Spring 2017 Review Topics for Exam 1

Covering Chapters 1 through 8, Lecture Notes and Assigned Problems worked in Class

Format of the Exam: 33 Questions, 15 True/False, 18 multiple choice [3 quantitative, 15 conceptual questions]

Topics:

Benefits of Financial Planning

Importance of financial goals – characteristics of financial goals

Difference between a balance sheet and Budget statement

Key to a successful savings program – regular savings

Fixed costs associated with owning a fixed asset such as a car or home—e.g. monthly loan payment, insurance, property taxes, etc.

Variable costs associated with car ownership – gas, maintenance, repairs, emergency costs

Indicators of when you are overusing a credit card – can only afford making the minimum monthly payment, using the card for discretionary purchases such as a vacation that you can't afford, etc.

Student loans and the inability to extinguish debt through bankruptcy

Credit Unions as a low cost source of loans to members

How Assets and Liabilities are recorded on the Balance Sheet – market value of the assets, amount required to pay off loans

What is a budget --- a detailed financial forecast

First step to the financial planning process

The three methods for growing net worth

Dick and Jane purchased a condo for $50,000 five years ago, If the condo appreciated at 10% are year, what is it worth today?

Consequences of deregulation of the financial services industry[Repeal of Glass Steagall, Financial Services Act 1999] – greater bank risk, more risk due to broader use of financial derivatives, the ability of banks to own insurers, insurers to own banks, banks permitted to sell insurance, expansion of the too big to fail doctrine to allow more taxpayer bailouts of banks, insurers [such as AIG], and manufacturers [such as GM].

Jack has $2,500 for a down payment and thinks he can afford monthly payments of $300. If he can finance a vehicle with a 3.5%, 4 year loan, what is the maximum loan amount Jack can afford?

Advantages of buying a used car over a new vehicle

Where one can get an auto loan – auto dealers, banks, credit unions, consumer finance companies, savings and loans

When to use a credit card --- when not to use a credit card

Peaches has a home valued at $250,000 and an outstanding mortgage of $120,000. If her lender is willing to provide a home equity loan of 80% of market value [i.e., 80% LTV], how much could Peaches borrow using a home equity loan?

When to use a home equity loan – purchase of a car

Where the federal government gets most of its revenue –

Difference between a regressive [flat tax] versus a progressive tax [increases with one's level of income]

Capital gains – short versus long term in relation to taxes

Capital gains treatment on the sale of your primary residence

Advantages of financial planning – identify financial goals, spend wisely, determine practical steps for reaching financial goals over time, creating a mission and vision statement that provides life direction to financial decisions

What determines the amount of money we set aside for future consumption (i.e. savings) -- how much we earn and spend over time.