

NAME: \_\_\_\_\_

SCORE: \_\_\_\_\_/50 points

**Matching:** Read each statement carefully. Select the term that best matches the statement by writing the letter of the matching term in the blank. [1 point each]

- |        |  |                          |
|--------|--|--------------------------|
| ___ 1. | A type of income investment  | A. Asset                 |
| ___ 2. | A type of growth investment  | B. Compounding           |
| ___ 3. | Earning interest on previously earned interest plus the principal amount | C. Diversification       |
| ___ 4. | Spreading your money among different savings and investments             | D. Dollar Cost Averaging |
| ___ 5. | A system where the public can buy or sell stock shares                   | E. Rate of Return        |
| ___ 6. | Something of value that can be changed into cash                         | F. Savings Account       |
|        |  | G. Stock                 |
|        |  | H. Stock Exchange        |
|        |  | I. Time Value of Money   |
|        |  | J. Windfall              |

**Multiple Choice:** Read each item carefully; then select the best answer. [1 point each]

- \_\_\_ 7. The time value of money can best be explained using which one of the following concepts?
- A dollar today is worth more than a dollar tomorrow.
  - Take time to “pay yourself first.”
  - Investments increase in risk over time.
  - Compounding increases investments over time.
- \_\_\_ 8. Koneta has money saved and invested several ways with a goal to grow her money at a rate higher than inflation. What is the historical long-term annual average rate of inflation?
- 1%
  - 3%
  - 5%
  - 7%

- \_\_\_ 9. As Koneta decides how to invest her money, which one of the following options is most likely to grow at a rate higher than inflation?
- mutual fund
  - real estate
  - savings account
  - U.S. savings bond
- \_\_\_ 10. Monica starts a mutual fund with \$500 and adds \$500 to her mutual fund every year for another nine years. Mason decides to wait 10 years so he can save up a lump sum of \$5,000 to invest at one time in a mutual fund. If both Monica and Mason earn on average of 7 percent APY, who will have the larger mutual fund balance in 20 years?
- Mason
  - Monica
  - They will have the same balance amount because they each invested the same amount at the same rate.
  - There is not enough information presented to make a prediction.
- \_\_\_ 11. Given the same principal amount and interest of 1.3 percent APY for all options below, which option will earn the most interest over three years?
- certificate of deposit that has interest compounded daily
  - savings account that earns interest compounded quarterly
  - savings bond that has interest compounded twice a year
  - All of the above will earn the same amount of interest.
- \_\_\_ 12. The basic rule of a risk-to-return relationship is that ...
- the lower the risk, the higher the return rate.
  - the higher the risk, the higher the return rate.
  - the higher the risk, the lower the return rate.
  - the two issues are not related.
- \_\_\_ 13. Kyle isn't willing to take much risk with his money as he sets money aside to use when he buys a car next year. Which one of the following types of investments potentially has the lowest investment risk while also growing in value?
- collectibles
  - real estate
  - savings account
  - stocks

- \_\_\_ 14. Kendra just received a promotion with a nice raise. She has her spending plan under control, so she decides to adjust her long-range investing plan now that she can take on more investment risk. Which one of the following types of investments potentially has the highest risk and is most likely a higher rate of return for Kendra?
- a. government bonds
  - b. money market deposit account
  - c. savings bonds
  - d. stocks
- \_\_\_ 15. Which statement below is true about mutual funds?
- a. Mutual funds are convenient and professionally managed.
  - b. Mutual funds only include stock funds.
  - c. Mutual funds offer guaranteed returns.
  - d. You can choose which stock to include in a mutual fund collection.
- \_\_\_ 16. Which one of the follow is not an example of investing?
- a. buying a business to open an ice cream shop
  - b. buying a car to get to work
  - c. buying rental property
  - d. buying a tow truck with a blade to start a towing and snow removal service

**Ranking:** For the next two problems, use what you learned in this module and consider current trends to rank the investment options.

17. In the left column, rank the investments highest (#1) to lowest (#5) to show how they compare according to the potential for return. [4 points]

Potential for Earnings on Investment Highest Potential Return = 1 Lowest Potential Return = 5	Investment Option
	Balanced Mutual Fund
	Certificate of Deposit
	Money Market Deposit Account
	Start-Up Stock
	U.S. Savings Bond

18. In the left column, rank the investments highest (#1) to lowest (#5) to compare the risk of the investments. [4 points]

<b>Potential for Uncertainty of Anticipated Return on Investment</b> Highest Potential Risk = 1 Lowest Potential Risk = 5	<b>Investment Option</b>
	Collectible
	Corporate Bond
	Mutual Fund
	Savings Account
	Stock (in one company)

**True/False:** Read each statement carefully. Show whether the statement is True (T) or False (F) by writing either “T” or “F” in the blank space. [1 point each]

- \_\_\_ 19. If you buy Hershey stock, you share ownership in the company and you can vote on the types of chocolate that will be produced.
- \_\_\_ 20. Three steps to build wealth include 1) Have enough income to invest, 2) Make a plan, and 3) Put money to work by investing.
- \_\_\_ 21. Minors have to wait until they are adults before they can buy and stocks and bonds.
- \_\_\_ 22. The best time to start investing is after working on a job full-time for at least five years.
- \_\_\_ 23. Although he is only 17, Sean can invest in a retirement fund because he earns income from his summer job at the health club.
- \_\_\_ 24. Most wealthy people have gained their fortunes by winning the lottery or inheriting a large sum of money.

**Short Answer:** Read each item carefully; then write an answer based on what you learned about saving and investing in *Module 4: Investing*.

25. What is the difference between saving and investing? [2 points]

a. \_\_\_\_\_

b. \_\_\_\_\_

26. List two reasons to save money in a bank or credit union savings account rather than hiding it in an envelope in your room. [2 points]

a. \_\_\_\_\_

b. \_\_\_\_\_

27. On \$500 earning 5 percent APY, calculate the ending balance after two years if interest is compounded semiannually. [4 points—show your work for partial credit]

One more page →

28. Label or describe at least four of the five elements of the TWTR stock quotation below. [4 points]

NYSE	TWTR	Bid: 64.90	Ask: 65.19	Last: 64.50

29. Give two reasons why investment experts recommend diversifying investments. [2 points]

a. \_\_\_\_\_

b. \_\_\_\_\_

30. Along with diversifying investments, what are two other recommended investing practices? [2 points]

a. \_\_\_\_\_

b. \_\_\_\_\_

31. List two strategies that a new investor should avoid when investing. [2 points]

a. \_\_\_\_\_

b. \_\_\_\_\_

32. Explain the dollar cost averaging investing strategy by writing a narrative description or by creating an example. [2 points]

NAME: KEY SCORE: \_\_\_\_\_/50 points

**Matching:** Read each statement carefully. Select the term that best matches the statement by writing the letter of the matching term in the blank. [1 point each]

- |   |  |
|---|--|
| <p><u>F</u> 1. A type of income investment [Competency 4-3]</p> <p><u>G</u> 2. A type of growth investment [Competency 4-3]</p> <p><u>B</u> 3. Earning interest on previously earned interest plus the principal amount [Competency 4-1]</p> <p><u>C</u> 4. Spreading your money among different savings and investments [Competency 4-3]</p> <p><u>H</u> 5. A system where the public can buy or sell stock shares [Competency 4-2]</p> <p><u>A</u> 6. Something of value that can be changed into cash [Competency 4-4]</p> | <p>A. Asset</p> <p>B. Compounding</p> <p>C. Diversification</p> <p>D. Dollar Cost Averaging</p> <p>E. Rate of Return</p> <p>F. Savings Account</p> <p>G. Stock</p> <p>H. Stock Exchange</p> <p>I. Time Value of Money</p> <p>J. Windfall</p> |
|---|--|

**Multiple Choice:** Read each item carefully; then select the best answer. [1 point each]

- a 7. The time value of money can best be explained using which one of the following concepts? [Competency 4-2]
- a. A dollar today is worth more than a dollar tomorrow.
  - b. Take time to “pay yourself first.”
  - c. Investments increase in risk over time.
  - d. Compounding increases investments over time.
- b 8. Koneta has money saved and invested several ways with a goal to grow her money at a rate higher than inflation. What is the historical long-term annual average rate of inflation? [Competency 4-2]
- a. 1%
  - b. 3%
  - c. 5%
  - d. 7%

- \_\_\_a\_\_\_ 9. As Koneta decides how to invest her money, which one of the following options is most likely to grow at a rate higher than inflation? [Competency 4-2]
- mutual fund
  - real estate
  - savings account
  - U.S. savings bond
- \_\_\_b\_\_\_ 10. Monica starts a mutual fund with \$500 and adds \$500 to her mutual fund every year for another nine years. Mason decides to wait 10 years so he can save up a lump sum of \$5,000 to invest at one time in a mutual fund. If both Monica and Mason earn on average of 7 percent APY, who will have the larger mutual fund balance in 20 years? [Competencies 4-1, 4-2]
- Mason
  - Monica [Monica started investing early and has the advantage of compounded interest and reinvested earnings over the ten years before Mason starts to invest.]
  - They will have the same balance amount because they each invested the same amount at the same rate.
  - There is not enough information presented to make a prediction.
- \_\_\_a\_\_\_ 11. Given the same principal amount and interest of 1.3 percent APY for all options below, which option will earn the most interest over three years? [Competency 4-1]
- certificate of deposit that has interest compounded daily
  - savings account that earns interest compounded quarterly
  - savings bond that has interest compounded twice a year
  - All of the above will earn the same amount of interest.
- \_\_\_b\_\_\_ 12. The basic rule of a risk-to-return relationship is that ... [Competency 4-3]
- the lower the risk, the higher the return rate.
  - the higher the risk, the higher the return rate.
  - the higher the risk, the lower the return rate.
  - the two issues are not related.
- \_\_\_c\_\_\_ 13. Kyle isn't willing to take much risk with his money as he sets money aside to use when he buys a car next year. Which one of the following types of investments potentially has the lowest investment risk while also growing in value? [Competency 4-3]
- collectibles
  - real estate
  - savings account
  - stocks



d 14. Kendra just received a promotion with a nice raise. She has her spending plan under control, so she decides to adjust her long-range investing plan now that she can take on more investment risk. Which one of the following types of investments potentially has the highest risk and is most likely a higher rate of return for Kendra? [Competency 4-3]

- a. government bonds
- b. money market deposit account
- c. savings bonds
- d. **stocks**

c 15. Which statement below is true about mutual funds? [Competency 4-3]

- a. **Mutual funds are convenient and professionally managed.**
- b. Mutual funds only include stock funds.
- c. Mutual funds offer guaranteed returns.
- d. You can choose which stock to include in a mutual fund collection.

b 16. Which one of the follow is not an example of investing? [Competency 4-3]

- a. buying a business to open an ice cream shop
- b. **buying a car to get to work**
- c. buying rental property
- d. buying a tow truck with a blade to start a towing and snow removal service

**Ranking:** For the next two problems, use what you learned in this module and consider current trends to rank the investment options. [

17. In the left column, rank the investments highest (#1) to lowest (#5) to show how they compare according to the potential for return. [4 points] [Competency 4-3]

	<b>Potential for Earnings on Investment</b> Highest Potential Return = 1 Lowest Potential Return = 5	<b>Investment Option</b>
<p><b>Suggested Scoring</b></p> <p>4 pts = all correct                      3 pts = only one ranking out of order                      2 pts = only two rankings out of order                      1 pt = only the first or last ranking correct</p>	2	Balanced Mutual Fund
	4	Certificate of Deposit
	5	Money Market Deposit Account
	1	Start-Up Stock
	3	U.S. Savings Bond

18. In the left column, rank the investments highest (#1) to lowest (#5) to compare the risk of the investments. [4 points] [Competency 4-3]

	Potential for Uncertainty of Anticipated Return on Investment Highest Potential Risk = 1 Lowest Potential Risk = 5	Investment Option
<p><b>Suggested Scoring</b></p> <p>4 pts = all correct</p> <p>3 pts = only one ranking out of order</p> <p>2 pts = only two rankings out of order</p> <p>1 pt = only the first or last ranking correct</p>	1	Collectible [potentially the highest risk because of uncertainty of finding a buyer]
	4	Corporate Bond
	3	Mutual Fund
	5	Savings Account
	2	Stock (in one company)

**True/False:** Read each statement carefully. Show whether the statement is True (T) or False (F) by writing either “T” or “F” in the blank space. [1 point each]

- \_\_\_F\_\_\_ 19. If you buy Hershey stock, you share ownership in the company ~~and you can vote on~~ but you don't have any control over the types of chocolate that will be produced. [Competency 4-2]
- \_\_\_T\_\_\_ 20. Three steps to build wealth include 1) Have enough income to invest, 2) Make a plan, and 3) Put money to work by investing. [Competencies 4-1, 4-2, 4-3, 4-4, 4-5]
- \_\_\_F\_\_\_ 21. Minors have to wait until they are adults before they can buy and stocks and bonds. [Competency 4-2] [Stocks and bonds can be purchased for minors through custodial accounts set up by parents or guardians.]
- \_\_\_F\_\_\_ 22. The best time to start investing is now (sooner rather than later to take advantage of compounding interest and any reinvestment of earnings) ~~after working on a job full-time for at least five years.~~ [Competencies 4-1, 4-2]
- \_\_\_T\_\_\_ 23. Although he is only 17, Sean can invest in a retirement fund because he earns income from his summer job at the health club. [Competency 4-5]
- \_\_\_F\_\_\_ 24. Most wealthy people have gained their fortunes by winning the lottery or inheriting a large sum of money. [Competencies 4-1, 4-2, 4-5] [More people build their wealth by planning, investing, and accumulating assets of value than through lottery winnings or inheritances.]

**Short Answer:** Read each item carefully; then write an answer based on what you learned about saving and investing in *Module 4: Investing*.

25. What is the difference between saving and investing? [2 points] [Competency 4-1]

*Examples of possible responses:*

- Saving is setting aside money to use later.
- Investing is using money to buy something that will potentially make more money.

26. List two reasons to save money in a bank or credit union savings account rather than hiding it in an envelope in your room. [2 points] [Competency 4-1]

*Examples of possible responses:*

- safety because the savings account is insured
- interest is earned on the amount saved
- easy to keep track of account balance online
- less tempted to use the money impulsively is setting aside money to use later

27. On \$500 earning 5 percent APY, calculate the ending balance after two years if interest is compounded semiannually. [4 points—show your work for partial credit] [Competency 4-1] **\$551.90 or \$551.91**

Compound Interest Formula Method

$$\begin{aligned} & \$500 \text{ principal} \times (1 + .05 \text{ annual interest} / 2 \text{ times a year})^{2 \text{ times a year} \times 2 \text{ years}} \\ & \$500 \times (\$1.025)^4 = \boxed{\$551.91} \end{aligned}$$

Simple Interest Method (alternative)

$$\begin{aligned} \text{Term 1: } & \$500 \text{ (principal)} \times .05 \text{ (annual interest)} \times .5 \text{ (half year)} = \$12.50 \text{ (interest)} \\ \text{Term 2: } & (\$500 + \$12.50) \times .05 \times .5 = \$12.81 \\ \text{Term 3: } & (\$512.50 + \$12.81) \times .05 \times .5 = \$13.13 \\ \text{Term 4: } & (\$525.31 + \$13.13) \times .05 \times .5 = \$13.46 \\ \text{Final Balance: } & \$538.44 + \$13.46 = \boxed{\$551.90} \end{aligned}$$

*Suggested Scoring:*

- Award 1-2 points for showing calculations either using the compound interest formula or a series of simple interest problems for the four semiannual time periods.
- Award full points for an accurate answer.

28. Label at least four elements of the TWTR stock quotation below. [4 points] [Competency 4-2]

NYSE	TWTR	Bid: 64.90	Ask: 65.19	Last: 64.50
New York Stock Exchange where this stock is bought and sold	Ticker symbol for company name (Twitter)	The current purchase price offered by a buyer, \$64.90 a share	The current selling price offered by the seller, \$65.19 a share	The last price paid for share of stock, \$64.50 a share

29. Give two reasons why investment experts recommend diversifying investments. [2 points] [Competency 4-3]

*Examples of possible responses:*

- minimize risk of losing money because money is invested in different types of investments
- minimize risk of losing money because money is invested in different types of industries
- boost odds that at least one type of investment will show growth

30. Along with diversifying investments, what are two other recommended investing practices? [2 points]  
[Competencies 4-1, 4-2, 4-3, 4-4, 4-5]

*Examples of possible responses:*

- develop an investing strategy
- start now/early
- invest for the long-term
- invest regularly
- do homework before investing in something
- develop an investing strategy for selecting investments
- monitor investments to make adjustments

31. List two strategies that a new investor should avoid when investing. [2 points] [Competencies 4-4, 4-5]

*Examples of possible responses:*

- flipping stock
- blind trust in sources of information
- getting emotional about holdings
- relying only on past performance
- borrowing to invest
- holding only one type of investment

32. Explain the dollar cost averaging investing strategy by writing a narrative description or by creating an example. [2 points] [Competency 4-4]

*Responses should include the first point and any of the additional points:*

- Invest a set amount of money at regular intervals.
- Invest consistently rather than investing one lump sum.
- This strategy can involve large or small amounts.
- Consistent investing has more potential to benefit from compounding or reinvested earnings earlier than waiting to save up a sizable lump sum to invest later.