**Economics**

**Unit 5- Personal Finance**

**Test Review**

1. What is a credit union? **Provides various financial services (direct deposit, check writing, debt, credit cards, loans, etc…) to its members**
2. How does a credit union differ from a bank? -**A credit union provides financial services to its members, and these members own and control the credit union. Since the credit union exists for the benefit of its members, it can offer better rates on loans or savings accounts.**
3. What is a bank? **Provides various financial services (direct deposit, check writing, debt, credit cards, loans, etc…) to people**
4. What is a sales tax? **A fee paid for buying goods & services. A type of regressive tax.**
5. Who does a rise in sales tax affect most? **Poorer families**
6. What is Human Capital? **Refers to the knowledge, skills and abilities a person has obtained through the years**
7. What is the best way to invest in Human Capital? **Through education**
8. What is Compound Interest? **Where interest is earned not only on the principal but also on interest earned from previous periods.**
9. How do Financial Institutions earn a profit? **Interest charged on loans**
10. What should you compare when looking at loans from different institutions? **Annual percentage rate (APR)**
11. What is the relationship between Risk and Return? **The greater the risk with an investment, the higher the rate of potential return, and vice versa.**
12. What is a Progressive Tax? **When the tax rate increases as income increases (Income tax)**
13. What is a Regressive Tax? **When the tax rate decreases as income increases (Sales tax).**
14. What is a Proportional Tax**? When a tax does not change with respect to income; also known as flat tax (FICA taxes).**
15. What kind of tax is U.S. Federal Income Tax? **Progressive tax**
16. What is automobile insurance? **Provides payments for damages caused in an auto accident.**
17. What is Credit Worthiness? **One’s ability to pay back a loan** **– annual income, amount of current debt & timeliness of repaying loans**
18. What is Diversification? **The spreading out of funds into different kinds of investments in order to minimize risk.**
19. What makes an individual retirement account a good way to save for retirement? **It is a tax deferred plan that will reduce your current taxable income**
20. How does supply and demand influence wages and incomes for workers? **High demand for a job /Low supply of workers = high wages & Low demand for a job/ High supply or workers = low wages**
21. Why does a longer period of time for a loan result in a higher interest rate? **Because the longer the loan, the higher the possibility of not paying back the loan.**
22. What is liability insurance in reference to auto insurance? **Liability insurance will pay for the other party’s medical bills and vehicle repairs, not yours.**
23. What is Simple Interest? **Interest payed on the principle loan**
24. What is Compound Interest? **Is where interest is earned or payed on both the principal and the interest itself.**
25. What happens to someone’s money if a bank files for bankruptcy? **It will be protected up to $250,000 if FDIC insured.**
26. How does a Deductible affect Premiums? **The higher the deductible the lower the premium and vice versa**
27. What is the opportunity cost of not putting your post tax income in a financial investment? **The interest you could have earned by putting the money in some kind of financial investment.**
28. What is Disability Insurance? **Covers workers who are injured and can’t work anymore.**
29. What is a Dividend Check? **Money received for being a partial owner of a profitable company**
30. What is a Mutual Fund? **When you invest money with others into a fund and that money is then invested into several different types of investments such as stocks, bonds, CD’s, etc….**
31. What is Diversification? **The spreading out of funds into different kinds of investments in order to minimize risk.**
32. What is an HMO? **A Health Maintenance Organization, a form of health insurance**
33. What is the FICA tax?
34. What are the 4 types of labor that we discussed in class? Know the difference
35. Why does a Financial Investment make more money than a Basic Savings Account?
36. Why does a 401K tend to make more than an IRA?
37. What is a Certificate of Deposit?

**# of Questions for each concept on test**

Sales tax affects who most- 1

Relationship between education & income- 1

Criteria for credit unions- 1

Interest rate spread- 1

APR’s- 1

Table of earnings from savings account- 1

Example of progressive tax- 1

Risk/return relationship- 1

Auto insurance- 2

Diversification- 1

Supply/demand for workers- 2

IRA- 1

Creditworthiness- 1

Progressive tax/defined- 1

Simple vs. compound interest- 1

FDIC- 1

Human capital- 1

Loans extended for longer periods- 1

Opportunity cost of holding money- 1

Dividends- 1

Mutual funds/ diversification- 1

Disability insurance- 1

Premium/deductible- 1

Banks vs. credit unions- 1

Proportional tax- 1

Credit cards/variable interest rates- 1

Health insurance- 1

Categories of labor- 2

FICA taxes- 1

Retirement graph- 2

Certificate of deposit(CD)- 1