

TRUE-FALSE

A pre-arranged personal line of credit is the most efficient source of quick cash.

Term deposits cannot be redeemed before maturity.

A credit union usually offers a wider range of financial services than a chartered bank.

A savings account with daily compounding will have lower earnings than an account with quarterly compounding.

A GIC is a chequing account that earns interest.

Your selection of a savings plan is not influenced by the rate or return on the plan.

Interest-earning chequing accounts usually require a minimum balance

Like most investments, CSBs are sold throughout the year.

MULTIPLE CHOICE

_____ 9. The fewest financial services would probably be offered by a(n)

- a. credit union.
- b. trust company.
- c. chartered bank.
- d. investment company.

_____ 10. The rate of return on a savings account may also be referred to as

- a. yield.
- b. compounding.
- c. liquidity.
- d. equity.

_____ 11. The savings plan that is likely to have a set rate of return is a

- a. money market account.
- b. guaranteed investment certificate.
- c. debit card account.
- d. money market fund.

_____ 12. A personal cheque with guaranteed payment is a

- a. certified cheque.
- b. bank draft.
- c. cashier's cheque.
- d. money order.

_____ 13. The effective annual rate (EAR) formula is used to

- a. take inflation into account
- b. calculate the nominal rate of return
- c. incorporate compounding

d. determine your real rate of return

_____ 14. Which of the following is a drawback of a money market fund?

- a. Low rate of return
- b. Penalty for early withdrawals
- c. Not insured
- d. High minimum balance

_____ 15. A(n) _____ is a computer terminal where you can withdraw cash, make deposits, check your balance and conduct other financial services.

- a. Direct Deposit
- b. Automatic Payments
- c. Automated Teller Machines
- d. Smart Card

_____ 16. A _____ endorsement is most useful when depositing checks by mail.

- a. special
- b. blank
- c. restrictive
- d. multiple

True False

- 1. T
- 2. F
- 3. T
- 4. F
- 5. F
- 6. F
- 7. T
- 8. F

Multiple Choice

- 9. D
- 10. A
- 11. B
- 12. A
- 13. C
- 14. C
- 15. C
- 16. C

Are You an Informed User of Financial Services?

For each of the following statements indicate a “Yes” or “No” answer.

Yes **No**

- | | | |
|-------|-------|---|
| _____ | _____ | 1. Do you know a financial institution in your community that has safety deposit boxes? |
| _____ | _____ | 2. Do you know the current rate of return on your savings account? |
| _____ | _____ | 3. Do you know the frequency of compounding for your savings account? |
| _____ | _____ | 4. Do you know where you can buy Canada Savings Bonds in your community? |
| _____ | _____ | 5. Do you know if there is a credit union/caisse populaire in your community? |

- _____ _____ 6. Do you know the location of your financial institution's 24-hour automatic teller machines?
- _____ _____ 7. Do you know the monthly service charge on your chequing account and the fees on your ATM withdrawals?
- _____ _____ 8. Do you know the minimum balance on your chequing account to avoid a service charge?
- _____ _____ 9. Do you know the charge for an overdraft on your chequing account?
- _____ _____ 10. Do you know the annual percentage rate charged on your credit cards and charge accounts?
- _____ _____ 11. Do you know the annual fee for your bank credit card?
- _____ _____ 12. Do you know what the interest rate is for automobile loans at your financial institution?

ANSWERS TO CONCEPT QUESTIONS, OPENING CASE QUESTIONS, FINANCIAL PLANNING PROBLEMS, FINANCIAL PLANNING ACTIVITIES, LIFE SITUATION CASE, AND INTERNET CASE

CONCEPT QUESTIONS

Concept Check 4-1

1. What is the relationship between financial services and overall financial planning?
Financial services are used to manage financial activities and to achieve financial goals. See Exhibit 4-1 for an overview of this relationship.
2. What are the major categories of financial services?
The major financial services are savings plans, payment services, borrowing, and other services such as insurance protection, investments, tax assistance, financial planning, and trusts.
3. What financial services are available through electronic banking systems?
Common electronic banking transactions include obtaining cash, point of purchase payment, direct deposit, preauthorized payments, and transfer of funds between chequing, savings, and loans.
4. Why shouldn't you select financial services on the basis of only monetary factors?
Certain factors such as convenience and personal service may not be easily measured in terms of money.
5. How do changing economic conditions affect the use of financial services?
As interest rates rise, you are more likely to save and borrow less. When interest rates decline, spending and borrowing increase. See Exhibit 4-3 for additional information on the effect of interest rates on financial services use.

Concept Check 4-2

1. What are the examples of deposit-type financial institutions?

Deposit-type financial institutions include chartered banks, trust companies, mutual savings banks, and credit unions and caisses populaires.

2. What factors do consumers usually consider when selecting a financial institution to meet their saving and chequing needs?

When selecting a financial institution, a person should consider the services available, convenience (location, hours, branch offices, banking by mail, automatic teller machines), safety, personal service, rates charged, and interest paid to savers.

Concept Check 4-3

1. What are the main types of savings plans offered by financial institutions?

The main types of savings plans are regular savings accounts, term deposits and GICs, interest-earning chequing accounts, and Canada Savings Bonds.

2. What are the benefits of Canada Savings Bonds?

Canada Savings Bonds are extremely secure as they are guaranteed by the federal government.

Concept Check 4-4

1. When would prefer a savings plan with high liquidity over one with a high rate of return?

If a person will need to have access to savings funds in the near future, liquidity would be preferred over a high rate of return since a penalty for early withdrawal may be involved to get the higher yield.

2. What is the relationship between compounding and calculating the future value of an amount?

Future value calculations can also be referred to as compounding since the process involves determining interest on the initial deposit plus any previously earned interest.

3. How do inflation and taxes affect earnings on savings?

Inflation and taxes reduce the real rate of return earned on savings.

Concept Check 4-5

1. What factors are commonly considered when selecting a chequing account?

When selecting a chequing account consider restrictions (such as minimum balance and holding period for deposited cheques), fees and charges, special features, and interest earned.

2. Are chequing accounts that earn interest preferable to regular chequing accounts? Why or why not?

This depends on the minimum balance required to earn interest and the fees charged.

OPENING CASE QUESTIONS

1. What benefits and costs are associated with automatic teller machines?

Electronic banking provides convenience, speed, and accuracy. In contrast, fees may be charged for the services and a financial institution is likely to have detailed information related to your financial activities.

2. How does the use of financial services like ATMs affect a person's overall financial plan?

An ATM can be a benefit for personal financial activities through serving the need for cash, by providing convenience, and offering detailed financial records. However, excessive use of ATMs can result in overspending and reduced saving for long-term financial security.

3. What could Johan do to reduce his banking fees and manage his money more wisely?

Johan could do two major things to reduce his banking fees. First, he could compare services and charges at different financial institutions. Second, he could reduce the use of his most costly financial services. Also, he should understand the fees associated with High Interest E-savings accounts.