



Testing Your Financial IQ

General Questions

1. The inflation rate for the past 10 years has averaged:

- a. less than 3%
- b. about 5%
- c. about 7%
- d. about 10%

2. Certificates of deposit with longer maturities usually provide higher interest rates than those with shorter maturities.

- True
- False

3. Why is the Federal Reserve's interest rate policy important?

- a. The Fed dictates what interest rates banks pay on savings accounts and CDs.
- b. The Fed sets interest rates to make the stock market go up or down.
- c. The Fed tries to keep inflation under control and "influence" the economy by setting the interest rates banks pay and receive for overnight borrowing.

4. What item do "credit identity thieves" most need to steal your credit identity and run up debt in your name?

- a. Credit card numbers
- b. Mother's maiden name
- c. Social Security number

5. Transferring outstanding balances to a new credit card:

- a. makes sense if the new card has a higher credit limit
- b. should always be done if the new card's rate is lower
- c. can help you clean up your credit record
- d. makes sense if the new card offers the right combination of features based on how you use your credit card.

6. Inflation is no longer a financial risk to consider.

- True
- False

7. Which of the following is not a benefit of using direct deposit for your paycheck or government check?

- a. Safety
- b. Your money starts earning interest sooner.
- c. Convenience
- d. Your employer will give you a raise if you use direct deposit.

8. Which of the following is a benefit of an automatic savings plan?

- a. Convenience
- b. Helps control spending by moving funds automatically into a savings account
- c. Develops a good savings habit
- d. All of the above

9. What are some of the benefits of a good credit history?

- a. It makes future credit approvals more likely.
- b. A good credit history may help you qualify for lower interest rates on future borrowing.
- c. If you ever start your own business, it may help you secure business financing.
- d. All of the above

10. Interest on U. S. Savings Bonds continues forever.

- True
- False

11. Over the past few years, inflation has been averaging less than 3%. What has been the average increase in college costs over the past 5 years?

- a. 2%.
- b. 4%.
- c. 6%.
- d. 8%.

12. According to “the rule of 72”:

- a. Years that end in 7 or 2 have usually produced high investment returns.
- b. An amount of money roughly doubles when the interest rate and the time period equals 72.

See answers below.

Answers

1. The inflation rate for the past 10 years has averaged:

- a. less than 3%
- b. about 5%
- c. about 7%
- d. about 10%

a) The average inflation rate for the past 10 years has been less than 3%. It was in the late 70s and early 80s that inflation was above 10%.

2. Certificates of deposit with longer maturities usually provide higher interest rates than those with shorter maturities.

True

False

True) Usually institutions are willing to pay higher interest rates if you are willing to commit to leaving your money on deposit for longer periods. If you prepared a graph and plotted interest rates on the vertical axis and time periods along the horizontal axis, you would have what is sometimes called a "yield curve."

3. Why is the Federal Reserve's interest rate policy important?

- a. The Fed dictates what interest rates banks pay on savings accounts and CDs.
- b. The Fed sets interest rates to make the stock market go up or down.
- c. The Fed tries to keep inflation under control and "influence" the economy by setting the interest rates banks pay and receive for overnight borrowing.

c) The stated over-riding objective of the Federal Reserve Board of Governors is to keep inflation in check. Their "overnight borrowing rate" strongly influences overall interest rates and the economy. Many institutions use this rate to make "prime rate" decisions that affect consumer borrowing on everything from credit cards to mortgages.

4. What item do "credit identity thieves" most need to steal your credit identity and run up debt in your name?

- a. Credit card numbers
- b. Mother's maiden name
- c. Social Security number

c) Social Security numbers are the most "coveted" items for credit identity thieves. While credit card numbers and PINs are also valuable to thieves, with your Social Security number they can attempt to build an entire "new you" and run up bills in many ways. Never give your Social Security number to anyone you don't know and trust.

5. Transferring outstanding balances to a new credit card:

- a. makes sense if the new card has a higher credit limit
- b. should always be done if the new card's rate is lower

- c. can help you clean up your credit record
- d. makes sense if the new card offers the right combination of features based on how you use your credit card.

d) When considering switching credit cards, be sure to look at all the details. Find a card that has the best combination of rate, fees and benefits based on how you use credit cards. Paying off one card by transferring balances to a new one will not erase the effects of a bad credit history.

6. Inflation is no longer a financial risk to consider.

True

False

False) Even though inflation has been averaging less than 3% for the past several years, it remains a risk. The Federal Reserve tries to control inflation with its policies, but there are no assurances that they will be successful. Even a 3% inflation rate can make things more expensive over time. While the average inflation rate may be low, many see their costs of living rise faster depending on their location, needs or spending patterns. Remember to include the potential of inflation in all your financial plans.

7. Which of the following is not a benefit of using direct deposit for your paycheck or government check?

- a. Safety
- b. Your money starts earning interest sooner.
- c. Convenience
- d. Your employer will give you a raise if you use direct deposit.

d) Unfortunately most employers don't give raises for direct deposit. However using direct deposit can save you time and puts your money to work faster. With most mail thefts taking place after mail is delivered, using direct deposit is also safer.

8. Which of the following is a benefit of an automatic savings plan?

- a. Convenience
- b. Helps control spending by moving funds automatically into a savings account
- c. Develops a good savings habit
- d. All of the above

d) Automatic savings plans can be the easiest way to save. By having funds either taken from your paycheck or automatically transferred from your checking account into a savings account, you accumulate funds over time, put your money to work faster and develop a valuable fiscal habit of saving.

9. What are some of the benefits of a good credit history?

- a. It makes future credit approvals more likely.
- b. A good credit history may help you qualify for lower interest rates on future borrowing.
- c. If you ever start your own business, it may help you secure business financing.
- d. All of the above

d) A solid credit history can be an invaluable financial asset. When applying for loans (credit cards, consumer loans, mortgages) most lenders automatically review your credit history. A record of timely payments and wise use of borrowing facilitates future credit and may qualify you for a lower interest rate. In addition, since most small businesses rely on the strength of the owner's credit, borrowing to start or run a small business will be easier with a solid credit history.

10. Interest on U. S. Savings Bonds continues forever.

True

False

False) U. S. Savings Bonds have been popular ways to save for over 60 years. However, some types of bonds stop paying interest after a period of years. The following bonds are no longer paying interest:

Series E Bonds – Issued from May 1941 through January 1978.

Series H Bonds – Issued from June 1952 through January 1978.

Series HH Bonds – Issued from January 1980 through January 1988.

Savings Notes – Issued from May 1967 through October 1970.

Series A, B, C, D, F, G, J and K – All issues.

If you have one of these bonds, you should cash them in and put your money back to work.

11. Over the past few years, inflation has been averaging less than 3%. What has been the average increase in college costs over the past 5 years?

a. 2%.

b. 4%.

c. 6%.

d. 8%.

c) College costs have been rising at over 6% a year for several years. The rate of increase has been about double the overall inflation rate. The annual costs for tuition, room, board, books and other expenses is now estimated to be over \$30,000 at many private universities.

12. According to “the rule of 72”:

a. Years that end in 7 or 2 have usually produced high investment returns.

b. An amount of money roughly doubles when the interest rate and the time period equals 72.

b) The “Rule of 72” is a good estimation technique to understand how funds grow with compound interest. Money doubles when the earnings rate times the number of years equals 72. For example, money doubles in 10 years when it earns 7.2% and in 7.2 years if it earns 10%.