



# Check for Understanding

Ch 2 Review

Now it's time to check your learning! Go back to the *Before You Begin* section for this chapter. Place a checkmark next to the learning outcomes you've mastered and complete the "after" column of the *Measure Your Progress* section.

## Matching

Match the following terms to the correct definition below.

The Five Foundations	Compound Interest	Interest-Bearing Account
Interest Rate	Emergency Fund	
Sinking Fund	Inflation	

- \_\_\_\_\_ An account that generates interest income on the available balance in the account
- \_\_\_\_\_ The five steps to financial success
- \_\_\_\_\_ A savings account that is set aside to be used only for emergency expenses
- \_\_\_\_\_ Interest paid on interest previously earned
- \_\_\_\_\_ Saving money over time for a large purchase
- \_\_\_\_\_ A rate which is either charged (on debt) or paid (on investment accounts) for the use of money
- \_\_\_\_\_ The persistent increase in the cost of goods and services or the persistent decline in the purchasing power of money

## 3 Reasons to Save

1

SAVE FOR:

\_\_\_\_\_

IMPORTANT BECAUSE:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

2

SAVE FOR:

\_\_\_\_\_

IMPORTANT BECAUSE:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

3

SAVE FOR:

\_\_\_\_\_

IMPORTANT BECAUSE:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

## Multiple Choice

Circle the correct answer.

8. When it comes to saving money, the amount you save is determined by how much you have left at the end of the month once all of your spending is done.
- True  
False
9. Your income level greatly affects your saving habits.
- True  
False
10. At your age, a fully funded emergency fund should be:
- \$1,000  
\$5,000  
\$100  
\$500
11. Which of the following is not one of the three basic reasons for saving money?
- Large purchases  
Have money available to lend to friends  
Emergency fund  
Build wealth
12. Instead of borrowing money for large purchases, you should set money aside in a \_\_\_\_\_ over time and pay with cash.
- Sinking fund  
Emergency fund  
Credit card fund  
Mortgage fund

## Short Answer

Respond in the space provided.

13. What is the First Foundation? Explain how and why the dollar amount will change as you get older.

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14. Looking back at the "Ben and Arthur" story, how did Ben come out ahead even though he invested less money than Arthur?

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15. What two things do you consider when evaluating the time value of money?

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16. Calculate the compound interest for each problem below.

- \$1,000 at 6% interest for three years

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- \$500 at 18% interest for four years

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- \$1,500 at 12% interest for two years

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17. Why do you need an emergency fund at your age?

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