.3
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

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36) What refers to doing something that involves the possibility of both a gain and a loss?
A) Uncertainty.
B) Risk taking.
C) Risk avoidance.
D) Risk tolerance.
Answer: B
Explanation: Risk taking refers to doing something that involves the possibility of a gain or a loss.
Diff: 1
LO: 1.3, Section 1.3
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

37) What refers to your willingness to engage in risky behavior that entails the possibility of a financial loss?
A) Uncertainty.
B) Risk taking.
C) Risk avoidance.
D) Risk tolerance.
Answer: D
Explanation: Financial risk tolerance refers to your willingness to engage in behavior that entails the possibility of a financial loss.
Diff: 1
LO: 1.3, Section 1.3
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

38) The relationship between wealth accumulation and risk tolerance is generally:
A) positive.
B) negative.
C) equal.
D) not associated.
Answer: A
Explanation: The relationship between wealth accumulation and risk tolerance is generally positive. This relationship is typically illustrated by the positively sloped curve (45-degree angle depicting proportionate relationship) with Wealth on Y-axis and Risk Tolerance on X-axis.
Diff: 2
LO: 1.3, Section 1.3
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

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39) Your cognitive evaluation of the potential gains and losses associated with a course of action is referred to as what?
A) Risk taking.
B) Risk avoidance.
C) Risk tolerance.
D) Risk perception.
Answer: D
Explanation: Risk perception is your cognitive evaluation of the potential gains and losses associated with a course of action.
Diff: 1
LO: 1.3, Section 1.3
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

40) _____ is wanting something else compared to the option available.
A) Uncertainty
B) Expected return
C) Risk preference
D) Risk tolerance
Answer: C
Explanation: Your risk preference is wanting something else compared to the option available.
Diff: 1
LO: 1.3, Section 1.3
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

41) What happens to your risk tolerance over time?
A) It only decreases.
B) It can change.
C) It remains the same.
D) It only increases.
Answer: B
Explanation: Your risk tolerance can change over time. As your financial knowledge and experience increases, your tolerance for financial risk will also increase. However, as you age and near retirement, your tolerance for financial risk will decrease.
Diff: 2
LO: 1.3, Section 1.3
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

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42) What percent of the time did the stock market generate a positive annual return from 1824 to 2018?
A) 33%.
B) 47%.
C) 62%.
D) 71%.
Answer: D
Explanation: From 1824 to 2018, the stock market actually generated a positive annual return approximately 71% of the time. With this factual knowledge, your risk perception and willingness to take risk may change.
Diff: 1
LO: 1.3, Section 1.3
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

43) Your willingness to take a risk is influenced by your initial _____ and your ultimate preferences.
A) perception
B) financial knowledge
C) financial ability
D) risk tolerance
Answer: A
Explanation: Your willingness to take a risk is influenced by your initial perception and your ultimate preference.
Diff: 2
LO: 1.3, Section 1.3
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

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44) In the financial marketplace, the only way to accumulate a certain level of wealth is to take _____ with your savings.
A) informed financial risks
B) all risks
C) no risks
D) decreased risks
Answer: A
Explanation: Life is full of trade-offs. In the financial marketplace, the primary way to accumulate a certain level of wealth is to take informed financial risks with your savings. You must make a choice between security, uncertainty, and financial risk tolerance.
Diff: 2
LO: 1.3, Section 1.3
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

45) Low-risk investments tend to generate _____ amounts of investment income and wealth.
A) high
B) low
C) stable
D) low and volatile
Answer: B
Explanation: Low-risk investments tend to generate low amounts of investment income and wealth, also known as investment returns, and are very predictable.
Diff: 2
LO: 1.3, Section 1.3
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

46) Financial knowledge can lead to increased what?
A) Confidence.
B) Risk.
C) Perception.
D) Social capital.
Answer: A
Explanation: Your risk tolerance often changes over time. As your financial knowledge and experience increases, your tolerance for financial risk will also increase. Financial knowledge creates confidence.
Diff: 2
LO: 1.3, Section 1.3
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

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47) Increased financial understanding can lead to what?
A) Increased risk tolerance.
B) Decreased risk tolerance.
C) No change in risk tolerance.
D) None of these answer choices are correct.
Answer: A
Explanation: As your financial knowledge and experience increases, your tolerance for financial risk will also increase.
Diff: 2
LO: 1.3, Section 1.3
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

48) An increased tolerance for risk can lead to what?
A) Decreased ability.
B) Increased ability.
C) Increased confidence.
D) Financial risk-taking.
Answer: D
Explanation: Your risk tolerance can change over time. As your financial knowledge and experience increases, your tolerance for financial risk will also increase. Increased risk tolerance leads to financial risk-taking.
Diff: 2
LO: 1.3, Section 1.3
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

49) Higher financial risk tolerance will help you engage in financial behaviors that have _____ long-term payoffs.
A) lower
B) equal
C) greater
D) None of these answer choices are correct.
Answer: C
Explanation: The relationship between wealth accumulation and risk tolerance is generally positive. So, unless you are willing to take some financial risk, it is going to be difficult to achieve your financial dreams and goals. Higher financial risk tolerance will help you reach your financial goals with greater long-term payoffs.
Diff: 2
LO: 1.3, Section 1.3
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

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50) Which of the following refers to the "S" in SMART goals?
A) Specific.
B) Simple.
C) Strategic.
D) Significant.
Answer: A
Explanation: Specific: Documenting the when, what, where, and how aspects of the goal.
Diff: 1
LO: 1.4, Section 1.4
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

51) Which of the following refers to the "M" in SMART goals?
A) Momentous.
B) Magnitude.
C) Measurable.
D) Manageable.
Answer: C
Explanation: Measurable: Attaching a quantifiable standard for achieving the goal.
Diff: 1
LO: 1.4, Section 1.4
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

52) Which of the following refers to the "A" in SMART goals?
A) Attainable.
B) Authentic.
C) Allowed.
D) Ample.
Answer: A
Explanation: Attainable: Being realistic about whether you can really achieve the goal.
Diff: 1
LO: 1.4, Section 1.4
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

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53) Which of the following refers to the "R" in SMART goals?
A) Reportable.
B) Rampant.
C) Reliable.
D) Relevant.
Answer: D
Explanation: Relevant: Developing only those financial goals that are the most crucial to improving your financial situation today and in the future.
Diff: 1
LO: 1.4, Section 1.4
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

54) Which of the following refers to the "T" in SMART goals?
A) Theoretical.
B) Transcending.
C) Timely.
D) Term.
Answer: C
Explanation: Timely: Having the ability to meet the goal in a reasonable amount of time.
Diff: 1
LO: 1.4, Section 1.4
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

55) What type of goals are represented on your financial map?
A) Long-term.
B) Short-term.
C) Life.
D) Goals are not included on the map.
Answer: A
Explanation: Your map consists of your long-term goals, a big-picture idea of where you want to be financially.
Diff: 2
LO: 1.4, Section 1.4
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

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56) What is included in your financial compass?
A) Short-term goals, only.
B) Long-term goals, only.
C) Neither daily tasks nor long-term goals.
D) Both short-term goals and daily tasks.
Answer: D
Explanation: A map allows you to plot a journey to your long-term goal. Your compass consists of the short-term goals and daily tasks that represent the immediate actions needed to navigate to your longer-term goals.
Diff: 2
LO: 1.4, Section 1.4
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

57) Which of the following includes things that need to happen along the way toward reaching a financial goal?
A) Financial objectives.
B) Financial abilities.
C) Financial skills.
D) Financial literacy.
Answer: A
Explanation: Your map consists of your long-term goals, a big-picture idea of where you want to be financially. Your compass consists of the short-term goals and daily tasks that represent the immediate actions needed to reach longer-term goals. Financial objectives are things that need to happen along the way toward reaching a financial goal.
Diff: 2
LO: 1.4, Section 1.4
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

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58) Which of the following represents a SMART goal?
A) Start saving early in life in order to save enough to reach the goal.
B) Have a retirement income from personal savings, Social Security, and retirement plan assets.
C) Retire at age 67 in Florida with an annual income of $80,000.
D) Begin saving today to reach future goals.
Answer: C
Explanation: A SMART goal is Specific, Measurable, Attainable, Relevant, and Timely. The option, "Retire at age 67 in Florida with an annual income of $80,000," is specific since it gives the exact age at which to retire, the state to retire in, and the amount of retirement income. It is measurable because you will know how much income is being earned. It is attainable and relevant at $80,000 and timely due to the age given.
Diff: 2
LO: 1.4, Section 1.4
Bloom: Ap
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

59) Which of the following represents a timely goal?
A) Start saving $100 per month 5 years before you expect to need to buy a new car with a $6,000 down payment.
B) Have an income of $180,000 from personal savings, Social Security, and retirement plan assets.
C) Retire at age 67 in Florida with an annual income of $80,000.
D) Begin saving today to buy a beach house.
Answer: A
Explanation: The option, "Start saving $100 per month 5 years before you expect to need to buy a new car with a $6,000 down payment," is a timely goal as it gives the time frame for the goal.
Diff: 2
LO: 1.4, Section 1.4
Bloom: Ap
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

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60) Which of the following represents a measurable goal?
A) Start saving early in life in order to save enough to reach the goal.
B) Have an income of $80,000 from personal savings, Social Security, and retirement plan assets.
C) Retire at age 67 in Florida with a substantial annual income.
D) Begin saving today to reach future goals.
Answer: B
Explanation: The option, "Have an income of $80,000 from personal savings, Social Security, and retirement plan assets," is measurable since it is a quantifiable goal.
Diff: 2
LO: 1.4, Section 1.4
Bloom: Ap
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

61) Which of the following represents a relevant goal?
A) Start saving early in life in order to save enough to buy a beach house.
B) Have some personal savings to supplement my Social Security.
C) Retire in 50 years with an annual income of $80,000.
D) Begin saving $100 per month today to pay off a credit card balance of $1,000 within a year.
Answer: D
Explanation: The option, "Begin saving $100 per month today to pay off a credit card balance of $1,000 within a year," is relevant since it is crucial to start paying off the debt in a manner that will realistically achieve the goal. The other choices do not present relevant steps that make the goal attainable.
Diff: 2
LO: 1.4, Section 1.4
Bloom: Ap
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

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62) Which of the following represents an attainable goal?
A) Purchase a condominium in a 55-or-older community.
B) Have an income of $180,000 from personal savings, Social Security, and retirement plan assets.
C) Retire at age 67 in Florida with an annual income of $180,000.
D) Save 5% of my paycheck for the next 36 months to pay for Spring Break in Hawaii.
Answer: D
Explanation: "Saving 5% of a paycheck for the next 36 months to pay for Spring Break in Hawaii," is attainable because it is a realistic goal that can be achieved. The other choices do not prescribe a specific enough plan to measure its attainability.
Diff: 2
LO: 1.4, Section 1.4
Bloom: Ap
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

63) Which of the following refers to the time between creating a goal and actually achieving the goal?
A) Time in the middle.
B) Goal time horizon.
C) Time to save.
D) Intermediate time.
Answer: B
Explanation: When thinking about how you'll earn, spend, and save for the future, it's important to match your financial goals with a realistic goal time horizon; the time between creating a goal and achieving the goal.
Diff: 1
LO: 1.4, Section 1.4
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

64) Which of the following refers to a long-term goal?
A) More than 2.5 years to 5 years.
B) More than 5 years to 10 years.
C) More than 10 years.
D) More than 15 years.
Answer: C
Explanation: Long-term is more than 10 years.
Diff: 1
LO: 1.4, Section 1.4
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

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65) Self-efficacy refers to:
A) how long you allow yourself to complete a financial goal.
B) how well you believe that you can achieve a goal.
C) your risk-tolerance level.
D) your ability to not procrastinate in working toward a financial goal.
Answer: B
Explanation: Psychologists refer to the need to believe that you can achieve your goal as self-efficacy.
Diff: 1
LO: 1.4, Section 1.4
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

66) The two ways to increase the importance of a goal are:
A) decreasing the risk tolerance and risk preference.
B) external motivators and internal motivators.
C) external motivators and focusing on things that are out of control.
D) internal motivators and establishing a single complex goal.
Answer: B
Explanation: There are two ways to increase the importance of a goal. You can focus on: external motivating factors, such as financial bonuses if you reach your goal; and internal motivating factors, such as self-improvement and visualizing what attaining your goal will mean to you.
Diff: 2
LO: 1.4, Section 1.4
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

67) Hedonistic and Fatalistic psychologies are _____-oriented time perspectives.
A) past
B) future
C) present
D) past and future
Answer: C
Explanation: Present-oriented time perspective is based on either a hedonistic perspective (doing things for pleasure, the experience, and excitement of the action), or a fatalistic perspective (unable to visualize a meaningful future).
Diff: 2
LO: 1.4, Section 1.4
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

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68) What is essential to accomplishing your goals?
A) Commitment and motivation.
B) Commitment and knowledge.
C) Knowledge and motivation.
D) Risk and knowledge.
Answer: A
Explanation: Following through on your plans is essential to accomplishing goals. Your commitment and motivation to do this largely depends on how important achieving your goal is to you.
Diff: 2
LO: 1.4, Section 1.4
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

69) Which of the following refers to placing more value on the present at the expense of the future?
A) Procrastination.
B) Hyperbolic discounting.
C) Heuristics.
D) Status quo bias.
Answer: A
Explanation: Procrastination is placing more value on the present at the expense of the future.
Diff: 1
LO: 1.5, Section 1.5
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

70) What is said to occur when the value of future benefits is perceived to be lower than that of an alternative available right now?
A) Procrastination.
B) Hyperbolic discounting.
C) Financial capability.
D) Goal setting.
Answer: B
Explanation: Hyperbolic discounting occurs when the time to act nears, the value of future benefits from taking action is perceived to decrease relative to the immediate alternatives.
Diff: 1
LO: 1.5, Section 1.5
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

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71) Accepting $5 today instead of waiting to receive $7 tomorrow is an example of what?
A) Procrastination.
B) Hyperbolic discounting.
C) Financial capability.
D) Goal setting.
Answer: B
Explanation: Hyperbolic discounting occurs when the time to act nears, the value of future benefits from taking action is perceived to decrease relative to the immediate alternatives. As this example illustrates, accepting $5 today undervalues the future payout of $7.
Diff: 2
LO: 1.5, Section 1.5
Bloom: Ap
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

72) Which of the following professionals study how people go about making financial decisions?
A) Financial scientists.
B) Psychotherapist.
C) Behavioral economists.
D) Financial accountants.
Answer: C
Explanation: Behavioral economists study how people go about making financial decisions.
Diff: 1
LO: 1.5, Section 1.5
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

73) Which of the following does our mind use to make decisions more quickly and easily than if we labor over every choice?
A) Procrastination.
B) Hyperbolic discounting.
C) Behavioral economics.
D) Heuristics.
Answer: D
Explanation: Our minds use heuristics to make decisions more quickly and easily than if we were to labor over every choice. Heuristics act like a funnel that takes a lot of information and condenses things down to a decision-making shortcut.
Diff: 1
LO: 1.5, Section 1.5
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

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74) Heuristics is based on what type of experiences?
A) Past.
B) Present.
C) Future.
D) Heuristics is not based on experiences.
Answer: A
Explanation: Heuristics are based on past experiences or learning that the mind applies to new situations. Most heuristics are automatic and rarely used with forethought.
Diff: 2
LO: 1.5, Section 1.5
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

75) Which of the following refers to your personal preference for keeping things just like they currently are?
A) Heuristics.
B) Hyperbolic discounting.
C) Status quo bias.
D) Procrastination.
Answer: C
Explanation: The status quo bias is a personal preference for keeping things just like they currently are. This bias is prevalent because most people are usually comfortable with their current situation, even when much better options are available.
Diff: 2
LO: 1.5, Section 1.5
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

76) If you dislike losing, especially money, you might be said to be which of the following?
A) Loss-averse.
B) Procrastinator.
C) Strategic.
D) Heuristic.
Answer: A
Explanation: Most people dislike losing, especially money. In other words, people tend to be loss-averse.
Diff: 1
LO: 1.5, Section 1.5
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

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77) What term best describes the belief that you will rarely, if ever, experience a painful loss during your lifetime?
A) Loss-aversion.
B) Status quo bias.
C) Optimism bias.
D) Procrastination.
Answer: C
Explanation: Optimism bias describes the belief that people will rarely, if ever, experience painful losses during their lifetime. Being overly optimistic can lead some people to discount the risks associated with a decision.
Diff: 1
LO: 1.5, Section 1.5
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

78) What can lead to becoming overconfident in future decisions based on favorable prior outcomes?
A) Confirmation bias.
B) Status quo bias.
C) Optimism bias.
D) Procrastination.
Answer: A
Explanation: Confirmation bias is attributing a future outcome based on a personal affirmation of a bias already held to be true, regardless of reality. This tendency of confirming an already held belief leads to overconfidence in future decisions.
Diff: 2
LO: 1.5, Section 1.5
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

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79) Using heuristics as a decision-making tool includes which of the following steps?
A) Identifying the problem or issue.
B) Gathering data.
C) Analyzing the situation and data.
D) All of these answer choices are correct.
Answer: D
Explanation: Using heuristics as a decision-making tool involves: (1) Identifying the problem or issue; (2) Gathering appropriate data about the situation; (3) Analyzing the data collected; (4) Listing viable alternatives and selecting the best one; (5) Implementing the decision; and (6) Monitoring outcomes.
Diff: 1
LO: 1.5, Section 1.5
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

80) In the heuristics decision-making process, making a commitment to the best option is an example of which step?
A) Identifying the problem or issue.
B) Gathering data.
C) Analyzing the situation and data.
D) Implementing the decision.
Answer: D
Explanation: Using heuristics as a decision-making tool and making a commitment to the best option is step 5: Implementing the decision.
Diff: 1
LO: 1.5, Section 1.5
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

81) In the heuristics decision-making process, evaluating options is an example of which step?
A) Identifying the problem or issue.
B) Gathering data.
C) Analyzing the situation and data.
D) Monitoring decision outcomes.
Answer: C
Explanation: Using heuristics as a decision-making tool and evaluating each option is step 3: Analyze the situation and data you have collected.
Diff: 1
LO: 1.5, Section 1.5
Bloom: K
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

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82) In using heuristics as a decision-making tool, which of the following is a technique to precommit to decisions?
A) Using deadlines.
B) Focusing on small steps.
C) Paying bills automatically.
D) Defining where you want to be financially.
Answer: A
Explanation: In using heuristics as a decision-making tool, the use of deadlines, having others hold you accountable, and reducing procrastination are techniques to precommit to decisions.
Diff: 2
LO: 1.5, Section 1.5
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

83) Which of the following is an example of status quo bias?
A) Never buy stocks on Monday.
B) When making an estimate, always be conservative.
C) If it isn't broken, don't fix it.
D) Why do something today, if it can wait until tomorrow.
Answer: C
Explanation: The status quo bias is a personal preference for keeping things just like they currently are. This bias is prevalent because most people are usually comfortable with their current situation, even when much better options are available. "If it isn't broken, don't fix it," exhibits status quo bias.
Diff: 2
LO: 1.5, Section 1.5
Bloom: C
AACSB / IMA: none; none
AICPA: FC: none
Min: 1

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