HIGH SCHOOL

INDIANA

PERSONAL FINANCE

10



FULL-LENGTH PRACTICE TESTS

400 Original Questions

with Step-by-Step Explanations and a Quick Review

Reza Nazari

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Saving, borrowing, and budgeting

- Deposit insurance: generally $250,000 per depositor, per insured institution, per ownership category.
- Compound interest $A = P(1 + r/n)^{nt}$. Rule of 72: years to double $\approx 72 \div$ rate.
- Loan payment $= P \times i \div (1 - (1 + i)^{-n})$, where i is the annual rate divided by 12 and n is the number of months.
- Credit card minimum, as stated on the statements in this book: the greater of $35 or (one month's interest + 1% of the balance). Monthly interest rate = APR $\div$ 12 (a simplification: real cards usually apply a daily rate to the average daily balance).
- 50/30/20: 50% of net pay to needs, 30% to wants, 20% to saving.
- Federal student loan rates, 2026–27: undergraduate 6.52%; graduate unsubsidized 8.07%; PLUS 9.07%.

Retirement and health

- Health claims: the deductible is paid first, then coinsurance applies to what is left, until the out-of-pocket maximum is reached.
- 2026 contribution limits, under age 50: 401(k) $24,500; IRA $7,500; HSA $4,400 self-only and $8,750 family; health FSA $3,400.
- 2026 high-deductible health plan minimums: deductible $1,700 self-only, $3,400 family; out-of-pocket maximum $8,500 and $17,000.

Indiana facts (2026)

- State income tax: flat 2.95% plus county income tax.
- Minimum wage: $7.25 an hour (the federal rate).
- Statewide sales tax 7% (Indiana has no general local sales tax).
- Minimum auto liability 25/50/25.
- State 529 college savings plan: Indiana529 Direct Savings Plan.
- A state student-aid program: 21st Century Scholars.

Figures marked with a year are dated. They are correct for 2026 and are printed here so that no question depends on recalling them.

Personal Finance Quick Review

The terms, formulas, and traps these tests keep coming back to

How to use this review. Read it once before Practice Test 1, then use it after each test: for every question you missed, find its card, reread it, and check the **Watch out** line—most missed questions fall into one of those traps. The six sections follow the core topics of personal finance, and together they cover every area on the Indiana tests (the areas are listed on page 2). A **Numbers and Formulas** card closes the review.

1 Earning Income
Pay stubs, taxes, benefits, and careers

1.1 Reading a pay stub

Gross pay	everything earned before any deduction
Deductions	taxes, benefit premiums, retirement contributions
Net pay	what actually reaches the bank account
YTD	the running total from January through this check

gross pay → pre-tax deductions → taxes withheld → after-tax deductions → net pay

Pay periods per year: weekly 52, biweekly 26, semimonthly 24, monthly 12.

Watch out: biweekly (every two weeks, 26 checks) is not semimonthly (twice a month, 24 checks).

1.2 Hourly pay and overtime

Overtime in this book: unless a question says otherwise, hours over 40 in one workweek are paid at 1.5 times the regular rate.

Example: \$18/hour, 46 hours → $40 \times 18 = \$720$; $6 \times 27 = \$162$; gross \$882.

Annual from hourly: rate × 2,080 hours for a full-time year.

Watch out: only the hours *over* 40 earn the overtime rate, not the whole week.

1.3 Payroll taxes and income tax

- **FICA:** Social Security 6.2% (up to the annual wage cap) plus Medicare 1.45%; together 7.65%. Self-employed workers pay 15.3% on 92.35% of net earnings (the simplified rule this book uses; at high earnings the Social Security part stops at the wage cap).
- **W-4:** tells the employer how much federal income tax to withhold. **W-2:** the employer's year-end summary of wages and withholding. **1040:** the individual tax return.
- **Taxable income** = income − deductions (for most filers, the standard deduction).
- **Marginal brackets:** each rate applies only to the income inside its bracket.

Watch out: moving into a higher bracket does not raise the tax on all your income—only on the dollars above the line.

1.4 Total compensation and careers

Compare job offers on **salary − your yearly premiums + employer match and other benefits**, not salary alone.

Education and training: weigh the full cost (tuition, fees, living costs, interest on loans) against the added earnings. Grants and scholarships are not repaid; loans are.

Watch out: a higher salary can be worth less once a large health premium and a missing retirement match are counted.

2 Spending
Budgets, consumer choices, cars, and housing

2.1 Budgets

Budget = a plan for net (take-home) pay. **Needs** (rent, utilities, groceries, transportation, insurance), **wants**, and **saving**.

50/30/20: 50% needs, 30% wants, 20% saving, each of net pay.

Fixed expenses stay the same each month; **variable** expenses change.

Sinking fund: set aside a bill's cost month by month: a \$588 six-month premium → $\$588 \div 6 = \$98$/month.

Watch out: build a budget from net pay, not gross pay.

2.2 Smart buying

- **Unit price** = price ÷ quantity; compare in the same unit.
- **Sales:** a 20% discount then 10% off the sale price is 28% off, not 30%.
- **Sales tax** applies to the price after discounts.
- **Opportunity cost:** the value of the next-best choice you give up.

Watch out: two discounts in a row do not simply add.

2.3 Buying or leasing a car

Total cost of a loan = down payment + (monthly payment × months).

Total cost of a lease = due at signing + (payment × months) + end-of-lease fees; at the end you own nothing.

Ownership costs beyond the payment: insurance, fuel, maintenance, registration.

Watch out: the lower monthly payment is not the lower total cost; a longer loan usually costs more interest.

2.4 Housing and living on your own

- **Move-in cost** for a rental: first month's rent + security deposit (plus any fees).
- A common guideline keeps rent near or below about 30% of gross income.
- **Renters insurance** covers your belongings; the landlord's policy covers the building.
- **Buying** adds a down payment, closing costs, property tax, insurance, and repairs to the mortgage payment.

Watch out: a security deposit is refundable if the unit is left in good condition; it is not rent.

2.5 Consumer protection and scams

Warning signs: pressure to act now, payment by gift card or wire, requests for passwords or account numbers, and offers that sound too good to be true. Read a contract before signing; know the return policy and warranty.

Watch out: a legitimate bank or agency will not ask you to "verify" your password by text or email.

3 Saving
Accounts, fees, interest, and goals

3.1 Accounts, fees, and protection

Checking	everyday payments; debit card, transfers
Savings	earns interest; for goals and emergencies
Overdraft	spending more than the balance; often triggers a fee
Deposit insurance	FDIC (banks) or NCUA (credit unions): generally $250,000 per depositor, per insured institution, per ownership category

Emergency fund: commonly three to six months of essential expenses.

Watch out: deposit insurance protects deposits if the institution fails; it does not cover investments or theft from your own mistakes.

3.2 Simple and compound interest

Simple: $I = Prt$. $2,000 at 4% for 3 years $\rightarrow$ $240.

Compound: $A = P(1 + r/n)^{nt}$: interest earns interest.

Rule of 72: years to double $\approx 72 \div$ rate; at 6%, about 12 years.

APY includes compounding, so compare savings accounts by APY.

Watch out: write the rate as a decimal: 4% = 0.04, not 4.

4 Investing
Risk and return, funds, and retirement accounts

4.1 Risk, return, and diversification

Stock	a share of ownership; higher expected return, higher risk
Bond	a loan to a company or government; pays interest
Mutual fund / ETF	many investments in one; built-in diversification
Index fund	tracks a market index at low cost

Diversification spreads money across many investments so one loss hurts less. A longer time horizon lets an investor ride out swings.

Watch out: higher expected returns generally require accepting greater risk; a promise of guaranteed high returns is a red flag.

18) When can the monthly payment on a variable-rate loan change?

(A) When the benchmark interest rate the loan is tied to goes up or down
(B) Whenever your credit score goes up or down
(C) Only on the loan's anniversary, by a fixed amount each year
(D) Only when you miss a payment

19) An investor holds a losing stock mainly to avoid admitting a loss. Which tendency does that show?

(A) The disposition effect
(B) Herd behavior
(C) Present bias
(D) The sunk-cost fallacy

20) Lena finds two credit card accounts on her credit report that she never opened. What is the best first step?

(A) Close her own checking and savings accounts
(B) Report the identity theft at IdentityTheft.gov and place a fraud alert or credit freeze
(C) Wait for the accounts to drop off her report on their own
(D) Pay off the balances so her score does not drop

21) Which type of insurance replaces income when injury or illness prevents working?

(A) Liability coverage
(B) Disability insurance
(C) Life insurance
(D) Renters insurance

22) A young worker's credit report summary lists: Card A, limit $2,000, balance $1,800, current; Card B, limit $3,000, balance $0, current, with one accurate 30-day late payment five years ago; and an auto loan in good standing. Which action is most likely to raise her score the soonest?

(A) Paying Card A's balance down well below its limit
(B) Closing Card B, since it has the old late payment
(C) Disputing the five-year-old late payment with the bureaus
(D) Paying off the auto loan early

23) Ingrid Larsen and Thabo Molefe rent an apartment for $1,880 a month. They agree that Ingrid pays 55% of the rent for the larger bedroom and that utilities of $195.00 are split evenly. What does Ingrid owe for the month?

(A) $1,131.50
(B) $1,037.50
(C) $1,034.00
(D) $1,141.25

24) A student needs a textbook for one semester. A new copy costs $140 and can be resold for about $60. A used copy costs $95 and can be resold for about $45. Renting costs $55, and the book is returned at the end. Which option has the lowest expected net cost?

(A) Renting, because $55 is the lowest price paid up front
(B) Buying used, with a net cost of $50
(C) Buying new, because it has the highest resale value
(D) Buying used, with a net cost of $45

25) A college student starts delivering food in the evenings with his own car through a delivery app. His personal auto policy excludes using the car to carry people or goods for a fee. What is the biggest insurance risk if he makes no changes?

(A) A crash during a delivery may be denied by his insurer, leaving gaps the app's coverage may not fill
(B) His premium will rise, but any crash during a delivery will still be covered as usual
(C) The app's insurance fully replaces his personal policy whenever he is working
(D) Only drivers who carry passengers are at risk, since he carries food and not people

26) Aiden Clark lives in Hamilton County on January 1 and works all year at an office in Marion County (Indianapolis). Both counties have local income taxes, at different rates. Which county's rate generally applies to his wages?

(A) Marion County's, because local tax always follows the place of work
(B) Hamilton County's, because an Indiana resident pays the local income tax of the county where he lives on January 1
(C) Both counties' rates added together
(D) Neither, because county income taxes apply only to property owners

27) During a recession, which change is most likely?

(A) Unemployment rises as businesses cut production
(B) Unemployment falls as businesses hire
(C) GDP grows faster than usual
(D) Interest rates on loans rise sharply

28) In Muncie, Keisha Morgan's target mix is 70% stocks and 30% bonds. After a strong year her stocks are worth $17,000 and her bonds $5,000. What trade brings her back to the target mix?

(A) Move about $3,000 from stocks to bonds
(B) Move about $1,600 from bonds to stocks
(C) Move about $1,600 from stocks to bonds
(D) Leave it alone, because stocks are doing well

Use the information below. Then answer questions 29–31.

Weekly Earnings Statement

Cedar Ridge Landscaping, a company in Terre Haute, pays Ruben weekly. The statement below covers one pay period. Assume no state or local income-tax withholding.

Earnings statement	**Amount**
Regular $40 \times \$15.60$	\$624.00
Overtime at \$23.40 per hour	\$70.20
Gross pay	**\$694.20**
Federal income tax	\$44.00
Social Security	_____
Medicare	_____
Net pay	_____

29) *Use the earnings statement to answer this question.*

Ruben worked 43 hours this week. How many were paid at the overtime rate?

(A) 5 (B) 43
(C) 3 (D) 40

30) *Use the earnings statement to answer this question.*

For gross pay of \$694.20, what is the Social Security withholding?

(A) \$53.11 (B) \$38.69
(C) \$43.04 (D) \$10.07

31) *Use the earnings statement to answer this question.*

After the listed deductions from \$694.20 gross pay, what is Ruben's net pay?

(A) \$641.09 (B) \$694.20
(C) \$597.09 (D) \$650.20