

University of Central Florida (UCF) GEB3006 Intro to Career Development and Financial Plannings Final Practice Exam 3 (Sample)

Study Guide



Everything you need from our exam experts!

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SAMPLE

Questions

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1. For someone with a large mortgage or dependent children, what type of life insurance is typically recommended?
 - A. Whole life insurance
 - B. Universal life insurance
 - C. Term life insurance
 - D. Variable life insurance
2. A homeowner getting a second mortgage to pay down credit card debt takes on what primary risk?
 - A. Higher interest on the mortgage
 - B. Increased foreclosure risk
 - C. Longer loan terms
 - D. Decreased credit score
3. Employer benefits can be worth up to what percentage of your base salary?
 - A. 30%
 - B. 50%
 - C. 70%
 - D. 100%
4. Is it legal for employers to review your credit report during the job application process?
 - A. Yes
 - B. No
 - C. Only with consent
 - D. Only for management positions
5. If you leave a company before fully vesting in a 401-K, what happens to your contributions?
 - A. You lose everything, including your contributions
 - B. You retain your contributions but lose the employer's contributions
 - C. You keep your employer's contributions and all earnings
 - D. You retain your contributions and the earnings on them

6. Depreciation on autos tends to be highest in which years?
- A. 1 to 2
 - B. 1 to 3
 - C. 3 to 5
 - D. 5 to 7
7. What is the primary purpose of a steep slope in the yield curve?
- A. To cool inflation during economic growth
 - B. To indicate market stability
 - C. To stimulate the economy during a recession
 - D. To reflect current interest rates
8. Which health plan requires you to see a primary care physician first and remain within a specific network?
- A. PPO
 - B. HMO
 - C. EPO
 - D. POS
9. What strategy should you use if you believe interest rates will rise in the future and want to invest \$10,000 in a Certificate of Deposit (CD)?
- A. Invest in a long-term CD
 - B. Invest in a short-term CD and roll it over
 - C. Keep the money in a savings account
 - D. Invest in stocks instead of a CD
10. How many years should you plan to stay in a house to reduce the risk of losing money when reselling it?
- A. 3 years
 - B. 5 years
 - C. 7 years
 - D. 10 years

Answers

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

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Explanations

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1. For someone with a large mortgage or dependent children, what type of life insurance is typically recommended?

- A. Whole life insurance
- B. Universal life insurance
- C. Term life insurance
- D. Variable life insurance

Term life insurance is typically recommended for someone with a large mortgage or dependent children because it provides coverage for a specific period of time, usually ranging from 10 to 30 years. This type of insurance is often more affordable than whole or universal life insurance, making it accessible for individuals who need to prioritize financial responsibilities, such as paying off a mortgage or supporting children. The key benefit of term life insurance in this scenario is that it can offer a substantial death benefit that can help cover the mortgage or provide financial support for children if the insured individual passes away during the term of the policy. This ensures that dependents can maintain their standard of living and housing stability in the event of an unexpected death. In contrast, whole life and universal life insurance include a cash value component and tend to have higher premiums, which might not be as cost-effective for someone primarily focused on providing financial protection for a limited time. Variable life insurance involves investments that can fluctuate in value, which adds a layer of complexity and risk that may not be suitable for someone looking for straightforward protection to cover immediate financial obligations.

2. A homeowner getting a second mortgage to pay down credit card debt takes on what primary risk?

- A. Higher interest on the mortgage
- B. Increased foreclosure risk
- C. Longer loan terms
- D. Decreased credit score

The primary risk associated with a homeowner taking out a second mortgage to pay down credit card debt is the increased risk of foreclosure. When a homeowner secures a second mortgage, they are leveraging their property, which means they are agreeing to put their home at risk to secure additional financing. If the homeowner fails to keep up with the mortgage payments on the second mortgage, or if their financial situation worsens, they could face the possibility of foreclosure, where the lender takes possession of the home to cover the debt. This option focuses on the consequence of using a home as collateral. In the event of failure to repay, the homeowner not only risks losing their investment in the property but also potentially affecting their credit and financial stability significantly. While other options mentioned, like higher interest rates or longer loan terms, are relevant concerns, they do not encapsulate the immediate risk of losing one's home, which is the most critical risk in this scenario.

3. Employer benefits can be worth up to what percentage of your base salary?

A. 30%

B. 50%

C. 70%

D. 100%

Employer benefits can significantly enhance the overall compensation package provided to an employee. While it is common for benefits to be worth a substantial portion of your base salary, many industry benchmarks indicate that these benefits can be valued at around 30% to 50% of an employee's base salary. The correct answer indicates that employer benefits can be worth up to 50%. This includes health insurance, retirement plans, paid time off, and various other perks that contribute to employees' overall well-being and financial security. As benefits become more robust, they can represent a major component of total compensation, impacting job satisfaction and employee retention. It's important to recognize that the specific value of benefits can vary depending on the employer, industry, and the specifics of the job position, but stating 50% acknowledges a realistic and common range of what benefits can contribute to your financial package.

4. Is it legal for employers to review your credit report during the job application process?

A. Yes

B. No

C. Only with consent

D. Only for management positions

Employers are allowed to review a candidate's credit report during the job application process, but certain conditions apply. The correct answer is that it is only permissible with the candidate's consent. This means that employers must obtain written authorization from the applicant before accessing their credit report, as outlined by the Fair Credit Reporting Act (FCRA). While some states may have additional regulations limiting the use of credit reports in hiring decisions, generally, candidates must be informed and give consent for their credit information to be reviewed. Therefore, the assertion that it is entirely illegal for employers to review credit reports is not accurate in the context of labor laws.

5. If you leave a company before fully vesting in a 401-K, what happens to your contributions?

- A. You lose everything, including your contributions
- B. You retain your contributions but lose the employer's contributions
- C. You keep your employer's contributions and all earnings
- D. You retain your contributions and the earnings on them

If you leave a company before fully vesting in a 401(k), retaining your contributions and the earnings on them is the correct outcome. When you contribute to a 401(k) plan, those contributions come from your own salary, and they are always yours. Even if you do not fully vest in the employer's contributions, your own contributions remain intact regardless of your employment status. Additionally, you are entitled to any earnings generated by your contributions while they were in the account. This means that if your investments appreciated or generated interest during the time you were contributing, that growth is also retained when you leave the company. Therefore, you have ownership of both your contributions and any earnings associated with them, which provides a financial benefit even if you do not receive the full value of the employer's contributions until you are fully vested. In contrast, if you left the company before vesting, you would typically lose access to the employer's contributions and any associated earnings tied to that portion, as these are dependent on meeting certain tenure requirements established by the employer.

6. Depreciation on autos tends to be highest in which years?

- A. 1 to 2
- B. 1 to 3
- C. 3 to 5
- D. 5 to 7

The correct answer is that depreciation on autos tends to be highest in the first few years of ownership, specifically during the first three years. This phenomenon is attributed to several factors. New cars lose value rapidly once they are driven off the lot, a process known as "initial depreciation." This initial decline in value is often the most significant, as the car transitions from being a new vehicle to a used one. The first year typically sees the steepest drop in value, with subsequent years still experiencing noticeable depreciation, although at a slightly less aggressive rate. During the first three years of ownership, the car's value decreases due to several factors, including market demand for new models, advancements in technology, and the general perception of a car's obsolescence. After this three-year mark, the rate of depreciation often slows down, as vehicles age and lose their value more gradually. In contrast, depreciation rates tend to level out after this initial period, which accounts for why options that suggest longer time frames, such as those spanning five to seven years, would not be correct in identifying when the highest depreciation occurs. Understanding this trend is crucial for effective financial planning and vehicle ownership decision-making.

7. What is the primary purpose of a steep slope in the yield curve?

- A. To cool inflation during economic growth
- B. To indicate market stability
- C. To stimulate the economy during a recession
- D. To reflect current interest rates

The primary purpose of a steep slope in the yield curve is often associated with stimulating the economy during a recession. A steep yield curve indicates a significant difference between short-term and long-term interest rates, which typically reflects investor expectations about future economic growth and inflation. When investors anticipate that the economy will recover, they may demand higher yields for long-term bonds, reflecting optimism about future performance. In the context of economic recovery, a steep yield curve can encourage borrowing and investing because the cost of long-term debt is relatively attractive compared to short-term borrowing. This can lead to increased spending and expansion by businesses and consumers, thereby helping to stimulate economic activity and counteract recessionary pressures. A shallow or flat yield curve, on the other hand, might indicate concerns about economic growth or stability, while an inverted yield curve may signal an impending recession. Understanding the slope of the yield curve helps economists and financial analysts gauge market sentiments and economic prospects, making it an important tool in assessing and responding to economic conditions.

8. Which health plan requires you to see a primary care physician first and remain within a specific network?

- A. PPO
- B. HMO
- C. EPO
- D. POS

The correct answer is the health maintenance organization (HMO) plan. An HMO requires members to choose a primary care physician (PCP) who coordinates their healthcare, and referrals from that PCP are typically necessary to see specialists. This structure emphasizes preventive care and managed health services within a defined network of providers, which means that members must generally use the HMO network for their healthcare needs, except in emergencies. In contrast, while other plan types like PPOs and POS plans offer more flexibility in terms of choosing providers and do not always require a referral, they do not have the same stringent requirements regarding seeing a primary care physician first or staying strictly within a specific network as HMOs do. An EPO, similar to an HMO, has a network requirement but does not typically require a PCP or referrals for specialist services. Thus, the features of HMOs make them distinct, supporting the chosen answer.

9. What strategy should you use if you believe interest rates will rise in the future and want to invest \$10,000 in a Certificate of Deposit (CD)?

- A. Invest in a long-term CD
- B. Invest in a short-term CD and roll it over
- C. Keep the money in a savings account
- D. Invest in stocks instead of a CD

Investing in a short-term Certificate of Deposit (CD) and rolling it over is the advisable strategy when anticipating rising interest rates in the future. The rationale behind this approach lies in the nature of interest rates and CD investments. When interest rates increase, newly issued CDs typically offer higher yields than those issued previously. By investing in a short-term CD, you can take advantage of the higher rates more quickly. Once the term of the short-term CD ends, you have the option to reinvest at a new, potentially higher interest rate, thus maximizing your earnings over time as rates continue to rise. Moreover, this strategy provides flexibility as you are not locked into a long-term rate that might become less advantageous if rates increase. It allows for better alignment with the changing economic conditions that affect interest rates. In contrast, long-term CDs would lock in your current rate for an extended period, missing out on the benefits of higher rates when they eventually emerge. Keeping the money in a savings account might provide liquidity, but typically savings accounts offer lower interest rates compared to CDs. Investing in stocks introduces different risks and does not provide the guaranteed returns or safety that CDs offer, especially if your priority is capital preservation and earning interest in a rising rate environment.

10. How many years should you plan to stay in a house to reduce the risk of losing money when reselling it?

- A. 3 years
- B. 5 years
- C. 7 years
- D. 10 years

Planning to stay in a house for at least five years is generally recommended to minimize the risk of losing money upon resale. This timeframe allows homeowners to ride out fluctuations in the real estate market, as property values can be volatile in the short term. Real estate typically appreciates over the long term, but over shorter periods, prices can dip due to various factors like economic downturns, changes in interest rates, or local market conditions. Staying for around five years provides enough time for the property to potentially gain value and for owners to benefit from any market improvements. Additionally, it allows homeowners to recoup transaction costs associated with buying and selling the property, such as closing costs, real estate agent commissions, and other fees that might be incurred during the sale process. In contrast, shorter timeframes could lead to financial losses due to selling during a market downturn or not being able to cover the initial costs of home buying. Ten years might be optimal for maximum equity growth, but five years is a solid rule of thumb for minimizing the risk of loss when selling a home.