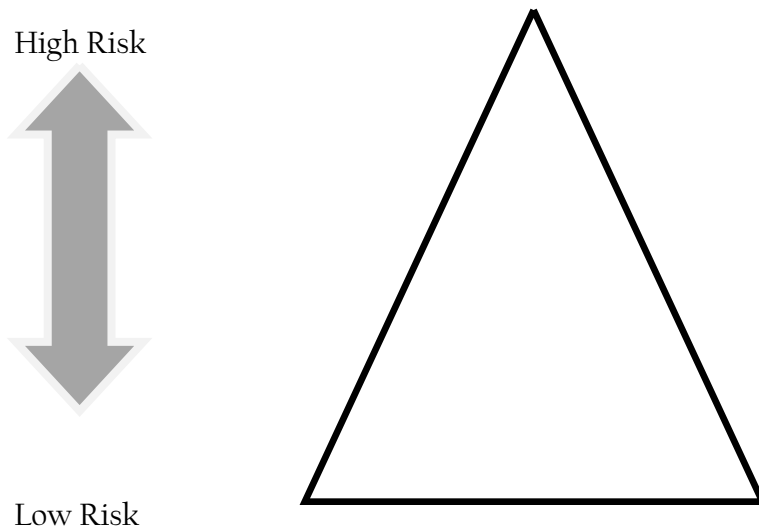


Name _____ Date _____

Economics Unit 2: Personal Finance Review

1. People respond to _____ in predictable ways.
2. Give me 2 examples of positive and negative incentives. Which type of incentives work best for you? What about society in general?
3. What is the difference between a coupon and a mail-in rebate, and why do producers offer such incentives?
4. What is the relationship between risk and reward when investing?
5. Fill in the pyramid from riskiest at the top down to the least risky at the bottom, using the following types of investments: **Stocks, Certificates of Deposits (CD's), Mutual Funds, Savings Account, Bonds**. Define each type as well.



6. What is the difference between **simple** and **compound interest**? Which interest rate is best when receiving credit from a lender? Which interest rate is best when making an investment?
7. Why is it better to save for retirement with an IRA rather than a savings account?
8. What are the 3 things that financial institutions provide?
9. How do financial institutions make money?
10. Which financial institution usually offers lower interest rates on loans?
11. What is the name of the U.S. central bank, and what 2 major functions does it serve?

12. If Isaac deposits \$500 into his bank account, and the Reserve Requirement is 10%, how much “new money” has been created (money multiplier = $1/RR$)?
13. What factors determine one’s credit worthiness? Which factor is most important to lenders? What’s a good and bad credit score?
14. What is credit, and what is the cost of credit?
15. What is debt?
16. Why do lenders analyze a borrower’s debt-to-income ratio before providing a loan?
17. When evaluating different loan options, what should determine your decision? The credit rating of a financial institution or the APR? Why?

18. Draw an arrow to match the following definitions with the appropriate word.

Proportional tax	% of income paid in tax rises as income rises
Progressive tax	% of income paid in tax is the same in all levels of income
Regressive tax	% of income paid in taxes goes down as income rises

19. What type of tax structure is the federal income tax?
20. What type of tax structure(s) is the state sales tax, and what group gets hit the hardest with an increase in the sales tax?
21. Why is it important to purchase insurance during your lifetime?
22. What type of insurance pays when you “get hurt and miss work?”
23. What factors determine the cost of your auto insurance?
24. What type of insurance coverage would be needed if you had a mortgage?
25. Why do people purchase life insurance? At what point in life is it probably better to have more life insurance? Why?
26. When purchasing insurance, what is the relationship between the premium and deductible?
27. What are the advantages and disadvantages of paying a low **premium** and having a high **deductible** with your health insurance policy?
28. How does investment in human capital usually raise a person’s salary and standard of living?
29. Who benefits from long periods of unanticipated inflation?
30. What group is most negatively impacted by unanticipated inflation?

