Banking & Finance Exam Opportunity Costs KEY

NAME\_\_\_\_\_\_\_KEY\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_DATE\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. Opportunity cost refers to

A) money needed for major consumer purchases.

B) the trade-off of a decision.

C) the amount paid for taxes when a purchase is made.

D) current interest rates.

E) evaluating different alternatives for financial decisions.

Answer: B

2. \_\_\_\_\_\_\_\_\_\_\_\_ risk refers to the danger of lost buying power during times of rising prices.

A) Trade-off

B) Economic

C) Personal

D) Inflation

E) Interest-rate

Answer: D

3. Brad Wilson has a goal of "saving $50 a month for vacation." Brad's goal lacks

A) measurable terms.

B) a realistic perspective.

C) specific actions.

D) a tangible end.

E) a time frame.

Answer: E

4. Which of the following goals would be the easiest to implement and measure its accomplishment?

A) "Reduce our debt payments."

B) "Save funds for an annual vacation."

C) "Save $100 a month to create a $4,000 emergency fund."

D) "Invest $2,000 a year for retirement."

Answer: C

5. The ability to convert financial resources into usable cash with ease is referred to as

A) bankruptcy.

B) liquidity.

C) investing.

D) saving.

E) opportunity cost.

Answer: B

6. Heather Anderson is trying to decide whether to keep her money in a savings account or in a mutual fund. What would you tell her to help her analyze her decision?

Answer:

Students answers will vary. Suggested responses might mention gathering information, comparing alternatives, analyzing risks, assessing personal goals, and contacting financial planning experts.

7. A common criticism of including a career objective on a résumé is that it

A) may be too vague.

B) takes too much room on the résumé.

C) is frequently the same as that of other candidates.

D) is not of interest to most employers.

Answer: A

8. The purpose of a cover letter is to

A) obtain career planning information.

B) request a reference for a job.

C) develop résumé information.

D) research a career area.

E) apply for a job.

Answer: E

9. What activities are commonly suggested when preparing for a job interview?

Answer:

In preparation for a successful interview, a person should consider obtaining additional information on the organization, develop questions that may be asked of the interviewer, practice interviewing skills, and plan dress and grooming that is appropriate.

10. A family with $45,000 in assets and $22,000 of liabilities would have a net worth of

A) $45,000.

B) $23,000.

C) $22,000.

D) $67,000.

E) $41,000.

Answer: B

11. A person's net worth is computed by

A) adding assets and liabilities.

B) deducting current living expenses from total assets.

C) subtracting total liabilities from total assets.

D) subtracting assets from current liabilities.

E) adding liabilities and budgeted expenses.

Answer: C

12. Which of the following situations is a person who could be insolvent?

A) Assets $56,000; annual expenses $60,000

B) Assets $78,000; net worth $22,000

C) Liabilities $45,000; net worth $6,000

D) Assets $40,000; liabilities $45,000

E) Annual cash inflows $45,000; liabilities $50,000

Answer: D

13. A person's net worth would increase as a result of

A) reduced amounts owed to others.

B) reduced earnings.

C) increased spending for current living expenses.

D) decreased value of personal possessions.

E) decreased value of investments.

Answer: A

14. A cash flow statement reports a person's or a family's

A) net worth.

B) current income and payments.

C) plan for spending.

D) value of investments.

E) balance of savings.

Answer: B

15. Which of the following presents a summary of income and outflows for a period of time?

A) A balance sheet

B) A bank statement

C) An investment summary

D) A cash flow statement

E) An asset report

Answer: D

16. Nicole Wisdom wants to reduce his fixed expenses. What action would be appropriate?

A) Get a part-time job

B) Eat more meals at home than in restaurants

C) Find a place to live with a lower rent

D) Save more money for the future

E) Buy on credit for items than might cost more later

Answer: C

17. Which of the following payments would be considered a variable expense?

A) Rent

B) An installment loan payment

C) A mortgage payment

D) A monthly parking fee

E) A telephone bill

Answer: E

18. A decrease in net worth would be the result of

A) income greater than expenses for a month.

B) expenses greater than income for a month.

C) assets greater than expenses.

D) increased earnings on the job.

E) income and expenses equal for a month.

Answer: B

19. During the past month, Julie Robertson had income of $3,000 and a decrease in net worth of $200. This means Jennifer's payments for the month were

A) $3,200.

B) $3,000.

C) $2,800.

D) $200.

Answer: A

20. Improvements in a person's financial position are the result of

A) increased liabilities.

B) reductions in earnings.

C) increased savings and investments.

D) increased purchases on credit.

E) lower amounts deposited in savings.

Answer: C

21. An example of a long-term goal for a young couple may be

A) a new car.

B) reduction of amounts owed on credit cards.

C) increased savings.

D) income for retirement.

E) funds for a vacation.

Answer: D

22. A major expenditure for *most* families is

A) insurance.

B) contributions.

C) clothing.

D) utilities.

E) transportation.

Answer: E

23. The payment items that should be budgeted first are

A) variable expenses.

B) investment funds.

C) fixed expenses.

D) unplanned living expenses.

Answer: C

24. Changes in the cost of living are

A) different in various geographic areas.

B) the same for different locations.

C) constant from month to month.

D) the same for all goods and services.

E) not a factor when preparing a budget.

Answer: A

25. The difference between the amount budgeted and the actual amount is called a

A) financial plan.

B) current liability.

C) change in net worth.

D) budget variance.

E) variable living expense.

Answer: D

26. If a family planned to spend $370 for food during March but only spent $348, this difference would be referred to as a

A) surplus.

B) deficit.

C) fixed living expense.

D) budget reduction.

E) contribution to net worth.

Answer: A

27. A budget deficit would result when a person's or family's

A) actual expenses are less than planned expenses.

B) actual expenses are greater than planned expenses.

C) actual expenses equal planned expenses.

D) assets exceed liabilities.

E) net worth decreases.

Answer: B

28. The Crown family has a difficult time staying on a budget. In an effort to actually see what funds are available for various expenses, a \_\_\_\_\_\_\_\_\_\_\_\_ budget would be most appropriate.

A) written

B) computerized

C) physical

D) deficit

E) mental

Answer: C

29. When it comes to savings, *most* Americans

A) have an adequate emergency fund.

B) use several different savings techniques.

C) find saving difficult.

D) keep substantial amounts in a regular savings account.

E) reduce the amount they save during their working life.

Answer: C

30. Diane Rossiter lives with her two sons, ages 6 and 9. They have had difficulty managing their finances. What purposes could a budget serve for the Rossiters? What actions would you suggest for the budgeting process to be successful?

Difficulty: Med

Answer:

A budget can help a person or family live within their income, spend money wisely, reach financial goals, prepare for financial emergencies, and develop wise financial management habits. A successful budget should be well-planned, realistic, flexible, and clearly communicated.