University of Central Florida (UCF) FIN2100 Personal Finance and Investments Midterm 2 Practice Exam (Sample)

Study Guide

BY EXAMZIFY

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Questions

1. What is a defining feature of cooperative housing?
   A. Each unit is owned individually
   B. Ownership and rental management is conducted by a non-profit organization
   C. All units are maintained by a third-party service
   D. Units are exclusively available for sale, not rent

2. Which type of coverage could help if the driver is hit by a person with inadequate insurance?
   A. Collision coverage
   B. Uninsured motorist's protection
   C. Property damage liability
   D. Bodily injury liability

3. What does coordination of benefits (COB) refer to?
   A. A method of settling disputes between insurers
   B. Integrating benefits from multiple health insurance plans
   C. A procedure for calculating premiums
   D. A way to manage auto insurance claims

4. Which of the following is a common type of mutual fund?
   A. Equity funds
   B. Income funds
   C. Bond funds
   D. All of the above

5. What percentage of employed Americans are typically enrolled in managed care, such as HMOs?
   A. 75%
   B. 85%
   C. 90%
   D. 95%

6. What does it indicate if a mutual fund beats its benchmark index?

A. The fund is well-managed

B. It has lower fees

C. It has higher risk

D. It is too new

7. Using time value of money (TVM) calculations, how long must you stay in the house to breakeven on a $4,000 investment for a savings of $109.89 per month?

A. 30.5 months

B. 39.9 months

C. 45.0 months

D. 60.0 months

8. What is true about whole life insurance policy premiums?

A. They vary significantly year to year

B. They are typically lower than term policies

C. They arerequired until the insured's death

D. They may be paid only for a limited number of years

9. What is the Taxable Equivalent Yield based on?

A. The difference between tax-exempt yield and your marginal tax rate

B. The tax-exempt yield divided by your marginal tax rate

C. The tax-exempt yield minus your average tax rate

D. The tax-exempt yield divided by (1 - your marginal tax rate)

10. True or False: Common stocks always provide higher returns than bonds and money market investments.

A. True

B. False

C. Only in bull markets

D. Only for short-term investments

Answers

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

Explanations

1. What is a defining feature of cooperative housing?

   A. Each unit is owned individually

   B. Ownership and rental management is conducted by a non-profit organization

   C. All units are maintained by a third-party service

   D. Units are exclusively available for sale, not rent

In cooperative housing, the defining feature is that ownership and rental management is conducted by a non-profit organization. In this type of housing arrangement, residents do not own their individual units outright; instead, they own shares in the cooperative that entitle them to occupy a specific unit. This structure allows for collective management and operations, with decision-making typically governed by a board made up of the residents. This model contrasts with individual ownership structures, where each unit is owned separately. Additionally, while it is possible for some cooperatives to engage third-party services for maintenance, it is not characteristic of cooperative housing as a whole. The emphasis on a non-profit organization signifies a community-oriented approach, prioritizing the needs and interests of the residents over profit maximization, making this answer the most accurate choice for defining cooperative housing.

2. Which type of coverage could help if the driver is hit by a person with inadequate insurance?

   A. Collision coverage

   B. Uninsured motorist's protection

   C. Property damage liability

   D. Bodily injury liability

Uninsured motorist protection is specifically designed to cover individuals who are injured or suffer damages due to an accident caused by a driver who either has insufficient insurance or no insurance at all. This type of coverage ensures that if you find yourself in an accident with an underinsured or uninsured motorist, you can still receive compensation for medical expenses, lost wages, and other damages resulting from the incident. In contrast, collision coverage focuses on damage to your own vehicle regardless of who is at fault. Property damage liability only helps with damages you may cause to another person's property. Bodily injury liability covers damages you may cause to another person's body in an accident but does not provide coverage for your own injuries if the other driver lacks adequate insurance. Therefore, uninsured motorist protection directly addresses the issue of being hit by a driver with inadequate insurance.

3. What does coordination of benefits (COB) refer to?

A. A method of settling disputes between insurers

B. Integrating benefits from multiple health insurance plans

C. A procedure for calculating premiums

D. A way to manage auto insurance claims

Coordination of benefits (COB) refers to the process of integrating benefits from multiple health insurance plans to ensure that a policyholder receives the maximum coverage available without exceeding the total cost of the covered services. This typically applies to situations where an individual is covered by more than one health insurance policy, such as when both parents have insurance plans that cover their children. Under COB, the insurers work together to determine which policy pays first (the primary insurer) and which one pays second (the secondary insurer). This process helps to prevent overpayment for health care services and ensures that the insured party gets the full benefit of both policies without duplicating payments for the same service. Understanding this concept is crucial in navigating health insurance claims, as it can affect out-of-pocket costs and coverage limits. It ensures that individuals are fully supported in managing their healthcare expenses while making sure that insurance companies coordinate their payments efficiently.

4. Which of the following is a common type of mutual fund?

A. Equity funds

B. Income funds

C. Bond funds

D. All of the above

The correct answer encompasses all the listed options, as each is a recognized category of mutual fund, illustrating the diversity and specialization available within mutual fund investments. Equity funds primarily invest in stocks, aiming for capital appreciation. They tend to have higher potential for growth but also come with heightened risk due to market fluctuations. Income funds, on the other hand, are designed to provide regular income to investors through dividends or interest payments. These funds typically invest in a mix of bonds, dividend-paying stocks, or other income-generating securities. Bond funds focus specifically on fixed-income securities, primarily government or corporate bonds. They offer lower risk compared to equity funds and are generally used by investors seeking stability and predictable income. By recognizing that each of these fund types plays a distinctive role in an investment strategy, it becomes clear that the answer includes all of them, reflecting the breadth of choices available to investors looking to diversify their portfolios according to their financial goals and risk tolerance.

5. What percentage of employed Americans are typically enrolled in managed care, such as HMOs?

A. 75%

B. 85%

C. 90%

D. 95%

The percentage of employed Americans typically enrolled in managed care, such as Health Maintenance Organizations (HMOs), reflects the widespread adoption of managed care models to provide health insurance coverage. While the exact figures can fluctuate based on various factors, including changes in the healthcare industry and policy, estimates indicate that around 85% of employed Americans are enrolled in some form of managed care. Managed care plans are designed to maintain health care costs while providing essential services to members. They typically focus on preventive care and efficiency in treatment, which is appealing to employers offering health insurance as part of employee benefits. This model has gained significant traction over the years, leading to a robust enrollment rate among the workforce. In contrast, other percentage options represent estimates that are either too high or too low. The 90% and 95% figures may suggest a near-universal adoption that does not align with actual enrollment dynamics, reflecting the diversity of health insurance options available to employees. Similarly, while 75% is somewhat plausible, it is generally accepted that a greater percentage is involved, given the trend towards managed care. The choice of 85% strikes a balance that accurately captures the current landscape of health insurance among employed Americans.

6. What does it indicate if a mutual fund beats its benchmark index?

A. The fund is well-managed

B. It has lower fees

C. It has higher risk

D. It is too new

When a mutual fund beats its benchmark index, it generally indicates that the fund is well-managed. This performance suggests that the fund has outperformed a relevant market index that represents a similar investment strategy, showing that the fund manager has effectively made investment decisions to generate higher returns than the average of other comparable investments. A well-managed fund typically has a skilled team that analyzes market opportunities, assesses the performance of investments, and rebalances the portfolio when necessary to capitalize on potential gains. This level of management can include active stock picking, tactical asset allocation, and careful risk management approaches that lead to superior performance relative to the benchmark. Factors such as lower fees or higher risk may influence a fund's overall attractiveness or performance, but they do not inherently indicate that a fund is well-managed. For instance, lower fees might enhance returns, but they do not guarantee that the fund has outperformed its benchmark. Similarly, higher risk may lead to higher returns, but it also exposes investors to potential losses. A fund being "too new" could imply uncertainty regarding its management capabilities or strategy performance, rather than showing a clear indicator of management quality.

7. Using time value of money (TVM) calculations, how long must you stay in the house to breakeven on a $4,000 investment for a savings of $109.89 per month?

A. 30.5 months

B. 39.9 months

C. 45.0 months

D. 60.0 months

To find out how long you must stay in the house to break even on a $4,000 investment, given a savings of $109.89 per month, the time value of money (TVM) calculations should be applied. Specifically, you'll be interested in determining how many months it takes for the cumulative savings to equal the upfront investment of $4,000. The formula used in TVM calculations to find the future value of a series of cash flows (in this case, monthly savings) can be rearranged to solve for time. Since you're saving a fixed amount each month, you can treat this as an annuity where you want to determine how many payments equal the initial investment. By taking the $4,000 investment and dividing it by the monthly savings of $109.89, you initially calculate how many total months it would take to simply recover the initial investment: Total months = Investment / Savings per month = $4,000 / $109.89. This results in approximately 36.4 months. However, this calculation assumes no interest earned on the investment. When you factor in the savings accruing over those months, using the formula for the present value of annuities, a slight adjustment occurs, resulting in

8. What is true about whole life insurance policy premiums?

A. They vary significantly year to year

B. They are typically lower than term policies

C. They arerequired until the insured's death

D. They may be paid only for a limited number of years

Whole life insurance premiums are required to be paid as long as the policy is in force, which typically means until the insured's death or until the policyholder decides to surrender the policy. The premium payments are designed to maintain the coverage as well as build cash value over time. Unlike term life insurance, which provides coverage for a specific period and may have fluctuating rates at renewal, whole life insurance has fixed premiums that remain level through the duration of the policy. The nature of whole life policies means that once a policyholder starts making premium payments, they are committing to continue these payments until the terms of the policy are satisfied, either through the death benefit being paid out or through policy surrender. While some policies offer a paid-up option after a certain number of years, this typically means that premiums may not need to be paid indefinitely, but they are generally required until the specified conditions are met. By understanding this aspect of whole life insurance, individuals can better assess whether this type of coverage aligns with their financial goals and needs.

9. What is the Taxable Equivalent Yield based on?

A. The difference between tax-exempt yield and your marginal tax rate

B. The tax-exempt yield divided by your marginal tax rate

C. The tax-exempt yield minus your average tax rate

D. The tax-exempt yield divided by (1 - your marginal tax rate)

The Taxable Equivalent Yield is determined by taking the tax-exempt yield and dividing it by one minus your marginal tax rate. This calculation provides the equivalent yield that a taxable investment would need to offer in order to match the after-tax return of a tax-exempt investment. To understand why this calculation is used, consider that the Taxable Equivalent Yield accounts for the fact that tax-exempt investments, such as municipal bonds, provide returns that are not subject to federal income tax. Since the investor does not have to pay taxes on these earnings, these investments can often offer lower nominal interest rates while still being attractive. By dividing the tax-exempt yield by (1 - your marginal tax rate), you effectively adjust for the impact of taxes, giving you a clear picture of what a taxable investment must yield to be competitive. For example, if your marginal tax rate is 25%, using this formula properly adjusts the yield to account for the tax liability, allowing a direct comparison with taxable investments. Understanding this concept is crucial for evaluating different investment options and making informed decisions about where to allocate resources.

10. True or False: Common stocks always provide higher returns than bonds and money market investments.

A. True

B. False

C. Only in bull markets

D. Only for short-term investments

Common stocks do not always provide higher returns than bonds and money market investments, which is why the answer is considered false. While historically, over the long term, stocks have generated higher returns on average compared to bonds and money market instruments, this does not hold true in every circumstance or time frame. For example, during periods of market downturns or economic recessions, stocks can experience significant declines, whereas bonds, particularly high-quality government bonds, may remain stable or increase in value due to their safer nature. Additionally, money market investments tend to have lower risk and provide stable but lower returns, which can sometimes outperform stocks in short-term scenarios or specific economic conditions. Moreover, the risk profile of these investments varies: common stocks are generally considered more volatile, which means they can potentially offer higher returns over long periods but also come with greater risk of loss. Consequently, it's crucial to understand that the performance of these asset classes can vary widely based on market conditions and investment horizons.