***Personal Finance, Canadian Ed., 5e* (Madura)**

**Chapter 1 - Overview of a Financial Plan**

How You Benefit from an Understanding of Personal Finance

1) Many people who believe they have strong personal finance skills do not really understand some basic personal finance concepts.

Answer: TRUE

Diff: 1 Type: TF

Categories: Benefit From Understanding Personal Finance

Financial Type: Qualitative

Skill Type: Recall

2) FP Canada sets out the steps needed to earn the Certified Financial Planner (CFP) designation.

Answer: TRUE

Diff: 2 Type: TF

Categories: Benefit From Understanding Personal Finance

Financial Type: Qualitative

Skill Type: Recall

3) A car accident which is not fully covered by your insurance is an example of an unexpected expense you cannot plan for.

Answer: FALSE

Diff: 2 Type: TF

Categories: Benefit From Understanding Personal Finance

Financial Type: Qualitative

Skill Type: Applied

4) An understanding of personal finance is necessary to judge the quality of advice that a financial adviser may give.

Answer: TRUE

Diff: 1 Type: TF

Categories: Benefit From Understanding Personal Finance

Financial Type: Qualitative

Skill Type: Recall

5) FP Canada is a profit-oriented organization created to benefit the public with regards to financial planning.

Answer: FALSE

Diff: 1 Type: TF

Categories: Benefit From Understanding Personal Finance

Financial Type: Qualitative

Skill Type: Recall

6) Saving money for the downpayment on a house instead of saving for retirement is an example of an opportunity cost.

Answer: TRUE

Diff: 2 Type: TF

Categories: Benefit From Understanding Personal Finance

Financial Type: Qualitative

Skill Type: Applied

7) Generally, savings in an emergency fund will tend to earn higher interest than savings in a retirement plan.

Answer: FALSE

Diff: 2 Type: TF

Categories: Benefit From Understanding Personal Finance

Financial Type: Qualitative

Skill Type: Recall

8) If you have sufficient available credit there is no reason to consider holding liquid cash in an emergency fund.

Answer: FALSE

Diff: 2 Type: TF

Categories: Benefit From Understanding Personal Finance

Financial Type: Qualitative

Skill Type: Applied

9) As long as you stay within your budget of spending $100 per month on eating out, there is no opportunity cost.

Answer: FALSE

Diff: 2 Type: TF

Categories: Benefit From Understanding Personal Finance

Financial Type: Qualitative

Skill Type: Applied

10) Taxes should have a minimal impact on your financial choices.

Answer: FALSE

Diff: 1 Type: TF

Categories: Benefit From Understanding Personal Finance

Financial Type: Qualitative

Skill Type: Recall

11) Risk management may include deciding not to protect yourself against a given risk.

Answer: TRUE

Diff: 2 Type: TF

Categories: Benefit From Understanding Personal Finance

Financial Type: Qualitative

Skill Type: Recall

12) The historical average for the household savings rate is 3.2 percent.

Answer: FALSE

Diff: 1 Type: TF

Categories: Benefit From Understanding Personal Finance

Financial Type: Qualitative

Skill Type: Recall

13) From 2000 to 2018, the level of household debt relative to disposable income has decreased from 174.9 percent to 106.9 percent.

Answer: FALSE

Diff: 1 Type: TF

Categories: Benefit From Understanding Personal Finance

Financial Type: Qualitative

Skill Type: Recall

14) The delinquency rate on 90-day non-mortgage debt rose 3.5 percent to 1.12 percent in the first quarter of 2019.

Answer: TRUE

Diff: 1 Type: TF

Categories: Benefit From Understanding Personal Finance

Financial Type: Qualitative

Skill Type: Recall

15) Which of the following best describes the level of debt for Canadians?

A) The outstanding balance on credit cards has never exceeded $100 billion.

B) The household savings rate has been above the historical average since late 2015.

C) From 2000 to 2018 household debt relative to disposable income has increased from 106.9 percent to 174.9 percent.

D) As of January 2020 the per capita debt of Canadians is $48,829.

Answer: C

Diff: 2 Type: MC

Categories: Benefit From Understanding Personal Finance

Financial Type: Qualitative

Skill Type: Recall

16) Which of the following life stages involves the fewest objectives and milestones?

A) Late retirement

B) Prime earning

C) Early career

D) Education

Answer: D

Diff: 1 Type: MC

Categories: Benefit From Understanding Personal Finance

Financial Type: Qualitative

Skill Type: Recall

17) Opportunity cost represents

A) short- versus long-term financial decisions.

B) what you give up as a result of making a decision.

C) the financial cost of any opportunity.

D) the non-financial cost of any opportunity.

Answer: B

Diff: 2 Type: MC

Categories: Benefit From Understanding Personal Finance

Financial Type: Qualitative

Skill Type: Recall

18) An emergency fund is required in financial planning to

A) maintain credit rating.

B) maintain your standard of living.

C) eliminate risk.

D) maintain adequate liquidity.

Answer: D

Diff: 2 Type: MC

Categories: Benefit From Understanding Personal Finance

Financial Type: Qualitative

Skill Type: Applied

19) John earns $3000 monthly income and he decides to set aside 10 percent as savings. In his savings, John wants to reserve 20 percent in his emergency fund. What amount would John accumulate in his emergency fund annually?

A) $600

B) $300

C) $360

D) $720

Answer: D

Diff: 2 Type: MC

Categories: Benefit From Understanding Personal Finance

Financial Type: Quantitative

Skill Type: Applied

20) Credit is commonly used to cover both large and small expenses. What is the best way to think about credit?

A) Most Canadians do a good job managing credit compared to other G7 countries.

B) It is a better source of liquidity than an emergency fund.

C) It is an important part of liquidity but needs to be managed.

D) It should never be used for liquidity.

Answer: C

Diff: 2 Type: MC

Categories: Benefit From Understanding Personal Finance

Financial Type: Qualitative

Skill Type: Recall

21) Which of the following is an example of an opportunity cost?

A) Renting an apartment near school instead of living with your parents

B) Saving money instead of taking a vacation

C) Saving for an emergency fund instead of maximizing your RRSPs

D) They are all examples of opportunity cost.

Answer: D

Diff: 1 Type: MC

Categories: Benefit From Understanding Personal Finance

Financial Type: Qualitative

Skill Type: Applied

22) Which of the following would **not** be a factor in evaluating your current financial position?

A) Income

B) Expenses

C) Budgeting

D) Assets

Answer: C

Diff: 1 Type: MC

Categories: Benefit From Understanding Personal Finance

Financial Type: Qualitative

Skill Type: Recall

23) As of January 2020, the per capita debt of Canadians has increased to

A) $38 829.

B) $28 829.

C) $18 829.

D) $8 829.

Answer: C

Diff: 1 Type: MC

Categories: Benefit From Understanding Personal Finance

Financial Type: Qualitative

Skill Type: Recall

24) Explain four sources from which you could obtain assistance with your financial plan and identify any areas of caution you should observe while accepting such advice.

Answer: Possible options:

1. Financial planner: potential conflict of interest, driven by commissions

2. Bank adviser: only able to sell in-house product or incompetent advice

3. Investor education websites: dedicated to improve investor know-how, make sure it is legitimate and get a second opinion before following any online advice

4. Financial institution websites: watch for conflict of interest, bias, can be useful for certain calculations etc.

5. Government agency websites: generally safe but limited to general recommendations

6. Referrals from friends: ask critical questions

Diff: 3 Type: ES

Categories: Benefit From Understanding Personal Finance

Financial Type: Qualitative

Skill Type: Applied

Components of a Financial Plan

1) A complete financial plan consists of budgeting, tax planning, financing, and investing.

Answer: FALSE

Diff: 2 Type: TF

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

2) The first step in budgeting is to evaluate your current financial position by determining your total assets and total liabilities.

Answer: FALSE

Diff: 2 Type: TF

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

3) The value of what you own minus the value of what you owe is called your "net assets."

Answer: FALSE

Diff: 2 Type: TF

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

4) During the "education" life stage it is important to establish good investing habits.

Answer: FALSE

Diff: 2 Type: TF

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

5) Using a credit card to cover an unexpected expense is an example of using an emergency fund.

Answer: FALSE

Diff: 1 Type: TF

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Applied

6) Money management decisions include deciding how much money to contribute to long term retirement savings.

Answer: FALSE

Diff: 2 Type: TF

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Applied

7) Your financial plan should include a plan for protecting your assets and income through insurance coverage.

Answer: TRUE

Diff: 1 Type: TF

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

8) An emergency fund contains the portion of savings that you have allocated to long-term needs.

Answer: FALSE

Diff: 1 Type: TF

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

9) One of the considerations in determining your investment choices is evaluating the level of risk you are willing to take.

Answer: TRUE

Diff: 1 Type: TF

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

10) Most people act in a logical fashion when implementing a financial plan.

Answer: FALSE

Diff: 2 Type: TF

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Applied

11) There are four key steps in developing a financial plan: 1. Establishing goals; 2. Selecting the best options to reach your goals; 3. Comparing your plan to the plans of other people; and 4. Revising your plan annually.

Answer: FALSE

Diff: 2 Type: TF

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

12) Saving too much for short-term needs does not limit your opportunity for long-term growth.

Answer: FALSE

Diff: 2 Type: TF

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

13) Future spending decisions are less relevant to your financial success than past spending decisions.

Answer: FALSE

Diff: 2 Type: TF

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Applied

14) The correct order of the key components of a financial plan is

A) budgeting and tax planning, protecting your assets and income, managing your financial resources, investing your money, planning your retirement and estate.

B) managing your financial resources, protecting your assets and income, budgeting and tax planning, investing your money, planning your retirement and estate.

C) budgeting and tax planning, managing your financial resources, protecting your assets and income, investing your money, planning your retirement and estate.

D) investing you money, managing your financial resources, protecting your assets and income, budgeting and tax planning, planning your retirement and estate..

Answer: C

Diff: 3 Type: MC

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

15) Which of the following is an example of investment risk in financial planning?

A) Loss of income due to short-term disability

B) Loss of liquidity by locking in to a fixed-term deposit

C) Loss of property by not buying insurance

D) Loss of capital in a particular mutual fund

Answer: D

Diff: 3 Type: MC

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Applied

16) Which of the following financial planning steps should occur during the "prime earning" life stage?

A) Creating a will and power of attorney

B) Estate planning

C) Investigate employer-based savings options

D) Paying off all debts

Answer: D

Diff: 3 Type: MC

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

17) What is the process of forecasting future expenses and savings called?

A) Budgeting

B) Planning

C) Predicting

D) Forecasting

Answer: A

Diff: 1 Type: MC

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

18) Which of the following is a decision that you would make during estate planning?

A) How you will maximize taxation and probate

B) How much money you should allocate to retirement plans

C) How your wealth will be distributed before and after your death

D) How to enhance your net worth

Answer: C

Diff: 2 Type: MC

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

19) Budgeting helps set goals by estimating on a monthly basis which of the following?

A) Assets and income

B) Liabilities and expenses

C) Income and expenses

D) Net worth and income

Answer: C

Diff: 2 Type: MC

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

20) What is first step in budgeting?

A) Determining your net worth

B) Establishing good money management habits

C) Assessing your current financial position

D) Establishing a good credit rating

Answer: C

Diff: 1 Type: MC

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

21) What is the best way to describe liquidity?

A) Positive cash flow

B) Access to credit

C) Access to ready cash

D) Effective money management

Answer: C

Diff: 2 Type: MC

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

22) Which of the following is the best description of money management?

A) Decisions regarding how much money to retain in liquid form and short-term investing decisions

B) Decisions regarding how much money to retain in total and long-term investing decisions

C) Decisions regarding how much credit to have available in combination with liquid savings

D) Decisions regarding what to do with surplus income over expenses on a monthly basis

Answer: A

Diff: 3 Type: MC

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

23) Which of the following best describes how credit should be used?

A) Credit should be used at any time as long as you are able to make the minimum monthly payments.

B) Credit should be used at any time as long as it can be repaid in full within 90 days.

C) Credit should be used only when necessary since you must repay borrowed funds with interest.

D) Credit should never be used under any circumstances.

Answer: C

Diff: 2 Type: MC

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

24) What is the best measure of a person's or family's net wealth?

A) The value of their assets

B) The amount of annual income less applicable taxes

C) The value of what they own minus the value of what they owe

D) The value of their gross income minus the value of their expenses

Answer: C

Diff: 1 Type: MC

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

25) Your current net worth will be increased by which of the following actions?

A) Changing your monthly savings from 15 percent to 10 percent of your earnings

B) Receiving a $500 birthday present from your grandmother

C) Buying a new stereo system and putting the entire amount on your credit card

D) Using $350,000 you have in savings to purchase a rental property

Answer: B

Diff: 2 Type: MC

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Applied

26) Which of the following should first be used to cover any short-term cash deficiencies?

A) An interest free loan from family or friends

B) Retirement savings

C) A cashable short-term investment

D) A line of credit

Answer: C

Diff: 3 Type: MC

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

27) Which of the following will **most** affect your ability to manage your liquidity?

A) Choosing between a high-interest and a low-interest credit card

B) Determining how much money to save versus how much to spend

C) Determining which short-term investments to keep your emergency fund in

D) Owning versus renting a home

Answer: B

Diff: 2 Type: MC

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Applied

28) What is the term used to describe decisions on how much credit you need to support spending and which sources of credit to use?

A) Investment management

B) Money management

C) Credit management

D) Liquidity management

Answer: C

Diff: 1 Type: MC

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

29) Which of the following is a credit management decision?

A) Purchasing a used car with cash

B) Putting money into an emergency fund

C) Obtaining a student loan to attend college or university

D) Putting money into short-term investments

Answer: C

Diff: 2 Type: MC

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Applied

30) Which of the following is an example of money management?

A) Putting your money in a savings account at your bank

B) Shopping around for the credit card with the best interest rate

C) Deciding to delay buying a car until you can pay for it with cash

D) Purchasing life insurance to protect your spouse should you pass away

Answer: A

Diff: 2 Type: MC

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Applied

31) Under which component of a financial plan would the following decision fall: determining how much you can afford to borrow, the length of the loan, and appropriate interest rate, when considering how to afford your car purchase?

A) Liquidity

B) Financing

C) Budgeting

D) Credit management

Answer: B

Diff: 2 Type: MC

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Applied

32) In the early career life stage of financial planning, which of the following is the most important to address?

A) Maintaining job security

B) Considering when to get married

C) Saving for a child's future education

D) Paying off student loans and short-term debts

Answer: D

Diff: 2 Type: MC

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Applied

33) John is in the family and mid-career life stage of financial planning. Which of the following is most important for John to address?

A) Reviewing insurance needs

B) Paying off student loans

C) The pay yourself first principle

D) Establishing a credit rating

Answer: A

Diff: 2 Type: MC

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Applied

34) Usually, people should first consider having a will and power of attorney in which life stage of financial planning?

A) Early career

B) Early retirement

C) Prime earning

D) Mid career

Answer: D

Diff: 2 Type: MC

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

35) Which of the following is included in risk management?

A) Determining your risk tolerance for investing in the stock market

B) Determining your credit risk for obtaining a $400 000 mortgage

C) Deciding whether to rent or buy your home

D) Insuring your home

Answer: D

Diff: 3 Type: MC

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Applied

36) What are the options on whether to or how to protect against risk?

A) Avoid it, insure it, accept it or share it

B) Avoid it, reduce it, accept it or share it

C) Eliminate it, avoid it, reduce it, accept it

D) Homeowner, car, life and health insurance

Answer: B

Diff: 3 Type: MC

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

37) A type of insurance that protects assets is

A) home insurance.

B) self-insurance.

C) disability insurance.

D) health insurance.

Answer: A

Diff: 1 Type: MC

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

38) Which of the following would be the primary objective of investing?

A) Earning a return necessary to meet your goals

B) Understanding your risk tolerance

C) Acquiring an estate

D) Earning the highest return possible

Answer: A

Diff: 2 Type: MC

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

39) Retirement planning should take place

A) when you retire.

B) shortly before you retire.

C) well before you retire.

D) the day you start your first job.

Answer: C

Diff: 2 Type: MC

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

40) One benefit of estate planning is

A) protecting your wealth against unnecessary taxes.

B) sheltering your wealth against all taxes.

C) ensuring that your wealth is distributed according to intestacy laws.

D) ensuring you have enough money to fund your retirement.

Answer: A

Diff: 2 Type: MC

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

41) Which of the following is correct?

A) Saving part of your income will increase your net worth.

B) Increasing your income will always increase your net worth.

C) Liquid savings are not necessary if you have access to adequate credit.

D) Insurance is only relevant when you have a small net worth.

Answer: A

Diff: 3 Type: MC

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Applied

42) Regarding cash flow, which of the following is correct?

A) Insurance payments are a cash inflow.

B) Selling an investment is a cash outflow.

C) Buying items on sale is a cash outflow.

D) Mortgage payments are a cash inflow.

Answer: C

Diff: 2 Type: MC

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Applied

43) Why is a net worth statement needed?

A) To determine your net cash flow on an annual basis

B) To measure your cash accumulation

C) To measure the value of your assets minus debts

D) To measure expenses and develop priorities

Answer: C

Diff: 2 Type: MC

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

44) Alan has been thinking about his future and is figuring out what his biggest priorities are. At what stage of the planning process is he?

A) Selecting and implementing the best plan

B) Determining financial goals

C) Assessing his current financial position

D) Identifying alternative plans to meet goals

Answer: B

Diff: 2 Type: MC

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Applied

45) If you have total assets of $10 000 and your net worth is $4000, how much liabilities do you have?

A) $4000

B) $6000

C) $10 000

D) $14 000

Answer: B

Diff: 2 Type: MC

Categories: Components of a Financial Plan

Financial Type: Quantitative

Skill Type: Applied

46) If John's total assets have increased from $10 000 to $15 000 and his liabilities from $5000 to $8000, by how much has John's net worth increased?

A) $4000

B) $3000

C) $5000

D) $2000

Answer: D

Diff: 2 Type: MC

Categories: Components of a Financial Plan

Financial Type: Quantitative

Skill Type: Applied

47) An investor who earns $65 000 from employment and saves 4.5 percent from his total income would have increased her net worth in one year by

A) $3000.

B) $2900.

C) $2925.

D) $0.

Answer: C

Diff: 2 Type: MC

Categories: Components of a Financial Plan

Financial Type: Quantitative

Skill Type: Applied

48) The ability of different people to manage their cash flow effectively can be strongly influenced by

A) the economic environment of the day.

B) their need for immediate gratification.

C) their income level.

D) their socio-economic status.

Answer: B

Diff: 2 Type: MC

Categories: How Psychology Affects Your Financial Plan

Financial Type: Qualitative

Skill Type: Applied

49) Discuss the pros and cons of using consumer credit to supplement liquidity needs.

Answer: Many possibilities.

Cons:

It can lead to personal debt getting out of control.

Some credit, such as credit cards, are a very expensive source of liquidity.

If people are already using credit a lot, then have an actual financial set back, they may not be able to keep up debt payments.

Available credit can be cancelled/reduced by the lender at any time and this may happen right when you need it most.

From 2000 -2018, the level of household debt relative to disposable income increased, the delinquency rate on 90-day non-mortgage debt rose 3.5 percent to 1.12 percent, so there is clearly risk.

Pros:

If used judiciously, credit cards provide a "interest free" loan for a few weeks each month.

Holding funds in an emergency fund that pays no interest (which is the current economic environment) is not an attractive option for an investor.

There are many very low interest sources of credit available to people these days and if only used for emergencies, this can be more cost effective than holding funds in a liquid emergency fund.

Diff: 3 Type: ES

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Applied

50) Explain why an increase in your income may or may not necessarily mean an increase in net worth.

Answer:

1. It does not make any difference what you make, it matters what you do with it.

2. If you get a raise of $1000 per month you could spend it on nicer clothes and entertainment and add nothing to your assets over the year.

3. If you used the $1000 to reduce your debt (e.g., pay down a student loan, or pay off a credit card balance), that would increase your net worth.

4. If you contributed the $1000 each month to your investment account, you would increase your net worth.

5. Most people will spend the money sitting in their bank account, but if you 'pay yourself first', by contributing automatically to a savings or investment account, then your net worth will increase painlessly.

Diff: 3 Type: ES

Categories: Components of a Financial Plan

Financial Type: Qualitative

Skill Type: Applied

Developing the Financial Plan

1) A good example of a personal financial 'SMART' goal would be planning to purchase a home one day.

Answer: FALSE

Diff: 2 Type: TF

Categories: Developing a Financial Plan

Financial Type: Qualitative

Skill Type: Applied

2) Financial planners are in demand because most people lack understanding or are not interested in making their own financial decisions.

Answer: TRUE

Diff: 2 Type: TF

Categories: Developing a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

3) If you do not have access to money to cover your cash needs, you may have insufficient liquidity.

Answer: TRUE

Diff: 1 Type: TF

Categories: Developing a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

4) An example of a 'SMART' goal is: Jack plans to save to buy a car in three years.

Answer: FALSE

Diff: 3 Type: TF

Categories: Developing a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

5) Jim's plan to reduce his spending on junk food by $20 per month and save those funds until he has a $2000 emergency fund is an example of a 'SMART' goal.

Answer: TRUE

Diff: 2 Type: TF

Categories: Developing a Financial Plan

Financial Type: Qualitative

Skill Type: Applied

6) When goal setting, in order to achieve financial success, goals should be set as aggressively as possible.

Answer: FALSE

Diff: 1 Type: TF

Categories: Developing a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

7) If prepared properly, financial plans are set for life and will rarely need to be changed.

Answer: FALSE

Diff: 2 Type: TF

Categories: Developing a Financial Plan

Financial Type: Qualitative

Skill Type: Applied

8) Estate planning involves developing a plan to avoid all taxes upon death.

Answer: FALSE

Diff: 2 Type: TF

Categories: Developing a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

9) How much money to retain in a liquid form and how to allocate funds among short-term investment instruments is called

A) investment management.

B) money management.

C) credit management.

D) liquidity management.

Answer: B

Diff: 1 Type: MC

Categories: Developing a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

10) Which of the following goals would be 'SMART'?

A) Reduce debt payments.

B) Save 40% of your income for an annual vacation.

C) Save $100 per month to create a $4000 emergency fund.

D) Invest for a safe and comfortable retirement.

Answer: C

Diff: 2 Type: MC

Categories: Developing a Financial Plan

Financial Type: Qualitative

Skill Type: Applied

11) Planning to pay off a car loan in three years' time is classified as

A) investment planning.

B) increasing cash flow.

C) a medium-term goal.

D) a short-term goal.

Answer: C

Diff: 1 Type: MC

Categories: Developing a Financial Plan

Financial Type: Qualitative

Skill Type: Applied

12) Which of the following would be classified as a medium-term goal?

A) Saving a down payment to purchase a house in three years

B) Buying new clothes to begin school this month

C) Retiring in 10 years

D) Paying for your two-year-old child's college education

Answer: A

Diff: 2 Type: MC

Categories: Developing a Financial Plan

Financial Type: Qualitative

Skill Type: Applied

13) Which of the following would defeat the efforts made in developing a successful financial plan?

A) Establishing realistic financial goals

B) Considering your current financial position

C) Identifying and evaluating alternative plans that could achieve your goals

D) Evaluating your financial plan every five years

Answer: D

Diff: 1 Type: MC

Categories: Developing a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

14) Which is the most important consideration when establishing your financial goals?

A) The emergency fund must be established first.

B) Short-term goals should be your only priority.

C) Your goals should be as challenging as possible.

D) The goals should be specific, measurable and realistic.

Answer: D

Diff: 2 Type: MC

Categories: Developing a Financial Plan

Financial Type: Qualitative

Skill Type: Recall

15) Alayne is preparing her budget for the first time. At what stage of the financial planning process is she?

A) Establishing financial goals

B) Managing her financial resources

C) Budgeting and tax planning

D) Considering her current financial situation

Answer: D

Diff: 3 Type: MC

Categories: Developing a Financial Plan

Financial Type: Qualitative

Skill Type: Applied

16) Nicole has been saving $500 each month for retirement in her Registered Retirement Savings Plan for the past year, but has been carrying a balance on her credit card for four months now. She is concerned about the high interest charges she has been paying on her credit card. At what stage of the financial plan is she?

A) Evaluating the plan

B) Establishing financial goals

C) Considering alternate plans

D) Revising the plan

Answer: D

Diff: 3 Type: MC

Categories: Developing a Financial Plan

Financial Type: Qualitative

Skill Type: Applied

17) The rate of return on Marika's investments has not been sufficient to meet her retirement goals. What should Marika do regarding her financial plan?

A) Delay her retirement a few years

B) Revise her plan

C) Increase her income

D) Reduce her expenses

Answer: B

Diff: 3 Type: MC

Categories: Developing a Financial Plan

Financial Type: Qualitative

Skill Type: Applied

18) Alex has become stressed by his tight budget and is unwilling to stick to his financial plan. What action should he take?

A) Establish his goals

B) Re-evaluate his goals

C) Implement the best plan

D) Revise his plan

Answer: D

Diff: 2 Type: MC

Categories: Developing a Financial Plan

Financial Type: Qualitative

Skill Type: Applied

19) Sharon had a net worth at the beginning of the year of $22 000. At the beginning of the year she received $1000 that she invested and earned 3 percent interest for the year. During the year she also saved $50 each week from her pay cheque in a no-interest chequing account. How much is her net worth at the end of the year?

A) $25 000

B) $25 630

C) $25 600

D) $23 030

Answer: B

Diff: 2 Type: MC

Categories: Developing a Financial Plan

Financial Type: Quantitative

Skill Type: Applied

20) Write out three goals in SMART format.

Answer: There are many possibilities, however, they must be specific, measurable, action oriented, realistic and time bound.

Examples: Save $200 per month for four years in order to have $5000 to purchase a second-hand Honda Fit.

Save $1000 per month from age 30 to 65 in order to be able to retire at age 60 with a similar lifestyle to pre-retirement.

Pay off a student loan of $20 000 over five years by making payments of $400 per month at an interest rate of 7.5 percent.

Diff: 3 Type: ES

Categories: Developing a Financial Plan

Financial Type: Qualitative

Skill Type: Applied

21) Name the six steps in the financial planning process and give an example of one activity that would occur at each step.

Answer: Many possibilities but overall cover these topics:

Step 1 Make SMART goals. Establish your financial goals: determine short, medium and long-term goals.

Step 2 Consider current financial position: Cash flow, budget, balance sheet and net worth. Review spending habits and cash flow. Make your personal financial statements and budget.

Step 3 Calculate various alternatives to reach the goals. Identify alternate plans. Review different options that would enable you to reach your various goals successfully

Step 4 Select and implement a plan. Start the required savings, or insurance etc. previously determined. Be prepared to make specific financial decisions based on your discipline and risk tolerance and realistic cash flow.

Step 5 Evaluate your plan: monitor the progress of each component of the plan. Check if the plan is working and you are on track after a few months, and at least once a year.

Step 6 Revise your plan if it is not working out. Or if your circumstances have changed, update your goals and plans appropriately. Review your willingness to follow the plan and adjust it according to your current lifestyle.

Diff: 3 Type: ES

Categories: Developing a Financial Plan

Financial Type: Qualitative

Skill Type: Applied