FINANCE (FINC) TEST 2 PRACTICE (SAMPLE)

STUDY GUIDE

SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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THE FULL VERSION STUDY GUIDE

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Table of Contents

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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.

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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!

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Questions

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1. Which of the following is listed as a major factor lenders use to evaluate creditworthiness?

A. Capacity

B. Condition

C. Character

D. All of the above

2. Usually used to finance temporary or short-term expenditures, such as uninsured cosmetic surgery.

A. Consolidation Loans

B. Personal Loan

C. Parent Loans

D. Education Loans

3. Which formula represents the present value of a perpetuity paying C per year with discount rate r?

A. PV = C * r

B. PV = C / (1 + r)

C. PV = C / r

D. PV = C * (1 + r)

4. Before using a new credit card, what information must the issuer disclose by law?

A. The rate of interest and method used to compute finance charges

B. The credit limit

C. Grace period details

D. Rewards program terms

5. During the car-buying process, what should you verify at the dealership before signing the contract?

A. That the contract matches the worksheet and that no additional fees have been added

B. The color of the car

C. The weather conditions

D. The salesperson's name

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6. If a friend was recently denied credit, which reason is most likely?

A. FICO score less than 350

B. Pattern of delinquent payments on credit

C. Debt safety ratio greater than 20%

D. History of personal bankruptcy

7. Which statement correctly describes whole life insurance?

A. It Has No Cash Value

B. It Provides A Death Benefit With A Savings Component

C. It Requires Investing In A Separate Fund

D. It Ends After A Fixed Term

8. Which option is used to obtain a cash advance from a credit card issuer?

A. Debit Card

B. Convenience Checks

C. Secured Card

D. Credit Card Act of 2009

9. Which statement best describes universal life in terms of death benefit and cash value?

A. It Has No Cash Value

B. It Offers A Guaranteed Rate Of Return Independent Of Cash Value

C. It Provides A Death Benefit With A Savings Component, Often In A Separate Account

D. It Is Identical To Term Life With No Cash Value

10. Requires 26 payments equal to one-half of a regular monthly payment, paid every two weeks rather than once a month.

A. Fixed-rate mortgage

B. Biweekly mortgage

C. Graduated-payment mortgage

D. Conventional mortgage

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Answers

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

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Explanations

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1. Which of the following is listed as a major factor lenders use to evaluate creditworthiness?

A. Capacity

B. Condition

C. Character

<u>D. All of the above</u>

Lenders assess creditworthiness by weighing several factors that signal the borrower's ability and willingness to repay. These factors are often grouped under the five Cs of credit, and among them capacity, character, and the loan conditions are key. Capacity focuses on income and debt obligations—can the borrower generate enough cash flow to cover payments? It looks at earnings, job stability, and the debt-to-income ratio to judge whether there's room in the budget for new debt. Character is about the borrower's past behavior with debt—credit history, payment history, and reliability. A track record of paying on time suggests a higher likelihood of future repayment. Conditions cover the broader environment and terms of the loan—economic conditions, industry trends, and the purpose or terms of the loan. These factors influence how risky the loan is and how likely repayment remains under various scenarios. Since all of these areas contribute to assessing risk, the best answer is that all of the above are major factors lenders use to evaluate creditworthiness. A borrower who demonstrates solid capacity, good character, and favorable conditions presents less risk to the lender.

2. Usually used to finance temporary or short-term expenditures, such as uninsured cosmetic surgery.

A. Consolidation Loans

<u>B. Personal Loan</u>

C. Parent Loans

D. Education Loans

Personal loans are designed for flexible, general use. They're usually unsecured, meaning no collateral is needed, and you receive a lump sum to be repaid in fixed installments over a set period. Because they aren't restricted to a specific purpose, they're a natural fit for temporary or discretionary expenses like uninsured cosmetic surgery. Education loans are reserved for schooling costs, parent loans are for a child's education, and consolidation loans are meant to combine existing debts into one payment rather than finance new purchases. That versatility makes a personal loan the best option for financing a short-term expense.

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3. Which formula represents the present value of a perpetuity paying C per year with discount rate r?

A. PV = C * r

B. PV = C / (1 + r)

<u>C. PV = C / r</u>

D. PV = C * (1 + r)

*For a perpetuity that pays a fixed amount every year forever, the present value comes from summing all discounted future payments. The value today is the sum C/(1+r) + C/(1+r)^2 + C/(1+r)^3 + …, which is a geometric series. The infinite sum of this series equals C/r, so the present value is C divided by the discount rate r. An intuitive way to see it: if you invest P today at rate r, you earn P*r each year. To fund perpetual payments of C, the annual payout must equal the earning, so P*r = C, giving P = C/r. So the correct expression is PV = C/r. The other forms don't fit: multiplying by r would imply the value grows with the rate rather than being discounted; discounting just the next payment gives C/(1+r), not the infinite stream; multiplying by (1+r) inflates beyond the present value.*

4. Before using a new credit card, what information must the issuer disclose by law?

A. The rate of interest and method used to compute finance charges

B. The credit limit

C. Grace period details

D. Rewards program terms

The main idea is that lenders must clearly disclose the cost of borrowing before you use the card: the interest rate and how those charges are calculated. This means the annual percentage rate (APR) and the method used to compute finance charges (for example, a daily rate applied to the balance with periodic compounding). Knowing both lets you understand exactly how much you'd pay if you carry a balance and makes it possible to compare offers. Other items like the credit limit, grace period specifics, or rewards program terms may be presented, but they aren't the information that law requires up front to reveal the true cost of borrowing.

5. During the car-buying process, what should you verify at the dealership before signing the contract?

A. That the contract matches the worksheet and that no additional fees have been added

B. The color of the car

C. The weather conditions

D. The salesperson's name

Before signing, verify that the contract matches the worksheet and that no additional fees have been added. The worksheet represents what you negotiated—the price, incentives, down payment, trade-in credits, and financing terms—while the contract is the binding record of final numbers. If there are any differences, you could end up paying more or receiving different loan terms than discussed. So review line by line: purchase price, taxes, title and license fees, destination charges, documentation fees, any add-ons or extended warranties, the amount financed, the interest rate, monthly payment, and the total loan cost. Also confirm the vehicle identification number matches the car you're buying and that there are no blank spaces or unsigned amendments. If something doesn't align, ask for corrections or walk away before you sign.

6. If a friend was recently denied credit, which reason is most likely?

A. FICO score less than 350

B. Pattern of delinquent payments on credit

C. Debt safety ratio greater than 20%

D. History of personal bankruptcy

Lenders rely on signals of repayment risk, and the most powerful predictor is payment history. A pattern of delinquent payments shows a borrower consistently misses or delays obligations, which strongly indicates higher likelihood of default on new credit. That direct evidence of ongoing risk makes it the most common reason for a denial. An extremely low FICO score would also indicate high risk, but such a score (near the bottom of the scale) is less typical as the stated reason in casual denials and is effectively captured by the underlying delinquency pattern. A high debt-to-income ratio suggests affordability problems, yet 20% is generally not severe enough to deny in many lending standards. A bankruptcy history is a serious red flag, but not as universally triggering as repeated delinquencies in everyday denial situations. So, the most likely reason someone is denied credit is a pattern of delinquent payments, because it directly signals ongoing repayment risk to lenders.

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7. Which statement correctly describes whole life insurance?

A. It Has No Cash Value

B. It Provides A Death Benefit With A Savings Component

C. It Requires Investing In A Separate Fund

D. It Ends After A Fixed Term

Whole life insurance is designed to provide protection for the insured's entire life while building cash value over time. The cash value is a savings component that grows with Premiums paid and can be borrowed against or used in other ways, often with tax-deferred growth. Premiums are typically level for life, and the policy stays in force for life as long as those premiums are paid. The statement that describes both a death benefit and a savings component best captures how this type of policy works. The other options aren't accurate because there is cash value in whole life, you don't need to invest in a separate fund, and it isn't limited to a fixed term.

8. Which option is used to obtain a cash advance from a credit card issuer?

A. Debit Card

B. Convenience Checks

C. Secured Card

D. Credit Card Act of 2009

Accessing cash from a credit card is typically done with convenience checks. Issued by the credit card issuer, these checks draw directly on your credit line, allowing you to borrow cash or pay someone using your card's available credit. They behave like regular checks but are treated as cash advances by most issuers, often with immediate interest and cash-advance fees. This makes them a direct instrument for obtaining cash from the credit card, unlike other options. A debit card accesses funds from a bank account, not your credit line, so it isn't a cash advance from the credit card issuer. A secured card is a type of credit card backed by a security deposit and isn't used to pull cash from the credit line. The Credit Card Act of 2009 is legislation governing disclosures and terms, not a method for obtaining cash.

9. Which statement best describes universal life in terms of death benefit and cash value?

A. It Has No Cash Value

B. It Offers A Guaranteed Rate Of Return Independent Of Cash Value

C. It Provides A Death Benefit With A Savings Component, Often In A Separate Account

D. It Is Identical To Term Life With No Cash Value

Universal life is a permanent life policy that blends a death benefit with a cash value that can grow over time. The cash value acts as a savings component funded by premiums, often kept in a separate account where interest is credited. The death benefit is still paid to beneficiaries, but unlike term life, this policy offers the added feature of accumulated cash value that can influence the benefit and even be accessed or borrowed against. This combination—death benefit plus a savings component housed in a separate account—is what distinguishes universal life from other types. That's why the statement describing it as providing a death benefit with a savings component, often in a separate account, best fits universal life. It's not correct to say there's no cash value, nor that there's a guaranteed rate independent of the cash value, nor that it's identical to term life with no cash value.

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10. Requires 26 payments equal to one-half of a regular monthly payment, paid every two weeks rather than once a month.

A. Fixed-rate mortgage

B. Biweekly mortgage

C. Graduated-payment mortgage

D. Conventional mortgage

Biweekly mortgage is about the payment cadence: you make payments every two weeks, and each payment is half of what you would pay monthly. Because there are 52 weeks in a year, you end up making 26 biweekly payments, which adds up to the equivalent of 13 monthly payments in a year. That extra yearly payment reduces the loan principal faster, cutting the total interest you pay and shortening the loan term over time. The other terms don't describe this schedule. A fixed-rate mortgage refers to interest staying the same over the life of the loan, not how often you pay. A conventional mortgage is a general term for a standard loan without special features. A graduated-payment mortgage has payments that start low and increase over time, rather than staying fixed and being paid more frequently.

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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:

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

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