MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) Long-term investments, properly diversified, include the following mutual funds:  
   A) Growth, balanced, international, bond  
   B) Growth, growth and income, international, aggressive growth  
   C) International, bond, aggressive growth, growth  
   D) Growth, growth and income, bond, aggressive growth

2) Which of the following is a good investment option?  
   A) Gold  
   B) Viaticals  
   C) Mutual funds  
   D) Futures

3) Which statement is true about liquidity?  
   A) The more liquid an investment, the more return  
   B) The less liquid the investment, the less return  
   C) The more liquid an investment, the less return  
   D) Both A and B

4) A reason that people need to save and invest is to:  
   A) Enable their money to make money  
   B) Increase the money supply  
   C) Be able to get anything they want  
   D) Have an opportunity to talk with financial service providers

5) Company X's board of directors has decided to issue a portion of its earnings to its shareholders. If you own stock in Company X, you can expect to receive a(n):  
   A) Investment  
   B) Dividend  
   C) Buy-out  
   D) Yield

6) Savings accounts and money-market accounts are most appropriate for:  
   A) Long-term investments like retirement  
   B) Earning a high rate of return  
   C) Emergency funds and short-term goals  
   D) Savings accounts and money-market accounts should be avoided since they carry high risk

7) The benefit of diversification in your investments is:  
   A) Reduced risk  
   B) Increased return  
   C) Reduced tax liability  
   D) Increased risk
8) To ensure that some of your retirement savings will not be subject to income tax upon withdrawal, you would contribute to:
   A) A 401(k)  B) A Roth IRA  C) An annuity  D) A traditional IRA

9) A young investor willing to take moderate risk for above-average growth would be most interested in:
   A) Single stocks  B) Bonds  C) Mutual funds  D) Real estate

10) In some cases, employers will match the employee contribution, but you should fund your plan whether your company matches or not. This statement refers to:
    A) Single stocks  B) Roth IRA  C) Bond funds  D) 401(k)

11) A retirement plan found in nonprofit organizations such as churches, hospitals and schools.
    A) GIC  B) 457  C) 401(k)  D) 403(b)

12) Which of the following statements about the stock market is false?
    A) The terms bull market and bear market describe upward and downward market trends.
    B) The stock market is a generic term that encompasses the trading of securities.
    C) The Dow Jones Industrial Average is one measure of the stock market.
    D) Formed in 1792, the New York Stock Exchange (NYSE) is the smallest organized stock exchange in the United States.

13) When buying and selling investments, you should not:
    A) Switch your investment strategy often, based on market conditions
    B) Understand basic investment strategies and identify ones that will help you reach your goals
    C) Set your investment goals and consider a time frame
    D) Learn the different types of investments

14) Employee benefits packages:
    A) Should not be a consideration when looking for a job
    B) Never include retirement plans
    C) Are the same regardless of the company you work for
    D) Are non-wage compensations provided to employees in addition to their normal wages or salaries

15) A savings account sold by an insurance company, designed to provide payments to the holder at specified intervals, usually after retirement.
    A) Money market  B) Mutual fund  C) Single stock  D) Annuity

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

16) Money markets are great for your emergency fund due to their liquidity and stability.
17) The purpose of war bonds is to finance military operations during war time. The last time the United States issued war bonds was during the Vietnam War.

18) A mutual fund portfolio that is properly diversified will have all investment dollars located in just one of four different classes of financial assets.

19) Single stocks and mutual funds carry the same amount of risk.

20) You can start investing with a small amount of money.

21) Good investment portfolios are extremely complex.

22) You should start investing as soon as you have your college education funded.

23) If you leave a job and have money saved in your employer's retirement plan, always roll that money into an IRA using a direct rollover, which allows you to avoid taxes and penalties.

24) If you get into financial trouble, borrowing against your retirement plan is a good option.

25) Saving and investing have nothing to do with the amount of money you make.

VOCABULARY. Define each term or phrase in the space provided or on a separate sheet of paper.

Select the word that is described in the statement.

26) Quality of an asset that permits it to be converted quickly into cash without loss of value; availability of money (risk, liquidity)

27) Relationship of substantial reward compared to the amount of risk taken (risk-return ratio, investment strategy)

28) A list of your investments (bank statement, portfolio)

29) Piece of ownership in a company, mutual fund or other investment (401k, share)

30) Securities that represent part ownership or equity in a corporation (stocks, bonds)

31) Money that is invested, either tax deferred or tax free, within a retirement plan (tax-favored dollars, dividend)

32) The government agency responsible for regulating the stock market (Federal Reserve, Securities Exchange Commission)

33) Federal agency responsible for collecting taxes and for the interpretation and enforcement of the Internal Revenue Code (Internal Revenue Service, Federal Deposit Insurance Corporation)
34) Distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders (interest, dividend)

35) A savings plan operated by a state or educational institution designed to help families set aside funds for future college costs (529 Plan, Guaranteed Investment Contract)

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

36) Explain why you should never invest using borrowed money.  

37) Explain the risk-return ratio.

38) Why do single stocks carry a high degree of risk? Why do mutual funds carry less risk?

39) What is the Rule of 72? How is it calculated?

40) Is real estate a liquid investment? Explain your answer.

41) Explain how compound interest works.

42) Summarize the main points of a wise investment strategy.