

Name: _____ Date: _____

Answer Key: Your Youthful Yields: High-Stakes Finance Quiz for 11th Grade

Analyze complex asset allocations, tax-deferred strategies, and the structural impact of credit utilization on long-term capital growth.

1. An investor in the 32% marginal tax bracket is deciding between a corporate bond yielding 6% and a tax-exempt municipal bond. What is the equivalent tax-free yield of the corporate bond?

Answer: B) 4.08%

To calculate the tax-equivalent yield, you multiply the taxable yield by (1 - tax rate). $0.06 * (1 - 0.32) = 0.0408$, or 4.08%.

2. A strategy that involves periodically buying a fixed dollar amount of a particular investment, regardless of the share price, is known as ____.

Answer: C) Dollar-Cost Averaging

Dollar-cost averaging reduces the impact of volatility by purchasing more shares when prices are low and fewer when prices are high.

3. In a standard Roth 401(k), contributions are made with pre-tax dollars, reducing your current taxable income.

Answer: B) False

Roth accounts are funded with after-tax dollars; the benefit is that qualified withdrawals in retirement are tax-free.

4. Which of the following scenarios would likely result in the highest 'cost of capital' for an individual seeking a loan?

Answer: B) An unsecured personal loan with a 620 credit score

Unsecured loans lack collateral, and a lower credit score indicates higher risk to the lender, resulting in higher interest rates.

5. The 'Rule of 72' is a simplified way to estimate the time it takes for an investment to double. If an index fund returns 8% annually, it will take approximately ____ years to double.

Answer: C) 9.0

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Dividing 72 by the annual rate of return (8) equals 9 years.

6. When assessing a company's stock, a 'Price-to-Earnings' (P/E) ratio significantly higher than the industry average most likely suggests:

Answer: C) Investors expect high future earnings growth

A high P/E ratio indicates that the market is willing to pay more per dollar of current earnings because of projected growth.

7. Increasing the deductible on an insurance policy generally leads to a decrease in the monthly premium cost.

Answer: A) True

By taking on more out-of-pocket risk (higher deductible), the insurer reduces their liability and charges a lower premium.

8. Which of these economic conditions would most likely cause an 'inverse relationship' in bond prices, leading to a decrease in the value of existing bonds?

Answer: B) The Federal Reserve raising benchmark interest rates

As interest rates rise, new bonds are issued with higher yields, making existing bonds with lower rates less attractive and less valuable.

9. When an individual's total liabilities exceed their total assets, they are technically in a state of ____.

Answer: B) Insolvency

Insolvency is the state of being unable to pay one's debts because liabilities outweigh assets.

10. The Credit Utilization Ratio, which affects 30% of a FICO score, is calculated by dividing total credit used by the total credit available.

Answer: A) True

Keeping this ratio below 30% is critical for maintaining a high credit score as it demonstrates responsible use of revolving debt.