Check for Understanding Interest Quiz (Key)

True/False

T  F  1. A person will gain more interest over a ten-year period on an investment that pays simple interest instead of compound interest.

T  F  2. One way to eliminate credit card debt is to make larger payments.

T  F  3. Paying for “going out for dinner” with a credit card is a good choice.

T  F  4. The younger you are when you invest in an account with compounded interest, the younger you are likely to retire.

T  F  5. It is important to understand how much you are paying in interest on a loan.

Multiple choice

6. You want to purchase a new car and limit your car payment to $350.00 a month. What tool would be easiest to use to determine how much you can spend?
   a. spreadsheet
   b. credit card calculator
   c. auto loan calculator
   d. mortgage calculator

7. Which of the following is NOT a benefit of purchasing your own home?
   a. You can deduct mortgage interest, meaning you pay less in taxes.
   b. You can add on, remodel and decorate as you wish.
   c. Over a period of time, you can build equity.
   d. It is easy for you to move.

8. You invest $5,000.00 with 5% quarterly compounded interest. You add $1,000.00 each year. At the end of five years, you will have______________.
   a. $12,228.50
   b. $11,228.50
   c. $10,228.50
   d. $9,228.50

9. The most detailed way to look at the interest you are paying long-term on a mortgage is by using a_________________.
   a. mortgage calculator
   b. spreadsheet
   c. auto calculator
   d. credit calculator
Matching

a. adjusted gross pay
b. assets
c. compound interest
d. equity
e. gross pay
f. interest
g. investment
h. liabilities
i. net pay
j. principal
k. rule of 72
l. simple interest
m. tax deduction
n. tax credit

__b__ 10. Something you own of value

____f__ 11. Fee charged by a lender on money borrowed or a fee paid to an investor on his or her investment

__h__ 12. Debt or what is owed

__j__ 13. The total amount of money outstanding on a loan

__k__ 14. Shows how long it will take to double an amount of money for a given interest rate

__l__ 15. Interest earned only on the original amount or principal

__n__ 16. An allowable amount is subtracted directly from tax owed

__d__ 17. Ownership in something such as a house

__g__ 18. Money placed in an account with the goal of making money

__m__ 19. An amount of money the law allows to be subtracted from your total gross income when paying taxes so you pay tax on a smaller amount

____e____ 20. The total amount of a person’s income

____c____ 21. Interest earned on interest added to an account

____a____ 22. The amount a person pays taxes on after either subtracting the allowable amount for a standard deduction, or by itemizing deductions such as mortgage interest, charitable giving and some medical expenses

____i____ 23. Wages that remain after taxes are withheld, often called take home pay