

Study Guide Score. . . 35 Name _____

Deduct. Date _____ Class _____

Your Score. _____



Starting a Savings Program

STUDY GUIDE

PART I

Directions: Indicate whether each statement below is correct or incorrect by placing a check mark on the line under *true* or *false* at the right.

	TRUE	FALSE	For Scoring
1. One of the main reasons for saving money is so you can buy things in the future.	_____	_____	1. _____
2. American consumers save a great deal of money compared with people of other industrialized nations.	_____	_____	2. _____
3. "Saving" and "investing" mean the same thing.	_____	_____	3. _____
4. Putting money in a piggy bank in your room is investing.	_____	_____	4. _____
5. Money put in a savings account in a bank is an investment.	_____	_____	5. _____
6. You should begin investing only when you have saved a large amount.	_____	_____	6. _____
7. When interest is calculated semiannually, it is figured twice a year.	_____	_____	7. _____
8. Compound interest is interest on both the total invested and the interest previously earned.	_____	_____	8. _____
9. Interest may be compounded daily.	_____	_____	9. _____
10. Banks do not allow investing of small amounts of money.	_____	_____	10. _____
11. When investing, you always get back more than you invested.	_____	_____	11. _____
12. All investors need the same degree of liquidity.	_____	_____	12. _____
13. Not all investors need the same degree of safety in their investments.	_____	_____	13. _____
14. A person with a limited amount to invest should look for the greatest possible degree of safety.	_____	_____	14. _____
15. Normally, the higher the rate of interest offered on an investment, the safer it is.	_____	_____	15. _____
16. Loans to the federal government are safer than any others.	_____	_____	16. _____
17. When a low rate of interest is offered on an investment, you may be certain that it is safe.	_____	_____	17. _____
18. A "liquid" investment is one that can be turned into money quickly.	_____	_____	18. _____
19. An investment in land is very liquid.	_____	_____	19. _____
20. When you have many investments, they should all be liquid.	_____	_____	20. _____
21. A poor investment is one that is safe, earns a fair income, and is reasonably liquid.	_____	_____	21. _____
22. Invested money is used to operate businesses, governments, and other types of organizations.	_____	_____	22. _____

For
Scoring

23. _____

24. _____

25. _____

23. Our economy would have difficulty functioning if individuals and businesses could not borrow money. _____
24. A good savings plan should earn a reasonable amount of interest. _____
25. When you have a large number of investments, they all need to have a high degree of safety. _____

PART II

Directions: Indicate your answer by placing the letter of the term in the blank to the right of its definition.

- | | |
|--------------------|----------------------|
| A. savings plan | D. compound interest |
| B. investing | E. yield |
| C. simple interest | F. liquidity |

ANSWERS

For
Scoring

1. _____

2. _____

3. _____

4. _____

5. _____

6. _____

1. Interest computed on the amount saved plus the interest previously earned. _____
2. The percentage of interest that will be added to your savings over a period of time. _____
3. Putting money aside in a systematic way to help reach an established financial goal. _____
4. Interest that is computed only on the amount saved. _____
5. The ease with which an investment can be changed into cash quickly without losing any of its value. _____
6. Using your savings to earn more money for you. _____

PART III

Directions: Do you agree or disagree with the individuals' reactions to each of the following situations? Write a brief statement of your reason for agreeing or disagreeing.

1. Alex puts \$10 aside each week in a hidden compartment in one of his desk drawers. He feels his money is safe and that he has a good savings plan. Agree Disagree
Reason: _____
2. Betty wants to open a savings account but has only \$38 to deposit. She says that no bank or savings and loan or credit union will accept such a small amount. Agree Disagree
Reason: _____
3. Chuck inherited \$2,000 from his uncle. He wants to save that money to help pay for his future college tuition. He says that putting the \$2,000 in a savings account that pays compound interest is a good idea. Agree Disagree
Reason: _____
4. Gloria loaned a friend \$500 after he promised to pay back the \$500 within a year, along with \$75 in interest. It has now been more than a year since Gloria made the loan, and she has not received her \$500 or the interest. She says, "I might have helped a friend in need, but it was a poor investment."
 Agree Disagree
Reason: _____

Applying Thinking Skills

When selecting a savings program, a person must consider various factors. To describe each of the following phrases, write *safety*, *yield*, or *liquidity* in the space provided.

1. also called rate of return _____
2. insured by F.D.I.C. _____
3. percentage earned on savings _____
4. easily converted to cash _____
5. low risk of loss of savings _____

Applying Math Skills

Jim Murphy earns \$600 a month and saves \$50 each month. He plans to save one-half of any salary increase he receives in the future. Assume the following:

1. He receives \$600 a month throughout the first year, \$660 a month throughout the second year, \$730 a month throughout the third year, and \$780 a month throughout the fourth year.
2. After the first year, he follows his plan and saves \$50 a month out of the first \$600 a month earned and one-half of all increases above \$600 a month.
3. He invests his savings monthly in a savings account that pays 6 percent interest compounded quarterly, as shown in Figure 28-2 in your textbook.

Find the amount of the deposits and interest at the end of the fourth year.

\$50 invested each month for 4 years	_____
Additional amount invested each month:	
\$30 for 3 years	_____
\$35 for 2 years	_____
\$25 for 1 year	_____
Total savings at the end of 4 years	_____