

Business and Personal Finance © 2012

Chapter 17: Saving and Investing

Check Your Answers: Section Assessment

Section 2

Review Key Concepts

1. To own property that increases in value so that you can sell it at a profit, or to receive rental income.
2. Identify investment goal; determine money needed; determine the amount of money available; identify investment alternatives and risk factors for each; calculate projected return for each; narrow down the best options, then choose the most appropriate one. As a final step, continue to evaluate the choices.
3. Common stock is a unit of ownership of a company, and it entitles the owner, or stockholder, to voting privileges. Preferred stock is a type of stock that gives the owner the advantage of receiving cash dividends before common stockholders receive cash dividends.
4. By spreading your assets among several different types of investments, you can reduce the amount of risk and increase the potential for financial growth.
5. A corporate bond is a corporation's written pledge to repay a specific amount of money, along with interest. A government bond is the written pledge of a government or a municipality, such as a city, to repay a specific sum of money with interest.

Higher Order Thinking.

6. Some students may say it is a high risk because collectibles may lose value or become worthless, or they can be stolen or damaged. Others may say it is a low or moderate risk because collectors who are experts on the items may have a solid base of safe investments and may feel confident in making speculative investments.

21st Century Skills

7. **Analyze Media** Story examples will vary, but students should recognize some common themes. Example news stories: a story on interest rates that affects mortgages may cause people to refinance; an article about financial crises may cause investors to panic and take fewer risks. Pros may include: immediate access to a great deal of information and the ability to learn from experts. Cons may include: biased reporters and conflicting information.

Mathematics

8. **Retirement Planning** Retirement: Years to target date = $55 - 40 = 15$ years; Target date = 15 years + 2010 = 2025; Cost = \$1,000,000; Amount still needed = $\$1,000,000 - \$500,000 = \$500,000$; Amount to save this year = $\$500,000 / 15$ years = \$33,333.33 Boat: Years to target date = 3 years (as stated in the problem); Target date = 3 years + 2010 = 2013; Cost = \$30,000; Amount still needed = $\$30,000 - \$10,000 = \$20,000$; Amount to save this year = $\$20,000 / 3$ years = \$6,666.67