

Name: _____ Date: _____

Answer Key: Compound Interest vs. Inflation: 9th Grade Economics Quiz

Students calculate real returns and analyze how predatory lending cycles impact long-term wealth building through interactive scenario-based inquiries.

1. A typical payday loan carries an Annual Percentage Rate (APR) of 400%, while a standard credit card might charge 20%. If an individual carries a \$500 debt, why is the payday loan considered 'predatory' in a cycle of poverty?

Answer: B) The high interest and short terms often force borrowers to take new loans to pay off old ones.

Predatory lending like payday loans often features 'debt traps' where the high cost of interest prevents the borrower from ever paying down the principal.

2. If the annual inflation rate is 5% and your savings account earns 2% interest, the 'purchasing power' of your money is actually decreasing over time.

Answer: A) True

If the cost of goods (inflation) rises faster than your interest earnings, your money buys fewer goods than it did before, representing a loss in real value.

3. To protect against unforeseen events like a sudden medical bill or auto repair without using high-interest credit, a person should establish a(n) _____.

Answer: C) Emergency Fund

An emergency fund provides a liquidity cushion, preventing the need to take on high-interest debt during financial shocks.

4. When considering 'Opportunity Cost,' what is the financial implication of a 15-year-old spending \$1,200 on a high-end gaming PC instead of placing it in a Roth IRA?

Answer: A) The lost potential of compound interest over the next 50 years.

Opportunity cost in personal finance isn't just the price of the item; it's the future wealth that money could have generated if invested elsewhere.

5. Which of these is a 'Variable Expense' that a high school student can most easily adjust to balance a monthly budget?

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Answer: C) Dining out with friends

Variable expenses fluctuate based on choices; dining out is a discretionary expense that can be eliminated or reduced immediately to save money.

6. Diversification is an investment strategy used to manage _____ by spreading money across various asset classes like ETFs, Real Estate, and Commodities.

Answer: B) Risk

Diversification ensures that a poor performance in one sector (like tech) doesn't destroy the entire value of a portfolio.

7. Using a Debit Card can help you build a credit history and improve your credit score for future home loans.

Answer: B) False

Debit cards draw from existing funds and do not involve borrowing; therefore, they are not reported to credit bureaus and do not build credit scores.

8. How does a 'FICO Score' impact a consumer's long-term wealth building?

Answer: A) High scores lead to lower interest rates on loans, saving thousands in interest.

Creditworthiness directly affects the cost of borrowing; a better score means lower interest, allowing more money to be redirected toward savings.

9. The 'Rule of 72' is a sociological and mathematical shortcut used to estimate the number of years required to _____ an investment at a fixed annual interest rate.

Answer: B) Double

By dividing 72 by the annual rate of return, investors can quickly approximate how long it takes for their money to grow by 100%.

10. The 'Time Value of Money' concept suggests that \$100 received today is worth more than \$100 received five years from now.

Answer: A) True

Because money today can earn interest and is not yet subject to future inflation, it holds more potential value than the same amount in the future.