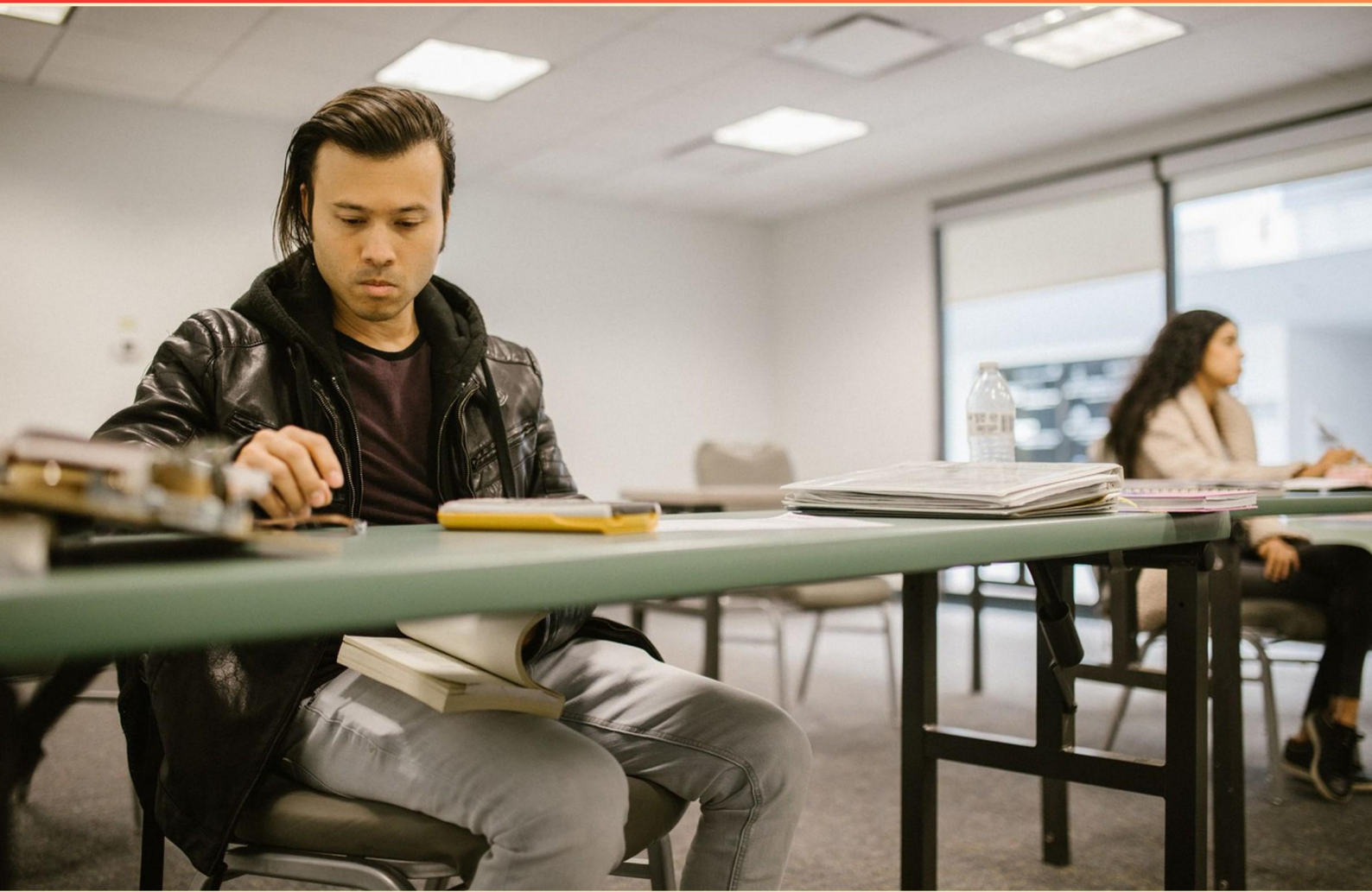


DECA PERSONAL FINANCIAL LITERACY (PFL) PRACTICE EXAM (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

VISIT US ONLINE FOR
THE FULL VERSION STUDY GUIDE

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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- 1. Which of the following defines a credit report?**
 - A. A summary of asset ownership
 - B. A detailed account of an individual's credit history
 - C. A report on annual income
 - D. A statement of financial assets
- 2. What is the term for the possibility that a borrower fails to repay a loan on time?**
 - A. Interest risk
 - B. Credit risk
 - C. Investment risk
 - D. Liquidity risk
- 3. Which of the following describes what happens during a depression?**
 - A. Economic growth is stable
 - B. Unemployment is extremely high
 - C. Inflation rates are low
 - D. The stock market is booming
- 4. What does 'paying yourself first' mean?**
 - A. Spending on leisure activities before saving
 - B. Allocating a portion of income to savings before other expenses
 - C. Investing only in stock market options
 - D. Using all income for bill payment
- 5. What is the main aim of credit counseling?**
 - A. To help individuals manage debt and improve their financial situation
 - B. To encourage reckless spending
 - C. To promote high-interest loans
 - D. To reduce all financial literacy classes
- 6. Why is budgeting important?**
 - A. It allows you to avoid all expenses completely
 - B. It helps plan finances and track spending
 - C. It is a legal requirement for all individuals
 - D. It guarantees high returns on investments

7. Why might a lender deny a loan application?

- A. Employment status
- B. Credit history
- C. Loan amount requested
- D. Income level

8. What distinguishes a debit card from a credit card?

- A. Credit cards offer cash back rewards
- B. Credit card payments are made later
- C. Debit card payments are immediately deducted from the bank account
- D. Debit cards incur interest charges

9. When might individuals be encouraged to seek credit counseling?

- A. When they are financially stable
- B. When they have excessive debt and need management strategies
- C. When they are about to take out a large loan
- D. When they wish to invest in stocks

10. Which of the following best describes the purpose of diversification in investment?

- A. Maximizing returns in one sector
- B. Spreading risk across various assets
- C. Limiting investments to high-performance stocks
- D. Targeting niche markets exclusively

Answers

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

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Explanations

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1. Which of the following defines a credit report?

- A. A summary of asset ownership
- B. A detailed account of an individual's credit history**
- C. A report on annual income
- D. A statement of financial assets

A credit report is a detailed account of an individual's credit history, capturing important information related to credit usage and payment behavior. This report includes data such as credit card accounts, loans, payment history, outstanding debts, and records of bankruptcies or tax liens. Lenders and financial institutions typically use credit reports to assess an individual's creditworthiness when applying for new credit or loans. The first option, which suggests a summary of asset ownership, focuses on what assets a person has rather than their credit behavior. The third option, a report on annual income, pertains to income data rather than credit history and does not provide insights into how an individual manages their credit. The last option presents a statement of financial assets, which is a different aspect of personal finance, primarily reflecting net worth without including credit performance or borrowing history.

2. What is the term for the possibility that a borrower fails to repay a loan on time?

- A. Interest risk
- B. Credit risk**
- C. Investment risk
- D. Liquidity risk

The term for the possibility that a borrower fails to repay a loan on time is known as credit risk. This concept is crucial in the lending industry because it directly affects the lender's ability to recover the funds lent to the borrower. Credit risk assesses the likelihood that the borrower will default on their loan obligations, which can lead to financial losses for the lender. Credit risk is evaluated based on the borrower's credit history, financial situation, and overall ability to repay the loan. Lenders often use credit scores, income statements, and other financial information to determine how risky a borrower may be. Therefore, understanding credit risk is essential for both lenders and borrowers, as it influences loan terms, interest rates, and the overall lending process. Other options may relate to financial concepts but do not specifically address the failure of a borrower to repay a loan. Interest risk typically pertains to the fluctuations in interest rates affecting the value of investments, while investment risk involves the chance of losing money on investments. Liquidity risk refers to the difficulty of converting an asset into cash without a significant loss in value. None of these terms accurately captures the situation of a borrower defaulting on a loan, making credit risk the appropriate choice.

3. Which of the following describes what happens during a depression?

- A. Economic growth is stable
- B. Unemployment is extremely high**
- C. Inflation rates are low
- D. The stock market is booming

During a depression, one of the most significant characteristics is extremely high unemployment. Economic depressions are severe downturns in economic activity that last for an extended period. During these times, businesses may close or operate at reduced capacity, leading to widespread job losses. High unemployment is a key indicator of a depression, as many people find themselves unable to secure jobs, resulting in a significant rise in the unemployment rate. This situation contributes to decreased consumer spending, further exacerbating the economic downturn. In contrast, stable economic growth would indicate a healthy economy, which is not the case during a depression. Low inflation rates may be present in some contexts during a depression, though they can also lead to deflation, where prices drop due to decreased demand. A booming stock market generally reflects positive economic sentiment, which stands in stark contrast to the reality of a depression, characterized by investor pessimism and falling stock prices.

4. What does 'paying yourself first' mean?

- A. Spending on leisure activities before saving
- B. Allocating a portion of income to savings before other expenses**
- C. Investing only in stock market options
- D. Using all income for bill payment

'Paying yourself first' refers to the financial strategy of prioritizing savings by setting aside a portion of your income for savings or investments before allocating funds to other expenses. This approach emphasizes the importance of treating savings as a non-negotiable expense to ensure financial security and long-term wealth accumulation. By consistently saving a predetermined amount regularly, individuals can build their savings or investment accounts, which can aid in achieving financial goals, such as retirement or purchasing a home. This method helps create a habit of saving and is essential for financial stability, encouraging individuals to place their future financial health above immediate spending desires.

5. What is the main aim of credit counseling?

- A. To help individuals manage debt and improve their financial situation**
- B. To encourage reckless spending
- C. To promote high-interest loans
- D. To reduce all financial literacy classes

The primary aim of credit counseling is to assist individuals in managing their debt and enhancing their financial situations. Credit counseling services provide consumers with guidance on budgeting, debt management plans, and strategies to improve their credit scores. These services are designed to help people gain a better understanding of their financial circumstances and to empower them with the tools necessary to make informed decisions about their money and debts. The focus on financial health and stability is critical, particularly for those struggling with financial issues, as it leads to better long-term financial habits and improved overall well-being.

6. Why is budgeting important?

- A. It allows you to avoid all expenses completely
- B. It helps plan finances and track spending**
- C. It is a legal requirement for all individuals
- D. It guarantees high returns on investments

Budgeting is important because it helps individuals plan their finances and track their spending. By creating a budget, a person can allocate funds for necessities, discretionary spending, savings, and debt repayment. This awareness allows them to see where their money is going, make informed decisions, and prioritize their financial goals. Additionally, budgeting can help identify spending habits, highlight areas where expenses can be reduced, and promote better financial management overall. It serves as a crucial tool for maintaining control over one's financial situation, ensuring that income is used effectively to meet both short-term and long-term objectives. This systematic approach fosters financial responsibility and can lead to increased savings and reduced debt.

7. Why might a lender deny a loan application?

- A. Employment status
- B. Credit history**
- C. Loan amount requested
- D. Income level

A lender might deny a loan application due to credit history because this is a crucial indicator of a borrower's reliability in repaying debt. Lenders review a borrower's credit history to assess their past behaviors regarding credit management, including on-time payments, outstanding debts, and their overall credit score. A poor credit history can signal to the lender that the borrower may pose a higher risk, indicating that there could be a likelihood of defaulting on the loan. While employment status, loan amount requested, and income level are also important factors in the lending decision, they are often evaluated in conjunction with credit history. For instance, even if a borrower has a stable job, a high loan amount requested, or sufficient income, a poor credit history can overshadow these positives. Lenders rely heavily on credit history because it encapsulates a borrower's financial behavior over time, making it one of the primary reasons for potential loan denial.

8. What distinguishes a debit card from a credit card?

- A. Credit cards offer cash back rewards
- B. Credit card payments are made later
- C. Debit card payments are immediately deducted from the bank account**
- D. Debit cards incur interest charges

The distinction between a debit card and a credit card primarily revolves around how payments are processed and the source of funds being accessed. With a debit card, payments are immediately deducted from the user's bank account when a purchase is made. This means that the funds are drawn directly from the account connected to the debit card, thus reflecting real-time spending and maintaining the account balance in accordance with purchases. In contrast, credit cards allow consumers to borrow money up to a certain limit to make purchases, and repayment is generally required at a later date, often with potential interest charges on any balance carried beyond the grace period. While some debit cards may offer rewards or have certain benefits, the core functionality that sets a debit card apart from a credit card is the immediate fund withdrawal characteristic of debit transactions. This understanding highlights the fundamental financial responsibility associated with debit cards, as they require users to stay within their available account balance, encouraging budgeting and careful spending.

9. When might individuals be encouraged to seek credit counseling?

- A. When they are financially stable
- B. When they have excessive debt and need management strategies**
- C. When they are about to take out a large loan
- D. When they wish to invest in stocks

Individuals are encouraged to seek credit counseling when they have excessive debt and require management strategies. This type of support is beneficial for people struggling to manage their financial obligations and is designed to help them understand their options for getting back on track. Credit counselors can provide valuable guidance on budgeting, debt repayment plans, and ways to negotiate with creditors, all aimed at reducing financial stress and improving overall financial health. In situations where individuals are financially stable or looking to take out a large loan, they might not have the same level of urgency for credit counseling, as they may already have a solid understanding of their financial situation and management of their credit. Likewise, when individuals wish to invest in stocks, they may focus more on investment advice than credit management, indicating a different financial need.

10. Which of the following best describes the purpose of diversification in investment?

- A. Maximizing returns in one sector
- B. Spreading risk across various assets**
- C. Limiting investments to high-performance stocks
- D. Targeting niche markets exclusively

Diversification in investment is primarily about spreading risk across various assets. This strategy involves investing in a mix of different asset classes (such as stocks, bonds, real estate, and commodities) or different sectors within those asset classes. The rationale behind diversification is that by holding a variety of investments, the negative performance of one asset or sector can be offset by the positive performance of others, thereby reducing the overall risk of the investment portfolio. For instance, if an investor holds only stocks in a single sector and that sector faces a downturn, the investor's portfolio could suffer significantly. However, if the same investor has a diversified portfolio that includes stocks from several sectors, bonds, and potentially other asset types, the impact of any single investment's poor performance is diminished. This reduction in risk helps promote more stable returns over time. The other options do not align with the principles of diversification. Maximizing returns in one sector focuses on concentrated investments and increases risk, while limiting investments to high-performance stocks can lead to substantial losses if those stocks underperform. Targeting niche markets exclusively also involves a high degree of risk, as it doesn't provide the buffer that diversification offers against market volatility.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://decapfl.examzify.com>

We wish you the very best on your exam journey. You've got this!

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