**POSTTEST KEY**

**OBJECTIVE A**

 1. **d Return.** Investors are willing to take a risk for the potential of return (reward or benefit they might receive). The return is what the investment can potentially earn for the investor. Prizes are awarded to players in sweepstakes contests. Bonuses are added to employees’ paychecks. And, recognition is positive attention for extraordinary achievements. Prizes, bonuses, and recognition do not provide the motivation for investing. (5 points)

 2. **a For the potential of a high return, you usually accept a high risk.** The statement, “For the potential of a high return, you usually accept a high risk,” describes the relationship between risk and return. Higher risks usually bring higher returns. Lower risks usually bring lower returns. Every investment has some risk—none are risk-free. It would be unwise to take a high risk for something that might bring a low return. And, it is nearly impossible to find a high-return investment that requires only a low risk. (5 points)

 3. **d Goals**. The three factors that determine an investor’s risk tolerance are goals, time frame, and personality. Social status, banking institution, and income do not necessarily influence how much risk an investor should take. (5 points)

 4. **a One investment to another.** The purpose of the risk pyramid is to show a comparison of one investment to another. With high-, moderate-, and low-risk categories, the pyramid helps you to see which investments are more or less risky than others. Near the peak are the most risky investments, while at the base are the most reliable returns. The purpose
of the risk pyramid is not *just* to compare stocks to stock mutual funds, corporate bonds
to municipal bonds, or one stock to another. (5 points)

 5. **b Securities.** In investing, legal lending or owning agreements between individuals, businesses, or governments are known as securities. Securities can be separated into “lending” and “owning” categories. Bonds are one type of lending investment. Contracts are legal agreements, in general—not necessarily related to investing. Guarantees are sometimes provided by sellers to buyers in a purchase situation. (5 points)

 6. **c Allow borrowers to use their money for a price.** With a lending investment, investors
allow borrowers to use their money for a price. The extra money received provides the motivation for lending. With *any* investment, an investor might decide to hire a financial advisor. No investment avoids risk altogether. Money market accounts (specific lending
investments) sometimes require investors to maintain a minimum amount of money in
the investment. (5 points)

**POSTTEST KEY** (cont’d)

 7. **a The rate of return doesn’t keep up with inflation**. Savings accounts earn low rates of
return—usually not even enough to keep up with inflation. This causes the investor’s
money to lose buying power. Savings accounts do not require a minimum balance or incur penalties for withdrawing money early. Savings accounts are very low-risk investments,
especially since they are insured by the FDIC. (5 points)

 8. **b You can often write checks from a money market account**. Money market accounts and savings accounts are very similar. One advantage of a money market account over a savings account, however, is that you can often write checks from your money market account (something savings accounts don’t allow). Stocks, not money market accounts,
provide corporate ownership rights. The rate of return for money market accounts is
currently just about the same as the rates for savings accounts. Both types of accounts
are insured by the FDIC. (5 points)

 9. **d You must pay a penalty for withdrawing your money early**. Certificates of deposit are bank-issued securities that guarantee a set rate of return for a specific period of time. If you withdraw your money before that time period has ended, you will pay a penalty for doing so. CDs are considered low-risk investments. Their return is guaranteed, so
depreciation is not a concern for investors. (5 points)

 10. **a They are very low risk**. Bonds are very low risk investments. As a matter of fact, they are often referred to as “guaranteed money.” However, you can’t access your money at any time, and bonds are not FDIC-insured. Bonds are lending investments with little risk;
therefore, they don’t offer extremely high rates of return. (5 points)

**Objective B**

 11. **b Risk-tolerant**. Ownership investments generally carry more risk than lending investments. Therefore, they are ideal for risk-tolerant investors, rather than risk-averse investors. Ownership investments may or may not work for those just beginning to invest or those close to retirement—it just depends on the situation. (5 points)

 12. **d Pay for the right to own something.** With an ownership investment, investors pay for the right to own something. When they do this, they may buy a home to live in, collect popular items, or even invest in multiple corporations through stock mutual funds. (5 points)

**POSTTEST KEY** (cont’d)

13. **d High degree of risk**. The main disadvantage of owning stock is the high degree of risk
involved. The investor may not make a return on the investment—and may even lose the
initial sum s/he put in. However, investing in stock does create a high potential for return. Stock investors won’t lose their personal time and effort in the way that entrepreneurs might. There is no penalty for selling stocks early because there is no time frame for which investors are required to keep them. (5 points)

 14. **a Stock mutual funds.** Stock mutual funds are ownership investments that allow access to an “expert” manager—called a fund manager. Collecting popular items may or may not
involve a manager. You can collect on your own, if you want to. The same with purchasing real estate: You are not given access to any expert, in particular. And, stock purchases do not provide an “expert” to help you. (5 points)

15. **c Land to be developed in the future**. Real estate is property, such as land to be developed in the future. If the property becomes more valuable, investors can sell it for a profit. A certificate of deposit is a lending investment in which an individual lends money to a bank to earn a set rate of interest for a specified period of time. A bond is a lending investment in which an individual lends money to a government, municipality, or corporation to earn
a set rate of interest for a specified time period. Partial ownership of a corporation is stock. (5 points)

16. **d Depreciation**. The biggest risk to a real estate investment is depreciation. If property values go down, the investor will not make a return and could even lose money. Only bank accounts are FDIC-insured, so not having that advantage does not necessarily make real estate a riskier investment than any other ownership investment. The same goes for the inability to write checks—this is not an advantage any other ownership investments have, either. As with most ownership investments, real estate has the potential for a high rate
of return. (5 points)

 17. **a Entrepreneurship**. The ownership investment with the greatest risk of personal loss is
entrepreneurship, or business ownership. When a business fails, the owner loses not just money, but also time, effort, pride, etc. A mutual fund does not carry this risk of personal loss, nor do the lending investments of savings accounts and bonds. (5 points)

 18. **b Collectibles.** Items that gain or lose value over time are collectibles—such as antiques, gems, stamps, dolls, and sports memorabilia. “Collecting” usually involves owning these items, waiting until they become really valuable, and then selling them for a profit. With stocks and stock mutual funds, investors own pieces of corporations or agencies. With real estate investments, investors own property. (5 points)

**POSTTEST KEY** (cont’d)

19. **c Themselves**. Businesses invest money just as individuals do, with the hope for a healthy return. Often, businesses invest back into themselves by researching and developing new products, purchasing the latest and most efficient technologies, expanding into new markets, etc. They may also invest in stocks, bonds, or real estate, but putting money back into the company is the most common form of business investment. (5 points)

20. **b Endowment funds**. Non-profit organizations often pool and invest donated money in endowment funds. These funds are intended to create additional wealth for the organization. Non-profits do not usually invest pooled funds in CDs, savings accounts, or money market accounts. (5 points)

**Suggested** Criterion Level: 80 points