

Name: _____ Date: _____

Compounding Fortunes: 7th Grade Wealth Architecture Quiz

Can small choices create a financial empire? Analyze 10 complex scenarios regarding opportunity cost, compound interest, and speculative vs. stable growth.

1. Anish is deciding between a 0.5% savings account and a 3% Certificate of Deposit (CD) for his \$2,000 savings. If the inflation rate is currently 4%, what is the real economic outcome of his decision?

- A. He will gain wealth because the account balance increases.
- B. Both options result in a loss of purchasing power over time.
- C. The CD will provide a profit that exceeds the cost of living.
- D. Inflation only affects spending, not the value of saved money.

2. Diversifying a portfolio by purchasing shares in different industries, such as technology and renewable energy, effectively eliminates all market risk for an investor.

- A. True
- B. False

3. When a person chooses to invest \$500 in a stock rather than keeping it in an emergency fund, the potential security they lose by not having cash available is known as _____.

- A. Compound interest
- B. Capital gains
- C. Opportunity cost
- D. Liquidity ratio

4. Which of these scenarios best demonstrates the 'Rule of 72' to estimate how long it takes for an investment of \$1,000 to double at a 6% fixed annual return?

- A. The investment will double in approximately 6 years.
- B. The investment will double in approximately 12 years.
- C. The investment will double in approximately 72 years.
- D. The investment will never double without additional deposits.

5. A financial strategy where an investor buys a fixed dollar amount of a particular investment on a regular schedule, regardless of the share price, is called _____.

- A. Day trading
- B. Asset allocation
- C. Market timing
- D. Dollar-cost averaging

6. A credit utilization ratio—the amount of credit you use compared to your total limit—is a significant factor in determining your credit score.

- A. True

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B. False

7. In the context of the 'time value of money,' why is \$100 today generally worth more than \$100 received one year from now?

- A. Because future money is always taxed at a higher rate.
- B. Because of its potential to earn interest and the impact of inflation.
- C. Because banks charge fees for holding money over long periods.
- D. Because paper currency loses physical quality over time.

8. Elena earns dividends from her stocks and immediately uses them to buy more shares of that same company. This process of earning 'interest on interest' is known as _____.

- A. Simple interest
- B. Compound growth
- C. Principal depletion
- D. Fixed annuity

9. An 'Index Fund' is a type of mutual fund designed to mimic the performance of a specific market benchmark rather than being managed by a person picking individual stocks.

- A. True
- B. False

10. Which type of investment represents an 'IOU' where you act as the lender to a government or corporation in exchange for regular interest payments?

- A. Common stock
- B. Real estate
- C. Municipal bond
- D. Commodity futures