ARIZONA STATE UNIVERSITY (ASU) FIN380 PERSONAL FINANCIAL MANAGEMENT TEST 3 PRACTICE (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

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How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

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Questions

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1. What is a Balloon Payment?

A. A low-interest loan

B. A large final payment after smaller monthly payments

C. An early repayment fee

D. A penalty for late payments

2. Which component of homeowner's insurance is designed to assist if your home is uninhabitable?

A. Medical payments

B. Loss of use

C. Property damage coverage

D. Liability coverage

3. What does 'naked' refer to concerning options writing?

A. Options covered by collateral

B. Free options given out

C. Options not covered by a stock position

D. Options limited to one stock type

4. What defines a subprime borrower?

A. Someone with excellent credit history

B. Someone with poor credit history

C. Someone with stable income

D. Someone with multiple investments

5. What do Class B shares usually entail?

A. No upfront costs

B. Front end costs + fees

C. Back end costs + fees

D. Level load

6. Which insurance scheme is generally more expensive than an HMO?

A. PPO

B. PIP

C. POS

D. Deductible Health Plan

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7. Which type of loan typically requires collateral or a cosigner?

A. Secured Loans

B. Unsecured Loans

C. Subprime Loans

D. Personal Loans

8. What is the impact of having multiple types of credit on your credit score?

A. It decreases the score significantly

B. It has no effect

C. It can increase the score

D. It makes future borrowing impossible

9. Which term refers to the insurance that may be required in addition to regular mortgage payments for conventional loans?

A. Homeowner's insurance

B. PMI (private mortgage insurance)

C. VA insurance

D. FHA insurance

10. Which service allows investors to switch between different mutual funds within the same family?

A. Systematic withdrawal

B. Exchange privilege

C. Automatic reinvestment

D. Diversification strategy

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Answers

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1. B
2. B
3. C
4. B
5. C
6. A
7. A
8. C
9. B
10. B

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Explanations

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1. What is a Balloon Payment?

A. A low-interest loan

B. A large final payment after smaller monthly payments

C. An early repayment fee

D. A penalty for late payments

A balloon payment refers specifically to a large final payment made at the end of a loan term after a series of smaller periodic payments. In this type of financing structure, borrowers typically make lower monthly payments throughout the life of the loan, which can make cash flow more manageable in the short term. However, this arrangement culminates in a significant lump sum payment due at the end of the loan, which can be surprising or challenging for borrowers who may not be prepared for the larger amount. This concept is often used in real estate mortgages or auto loans, enabling borrowers to qualify for loans based on the lower initial payments. However, it is crucial for borrowers to plan for this final balloon payment, as it requires either refinancing, selling the asset, or being able to pay off the large sum when it's due. Thus, understanding the structure of balloon payments is essential for effective personal financial management, especially in budgeting for long-term financial obligations.

2. Which component of homeowner's insurance is designed to assist if your home is uninhabitable?

A. Medical payments

B. Loss of use

C. Property damage coverage

D. Liability coverage

The component of homeowner's insurance that is designed to assist if your home is uninhabitable is loss of use coverage. This coverage comes into play when a covered peril, such as a fire or natural disaster, renders your home unlivable. Loss of use helps to cover additional living expenses that you might incur, such as hotel stays, temporary housing, and other necessities while your home is being repaired or rebuilt. Medical payments are intended to cover medical expenses for injuries that occur on your property regardless of fault, while property damage coverage focuses on repairing or replacing the physical structure of the home and its contents. Liability coverage provides financial protection in the event someone is injured on your property and sues you. While all these components serve important roles in a homeowner's insurance policy, loss of use is specifically tailored to address the scenario when your home cannot be occupied due to damage, making it the correct answer in this context.

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3. What does 'naked' refer to concerning options writing?

A. Options covered by collateral

B. Free options given out

C. Options not covered by a stock position

D. Options limited to one stock type

In options trading, the term 'naked' specifically refers to options that are sold without an offsetting position in the underlying asset. When an options writer sells a naked option, they do not own the corresponding shares of the underlying stock. This means that the writer has not taken the precaution of having the underlying asset on hand to fulfill the obligations of the option, should it be exercised by the buyer. Selling naked options can involve higher risk, as the writer is obligated to fulfill the option contract without having a protective stock position to limit potential losses. If the market moves against the writer's position, they may face significant financial exposure. In contrast, options covered by collateral involve having either the underlying shares or sufficient cash or assets set aside to fulfill the contract's obligations. Thus, the correct choice firmly identifies what it means to write options without a corresponding stock position, reflecting the inherent risk of naked options in trading strategies.

4. What defines a subprime borrower?

A. Someone with excellent credit history

B. Someone with poor credit history

C. Someone with stable income

D. Someone with multiple investments

A subprime borrower is defined primarily by having a poor credit history, which indicates a higher risk level when it comes to repaying loans. Subprime borrowers typically have credit scores that fall below the prime threshold set by lenders, which can result from factors such as missed payments, defaults, or a limited credit history. Consequently, this classification often makes it more difficult for them to secure loans, and when they do, they tend to face higher interest rates to compensate the lender for the increased risk. In contrast, options that refer to someone with excellent credit history, stable income, or multiple investments do not align with the characteristics of a subprime borrower. Individuals in these latter categories are generally viewed as lower-risk by lenders and are more likely to obtain favorable loan terms.

5. What do Class B shares usually entail?

A. No upfront costs

B. Front end costs + fees

C. Back end costs + fees

D. Level load

Class B shares are typically characterized by back-end costs, which means that investors pay fees when they sell their shares rather than when they initially purchase them. This structure is designed to encourage investors to hold their investments over a longer period, as the back-end loads often decrease over time, eventually becoming zero if the shares are held long enough. Investors in Class B shares do not encounter upfront charges, making them accessible without immediate costs. However, should they choose to sell their shares, the back-end load will apply, which can potentially deter short-term trading. This setup often appeals to investors looking for a more long-term investment strategy. The other options do not accurately reflect the nature of Class B shares. For instance, an upfront cost structure or a front-end load would be associated with other share classes, not Class B. Level loads pertain to a consistent fee structure over time rather than the back-end cost characteristics particular to Class B shares. Thus, the defining characteristic of Class B shares is indeed the back-end costs coupled with associated fees.

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6. Which insurance scheme is generally more expensive than an HMO?

A. PPO

B. PIP

C. POS

D. Deductible Health Plan

A Preferred Provider Organization (PPO) is generally more expensive than a Health Maintenance Organization (HMO) due to its structure and flexibility in healthcare services. PPOs allow members to visit any healthcare provider without a referral, including out-of-network options, which enhances the level of choice and convenience. This wider range of options typically comes with higher premiums, as the insurance company takes on more risk with the potential for higher costs associated with non-network providers. In contrast, HMOs usually offer lower premiums in exchange for a more limited network of providers and require members to choose a primary care physician who coordinates their care. This more affordable model focuses on preventive care and managing costs through defined networks. The other options, such as Personal Injury Protection (PIP), Point of Service (POS), and Deductible Health Plans, feature different structures that may or may not lead to higher costs relative to an HMO, but in the context of general healthcare insurance plans, a PPO stands out for its typically higher expense due to its greater flexibility and provider choice.

7. Which type of loan typically requires collateral or a cosigner?

A. Secured Loans

B. Unsecured Loans

C. Subprime Loans

D. Personal Loans

Secured loans are types of borrowing arrangements that require the borrower to provide collateral to the lender as security for the loan. This collateral can be an asset such as a car, real estate, or savings accounts. If the borrower fails to repay the loan, the lender has the right to take possession of the collateral to recover the outstanding debt. This reduces the risk for lenders, which often results in lower interest rates compared to loans that do not require collateral. In contrast, unsecured loans do not require collateral, meaning they are based solely on the borrower's creditworthiness and ability to repay. While subprime loans may involve higher interest rates due to a borrower's lower credit scores, they are also typically unsecured. Personal loans can be either secured or unsecured, but many personal loans do not require collateral. The defining characteristic of secured loans is the need for collateral, making them distinctly different from the other types mentioned.

8. What is the impact of having multiple types of credit on your credit score?

A. It decreases the score significantly

B. It has no effect

C. It can increase the score

D. It makes future borrowing impossible

Having a diverse mix of credit types can positively impact your credit score. This is because credit scoring models, such as those created by FICO and VantageScore, often consider the variety of credit accounts you manage as a sign of your creditworthiness. When you have a good mix of installment loans (like auto or personal loans) and revolving credit (like credit cards), it indicates that you can responsibly handle different forms of debt. Furthermore, a diverse credit profile demonstrates to lenders that you can manage various financial obligations effectively, which may lead to a higher credit score. This can be beneficial when applying for new credit, as it shows you are not overly reliant on one type of credit. Maintaining multiple types of credit, while ensuring that you manage them responsibly, typically allows you to build a stronger credit history, which is crucial for achieving better lending terms in the future.

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9. Which term refers to the insurance that may be required in addition to regular mortgage payments for conventional loans?

A. Homeowner's insurance

B. PMI (private mortgage insurance)

C. VA insurance

D. FHA insurance

The correct term referring to the insurance that may be required in addition to regular mortgage payments for conventional loans is private mortgage insurance (PMI). PMI is typically required by lenders when a borrower makes a down payment that is less than 20% of the home's purchase price. The purpose of PMI is to protect the lender in case the borrower defaults on the loan. By obtaining PMI, the lender mitigates their risk, which allows them to provide loans to borrowers who may not have a substantial down payment saved up. Homeowner's insurance is essential for protecting the homeowner's property and belongings but is not specifically related to mortgage requirements. VA insurance pertains to loans backed by the Department of Veterans Affairs, which serves a different group of borrowers and involves its own insurance guarantees. FHA insurance relates to loans insured by the Federal Housing Administration, typically aimed at helping lower-income borrowers. While these insurances play vital roles in their respective contexts, they do not specifically address the need for insurance in conventional loans where PMI is mandated when borrowers have lower down payments.

10. Which service allows investors to switch between different mutual funds within the same family?

A. Systematic withdrawal

B. Exchange privilege

C. Automatic reinvestment

D. Diversification strategy

The option that allows investors to switch between different mutual funds within the same family is the exchange privilege. This service is commonly offered by mutual fund companies and enables investors to transfer their investments from one fund to another without incurring a sales charge, provided that both funds belong to the same family of funds. This is particularly useful for investors who want to adjust their asset allocation or take advantage of different investment opportunities without facing additional costs. Exchange privileges can enhance an investor's flexibility, allowing them to reallocate their investments in response to changing market conditions or personal financial goals. This is a strategic feature that promotes a more dynamic management of an investor's portfolio, as opposed to remaining locked into a single investment choice. In contrast, systematic withdrawal refers to a process where an investor regularly withdraws funds from an investment account, which does not involve switching funds. Automatic reinvestment pertains to reinvesting dividends or capital gains back into the same mutual fund rather than transferring to another one. A diversification strategy involves spreading investments across various assets to reduce risk, which is not specifically about switching funds within a family. Each of these alternatives serves different purposes in investment management but does not provide the capability to exchange funds as exchange privileges do.

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Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

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We wish you the very best on your exam journey. You've got this!

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