

# General Financial Literacy State Practice Test (Sample)

## Study Guide



**Everything you need from our exam experts!**

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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 action aligns with protecting identity when disposing of sensitive documents?**
  - A. Keep sensitive documents in a safe place and dispose of them much later**
  - B. Use a public place to shred documents**
  - C. Shred or securely dispose of sensitive documents**
  - D. Recycle all papers without shredding**
  
- 2. Which lenders are most associated with very high interest rates targeted at vulnerable borrowers?**
  - A. Payday/predatory lenders.**
  - B. Credit unions.**
  - C. Traditional banks.**
  - D. Mortgage lenders.**
  
- 3. What is a mutual fund?**
  - A. A collection of stocks and/or bonds combined into one fund.**
  - B. A single stock.**
  - C. A savings account.**
  - D. An insurance policy.**
  
- 4. If purchase price 100,000 and loan 80,000, what is the loan-to-value ratio?**
  - A. 80%**
  - B. 75%**
  - C. 85%**
  - D. 90%**
  
- 5. What is the general relationship between risk and return?**
  - A. Higher risk typically leads to higher potential return**
  - B. Risk and return are unrelated**
  - C. Lower risk leads to higher return**
  - D. Return is independent of risk**

- 6. How does a free market system and property rights correlate with economic prosperity?**
- A. It allows people to do what they love and are good at and to prosper by way of innovation, supply, and demand.**
  - B. It guarantees equal outcomes**
  - C. It reduces innovation**
  - D. It leads to government overreach**
- 7. Which of the following is NOT one of the 5 C's of creditworthiness?**
- A. Character**
  - B. Credit**
  - C. Collateral**
  - D. Conditions**
- 8. Which loan is described as typically secured by a vehicle's title?**
- A. Pawn loan**
  - B. Title loan**
  - C. Payday loan**
  - D. Student loan**
- 9. What is a derogatory remark on a credit report?**
- A. A warning sign of credit abuse, such as a collection notice.**
  - B. A positive note indicating on-time payments.**
  - C. An entry showing a high credit limit.**
  - D. A routine inquiry by a lender.**
- 10. What term describes the relationship where higher risk can lead to higher potential returns?**
- A. Diversification**
  - B. Risk-return tradeoff**
  - C. Time value of money**
  - D. Risk tolerance**

## **Answers**

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

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## **Explanations**

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1. Which action aligns with protecting identity when disposing of sensitive documents?
- A. Keep sensitive documents in a safe place and dispose of them much later
  - B. Use a public place to shred documents
  - C. Shred or securely dispose of sensitive documents**
  - D. Recycle all papers without shredding

Protecting identity when disposing of sensitive documents means making sure the information on the paper can't be read or reconstructed. Shredding or securely disposing of those documents does exactly that by destroying the data so it can't be used for identity theft. If you keep them or dispose of them late, the information remains accessible to someone who might find them or gain access to your storage. Trying to shred in a public place creates risk if someone nearby can steal or tamper with the materials. Recycling without shredding leaves readable information that could be read by others.

2. Which lenders are most associated with very high interest rates targeted at vulnerable borrowers?
- A. Payday/predatory lenders.**
  - B. Credit unions.
  - C. Traditional banks.
  - D. Mortgage lenders.

Lenders known for very high costs aimed at borrowers with limited options are payday/predatory lenders. They offer small, short-term loans with fees and annual percentage rates that can be extremely high, making repayment very expensive. They often target people who have trouble qualifying for traditional credit, and their terms can lead to a cycle of debt due to frequent renewals and aggressive collection practices. In contrast, credit unions and traditional banks provide loans with more affordable rates and stricter underwriting, and mortgage lenders focus on longer-term, secured loans rather than quick, high-cost credit. So the scenario described points to payday/predatory lenders.

3. What is a mutual fund?
- A. A collection of stocks and/or bonds combined into one fund.**
  - B. A single stock.
  - C. A savings account.
  - D. An insurance policy.

A mutual fund pools money from many investors to buy a diversified portfolio of stocks and/or bonds, and is managed by professionals. This setup lets you own a broad mix of assets without buying each security separately, which helps spread risk and provides professional oversight. You can buy or sell shares of the fund like other investments, giving you liquidity. It isn't a single stock, which would mean ownership in just one company. It isn't a savings account, which holds cash with little to no investment risk. It isn't an insurance policy, which is a contract for protection against certain risks rather than an investment fund.

4. If purchase price 100,000 and loan 80,000, what is the loan-to-value ratio?

- A. 80%
- B. 75%
- C. 85%
- D. 90%

Loan-to-value ratio shows how large the loan is compared to the property's value. Here, you divide the loan amount by the property value: 80,000 divided by 100,000 equals 0.80, which is 80%. This means 80% of the property's value is being financed with the loan. A higher LTV indicates more risk to lenders, while a lower LTV indicates less risk.

5. What is the general relationship between risk and return?

- A. Higher risk typically leads to higher potential return
- B. Risk and return are unrelated
- C. Lower risk leads to higher return
- D. Return is independent of risk

The risk-return tradeoff explains this relationship: taking on more risk is expected to yield higher potential returns because investors need compensation for the chance of losing money. When an investment has greater uncertainty in its future payoff, it must offer the possibility of bigger gains to attract capital. That's why higher-risk assets like stocks or entrepreneurial ventures often have higher upside, while lower-risk options like cash or government bonds tend to offer smaller returns. Of course, higher risk doesn't guarantee higher returns—losses can be substantial, and returns can be unpredictable in the short term—but the general principle is that more risk comes with the potential for more reward. The other ideas—risk and return being unrelated, or lower risk producing higher returns, or return not depending on risk—conflict with this fundamental tradeoff and don't match how investors price risk.

6. How does a free market system and property rights correlate with economic prosperity?

- A. It allows people to do what they love and are good at and to prosper by way of innovation, supply, and demand.
- B. It guarantees equal outcomes
- C. It reduces innovation
- D. It leads to government overreach

In a free market with clear property rights, people have the freedom to use resources as they see fit and to keep the rewards from their efforts. That creates strong incentives to innovate, start new businesses, and improve products and services. Prices act as signals that guide what to produce and how much to produce: if a product is in high demand, prices rise and more of it is made; if demand falls, production can shift. Property rights give security for investments, so individuals are more willing to take risks to develop new ideas, knowing they can benefit from success. This is why the best answer says it lets people pursue what they love and are good at and enables prosperity through innovation, supply, and demand. The other ideas aren't characteristics of a free market with property rights: equal outcomes aren't guaranteed, innovation is not reduced (competition and profits typically drive it), and heavy government overreach isn't a defining feature of this system.

7. Which of the following is NOT one of the 5 C's of creditworthiness?

- A. Character
- B. Credit**
- C. Collateral
- D. Conditions

Lenders assess loan risk using five distinct areas: Character, Capacity, Capital, Collateral, and Conditions. The term that doesn't belong in this set is Credit. Character refers to the borrower's trustworthiness and history of repaying debts. Capacity looks at whether the borrower has enough income and manageable debt levels to repay the loan. Capital considers the borrower's net worth or down payment, showing they have "skin in the game." Collateral is an asset pledged to secure the loan, which can be claimed if repayment fails. Conditions involve external factors like the economic climate or specific terms of the loan that could impact repayment. Credit is a broad idea about borrowing or credit history, but it isn't one of these five specific categories. The framework uses Capacity rather than a separate "Credit" C to assess the ability to repay, along with the other four factors.

8. Which loan is described as typically secured by a vehicle's title?

- A. Pawn loan
- B. Title loan**
- C. Payday loan
- D. Student loan

A loan secured by a vehicle's title uses the car as collateral, meaning the lender has a lien on the title and can repossess the car if you don't repay. You may still drive the car while making payments, but defaulting gives the lender the right to take it to recover the loan amount. This distinction fits the description because the loan is specifically tied to the car's title, unlike other options: a pawn loan uses personal items as collateral, a payday loan is typically an unsecured cash advance, and a student loan is education financing that isn't tied to a vehicle title.

9. What is a derogatory remark on a credit report?

- A. A warning sign of credit abuse, such as a collection notice.**
- B. A positive note indicating on-time payments.
- C. An entry showing a high credit limit.
- D. A routine inquiry by a lender.

A derogatory remark on a credit report is negative information that shows you had problems paying debts. It serves as a warning to lenders that past credit behavior could indicate a higher risk. A collection notice is a classic example because it means the creditor has given up trying to collect directly and has turned the debt over to a collection agency, signaling nonpayment or serious delinquency. In contrast, a note about on-time payments would be positive, not derogatory. A high credit limit is simply a feature of the credit line and doesn't reflect past payment behavior. A routine lender inquiry is normal activity and doesn't indicate negative credit history.

**10. What term describes the relationship where higher risk can lead to higher potential returns?**

- A. Diversification**
- B. Risk-return tradeoff**
- C. Time value of money**
- D. Risk tolerance**

The idea that taking on more risk can lead to higher potential returns is the risk-return tradeoff. In investing, riskier assets offer the chance of bigger gains, but also bigger losses, so investors expect to be rewarded with higher returns for bearing that extra risk. Safer options tend to provide smaller, more predictable returns, with less volatility. Diversification focuses on spreading investments to reduce overall risk, not the inherent link between risk and return. Time value of money explains why money available now is worth more than the same amount in the future, due to earning potential, not the risk-return relationship. Risk tolerance is about how much risk an individual is willing to accept, which informs choices within the risk-return framework but doesn't define the relationship itself.

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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](mailto:hello@examzify.com).**

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

**<https://genfinancialliteracystate.examzify.com>**

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

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