

2020 FINANCIAL LITERACY EXAM**Multiple Choice**

Identify the choice that best completes the statement or answers the question.

- _____ 1. If you get an email that appears to be from your bank, including the use of your bank's logo, and it asks for your account number, what should you do?
- a. Send them the information during regular office hours.
 - b. Do not reply to the email.
 - c. Give them your account number but not your social security number.
 - d. I don't know.
- _____ 2. William's take-home pay from his job at the bank is less than the total amount he earns. Which best describes what is taken out of his total pay?
- a. Federal Income Tax, Social Security, and Medicare Contributions.
 - b. Federal Income Tax, Sales Tax, Medicare Tax, and Social Security Contributions.
 - c. Federal Income Tax, Property Tax, Social Security, and Medicare Contributions.
 - d. I don't know.
- _____ 3. Thomas receives his pay through direct deposit. He uses his debit card for most of his retail purchases. Both the debit and the direct deposit involve:
- a. the securing of credit and payment of interest.
 - b. electronic transfers to or from his checking account.
 - c. transaction fees regardless of where the transaction occurred.
 - d. I don't know.
- _____ 4. Monica rents an apartment and pays for her food while attending college. She works at a part-time job to earn money to help pay for her living and college education. She keeps a spending plan to record her:
- a. profits and losses
 - b. assets and liabilities
 - c. income and expenses
 - d. I don't know
- _____ 5. Which of the following statements is true?
- a. A person with a college degree will earn, on average, double what a person with a high school degree earns.
 - b. There are no differences in wages, on average, between people with a high school and college degree.
 - c. There are some differences in wages, on average, between people with a high school and college degree, but not enough to make up for the cost of the average college degree.
 - d. I don't know.
- _____ 6. Starting early, Kathy save as much as she can so that by age 25 she has \$10,000 in a retirement account that earns over 8% interest per year, such that the amount doubles every nine years. If Kathy never adds any more money to the account, but just leaves it in there and lets the interest continue to add up, by age 70 how much money will she have?
- a. Less than \$100,000
 - b. About \$320,000
 - c. More than \$450,000
 - d. I don't know

- _____ 7. Kim's bank bounces her check because of insufficient funds. Besides covering the amount of the check, Kim will likely have to...
- a. pay a fee to her bank.
 - b. open a savings account.
 - c. file a report with the Federal Deposit Insurance Corporation (FDIC).
 - d. I don't know.
- _____ 8. Dana invests her savings of \$500 in a checking account at her local bank or credit union that offers an interest rate of 3% per year. Prices have been increasing in the economy at a rate of 2% per year. With the money she has in the bank a year from now, will she be able to buy more, less, or the same as today?
- a. The same as today.
 - b. Less than today.
 - c. More than today.
 - d. I don't know.
- _____ 9. Suzy backs her car into a metal fence, causing \$500 of damage to the car. She has an auto insurance policy with a \$200 deductible. To get her car fixed, how much will Suzy's auto insurance company pay her?
- a. \$200
 - b. \$300
 - c. \$500
 - d. I don't know
- _____ 10. Omar has a credit score of 350. Charlotte has a credit score of 500. Tamara has a credit score of 750. Which person is most likely to get approved for a loan based on their credit score?
- a. Tamara
 - b. Omar
 - c. Charlotte
 - d. I don't know
- _____ 11. Faiza needs to have \$7,000 three years from now to pay for college. Which strategy will make her have the largest amount of money after 3 years if the interest rate is 5%?
- a. Save \$6,000 now.
 - b. Save \$2,000 each year for three years totaling \$6,000.
 - c. Save \$2,000 now and \$4,000 two years from now.
 - d. I don't know.
- _____ 12. Jake needs to purchase a new cell phone as his current one is dead. Over the past two years Jake has damaged his phone about every six months and needed a replacement. Each replacement phone costs him \$150. If Jake expects to continue to have to have his phone repaired or replaced every six months, which of the following will save him the most money?
- a. Don't buy any sort of plan, just continue to replace his phone each time it breaks.
 - b. Buy Plan X, which covers accidental damage to the phone and costs \$5 per month plus a \$100 deductible when the phone is repaired or replaced.
 - c. Buy Plan Y, which covers accidental damage to the phone and costs \$9 per month plus a \$10 deductible charge when the phone is repaired or replaced.
 - d. I don't know.
- _____ 13. David uses his credit card a lot but keeps missing payments until the credit card company cancels his card. Now he wants to buy a car and hears about a 2% loan for well qualified buyers. What is the most likely outcome?
- a. He will receive an interest rate lower than 2% because he previously had a credit card.
 - b. He will obtain the 2% loan as a well qualified buyer.
 - c. He will have to pay a higher interest rate than 2%, if he can get the loan.
 - d. I don't know.

- _____ 14. Ricardo only talks about an hour a month on his cell phone and does not use his phone to go to websites or for email, but sends over 200 text messages a day. Which would be the best cell phone plan for Ricardo?
- a. Plan A: 200 minutes of voice calls (additional minutes @ \$.10/min), with unlimited text messaging a month. Plan A is \$50 per month plus any extra charges for calls.
 - b. Plan B: unlimited voice calls, 1,000 text messages a month (additional text messages at \$.01 per message). Plan B is \$20 per month plus any extra charges for text messages.
 - c. Plan C: unlimited voice calls, data, and text messaging. Plan C is \$99 per month with no extra charges for calls and messages.
 - d. I don't know.
- _____ 15. George has worked during the summer and has saved some money so he can finally buy a car. He goes to the used car dealer and the types of cars he would like to buy all cost more than what he has and so he needs to get an auto loan. What action would be most likely to ensure that George receives the best possible financing for his car?
- a. Compare car loans from different lenders.
 - b. Buy the car using his savings and charge the rest on his credit card.
 - c. Immediately sign the loan that the used car dealer is offering.
 - d. I don't know.
- _____ 16. Heather plans for what she wants to buy and pays cash for it. Isaac charges items he wants on his credit card even if he does not have enough money to pay for them in full. Each month, he pays the minimum payment only on his credit card. The interest rate on his card is 18%. If Heather and Isaac end up buying the same items at the same prices what is the difference in the total costs they end up paying, including finance charges?
- a. Both bought the same items at the same price so they paid the same amount.
 - b. Isaac pays with a credit card so his purchase costs are less.
 - c. Isaac pays over 20% more.
 - d. I don't know.
- _____ 17. Jake opens a savings account and deposits \$300. If the savings account has a fixed annual interest rate of 10%, and he makes no additional deposits or withdrawals, what amount will Jake have in his savings account at the end of two years?
- a. less than \$360
 - b. exactly \$360
 - c. more than \$360
 - d. I don't know
- _____ 18. You get a call from a friend who asks you to invest money in his new project. He tells you that you will get a return of 75% at the end of one year.
- Which one of the statements below is true?
- a. This project is likely to be very risky because the return is very high.
 - b. You cannot tell anything about the risk of the project from the rate of return.
 - c. This project is likely to be a low risk way to earn a lot of money.
 - d. I don't know.

- _____ 19. Heather needs to have at least \$8,500 one year from now to go to college. Which strategy is most likely to achieve that goal?
- a. Save \$8,000 now in a savings account that earns 7% per year.
 - b. Save \$8,200 now in a savings account that earns 3% per year.
 - c. Save \$8,400 now in a savings account that earns 1% per year.
 - d. I don't know.
- _____ 20. Kiefer receives a telephone call from a caller indicating he is with Kiefer's credit card company. The caller states that Kiefer's credit card is being used in Europe and asks if the charges to Kiefer's credit card should go through. Kiefer has not been to Europe and tells the caller he does not authorize the charges. Then to verify information the caller asks for Kiefer's credit card number and expiration date. What should Kiefer do?
- a. Provide the credit card information to ensure the charges are not put through and to complete the report.
 - b. Only provide the credit card number but not the expiration date.
 - c. Hang up and report the fraudulent call.
 - d. I don't know.
- _____ 21. Yolanda is a senior in high school. A few days ago she received notice that she had been accepted to her college of choice. Yolanda will need to pay the tuition bill for college. What is the best approach to cover the cost?
- a. She can apply for credit cards to help her pay her college tuition and costs.
 - b. She can apply for federal student aid, scholarships, and student loans.
 - c. She shouldn't go to college if she doesn't have the money saved to pay for it.
 - d. I don't know.
- _____ 22. Whitney has \$2,000 save from her summer job. She has it in a savings account that earns 3% interest. Today, she got another paycheck for \$300 and received a credit card bill for \$300, with a minimum payment of \$30 due and an interest rate of 16%. Which would be the best course of action for Whitney?
- a. Pay \$30 on her credit card and put the remainder into her savings account to increase her savings.
 - b. Pay the full \$300 credit card bill to avoid finance charges and interest rates charged by credit card companies.
 - c. Put the entire \$300 into her savings account because she has not yet reached the credit limit on her credit card, so she can still charge more.
 - d. I don't know.
- _____ 23. A financial advisor recommended that Monica, a 23 year-old worker, begin to save while young because...
- a. money saved early in life increases through compound interest over a long period of time.
 - b. banks pay lower rates of interest to older people than they pay to those who are younger.
 - c. the younger years tend to be the highest-earning years of one's life.
 - d. I don't know.

- _____ 24. Hanna and Paul each apply for a car loan. Hanna has a low credit score and Paul has a high credit score. Who is most likely to get the better interest rate on the loan?
- a. Hanna will because the lower the credit score, the lower the interest rate. c. They will both get the same interest rate.
b. Paul will because the higher the credit score, the lower the interest rate. d. I don't know.

- _____ 25. Nancy has \$200 in the bank. She owes \$2,000 on a car worth \$5,000. Her other personal belongings are worth a total of \$3,000. From this information, we know that Nancy's wealth - or net worth - currently equals:
- a. \$3,200 c. \$8,200
b. \$6,200 d. I don't know

- _____ 26. Refer to the credit card statement below:

Your Credit Card Statement

January 22 - February 21, 2013

Minimum Payment Due \$42.50

Due Date: March 13, 2013

Account Summary:

Previous Balance	\$1,687.10
Payments & Adjustments	-\$1,687.10
Card Activity	\$1,092.65
New Balance	\$1,092.65

Based on this statement, what is the least amount that must be sent to the credit card company, and by what date must it be received to avoid any late payment fees?

- a. At least \$1,687.10 by March 13, 2013 c. At least \$1,092.65 by February 21, 2013
b. At least \$42.50 by March 13, 2013 d. I don't know
- _____ 27. These are Madison's recent checking account transactions:

Date: 1/14/10	Beginning Balance	\$500
Date: 1/15/10	Check #123	Century Auto Parts \$100 withdrawal
Date: 1/31/10	Deposit Paycheck	\$200
Date: 2/2/10	Check #124	Best Clothes

If Madison writes a check for \$50 at Best Clothes, what is her new balance?

- a. \$450 c. \$550
b. \$500 d. I don't know

- _____ 28. Ricardo has always been responsible with credit, paying on time, but gets turned down for a new credit card. Ricardo wonders why and would like to know more. What can he do to learn more?
- a. Obtain a copy of his credit report.
 - b. There is nothing more he can learn as his credit report and information are confidential.
 - c. Call his bank and request account details for his checking and saving accounts.
 - d. I don't know.
- _____ 29. Faiza's aunt agrees to co-sign a car loan for her. By doing so, her aunt has agreed to...
- a. share the payments equally with Faiza.
 - b. pay the loan if Faiza cannot pay.
 - c. make the initial payments until Faiza can make them herself.
 - d. I don't know.
- _____ 30. Rena recently graduated from college and has taken a job that she really enjoys. She has \$4,000 in savings but has been spending more than she makes each month. To cover her monthly expenses she has been using \$600 per month from her savings. Which course of action would a financial expert most likely recommend?
- a. Cut back on expenses or find a way to increase her income.
 - b. Continue to make ends meet out of her savings.
 - c. Use credit cards to make up the difference and not have to use her savings.
 - d. I don't know.
- _____ 31. Zachary wants to buy a car when he goes to college in two years. He currently works part-time after school and on weekends. What would you recommend Zachary do to help him achieve his goals?
- a. He does not need to do anything now - he can get a car loan in 2 years when he is ready to buy a car.
 - b. He should apply for a credit card to enable him to charge the cost of the car.
 - c. He should save as much as he is able so that he will have a down payment on a car or be able to pay for it in full.
 - d. I don't know.
- _____ 32. Whitney goes to college and earns a college degree. Brett completes high school, but does not go to college. Assuming that Whitney and Brett are typical workers, then over a lifetime, Whitney is most likely to earn:
- a. Just enough additional money to cover the costs of earning her college degree.
 - b. Nearly double what Brett earns.
 - c. The same as Brett.
 - d. I don't know.
- _____ 33. If a borrower chooses to pay back a car loan over a longer period of time, the monthly payment is generally:
- a. lower and the interest paid is higher.
 - b. higher and the interest paid is lower.
 - c. higher and the interest paid is higher.
 - d. I don't know.
- _____ 34. Which of the following credit card users is likely to pay the greatest dollar amount in finance charges per year if each charges the same amount per year on his or her credit cards?
- a. Ellen, who only pays the minimum amount due each month.
 - b. Susan, who always pays her credit card bill in full shortly after she receives it.
 - c. Isaac, who pays at least the minimum amount due each month and more when he has the money.
 - d. I don't know.

- _____ 35. Nikki adds \$500 to her mutual fund every year for 10 years. Ryan decides to wait 10 years when he knows he will have a lump sum of \$5,000 to invest in a mutual fund. If both Nikki and Ryan earn, on average, a 7% rate of return, who will have the larger mutual fund balance in 20 years?
- a. Ryan, because his starting amount is bigger than Nikki's savings.
 - b. Nikki, because her money has grown for a longer time at compound interest.
 - c. They would have the same amount because they invested the same amount of money.
 - d. I don't know.
- _____ 36. Charlie is shopping for a four-year auto loan to buy a car. To compare loans, the best indicator of the interest rate on the loan is the:
- a. discount rate
 - b. annual percentage rate
 - c. prime interest rate
 - d. I don't know
- _____ 37. Robyn spends \$8 each day on coffee and snacks. She would like to save to buy a new smart phone that costs \$200. If Robyn decides to skip her coffee and snack each day and instead put the money toward her new smart phone, how long will it take her to save enough?
- a. less than a week
 - b. less than a month
 - c. about six months
 - d. I don't know
- _____ 38. What is the most financially prudent approach to planning for unexpected emergency expenses?
- a. Become familiar with the payday lenders and pawn shops in your area so that you know where to go if you need to pay for unexpected emergency expenses.
 - b. Get a credit card and make sure you can use it for a cash advance.
 - c. Establish a savings account specifically for use if unexpected emergency expenses arise.
 - d. I don't know.
- _____ 39. Zoe has a high school diploma and no technical skills. She has a job at a fast food restaurant, but only earns minimum wage. What would be the best action that Zoe could take to increase what she earns?
- a. Apply for a credit card to increase her spending.
 - b. Take out a payday loan to pay-off her debts.
 - c. Get more job training to improve her skills.
 - d. I don't know.
- _____ 40. Carla is a high school student with a credit card and a cell phone in her own name. She often pays her bills late and sometimes misses a payment. If Carla applies for a car loan when she is in college, what will the effect be of her credit record in high school?
- a. Carla will be a favored borrower because she has an established credit history.
 - b. Carla will probably be charged a high interest rate.
 - c. Carla's credit record in high school will be erased when she turns 18.
 - d. I don't know.