

Answers = Personal Finance Study Guide

1. If you deposit \$200 in savings account that pays 3% Simple interest, and you don't make additional deposits, how much money would you have in two years?
 - Simple: $\$200 \times .03 = 6.00$ $\$6.00 \times 2 \text{ years} = \12.00 ; Total at end of year 2 = \$212.00.
2. If you deposit \$200 in a savings account that pays you 3% Compound yearly interest, and you don't make additional deposits, how much money would you have in two years?
 - Compound:
 - Year 1 = $\$200 \times .03 = \6.00 End of year 1 = \$206.00
 - Year 2 = $\$206 \times .03 = \6.18 End of year 2 = \$212.18
3. Workers earnings: If the supply of labor is high, and the demand is low, the pay is Low
4. If the demand for an occupation is high but the supply low, the pay is HIGH
5. What determines workers earnings? Level of Education – *The higher the level of education, the greater earning potential*
6. The FDIC insures bank accounts up to \$250,000
7. What is one way that banks earn money through loans – Banks Charge Interest
8. If the investment risk is high, the rate of return on investment is probably High
9. If the risk of an investment is low, the rate of return is probably LOW
10. 9. According to the top CEOs, what types of skills must everyone have in order to be successful?
Good Communication Skills, Computer Skills, Flexibility and adaptability, Interpersonal skills, Motivation and Initiative, Self-Confidence, Teamwork
11. Who would possibly earn the most money? A person who dropped out of high school, a person who only graduates from high school, **or a person who earns a college degree?**
12. Who is most hurt when inflation is high? Savers, those who are on fixed incomes, Banks
13. What is an insurance premium? The amount you pay for your insurance policy
14. What is an insurance policy? The policy is the contract between you and the insurance company stating what your responsibilities are and the responsibilities of the insurance company.
15. What is meant when one has to pay a deductible when they file an insurance claim? Your out of pocket expense before the insurance company will pay their part.
16. When applying for a loan, what types of information is a bank interested in before they loan the money? The types of assets you have that they can take away in the event you fail to pay back the loan. Also, your credit score.
17. Which is riskier, Stocks or Government Bonds? Stocks
18. Explain the difference between proportional tax, progressive tax, and regressive tax.
Proportional Tax – Everyone pays the same portion; Progressive tax – you progressively pay a higher percentage of tax as your income increases; Regressive Tax place a greater burden on low incomes than high income.
19. What would be an advantage of an insurance policy that has a high deductible? Your premium costs less
20. What is the difference between whole life insurance and term life insurance? Whole Life: More expensive than term life, and it often pays less of a death benefit than a term policy with a

comparable premium. You can borrow money from your whole life ins. Policy. It provides coverage for your whole Life, as long as you pay the premiums. Term Live is only for a specific number of years.

21. What is meant by a deductible when an insurance claim is filed – Your out of pocket expense before the insurance company pays
22. What is an insurance policy – A written agreement between you and the insurance company. It explains what kinds of losses the insurance company will cover, and how much the insurance company will pay for your loss.
23. What is a regressive tax? – Sales Tax
24. What is a progressive tax? – Personal Income Tax
25. What is a proportional tax? – Social Security and Medicare withheld from one's paycheck
26. What is the difference between gross wages and net income? Gross Income is before taxes and mandatory withholding taxes. Net Pay is the amount you take home after mandatory deductions.
27. What is the difference between buying stocks in a company and buying a mutual fund? A Mutual Fund is a pool of money from many investors and is used to buy a variety of stocks and bonds call a portfolio. Mutual funds offer a compromise by including low-risk, low-return stocks with some high-risk, high return stocks. Stocks – you purchase shares of stock in individual companies.
28. What is a mutual fund? A Mutual Fund is a pool of money from many investors and is used to buy a variety of stocks and bonds call a portfolio. Mutual funds offer a compromise by including low-risk, low-return stocks with some high-risk, high return stocks.
29. What is the difference between a corporate bond and a U.S. bond? Corporate Bond – You are loaning money to a corporation; U.S. bond – You are loaning money to the government.
30. When investing, what is meant by high rate of return, high risk? The higher the risk, the higher potential return on investment (earnings)
31. What types of investments are low risks? Government Bonds, Low Risk Mutual Funds, Savings Accounts, Certificate of Deposits (CDs)
32. What types of investments are high risks? – Stocks, Junk Bonds