

FCS 1450 Review Notes for Exam 1

Chapter 1. Financial Planning

Financial success
Financial and nonfinancial goals
Financial independence
Current consumption, future consumption and saving
Principle of diminishing marginal satisfaction
Life-cycle planning
Major financial planning areas
Marginal analysis
Opportunity costs
Building-block approach to financial planning

Chapter 2. The Time Value of Money

Simple interest vs. compound interest
Compounding and future value
Discounting and present value
Annuity
Goal planning

Chapter 3. Financial Statements and Budgets

Assets, liabilities, and net worth
Liquid assets, lifestyle (use) assets, and investment assets
Current liabilities and noncurrent liabilities
Income and expenses
Flexible and inflexible expenses
Financial ratios: liquidity ratios and debt ratios
The hierarchy of personal financial goals
The process of budgeting
Master budget
Monthly income and expense plan
Income and expense variances

Chapter 4. Taxes

Gross income
Adjusted gross income
Personal and dependency exemptions
Itemized or standard deductions
Taxable income
Tax rate structure and marginal tax rate: progressive, regressive, and flat
Filing status
Tax credit
IRAs and other retirement plans
IRS
Audit

Automatic extension
FICA tax: Social Security tax and Medicare tax
State and local taxes: income taxes, property taxes, and sales taxes
Gift tax
Inheritance tax
Estate tax
FICA tax: Social Security tax and Medicare tax
W-2 form
W-4 form

Chapter 5. Liquidity Management

Cash management strategy
Emergency reserve
Checking and NOW accounts
Savings account
Money market deposit accounts (MMDA)
Money market mutual fund
Certificate of deposit (CD)
U.S. Series EE bonds
U.S. Series HH bonds
Joint accounts – right of survivorship vs. tenants in common
Check endorsement: blank, restrictive, and special endorsement
Overdraft and overdraft protection
Guaranteed checks: certified check, cashier's check, and traveler's check
ATMs (automated teller machines)
EFTS (electronic fund transfer system)
Interest calculation method: day-of-deposit to day-o-withdrawal, minimum balance, FIFO, LIFO.

Chapter 6. Short-term credit management

Reasons for using credit
Disadvantages of using credit
Establishing a credit record
Credit bureau and credit reports
Secured credit card
Open-end vs. closed-end accounts
Revolving credit account
Bank credit card, affinity credit car, and T&E cards
Grace period
Balance calculation methods: previous balance, adjusted balance, average daily balance
Minimum payment
Various fees: cash advance fee, late payment fee, over-the-limit fee, minimum finance fee, return check fee, etc.
Dealing with billing errors
Chargeback
Credit blocking

Debit card and credit card
Retail installment credit: promissory note and security agreement
Annual Percentage Rate (APR)
Balloon payment
Home equity loan
Credit management strategy
Credit counseling
Bankruptcy: Chapter 7 and Chapter 11

Chapter 7. Consumer Durables

Consumer durables
Replacement cost and net replacement cost
Mail Order Merchandize Rule
Online auctions and consumer fraud
Warranty or guarantee: “as is”, implied warranty, express warranty, full warranty, limited warranty, extended warranty, secret warranty
Puffery
Lemon protection
Magnuson-Moss Warranty Act of 1975
Monroney sticker price, dealer sticker price, invoice price, base price
Cost of ownership for automobiles
Cost of operation for automobiles
Depreciation
Closed-end lease vs. open-end lease
Leasing terminology: gross capitalized cost, capitalized cost reduction, adjusted capitalized cost, residual value
Lease/buy comparison
Arbitration

Chapter 8. Housing

Determining how much you can afford
Housing affordability index
Rent/buy comparison: important factors affecting this comparison
Housing expense test and debt repayment test
Tax advantages of home ownership
Appraisal
Seller’s agent vs. buyer’s agent
Home inspection
Earnest money
Deed, title, and marketable title
Title insurance
Closing cost or settlement cost
Mortgage points
Contract rate
Different kinds of mortgages: fixed rate, adjustable rate, etc.
Teaser rate for adjustable rate mortgage

Negative amortization
Prepayment penalty
Escrow account
Private mortgage insurance
FHA and VA mortgage insurance
Foreclosure

FCS 1450 Review Notes for Exam 2

Chapter 9. Financial Markets and Institutions

Tangible vs. intangible investments
Total return= Current return + future return
Risk aversion vs. risk seeking
Basic investment alternatives: Table 9.1 on page 228: investment held for liquidity, securities with long or no maturities, pooling arrangements, contractual claims, tangible assets
Securities markets: organized exchange (NYSE, AMEX), over-the-counter markets (NASDAQ)
10-K report
Full-service stock broker vs. discount broker
Cash account vs. margin account
Leverage
Long vs. short positions
Kinds of orders: market order, limit order, stop order
Investment information: The Wall Street Journal, Barron's, Investor's Business Daily

Chapter 10. Investment Basics

Iron law of risk and return
Risks related to changing economic conditions: inflation, business cycle, interest rate
Risks related to the issuer: management, business, financial
Required rate of return, risk-free rate of return, and risk premium
Portfolio, diversification, and diversification guidelines
Random risk vs. market risk
Beta and Alpha
Dollar cost averaging
Dividend reinvestment plans (DRIPs)
Market timing

Chapter 11. Stocks and Bonds

Common stock vs. preferred stock
Common stock shareholders' rights: vote, proxy, preemptive right, residual claim
Dividends: regular dividends, periodic share repurchases, stock dividend, stock split
Type of stocks: growth, income, blue chip, cyclical
Able to read stock quotations on Web and in the newspaper
Price-to-Earnings ratio (P/E ratio): the lower the better, other things equal
Earnings per share (EPS)

PEG ratio (P/E ratio to the growth of EPS): the lower the better, other things equal

Book value and market-to-book ratio

Bond indenture and protective covenants

Bond debentures and subordinated debentures

Face value and coupon rate

Zero coupon bonds

Bond retirement methods: sinking fund, convertible bond

U.S. treasury securities: bills, notes, and bonds

U.S. treasury strips

Inflation-indexed Treasury bonds

U.S. agency bonds: conventional agency bonds and mortgage-backed bonds

Municipal bonds: general obligation (GO) bonds and revenue bonds

Chapter 12. Mutual Funds and Other Pooling Arrangements

Mutual fund

Net asset value (NAV)

Load fund vs. no-load fund

Open-end vs. closed-end funds

Discounts and premiums on closed-end funds

Prospectus

Types of mutual funds: growth, income, balanced, money market, sector, global, index

Reinvestment plan and fund switching

Average annual total return (AATR) and risk-adjusted return (RAROR)

Mutual fund expenses and portfolio turnover

Unit investment trusts (UITs)

Exchange-traded funds (ETFs): Broad market ETFs (QQQ, Diamond, Spider, ...) and market segment ETFs

Real Estate Investment Trusts (REITs)

Portfolio construction

Chapter 13. Property and Liability Insurance

Speculative risk vs. pure risk

Risk pooling

Adverse selection

Underwriting

Insurable interest

Indemnification

Risk management: reduction, avoidance, retention, transfer

All risks coverage vs. name perils coverage for homeowners' insurance

Replacement cost vs. actual cash value

Inflation guard endorsement

Policy clauses: deductible, mortgage, apportionment

Property coverage: dwelling, appurtenant structures, contents, loss of use, exclusions

Liability coverage: personal, medical payment, damage to the property to others, exclusions

Endorsement, floater, and umbrella coverage

Collecting on a loss: documentation, notification, evaluation
Liability coverage for auto insurance: split liability limit vs. single liability limit
Medical payments for auto insurance
Uninsured and underinsured motorists
Collision coverage and comprehensive coverage
No-fault insurance: verbal threshold and monetary threshold, personal injury protection
Factors affecting auto insurance rate

Chapter 14. Health Care and Disability Insurance

Flexible spending accounts
Basic health care insurance: hospital (indemnity, expense), surgical, and medical
Physician's expense insurance
Major medical insurance
Comprehensive health insurance
Usual, customary, and reasonable (UCR)
Co-payment and co-insurance
Preexisting conditions and waiting period
Guaranteed renewability
Policy limits
Managed care: HMO, Point of Service (POS), PPOs
Fee-for-service health insurance
Medicaid, Medicare, Medigap
Workers' compensation
Group coverage vs. individual coverage
Disability income insurance
Social Security Disability
Elimination or waiting period of disability insurance

Chapter 15. Life Insurance and Estate Planning

Estimating your life insurance needs
Transition fund: funeral+burial, estate tax, probate cost, out-of-pocket medical cost, debt
Family maintenance fund: multiple-of-salary approach vs. needs approach
Specialized funds: emergency, education, retirement
Unfunded needs and life insurance protection gap
Face amount, premium
Single life vs. joint life
Lives covered
Participating vs. nonparticipating insurance
Dividend, cash value, surrender value
Beneficiary and contingent beneficiary
Term insurance: increasing-premium, level-premium, and decreasing term
Group mortgage life
Cash value insurance: whole life, modified whole life, universal life, variable life
Tax advantage of cash value insurance
Death estate
Intestate and testate

Will

Executor or executrix

Administrator or administratrix

Per capita division vs. per stirpes division

Changing or revoking the will

Letter of last instruction

Probate

Joint tenancy, tenancy in common, and community property

Trust and living trust

Revocable vs. irrevocable trust

Chapter 16. Retirement Planning

Company pension plans

ERISA

Qualified retirement plan

Defined-benefit and defined-contribution plans

Vesting: Cliff vs. gradual

Credited service

Normal retirement age vs. early retirement age

Flat benefit formula vs. unit benefit formula

Joint and last survivor annuity vs. single life annuity

401(k), 403(b), and 457 plans

Profit-sharing plans

Employee stock ownership plans (ESOPs)

Individual retirement plans (IRAs): traditional and Roth, limits and tax implications

Keogh (HR-10)

Tax deferral

Annuity contract

Fixed vs. variable annuity

Immediate vs. deferred annuity

Reverse mortgage

Social security benefits: qualifying age, benefits, taxation, cost-of-living adjustments

Estimating retirement needs: expenditure needs, inflation, interest rate, when to start saving (no need to learn the exact calculation, but need to know the important factors and in which directions these factors affect saving needs)