ADULT

FINANCIAL LITERACY

Income

What is Active income?

A. Active income is income that comes from making capital investments
B. Active income is earned income
C. ctive income is income you receive from another individual as a gift

INTERMEDIATE

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FINANCIAL LITERACY

Mortgages

Loan period means...

A. the time that is required by the bank to arrange the loan
B. the time from receiving the loan to the last repayment
C. the first year after getting the loan

INTERMEDIATE

ADULT

NUMERACY

Compound interest

How long will it take for an investment of €1,000 to double at a nominal interest rate of 8% compounded annually?

A. 5 to 10 years
B. Less than 5 years
C. More than 10 years

INTERMEDIATE

ADULT

NUMERACY

Mortgages

You purchase a home and take out a 30-year mortgage for €65,000. Your equal-sized annual mortgage payment is €3,500. How much interest will you pay?

A. €65,000
B. €40,000
C. €105,000

INTERMEDIATE

ADULT

FACTUAL

Housing expenses

On average, what was the share of disposable income dedicated to housing costs (i.e. rental or mortgage interest payments, utilities) in the EU in 2019?

A. 10%
B. 35%
C. 20%

INTERMEDIATE

ADULT

FACTUAL

Unexpected expenses

On average, what was the share of the population who was not able to face unexpected expenses such as replacing a washing machine or a car, surgery or a funeral, in the EU between 2010 and 2019?

A. 18%
B. 42%
C. 36%

INTERMEDIATE

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FINANCIAL LITERACY

Retirement planning

You find out that your expected pension income is lower than you thought or desired. What are some of the best things to do?

A. Become an activist, lobby for higher pensions
B. Wait and see, hope for the best
C. Work longer, full/part-time, rent out a room, lower your standards...

INTERMEDIATE

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FINANCIAL LITERACY

Impact of interest rates on debt burden

The central bank raises interest rates. What type of loan will be negatively affected if already taken out?

A. A variable rate loan
B. A fixed rate loan
C. Both variable and fixed rate loans

INTERMEDIATE

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FINANCIAL LITERACY

Evaluating future events, discounting

Discount factors allow us to relate euros tomorrow to euros today. A person with an annual discount factor of 0.95 attaches ... value to future outcomes than a person with discount factor 0.80.

A. less
B. more
C. the same

INTERMEDIATE

ANSWER

C
Work longer, full/part-time, rent out a room, lower your standards...

WHY?

You have a problem that just waiting may not resolve. Slogans promising higher pensions sound good, but similar policies may not be economically sustainable in the long-term for future generations. Postponing your retirement is a viable option to increase your expected pension income, possibly choosing flexible solutions suitable for your lifestyle.

ANSWER

A
A variable rate loan

WHY?

A fixed rate loan will by definition not be affected by changes in interest rates during the repayment period. Variable-rate loans, on the contrary, have explicit contractual provisions relating the interest payments to short-term interest rates, for example the interest rates set by Central Banks or other financial markets indices

ANSWER

B
more

WHY?

If I receive one euro today, there are chances I can make it worth more tomorrow. Conversely if you promise to pay me one euro in one year, the present value of this euro for me will be smaller than one euro. This is called discounting future values. Different persons may have different discount rates, but the large majority tend to give more importance to the present than to the future.

ANSWER

B
€ 40,000

WHY?

Most mortgages are paid with equal-sized monthly payments. Each month, the payment pays the current month's interest and part of the principal. To calculate the interest paid, multiply the annual payment by the number of years €3,500 x 30 = €105,000 and subtract the amount borrowed from the amount paid back.

ANSWER

C
20%

WHY?

Though the share of housing expenses can vary greatly across income and age groups, the fact this share is on average about a fifth of household disposable income in the EU means that it is in general affordable. Still, since it is hard to reduce these expenses in periods of hardship, it does represent a factor of risk.
Source: Eurostat

ANSWER

C
36%

WHY?

Over 1 European Household out of three experienced at some point, between 2010 and 2019, difficulties of "making the ends meet". Definitely an indicator of a high degree of fragility.
Source: Eurostat

ANSWER

B
Active income is earned income

WHY?

Categorising income is important for taxpayers as different types of income are often taxed at different rates. You engage in labour to acquire active income, e.g. salary, wages and pensions. Portfolio income comes from investments, e.g. interest, dividends and also capital gains. Passive income are things like rents, gifts.

ANSWER

B
the time from receiving the loan to the last repayment

WHY?

A longer loan period allows you to have smaller yearly repayments. However, it also generally means paying more interest over the life of the loan. A higher overall cost to your loan may not be worth the extra wiggle room.

ANSWER

A
5 to 10 years

WHY?

The Rule of 72 is a rule of thumb sometimes used by investors. It states: to calculate the time it takes to double an investment, divide 72 by the annual interest rate expressed as a percentage. For example, if the interest rate is 8% then, according to the Rule of 72, it takes 72/8 = 9 years to double the investment.

ADULT

NUMERACY

Buy or rent/share

You can have a similar apartment either paying €600 per month rent or buying it through a €800 per month 20-year mortgage. What will you do?

A. Rent
B. I will decide after careful evaluation of my life-cycle objectives
C. Buy

INTERMEDIATE

ADULT

FINANCIAL LITERACY

Counterparty risk

What is counterparty risk?

A. The risk an intermediary misbehaves
B. The risk that the borrower does not return the money one has lent to them
C. When a borrower returns money that was lent before the agreed date

INTERMEDIATE

ADULT

FINANCIAL LITERACY

Interest

Does your money grow faster with simple interest or compound interest?

A. Compound interest
B. Simple interest
C. There is no difference

INTERMEDIATE

ANSWER

B

I will decide after careful evaluation of my life-cycle objectives

WHY?

Buying vs. renting or sharing or leasing are key choices to be made for housing as well as for durable goods. Should I own a car, a house, a dishwasher or rent/share? Owning a house will have advantages, especially as an asset for my old age. But don't forget about maintenance costs, taxes, insurance and other expenses you may not incur with renting.

ANSWER

B

The risk that the borrower does not return the money one has lent to them

WHY?

Counterparty risk is the likelihood or probability that a party involved in a transaction might default on its contractual obligation. Counterparty risk occurs in credit, investment, and trading transactions. One must consider the company that's issuing the bond, stock, or insurance policy to assess whether there is default or counterparty risk.

ANSWER

A

Compound interest

WHY?

Compound interest makes your wealth grow faster. Each time interest is paid on an amount of money, instead of withdrawing it, you add the interest to the total capital, so that the added interest also yields interest from then on. The more frequent the compounding periods, the larger the total effect. Simple interest, on the other hand, is calculated only on the principal amount.