

DANTES

Subject Standardized Tests

Fact Sheet Study Guide

PERSONAL FINANCE

TEST INFORMATION

This test was developed to enable schools to award credit to students for knowledge equivalent to that which is learned by students taking the course. The school may choose to award college credit to the student based on the achievement of a passing score. The passing score for each examination is determined by the school based on recommendations from the American Council on Education (ACE). This minimum credit-awarding score is equal to the mean score of students in the norming sample who received a grade of C in the course. Some schools set their own standards for awarding credit and may require a higher score than the ACE recommendation. Students should obtain this information from the institution where they expect to receive credit.

CONTENT

The following topics, which are commonly taught in courses on this subject, are covered by this examination.

- | | Approximate
Percent |
|---|--------------------------------|
| I. Overview | 12% |
| A. Financial goals and values | |
| B. Budgeting (spending plan) and financial statements | |
| C. Cash management | |
| D. Economic terminology (recession, depression, etc.) | |
| E. Institutional aspects of financial planning (e.g., CFP, CHFC, FDIC, NASD, SEC) | |

- | | Approximate
Percent |
|---|--------------------------------|
| II. Credit and Debt | 20% |
| A. Credit cards | |
| B. Installment loans | |
| C. Interest calculations | |
| D. Federal credit laws | |
| E. Creditworthiness, credit scoring and reporting | |
| F. Bankruptcy | |
| 1. Various chapters | |
| 2. Alternatives | |
| 3. Advantages and disadvantages | |
| III. Major Purchases | 14% |
| A. Auto, furniture, appliances | |
| 1. Preshopping research/comparison shopping | |
| 2. Lease vs. buy | |
| 3. Warranties/service contracts | |
| 4. Lemon laws and redress | |
| a. Effective complaining | |
| b. Small claims court | |
| B. Housing | |
| 1. Rent vs. buy | |
| 2. Financing | |
| a. Adjustable Rate Mortgages (ARMs) | |
| b. Fixed-rate mortgages | |
| c. Closing costs | |
| d. PITI | |
| 3. Rules of thumb (ratios) | |
| 4. Roles of professionals (real estate agents, inspectors, appraisers, lawyers) | |



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| IV. Taxes | Approximate
Percent | A. Payroll |
| | 11% | B. Income |

	<u>Approximate Percent</u>
C. IRS and audits	
D. Estate and gift	
E. Tax planning/estimating	
F. Progressive vs. regressive	
G. Other (excise, property, state income)	
H. Tax professionals	
V. Insurance	14%
A. Risk management	
B. Life policies	
1. Term vs. cash value	
2. Policy terminology	
C. Property and liability policies	
1. Personal and family auto	
2. Homeowners	
3. Umbrella coverage	
4. Terminology	
D. Health and Disability policies	
1. Major medical	
2. HMOs	
3. Medicare and Medicaid	
4. Terms and concepts	
E. Specialty insurance (e.g., professional, malpractice, antiques)	
F. Insurance analysis and sources of information	
VI. Investments	17%
A. Liquid assets	
1. Savings accounts	
2. Certificates of Deposit (CDs)	
3. Money market funds/Money market deposit accounts	
4. Emergency funds	
B. Fixed income/Bonds (e.g., Treasury, municipal, deep discount, corporate, junk, zero-coupon, Ginnie Mae)	
C. Equities	
1. Stock exchanges	
2. Over-the-counter stocks	
3. Primary vs. secondary markets	
4. Common vs. preferred stocks	
5. P/E ratio	
6. Stock analysis techniques	
D. Mutual funds	
1. Dollar-cost averaging	
2. Load vs. no-load	
3. Fee structures	
E. Other (e.g., commodities, precious metals, real estate, options)	
F. Sources of information (e.g., professionals, Moody's, S&P, <i>Morning Star</i> , <i>Barrons</i> , <i>Value Line</i> , prospectuses, audited annual financial reports)	
G. Time value of money	
H. Asset/Portfolio allocation	
VII. Retirement and Estate Planning	12%
A. Qualified retirement accounts (roll-overs) (e.g., IRA, SEP, Keogh, 401(k), 403(b))	
B. Terminology (vesting, maturity)	
C. Social Security benefits	
D. Wills and trusts	
E. Tax-deferred annuities	
F. Estate planning (e.g., probate vs. non-probate)	

Questions on the test require candidates to demonstrate the following abilities. Some questions may require more than one of the abilities.

- Knowledge of basic facts and terms (about 45 - 50% of the examination)
- Understanding of concepts and principles (about 30 -35% of the examination)
- Ability to apply knowledge to specific problems and situations (about 15 - 20% of the examination)

SAMPLE QUESTIONS

- Which of the following resources could be used to evaluate the financial strength of an insurance company?
 - Morningstar
 - Best's
 - Dun & Bradstreet
 - Standard and Poor's
- Joe and Betty are both recent college graduates in their mid-twenties and are working at junior executive positions in medium-size firms. They plan to get married in two months and hope to have a baby within the next three years. Which of the following short-term goals should they be considering now?
 - Accumulating a savings fund for their honeymoon
 - Establishing a retirement plan for themselves
 - Establishing a college tuition fund for their child
 - Accumulating a down payment for a house
- The federal income tax is considered a progressive tax because as a person's income rises the person's tax rate
 - remains the same
 - increases
 - decreases
 - fluctuates
- Which of the following types of bankruptcy is designed for debtors with regular incomes who must attempt to repay as much of the debt as possible within a certain time period?
 - Chapter 5
 - Chapter 7
 - Chapter 11
 - Chapter 13
- A lender is offering a fixed-rate loan with two points. If a family plans to purchase an \$80,000 house by putting 20% down and borrowing \$64,000, how much will the two points cost?
 - \$1,600
 - \$1,280
 - \$2,000
 - \$1,400
- Which of the following types of insurance provides an individual with a percentage of lost income due to physical or mental incapacity?
 - Health
 - Major medical
 - Disability
 - Umbrella
- A 65-year-old retiree with a 50-year-old spouse is considering various annuity payout options. Which of the following payout options would provide the retiree with the largest annual payment?
 - Straight life
 - Joint life
 - 20-year-certain
 - Refund
- A blue chip company is generally defined as a
 - new company whose stock trades over-the-counter
 - well-established company whose stock trades on the NYSE
 - 20-year-old limited partnership that is sold by stockbrokers
 - 3-year-old mutual fund whose stock trades on the NYSE
- An increase in the consumer price index (CPI) is generally an indication of
 - increased unemployment
 - increased inflation
 - continued recession
 - reduced trade deficit

STUDYING FOR THE EXAMINATION

The following is a list of reference publications that were being used as textbooks in college courses of the same or similar title at the time the test was developed. Appropriate textbooks for study are not limited to those listed below. If you wish to obtain study resources to prepare for the examination, you may reference either the current edition of the following titles **or** textbooks currently used at a local college or university for the same class title. It is recommended that you reference **more than one textbook** on the topics outlined in this fact sheet. You should **begin by checking textbook content against the content outline** included on the front page of this Fact Sheet/Study Guide **before** selecting textbooks that cover the test content from which to study. Textbooks may be found at the campus bookstore of a local college or university offering a course on the subject.

Sources for study material suggested but not limited to the following:

Garman, E. Thomas and Raymond E. Forgue. *Personal Finance*. Boston: Houghton Mifflin Company, current edition.

Gitman, Lawrence J. and Michael D. Joehnk. *Personal Financial Planning*. Chicago: The Dryden Press, current edition.

Hallman, G. Victor and Jerry S. Rosenbloom. *Personal Financial Planning*. New York: McGraw-Hill, Inc. current edition.

Kapoor, Jack R., Les R. Dlabay, and Robert J. Hughes. *Personal Finance*. Homewood, IL: Richard D. Irwin, Inc., current edition.

Lang, Larry R. *Strategy for Personal Finance*. New York: McGraw-Hill, Inc., current edition.

Quinn, Jane Bryant. *Making the Most of Your Money: Smart Ways to Create Wealth and Plan Your Finances in the '90s*. New York: Simon & Schuster, current edition.

Rosefsky, Robert S. *Personal Finance*. New York: John Wiley & Sons, Inc. current edition.

Winger, Bernard J. and Ralph R. Frasca. *Personal Finance: An Integrated Planning Approach*. New York: Macmillan Publishing Company, current edition.

Current textbook used by a local college or university for a course on the subject.

CREDIT RECOMMENDATIONS

The Center for Adult Learning and Educational Credentials of the American Council on Education (ACE) has reviewed and evaluated the DANTES examination development process. The American Council on Education has made the following recommendations:

Area or Course	Personal Finance
Equivalent:	Lower-level baccalaureate
Level:	Three (3) semester hours
Amount of Credit:	ACE Commission on
Source:	Educational Credit
	and Credentials

INFORMATION

Colleges and universities that would like to review copies of tests, have additional information about the national norming, or assistance in local norming or score validation studies should write to: DANTES Program, Mail Stop 11-P, The Chauncey Group International, 664 Rosedale Road, Princeton, New Jersey 08540.

It is advisable that schools develop a consistent policy about awarding credit based on scores from this test and that the policy be reviewed periodically. The Chauncey Group will be happy to help schools in this effort.

Correct responses to sample questions: 1.B; 2.D; 3.B; 4.D; 5.B; 6.C; 7.A; 8.B; 9.B

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