FINANCIAL LITERACY

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Financial planning

Personal Financial planning is important because it helps you to ...

A. limit consumption
B. achieve your goals
C. protect yourself from inflation

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Financial assets : liquidity

Liquid assets are...

A. durable, tangible assets
B. assets that are held for a rate of return
C. cash or near cash

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Savings and investments

What is the difference between saving and investing?

A. Saving is putting money aside, investing is putting your money to work
B. Investing is putting money aside, saving is putting your money to work
C. There is no difference

NUMERACY

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Savings

Your income is €45,000 per year. Your goal for this year is to save 20% of your income. How much should you save per month?

A. € 750
B. € 900
C. €1,000

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Unit price

At the supermarket, you see two options for buying apples. The price of loose apples is €1.75 per kilo, the price of a 2 kg bag is €3.50. Which option is the least expensive?

A. They are equivalent
B. 2 kg bag
C. Loose apples

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Costs incurred by owning a car

You take out a loan to buy a car. The interest rate on the loan is fixed. Which costs will increase if you use the car more often?

A. Petrol costs
B. Monthly loan repayments
C. Garage rental

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Phishing

You receive an email: "Your account is no longer secure. Please click on the link below and follow the instructions to restore access providing the requested banking details." What would you do?

A. Click on the link and follow the instructions
B. Write the PIN on the back of the card or in your wallet
C. You don't open the message and inform your bank

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Equities

What is an equity (stock)?

A. One's stake in a company
B. The fair return to an investment
C. Another name for bonds

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Expenses

What are expenses?

A. Any expansion of one's activities
B. Whatever money and transfers that go out of one's accounts
C. A factor of economic instability

ANSWER

C
You don't open the message and inform your bank

WHY?

The fraudulent practice of sending emails using the name of reputable companies is called phishing (pronounced like "fishing"). Scams are designed to induce individuals to reveal personal information, such as passwords and credit card numbers, often trying to leverage on one's distraction, haste, or good faith.

ANSWER

A
One's stake in a company

WHY?

Equity represents a shareholders' stake in a company, identified on its balance sheet. It can also be considered as a degree of residual ownership after subtracting all debts associated. Equities can be listed on Stock Exchange markets or can be privately held. Their value is volatile and depends, among other factors, on risk and expected future earnings.

ANSWER

B
Whatever money and transfers that go out of one's accounts

WHY?

Expenses reflect money spent for whatever activities. It is reasonable to divide expenses into different categories, from those that are essential for livelihood or for a business, to those that are more related to leisure. Expenses may be related to exceptional circumstances, or to investment activities, be it in real estate, in equipment, etc...

ANSWER

A
€ 750

WHY?

You wish to verify that you are saving money at a monthly rate that will help you meet your financial goal of 20% savings over the year. Multiply your annual salary by 20% and divide the result by 12.
Annual saving = €45,000 x 20% = €45,000 x 0.2 = €9,000
Monthly saving = €9,000/12 = €750

ANSWER

A
They are equivalent

WHY?

Shopping for the best buys on items can help you reduce spending. You can compare the cost of two items of different sizes by calculating the unit price. Unit Price = Cost/Number of Units.
Cost per kg of loose apples = €1.75/1 = €1.75
Cost per kg of apples in the bag = €3.50/2 = €1.75

ANSWER

A
Petrol costs

WHY?

Understanding fixed and variable costs is an important component of planning finances. Using the car more frequently has different implications only on some types of costs.

ANSWER

B
achieve your goals

WHY?

Goals are both long term and short term. Financial planning allows one to connect short term and long-term goals, keeping track of expenditure, planning for savings and controlling for risks.

ANSWER

C
cash or near cash

WHY?

Liquidity measures the ease with which an asset can be converted into cash without accepting a price that is lower than the market price. So, liquid assets would be the currency you have on hand and assets that could be converted into cash within a short period of time at little cost (near cash).

ANSWER

A
Saving is putting money aside, investing is putting your money to work

WHY?

Savings are what remains of your income after consumption. Investment represents the various ways of using the amounts of savings one has put aside period after period.

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Human capital

What is human capital?

A. A modern way to refer to slave labour
B. One's current knowledge, skills, health and career prospect
C. The ideal liveable capital-city of an ideal state

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Inflation and purchasing power

What is inflation? How does it affect purchasing power?

A. A fall in prices implying an increase in the purchasing power of money
B. A general increase in prices implying a fall in the purchasing power of money
C. Inflation has no relation to purchasing power

ANSWER

B

One's current knowledge, skills, health and career prospects

WHY?

Human capital (HC) is an intangible asset that represents the stock of knowledge, experience, good habits and social and personal attributes embodied in the ability to perform labour in order to produce economic value. Investments in HC, such as education, yield long-term economic returns. HC can also be viewed as the present value of future labour income.

ANSWER

B

A general increase in prices and a fall in the purchasing power of money

WHY?

Inflation reflects a general increase in prices and a fall in the purchasing value of money. If we have a salary, an annuity, or some wealth and wish to evaluate what we can do with these, we should not assume that prices remain the same over time. If they change, cost of living, income and the real value of assets will also change.