Banking & Finance Exam KEY

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

1. A cost associated with home buying would be

A) renter's insurance.

B) the security deposit.

C) annual appreciation of the property.

D) property taxes.

E) interest lost on the security deposit.

Answer: D

2. Brenda Williams plans to rent instead of buy her housing. What advantage of renting will Brenda encounter?

A) tax advantages

B) lower initial costs

C) community pride

D) financial benefits

E) home improvement flexibility

Answer: B

3. Ownership of an individual housing unit in a building is commonly called

A) a cooperative.

B) modular housing.

C) manufactured housing.

D) a condominium.

E) zoned housing.

Answer: D

4. Prefabricated housing refers to

A) nonprofit ownership.

B) government leasing of living units.

C) rental units available to government employees.

D) ownership available to low-income individuals.

E) partially assembled housing in factories.

Answer: E

5. A common financial benefit of home ownership is

A) a low security deposit.

B) tax deductibility of the down payment.

C) amortization of the growth of equity.

D) increased property value.

Answer: D

6. Lonette and Al received a statement reporting that they paid $8,000 in mortgage interest during the past year. If they are in a 28 percent tax bracket, this deduction would reduce their *taxable income* by

A) $1,000.

B) $2,240.

C) $3,000.

D) $4,000.

E) $8,000.

Answer: E

7. The purpose of zoning laws is to

A) restrict property use.

B) encourage new housing development.

C) minimize people moving from an area.

D) reduce real estate property taxes.

E) assist real estate agents in finding homes for sale.

Answer: A

8. The amount of mortgage a person is eligible for would be increased by

A) higher interest rates.

B) a lower down payment.

C) high debt obligations.

D) a low family income.

E) lower interest rates.

Answer: E

9. Todd Foley is applying for a $100,000 mortgage. He can get a $600 monthly payment for principal and interest and no points, or a $520 monthly payment with 2 points? How many months will it take Todd to cover the cost of the discount points if he takes the lower monthly payment?

A) 6

B) 10

C) 18

D) 25

E) 48

Answer: D

10. A VA-guaranteed loan program provides assistance to

A) military veterans.

B) recent college graduates.

C) low-income homebuyers.

D) government employees.

E) the elderly.

Answer: A

11. The purpose of a rate cap with an adjustable rate mortgage is to

A) minimize interest costs.

B) prevent changes in the amount of the monthly payment.

C) increase negative amortization.

D) restrict the amount by which the interest rate can increase.

E) lower the escrow account.

Answer: D

12. A short-term mortgage with a very large final payment is called a \_\_\_\_\_\_\_\_\_\_\_\_ mortgage.

A) balloon

B) graduated payment

C) growing equity

D) shared appreciation

E) negative amortization

Answer: A

13. A home equity loan is also referred to as a \_\_\_\_\_\_\_\_\_\_\_\_ mortgage.

A) shared appreciation

B) graduated payment

C) growing equity

D) second

E) buy down

Answer: D

14. Refinancing of a mortgage is recommended when

A) interest rates rise.

B) interest rates fall.

C) the escrow account balance declines.

D) two or more points are required by the lender at the time of closing.

Answer: B

15. The purpose of title insurance is to

A) transfer ownership of property.

B) reduce the chance of a decrease in property value.

C) guarantee the boundaries of the property.

D) protect an owner from changes in mortgage interest rates.

E) cover the closing costs of a real estate transaction.

Answer: C

16. The purpose of an appraisal is to

A) estimate the current value of a home.

B) reduce the amount paid for property taxes.

C) qualify for a reduced mortgage rate.

D) eliminate the need for home insurance.

Answer: A

17. Peril is defined as

A) the refusal by an insurance company to pay for the covered loss.

B) the cause of risk.

C) the cause of a possible loss.

D) an uncertainty as to loss.

Answer: C

18. Defective house wiring is an example of a

A) hazard.

B) peril.

C) risk.

D) speculation.

Answer: A

19. Using a home security system is an example of \_\_\_\_\_\_\_\_\_\_\_\_ risk.

A) shifting

B) accepting

C) reducing

D) sharing

E) transferring

Answer: C

20. Wearing a seat belt in an automobile to protect yourself against injury is an example of \_\_\_\_\_\_\_\_\_\_\_\_ risk.

A) reducing

B) assuming

C) pooling

D) shifting

E) avoiding

Answer: A

21. The legal responsibility for the financial cost of another person's losses or injuries is referred to as

A) theft.

B) robbery.

C) liability.

D) assigned risk.

E) collusion.

Answer: C

22. Negligence refers to

A) failure to take ordinary and reasonable care.

B) cancellation of insurance.

C) property damage.

D) high risk insurance coverage.

E) common hazards in our society.

Answer: A

23. Which of the following is considered personal property for home insurance coverage?

A) an automobile

B) a garage

C) furniture

D) a house

E) trees and shrubs

Answer: C

24. The \_\_\_\_\_\_\_\_\_\_\_\_ coverage of a home insurance policy would cover accidental damage to another person's property by a member of your family.

A) supplementary

B) personal property

C) medical payments

D) additional living expenses

E) personal liability

Answer: A

25. An umbrella policy is designed to cover

A) expensive personal property.

B) additional buildings on your property.

C) property when traveling away from home.

D) major personal liability suits.

E) flood damage.

Answer: D

26. Renter's insurance would include coverage for

A) flood damage.

B) personal property.

C) building and other structures.

D) umbrella liability.

E) earthquake damage.

Answer: B

27. Which of the following are *not* covered by renter's insurance?

A) medical expenses for injuries to visitors

B) fire damage of the building's roof

C) additional living expenses

D) accidental damage to the property of others

E) cost of legal action due to personal liability

Answer: B

28. Your home insurance provides for replacement value for personal property losses. A microwave is stolen. It cost $300 two years ago and has an expected life of six years. A comparable microwave costs $400 today. What amount will the insurance company pay?

A) $100

B) $150

C) $300

D) $350

E) $400

Answer: E

29. What can you do to reduce your health care costs?

A) Stay well.

B) Gain a little extra weight.

C) Smoke and drink.

D) Live dangerously.

E) Don't seek medical care.

F) Take up sky diving.

G) Start that lion taming course you’ve always wanted.

H) Participate in the next Texas Great Snake Roundup

I) See how many times you can run across the interstate without getting hit.

Answer: A

30. Because you are young and healthy now, you may overlook the very real need for

A) Disability income insurance.

B) health insurance.

C) Dental insurance.

D) vision care insurance.

E) liability insurance.

Answer: A

31. Which one of the following provisions requires that the policyholder pay a basic amount before the policy benefits begin?

A) Coinsurance

B) stop loss

C) Deductible

D) self insurance

E) incontestable

Answer: C

32. Life insurance premiums are determined basically by the

A) forces of supply.

B) forces of demand.

C) forces of competition.

D) use of mortality tables.

E) guesswork of insurance executives.

Answer: D

33. The life expectancy of a female at the age of 30 is 47.65 years. It means that

A) a 30-year-old female has the highest probability of dying.

B) a 30-year-old female has the highest probability of living.

C) 47.65 is the average number of years that all females alive at 30 years of age will still live.

D) 47.65 is the average age at which all females, age 30, will die.

Answer: C

34. What factors should you consider before you buy insurance?

A) your present and future sources of income

B) your savings

C) group life insurance

D) pension benefits

E) All of the above factors should be considered.

Answer: E

35. Who has the greatest need for life insurance?

A) households with small children

B) singles living alone

C) singles living with parents

D) dual income couple

E) children

Answer: A

36. Which type of insurance is sometimes called temporary insurance?

A) whole life insurance

B) term insurance

C) straight life

D) ordinary life

E) modified life

Answer: B

37. The *most* common type of permanent life insurance is called

A) the whole life policy.

B) term life policy.

C) universal life.

D) modified life.

Answer: A

38. A beneficiary is a person who

A) acts as a trustee of your insurance policy.

B) is a guardian of your children.

C) acts on your behalf.

D) is designated to receive life insurance proceeds.

E) takes your money and runs.

Answer: D

39. Which of the following is *not* a true statement?

A) No one is going to make you save the money you need to start an investment program.

B) To be useful, investment objectives must be specific and measurable.

C) Investment goals must be tailored to the particular financial needs of the individual.

D) Because investment objectives deal with the future, it is useless to plan more than five years in the future.

E) A long-term investment objective involves a time period of five years or more.

Answer: D

40. All of the following statements are considered to be good advice for the potential investor before starting his or her personal investment program *except*:

A) Work to balance your budget.

B) Increase credit purchases and make installment payments in order to increase cash available for investing.

C) Provide adequate insurance protection.

D) Start an emergency fund.

E) Establish a line of credit.

Answer: B

41. Describe the sources of investment information investors can use to evaluate a potential investment.

Answer:

The following sources of information: (1) the Internet and online computer services, (2) newspapers and news programs, (3) business periodicals and government publications, (4) corporate reports, (5) statistical averages, and (6) investor services and newsletters.

42. Describe why corporations issue common stock. Describe why investors purchase common stock.

Answer:

Corporations issue common stock for the following reasons. First, common stock is a form of equity financing that does not have to be repaid. Second, dividends are not mandatory. It should be pointed out that corporations do have to consider voting rights and control of the company before issuing common stock.

Investors purchase common stock for three reasons. First, an investment in common stock can provide income from dividends. Second, an investment in common stock can appreciate or increase in value. Finally, an investment in common stock can increase in value as a result of stock splits.

43. Describe what exchange traded funds are, why might they perform better than other options, and how do you buy or sell them.

44. Describe why investors invest with mutual funds instead of directly purchasing common stock for their investment portfolio. What do they achieve by doing this instead of other investments?

45. Describe the purpose of dollar cost averaging and what does it accomplish?