

***Personal Finance: An Integrated Planning Approach, 8e (Frasca)***  
**Chapter 1 Financial Planning: Why It's Important To You**

- 1) The socioeconomic system that is likely in the near future will be one where
- A) government plays a greater role in solving financial problems.
  - B) employers provide greater retirement benefits for their employees.
  - C) families will be more self-reliant for their financial futures.
  - D) huge increases in family savings eliminates the need for financial planning.

Answer: C

Diff: 1

Topic: Economic trends

- 2) Financial success is defined in the text as
- A) achieving a net worth of \$1,000,000 or more.
  - B) maximizing our resource outputs while minimizing our labor risk inputs.
  - C) obtaining maximum benefits from our financial resources.
  - D) happiness□the happier we are, the greater our financial success.

Answer: C

Diff: 1

Topic: Opportunity cost

- 3) It is likely that achieving financial goals
- A) hinders your effort to achieve non-financial goals.
  - B) helps your effort to achieve non-financial goals.
  - C) is burdensome and lowers the quality of life.
  - D) turns people into cynics.

Answer: B

Diff: 1

Topic: Planning

- 4) Considering nonfinancial and financial goals, we can say
- A) nonfinancial goals have no connection to financial goals.
  - B) the most important financial goal is often considered financial independence.
  - C) the most important financial goal is increasing our rate of savings.
  - D) setting goals is unrealistic in a changing economic environment.

Answer: B

Diff: 2

Topic: Opportunity cost

- 5) Financial independence is usually thought of as
- A) freedom from financial debt.
  - B) having enough resources to be self-reliant.
  - C) being free of parental financial support.
  - D) a strategy to minimize federal income taxes.

Answer: B

Diff: 1

Topic: Opportunity cost

- 6) Which alternative below is **not** true of current consumption?
- A) It refers to goods and services used in the current time period.
  - B) Generally, more of it leads to greater levels of satisfaction.
  - C) It can increase through current borrowing.
  - D) It is usually less desirable than future consumption.

Answer: D

Diff: 1

Topic: Opportunity cost

- 7) Which of the following illustrates the principle of diminishing marginal satisfaction?
- A) The second slice of pizza does not taste as good as the first slice.
  - B) The more I have, the more I want.
  - C) Higher financial returns require larger risks.
  - D) Things were better in previous years.

Answer: A

Diff: 2

Topic: Marginal analysis

- 8) An example of diminishing marginal satisfaction is
- A) enjoying a second pizza more than the first.
  - B) enjoying both pizzas equally.
  - C) enjoying the second pizza less than the first.
  - D) not enjoying either pizza.

Answer: C

Diff: 1

Topic: Marginal analysis

- 9) The principle of diminishing marginal satisfaction explains why
- A) many people don't like to save.
  - B) annual consumption almost always exceeds annual savings.
  - C) people can't seem to save more even though their incomes rise.
  - D) future consumption looks more appealing than current consumption as our current incomes increase.

Answer: D

Diff: 2

Topic: Marginal analysis

- 10) Savings is defined as
- A) cash balances in savings accounts.
  - B) accumulated wealth.
  - C) the portion of income not spent on current consumption.
  - D) current consumption minus current debt.

Answer: C

Diff: 2

Topic: Economic trends

- 11) Which of the following is **not** a reasonable expectation?
- A) Continued business cycles
  - B) Stable prices
  - C) Instability in financial markets
  - D) Periodic recessions

Answer: B

Diff: 1

Topic: Economic trends

- 12) Which statement is most appropriate?
- A) Business cycles will continue in the future.
  - B) The economy is headed into long-run recession.
  - C) A recession usually does not impact college recruiting.
  - D) Recessions are not likely to occur in the future.

Answer: A

Diff: 1

Topic: Economic trends

- 13) Over the last two decades stock market returns have been
- A) over 25% each year.
  - B) under 20% each year.
  - C) negative for most years.
  - D) in a range between -25% and +40%.

Answer: D

Diff: 2

Topic: Economic trends

- 14) In recent years the annual inflation rate has been
- A) over 10% each year.
  - B) between 5% and 10% each year.
  - C) between 2 and 4 percent.
  - D) negative (deflation) in about half the years.

Answer: C

Diff: 1

Topic: Economic trends

- 15) Which economic trend below is **not** likely to exist in the future?
- A) Inflation at annual rates of 1-3%
  - B) Persistent business cycles
  - C) A tax system with high tax rates
  - D) A tax system that does not favor some activities over others

Answer: D

Diff: 2

Topic: Economic trends

- 16) An example of a selectively rewarding tax system is
- A) high marginal tax rates.
  - B) no tax on the sale of a personal residence.
  - C) taxing personal income, but not wealth.
  - D) a graduated sales tax rate.

Answer: B

Diff: 2

Topic: Economic trends

- 17) Life-cycle financial planning means
- A) that life-long goals are recognized and attended to at each phase in the life cycle.
  - B) attending to life-long goals sequentially through life □ buy insurance when you are young, plan retirement when you are old, etc.
  - C) planning an estate to pass to your heirs so that the family's life-cycle never ends.
  - D) gearing life-long financial decisions to minimize your total income tax liability.

Answer: A

Diff: 2

Topic: Marginal analysis

- 18) Which item below is **not** a major planning area?
- A) Consumption-savings planning
  - B) Debt planning
  - C) Balance sheet planning
  - D) Insurance planning

Answer: C

Diff: 2

Topic: Opportunity cost

- 19) The area of financial planning that deals with the distribution of your property during your life and at death is known as
- A) estate planning.
  - B) transactional planning.
  - C) market planning.

D) charitable planning.

Answer: A

Diff: 2

Topic: Opportunity cost

- 20) The steps in a planning approach are: (1) creating an action plan, (2) deciding if a goal is still worth achieving, (3) making a broad goal concrete and specific, and (4) evaluating goal-achievement performances. The correct sequential order of these steps is

A) (1), (3), (2), (4).  
B) (3), (1), (4), (2).  
C) (4), (3), (2), (1).  
D) (2), (4), (1), (3).

Answer: B

Diff: 3

Topic: Opportunity cost

- 21) You are considering buying a home. A pertinent action plan would **not** include

A) our anticipated enjoyment of the home.  
B) when the home will be purchased.  
C) how much must be saved each year to accumulate a down payment.  
D) how the annual savings will be invested until the down payment is made.

Answer: A

Diff: 2

Topic: Opportunity cost

- 22) Marginal analysis is most appropriately described as

A) matching problems with appropriate strategies to deal with them.  
B) examining changes in variables that are related to controllable decision inputs.  
C) looking at the "next-best" strategy when "first-best" isn't available.  
D) balancing consumption and investment budgets.

Answer: B

Diff: 2

Topic: Marginal analysis

- 23) Which of the following activities best illustrates the use of marginal analysis?
- A) Finding the future value of a savings deposit
  - B) Finding the opportunity cost of not going to college
  - C) Buying a dozen oranges a week because they are priced at \$1.00 a dozen instead of \$0.10 each
  - D) Buying eight oranges a week because the extra satisfaction from four extra oranges is not worth \$0.20 to you

Answer: D

Diff: 3

Topic: *Marginal analysis*

- 24) Marginal analysis
- A) only considers costs that vary with the relevant decision.
  - B) considers all historical costs.
  - C) only considers some historical costs.
  - D) considers all past and future costs.

Answer: A

Diff: 2

Topic: *Marginal analysis*

- 25) You are planning a vacation tour to Florida and trying to choose between the 5-day and 7-day package. You are using marginal analysis when
- A) you decide the benefits from either package are worth their respective costs.
  - B) compare the added benefits of the 7-day package to its added cost.
  - C) you select one package over the other.
  - D) you had the foresight to plan your vacation.

Answer: B

Diff: 3

Topic: *Marginal analysis*

- 26) Which of the following is the correct opportunity cost to consider if you are trying to choose one 3-hour elective course (A) over another 3-hour elective course (B)?
- A) The tuition cost of a 3-hour course
  - B) Your total tuition costs for the year with and without the course
  - C) The information and learning from (B) that you will give up if you choose (A)
  - D) The marginal costs of taking one more course

Answer: C

Diff: 3

Topic: *Opportunity cost*

- 27) An opportunity cost of renting a home rather than buying it is
- A) the price of the home.
  - B) the monthly rent.
  - C) potential price appreciation of the home.
  - D) putting up with other renters' noise.

Answer: C

Diff: 3

Topic: *Opportunity cost*

- 28) An opportunity cost is generally thought of as  
A) money placed in an investment opportunity.  
B) the chance to make money in an investment.  
C) the benefits given up by choosing one alternative over another.  
D) the benefits gained by choosing one alternative over another.  
Answer: C  
Diff: 2  
Topic: Opportunity cost
- 29) A building-block approach to financial planning refers to  
A) pursuing conservative investments and activities first.  
B) linking all investments and activities into one plan.  
C) a guide for achieving maximum wealth with limited resources.  
D) phases of the financial life cycle.  
Answer: A  
Diff: 1  
Topic: Planning
- 30) In the future, the government is likely to play a greater role in providing retirement benefits.  
Answer: FALSE  
Diff: 1  
Topic: Planning
- 31) Financial success is defined as adding to your net worth each year.  
Answer: FALSE  
Diff: 1  
Topic: Planning
- 32) Although all goals (financial and non-financial) are important, only financial goals form the basis for financial planning.  
Answer: TRUE  
Diff: 1  
Topic: Planning
- 33) Many people consider financial independence to be their most important financial goal.  
Answer: TRUE  
Diff: 1  
Topic: Opportunity cost
- 34) As your consumption increases during a period of time, the satisfaction you enjoy from it usually increases at an even greater rate.  
Answer: FALSE  
Diff: 2  
Topic: Marginal analysis
- 35) The principle of diminishing marginal satisfaction means the more you consume, the less your total satisfaction.  
Answer: FALSE  
Diff: 2  
Topic: Marginal analysis

- 36) The principle of diminishing marginal satisfaction helps to explain why people increase their rate of savings as their incomes rise.  
Answer: TRUE  
Diff: 2  
Topic: *Marginal analysis*
- 37) All things the same, achieving financial goals helps us to achieve non-financial goals.  
Answer: TRUE  
Diff: 1  
Topic: *Planning*
- 38) An advantage of investing in the stock market is that returns are seldom less than 10 percent each year.  
Answer: FALSE  
Diff: 2  
Topic: *Economic trends*
- 39) Inflation rates during the period 2000 - 2007 were generally under 5%.  
Answer: TRUE  
Diff: 1  
Topic: *Economic trends*
- 40) Annual stock market returns during the period 2000-2006 were fairly stable.  
Answer: FALSE  
Diff: 2  
Topic: *Economic trends*
- 41) Business cycles are likely to persist in the future.  
Answer: TRUE  
Diff: 1  
Topic: *Economic trends*
- 42) In a recession, college recruiting is often curtailed sharply.  
Answer: TRUE  
Diff: 1  
Topic: *Economic trends*
- 43) A feature of our current tax system is that all income is taxed uniformly.  
Answer: FALSE  
Diff: 1  
Topic: *Economic trends*
- 44) The deductibility of mortgage interest for tax purposes is an example of a selectively rewarding tax system.  
Answer: TRUE  
Diff: 2  
Topic: *Economic trends*
- 45) Life-cycle financial planning is defined as the tools and techniques of building an estate.  
Answer: FALSE  
Diff: 1  
Topic: *Planning*

- 46) The best time to plan your retirement is in mid-life when you have a good idea of your retirement needs.  
Answer: FALSE  
Diff: 2  
Topic: Planning
- 47) Typically, your insurance needs change throughout your life.  
Answer: TRUE  
Diff: 1  
Topic: Planning
- 48) Debt planning often involves using debt to even out lifelong consumption.  
Answer: TRUE  
Diff: 2  
Topic: Planning
- 49) Estate planning is primarily concerned with increasing your wealth.  
Answer: FALSE  
Diff: 1  
Topic: Planning
- 50) Estate planning is primarily concerned with how best to distribute your wealth during your life and at death.  
Answer: TRUE  
Diff: 1  
Topic: Planning
- 51) The four-step approach to financial planning begins by evaluating your success in goal achievement.  
Answer: FALSE  
Diff: 1  
Topic: Planning
- 52) The first step in a planning approach is to create specific sub-goals that help us achieve a major broad goal.  
Answer: TRUE  
Diff: 1  
Topic: Planning
- 53) Sue Hank has just indicated that the extra benefits from getting an A in her personal finance course are not worth the extra effort she must give. Sue used *marginal analysis* in making her decision.  
Answer: TRUE  
Diff: 1  
Topic: Marginal analysis
- 54) Marginal analysis should be used whenever a decision involves alternative approaches to a problem.  
Answer: TRUE  
Diff: 1  
Topic: Marginal analysis



- 55) An opportunity cost of buying a home is interest paid on the mortgage.  
Answer: FALSE  
Diff: 2  
Topic: Opportunity cost
- 56) Opportunity costs include only out-of-pocket expenses.  
Answer: FALSE  
Diff: 1  
Topic: Opportunity cost
- 57) An opportunity cost is what you give up when you choose one alternative over another.  
Answer: TRUE  
Diff: 1  
Topic: Opportunity cost
- 58) Jim Burt has decided to cut classes over Easter week and go to Florida. An opportunity cost of that decision was the cost of the airplane ticket.  
Answer: FALSE  
Diff: 2  
Topic: Opportunity cost
- 59) A building block approach to financial planning argues that people should achieve security in work, insurance, and other activities before they pursue higher-risk investments.  
Answer: TRUE  
Diff: 1  
Topic: Planning
- 60) Estate planning deals with the problems of passing our wealth to our heirs.  
Answer: TRUE  
Diff: 1  
Topic: Opportunity cost
- 61) Over 25% of total employee compensation consists of fringe benefits.  
Answer: TRUE  
Diff: 1  
Topic: Careers
- 62) If additional earnings are taxed at 25%, \$1,000 of expenses require \$1,333 of pre-tax earnings.  
Answer: TRUE  
Diff: 2  
Topic: Careers
- 63) There are both fee-based and commission-based financial planners.  
Answer: TRUE  
Diff: 1  
Topic: Financial planners
- 64) Professional financial planners must pass stringent federal exams before they are allowed to sell their services.  
Answer: FALSE  
Diff: 1  
Topic: Financial planners

65) A financial analyst is the same as a financial planner.

Answer: FALSE

Diff: 1

Topic: Financial planners

66) The CFP designation is reserved for those individuals that have successfully completed a series of exams covering all aspects of financial planning.

Answer: TRUE

Diff: 1

Topic: Financial planners