Personal Finance Version 3 1 3rd edition Siegel Test Bank

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Test Item File
Siegel - Personal Finance

Chapter 2 - Basic Ideas of Finance

Item #	Type	Item	Answer	LO	Bloom
1	T/F	Personal finance is about learning how to get what you want and how to protect what you've got.	T	1.1	Knowledge
2	T/F	Financial planning guarantees that you will be able to take advantage of opportunities and avoid disappointments.	F	1.1	Comprehension
3	T/F	You finance your life and way of living through income you earn by selling your labor or capital.	T	1.1	Knowledge
4	T/F	Wages or salary is income from employment or self-employment.	T	1.1	Knowledge
5	T/F	Investing in or buying corporate stock is an example of selling capital in exchange for a share of a company's future value.	T	1.1	Knowledge
6	T/F	The price of labor is the wage that an employer, the buyer of labor, is willing to pay to the employee, the seller of labor.	T	1.1	Knowledge
7	T/F	The more skills required for a job, the more people there are to do it, and the less leverage the seller has in negotiating a price.	F	1.1	Comprehension
8	T/F	You can retire without having to sell your labor and without having to find alternative sources of income.	F	1.1	Knowledge
9	T/F	The more capital you have to sell, the more ways you can sell it to more kinds of buyers, and the more those buyers may be willing to pay.	T	1.1	Knowledge

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10	T/F	A budget deficit is not sustainable; it is not financially viable.	T	1.2	Knowledge
11	T/F	Both budget deficits and budget surpluses need to be addressed by making financial decisions.	T	1.2	Knowledge
12	T/F	Sound financial planning can help you avoid opportunity costs.	F	1.2	Comprehension
13	T/F	Good financial decision making requires that you recognize sunk costs and their consequences.	T	1.2	Comprehension
14	T/F	Opportunity costs and sunk costs are hidden expenses that affect financial decision making.	T	1.2	Knowledge
15	T/F	An asset that can be sold must have some degree of liquidity and some market value.	T	2.1	Comprehension
16	T/F	Buying low and selling high gives you a capital loss.	F	2.1	Knowledge
17	T/F	If an asset is worth more when you resell it than when you bought it, then you have a capital gain.	T	2.1	Knowledge
18	T/F	You use excess liquidity or surplus cash to buy an asset to store wealth until you resell the asset.	T	2.1	Knowledge
19	T/F	Investing in assets or selling capital can be more profitable than selling labor.	T	2.1	Knowledge
20	T/F	Selling an asset can result in a capital gain or capital loss.	T	2.1	Knowledge
21	T/F	Property is an example of an intangible asset.	F	2.2	Comprehension
22	T/F	When you buy or borrow liquidity or cash, you become a buyer in the capital market.	T	2.3	Knowledge
23	T/F	The sources of capital other than income from employment are equity and debt.	T	3.1	Knowledge
24	T/F	It's always better to have equity than to have debt.	F	3.2	Evaluation

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25	T/F	The value of debt may include the benefits of having an asset sooner rather than later.	T	3.3	Knowledge
26	T/F	It does not make sense to invest in an education before you sell your labor.	F	3.3	Comprehension
27	T/F	If debt creates additional expense without enough additional benefit, it's still worth it.	F	3.4	Evaluation
28	T/F	Both equity and debt have costs and value.	T	3.4	Knowledge
29	T/F	Debt creates a cost, but it may reduce expenses or increase income to offset that cost.	T	3.4	Comprehension
30	T/F	The best way to diversify sources of income is to sell both your labor and your capital.	T	4.1	Evaluation
31	T/F	One way to diversity investments is to have a balanced portfolio.	T	4.2	Comprehension
32	T/F	Diversification is a good risk management strategy because it spreads risk.	T	4.3	Comprehension
34	M/C	Making good financial decisions involves understanding a. how the economy works. b. how financial decisions are made. c. how money flows through the economy. d. a. and c. e. a., b., and c.	e.	1.1	Knowledge
35	M/C	Personal finance is about all of the following processes EXCEPT a. managing income and wealth. b. creating income and wealth. c. acquiring and creating assets. d. preventing exposure to risk. e. protecting assets and wealth.	d.	1,1	Comprehension
36	M/C	Income includes a. interest and dividends	d.	1.1	Knowledge

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		b. wages or salary c. assets and wealth d. a. and b. e. a., b., and c.			
37	M/C	Rachel trained to be an EMT but is entering the workforce at a time when EMTs are plentiful and not in great demand. In this case, she is a. in a buyer's market. b. in a seller's market. c. likely to find fewer, lower-paying jobs d. a. and c. e. b. and c.	d.	1.1	Application
38	M/C	If the demand for labor is greater than the supply, then a. the price of labor may fall. b. the price of labor may rise. c. there are fewer jobs available. d. a. and c. e. b. and c.	b.	1.1	Comprehension
39	M/C	You can become more competitive in a seller's labor market by a. getting more education. b. lowering your price. c. joining a large labor pool. d. going to another state. e. switching to a buyer's market.	a.	1.1	Comprehension
40	M/C	Buying stocks or corporate or government bonds is a way to invest in a. the capital market. b. the credit market. c. the labor market. d. the buyers' market. e. the sellers' market.	a.	1.1	Knowledge

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41	M/C	When your expenses are greater than your income you have a. sufficient cash to cover expenses. b. more capital to sell. c. a budget deficit. d. a budget surplus. e. reduced consumption.	c.	1.2	Knowledge
42	M/C	Dylan earns $24,500 a year as an office worker. He pays $1,000 a month for rent, $300 a month toward his car, and his other expenses come to around $1,200 a month. Dylan a. has a budget deficit. b. has a budget surplus. c. should reduce expenses. d. a. and c. e. b. and c.	d.	1.2	Application
43	M/C	The best way to eliminate a deficit is a. to increase income. b. to reduce expenses. c. to borrow. d. a. and b. e. a., b., and c.	d.	1.3	Knowledge
44	M/C	If you had a budget deficit, the best way to reduce it among the following choices would be to a. spend more. b. work more. c. borrow more. d. save more. e. invest more.	b.	1.3	Comprehension
45	M/C	A budget surplus most likely would enable you to do all the following EXCEPT a. increase expenses. b. save. c. invest.	d.	1.3	Analysis

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		d. eliminate debt. e. decrease income.			
46	M/C	If you had a budget surplus, which of the following choices would most likely increase that surplus? a. Increase spending b. Save and invest c. Work fewer hours d. Borrow more e. Change jobs	b.	1.3	Analysis
47	M/C	Shannon's monthly expenses exceed her monthly income. She has no way to increase her income just now, so her best choice to reduce her budget deficit is to a. find ways to cut spending. b. use her savings. c. seek a small loan to tide her over. d. a. and b. e. a., b., and c.	a.	1.3	Application
48	M/C	Ryan has a choice of paying cash from savings or over time for a smartphone. What would be his opportunity cost of paying cash? a. He would lose liquidity. b. He would lose income from savings. c. He would ultimately pay more. d. a. and b. c. a., b., and c.	d.	1.4	Application
49	M/C	Ryan has a choice of paying cash from savings or over time for a smartphone. What would be his opportunity cost of paying over time? a. He would lose liquidity. b. He would lose income from savings. c. He would ultimately pay more. d. a. and b. e. a., b., and c.	c.	1.4	Application

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50	M/C	Erin needs additional memory and an external back-up drive for her computer but her resources are limited. Because there is a special price for the brand she wants, she decides to get the memory. What is her opportunity cost? a. The cost of the memory b. Not getting the brand she wants c. The special price d. Her limited resources e. Not having the back-up drive	e.	1.4	Application
51	M/C	Cash or an asset that can be easily and quickly converted to cash is called a. a liquid asset. b. a budget excess. c. selling capital. d. investing. e. income.	a.	2.1	Knowledge
52	M/C	Storing wealth, creating income, and reducing future expenses are all uses of a. income. b. assets. c. capital. d. markets. e. possessions.	b.	2.1	Comprehension
53	M/C	Which of the following assets reduces expenses but does not increase income or store wealth? a. Home b. Land c. Car d. Money market account e. Savings account	c.	2.2	Comprehension
54	M/C	Which of the following assets do/does not reduce expenses but increase(s) income and store(s) wealth?	c.	2.2	Comprehension

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		a. Home b. Car c. Investment d. a. and b. e. a., b., and c.			
55	M/C	A better investment asset is one that a. increases in value. b. creates a capital gain. c. stores wealth d. a. and b. e. a., b., and c.	e.	2.3	Comprehension
56	M/C	Assets can create income through all the following ways EXCEPT a. employment income. b. interest income. c. rental income. d. capital gains. e. dividend income.	a.	2.3	Analysis
57	M/C	If an asset is worth more when you re-sell it than when you bought it, then you have a. a capital loss. b. a capital gain. c. increased income. d. a reduction in expenses. e. excess capital.	b.	2.4	Knowledge
58	M/C	Borrowing capital has all of the following consequences EXCEPT a. you have equity. b. you are in debt. c. you may use an asset without entirely owning it. d. you trade in the capital market. e. you incur costs.	a.	3.1	Comprehension
59	M/C	Investing capital means that you	d.	3.1	Comprehension

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		a. own a proportion of an asset's gains or losses. b. have equity. c. are not liable for capital gains or losses. d. a. and b. e. a., b., and c.			
60	M/C	The cost of debt is a. interest. b. principal. c. equity. d. liquidity. e. c. and d.	a.	3.2	Knowledge
61	M/C	The benefit of debt is that you can a. use money later rather than now. b. defer payment of interest. c. own an asset before paying for it. d. use it to store wealth. e. use your own money.	c.	3.2	Analysis
62	M/C	The cost of issuing equity is a. sharing the benefits of investment. b. possibly paying capital gains tax. c. carrying greater debt. d. a. and b. e. a., b., and c.	a.	3.2	Comprehension
63	M/C	The benefit of equity is that you can a. profit from an asset without owning it. b. store wealth and generate income. c. cash in on the future value of an asset. d. a. and b. e. b. and c.	e.	3.2	Synthesis
64	M/C	Reasonable uses of debt include all the following EXCEPT a. to finance an education.	b.	3.3	Evaluation

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		b. to cover a budget deficit. c. to purchase a car. d. to buy a house. e. to fund other investments.			
65	M/C	Factors to consider when deciding to borrow to purchase an asset include a. costs in relation to the asset's value. b. the risk of costs exceeding benefits. c. the interest rate, and time to repay. d. a. and b. e. a., b., and c.	e.	3.4	Analysis
66	M/C	When is the best time to get an education? a. After you get a job b. When you can afford one c. Before you market your labor d. When interest rates are low e. After you have saved enough	c.	3.4	Evaluation
67	M/C	The best way(s) to accumulate assets and increase your wealth is a. to invest a budget surplus. b. to have income greater than expenses. c. to protect your income. d. a. and b. e. a., b., and c.	e.	4.1	Evaluation
68	M/C	Sources of income may be diversified by a. having a job and investments. b. having several bank accounts. c. managing risks. d. having fewer investments. e. decreasing expenses.	a.	4.1	Knowledge
69	M/C	Investments in assets may be diversified by a. holding a few stocks. b. investing in a variety of assets. c. eliminating investments that lose value.	b.	4.2	Comprehension

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		d. selling investments at a higher price. e. converting assets to cash.			
70	M/C	The stocks in Wayne's investment portfolio lost value in the recession, but he also had CDs and a savings account. The effect of his investment diversification on his finances was to a. increase spending. b. reduce risk. c. increase income. d. reduce cost. e. increase variety.	b.	4.3	Analysis
71	Fill-In	The money you earn or receive in a given period is called your _____.	income	1.1	Knowledge
72	Fill-In	In finance, _____means access or nearness to cash or convertibility to cash.	liquidity	1.1	Knowledge
73	Fill-In	Selling or lending capital for an asset that can create future income is called _____.	investing	1.1	Comprehension
74	Fill-In	_____are costs for items or resources that are used up or consumed in the course of daily living.	Expenses	1.2	Knowledge
75	Fill-In	When income for a period is greater than expenses, you have a _____ _____.	budget surplus	1.2	Knowledge
76	Fill-In	A _____ _____ occurs when your expenses exceed your income.	budget deficit		Knowledge
77	Fill-In	The cost of giving up your next best choice each time a choice is made is called a/an _____ _____.	opportunity cost	1.3	Comprehension
78	Fill-In	Costs that have already been paid for are called_____ _____.	sunk costs	1.3	Knowledge
79	Fill-In	If your investment decreases in value and you sell it for less than what you paid for it, then you have a _____ _____.	capital loss	2.1	

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80	Fill-In	Your ownership share in a company or asset that entitles you to a portion of its future income or gain is called your _____.	investment	3.1	Knowledge
81	Fill-In	The rent you pay on someone else's money that you borrow for a period of time is called _____.	interest	3.2	Knowledge
82	Fill-In	The total amount of capital you borrow is called the _____.	principal	3.2	Knowledge
83	Fill-In	The result of renting or borrowing someone else's money (for example, a bank's) for a period of time is called _____.	debt	3.2	Comprehension
84	Fill-In	_____ is the probability that the value of an asset, income, or investment may decline in the future.	Risk	3.4	Knowledge
85	Fill-In	_____ is a means of protecting your income by spreading the risk.	Diversification	4.1	Knowledge
86	Short Ans.	What is the trick to managing personal finances?	There is no trick. Personal finance is a matter of understanding how to take advantage of opportunities and avoid disappointments to get and keep what you want in life.	1.1	Comprehension
87	Short Ans.	What are two fundamental ways of earning income in a market-based economy?	The two ways of earning income are by selling labor or by selling or lending capital.	1.1	Knowledge
88	Short Ans.	What are the basic sources of income?	Sources of income include wages or salary from selling one's labor and returns from selling or lending one's capital.	1.1	Knowledge
89	Short Ans.	What determines the price of your labor?	The price of your labor depends on the nature of the work, the education or skills required, the status of the job, competition in the labor market, and other factors.	1.1	Comprehension
90	Short Ans.	Kim works as an editor in a newspaper office, has a savings account, buys U.S. Treasury	Kim has wages from employment, interest income from savings,	1.1	Application

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		bonds when he can, and owns shares of stock. How would his sources of income be defined for purposes of financial planning?	interest income from government bonds, and dividends from corporate stocks.		
91	Short Ans.	How should opportunity cost affect your decisions about spending your income?	Because of opportunity cost, you should seek the greatest value relative to cost, including the cost of not having the next best thing.	1.2	Synthesis
92	Short Ans.	What does the statement mean that decisions, by definition, can be made only about the future, not about the past?	The statement is pointing out that recognizing the impacts of sunk costs (past) can help you make better decisions (future).	1.2	Synthesis
93	Short Ans.	What are the purposes and uses of assets?	Assets may be used to store wealth, create income, and reduce future expenses.	2.1	Knowledge
94	Short Ans.	How can assets reduce expenses?	Assets can reduce expenses by making some expenses more economical in the long term, such as owning rather than renting a car or home.	2.1	Analysis
95	Short Ans.	What is the cost of issuing equity?	The cost of issuing equity is sharing the benefits from your investment with other investors, because the shareholders benefit in proportion to the share of the asset owned.	3.2	Comprehension
96	Short Ans.	What is the cost of debt?	The cost of debt is the interest you have to pay on your loan and having to pay back all of the principal amount you borrowed.	3.2	Comprehension
97	Short Ans.	What is the main risk of buying or borrowing capital to invest in an asset?	The main risk is that the asset will lose value or will not provide enough benefit in relation to cost that you pay for borrowing.	3.3	Comprehension
98	Short Ans.	What makes education a good investment even if it means going into debt?	Education leads to better jobs with better pay. Debt enables you to use the value of your education to	3.4	Analysis

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			enhance your future income, out of which you can pay back your debt.		
99	Short Ans.	Zeke has a job working for a housing contractor. He also does work for a landscaper in the summers and is studying to be an arborist. His hobby is collecting sports memorabilia, which he buys and sells on the Internet. How do Zeke's decisions about selling his labor help to protect his income?	Zeke had diversified his sources of income, so he does not have all his eggs in one basket. A loss of income from any one source would not be a disaster because he has other sources.	4.1	Application
100	Short Ans.	Why do you need a risk management strategy? How is diversification an example of risk management?	Every use of income results in some exposure to risk, making risk and its consequences into costs to weigh against benefits. As a strategy, diversification reduces risk by spreading it.	4.2	Synthesis
101	Essay	Where does an individual's income come from, and where does it go? What is the result of the flows of income in and out?	The best answers will identify sources of income as wages from employment (competing in the labor market) and returns on investment (participating in the capital and credit markets). Income goes to pay expenses (daily consumption and payments on debts). The relationship between income and expenses results in a budget surplus (income exceeds expenses) or a budget deficit (expenses exceed income).	1.2	Synthesis
102	Essay	In what ways could you use a budget surplus to save by storing income profitably for future use?	The best answers will not suggest depositing into a piggy bank but will name five or more of the following ways: deposit it in an interest-bearing bank account,	1.3	Analysis

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			lend it with interest, trade it for an asset such as a corporate stock or bond or real estate, contribute to a retirement account, purchase a Certificate of Deposit, purchase a government bond, or deposit it into a money market account.		
103	Essay	Madison has a kayak, a checking account, a money market account, a portfolio of bonds, a doll collection, and a degree in paralegal studies. How are these assets, and what role can they play in Madison's personal financial planning?	The best answers will identify the kayak and doll collection as material assets that Madison could sell for cash. The checking account represents her liquidity at the same time as it essentially is a loan of cash to the bank. The money market account and portfolio represent investments that store wealth and generate income. Madison's education is an asset based on its future value in increasing her income. These assets diversity her sources of income and can be converted to cash, which she can use to pay her expenses, reduce a budget deficit, or allocate budget surplus.	2.3	Synthesis
104	Essay	As a source of capital, debt has higher costs than equity and a more immediate effect on income and expenses. Why is that?	The best answers will compare and contrast the costs of equity and debt, pointing out that purchasing liquidity through debt creates a liability, adding interest expense and a timed repayment of the principal. The cost of debt must be included in the budget.	3.2	Comprehension
105	Essay	What financial factors should you consider when deciding to borrow capital?	The best answers will discuss the short-term and long-term value of the asset, the benefits of having	3.4	Synthesis

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			the asset sooner rather than later, the risks that the future value and benefits will be less than expected, and, of course, the terms of the loan (principal, interest rate, and time to repayment).		
106	Essay	The best way to protect your income is to diversify both within the labor market and within the capital market. What does this mean?	The best answers will interpret this statement as meaning that optimally you should diversify your sources of income by selling your labor to more than one employer and by selling and lending your capital to more than one investment channel (e.g., checking account, money market account, CDs, stock portfolio, etc.)	4.1	Comprehension

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