YOUNG

FINANCIAL LITERACY

Personal budget

Where can cuts be made to bring your personal budget into balance?

A. In fixed expenses
B. In discretionary expenses
C. In variable expenses

INTERMEDIATE

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NUMERACY

Interest and inflation

The annual interest rate on your deposit was 0.5% and the annual inflation rate was 2.5%. After 1 year, with the money in this deposit, would you be able to buy:

A. less than today
B. exactly the same as today
C. more than today

INTERMEDIATE

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NUMERACY

Compound interest

How much interest is earned after three years on €1,000 if a 2.5% annual interest rate is compounded annually?

A. Less than €75
B. More than €75
C. Exactly €75

INTERMEDIATE

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NUMERACY

Annual percentage yield

One bank offers a savings account that is compounded monthly with an APY (or annual percentage yield) of 3%. If you deposit €1,000 in the account, how much will you have after one year?

A. a balance of €1,030
B. a balance greater than €1,030
C. a balance smaller than €1,030

INTERMEDIATE

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NUMERACY

Instalment plan

You buy a new cell phone on an instalment plan of seven monthly payments of €30. The cash price of the phone is €200. What percent greater is the instalment price?

A. 10%
B. 5%
C. 15%

INTERMEDIATE

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NUMERACY

Loan repayment

If you double the amount of money that you borrow (at the same rate over the same number of years), then...

A. you have to more than double your monthly payments
B. you have to double your monthly payments
C. you have to less than double your monthly payments

INTERMEDIATE

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Tertiary education fields, men and women

In the EU, the tertiary education fields with the higher percentage of female participation in 2020 were...

A. 1. Business, administration and law 2. Engineering 3. Information tech
B. 1. Education 2. Arts and Humanities 3. Social Sciences
C. 1. Business, administration and law 2. Health and welfare 3. Arts and humanities

INTERMEDIATE

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FACTUAL

Household debt in the EU

At what age were EU households (as defined by the oldest household member) most likely to hold debt in 2019?

A. At ages 55-64, with 50% households holding debt
B. At ages 65-74, with 45% of households holding debt
C. At ages 35-54, with 60% of households holding debt

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FACTUAL

Opportunity cost

What do we mean by opportunity cost?

A. The transaction costs related to accepting an opportunity
B. The research and development costs related to a new opportunity
C. The value of what you must give up once you choose a given option

INTERMEDIATE

ANSWER

C
1. Business, administration and law 2. Health and welfare 3. Arts and humanities

WHY?

Though, in the EU, female students in tertiary education are a minority in STEM (Science, Technology, Engineering and Mathematics), they stand out in Business, Law, Health and Education. There is scope for an increase in women presence in STEM faculties given the good results in these areas of those who are enrolled.
Source: Eurostat

ANSWER

C
At ages 35-54, with 60% of households holding debt

WHY?

40% of households aged 55-64 hold debt; only 25% of those aged 65-74. Debt appears to follow a pattern that is consistent with the life cycle logic: younger people are more likely to incur in debt for investments in education or housing. Debt propensity decreases with age; older people need retirement assets rather than debt.
Source: Eurostat

ANSWER

C
The value of what you must give up once you choose a given option

WHY?

Opportunity costs represent the potential benefits an individual, investor, or business misses out on when choosing one alternative over another. Because they are unseen, opportunity costs can be easily overlooked. Understanding the potential missed opportunities foregone by choosing one investment over another allows for better decision-making.

ANSWER

A
a balance of €1,030

WHY?

APY takes into account the effects of compounding. To calculate the APY, divide the interest earned in one year by the principal. When comparing two accounts, always compare the APY to see which account will pay more interest. After one year, Interest = €1,000 x 0.03 = €30. Balance = €1,000 + €30 = €1,030 because compounding is already accounted for.

ANSWER

B
5%

WHY?

The instalment price is 7 x €30 = €210 and is 5% greater than the cash price. Subtract the cash price from the instalment price to find the finance charge. Divide the finance charge by the cash price to find the percent the instalment price is greater than the cash price.
€210 - €200 = €10
€10/€200 = 0.05 = 5%

ANSWER

B
you have to double your monthly payments

WHY?

If the interest rate charged and the number of years to repay the loan are the same, then the amount you borrow and the monthly repayments are proportional.

ANSWER

B
In discretionary expenses

WHY?

Fixed expenses are necessary ongoing costs that don't change in amount or frequency, they are usually constant over longer time periods and predictable, such as rent or mortgage payments, insurance premiums. Variable expenses are still necessary costs, but the amount changes every month, for ex. utility costs. Discretionary expenses are a matter of choice, e.g. for entertainment.

ANSWER

A
less than today

WHY?

If the bank offers a 0.5% interest rate but, at the same time, the inflation rate is 2,5%, then the purchasing power of your cash has been eroded by 2%. There is a difference between real and nominal interest rates, and inflation has an impact on the relationship between the two.

ANSWER

B
More than €75

WHY?

With simple interest, in three years, €1,000 earn €75. With annual compounding, you add the interest to the principal for the second and the third year. So, € 1.000 earn €76.89. The difference between simple and compound interest increases as the number of compounding periods per year increases. A compound interest table can help.

YOUNG

FINANCIAL LITERACY

Interest rates charged for consumer credit

Which interest rate should you look at to evaluate the cost of a consumer credit/credit card loan and its alternatives?

A. Nominal interest rate
B. Annual percentage rate (APR)
C. Real interest rate

INTERMEDIATE

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FINANCIAL LITERACY

Buffer fund

What do we mean by buffer fund?

A. Money put aside to face unexpected events
B. A financial vehicle for investing in risky assets
C. A special pension fund

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NUMERACY

Safe investments

What would you consider a safer investment?

A. A share in a company you happen to know
B. A savings account
C. A 10-year bond

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Risk propensity

Which is the best level of risk propensity in investments?

A. We should stick to the universal standards indicated by Central Banks and our advisors5%
B. Risk-free investments are always the better choice
C. There is no single answer, each of us has a different appetite for risk

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NUMERACY

Portfolio diversification

You have some money and accept some degree of risk.. Is it better to put your money into one investment, or to put it into a portfolio of different investments?

A. Not all eggs in one basket. A portfolio of uncorrelated investments
B. The egg I know. The single investment I know best
C. The trendy egg. The investment that made my friend rich

INTERMEDIATE

ANSWER

C
There is no single answer, each of us has a different appetite for risk

WHY?

Financial advisors and Central Banks' guidelines can help us, but risk propensity can vary according to individual preferences. Risk-free investments usually provide safer, but lower returns. Even risk-averse individuals with a long-term horizon may want to have a portion of their portfolio in diversified risky securities.

ANSWER

A
Not all eggs in one basket. A portfolio of uncorrelated investments

WHY?

Allocating all resources in one risky instrument may end up in high returns, but high or losses too. Investing only in one safe instrument may lead to unsatisfactory returns. You can optimise between return and safety by diversifying your portfolio and checking that the single investments are really different (uncorrelated).

ANSWER

B
Annual percentage rate (APR)

WHY?

Savings accounts usually have a guarantee up to €100,000 for depositors whose bank has failed. Other investments have lower or minor guarantees. Historically and over time safe investments with no risk (zero volatility) have provided a lower return than risky ones (volatile, less safe investments).

ANSWER

A
Money put aside to face unexpected events

WHY?

Buffer fund is money put aside to help soften the blow of unexpected events and expenses. You may want to create a plan that allows you to set aside a little bit of money each month and accumulate a reasonable amount. Persons with a reasonable buffer fund are in a better position to face adversities or to plan for their future.

ANSWER

B
A savings account

WHY?

Savings accounts usually have a guarantee up to €100,000 for depositors whose bank has failed. Other investments have lower or minor guarantees. Historically and over time safe investments with no risk (zero volatility) have provided a lower return than risky ones (volatile, less safe investments).