



## Financial Literacy Quiz ~ ANSWERS

Answers are in bold.

1. Which of the following statements best describes your right to check your credit history for accuracy?
  - a. You can't see your credit record
  - b. Your credit record can be checked at any time for free
  - c. **If you are turned down for credit based on a credit report, the record can be checked for free**
  - d. All credit records are the property of the U.S. government and access is only available to the FBI and lenders
2. Which of the following is true about sales taxes?
  - a. The federal government will deduct it from your paycheck
  - b. **It makes things more expensive for you to buy**
  - c. You don't have to pay the tax if your income is very low
  - d. The national sales tax percentage rate is 6%
3. If you had a savings account at a bank, which of the following would be correct concerning the interest you would earn on this account?
  - a. Earnings from savings account interest may not be taxed
  - b. Sales tax may be charged on the interest that you earn
  - c. **Income tax may be charged on the interest if your income is high enough**
  - d. You cannot earn interest until you pass your 18th birthday
4. Which of the following instruments is *not* typically associated with spending?
  - a. ATM card
  - b. Cash
  - c. **Certificate of deposit**
  - d. Credit card
5. Jerry has a good job on the production line of a factory in his hometown. During the past year or two, the state in which Jerry lives has been raising taxes on its businesses to the point where they are much higher than in neighboring states. What effect is this likely to have on Jerry's job?
  - a. He is likely to get a large raise to offset the effect of the higher taxes
  - b. Higher business taxes can't have any effect on Jerry's job
  - c. Higher business taxes will cause more businesses to move into Jerry's state, raising wages
  - d. **Jerry's company may consider moving to a lower-tax state, threatening Jerry's job**
6. Under which of the following circumstances would it be financially beneficial for you to borrow money to buy something now and repay it with future income
  - a. When you really need a two-week vacation
  - b. When some new clothes you like go on sale
  - c. When the interest on the loan is greater than the interest you get on your savings
  - d. **When you need to buy a car to get a much better paying job**

7. If you have caused an accident, which type of automobile insurance would cover damage to your own car?
- Collision**
  - Comprehensive
  - Term
  - Liability
8. Walter must borrow \$10,000 to complete his college education. Which of the following would not be likely to reduce the finance charges rate?
- If his parents co-signed the loan
  - If his parents took out an additional mortgage on their house for the loan
  - If the loan was insured by the Federal government
  - If he went to a state college rather than a private college**
9. Tim and Rebecca just had a baby. They received money as baby gifts and want to put it away for the baby's education. Which of the following is likely to have the highest growth over the next 18 years?
- U.S. government bond
  - Checking account
  - Savings account
  - Stocks**
10. Many people put aside money to take care of unexpected expenses. If Pedro and Susanna have money put aside for emergencies, in which of the following forms would it be of *least* benefit to them if they needed it right away?
- Checking account
  - Savings account
  - Stocks
  - Invested in a down payment on the house**
11. If you are behind on your debt payments and go to a responsible credit counseling service such as the Consumer Credit Counseling Services, what help can they give you?
- They can force those who lent you money to forgive all your debts
  - They can work with those who lent you money to set up a new payment schedule that you can meet**
  - They can get the Federal government to apply your income taxes to pay off your debts
  - They can cancel and cut up all of your credit cards without your permission
12. Len just applied for a credit card. He is an 18 year-old high school graduate with few valuable possessions and no credit history. If Len is granted a credit card, which of the following is the most likely way the credit card company will reduce *its* risk?
- It will charge Len twice the finance charge rate it charges older cardholders
  - It will require Len to have both parents co-sign for the card
  - It will make Len's parents pledge their home to repay Len's credit card debt
  - It will start Len out with a small line of credit to see how he handles the account**

13. Jim found a job with a take-home pay of \$950 per month. He must pay \$400 for rent and \$100 for groceries each month. He also spends \$100 per month on transportation. If he budgets \$50 each month for clothing, \$100 for restaurants and \$50 for everything else, how long will it take him to accumulate savings of \$750?
- 5 months (96%)**
  - 10 months
  - 12 months
  - 15 months
14. Mike has saved \$6,000 for his college expenses by working part-time. He plans to start college next year and needs all of the money he saved. Which of the following is the safest place for his college money?
- Locked in his closet at home
  - Stocks
  - Bank savings account**
  - Corporate bonds
15. Many savings programs are protected by the Federal government against loss. Which of the following is not?
- Bond issued by one of the 50 states**
  - Certificate of deposit at the bank
  - U.S. Treasury bond
  - U.S. Savings bond
16. Your take-home pay from your job is less than the total amount you earn. Which of the following best describes what is taken out of your total pay?
- Federal income tax, sales tax and social security contribution
  - Federal income tax, property tax, Medicare and social security contributions
  - Federal income tax, social security, and Medicare contributions**
  - Social security and Medicare contributions
17. Which of the following types of investments would best protect the purchasing power of a family's savings in the event of a sudden increase in inflation?
- U.S. Government Savings bond
  - Certificate of deposit
  - 25-year corporate bond
  - House financed with a fixed rate mortgage**
18. If you went to college and earned a four-year degree, how much more money could you expect to earn than if you only had a high school diploma?
- About 10 times as much
  - A lot more, about 70% more**
  - A little more, about 20% more
  - No more, I would make about the same either way

19. Bob and Cindy are the same age. At age 25, Cindy began saving \$2,000 a year while Bob saved nothing. At age 50, Bob realized that he needed money for retirement and started saving about \$4,000 per year while Cindy kept saving her \$2,000. Now they are both 75 years old. Who has the most money in his or her retirement account?
- Bob, because he saved more each year
  - Cindy, because her money has grown for a longer time at compound interest**
  - They would each have the same amount because they put away exactly the same
  - Cindy, because she has put away more money
20. Which of the following credit card users is likely to pay the *greatest* dollar amount in finance charges per year if they all charge the same amount per year on their cards?
- Barbara, who always pays off her credit card bill in full shortly after she receives it
  - Ellen, who generally pays off her credit card in full but occasionally, will pay the minimum when she is short of cash
  - Nancy, who pays at least the minimum amount each month and more when she has the money
  - Paul, who only pays the minimum amount each month**
21. Jack and Ron are young men. Each has a good credit history. They work at the same company and make approximately the same salary. Jack has borrowed \$2,500 to buy a car. Ron has borrowed \$2,500 to take a foreign vacation. Who is likely to pay the lowest finance charge?
- They will both pay the same because they have almost identical financial backgrounds
  - Ron will pay less because people who travel overseas are better risks
  - Jack will pay less because the car is collateral for the loan**
  - They will both pay the same because the rate is set by law
22. Inflation can cause difficulty in many ways. Which group would have the greatest problem during periods of inflation?
- Young couples with no children who both work
  - Young working couples with children
  - Older working couples saving for retirement
  - Older people living on fixed retirement income**
23. Which of the following statements is *not* correct about most ATM cards?
- You must have a bank account to have an ATM card
  - You can generally get cash 24 hours a day
  - You can generally obtain information concerning your bank balance at an ATM machine
  - You can get cash anywhere in the world with no fee**
24. If your credit card is stolen and the thief runs up a total of \$1,000 but you notify the issuer of the card as soon as you discover it is missing, how much will you be responsible to pay?
- None
  - \$50**
  - \$1,000
  - \$500

25. Retirement income paid by a company is called:
- Social security
  - Rents and profits
  - Pension**
  - 401(k)
26. Wendy worked her way through college earning \$15,000 per year. After graduation her first job pays \$30,000. The total dollar amount Wendy will have to pay in Federal income taxes in her new job will:
- Be lower than when she was in college
  - Stay the same as when she was in college
  - Go up a little from when she was in college
  - Double, at least, from when she was in college**
27. Which of the following statements is true?
- Your bad loan payment record with one bank will not be considered if you apply to another bank for a loan
  - People have so many loans it is very unlikely that one bank will know your history with another bank
  - Banks and other lenders share the credit history of their borrowers with each other and are likely to know of any loan payments that you have missed**
  - If you missed a payment more than two years ago, it cannot be considered in a loan decision
28. Which of the following best describes the primary sources of income for most people aged 20-35?
- Profits from business
  - Dividends and interest
  - Rents
  - Salaries, wages, and tips**
29. Heather and Alexis are employed by the same company and earn the same pay. Heather spends her free time taking work-related classes to improve her computers skills, while Alexis spends her free time socializing with friends and working out at a fitness center. After five years, what is likely to be true?
- Alexis will make more because she is more social
  - Heather and Alexis will continue to make the same money
  - Heather will make more money because she is more valuable to her company**
  - Alexis will make more because Heather is likely to be laid off
30. If each of the following persons had the same amount of take-home pay, who would need the greatest amount of life insurance?
- A young single woman without children
  - An elderly retired man with a wife who is also retired
  - A young married man without children
  - A young single woman with two young children**