Test your financial literacy

Use this five question-quiz to see how much you know about financial matters. After you've selected your answers, check them against the correct answers on the next page.

1. Housing prices in the United States can never go down.

   True or False

2. Buying a single company's stock usually provides a safer return than a stock mutual fund.

   True or False

3. Considering a long time period (for example 10 or 20 years), which asset described below normally gives the highest returns?

   a. Stocks

   b. Bonds

   c. Savings accounts

   d. Precious metals

4. Imagine that the interest rate on your savings account was 1 percent per year and inflation was 2 percent per year. After 1 year, how much would you be able to buy with the money in the account?

   a. More than today

   b. Exactly the same as today

   c. Less than today

5. Suppose you had $100 in a savings account and the interest rate was 2 percent per year. After 5 years, how much do you think you would have in the account if you left the money to grow?

   a. More than $102

   b. Exactly $102

   c. Less than $102

Test your financial literacy
Answers

1. Housing prices in the United States can never go down.

   True or **False**

   Housing prices can fall. For example, the average price of a home in the United States dropped from $313,600 in 2007 to $270,900 in 2009.

2. Buying a single company's stock usually provides a safer return than a stock mutual fund.

   True or **False**

   It is less risky to buy a mutual fund. A mutual fund typically invests in a range of companies and industries, lowering your risk if one company fails.

3. Considering a long time period (for example 10 or 20 years), which asset described below normally gives the highest returns?

   a. **Stocks**

   b. Bonds

   c. Savings accounts

   d. Precious metals

   Over many decades, stocks have provided the highest average rate of return on an investment.

4. Imagine that the interest rate on your savings account was 1 percent per year and inflation was 2 percent per year. After 1 year, how much would you be able to buy with the money in the account?

   a. More than today

   b. Exactly the same as today

   c. **Less than today**

   Inflation will decrease your buying power. If the costs of goods and services increases by 2 percent in a year, but your savings account only increases by 1 percent, your savings have not kept up with inflation.

5. Suppose you had $100 in a savings account and the interest rate was 2 percent per year. After 5 years, how much do you think you would have in the account if you left the money to grow?

   a. **More than $102**

   b. Exactly $102

   c. Less than $102

   Compound interest will increase your savings to more than $102 after five years. After one year, you would have $102 in the account. You would earn $2.04 in interest the second year, and would have a balance of $104.04. After five years, the account balance would be $110.41.

LivingRight®
Your Health and Wellness Awareness Program

This quiz was used by the Board of Governors of the Federal Reserve System when it surveyed consumers for the Report on Economic Well-Being of U.S. Households 2017. This chart shows how many of those surveyed answered each question correctly.

Question	Correct	Incorrect	Don't know or no answer
1.	60	19	22
2.	46	4	50
3.	42	20	37
4.	62	12	25
5.	71	12	16
Average Score	56	13	30