

Test of Economic and Financial Capability

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TEST OF ECONOMIC AND FINANCIAL CAPABILITY

1. What is the cheapest way to make a purchase?
 - (a) use cash
 - (b) use a debit card if you don't have to pay a fee
 - (c) use a credit card and pay it off right away before any interest is charged
 - (d) any one of the above
2. When you pay interest to borrow money from a bank, the interest you pay is used to cover the bank's:
 - (a) service fees and costs of doing business
 - (b) the money it lends to you plus profit
 - (c) the cost of the risk you might not pay it back
 - (d) all of the above
3. If Jon pays a higher rate of interest rate than Maria does for the same loan, it is likely that:
 - (a) Jon has the better credit rating
 - (b) Maria has the better credit rating
 - (c) Jon has a better record of paying off his debts
 - (d) Maria has made more late payments on her debts than Jon
4. What is the most common reason for an individual to take out a consolidation loan?
 - (a) pay for a house
 - (b) get out of bankruptcy
 - (c) invest in the stock market
 - (d) combine debts into one payment
5. Which of the following can hurt your credit rating?
 - (a) making late payments on loans and debts
 - (b) staying in one job too long
 - (c) living in the same location too long
 - (d) using your credit card frequently for purchases
6. If you want to pay your mortgage off more quickly, you can:
 - (a) make more frequent payments
 - (b) choose to pay a higher interest rate
 - (c) make fewer payments than is required
 - (d) increase the amortization period for your mortgage
7. Which of the following helps to manage a credit card wisely?
 - (a) only pay the minimum balance required
 - (b) have a number of different credit cards to share the debt
 - (c) pay credit card bills by a shown due date
 - (d) check credit card statements every six months
8. The amount of interest you pay on a loan is affected by:
 - (a) your credit rating
 - (b) how much you borrow
 - (c) how long you take to repay the loan
 - (d) all of the above
9. Which of the following is NOT a benefit of making a purchase with a credit card?
 - (a) it can help establish a better credit rating for younger borrowers
 - (b) it creates a record of the things that you bought
 - (c) it enables you to avoid having to carry cash
 - (d) no fees are charged so long as the debt is paid off within three months

10. If interest rates rise, for which type of mortgage will monthly costs rise?
 - (a) fixed mortgage
 - (b) variable mortgage
 - (c) both – all mortgage costs will rise
 - (d) neither – mortgage costs are set for the term of the mortgage

11. Which of the following will help lower the total cost of a house?
 - (a) paying off the mortgage over a longer period of time
 - (b) agreeing to pay the current rate of interest on the mortgage for as many years as possible
 - (c) making a larger down payment at the time of purchase
 - (d) making monthly payments rather than payments every two weeks

12. Which of the following is NOT a benefit of investing in a mutual fund?
 - (a) makes it easier for smaller investors to diversity
 - (b) investments are managed by professionals
 - (c) mutual funds can be insured against loss
 - (d) mutual funds can be easily bought and sold

13. What does the “magic of compounding mean?”
 - (a) you can benefit from combining a group of investments
 - (b) savings build by earning interest on interest
 - (c) businesses can often do better by merging together
 - (d) you can save money by combining credit card debts together

14. If you were to save \$1,000 for a year at an interest rate of 2% and over that year the rate of inflation was 2.5%, what impact would this have on your savings?
 - (a) value of savings would increase by 4.5%
 - (b) value of savings would increase by 2%
 - (c) value of savings would increase by .5%
 - (d) value of savings would fall by .5%

15. Which of the following investments would likely involve the greatest amount of risk?
 - (a) investing in an individual stock
 - (b) investing in a mutual fund
 - (c) investing in a pension fund
 - (d) investing in a bond

16. Which of the following won't likely help you build up your savings?
 - (a) automatic payroll deductions
 - (b) working with a budget
 - (c) rising interest rates on deposits
 - (d) rising interest rates on debts

17. Which of the following changes is likely to help reduce future inflation in the economy?
 - (a) lower interest rates
 - (b) higher interest rates
 - (c) increasing the quantity of money in the economy
 - (d) raising tariffs on the products we import

18. An increase in “real wages” refers to an increase in:
 - (a) wages after taxes have been taken out
 - (b) wages after inflation has been taken out
 - (c) wages after benefits have been taken out
 - (d) wages that one can actually spend

19. When are you more likely to be better off?
- (a) when your wages rise by more than the rate of inflation
 - (b) when your wages rise by less than the rate of inflation
 - (c) when neither your wages nor inflation change
 - (d) when your wages and inflation rise by the same amount
20. Which deduction is not common for the paycheques of most employees?
- (a) contribution to company's designated charity
 - (b) Canada Pension Plan
 - (c) employment insurance
 - (d) company insurance and/or health care plan
21. Who owns the major banks?
- (a) the federal government
 - (b) the provincial governments
 - (c) the largest depositors
 - (d) shareholders
22. What impact would an increase in interest rates from 3 per cent to 5 per cent likely have on the economy?
- (a) more spending in the economy
 - (b) less spending in the economy
 - (c) higher prices in the economy
 - (d) more borrowing by consumers
23. When the federal government spends more money in a given year than it receives, what do we call the difference?
- (a) a national debt
 - (b) a budget deficit
 - (c) a budget surplus
 - (d) a national surplus
24. When the federal government spends more money in a given year than it receives, how can it get money to cover the difference?
- (a) sell bonds
 - (b) buy gold
 - (c) pay back debt to other countries
 - (d) buy bonds
25. What is one of the primary roles of our central bank – The Bank of Canada?
- (a) to control competition among banks in Canada
 - (b) to direct the operations of the banks and keep a watch on their profits
 - (c) to make sure the quantity of money is in line with the quantity of gold Canada has
 - (d) to help maintain stable prices and protect the value of money
26. When is the deadline for filing personal income tax returns in Canada?
- (a) December 31
 - (b) April 30
 - (c) March 31
 - (d) Deadlines differ across the country
27. Which of the following is not a type of tax paid by Canadians?
- (a) income tax
 - (b) goods and services tax
 - (c) shareholder tax
 - (d) capital gains tax

28. What is the approximate annual maximum amount that the Canada Pension Plan will provide to a Canadian retiring at age 65 as of 2018?
- (a) \$14,000
 - (b) \$24,000
 - (c) \$34,000
 - (d) \$44,000
29. Which of the following would best describe the term “sustainable development”?
- (a) ensuring that economic activity does not damage the environment
 - (b) helping developing countries to improve economic growth over time
 - (c) keeping the nation’s economy competitive in global markets
 - (d) maintaining economic growth for our economy in the future
30. What is the likely impact of a rise in the value of our currency in terms of the currencies of other countries?
- (a) our exports become more expensive for other countries to buy
 - (b) our imports from other countries become more expensive
 - (c) our citizens will find it more expensive when they travel in other countries
 - (d) visitors from other countries will find it less expensive when they travel in our country

Thank you for participating in the “Test of Economic and Financial Capability.”

Answer Key
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|---------|---------|
| 1. (d) | 16. (d) |
| 2. (d) | 17. (b) |
| 3. (b) | 18. (b) |
| 4. (d) | 19. (a) |
| 5. (a) | 20. (a) |
| 6. (a) | 21. (d) |
| 7. (c) | 22. (b) |
| 8. (d) | 23. (b) |
| 9. (d) | 24. (a) |
| 10. (b) | 25. (d) |
| 11. (c) | 26. (b) |
| 12. (c) | 27. (c) |
| 13. (b) | 28. (a) |
| 14. (d) | 29. (a) |
| 15. (a) | 30. (a) |