

Name: _____ Period: ____ Score: _____

FM Chapter 10 Review

Show your work on notebook paper and attach to the back.

1. Ms. Boston has a taxable income of \$72,000 and she pays about 20% in taxes. This year she contributed \$3,000 to a traditional IRA. How much did she save in taxes?
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Use the following information for questions 3-6.

Meryl contributed \$300 pre-tax dollars per month into her retirement account last tax year. Her taxable income for the year was \$67,105. She files taxes as a married filing separately taxpayer. See textbook pages 720 to 731 for the tax tables.

3. Use the tax table above to calculate her tax liability if she **did** contribute pre-tax dollars?
 4. What would her taxable income have been had she contributed to the account in after-tax dollars?
 5. Use the tax tables to calculate her tax liability if she did **not** contribute pre-tax dollars?
 6. How much did Meryl save in taxes during that year?
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Use the following information for questions 7-8.

Fulton has been paying \$195 per month for a \$220,000 life insurance policy for the past 29 years. He recently heard that the S&P 500 has averaged an 8.7% annual return over the past 29 years.

7. If he died tomorrow how much would his spouse receive?
 8. If he had invested the premiums in stock funds instead, would his balance be enough to offset the death benefit if he died tomorrow and by how much more/less?
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Use the following information for questions 9-10.

Carolyn has been contributing to a pre-tax retirement account. Her youngest child is ready to start college, and Carolyn wants to withdraw \$42,815.81 from the account for tuition. Carolyn's tax bracket this year is 25%, and she knows she will have to pay a 10% early withdrawal penalty. How much money will she pay in taxes and penalty?

9. How much money will she pay in taxes?
 10. How much money will she pay for the penalty?
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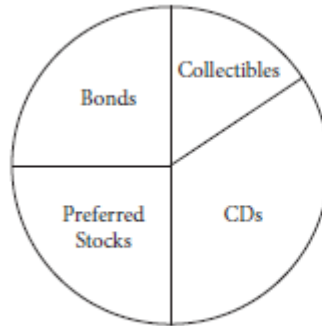
11. Hayden is 25 and wants to save \$500 per month towards retirement in 35 years. How much will he have in his account when he retires if he expects to earn 8% compounded monthly?

12. Hayden didn't follow through on his savings plan. He is now 45 and wants to save \$500 per month towards retirement in 15 years. How much will he have in his account when he retires if he expects to earn 8% compounded monthly?
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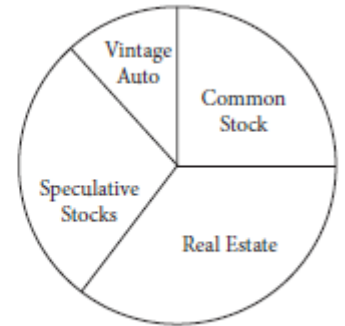
13. LaToya is 20 and wants to have saved \$500,000 by the time she retires in 45 years. How much should she save each month if she expects to earn 8% compounded monthly?
14. LaToya didn't follow through on her savings plan. She is now 48 and she still wants to have saved \$500,000 by the time she retires in 23 years. How much should she save each month if she expects to earn 8% compounded monthly?

Use the following information for questions 17-20.

(SM10-5:2) The following circle graphs give the proportional breakdowns of two investors' diversified portfolios.



Diane's Portfolio



Jack's Portfolio

17. Which investment in Diane's portfolio do you think is the most risky?
18. Which is Jack's riskiest investment?
19. Which portfolio do you consider to be the most risky?
20. Out of the eight different types of investments, which one is the least risky?

Use the following information for questions 21-24.

(SM10-5:5) Charlotte invested \$120,000 into stocks, bonds, and real estate several years ago. She diversified the investment according to the following percentages:

Stocks: 33% Bonds: 42% Real estate: 25%

21. The stocks increased 9% in value, what is the total gain or loss from the stocks?
22. The bonds gained 8% in value, what is the total gain or loss from the bonds?
23. The real estate lost 5% in value, what is the total gain or loss from the stocks?
24. What is the total gain or loss from this diversified portfolio?

Use the following information for questions 25-27.

(SM10-5:3) Kim is planning to set up a \$90,000 investment portfolio. She plans on investing 30% into stock, 30% into bonds, 30% into collectibles, and the remainder into a 10-year certificate of deposit.

25. How much is invested in the CD?
26. If the CD earns 2.25% interest compounded continuously, how much will it grow to in 10 years? Round to the nearest cent.
27. The same amount is invested in stocks as in collectibles. If the stock goes down 10%, and the collectibles gain 10% in value, what is the net gain from these two investments?