UNIT 1

What is Financial Literacy?



Financial literacy refers to the knowledge and skills necessary to make informed and effective decisions about money management. It encompasses various areas such as budgeting, saving, investing, borrowing money and understanding financial products and services. Developing financial literacy can significantly impact your ability to make wise and sensible financial choices and achieve your short-term and long-term financial goals.

In order to effectively understand the world of personal finance, it is crucial to have a strong grasp of key terms and concepts. In this section, we will explore and define essential terms related to financial literacy. By familiarizing yourself with key terms, you can gain the confidence and knowledge to navigate financial situations, make informed decisions and protect yourself from potential financial pitfalls. Let's get started!

1.1 Key Terms

Financial Literacy: The knowledge and understanding of financial concepts and skills necessary to make informed financial decisions.

Personal Finance: The management of an individual's or a household's financial matters, including income, expenses, savings, investments and debt.

Financial Goal: An objective or target related to one's finances, such as saving for retirement, buying a house, or paying off debt.

Budget: A plan that outlines an individual's or organization's income and expenses over a specific period, typically monthly or yearly.

Income: The money received by an individual or organization, often in the form of a salary, wages, or profits.

Gross Income: The total income earned before any deductions or taxes are taken out.

Net Income: The income remaining after deducting taxes and other expenses from gross income.

Taxable Income: The portion of an individual's or business's income that is subject to taxation after allowable deductions and exemptions have been accounted for. It is the income on which taxes are calculated and paid.

Paycheck: A document issued by an employer to an employee, indicating the amount of money earned and deductions for taxes and other expenses.

Gratuity: A sum of money given voluntarily as a token of appreciation or goodwill for a service received. It is commonly associated with tipping in various service industries such as restaurants, hotels and personal services like hair salons or taxis.

Commission: A fee or compensation paid to an individual or entity for their services, usually based on a percentage of the total transaction value.

Credit: The ability to borrow money or obtain goods or services with the promise of paying back the lender or creditor at a later date.

Debt: Money owed to creditors or lenders as a result of borrowing funds or purchasing goods or services on credit.

Credit Score: A numerical representation of an individual's creditworthiness, which is used by lenders to assess the risk of extending credit.

Credit Report: A detailed record of an individual's credit history, their borrowing and repayment activities as well as their credit worthiness.

Credit Worthiness: A person's ability and likelihood to repay borrowed money or fulfill financial obligations.

Credit Limit: The maximum amount of money that a lender or financial institution is willing to extend as credit to an individual or business.

Identity Theft: The fraudulent acquisition and use of another person's personal information, typically for financial gain.

Interest: The cost of borrowing money or the return earned on savings or investments.

Compound Interest: Interest calculated on the initial principal and accumulated interest from previous periods.

Annual Percentage Rate (APR): The yearly interest generated by a sum that is charged to borrowers or paid to investors. It is expressed as a percentage that represents the yearly cost of funds over the term of a loan or income earned on an investment.

Insurance: A contract between an individual and an insurance company that provides financial protection against certain risks or losses.

Deductible: The amount that an individual must pay out-of-pocket before an insurance company covers the remaining costs.

Taxes: Mandatory fees imposed by the government on individuals and businesses to fund public services and programs.

Sales Tax: A tax imposed by the government on the sale of goods and services. It is usually a percentage of the purchase price and is collected by the seller at the point of sale.

Income Tax: A compulsory financial charge imposed by the government on individuals and businesses based on their income or profits. It is a percentage of one's earnings that must be paid to the government to fund public services and government operations.

Investment Income Tax: The taxes levied on various types of investment income such as capital gains, dividends and interest income.

Corporate Tax: A tax imposed on the profits earned by corporations or businesses. It is typically based on the company's taxable income, which is calculated by deducting allowable expenses from the total revenue.

Inheritance Tax: A tax imposed on the assets or property inherited by an individual after the death of the original owner. The tax is typically calculated based on the value of the inherited assets.

Capital Gains Tax: A tax imposed on the profits earned from the sale of certain assets such as stocks, real estate or valuable personal property. The tax is based on the difference between the purchase price (cost basis) and the selling price of the asset. It is designed to capture the gains made from the appreciation in the value of the asset over time.

Tax Deduction: A specific expense or cost that can be subtracted from an individual's or business's taxable income, resulting in a reduction of the total amount of tax owed.

Tax Credit: A direct reduction of the amount of tax owed to the government.

Income Tax Return: A form filed with a tax authority that reports income, deductions and credits to determine the amount of taxed owed or refunded.

Financial Institution: An organization that provides a range of financial services such as banking, lending, investing and insurance.

Checking Account: A bank account that allows individuals to deposit, withdraw and manage their funds for everyday transactions.

Check: A written order directing a bank to pay a specific amount of money from the account holder to a person/entity named in the check.

Certified Check: A personal check that is guaranteed by the check writer's bank.

Bank Draft/Manager's Check: Guaranteed funds payment instruments issued by a bank on the request of its customer (payer) to make a payment to a third party (payee).

Post-Dated Check: A check written by the payer for a future date.

Electronic Wire Transfer: A method of transferring money electronically from one person or institution to another using banking networks.

Non-Sufficient Funds (NSF): When an account does not have enough money to cover a transaction.

Overdraft Protection: A service offered by banks allowing account holders to spend more than the amount in their account, preventing declined transactions due to insufficient funds.

Saving Account: A bank account designed for individuals to securely deposit and store their money while earning interest on the balance.

Credit Card: A card that allows the holder to make purchases on credit, with the obligation to repay the borrowed amount to the card issuer.

Debit Card: A payment card that you can use to make a purchase, with funds instantly deducted from the bank account it is linked to.

Loan: A financial arrangement where one party, typically a lender or financial institution, provides a specific amount of money to another party, known as the borrower. The borrower typically agrees to repay the loan amount over a set period of time, usually with interest.

Line of Credit: A loan arrangement from a financial institution that allows borrowers to draw funds up to a specified limit and repay them as needed, typically with interest.

Saving: Setting aside a portion of income or money for future use or emergencies.

Financial Planning: The process of setting and achieving financial goals by assessing one's current financial situation and creating a roadmap for the future.

Pension: A retirement plan that provides a monthly income during retirement.

Retirement Planning: The process of determining the financial goals and strategies needed to live comfortably during retirement years.

Estate Planning: The process of managing and distributing one's assets and wealth upon death, including wills, trusts, and power of attorney.

Will: A legal document that outlines a person's wishes regarding the distribution of their assets and the handling of their affairs after their death.

Net Worth: The difference between an individual's assets and liabilities, representing their overall financial position.

Equity: Ownership interest in an asset after deducting liabilities.

Capital: Financial resources, such as money or assets, used to generate income or investment returns.

Investment: Allocating money or resources with the expectation of generating income or increasing wealth over time.

Diversification: Spreading investments across different assets or securities to reduce risk.

Stocks/Shares: Securities that represent ownership in a company.

Securities: Tradable financial assets such as stocks and bonds.

Stock Market: A marketplace where shares of publicly traded companies are bought and sold.

Dividend: A distribution of a portion of a company's profits to its shareholders.

Mutual Fund: An investment vehicle that pools money from multiple investors to invest in a diversified portfolio of stocks, bonds, or other securities.



Annuity: A financial product that provides a series of payments over a specified period of time, often used for retirement planning.

Non-Fungible Token (NFT): A type of digital asset that represents ownership or proof of authenticity of a unique item or piece of content. NFTs are unique and cannot be exchanged on a like-for-like basis. NFTs are increasingly being used to represent digital artworks, collectibles, and other digital assets.

Cryptocurrency: Digital or virtual currency that uses cryptography for security and operates independently of a central bank. It is a decentralized form of currency that utilizes blockchain technology to secure transactions and verify the transfer of assets.

Mortgage: A loan provided by a bank or financial institution to purchase real estate, typically with the property serving as collateral.

Principal: The original sum of money invested or borrowed, excluding any interest or earnings.

Down payment: An initial payment made by a buyer towards the purchase of a large-ticket item, typically a house or a car.

Minimum Payment: The lowest amount that an individual or borrower must pay towards a debt or credit card balance to meet the payment obligation for a specific period.

Prepayment Penalty: A fee or charge imposed by a lender or financial institution when a borrower pays off a loan or debt before the agreed-upon maturity date.

Amortization: The process of gradually paying off a debt or loan over time through regular payments.

Capital Gain: The profit realized from the sale or disposal of a capital asset, such as stocks, bonds or real estate.

Capital Loss: The financial loss incurred when the selling price of a capital asset is lower than its original price.

Collateral: An asset or property offered as security to obtain a loan or credit.

Asset: An item owned by an individual, organization or entity, regarded as having economic value and/or future benefit.

Liability: An obligation or debt that an individual, organization, or entity owes to another party.

Risk: The potential for loss or negative outcomes associated with an investment or decision.

Cash Flow: The movement of money in and out of an individual's or organization's accounts over a specific period.

Liquidity: The ease with which an asset can be converted into cash without significant loss in value.

Return on Investment (ROI): A measure of the profitability of an investment, expressed as a percentage of the initial investment.

Budget Deficit: When a government's or individual's spending exceeds their income or revenue, resulting in a shortfall or negative balance.

Budget Surplus: When a government's or individual's income or revenue exceeds their spending, resulting in a positive balance or excess funds.

Fixed Cost: An expense that remains constant regardless of the level of production or sales volume.

Variable Cost: An expense that fluctuates in direct proportion to the level of production or sales volume.

Funds: Monetary resources or assets that are set aside or allocated for a specific purpose.

Costs: Amount paid for a purchase or expenditure, including the monetary value of resources used to produce or provide a good or service.

Capital Appreciation: The increase in value or worth of an asset over time.

Capital Depreciation: The decrease in value or worth of an asset over time.

Inventory: The collection of goods, products or materials that a business holds for sale, production or distribution.

Profit: The financial gain or positive difference between the revenue generated from business activities and the expenses incurred.

Loss: A negative financial outcome where the expenses or costs incurred exceed the revenue or income generated from a particular activity or business.

Revenue: The total amount of income generated by a business or organization from its core operations.

Expenses: Money spent or costs incurred in an organization's or individual's efforts to generate revenue, representing the cost of doing business.

Startup Costs: The expenses incurred by a new business at its inception or when launching a new product or service. These costs typically include expenses such as equipment purchases, marketing and advertising costs, legal fees, lease or rental payments and initial inventory.

Employee: An individual who is hired by an employer to perform specific tasks or work in exchange for wages or salary.

Employer: An individual or organization that hires and employs workers or employees to carry out specific tasks or work in exchange for wages or salary.

Entrepreneur: An individual who starts and operates a business, taking on financial risks in the hope of making profits.

Entrepreneurship: The process of starting and running a business, taking on financial risks in the hopes of making a profit.

Corporation: A legal entity separate from its partners, known as shareholders or stockholders. It is formed through a legal process called incorporation and is created to conduct business activities.

Partnership: A partnership is a legal form of business organization where two or more individuals, known as partners, come together to carry out a business venture for profit.

Sole Proprietorship: A sole proprietorship is the simplest form of business ownership and refers to a business that is owned and operated by a single individual and generally the owner is personally responsible for all aspects of the business including its debts and liabilities**.**

Capital Gains: The profits earned from the sale of a capital asset, such as stocks, bonds, real estate or valuable collectibles. It represents the difference between the purchase price and the selling price of the asset.

Capital Loss: A financial loss incurred when the selling price of an investment or asset is lower than its original purchase price. It occurs when the value of the investment or asset decreases over time.

Balance Sheet: A financial statement that provides a snapshot of a company's financial position at a specific point in time.

Income Statement: Also known as a profit and loss statement or statement of earnings; it is a financial statement that summarizes a company's revenues, expenses, gains and losses over a specific period of time.

Cash Flow Statement: Provides an overview of the company's cash flows from operating, investing and financing activities.

Bankruptcy: A legal process that allows individuals or businesses unable to repay their debts to seek relief from their financial obligations.

Recession: A period of temporary economic decline.

Inflation: The rate at which the general level of prices for goods and services rises, eroding the purchasing power of currency.

Deflation: A decrease in the general price level of goods and services in an economy over a period of time, resulting in an increase in the purchasing power of money.

Bear Market: A period of declining prices and negative investor sentiment in the financial market.

Bull Market: A period of time in the financial market when prices are generally rising, investor confidence is high and there is an optimistic outlook for future price gains.

1.2 Quiz

1 What is debt?

- **A** The ability to borrow money or obtain goods or services
- **B** The money spent on goods and services
- **C** Allocating money for future use or emergencies
- **D** Money owed to creditors or lenders

2 What is interest?

- **A** The money spent on goods and services
- **B** The cost of borrowing money or return earned on investments
- **C** The ability to borrow money or obtain goods or services
- **D** Allocating money for future use or emergencies

3 What is a budget?

- **A** The money received by an individual or organization
- **B** The money spent on goods and services
- **C** A plan that outlines income and expenses
- **D** The process of paying back a loan

4 What is a credit score used for?

- **A** Assessing the risk of extending credit
- **B** Allocating money for future use or emergencies
- **C** The money received by an individual or organization
- **D** The money spent on goods and services

5 What is the definition of income?

- **A** The cost of borrowing money from a bank
- **B** The money spent on goods and services
- **C** A plan that outlines income and expenses
- **D** The money received by an individual or organization, often in the form of a salary, wages, or profits

6 What does saving involve?

- **A** Allocating money for future use or emergencies
- **B** Prioritizing short-term wants over long-term financial goals
- **C** Spreading investments across different assets
- **D** The ability to borrow money or obtain goods or services

7 What is credit?

- **A** The ability to borrow money or obtain goods or services with the promise of paying back the lender or creditor
- **B** The cost of borrowing money
- **C** The money spent on goods and services
- **D** The process of gradually paying off a debt

8 What are expenses?

- **A** The cost of borrowing money
- **B** The money received by an individual or organization
- **C** The money spent on goods and services
- **D** A plan that outlines income and expenses

9 What is an investment?

- **A** Allocating money for future use or emergencies
- **B** The process of gradually paying off a debt
- **C** The cost of borrowing money
- **D** Allocating money with the expectation of generating income or increasing wealth

10 What is identity theft?

- **A** The process of gradually paying off a debt through money borrowed from your friend
- **B** The fraudulent acquisition and use of another person's personal information
- **C** The money spent on goods and services using a credit card
- **D** The process of starting and running a business using money borrowed from your parents

11 What is compound interest?

- **A** Interest calculated on the initial principal only
- **B** Interest calculated on the initial principal and accumulated interest from previous periods
- **C** Interest charged by your landlord for paying your rent late
- **D** The ability to obtain goods or services without immediate payment

12 What is insurance?

- **A** Allocating money for future use or emergencies
- **B** The process of gradually paying off a debt
- **C** A contract that provides financial protection against risks or losses
- **D** The ability to obtain goods or services without immediate payment

13 What is diversification?

- **A** The process of gradually paying off a debt
- **B** The ability to obtain goods or services without immediate payment
- **C** Allocating money across different assets to reduce risk
- **D** The process of starting and running a business

14 What is entrepreneurship?

- **A** Allocating money for future use or emergencies
- **B** The process of gradually paying off a debt
- **C** The ability to borrow money or obtain goods or services
- **D** The process of starting and running a business

15 What is gross income?

- **A** The total income earned before deductions or taxes
- **B** The total income earned after deductions and taxes
- **C** The money spent on goods and services
- **D** The process of gradually paying off a debt

16 What is net income?

- **A** The total income earned before deductions or taxes
- **B** The total income earned after deductions and taxes
- **C** The money spent on goods and services
- **D** The process of gradually paying off a debt

17 What is inflation?

- **A** The rate at which the general level of prices rises
- **B** The ability to obtain goods or services without immediate payment
- **C** The process of gradually paying off a debt
- **D** Allocating money for future use or emergencies

18 Where are shares of publicly traded companies bought and sold?

- **A** Real estate market
- **B** Stock market
- **C** Bond market
- **D** Credit market

19 What is financial planning?

- **A** The process of gradually paying off a debt
- **B** The process of setting and achieving financial goals
- **C** The ability to obtain goods or services without immediate payment
- **D** Allocating money across different assets to commit tax fraud

20 What is commission?

- **A** A tax levied on goods and services
- **B** A salary paid to an employee
- **C** A fee or compensation for services rendered
- **D** An interest charged on borrowing money

21 What is a paycheck?

- **A** The taxes paid by an individual or organization
- **B** The process of gradually paying off a debt
- **C** The ability to obtain goods or services without immediate payment
- **D** A document indicating the amount of money earned and deductions

22 What are taxes?

- **A** The process of gradually paying off a debt
- **B** The ability to obtain goods or services without immediate payment
- **C** The cost of borrowing money
- **D** Mandatory fees imposed by the government to fund public services

23 What is retirement planning?

- **A** The process of gradually paying off a debt after retirement
- **B** The ability to obtain goods or services without immediate payment
- **C** The process of setting and achieving financial goals for retirement
- **D** The money spent on goods and services during retirement

24 What is a mortgage?

- **A** A loan to purchase real estate
- **B** The process of gradually paying off a debt
- **C** The ability to obtain goods or services without immediate payment
- **D** The money spent on goods and services

25 What is a credit card?

- **A** A loan to purchase real estate
- **B** The process of gradually paying off a debt
- **C** A card allowing purchases on credit
- **D** A card that instantly transfers funds from your bank account

26 What is financial literacy?

- **A** The knowledge and understanding of financial concepts and skills
- **B** The process of gradually paying off a debt
- **C** The ability to obtain goods or services without immediate payment
- **D** The process of distributing your assets

27 What is estate planning?

- **A** The process of gradually paying off a debt
- **B** The ability to obtain goods or services without immediate payment
- **C** The management and distribution of assets upon death
- **D** The knowledge and understanding of financial concepts and skills

28 What is an asset?

- **A** The process of gradually paying off a debt
- **B** An item or property of value that is owned by a person or company
- **C** The ability to obtain goods or services without immediate payment
- **D** The management and distribution of assets upon death

29 What is a liability?

- **A** The process of gradually paying off a debt
- **B** Anything of value that is owned
- **C** An obligation or debt owed
- **D** The management and distribution of assets upon death

30 What is net worth?

- **A** The process of gradually paying off a debt
- **B** The value of assets minus liabilities
- **C** An obligation or debt owed
- **D** The management and distribution of assets upon death

31 What is financial risk?

- **A** The process of gradually paying off a debt
- **B** The potential for loss or negative financial outcomes
- **C** When you obtain a property assessment
- **D** The process of preparing a will

32 What is cash flow?

- **A** The process of gradually paying off a debt
- **B** The movement of money in and out of accounts
- **C** An obligation or debt owed
- **D** The management and distribution of assets upon death

33 What is liquidity?

- **A** The process of gradually paying off a debt
- **B** The process of obtaining a mortgage
- **C** The ease of converting an asset into cash
- **D** The ability to obtain goods or services without immediate payment

34 What is bankruptcy?

- **A** The process of gradually paying off a debt
- **B** The ability to obtain goods or services without immediate payment
- **C** The legal relief from financial obligations when unable to repay debts
- **D** The knowledge and understanding of financial concepts and skills

35 What is amortization?

- **A** The process of gradually paying off a debt
- **B** The original sum of money invested or borrowed
- **C** The cost of borrowing money
- **D** The ability to obtain goods or services without immediate payment

36 What is a dividend?

- **A** The annualized interest rate charged on borrowed money
- **B** A distribution of a company's profits to shareholders
- **C** The cost of borrowing money
- **D** The ability to obtain goods or services without immediate payment

37 What is capital?

- **A** The annualized interest rate charged on borrowed money
- **B** Financial resources used to generate income or returns
- **C** The cost of borrowing money
- **D** The ability to obtain goods or services without immediate payment

38 What is principal?

- **A** The annualized interest rate charged on borrowed money
- **B** The original sum of money invested or borrowed
- **C** The cost of borrowing money
- **D** The ability to obtain goods or services without immediate payment

39 What is a mutual fund?

- **A** An investment vehicle that pools money from multiple investors to invest in securities
- **B** The original sum of money invested or borrowed
- **C** The cost of borrowing money
- **D** The ability to obtain goods or services without immediate payment

40 What is a stock?

- **A** A share of ownership in a company
- **B** The original sum of money invested or borrowed
- **C** The cost of borrowing money
- **D** The ability to obtain goods or services without immediate payment

41 What is a bond?

- **A** A debt security issued by a government or corporation
- **B** The original sum of money invested or borrowed
- **C** The cost of borrowing money
- **D** The ability to obtain goods or services without immediate payment

42 What is a bear market?

- **A** A market condition characterized by rising prices and optimism
- **B** The original sum of money invested or borrowed
- **C** The cost of borrowing money
- **D** A market condition characterized by falling prices and pessimism

43 What is a bull market?

- **A** A market condition characterized by rising prices and optimism
- **B** The original sum of money invested or borrowed
- **C** A market condition characterized by falling prices and pessimism
- **D** The ability to obtain goods or services without immediate payment

44 What is a budget deficit?

- **A** The original sum of money invested or borrowed
- **B** A situation where expenses exceed income
- **C** A situation where income exceeds expenses
- **D** The ability to obtain goods or services without immediate payment

45 What is a budget surplus?

- **A** A situation where income exceeds expenses
- **B** The original sum of money invested or borrowed
- **C** A situation where expenses exceed income
- **D** The ability to obtain goods or services without immediate payment

46 What is a will?

- **A** The ability to obtain goods or services without immediate payment
- **B** A contract outlining the original sum of money invested or borrowed
- **C** A legal document outlining the cost of borrowing money
- **D** A legal document that specifies how a person's assets should be distributed upon death

47 What is a checking account?

- **A** A bank account for day-to-day transactions
- **B** A bank account for storing money and earning interest
- **C** The cost of borrowing money
- **D** The ability to obtain goods or services without immediate payment

48 What is a savings account?

- **A** A bank account for storing money and earning interest
- **B** The original sum of money invested or borrowed
- **C** A bank account for day-to-day transactions
- **D** The ability to obtain goods or services without immediate payment

49 What is a credit report?

- **A** The ability to obtain goods or services without immediate payment
- **B** A report summarizing the original sum of money invested or borrowed
- **C** The cost of borrowing money
- **D** A document that contains an individual's credit history and creditworthiness

50 What is a financial institution?

- **A** A university that offers scholarships to its students
- **B** The original sum of money invested or borrowed
- **C** An organization that provides financial services such as banking and investing
- **D** The ability to obtain goods or services without immediate payment

51 What is a down payment?

- **A** A portion of the purchase price paid upfront when buying an item or property
- **B** The original sum of money invested or borrowed
- **C** The cost of borrowing money
- **D** The ability to obtain goods or services without immediate payment

52 What is a credit limit?

- **A** The cost of borrowing money
- **B** The original sum of money invested or borrowed
- **C** The maximum amount of credit available to a borrower
- **D** The ability to obtain goods or services without immediate payment

53 What is a minimum payment?

- **A** The original sum of money invested or borrowed
- **B** The lowest amount required to be paid on a credit card balance to avoid late fees
- **C** The cost of borrowing money at a low interest rate
- **D** The ability to obtain goods or services without immediate payment

54 What is a tax deduction?

- **A** An expense that reduces taxable income
- **B** The original sum of money invested or borrowed
- **C** The cost of borrowing money
- **D** The amount of tax owed from investments

55 What is a tax credit?

- **A** A dollar-for-dollar reduction of the tax owed
- **B** A type of loan provided by the government to help individuals pay their taxes
- **C** The cost of borrowing money
- **D** The maximum amount of income an individual can earn before being subject to taxes

56 What is a prepayment penalty?

- **A** A penalty fee for borrowing money
- **B** The original sum of money invested or borrowed
- **C** A fee charged for paying off a loan before the designated term
- **D** The ability to obtain goods or services without immediate payment

57 What is a capital gain?

- **A** The profit from the sale of an investment
- **B** The original sum of money invested or borrowed
- **C** The cost of borrowing money
- **D** The ability to obtain goods or services without immediate payment

58 What is a capital loss?

- **A** The loss from the sale of an investment
- **B** The original sum of money invested or borrowed
- **C** The cost of borrowing money
- **D** The ability to obtain goods or services without immediate payment

59 What is revenue?

- **A** The total amount of expenses incurred by a business
- **B** The total amount of money invested in a business
- **C** The total amount of income generated by a business
- **D** The total amount of assets owned by a business

60 What is a loan?

- **A** The total amount of money invested in a business
- **B** A financial arrangement where one party provides money to another party with the expectation of repayment
- **C** The total amount of income generated by a business
- **D** The total amount of expenses incurred by a business

61 What is capital appreciation?

- **A** The increase in value or worth of an asset over time
- **B** A financial arrangement where one party provides money to another party with the expectation of repayment
- **C** The total amount of income generated by a business
- **D** The process of evaluating the performance of an employee

62 What is capital depreciation?

- **A** The increase in value or worth of an asset over time
- **B** The process of evaluating the performance of an employee
- **C** The decrease in value or worth of an asset over time
- **D** The total amount of expenses incurred by a business

63 What is inventory?

- **A** The total amount of money invested in a business
- **B** The collection of goods, products or materials that a business holds for sale, production or distribution
- **C** The total amount of income generated by a business
- **D** The decrease in value of an asset over time

64 What is personal finance?

- **A** The total amount of money invested in a business
- **B** The process of filing personal income tax returns
- **C** The total amount of income generated by a business
- **D** The management of an individual's or household's financial matters

65 What is sales tax?

- **A** A tax imposed on income earned by individuals
- **B** A tax imposed on the sale of goods and services
- **C** A tax imposed on property ownership
- **D** A tax imposed on inherited property

66 What is income tax?

- **A** A tax imposed on goods and services purchased
- **B** A tax levied on the profits of businesses
- **C** A tax imposed on property and real estate
- **D** A tax levied on an individual's or business's income

67 What is corporate tax?

- **A** A tax imposed on inventory purchased by a company
- **B** A tax imposed on profits earned by corporations
- **C** A tax imposed by businesses on sales of goods and services to consumers
- **D** A tax imposed on property ownership

68 What is taxable income?

- **A** The total income earned by an individual or business before any deductions and exemptions
- **B** Gifts received from family and friends
- **C** Income that is subject to taxation after deducting allowable expenses and exemptions
- **D** Education expenses

69 What is profit?

- **A** The increase in value of an asset
- **B** The amount of money left after deducting expenses from revenue
- **C** The initial investment made to start a business
- **D** The value of assets owned by a business

70 What is a gratuity?

- **A** A mandatory fee charged by service providers
- **B** A sum of money given voluntarily as a token of appreciation
- **C** A discount offered on a product or service
- **D** A type of tax levied on restaurant bills

71 What is investment income tax?

- **A** Tax on the purchase of investment assets
- **B** Tax on the income or gains from investments
- **C** Tax on the financial institution managing the investments
- **D** Tax on the amount invested in a specific asset

72 What is inheritance tax?

- **A** A tax on the income from investments
- **B** A tax on gifts given during a person's lifetime
- **C** A tax on assets inherited after the death of the original owner
- **D** A tax on the purchase of goods and services

73 What is capital gains tax?

- **A** A tax on the total income earned from all sources
- **B** A tax on the profits earned from the sale of assets
- **C** A tax on the salary and wages earned by individuals
- **D** A tax on the interest earned from bank savings accounts

74 Your equity in a home increases if you:

- **A** Take out a larger mortgage loan
- **B** Miss a mortgage payment
- **C** Make home improvements that increase its value
- **D** Allow the property to fall into despair

75 What is an employee?

- **A** An individual who owns and operates a business
- **B** An individual who provides services to clients on a contractual basis
- **C** An individual who is hired by an employer to perform work
- **D** An individual who invests in stocks and bonds for financial gain

76 What is an employer?

- **A** An individual who provides service to clients on a contractual basis
- **B** An individual who invests in stocks and bonds for financial gain
- **C** A business that hires employees
- **D** A volunteer group that cleans up city parks

77 During a recession it is common to observe:

- **A** Rapid job growth
- **B** Falling stock market prices
- **C** A boom in luxury goods sales
- **D** An increase in making high-risk investments

78 What is an entrepreneur?

- **A** An individual who works as an employee in a large corporation
- **B** A student who works part-time on campus
- **C** An individual who starts and operates their own business, taking on financial risks
- **D** A company that provides consulting services to other businesses

79 What is a variable cost?

- **A** An expense that remains constant regardless of the level of production or sales volume
- **B** An expense that fluctuates based on the level of production or sales volume
- **C** Costs associated with salaries of permanent employees
- **D** Rental costs for business premises

80 What is cryptocurrency?

- **A** A digital or virtual form of currency that uses cryptography for security
- **B** Physical coins and notes issued by a central bank
- **C** A centralized currency system controlled by a government
- **D** A type of investment fund managed by financial institutions

81 What is a fixed cost?

- **A** An expense that varies based on the level of production or sales volume
- **B** An expense that remains constant regardless of the level of production or sales volume
- **C** A cost associated with sales commissions
- **D** A cost incurred only during the initial setup of a business

82 A balance sheet is a financial statement that summarizes a company's revenues, expenses, gains and losses over a specific period of time.

- **A** True
- **B** False

83 An annuity is an investment vehicle that pools money from multiple investors to invest in a diversified portfolio of stocks, bonds, or other securities.

- **A** True
- **B** False

84 Diversification represents the process of gradually paying off a debt or loan over time through regular payments.

- **A** True
- **B** False

85 Return on Investment represents the yearly interest generated by a sum that is charged to borrowers or paid to investors.

- **A** True
- **B** False

86 A partnership is a legal form of business organization where two or more individuals, known as partners, come together to carry out a business venture for profit.

A True

B False

87 Using leverage in financial investments means utilizing borrowed money to increase potential returns.

A True

B False

88 Accruing debt always indicates that a business is in poor financial health.

A True

B False

89 A bank draft represents a guaranteed funds payment instrument.

A True

B False

90 A Manager's Check offers a bank account holder overdraft protection in case of insufficient funds in an account.

A True

B False