

UNIT 4 REVIEW

Planning for the Future & Financial Independence

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Student Directions

- Answer all questions.
- You may respond in complete sentences or bullet points.
- Show your thinking using examples, evidence, and explanations.
- When evaluating a scenario, support your reasoning with information from the situation provided.
- Use these sentence starters if helpful:
 - "The evidence suggests . . ."
 - "One advantage is . . ."
 - "One risk is . . ."
 - "This strategy may be effective because . . ."
 - "I would recommend . . . because . . ."
 - "This decision could affect the future by . . ."

Topic 1: Investing vs. Saving

1. Two students each save \$2,000.

Student A places the money in a savings account earning a low interest rate.

Student B invests the money for 20 years.

- a. What advantage does Student A have?

- b. What advantage does Student B have?

- c. Explain why the two students may make different decisions even if they have the same amount of money.

- 2. A student invests \$1,000 and earns 8% interest. The next year, interest is earned on both the original investment and the previously earned interest.
 - a. Explain what is happening to the student's money over time.

 - b. Why does this process become more powerful over longer periods of time?

 - c. Approximately how many years would it take for the investment to double using the Rule of 72?

 - d. Explain how this estimate can help investors think about long-term growth.

3. A student plans to buy a car in two years.
Another student is investing for retirement in forty years.
 - a. Which student may be more willing to accept investment risk?

 - b. Explain why time horizon affects investment decisions.

4. Two investors have the same goal but different comfort levels with risk.
 - a. How might their investment choices differ?

 - b. Why is there not one “best” investment strategy for everyone?

Topic 2: Investing Basics & Asset Growth

5. An investor places all of their money into one company's stock.

Another investor spreads money across stocks, bonds, and mutual funds.

a. Which investor is more diversified?

b. Explain how diversification may affect risk.

6. Inflation averages 4% per year.

A savings account earns 2% interest.

a. What happens to the purchasing power of the money over time?

b. Explain why earning interest does not always mean wealth is growing in real terms.

7. An investment earns a 7% return during a year when inflation is 3%.
 - a. Explain the difference between the nominal return and the real return.
 - b. Why might investors care more about real returns than nominal returns when evaluating long-term growth?
8. Two investors choose different strategies.

Investor A frequently buys and sells investments trying to outperform the market.

Investor B invests in a broad index fund and rarely makes changes.

 - a. Which investor is using an active strategy?
 - b. Which investor is using a passive strategy?
 - c. Explain one advantage and one disadvantage of each approach.

9. A recent graduate is building an investment portfolio.
 - a. Identify three factors that should influence investment decisions.
 - b. Explain how each factor could affect the investment choices a person makes.

Topic 3: Risk Management & Insurance

10. A person purchases health insurance because they cannot afford a large unexpected medical bill.
- Explain how insurance changes the financial risk faced by the person.
 - Why might paying a premium be worthwhile even if the person never files a claim?
11. A person chooses not to text while driving.
Another person purchases auto insurance.
- How does each person attempt to manage risk?
 - Explain how the two approaches differ.

12. A bank customer keeps \$5,000 in an FDIC-insured account.
- How does FDIC protection reduce financial risk?
 - Why does FDIC protection not eliminate all financial risk?
13. Two investors experience a market decline.
- Investor A sells investments immediately out of fear.
- Investor B reviews long-term goals before making a decision.
- Which investor appears more influenced by emotion?
 - Explain how behavioral biases can affect financial outcomes.
14. A person is selecting a financial professional.
- Identify two qualifications or characteristics the person should evaluate.
 - Explain why each may be important when choosing financial advice.

Topic 4: Long-Term Financial Planning & Insurance Needs

15. A 25-year-old and a 55-year-old are evaluating insurance needs.

- a. Identify one type of insurance that may be more important for the 25-year-old and one that may become more important for the 55-year-old.
- b. Explain how life stage can influence insurance decisions.

16. Two health insurance plans are available.

Plan A:

- Low premium
- High deductible

Plan B:

- High premium
- Low deductible

- a. Which plan might appeal to someone who rarely uses medical services?
- b. Which plan might appeal to someone who expects frequent medical expenses?

c. Explain your reasoning.

17. A worker contributes to an employer-sponsored retirement plan and receives an employer match.

a. Why is an employer match valuable?

b. Explain how starting early can affect retirement outcomes.

18. A person dies without a will.

a. Identify one challenge family members may face if a person dies without a will.

b. Explain how a will or beneficiary designation could help prevent that challenge.

19. A person wants to build long-term financial independence.
- a. Identify one decision related to saving or investing.
 - b. Identify one decision related to insurance.
 - c. Identify one decision related to retirement planning.
 - d. Explain how all three decisions may work together to support future financial stability.

Comprehensive Synthesis Case

20. Life Planning Scenario

Jordan is 24 years old and has recently started a full-time job.

Jordan:

- Has \$3,000 in savings
- Receives a 401(k) employer match
- Has health insurance options available
- Wants to buy a home someday
- Has not created any estate-planning documents
- Is deciding whether to keep all savings in cash or begin investing some money

Answer the questions below.

- Identify one reason Jordan might keep some money in savings.
- Identify one reason Jordan might choose to invest some money.
- Explain why participating in the employer retirement plan may be beneficial.

- d. Recommend one type of insurance Jordan should prioritize and explain why.
- e. Explain how risk tolerance and time horizon could affect Jordan's investment choices.
- f. Identify one estate-planning tool Jordan may need and explain its purpose.
- g. Using evidence from the scenario, explain whether Jordan appears well-positioned for long-term financial independence.
- h. Identify one additional action Jordan could take today to strengthen future financial security.
- i. Based on the information provided, what is Jordan's greatest financial planning opportunity right now? Explain your reasoning.