

Financial Fitness Checkup

Answers

1. “Compounded monthly” is an important term in relation to bank interest rates. It means you are paid interest every month. Each month your balance increases by the amount of interest paid the previous month, and you earn interest on the new total. For example, if you put \$300 into a savings account paying 3% compounded monthly, at the end of five years you’ll have \$348.49. Someone who receives a simple 3% interest rate will have \$ 347.78 after five years. As you continue to save, those pennies add up! *The correct answer is B.*
2. The key word here is “guarantee.” Jobs A and B offer some exciting-sounding possibilities, but you can only be sure of \$160 a month from Job A or Job B. Job C guarantees \$280 a month. Of course, you won’t bring home the full amount from any of the jobs—taxes will be deducted first. *The best answer is C.*
3. Finding the best deal can be a close call. Store A’s sale works out to \$63.20; Store B’s is \$62.30. *The correct answer is B.*
4. Start saving! You’ll need to put away nearly \$4.20 every week for six weeks to total at least \$25. That’s about one-fourth of your \$17-a-week income. *The answer is B.*
5. Boing! That’s the sound of your check “bouncing,” which means the bank won’t pay the store because you don’t have enough money in your account. The bank and store don’t think “boing” is an amusing sound. The bank will charge you an extra \$10-20 for bouncing a check, just like it says in the papers you signed to open your account. The store may also charge \$10-15 for a returned check. Oh, and there’s the \$5 you didn’t cover in the first place. Grand total for your \$5 “mistake”: \$15-40, depending on what the bank and store charge. *The correct answer is C.*
6. Repaying the bank loan will cost you \$170.93 in interest payments. The loan from your uncle totals \$223.19 in interest. Even though it’s a lower rate, the extra year of payments makes a big difference. *The correct answer is A.*
7. Time is on your side! Thanks to interest compounding year after year, you will have \$191,148 at age 65 after paying in \$20,000, assuming an interest rate of 6% compounded annually. Your mother’s \$20,000 will grow to only \$59,601 by the time she is 65. *The correct answer is A.*
8. It pays to wait. Working a year and a half, or 78 weeks, at \$300 earns \$23,400. Two full years, or 104 weeks, at \$206 a week earns only \$21,424. And a high school diploma pays off in the long run, too. High school graduates, on average, earn almost 50 percent more than drop outs. *The correct answer is B.*

Your Financial Fitness Prognosis

What shape are you in?

Do you know how to make the most of the money you make, save, and spend?

Count one point for each correct answer.

7-8 points: Financially Fit

3-6 points: Need to Work Out

1-2 points: Financially Flabby