

Future Business Leaders of America (FBLA) Personal Finance Practice Test (Sample)

Study Guide



Everything you need from our exam experts!

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SAMPLE

Questions

- 1. What role does saving play in personal finance?**
 - A. It is a luxury that only some can afford**
 - B. It provides funds for emergencies and future needs**
 - C. It has no significant impact**
 - D. It is the same as investing**
- 2. Why do corporations typically sell corporate bonds?**
 - A. To reduce debt**
 - B. To increase prices of stocks**
 - C. To raise money when selling stock is difficult**
 - D. To enhance liquidity**
- 3. Generally, how does the rate of return correlate with the safety of an investment?**
 - A. Higher risk leads to higher returns**
 - B. Safe investments yield moderate returns**
 - C. Safe investments yield high returns**
 - D. Safe investments typically have a low rate of return**
- 4. What factor is NOT typically considered in performance-based pay?**
 - A. Employee tenure**
 - B. Sales numbers**
 - C. Project completion**
 - D. Customer feedback**
- 5. What does credit utilization indicate?**
 - A. The total amount of loans an individual has taken**
 - B. The ratio of credit card balances to credit limits**
 - C. The total expenses incurred in a year**
 - D. The performance of an individual's investments**

- 6. What is one of the main benefits of diversification in investing?**
- A. It guarantees high returns on all investments**
 - B. It reduces risk by spreading investments across different areas**
 - C. It allows investors to focus only on one industry**
 - D. It increases the total amount of investments**
- 7. What is a stop payment order?**
- A. A request to close a bank account**
 - B. A request that an institution not cash a particular check**
 - C. A dispute over bank fees**
 - D. A method to cancel direct deposit**
- 8. What does take-home pay represent?**
- A. Gross pay without deductions**
 - B. Gross pay before taxes**
 - C. Gross pay less taxes and other deductions**
 - D. Net pay with bonuses included**
- 9. Which type of credit card typically allows the cardholder to carry a balance?**
- A. Secured credit card**
 - B. Open-end credit card**
 - C. Charge card**
 - D. Debit card**
- 10. What type of stock is publicly traded and gives shareholders ownership in a corporation?**
- A. Preferred stocks**
 - B. Common stocks**
 - C. Convertible stocks**
 - D. Derivative stocks**

Answers

SAMPLE

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

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Explanations

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1. What role does saving play in personal finance?

- A. It is a luxury that only some can afford
- B. It provides funds for emergencies and future needs**
- C. It has no significant impact
- D. It is the same as investing

Saving plays a fundamental role in personal finance as it serves as a safety net for unexpected expenses and establishes a foundation for future financial goals. When individuals save money, they create a pool of funds that can be accessed in case of emergencies, such as medical expenses or job loss, which helps mitigate financial stress and instills a sense of security. Additionally, saving allows individuals to prepare for future needs, such as down payments on homes, education costs, or retirement. By consciously setting aside a portion of income, people can build wealth over time and ensure they have the resources necessary to achieve their financial objectives. This understanding of saving emphasizes its importance as a proactive financial strategy, distinguishing it from concepts like luxury or insignificance. Saving is not merely an optional choice but a critical component of effective personal finance management that supports both immediate and long-term financial well-being.

2. Why do corporations typically sell corporate bonds?

- A. To reduce debt
- B. To increase prices of stocks
- C. To raise money when selling stock is difficult**
- D. To enhance liquidity

Corporations sell corporate bonds primarily to raise capital, especially when conditions for selling stock may not be favorable. Bonds allow companies to borrow money from investors, providing them with immediate funds that can be used for various purposes such as expanding operations, refinancing existing debt, or funding new projects. Selling bonds can be more attractive than issuing new stock in times of market instability or when investor sentiment is low, as it helps maintain control and avoid diluting ownership for existing shareholders. The choice regarding enhancing liquidity focuses on cash flow management, which may not always be the driving reason for issuing bonds. While creating liquidity is a benefit of selling bonds, the fundamental reason remains the need for funding. Options related to reducing debt or increasing stock prices do not accurately reflect the primary rationale behind the decision to issue corporate bonds.

3. Generally, how does the rate of return correlate with the safety of an investment?

- A. Higher risk leads to higher returns**
- B. Safe investments yield moderate returns**
- C. Safe investments yield high returns**
- D. Safe investments typically have a low rate of return**

The correct answer indicates that safe investments typically have a low rate of return, which aligns with the fundamental principle of investing known as the risk-return tradeoff. This principle suggests that investments that are considered safer or less risky, such as government bonds or high-quality corporate bonds, generally offer lower returns compared to riskier investments like stocks or startup ventures. This correlation arises because investors seek compensation for taking on additional risk; thus, they expect higher returns as a reward for the increased uncertainty associated with their investments. Safe investments, on the other hand, provide more stability and predictability, which naturally limits their potential for high returns. Consequently, investors may choose these safer options during times of market volatility or economic uncertainty, even if it means accepting lower yields. In contrast, the other choices do not accurately capture the relationship between risk and return in investments. Higher returns are typically linked to higher risks, while moderate returns are associated with a balance of risk, which does not imply that safe investments yield high returns. Recognizing these relationships is essential for making informed decisions in personal finance.

4. What factor is NOT typically considered in performance-based pay?

- A. Employee tenure**
- B. Sales numbers**
- C. Project completion**
- D. Customer feedback**

Performance-based pay is a compensation strategy where employees are rewarded based on their individual performance and contributions to the organization's goals. Factors that are typically considered in performance-based pay include measurable outcomes, achievements, and results that directly relate to an employee's job responsibilities. Employee tenure, which refers to the length of time an employee has been with the company, is generally not tied to performance. It does not necessarily correlate with an individual's productivity or effectiveness in their role. Instead, performance-based pay focuses on current results, like sales figures, project completions, or customer feedback, which indicate the employee's current performance level rather than how long they have been employed. Thus, employee tenure does not typically factor into performance-based pay assessments.

5. What does credit utilization indicate?

- A. The total amount of loans an individual has taken
- B. The ratio of credit card balances to credit limits**
- C. The total expenses incurred in a year
- D. The performance of an individual's investments

Credit utilization is a crucial metric in personal finance, particularly in the context of managing credit cards and overall credit health. It specifically refers to the ratio of an individual's outstanding balances on credit cards compared to their total credit limits. Having a lower credit utilization ratio is generally seen as favorable by lenders because it indicates responsible credit management and that the individual is not overly reliant on credit. A recommended guideline is to keep credit utilization below 30% to maintain a healthy credit score. Understanding credit utilization helps individuals manage their finances and improve their credit score effectively. It is distinct from other financial metrics such as the total amount of loans taken (which does not directly relate to credit card usage), total expenses incurred in a year (which looks at spending behavior), and the performance of investments (which involves asset management rather than credit management). Thus, B is the most accurate representation of what credit utilization indicates.

6. What is one of the main benefits of diversification in investing?

- A. It guarantees high returns on all investments
- B. It reduces risk by spreading investments across different areas**
- C. It allows investors to focus only on one industry
- D. It increases the total amount of investments

The main benefit of diversification in investing is that it reduces risk by spreading investments across different areas. When an investor diversifies, they allocate their funds among various asset classes, industries, or geographical regions instead of concentrating on a single investment. This strategy helps mitigate the impact of poor performance in any one investment or sector. For example, if one industry faces economic downturns, investments in other sectors may remain stable or perform well, thus balancing out potential losses. Diversification does not guarantee high returns for all investments, as returns can still be variable and subject to market conditions. It also does not mean that an investor should focus only on one industry; rather, diversification encourages exposure to multiple industries and asset classes to optimize risk and reward. Additionally, while diversification can lead to increased total investments, its primary advantage lies in risk management rather than simply increasing the amount invested.

7. What is a stop payment order?

- A. A request to close a bank account
- B. A request that an institution not cash a particular check**
- C. A dispute over bank fees
- D. A method to cancel direct deposit

A stop payment order is specifically a request made to a financial institution asking them not to cash or honor a particular check that has been issued. This request is typically made when the account holder has lost a check, suspects fraud, or has changed their mind about the payment after issuing the check. When the bank receives and processes this request, they will take the necessary steps to ensure that the specified check will not be cashed or cleared against the account. Understanding this concept is crucial in personal finance, as it allows individuals to protect their funds from unintended transactions. In contrast, closing a bank account involves different procedures and considerations, and disputing bank fees pertains to customer service issues rather than the stopping of a specific payment. Similarly, canceling a direct deposit is a separate process linked to payroll and recurring payments, and not associated with activities involving checks already written.

8. What does take-home pay represent?

- A. Gross pay without deductions
- B. Gross pay before taxes
- C. Gross pay less taxes and other deductions**
- D. Net pay with bonuses included

Take-home pay represents the amount an employee actually receives after all deductions are taken from their gross pay. This includes deductions for taxes, retirement contributions, health insurance, and any other withholdings. Selecting the option that indicates gross pay less taxes and other deductions is the most accurate, as it captures the essence of take-home pay as the net income that an employee can spend or save. This figure is vital for personal financial planning, as it gives a clearer picture of the funds available for budgeting, expenses, and investments. Other options may refer to different aspects of salary or income. For instance, gross pay without deductions focuses solely on the total earnings before any subtractions, while gross pay before taxes simply highlights the income before tax liabilities. Net pay with bonuses included could be misleading, as it might suggest that take-home pay always encompasses additional earnings from bonuses, which is not necessarily the case. Take-home pay specifically emphasizes the final amount available after all obligatory deductions have been made.

9. Which type of credit card typically allows the cardholder to carry a balance?

- A. Secured credit card**
- B. Open-end credit card**
- C. Charge card**
- D. Debit card**

The type of credit card that typically allows the cardholder to carry a balance is the open-end credit card. This kind of card offers a line of credit that can be used repeatedly, up to a specified limit. When a cardholder makes a purchase using an open-end credit card, they have the option to pay the full balance or carry over a portion of the balance to the next billing cycle. This enables the cardholder to incur interest on the remaining balance, which is a common feature associated with open-end credit. In contrast, secured credit cards generally require a cash deposit that serves as collateral against the credit limit and typically do not function in the same way as traditional revolving credit. Charge cards, on the other hand, require the full balance to be paid off each month and do not allow for carryover balances. Lastly, debit cards are not considered credit cards; they draw directly from a bank account, and there is no borrowing involved, eliminating the concept of carrying a balance.

10. What type of stock is publicly traded and gives shareholders ownership in a corporation?

- A. Preferred stocks**
- B. Common stocks**
- C. Convertible stocks**
- D. Derivative stocks**

The choice of common stocks accurately reflects the type of stock that is publicly traded and grants shareholders ownership in a corporation. Common stocks represent a share of ownership in a company, allowing shareholders to vote on corporate matters and potentially receive dividends. When individuals purchase common stocks, they become part owners of the company, and their shares can be bought and sold in the stock market. This aspect of ownership is fundamental, as it ties directly to the performance and growth of the corporation, making common stocks a popular investment choice for those looking to participate in a company's success. In contrast, preferred stocks generally provide shareholders with fixed dividends but do not typically confer voting rights, differentiating them from common stocks. Convertible stocks usually refer to instruments that can be converted into a different type of security, often preferred stocks into common stocks, but do not stand alone as a solely recognized category in stock markets. Derivative stocks aren't a recognized category of stock but rather pertain to financial contracts whose value is derived from the performance of an underlying asset, making them unrelated to direct ownership in a corporation. Understanding the characteristics and rights associated with common stocks is crucial for anyone engaging in investing and evaluating corporate ownership.