

FINANCIAL LITERACY- MODULE 29- INVESTING

Name _____ Date _____

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 1) An emergency fund is a certain amount of money that can be obtained quickly in case of immediate need.
- 2) The amount put aside as an emergency fund should be equal to 1 to 3 months of living expenses.
- 3) The potential return of any investment should be directly related to the risk that the investor assumes.
- 4) During inflationary times, there is a risk that the financial return on an investment will not keep pace with the rate of inflation.
- 5) When investing in global investments, changes in the currency exchange rate may affect the return on your investment.
- 6) Liquidity is the ease with which an asset can be converted to cash without a substantial loss in dollar value.
- 7) Diversification of assets among several types of investments can increase risk.
- 8) Mutual funds range from very conservative to extremely speculative investments.
- 9) Although useful for many things, the Internet cannot be used to monitor the value of stock, bond, and mutual fund investments.
- 10) Dividends and interest income are taxed as long-term capital gains under the current tax laws.
- 11) The fees for investor services and newsletters may range between \$30 and \$750 a year.
- 12) Common stock represents the most basic form of corporate ownership.

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 13) Which of the following is *not* a true statement? 13) _____
- A) No one is going to make you save the money you need to start an investment program.
 - B) A long-term investment objective involves a time period of five years or more.
 - C) Investment goals must be tailored to the particular financial needs of the individual.
 - D) To be useful, investment objectives must be specific and measurable.
 - E) Because investment objectives deal with the future, it is useless to plan more than five years in the future.
- 14) All of the following statements are considered to be good advice for the potential investor before starting his or her personal investment program *except*: 14) _____
- A) Start an emergency fund.
 - B) Learn to live within your means.
 - C) Provide adequate insurance protection.
 - D) Increase credit purchases and make installment payments in order to increase cash available for investing.
 - E) Establish a line of credit.
- 15) Jamie Lynn earns \$40,000 a year. Her monthly expenses total \$1,700. What is the minimum amount of money that Ms. Lynn should set aside in an emergency fund? 15) _____

- A) \$5,100 B) \$3,400 C) \$8,400 D) \$1,700 E) \$10,000

16) Which of the following is *not* a true statement? 16) _____

- A) The interest rate risk associated with investments in bonds is the result of changes in the interest rates in the economy.
B) The risk of business failure is associated with investments in common stock, preferred stock, and corporate bonds.
C) When choosing an investment, it is not necessary to consider the risk factor.
D) The price of stocks, bonds, and other investments may fluctuate because of the behavior of investors in the marketplace.
E) During inflationary times, there is a risk that the financial return on an investment will not keep pace with the rate of inflation.

17) Which of the following investments would rank the highest with regard to safety? 17) _____

- A) corporate bonds
B) bank accounts
C) common stock
D) real estate
E) preferred stock

18) An example of _____ risk occurs when an investment does *not* keep up with prices that are increasing in the overall economy. 18) _____

- A) business failure
B) inflation
C) market
D) interest
E) current

19) If interest rates in the overall economy decrease, what will happen to the market value of a corporate bond with a fixed interest rate? 19) _____

- A) The value of the bond will not change.
B) The value of the bond will increase.
C) The bond is worthless.
D) The value of the bond will decrease.
E) It is impossible to determine if the bond's value will increase or decrease.

20) One dollar placed in a safety deposit box in 1980 is worth 20) _____

- A) zero.
B) about 10 cents.
C) more than one dollar.
D) less than 50 cents.
E) between 50 cents and one dollar.

21) Bad products or poor financial management may result in investors experiencing _____ risk. ____

- A) inflation.
B) interest rate

- C) income
- D) market
- E) business failure

22) Chi Min-Ho is 24 and has saved enough money to fund an adequate emergency fund. In addition, he has saved \$5,600 that can be used to fund an investment program. He is single, has no dependents, and would like to retire when he is 60. Which of the investment factors listed below would be *most* important for an investor like Mr. Min-Ho? A) risk B) income C) growth D) liquidity E) beta

23) A decrease in the value of stocks, bonds, or other investments may cause investors to experience _____ risk.

- A) inflation
- B) business failure
- C) income
- D) market
- E) interest rate

24) Which of the following investments offers the greatest growth potential? 24) _____

- A) bank accounts
- B) option bonds
- C) corporate bonds
- D) government bonds
- E) common stock

25) Matt Jacobs is single and 24. He has just graduated from college and obtained a job making \$26,400 a year. He would like to establish a long-term investment program. Which of the following investments would you recommend for his investment program? 25) _____

- A) government bonds
- B) a money-market fund
- C) growth stocks
- D) commodities
- E) corporate bonds

26) The ease with which an investment can be converted to cash without a substantial loss in dollar value is called the 26) _____

- A) variable cost factor.
- B) immediate quotient.
- C) fixed cost factor.
- D) asset value.
- E) liquidity factor.

27) Which of the following investments offers the greatest liquidity? 27) _____

- A) collectibles
- B) real estate
- C) common stock
- D) bank accounts
- E) corporate bonds

28) Which of the following investments offers the *least* liquidity? 28) _____

- A) common stock
- B) government bonds
- C) real estate
- D) bank accounts
- E) preferred stock

29) An investor can make money on a common stock investment by 29) _____

- A) waiting for the stock's value to increase and then selling it.
- B) converting the common stock to preferred stock.
- C) waiting for the stock to reach the maturity date.
- D) waiting for the corporation to repurchase the stock.
- E) waiting for the stock's value to decrease and then selling it.

30) Which one of the following is *not* a true statement? 30) _____

- A) Most mutual funds invest in stocks, bonds, and other securities.
- B) Mutual fund investments range from very conservative to very speculative investments.
- C) Diversification provided by a mutual fund reduces risk.
- D) Since mutual fund managers are professionals, there is no need to evaluate a mutual fund.
- E) The goals of one mutual fund investor may differ from those of another.

31) Which of the following is *not* a true statement? 31) _____

- A) There is no reason to evaluate a real estate investment because real estate always increases in value sooner or later.
- B) Finding a buyer for a piece of real estate can be difficult if loan money is scarce.
- C) Real estate ownership represents one of the best hedges against inflation.
- D) There are many factors to consider before investing in real estate.
- E) Poor location can cause a piece of real estate property to go down in value.

32) Nationwide real estate values have historically increased by _____ percent a year. 32) _____

- A) 10
- B) 15
- C) 1
- D) 3
- E) 7

33) Which of the following investments would provide the largest amount of income and *most* predictable source of income? 33) _____

- A) commodities
- B) common stock
- C) guaranteed investment certificates
- D) derivatives
- E) savings accounts

34) Capital gains and capital losses 34) _____

- A) are subject to higher taxes than is income.
- B) are not fully taxed.
- C) are assets held for longer than five years.
- D) are assets held for longer than ten years.
- E) are assets held for longer than two years.

35) The fees for investor services and newsletters generally range from _____ a year. 35) _____

- A) \$30 to \$750, or free

- B) \$10 to \$20, or free
- C) over \$1,000, or free
- D) \$20 to \$30, or free
- E) \$300 to \$1,000, or free