

Arizona State University (ASU) FIN380 Personal Financial Management Test 3 Practice (Sample)

Study Guide



Everything you need from our exam experts!

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Questions

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1. How does a Preferred Provider Organization (PPO) generally work?
 - A. Requires you to use a specific network of doctors
 - B. Allows you to see any doctor or hospital, with reduced costs for network providers
 - C. Acts only as a primary care provider
 - D. Offers free healthcare services to all members
2. Which of the following credit types allows continued access to credit without a set repayment term?
 - A. Revolving Credit
 - B. Single Payment Loans
 - C. Service Credit
 - D. Installment Financing
3. What is the function of an umbrella policy in insurance?
 - A. To provide only auto coverage
 - B. To eliminate all deductibles
 - C. To offer extra protection for assets beyond standard limits
 - D. To cover only specific, high-value items
4. Where can detailed information about a mutual fund be found?
 - A. Annual report
 - B. Expense ratio document
 - C. Prospectus
 - D. Fund summary sheet
5. What type of option gives the holder the right to purchase shares?
 - A. Call option
 - B. Put option
 - C. Future option
 - D. Margin option

6. What is the maximum contribution limit for an individual HSA?
- A. \$2,000
 - B. \$2,900
 - C. \$3,600
 - D. \$5,000
7. What is the maximum annual interest rate allowed by Arizona usury laws?
- A. 24%
 - B. 30%
 - C. 36%
 - D. 40%
8. What does a deductible refer to in health insurance?
- A. The total premium costs for a policy
 - B. The amount paid before insurance benefits are received
 - C. The maximum benefit payout
 - D. The fees associated with physician visits
9. What does an Acceleration Clause allow a lender to do?
- A. Adjust interest rates
 - B. Require full payment of the loan balance
 - C. Provide payment deferrals
 - D. Change loan terms after default
10. Which of the following is NOT a type of consumer loan?
- A. Auto loan
 - B. School loan
 - C. Vacation loan
 - D. Consolidation loan

Answers

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1. B
2. A
3. C
4. C
5. A
6. B
7. C
8. B
9. B
10. C

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Explanations

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1. How does a Preferred Provider Organization (PPO) generally work?

- A. Requires you to use a specific network of doctors
- B. Allows you to see any doctor or hospital, with reduced costs for network providers
- C. Acts only as a primary care provider
- D. Offers free healthcare services to all members

A Preferred Provider Organization (PPO) generally functions by allowing members a greater degree of flexibility in choosing healthcare providers. Specifically, it enables individuals to see any doctor or specialist without requiring a referral, which is a key feature distinguishing it from other healthcare plans, like Health Maintenance Organizations (HMOs). While members can receive care from any provider, the costs are typically reduced when they use healthcare professionals within the network established by the PPO. This incentivizes plan participants to choose network providers, as they will pay a lower deductible and often have lower co-pays. This model provides a balance of freedom and cost-efficiency in healthcare choice. The other options describe features that aren't characteristic of PPOs; for instance, the requirement to use a specific network relates more closely to HMOs, while acting solely as a primary care provider doesn't encompass the broad access feature of a PPO. Additionally, offering free healthcare services contradicts the nature of insurance plans that usually involve cost-sharing.

2. Which of the following credit types allows continued access to credit without a set repayment term?

- A. Revolving Credit
- B. Single Payment Loans
- C. Service Credit
- D. Installment Financing

Revolving credit is characterized by its flexible access to funds and ongoing availability, allowing borrowers to draw from a predetermined credit limit at any time without a set repayment term. This means that as you repay some of the borrowed amount, that credit becomes available again for future use. Credit cards are a common example of revolving credit, where the balance can fluctuate each month based on purchases and payments made. In contrast, single payment loans require repayment in a lump sum at a specific date, which does not offer the flexibility of continued access to credit. Service credit typically refers to agreements where services are provided in exchange for future payment, without direct access to cash. Installment financing involves borrowing a fixed amount and paying it back in equal installments over a predetermined period, which also does not allow for ongoing access to credit. Each of these alternatives has its own structure and limitations compared to the open-ended nature of revolving credit.

3. What is the function of an umbrella policy in insurance?

- A. To provide only auto coverage
- B. To eliminate all deductibles
- C. To offer extra protection for assets beyond standard limits
- D. To cover only specific, high-value items

The function of an umbrella policy in insurance is to offer extra protection for assets beyond standard limits. This type of insurance provides additional liability coverage that kicks in after the limits of your homeowners, auto, or other policies have been exhausted. Essentially, it serves as a safeguard for your assets, ensuring that in the event of a lawsuit or significant claim, you have further financial protection. Umbrella policies can cover a wide range of liabilities, including personal injuries, property damage, and even some claims not covered by your primary policies. This ensures that individuals have a broader safety net in terms of liability, which is especially important for those with significant assets to protect. While other options mention specific functions like eliminating deductibles or covering only high-value items, an umbrella policy is not limited to these aspects. Instead, it encompasses a wider scope for liability protection across various scenarios, making it an essential tool for those looking to enhance their insurance coverage comprehensively.

4. Where can detailed information about a mutual fund be found?

- A. Annual report
- B. Expense ratio document
- C. Prospectus
- D. Fund summary sheet

The prospectus is the primary document that provides detailed information about a mutual fund. It includes crucial elements such as the fund's investment objectives, strategies, risks, and historical performance. Additionally, the prospectus outlines fees and expenses associated with buying and holding the mutual fund, as well as information about the fund's management and any changes to its policies. This document is legally required to be provided to potential investors and serves as a comprehensive source for understanding the specifics of a given mutual fund. While the other documents mentioned can provide useful insights, they do not typically encompass the same level of detail contained in the prospectus. For example, the annual report might provide a summary of the fund's performance over the year but lacks the detailed information about investment strategies or upcoming changes the prospectus includes. The expense ratio document focuses on the costs associated with investing in the fund, and the fund summary sheet offers a brief overview that may not include essential details necessary for making a fully informed investment decision. Hence, the prospectus is the best source for comprehensive knowledge about a mutual fund.

5. What type of option gives the holder the right to purchase shares?

A. Call option

B. Put option

C. Future option

D. Margin option

A call option is indeed the correct choice because it provides the holder with the right — but not the obligation — to purchase shares of a stock at a predetermined price, known as the strike price, before the option's expiration date. This type of option is typically used by investors who anticipate that the price of the underlying stock will rise. If the stock's price increases above the strike price, the holder can exercise the option to buy shares at the lower strike price, potentially realizing a profit. In contrast, a put option gives the holder the right to sell shares, making it unsuitable for someone looking to purchase stock. A future option is not a standard term typically associated with equity options; it may refer to futures contracts which are related but differ from options in that they obligate buyers to purchase and sellers to sell at an agreed price. A margin option does not exist as a specific type of option; margin refers to using borrowed funds to trade, not to a particular kind of financial option. Understanding the fundamental differences between call options and other financial instruments is crucial for personal financial management and investment strategies.

6. What is the maximum contribution limit for an individual HSA?

A. \$2,000

B. \$2,900

C. \$3,600

D. \$5,000

The maximum contribution limit for an individual Health Savings Account (HSA) is determined annually by the IRS and varies depending on factors such as age and family coverage. As of the tax year concerning the question, \$3,600 is the correct limit for an individual HSA. This amount reflects the contribution limits set for individuals under 55 years old. For those aged 55 or older, there is an additional catch-up contribution allowance that enables them to save more. The other figures in the choices either refer to outdated limits or were correct for specific circumstances that do not pertain to the individual HSA limit for that year. For example, \$2,000 might have been a previous year's limit, while \$2,900 does not correspond to any IRS limit set for HSAs. Similarly, \$5,000 is related to family coverage and not applicable to individual HSA contributions. Always checking current IRS guidelines for the latest limits is crucial for ensuring correct financial planning and contributions.

7. What is the maximum annual interest rate allowed by Arizona usury laws?

- A. 24%
- B. 30%
- C. 36%
- D. 40%

The correct choice addresses the legal framework surrounding interest rates within Arizona. Under Arizona law, the maximum annual interest rate typically allowed for certain types of loans, particularly for consumer loans not governed by other specific laws, is 36%. This regulation is designed to protect consumers from excessively high-interest rates that could lead to financial hardship. Many states have similar laws to prevent usury—charging excessively high-interest rates on loans—which is where the term "usury" originates. By limiting the maximum interest rate, the law seeks to create a fairer lending environment. While some might reference rates such as 24%, 30%, or even 40% in discussions relating to different financial contexts or loan types, the standard maximum set under Arizona's usury laws is specifically 36%, making it the benchmark for consumer protection in lending practices.

8. What does a deductible refer to in health insurance?

- A. The total premium costs for a policy
- B. The amount paid before insurance benefits are received
- C. The maximum benefit payout
- D. The fees associated with physician visits

A deductible in health insurance is the amount of money that an insured person must pay out-of-pocket for healthcare services before the insurance company begins to pay its share of the costs. This means that if a person has a deductible of \$1,000, they will need to pay the first \$1,000 of their medical expenses themselves, after which their insurance will cover the remaining eligible costs according to the terms of the policy. This concept is crucial because it incentivizes individuals to manage their healthcare expenses more carefully, as they will be responsible for certain costs until they reach their deductible. Once they meet that threshold, the insurer starts sharing the costs, often moving to a copayment or coinsurance model depending on the policy. Understanding the deductible is vital for budgeting healthcare expenses and maximizing insurance benefits effectively. In contrast, the total premium costs for a policy refer to the regular payments made to maintain coverage. The maximum benefit payout is the cap on how much the insurance will pay for claims. The fees associated with physician visits are typically separate costs, possibly subject to copayments, that may occur irrespective of the deductible. Thus, recognizing the function of deductibles helps individuals navigate their health insurance effectively.

9. What does an Acceleration Clause allow a lender to do?

- A. Adjust interest rates
- B. Require full payment of the loan balance
- C. Provide payment deferrals
- D. Change loan terms after default

An acceleration clause allows a lender to require the full payment of the loan balance if certain conditions are met, typically in the event of default by the borrower. This clause is designed to protect the lender by allowing them to collect the entire outstanding amount owed rather than waiting for the borrower to catch up on missed payments. If the borrower violates the terms of the loan—such as failing to make payments or breaching other covenants—the lender can declare that the entire balance is due immediately. This is particularly important in financial management, as it helps creditors mitigate risk and ensure they can recover their funds promptly if the borrower is unable to meet their obligations. Understanding the implications of acceleration clauses is crucial for both borrowers and lenders, as it emphasizes the seriousness of adhering to loan terms.

10. Which of the following is NOT a type of consumer loan?

- A. Auto loan
- B. School loan
- C. Vacation loan
- D. Consolidation loan

The identification of a vacation loan as not a traditional type of consumer loan is correct because the other options represent established categories of consumer loans that serve specific, widely recognized purposes. Auto loans are specifically designed for the purchase of vehicles, while school loans (or student loans) are intended to finance educational expenses. Consolidation loans are used to combine multiple debts into a single loan, often to lower monthly payments or interest rates for consumers managing several debts. In contrast, a vacation loan is less commonly recognized and does not have the same established framework or purpose as the other types of loans. While it may be offered by some lenders as a personal loan for leisure purposes, it lacks the specific categorization and widespread acceptance of the other loan types, making it less typical within consumer financing discussions.