

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]

- |  |                          |
|--|--------------------------|
| <input type="text"/> 1. A type of income investment  | A. Asset                 |
| <input type="text"/> 2. A type of growth investment  | B. Compounding           |
| <input type="text"/> 3. Earning interest on previously earned interest plus the principal amount | C. Diversification       |
| <input type="text"/> 4. Spreading your money among different savings and investments             | D. Dollar Cost Averaging |
| <input type="text"/> 5. A system where the public can buy or sell stock shares                   | E. Rate of Return        |
| <input type="text"/> 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]

- |  |   |
|--|---|
| <input type="text"/> 7. The time value of money can best be explained using which one of the following concepts?   | a. A dollar today is worth more than a dollar tomorrow.<br>b. Take time to “pay yourself first.”<br>c. Investments increase in risk over time.<br>d. Compounding increases investments over time. |
| <input type="text"/> 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? | a. 1%<br>b. 3%<br>c. 5%<br>d. 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

ASSESSMENT 4-2  
**Module 4: Investing**

- \_\_\_\_ 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?
- government bonds
  - money market deposit account
  - savings bonds
  - stocks
- \_\_\_\_ 15. Which statement below is true about mutual funds?
- Mutual funds are convenient and professionally managed.
  - Mutual funds only include stock funds.
  - Mutual funds offer guaranteed returns.
  - You can choose which stock to include in a mutual fund collection.
- \_\_\_\_ 16. Which one of the follow is not an example of investing?
- buying a business to open an ice cream shop
  - buying a car to get to work
  - buying rental property
  - 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

ASSESSMENT 4-2  
**Module 4: Investing**

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

Potential for Uncertainty of Anticipated Return on Investment Highest Potential Risk = 1 Lowest Potential Risk = 5	Investment Option
	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 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 →

ASSESSMENT 4-2  
**Module 4: Investing**

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]

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

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

- |   |   |
|---|---|
| <u>a</u> 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.<br>b. Take time to “pay yourself first.”<br>c. Investments increase in risk over time.<br>d. Compounding increases investments over time. |
| <u>b</u> 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%<br>b. 3%<br>c. 5%<br>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
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- 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]
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- b 12. The basic rule of a risk-to-return relationship is that ... [Competency 4-3]
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  - 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]
- government bonds
  - money market deposit account
  - savings bonds
  - stocks**
- c 15. Which statement below is true about mutual funds? [Competency 4-3]
- Mutual funds are convenient and professionally managed.**
  - Mutual funds only include stock funds.
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- buying a business to open an ice cream shop
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  - 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>
2	Balanced Mutual Fund
4	Certificate of Deposit
5	Money Market Deposit Account
1	Start-Up Stock
3	U.S. Savings Bond

**Suggested Scoring**  
 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

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	Investment Option
	Highest Potential Risk = 1 Lowest Potential Risk = 5	
<b>Suggested Scoring</b> 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	<b>1</b> <b>4</b> <b>3</b> <b>5</b> <b>2</b>	Collectible [potentially the highest risk because of uncertainty of finding a buyer] 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]

- T 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 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

\$500 principal x (1 + .05 annual interest / 2 times a year)<sup>2 times a year x 2 years</sup>

$$\$500 \times (\$1.025)^4 = \boxed{\$551.91}$$

#### Simple Interest Method (alternative)

Term 1: \$500 (principal) x .05 (annual interest) x .5 (half year) = \$12.50 (interest)

Term 2: (\$500 + \$12.50) x .05 x .5 = \$12.81

Term 3: (\$512.50 + \$12.81) x .05 x .5 = \$13.13

Term 4: (\$525.31 + \$13.13) x .05 x .5 = \$13.46

Final Balance: \$538.44 + \$13.46 =  **$\boxed{\$551.90}$**

*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.