HIGH SCHOOL

RHODE ISLAND

# 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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# Reference Sheet

Figures and formulas you may use on every test

You are not expected to memorize any of these. Every question that needs one of them can be answered with the figures below. Unless a question says otherwise, use 6.2% for Social Security and 1.45% for Medicare, assume no state or local income-tax withholding, and round money to the nearest cent.

## Paychecks and taxes

- Social Security 6.2% of wages, up to $184,500 in 2026. Medicare 1.45% of all wages, no cap. The two together are 7.65%.
- Self-employment tax (simplified rule for this book): 15.3%, charged on 92.35% of net earnings. At high earnings the Social Security part stops at the wage base.
- Overtime for questions in this book: unless a question states otherwise, assume overtime is paid at 1.5 times the regular rate for hours over 40 in one workweek.
- Full-time year: $40 \times 52 = 2{,}080$ hours. Paychecks a year: weekly 52, biweekly 26, semimonthly 24, monthly 12.
- 2026 federal income tax, single filer: standard deduction $16,100; 10% to $12,400 of taxable income, 12% to $50,400, 22% to $105,700.

## 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.

**Rhode Island facts (2026)**

- State income tax: graduated, 3.75% to 5.99%.
- Minimum wage: $16.00 an hour ($17.00 from January 1, 2027).
- Statewide sales tax 7% (cities and towns do not add a general sales tax; a 1% local meals tax applies to restaurant meals; clothing is exempt up to $250 per item).
- Minimum auto liability 25/50/25.
- State 529 college savings plan: CollegeBound Saver.
- A state student-aid program: Rhode Island Promise.

*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 Rhode Island 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 $\rightarrow \$588 \div 6 = \$98$/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.



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18) Which type of insurance provides funds to beneficiaries after the insured's death?

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

19) Aaliyah Freeman waits tables at a hotel restaurant in Rhode Island and is paid the state minimum wage of $16.00 an hour. Last week Aaliyah worked 31 hours and reported $271.50 in tips. What were the gross earnings for the week?

(A) $271.50
(B) $767.50
(C) $631.75
(D) $496.00

20) Lena Park, age 30, leaves her job with $12,000 in a traditional 401(k) and cashes it all out. She is in the 22% federal bracket, and the 10% additional tax for early withdrawal applies. Ignoring state tax, how much of the $12,000 does she keep after federal income tax and the additional tax?

(A) $8,160
(B) $10,800
(C) $9,360
(D) $9,600

21) Zara Ahmed earns about $18,000 a year doing freelance graphic design, and no tax is withheld from it. She expects to owe more than $1,000 in federal tax. What is the best way to avoid an underpayment penalty?

(A) Pay the full amount by the April filing deadline, which is always on time
(B) Wait until a Form 1099 arrives, since tax is due only on amounts reported on one
(C) Save the money in a savings account, since the IRS does not charge penalties to first-time freelancers
(D) Make quarterly estimated tax payments during the year

22) Priya Raghunathan of Providence sells hearing aids. Her monthly commission statement is below.

| **Commission statement** | **Priya Raghunathan** | **Amount** |
|---|---|---|
| Base pay | | $2,450.00 |
| Monthly quota | | $20,000 |
| Sales this month | | $31,500 |
| Commission rate on sales above quota | | 3% |
| **Total pay** | | ? |

What was her total pay for the month?

(A) $345.00
(B) $2,450.00
(C) $2,795.00
(D) $3,395.00

23) A cardholder pays his credit card in full every month and charges about $6,000 a year. Card A has no annual fee and pays 1.5% cash back. Card B has a $95 annual fee and pays 3% cash back. Which card gives him more net reward for the year, and by how much?

(A) Card B, by $90
(B) Card B, by $85
(C) Card A, by $95
(D) Card A, by $5

24) Four people are thinking about buying life insurance. Which one most likely has the smallest need for it?

(A) A 35-year-old parent whose salary pays most of the family's bills
(B) A 19-year-old single student with no children and no one relying on her income
(C) A 40-year-old who shares a large mortgage with a spouse on two incomes
(D) A 28-year-old stay-at-home parent of two young children

25) Marisol Vega, 56, leaves her job this year. She has $80,000 in that employer's 401(k) and $30,000 in a traditional IRA. She wants to take out $15,000 this year and avoid the 10% additional tax on early withdrawals, though regular income tax will apply. Which choice fits the rules?

(A) Withdraw it from the 401(k) at the job she just left, before rolling that money into an IRA
(B) Roll the 401(k) into her IRA first, then withdraw from the IRA
(C) Withdraw it from her traditional IRA, since she is over 55
(D) Wait until age $59\frac{1}{2}$, since no account allows it earlier

26) What does a debt-to-income (DTI) ratio show a lender?

(A) The amount of credit you have used compared with your limits
(B) How much of your monthly income already goes to debt payments
(C) The number of recent credit applications you made
(D) How long you have had credit accounts

27) Jamal Carter, who lives in Providence, wants enough life insurance so that, if he died, his family could pay off the $180,000 mortgage, replace $30,000 a year of income for 10 years, and set aside $50,000 for college. He has $40,000 in savings for these goals and $100,000 of group life insurance through work. Ignoring investment growth and inflation, how much additional coverage does he need?

(A) $530,000
(B) $490,000
(C) $390,000
(D) $120,000

28) In February 2027, a worker realizes he made no IRA contribution for 2026, though he had enough earned income that year. Which statement is correct?

(A) He cannot, because the 2026 deadline was December 31, 2026
(B) He can, and he may also make up any earlier years he skipped
(C) He can, at any time during 2027
(D) He can still make a 2026 contribution until the tax filing deadline in April 2027

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

30) A grandfather gave $5,000 to his 10-year-old granddaughter, Lily, by depositing it in a custodial (UTMA/UGMA) account. Lily's mother is the custodian. Her mother now wants to use $2,000 of it to repair her own car. Which statement is correct?

(A) The custodian controls the account, so she may use it for any family expense
(B) The money legally belongs to Lily, so the custodian may spend it only for Lily's benefit
(C) The grandfather can take the money back and give it to Lily's mother
(D) She may use it as long as she repays it before Lily turns 18

31) How does a regular taxable brokerage account differ from a Roth IRA?

(A) A taxable account cannot hold stocks
(B) Dividends and gains in a taxable account may be taxed each year and when sold
(C) A taxable account can be opened only by people over 59
(D) A taxable account has a lower yearly contribution limit

32) Meera Iyer of Warwick stays home to care for her children and has no earned income. Her husband earns $70,000, and they file a joint federal return. The 2026 IRA limit is $7,500 per person. Which statement about Meera saving in an IRA is correct?

(A) She cannot contribute, because each IRA owner must have their own earned income
(B) She can save only by adding money to her husband's IRA
(C) She can contribute up to $7,500 to an IRA in her own name, based on her husband's earnings
(D) The couple can put in only $7,500 in total between them

33) What does signing up for the National Do Not Call Registry mainly do?

(A) It limits sales calls from most telemarketers
(B) It stops all calls from debt collectors
(C) It removes your number from all charity and political call lists
(D) It blocks all robocalls, including scam calls