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Chapter 10: Saving and Investing

Check Your Answers: Section Assessment

Section 1

Review Key Concepts

1. Money from paying yourself first; employer sponsored plans; elective savings programs; savings efforts; gifts, inheritances, windfalls.

2. Safety, which can mean low returns; and various risks, including: speculative investments; inflation risk; interest rate risk; business failure risk; financial market risk; global investment risk. Students may also discuss investment income, growth, and liquidity.

3. Establish a larger than usual emergency fund; know what you owe; reduce spending; pay off credit cards; notify credit card companies and lenders if you are unable to make payments; monitor the value of your investment and retirement accounts; do not panic.

4. Outlines will vary, but students should address these questions: How much money do I need to satisfy my goals? How long will it take to save the money? How much investment risk will I take? Are my goals reasonable, considering my circumstances or future circumstances? Am I willing to make sacrifices to save? What will happen if I do not meet my goals?

Higher Order Thinking.

5. Responses will vary. Some students may say they would make the same choice because of the potential for money in the long run. Others may say they would buy the TV because they are young and have time to make investments later.

English Language Arts

6. Offshore Investing Benefits may include: more favorable tax rates; asset protection; confidentiality; greater diversification. Drawbacks may include: strict tax laws for offshore investing; expensive to set up; some corporations may not be reputable.

Mathematics

7. Building Savings Monthly salary = $50,000/12 = $4,167.67; Monthly trip cost = $5,000/12 = $416.67; Total monthly expenses = $3,500 + $416.67 = $3,916.67; Net monthly income = $4,167.67 - $3,916.67 = $251.00 = monthly investment amount

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

Section 3

Review Key Concepts

1. Internet and online services; newspapers and television news programs; business and government publications; corporate reports; statistical averages; investor services.

2. Evaluate investments before you invest. Monitor your investments by checking price quotations on the Internet, in newspapers, and on financial news programs. Keep accurate records to help you notice opportunities to increase your profits or reduce losses. Determine how taxes may affect your investments

3. Financial planners offer specific financial help and advice. He or she will: assess your current financial situation; offer a clearly written plan with investment recommendations; discuss the plan with you and answer questions; help you track your progress; guide you to other financial experts and services as needed.

Higher Order Thinking
4. Some students may say it is fair because it should be taxed like any other income that you earn. Others may say it is unfair because you already paid taxes on the money that was invested.

21st Century Skills
5. Information Literacy Topics and conclusions will vary, but students should present at least three articles on one investment topic from different sources. To ensure reliability and accuracy, double check the information against other sources. Only access reputable and well-established sources.

Mathematics
6. Capital Loss Cost basis = 500 shares × \$54.00 = \$27,000; Proceeds from sale = 500 shares × \$45.00 = \$22,500; Capital loss = \$27,000 - \$22,500 = \$4,500; Maximum allowable deduction = \$3,000 this year; Next year deduction = \$4,500 - \$3,000 = \$1,500