Wise Certification Practice Test (Sample)

Study Guide

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Questions

1. **What is typically required to qualify for a Federal Housing Administration (FHA) loan?**
   - A. High credit score
   - B. Specific employment history
   - C. Fulfillment of income guidelines
   - D. Asset verification

2. **If Lamar believes that interest rates will fall, what type of investment should she consider?**
   - A. Short-term, variable rate savings account
   - B. Long-term, fixed-rate certificate deposit
   - C. High-yield savings account
   - D. Real estate investment

3. **Money for saving, investing, or spending cannot be from:**
   - A. Bank loans
   - B. Capital losses from the sale of stock
   - C. Personal savings
   - D. Dividend payments

4. **Which investment vehicle has the highest potential growth and the highest risk?**
   - A. Real estate
   - B. Bonds
   - C. Common stock
   - D. Mutual funds

5. **Which of the following services are generally offered by banks and credit unions?**
   - A. Savings and loans
   - B. Real estate services
   - C. Investment banking
   - D. Insurance underwriting

6. What is generally the safest type of investment?

- **A. Stocks**
- **B. Real estate**
- **C. Treasury securities**
- **D. Collectibles**

7. What is the purpose of a personal property floater in homeowners insurance?

- **A. To increase liability coverage**
- **B. To cover the cost of replacing items that are damaged or stolen**
- **C. To provide additional living expenses if the home is uninhabitable**
- **D. To protect against natural disasters**

8. Which investment is best for those seeking a secure and low-risk option?

- **A. Corporate bonds**
- **B. Real estate investments**
- **C. Treasury Bill (T-Bill)**
- **D. Stocks in emerging markets**

9. When an unmarried individual contributes to a Roth IRA, the contribution is:

- **A. Fully tax deductible**
- **B. Partially tax deductible**
- **C. Not currently tax deductible**
- **D. Tax-exempt**

10. A pharmacy is to drugs as the American Stock Exchange is to:

- **A. Real estate**
- **B. Commodities**
- **C. Securities**
- **D. Bonds**

<u>Answers</u>

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

Explanations

1. What is typically required to qualify for a Federal Housing Administration (FHA) loan?

A. High credit score

B. Specific employment history

C. Fulfillment of income guidelines

D. Asset verification

To qualify for a Federal Housing Administration (FHA) loan, fulfilling income guidelines is essential. FHA loans are designed to help individuals, particularly first-time home buyers or those with lower income levels, to secure financing for a home. Therefore, applicants must demonstrate adequate income to support repayment of the loan. This includes showing a stable and sufficient income that meets or exceeds the FHA's minimum requirements, which ensures that borrowers have the financial capacity to manage monthly mortgage obligations alongside other expenses. While a high credit score, specific employment history, and asset verification may influence the loan approval process or terms, they are not as foundational as meeting the income guidelines set by the FHA. The program is designed to be more accessible, which is why the emphasis is placed on income rather than solely on creditworthiness or assets.

2. If Lamar believes that interest rates will fall, what type of investment should she consider?

A. Short-term, variable rate savings account

B. Long-term, fixed-rate certificate deposit

C. High-yield savings account

D. Real estate investment

If Lamar believes that interest rates will fall, a long-term, fixed-rate certificate deposit is a strategic choice for her investment. When interest rates decline, the value of existing fixed-rate investments tends to increase because new investments will likely offer lower returns. By locking in a fixed rate now, Lamar ensures that she benefits from the higher rate compared to what she might receive in the future. This type of investment protects her from the potential lower returns associated with shifting market rates. In contrast, short-term and variable rate accounts may not provide the same level of benefit as interest rates decrease, as these investments are more susceptible to changes in the market rates. A high-yield savings account typically offers variable rates, which may result in lower returns if interest rates fall. Real estate investments also have their considerations, but they are generally more influenced by market conditions outside of interest rate fluctuations, such as demand or location, rather than simply the interest rate environment. Therefore, a long-term, fixed-rate certificate deposit aligns best with her outlook on falling interest rates, securing a more favorable return on her investment.

3. Money for saving, investing, or spending cannot be from:

A. Bank loans

B. Capital losses from the sale of stock

C. Personal savings

D. Dividend payments

The correct choice indicates that money for saving, investing, or spending cannot come from capital losses from the sale of stock because a capital loss represents a negative return on an investment. When you sell an asset, such as stock, for less than what you paid for it, you incur a loss rather than generating money. Thus, capital losses do not provide funds to be saved, invested, or spent; they negatively impact your overall financial situation by reducing your total assets and potentially your taxable income. Other options pertain to sources of money that can indeed contribute to savings, investments, or expenditures. Bank loans provide funds that can be used for various financial activities, personal savings represent accumulated money set aside for future use, and dividend payments are distributions made by a corporation to its shareholders, which also constitute income that can be saved or invested.

4. Which investment vehicle has the highest potential growth and the highest risk?

A. Real estate

B. Bonds

C. Common stock

D. Mutual funds

Common stock is recognized as the investment vehicle with the highest potential for growth and the highest risk due to several key factors. Stocks represent a share of ownership in a company, and their value is directly tied to the company's performance. When a company does well, its stock price can increase significantly, leading to substantial returns for investors. This potential for high returns is especially pronounced in common stock compared to other investment options like real estate, bonds, or mutual funds, which typically offer more stability but with lower growth potential. The risk associated with common stocks stems from their volatility and uncertainties in the market. Stock prices can fluctuate widely based on market conditions, investor sentiment, economic indicators, and company performance. As a result, investors in common stocks face the risk of losing part or all of their investment if the company performs poorly or if market conditions change unfavorably. In contrast, real estate tends to appreciate steadily over time but is subject to market cycles and may not offer the same rapid growth opportunities as well-performing stocks. Bonds are generally considered safer investments, providing fixed returns but with limited growth potential. Mutual funds spread investment across various assets, offering diversification which reduces risk but also limits the highest potential gains that one might achieve by investing in individual stocks. Therefore,

5. Which of the following services are generally offered by banks and credit unions?

A. Savings and loans

B. Real estate services

C. Investment banking

D. Insurance underwriting

Banks and credit unions primarily focus on providing financial services that facilitate saving and borrowing for individuals and businesses. The service of savings and loans is a fundamental part of their offerings. Banks accept deposits from customers and pay interest on those deposits, which constitute the savings aspect. On the lending side, they provide loans to customers, such as personal loans, mortgages, and auto loans, which aligns with the loan aspect of their services. While real estate services, investment banking, and insurance underwriting may occasionally be offered by some banks or financial institutions, they are not typically considered core offerings. Real estate services generally pertain to buying, selling, or managing property, which is often handled by specialized real estate companies. Investment banking involves underwriting and facilitating the sale of securities, which usually occurs in dedicated investment banks rather than traditional deposit-taking institutions. Insurance underwriting is largely the domain of insurance companies, which focus on assessing risk and providing coverage, rather than the primary banking functions of saving and lending.

6. What is generally the safest type of investment?

A. Stocks

B. Real estate

C. Treasury securities

D. Collectibles

Treasury securities are considered the safest type of investment because they are backed by the full faith and credit of the U.S. government. This means that they have a very low risk of default—essentially, the government is very unlikely to fail to pay back its debt obligations. Treasury securities, which include Treasury bills, notes, and bonds, provide investors with a reliable income stream through interest payments and are generally regarded as a low-risk haven during times of economic uncertainty. In contrast, stocks can be volatile and subject to market fluctuations, resulting in the potential for significant losses. Real estate can also be subject to market risks, along with factors like property maintenance and market demand affecting values. Collectibles, while potentially valuable, often come with high degrees of uncertainty and depend on niche markets and trends, making them much riskier than government-backed securities.

7. What is the purpose of a personal property floater in homeowners insurance?

A. To increase liability coverage

B. To cover the cost of replacing items that are damaged or stolen

C. To provide additional living expenses if the home is uninhabitable

D. To protect against natural disasters

The purpose of a personal property floater in homeowners insurance is to cover the cost of replacing items that are damaged or stolen. This type of coverage is particularly useful for items that are valuable or frequently traveled with, such as jewelry, art, or electronics. A personal property floater extends coverage beyond what is included in a standard homeowners policy, which might have limitations on certain types of personal property. This means that if a covered item is lost, damaged, or stolen, the policyholder can claim for its replacement cost, ensuring they are financially protected against such losses. While other options may address different areas of homeowners insurance coverage, they do not pertain directly to the specific function of a personal property floater. For example, increasing liability coverage, providing additional living expenses, and protecting against natural disasters are all important aspects of a comprehensive homeowners insurance policy but do not relate to the floater's primary purpose of covering personal property.

8. Which investment is best for those seeking a secure and low-risk option?

A. Corporate bonds

B. Real estate investments

C. Treasury Bill (T-Bill)

D. Stocks in emerging markets

Treasury Bills (T-Bills) are considered the best investment option for those seeking security and low risk due to their backing by the full faith and credit of the U.S. government. T-Bills are short-term securities that mature in a year or less, meaning the risk of default is minimal. Investors receive a guaranteed return in the form of interest, which is predetermined at the time of purchase and paid upon maturity. This characteristic makes T-Bills a reliable investment for risk-averse individuals looking for a safe haven for their funds. Unlike corporate bonds, which may carry the risk of issuer default, T-Bills provide peace of mind as they are essentially risk-free. Additionally, compared to real estate investments, which may involve various risks related to market conditions, property management, and liquidity, T-Bills offer a much lower risk profile. Stocks in emerging markets can present significant volatility and uncertainty, making them inappropriate for those prioritizing security. In summary, T-Bills stand out as a secure, low-risk investment option for those looking to preserve capital while earning a small return.

9. When an unmarried individual contributes to a Roth IRA, the contribution is:

A. Fully tax deductible

B. Partially tax deductible

C. Not currently tax deductible

D. Tax-exempt

When an unmarried individual contributes to a Roth IRA, the contribution is not currently tax deductible. This is a defining feature of Roth IRAs, which allows individuals to contribute after-tax income. The key benefit of this structure lies in the potential for tax-free withdrawals during retirement, as long as certain conditions are met. Therefore, while the individual does not receive an immediate tax deduction for the contributions made, the contributions grow tax-free, providing significant long-term tax advantages. The distinction between contributions to a Roth IRA and other retirement accounts, such as Traditional IRAs, lies in the taxation model. Traditional IRAs allow for tax-deductible contributions, meaning individuals can reduce their taxable income in the year they make the contribution. However, Roth IRAs specifically require contributions to be made with after-tax dollars, emphasizing their unique approach to retirement savings and tax planning.

10. A pharmacy is to drugs as the American Stock Exchange is to:

A. Real estate

B. Commodities

C. Securities

D. Bonds

The correct answer is securities because a pharmacy is a place where drugs are bought and sold, similar to how the American Stock Exchange (NYSE) is a marketplace for buying and selling securities. In the context of finance, securities encompass stocks, bonds, and other financial instruments that hold monetary value and can be traded. Just as a pharmacy provides access to pharmaceuticals, the American Stock Exchange serves as a venue for brokers and investors to transact in various types of securities, facilitating the investment and trading of wealth. The other choices, such as real estate, commodities, and bonds, are broader categories or specific types of investments that do not encompass the full range of what securities represent. While bonds are indeed a type of security, they do not cover the entirety of what is traded on the American Stock Exchange, which includes stocks (equities) and various derivatives as well. This makes securities the most fitting answer in relation to how a pharmacy functions in its respective market.