

2000 Jump\$tart Coalition Personal Financial Survey Answers

1. Which of the following statements best describes your right to check your credit history for accuracy?
- a) you cannot see your credit record
 - b) your credit record can be checked at any time for a fee
 - c) if you are turned down for credit based on a credit report, the record can be checked for free
 - d) all credit records are the property of the U.S. Government and access is only available to the FBI and Lenders

The correct answer is c). If you are turned down for credit based on a credit report, the record can be checked for free. If you would like to see your record and have not been turned down for a loan or line of credit, you can see your report for a small charge.

2. Which of the following is true about sales taxes?
- a) the federal government will deduct it from your paycheck
 - b) it makes things more expensive for you to buy
 - c) you don't have to pay the tax if your income is very low
 - d) the national sales tax percentage rate is 6%

The correct answer is b). Sales taxes make things more expensive for you to buy since you have to pay the sales tax in addition to the price of many things that you buy. Answer a) is not correct since the federal government will not deduct it from a paycheck. Answer c) is not correct since the merchant has no way of knowing what a customer's income is when he or she buys something, and answer d) is incorrect since there is no national sales tax on most goods that we buy, although there may be a federal “excise tax,” which is similar to a sales tax, on things like alcohol, tobacco and some luxury goods.

3. If you had a savings account at a bank, which of the following would be correct concerning the interest that you would earn on this account?
- a) earnings from savings account interest may not be taxed
 - b) sales tax may be charged on the interest that you earn
 - c) income tax may be charged on the interest if your income is high enough
 - d) you cannot earn interest until you pass your 18th birthday

The correct answer is c) “income tax may be charged on the interest if your income is high enough.” Interest from investments, including money in the bank, is a form of income that is taxable just like wages, salaries and other types of income.

4. Which of the following instruments is NOT typically associated with spending?
- a) ATM (Automated Teller Machine) card
 - b) Cash
 - c) Certificate of Deposit
 - d) Credit card

The correct answer is c). Certificates of deposit are a type of savings account in which your money is invested for a period of time where it is difficult or impossible to get access to it until it matures. Therefore, it is less likely to be associated with spending than are cash, an ATM card used to withdraw cash, or a credit card.

5. Jerry has a good job on the production line of a factory in his hometown. During the past year or two, the state in which Jerry lives has been raising taxes on its businesses to the point where they are much higher than in neighboring states. What effect is this likely to have on Jerry's job?
- a) he is likely to get a large raise to offset the effect of higher taxes
 - b) higher business taxes can't have any effect on Jerry's job
 - c) higher business taxes will cause more businesses to move into Jerry's state, raising wages
 - d) Jerry's company may consider moving to a lower-tax state, threatening Jerry's job

The answer to this question is d) "threat to job." States compete fiercely to attract employers from other areas. Competition is particularly intense for manufacturers, particularly those such as auto companies, which offer good salaries and benefits.

6. Under which of the following circumstances would it be financially beneficial to you to borrow money to buy something now and repay it with future income?
- a) when you really need a two-week vacation
 - b) when some clothes you like go on sale
 - c) when the interest on the loan is greater than the interest you get on your savings
 - d) when you need to buy a car to get a much better paying job

The correct answer is d). If you must have a car to get to a high-paying job, the purchase of the car is an investment that will yield a high return. As such, it is definitely financially beneficial, provided that the job is assured and that you don't buy a far more expensive car than you need for basic transportation. Answers a) and b) relate to consumption and would seldom be considered investments on which the payment of interest would be financially beneficial.

7. If you have caused an accident, which type of automobile insurance would cover damage to your own car?
- a) collision
 - b) comprehensive
 - c) term
 - d) liability

The correct answer is a) "collision insurance." Liability insurance covers you for damages that you have caused to others, while comprehensive insurance covers things such as fire and theft of your car. Term insurance relates to life insurance, not automobile insurance.

8. Walter must borrow \$10,000 to complete his college education. Which of the following would NOT be likely to reduce the finance charge rate?
- a) if his parents cosigned the loan
 - b) if his parents took out an additional mortgage on their house for the loan
 - c) if the loan was insured by the Federal Government
 - d) if he went to a state college rather than a private college

The correct answer is d) "if he went to a state college rather than a private college." Walter's finance charge rate for his educational loan is *not* likely to be affected by his choice of a state college rather than a private college. Lenders tend to charge lower rates of interest if the loan is likely to be repaid. Answers a), b) and c) add to the likelihood that the bank will be repaid for the money it has loaned to Walter.

9. Tim and Rebecca just had a baby. They received money as baby gifts and want to put it away for the baby's education. Which of the following is likely to have the highest growth over the next 18 years?
- a) a U.S. Government savings bond
 - b) a checking account
 - c) a savings account
 - d) stocks

The correct answer is d) "stocks." Studies show that over a long period of time, such as the 18-year period of this problem, stocks almost always grow more rapidly than other types of financial assets. However, stocks also tend to be riskier in that values fluctuate more than the other assets included in this question over short periods of time. Therefore, stocks are considered to be a good long-term investment but not a very good short-term investment if the money is needed in a relatively short period of time.

10. Many people put aside money to take care of unexpected expenses. If Pedro and Susanna have money put aside for emergencies, in which of the following forms would it be of LEAST benefit to them if they needed it right away?
- a) checking account
 - b) savings account
 - c) stocks
 - d) invested in a down payment on the house

The correct answer is d) "invested in a down payment on the house." It is important to have "liquid" assets that are available at any time to meet emergencies. Money invested in a down payment on a house is not very liquid since it takes time to sell a house to get the money.

11. If you are behind on your debt payments and go to a responsible credit counseling service such as the Consumer Credit Counseling Services, what help can they give you?
- a) they can force those who lent you money to forgive all your debts
 - b) they can get the federal government to apply your income taxes to pay off your debts
 - c) they can cancel and cut up all of your credit cards without your permission
 - d) they can work with those who lent you money to set up a new payment schedule that you can meet

The correct answer is d). Responsible credit counseling services can work with you and your creditors (those to whom you owe money) on a strictly voluntary basis. They have no legal power to make your creditors forgive your debts, nor do they have the ability to cancel your credit cards without your permission. Lenders are often willing to work with credit counseling services to set up a payment plan that will pay off your debt over a longer period of time, provided that you appear willing to cooperate.

12. Len has just applied for a credit card. He is an 18 year-old high school graduate with few valuable possessions and no credit history. If Len is granted a credit card, which of the following is the most likely way that the credit card company will reduce ITS risk?
- a) it will charge Len twice the finance charge rate it charges older cardholders
 - b) it will require Len to have both parents co-sign for the card
 - c) it will make Len's parents pledge their home to repay Len's credit card debt
 - d) it will start Len out with a small line of credit to see how he handles the account

The correct answer is d) "It will start Len out with a small line of credit to see how he handles the account." Young people with no credit history and without valuable assets that can be pledged as collateral to secure a loan tend to be unknown credit risks for lenders, yet credit card issuers want to obtain the business of young people. The way this tends to be done is to extend a relatively small amount of credit to see how well the young person does with it. If payments are made on a timely basis, the credit card issuer will tend to increase the total line of credit (amount of money that can be borrowed).

13. Jim just found a job with a take-home pay of \$950 per month. He must pay \$400 for rent and \$100 for groceries each month. He also spends \$100 per month on transportation. If he budgets \$50 each month for clothing, \$100 for restaurants and \$50 for everything else, how long will it take him to accumulate savings of \$750?
- a) 5 months
 - b) 10 months
 - c) 12 months
 - d) 15 months

The correct answer is a) "5 months." Jim takes home \$950 per month. He spends \$400 (rent) plus \$100 (groceries) plus \$100 (transportation) plus \$50 (clothing) plus \$100 (restaurants) plus \$50 (everything else) for a total of \$800. An income of \$950 minus \$800 in expenses leaves \$150 a month for savings. Therefore it will take him five months to save \$750.

14. Mike has saved \$6,000 for his college expenses by working part-time. He plans to start college next year and needs all of the money he saved. Which of the following is the safest place for his college money?
- a) locked in his closet at home
 - b) stocks
 - c) corporate bonds
 - d) a bank savings account

The correct answer is d) "a bank savings account." Money locked in a closet at home may be stolen. Stocks and corporate bonds tend to fluctuate in value and may be worth less than \$6,000 at the time he needs it.

15. Many savings programs are protected by the Federal government against loss. Which of the following is not?
- a) a Bond issued by one of the 50 states
 - b) a Certificate of Deposit at the bank
 - c) a U.S. Treasury Bond
 - d) a U.S. Savings Bond

The correct answer is a) “a bond issued by one of the 50 states.” Savings bonds are issued by and guaranteed by the federal government, as are U.S. Treasury bonds. Certificates of deposit at a bank tend to be insured by an agency of federal government. Bonds that are issued by a state tend to be safe but are guaranteed by the state and not by the federal government.

16. Your take home pay from your job is less than the total amount you earn. Which of the following best describes what is taken out of your total pay?
- a) federal income tax, sales tax, and social security contribution
 - b) federal income tax, property tax, and Medicare and social security contributions
 - c) social security and Medicare contributions
 - d) federal income tax, social security and Medicare contributions

The correct answer is d) “federal income tax, Social Security and Medicare contributions.” Answers a) and b) are not correct because sales tax and property tax are not deducted from paychecks. Answer c) does not include federal income tax, which tends to be the largest deduction from a working person’s paycheck.

17. Which of the following types of investments would best protect the purchasing power of a family’s savings in the event of a sudden increase in inflation?
- a) a U.S. Government Savings Bond
 - b) a Certificate of Deposit at a bank
 - c) a twenty-five year corporate bond
 - d) a house financed with a fixed rate mortgage

The correct answer is d) “a house financed with a fixed-rate mortgage.” When inflation increases suddenly, assets whose values are fixed cannot adjust to inflation. However, assets whose values are not fixed to increase in price like most other goods. Therefore, during inflation house prices tend to increase. If a person owns a home whose mortgage does not vary with inflation (a fixed-rate mortgage), inflation tends to drive up the value of the house but not the amount of money owed on it, thereby protecting the investment in the house against inflation.

18. If you went to college and earned a 4-year degree, how much more money could you expect to earn than if you only had a high school diploma?
- a) about 10 times as much
 - b) a lot more, about 70% more
 - c) a little more, about 20% more
 - d) no more, I would make about the same either way

The correct answer to this question is b) “a lot more, about 70 percent more.” A college education is an investment in human capital that makes people more valuable in the workplace. These days, aside from a tiny number of star athletes or entertainers, the highest paid workers are the *knowledge workers*, who use their brains and education. In our high-tech economy, many of the high-paying jobs that used to be done by hand by skilled workers are now done by robots in automated factories or are done overseas by workers who are willing to work for a fraction of U.S. wages. This has created a situation in which those with college degrees have seen their incomes increase substantially over the past 15 years and those without college degrees have seen their *real* (after inflation) incomes fall.

19. Bob and Cindy are the same age. At age 25, Cindy began saving \$2,000 a year while Bob saved nothing. At age 50, Bob realized that he needed money for retirement and started saving \$4,000 per year while Cindy kept saving her \$2,000. Now they are both 75 years old. Who has the most money in his or her retirement account?
- a) Bob, because he saved more each year
 - b) They would each have the same amount because they put away exactly the same
 - c) Cindy, because she has put away more money
 - d) Cindy, because her money has grown for a longer time at compound interest

The correct answer is d). Cindy will have more money than Bob because she started saving earlier and her money has been growing by earning interest for 50 years. Bob's money, on the other hand, has been earning interest for only 25 years even though he may have put in the same dollar amount as Cindy.

20. Which of the following credit card users is likely to pay the GREATEST dollar amount in finance charges per year if they all charge the same amount per year on their cards?
- a) Barbara who always pays off her credit card bill in full shortly after she receives it
 - b) Ellen, who generally pays off her credit card in full, but occasionally will pay the minimum when she is short of cash
 - c) Nancy, who pays at least the minimum amount each month and more when she has the money
 - d) Paul who only pays the minimum amount each month

The correct answer is d). Finance charges must be paid on the amount of a credit card bill that is not paid off by the due date. Therefore, people who pay off the smallest possible amount of their bill – allowing the greatest amount to subsequently accumulate as debt – end up paying the greatest amount of interest.

21. Jack and Ron are young men. Each has a good credit history. They work at the same company and make approximately the same salary. Jack has borrowed \$2,500 to buy a car. Ron has borrowed \$2,500 to take a foreign vacation. Who is likely to pay the lowest finance charge?
- a) they will both pay the same because they have almost identical financial backgrounds
 - b) Ron will pay less because people who travel overseas are better risks
 - c) Jack will pay less because the car is collateral for the loan
 - d) They will both pay the same because the rate is set by law

The correct answer is c) “Jack will pay less because the car is collateral for the loan.” The lender will tend to charge less for a loan if it is used to buy something that can be taken back if the loan is not repaid. By selling this “collateral” the lender can recover at least some of the money that was loaned. Ron's vacation may have been great, but there is nothing left for the bank to recover if he is unable to make payments on the loan. In Jack's case there is a car to take back, making the loan safer, and lenders tend to charge less interest for safe loans.

22. Inflation can cause difficulty in many ways. Which group would have the greatest problem during periods of high inflation?
- a) young couples with no children who both work
 - b) young working couples with children
 - c) older, working couples saving for retirement
 - d) older people living on fixed retirement income

The correct answer is d) "older people living on fixed retirement income." People who work generally find that their incomes will be increased during periods of inflation to keep up with increases in prices. Therefore, those hurt most by inflation are people who live on fixed incomes, which do not increase to help them buy things that keep getting more expensive.

What exactly is a "fixed" retirement income? Technically, it is income that stays the same in terms of dollars paid regardless of inflation.

23. Which of the following statements is NOT correct about most ATM (Automated Teller Machine) cards?

- a) you must have a bank account to have an ATM card
- b) you can generally get cash 24 hours a day
- c) you can generally obtain information concerning your bank balance at an ATM machine
- d) you can get cash anywhere in the world with no fee

The correct answer is d). It is *Not* Correct that you can get cash anywhere in the world with no fee. These days many banks charge a fee to take money from an ATM. In fact, it is common to pay a fee both to the bank that owns the ATM machine and to the bank where you have your account.

24. If your credit card is stolen and the thief runs up a total of \$1,000 but you notify the issuer of the card as soon as you discover it is missing, how much will you be responsible to pay?

- a) none
- b) \$50
- c) \$1000
- d) \$500

The correct answer is b). Federal law limits the maximum loss to \$50 if the person whose credit card is stolen notifies the issuer promptly. If the issuer is notified immediately, before the stolen credit card can be used, you may not have to pay anything at all.

25. Retirement income paid by a company is called:

- a) Social Security
- b) rents & profits
- c) 401k
- d) pension

The correct answer is d). Retirement income received from a company is called a pension. Social Security is retirement income received from the federal government, and a 401k is a retirement plan funded by contributions from employees (sometimes matched by employers), which is put into an account at a bank or investment company and which is owned by the employee, who can move it from one employer to another. Rents and profits may be received by retired persons but may also be received by persons who are still working.

26. Wendy worked her way through college earning \$15,000 per year. After graduation her first job pays \$30,000. The total dollar amount Wendy will have to pay in Federal Income taxes in her new job will:

- a) be lower than when she was in college
- b) stay the same as when she was in college
- c) go up a little from when she was in college
- d) double, at least, from when she was in college

The correct answer is d) “double, at least, from when she was in college.” The federal income tax system is *progressive*, meaning that taxes increase as a percentage of income as income goes up. If income doubles, taxes will at least double and may more than double.

27. Which of the following statements is true?

- a) your bad loan payment record with one bank will not be considered if you apply to another bank for a loan
- b) people have so many loans it is very unlikely that one bank will know your history with another bank
- c) banks and other lenders share the credit history of their borrowers with each other and are likely to know of any loan payments that you have missed
- d) if you missed a payment more than 2 years ago, it cannot be considered in a loan decision

The correct answer is c). Banks and other lenders share the credit history of their borrowers with each other through credit reporting services and are likely to know of any loan payments that you have missed.

28. Which of the following best describes the primary sources of income for most people age 20-35?

- a) profits from business
- b) dividends & interest
- c) rents
- d) salaries, wages, tips

The correct answer is d) “salaries, wages and tips.” Most young people have only one major source of income – selling their labor in exchange for salaries, wages and sometimes tips. Few have saved enough to make much money from stocks, which pay dividends, or bonds and savings accounts, which pay interest. Nor have many been able to put up the large down payment needed to invest in rental housing, which generates rents.

29. Heather and Alexis are employed by the same company and earn the same pay. Heather spends her free time taking work-related classes to improve her computer skills; while Alexis spends her free time socializing with friends and working out at a fitness center. After five years what is likely to be true?

- a) Alexis will make more because she is more social
- b) Heather and Alexis will continue to make the same money
- c) Heather will make more because she is more valuable to her company
- d) Alexis will make more because Heather is likely to be laid off

The answer to this question is c) “Heather will make more money because she is more valuable to her company.” The need to acquire *human capital* in the form of education and skills no longer ends at age 18 when students graduate from high school or at age 22 when some graduate from college. Constant changes in technology compel American workers to learn new ways of doing their work more effectively. Office workers and professionals always have to learn new computer programs. Factory workers are often confronted with new machinery or are asked to cross-train on another piece of machinery to make them more versatile. Even truck drivers are adjusting to tracking their loads with tiny computers that use satellites to pinpoint their location.

30. If each of the following persons had the same amount of take-home pay, who would need the greatest amount of life insurance?

- a) a young single woman without children
- b) an elderly retired man, with a wife who is also retired
- c) a young married man without children
- d) a young single woman with two young children

The correct answer is d) "a young single woman with two young children." The primary purpose of life insurance is to provide income for those who are dependent upon a breadwinner. The younger the dependent, the greater the total amount of money needed to provide for that dependent until he or she is old enough to provide for him or herself. Therefore, a young single parent tends to have the greatest need for life insurance because he or she is the sole source of money needed by young children for a long time.