

**FINANCIAL LITERACY QUESTIONNAIRE**  
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**Versions of this scale were used in the studies that formed the bases of the following publications, which are downloaded from ePrints.**

Noon, Kathryn L. and Fogarty, Gerard J. (2007) *Cognitive and personality predictors of financial literacy among adult Australians*. In: 42nd Australian Psychological Society Annual Conference 2007, 25-29 Sept 2007, Brisbane, Australia.  
**<http://eprints.usq.edu.au/3439/>**

Fogarty, Gerard J. and MacCarthy, Karina (2006) *Financial literacy: a psychologist's perspective on an emerging societal problem in Australia*. In: 2006 Joint Conference of the Australian Psychological Society and the New Zealand Psychological Society, 26-30 Sept 2006, Auckland, New Zealand.  
**<http://eprints.usq.edu.au/1210/>**

The original scale appeared in:

Beal, D.J., & Delpachitra, S. (2003). Financial literacy among Australian university students. *Economic Papers*, 22 (1), 65-78.

This test is designed to assess understanding of everyday financial matters.

Read through the question and choose the answer from the options.

Do not spend too much time on a question that gives you trouble, just mark your best guess and go on to the next question.

There are 25 items in this test. You will be allowed 15 minutes to complete as many questions as you can.

*NB: Correct answers are highlighted.*

**1. \$100 deposited in your bank account at 12% per annum simple interest would grow to \$112 at the end of one year.**

**If, instead, your \$100 had been deposited into an account which paid 1% per month, the balance in your account at the end of the year would be:**

- (a) \$100 - \$110.
- (b) \$110 - \$120.**
- (c) \$120 - \$130.
- (d) \$130 plus.

**2. The value of the Australian dollar is determined by:**

- (a) the government.
- (b) the Reserve Bank of Australia.
- (c) what the international money market is prepared to pay.**
- (d) the terms of international trade agreements.

**3. Financial planning only works if you:**

- (a) get help from a financial planner
- (b) know how much you earn and spend**
- (c) are contributing to a superannuation fund
- (d) have money to invest

**4. Traditional housing mortgages are usually negative balance accounts where the home-owners make repayments steadily over 20-30 years to pay off the outstanding debt.**

**New style housing loans that require you to pay your wage directly into a loan account and then redraw money for your living expenses (a lesser amount than the wage), have the effect of:**

- (a) extending the term of the housing loan.
- (b) increasing the amount of money the bank can loan to you.
- (c) giving you more money to spend.
- (d) reducing the term of the housing loan.**

**5. The purpose of an insurance policy with an excess attached is to:**

- (a) ensure you are not out of pocket when you have to make a claim.
- (b) reduce your premium, and protect the insurance company from recurring small claims.**
- (c) ensure you can claim unexpected expenses that are in excess of the sum insured.
- (d) protect you from recurring small losses.

**6. If you are offered Investment XYZ with an expected return of 15%, when the general level of returns from similar investments is 10%, you would expect the risk associated with Investment XYZ to be:**

- (a) lower than the general level of returns.
- (b) the same as the general level of returns.
- (c) higher than the general level of returns.**
- (d) either higher or lower than the general level of returns.

**7. The interest rate charged to banks when borrowing money from the Reserve Bank of Australia is called:**

- (a) the exchange rate.
- (b) the Treasury Index.
- (c) the official cash rate.**
- (d) the spot interest rate.

**8. Reconciling your cheque account bank statement involves:**

- (a) comparing this month's balance with last month's.
- (b) adding outstanding cheques back to your records to make the two amounts balance.
- (c) subtracting outstanding cheques and adding outstanding deposits from the bank balance.**
- (d) seeing whether it is time to order a new cheque book.

**9. Catherine has a persistent credit card debt but no other debts. She wants to 'get ahead'. If she cannot increase her income to pay off her credit card debt, the best long term solution for her would be to:**

- (a) spend less on living expenses.**
- (b) change her credit card provider.
- (c) get a personal loan.
- (d) do all of the above.

**10. Which of the following risks is/are not normally covered in home contents insurance policies?**

- (a) Storm and tempest.
- (b) Flood.**
- (c) Fusion.
- (d) Burglary.

**11. The main reason for investing in different classes of assets is to**

- (a) increase returns.
- (b) broaden your knowledge of different classes of assets.
- (c) decrease risks.
- (d) own as much as possible.

**12. Which of the following Australian investments has traditionally given the highest return?**

- (a) Shares.
- (b) Property.
- (c) Fixed-interest investments.
- (d) Superannuation funds.

**13. Keeping a daily track of your expenditure:**

- (a) is too time consuming to be considered helpful
- (b) helps you manage your money.
- (c) won't help if you do not have much money to spend.
- (d) is less important than keeping track of your income.

**14. Tom needs \$10 000 urgently to pay for a medical procedure. The cheapest and quickest way to get this money is for him to:**

- (a) get a cash advance on his credit card, which will then be just under his credit limit.
- (b) apply to his bank for a personal loan.
- (c) re-borrow, or redraw some of the equity in his house loan.
- (d) sell the family car.

**15. The price of car insurance premiums varies according to:**

- (a) the make, model and age of the car insured.
- (b) the age of usual driver of the car insured.
- (c) the accident record of the usual driver of the car insured.
- (d) All of above.

**16. The best way to save money is to:**

- (a) earn a high income;
- (b) always buy items when they are on discount.
- (c) spend less than you earn.
- (d) buy fewer groceries.

**17. You agree to act as a guarantor for a \$50 000 loan for a friend. This means that:**

- (a) you can use some of the money loaned for your own purposes.
- (b) you are responsible for the whole loan if the friend defaults.
- (c) you are responsible for part of the loan if the friend defaults.
- (d) the bank will sell your house or other assets if the friend defaults.

**18. You can access your employment superannuation monies to spend before you retire from work if:**

- (a) you have a permanent disability, move overseas permanently or apply for access to the funds on grounds of exceptional hardship.
- (b) you intend to self manage your own private superannuation fund.
- (c) you apply for the government first home buyer assistance scheme.
- (d) you are not satisfied with the superannuation fund's performance and prefer to invest the monies in Australian Government bonds.

**19. You want to replace your old car. Dealer Jim offers you a new car for \$29,500 on the road, and \$14,000 trade-in if required. Dealer Frank offers a similar car for \$30,000, and \$13,000 trade-in if required. Frank is offering 12 months interest free terms, then the interest rate will be 12 % per annum on any balance outstanding. You intend to pay cash either now or in 12 months time and have already agreed to sell your old car for \$13,000 to a friend. You are getting 10% on your savings and your marginal tax rate is 31.5%. Your best deal is:**

- (a) Jim's.
- (b) Frank's.
- (c) Both are equal.
- (d) Both will leave me out of pocket more than \$18,000.

**20. CTP vehicle insurance is compulsory, paid when you register your car, and covers the cost of:**

- (a) repairing damage to the car insured.
- (b) repairing damage to other vehicles caused by the insured car.
- (c) legal liability for bodily injuries caused by the insured car.
- (d) hospital bills for bodily injuries caused by the insured car.

**21. Which of the following financial accounts requires you to leave your money invested for a set period or face an early withdrawal penalty?**

- (a) Cheque/current account.
- (b) Cash management trust.
- (c) Term deposit.**
- (d) Overdraft account.

**22. Housing finance is currently offered with interest rates either variable or fixed for 3-5 years. If interest rates have been at historically low levels and are stable or rising at the time of taking out the loan, the fixed rate will normally be:**

- (a) higher than the variable rate.**
- (b) either higher or lower than the variable rate, depending on how high interest rates are.
- (c) lower than the variable rate.
- (d) the same as the variable rate.

**23. If you buy a new television on a 'Buy now and pay nothing for 24 months' plan, the price of this television is likely to be:**

- (a) higher than if you had paid with cash.**
- (b) lower than if you had paid with a credit card.
- (c) lower than if you had paid with cash.
- (d) the same price you would have paid if you had paid with cash.

**24. On your 21st birthday you won a "scratchie" prize, of a choice of either \$600, 000 now or \$1, 000, 000 paid as \$20, 000 annually 'for life', with a guarantee of up to 50 payments. The Lotto Company providing the prize has an AAA+ risk rating. Which of the following ways of receiving and using this prize would give you the most money in the long run?**

- (a) \$600, 000 received now to buy a good car, a holiday, and invest the remainder in a term deposit.
- (b) \$20, 000 received annually for life (50 years) to pay off car loans, holidays and invest the remainder in a term deposit.
- (c) \$600, 000 received now, put entirely into investments paying 10% per annum, and then take out \$10, 000 each year to spend.**
- (d) \$20, 000 received annually for life (50 years) with \$10,000 going back into investments paying 10% per annum, and keeping \$10,000 spending money.

**25. Term life insurance is taken out annually and:**

- (a) is a way of saving money through the bonus system.
- (b) has no value when the term expires.**
- (c) provides cover for all risks including suicide.
- (d) is payable if the beneficiary dies.