Personal Finance Quiz

Instructions:

Each question has one correct answer. Choose the best option for each question. Answers and explanations are provided at the end.

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1. **What is the main purpose of a budget?**
   a) To track your investments
   b) To plan and control your spending
   c) To save only for large purchases
   d) To borrow money effectively
2. **Which of the following is an example of a fixed expense?**
   a) Groceries
   b) Electricity bill
   c) Monthly rent
   d) Entertainment
3. **What does "paying yourself first" mean?**
   a) Spending money on wants before needs
   b) Allocating a portion of income to savings before other expenses
   c) Buying something for yourself each month
   d) Paying off all your debt before spending
4. **What is compound interest?**
   a) Interest calculated only on the initial amount
   b) Interest earned on both the initial principal and previously earned interest
   c) Interest that changes frequently
   d) A type of interest that doesn't grow
5. **If you invest £1,000 at a 5% annual interest rate, compounded annually, how much will you have after 1 year?**
   a) £1,050
   b) £1,100
   c) £1,150
   d) £1,200
6. **What is the purpose of an emergency fund?**
   a) To buy things during sales
   b) To pay for planned expenses
   c) To cover unexpected expenses
   d) To invest in high-risk stocks
7. **Which of the following best describes a credit score?**
   a) A score that shows how wealthy you are
   b) A score that indicates your ability to manage debt

c) A measure of your income level
d) A score that determines your spending habits

8. **Which type of account typically earns the highest interest rate?**
   a) Current account
   b) Savings account
   c) Certificate of deposit (CD)
   d) Money market account
9. **Which of these is a benefit of long-term investing?**
   a) Quick profits
   b) Reduced risk of losing money
   c) Lower costs on short-term purchases
   d) More time for compound interest to grow
10. **If an investment doubles in value every 10 years, this is an example of which principle?**
    a) Rule of 72
    b) Compound interest
    c) Diversification
    d) Inflation
11. **Which of the following would be considered a "liability"?**
    a) A car loan
    b) A savings account
    c) A paid-off house
    d) An investment portfolio
12. **What is the main risk of putting all your money into one stock?**
    a) High return
    b) Low fees
    c) Loss of diversification
    d) Easy access
13. **Why might someone want to start saving for retirement early?**
    a) To save less over time
    b) To increase their credit score
    c) To benefit from compound interest over a longer period
    d) To have money for emergencies
14. **What does "diversifying" an investment mean?**
    a) Putting all your money into one type of investment
    b) Investing in a variety of asset types to reduce risk
    c) Choosing only high-risk investments
    d) Saving all money in cash
15. **Which of the following statements is true about inflation?**
    a) It decreases the value of money over time
    b) It makes everything cheaper over time
    c) It has no impact on investments
    d) It makes saving unnecessary

16. **If you make a purchase on credit and do not pay off the full balance, what is likely to happen?**
    a) You won't pay any extra charges
    b) You will pay interest on the remaining balance
    c) Your credit score will increase
    d) The balance will be cancelled
17. **What is a benefit of using a debit card over a credit card?**
    a) Earns cash-back rewards
    b) Reduces the risk of debt
    c) Builds your credit score
    d) Has a high credit limit
18. **Which of the following is NOT a type of investment?**
    a) Stocks
    b) Bonds
    c) Mortgages
    d) Mutual funds
19. **Which of these is a good reason to have a financial goal?**
    a) It helps you spend without limits
    b) It motivates you to save and plan for the future
    c) It allows you to borrow more money
    d) It ensures you'll become wealthy quickly
20. **If you invest £500 in an account that grows at 8% annually, approximately how long will it take to double?**
    a) 4.5 years
    b) 9 years
    c) 12 years
    d) 20 years

Answer Key and Explanations:

1. **b)** To plan and control your spending.
   - Budgets help you track income and expenses, enabling better financial decisions.
2. **c)** Monthly rent.
   - Fixed expenses are regular, predictable payments, like rent.
3. **b)** Allocating a portion of income to savings before other expenses.
   - This encourages prioritising savings to build financial security.
4. **b)** Interest earned on both the initial principal and previously earned interest.
   - Compound interest grows faster because it builds on past interest.
5. **a)** £1,050.
   - £1,000 x 1.05 = £1,050 with 5% interest.
6. **c)** To cover unexpected expenses.
   - An emergency fund provides financial security during unplanned situations.
7. **b)** A score that indicates your ability to manage debt.
   - A credit score reflects debt payment history and helps lenders assess risk.
8. **c)** Certificate of deposit (CD).
   - CDs generally offer higher interest rates than savings accounts.
9. **d)** More time for compound interest to grow.
   - Longer investments allow compounding to create significant growth.
10. **b)** Compound interest.
    - Regular doubling due to compounding increases investment value over time.
11. **a)** A car loan.
    - Liabilities are debts owed to others, such as loans.
12. **c)** Loss of diversification.
    - Relying on one stock increases risk if that company underperforms.
13. **c)** To benefit from compound interest over a longer period.
    - Early saving for retirement grows significantly due to compounding.
14. **b)** Investing in a variety of asset types to reduce risk.
    - Diversification spreads risk across different investments.
15. **a)** It decreases the value of money over time.
    - Inflation reduces purchasing power as prices rise.
16. **b)** You will pay interest on the remaining balance.
    - Unpaid credit balances accrue interest, increasing debt.
17. **b)** Reduces the risk of debt.
    - Debit cards only use available funds, avoiding debt.
18. **c)** Mortgages.
    - Mortgages are loans, while stocks, bonds, and mutual funds are investments.
19. **b)** It motivates you to save and plan for the future.
    - Goals encourage disciplined financial behaviour and savings.
20. **b)** 9 years.
    - Using the “Rule of 72”: 72 ÷ 8% ≈ 9 years to double the investment.