

Name: _____ Date: _____

Answer Key: Will You Be a Millionaire? 8th Grade Personal Finance Quiz

Compound interest, risk-reward ratios, and debt management — 10 critical challenges to help students build a foundation for long-term economic independence.

1. Imagine you have \$1,000 in a savings account that earns 5% interest annually. If you never touch the money, why will you earn more interest in Year 2 than you did in Year 1?

Answer: B) Compound interest allows you to earn money on your original deposit plus the interest from Year 1.

Compound interest is the process where interest is earned on both the principal and the accumulated interest from previous periods.

2. A higher credit score usually leads to paying a higher interest rate when borrowing money for a car or a house.

Answer: B) False

A higher credit score indicates lower risk to the lender, which typically results in a lower interest rate for the borrower.

3. When an investor spreads their money across many different types of assets like stocks, bonds, and gold to reduce risk, they are using the strategy of _____.

Answer: C) Diversification

Diversification is the practice of spreading investments around so that pathways to loss are minimized if one specific sector underperforms.

4. Which of these is considered a 'variable expense' in a monthly household budget?

Answer: C) The cost of electricity and heating for the home

Variable expenses change from month to month based on usage or external factors, unlike fixed expenses which stay the same.

5. If you are 'upside down' on a loan, it means your _____ is greater than the current market value of the item you bought.

Answer: C) Principal balance

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Being 'upside down' or having negative equity occurs when the amount you owe on a loan exceeds the value of the asset, such as a car.

6. A Certificate of Deposit (CD) typically offers a higher interest rate than a standard savings account but requires you to leave your money untouched for a set period.

Answer: A) True

CDs trade liquidity (the ability to access cash) for a higher rate of return over a fixed term.

7. Which of the following describes the relationship between 'risk' and 'return' in investing?

Answer: C) Investors usually demand higher potential returns for taking on higher risks.

The risk-return tradeoff states that potential return rises with an increase in risk.

8. The 'Rule of 72' is a mathematical shortcut used to estimate how long it will take for your _____ to double at a fixed annual interest rate.

Answer: B) Investment

By dividing 72 by the annual rate of return, investors can get a rough estimate of how many years it will take for the initial investment to double.

9. If you only pay the 'minimum balance' on a credit card each month, what is the most likely outcome?

Answer: C) You will pay much more than the original price of your purchases due to interest.

Paying only the minimum keeps the account in good standing but allows interest to accumulate on the remaining balance, significantly increasing the total cost.

10. Inflation benefits savers by increasing the purchasing power of the money they have stored in the bank over long periods of time.

Answer: B) False

Inflation actually decreases purchasing power, meaning that the same amount of money buys fewer goods and services in the future.