HIGH SCHOOL

TENNESSEE

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 ÷ 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.

Tennessee facts (2026)

- State income tax: none on wages.
- Minimum wage: $7.25 an hour (the federal rate).
- Statewide sales tax 7% (local taxes can add more).
- Minimum auto liability 25/50/25.
- State 529 college savings plan: TNStars College Savings 529.
- A state student-aid program: Tennessee HOPE Scholarship.

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 Tennessee 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.

17) What should you know about a credit card's low introductory "teaser" rate?

(A) It stays the same for as long as you have the card
(B) It lasts for a limited time and then rises to the regular APR
(C) It stays in place even if you pay late during the promotion
(D) It applies only to cash advances

18) Which public program provides health coverage for people 65 and older and certain disabled people?

(A) Medicare
(B) Medicaid
(C) Unemployment insurance
(D) Social Security retirement benefits

19) Using the Rule of 72, about how long does money take to double at 4% a year?

(A) about 18 years
(B) about 36 years
(C) about 4 years
(D) about 25 years

20) Why is it helpful to keep emergency savings in an account separate from everyday checking?

(A) It raises the FDIC insurance limit on the money
(B) It makes the savings count toward your credit score
(C) It lets you skip making a budget
(D) It reduces the chance of spending the emergency money by accident

21) Carlos wants to check his bank balance while using free Wi-Fi at a coffee shop. What is the safest choice?

(A) Use the coffee shop Wi-Fi as long as it has a password posted on the counter
(B) Use private or incognito browsing mode on the public Wi-Fi
(C) Connect to whichever network has the shop's name and the strongest signal
(D) Use his phone's cellular data or a trusted VPN instead of the open network

22) Every December, Ana takes about $600 from her emergency fund to buy holiday gifts and then slowly rebuilds it. Why is this a budgeting problem?

(A) Emergency funds may be used only for medical bills
(B) She should put the gifts on a credit card instead, to keep her cash available
(C) Gifts are a predictable yearly cost that belongs in a sinking fund, and using the emergency fund leaves her less protected each winter
(D) It is not a problem, because any expense paid in cash is already budgeted

23) Sofia Delgado, a Knoxville resident, is buying a $25,000 car. The dealer offers either 0% APR for 60 months, with payments of $416.67, or a $3,000 cash rebate if she uses other financing. Her credit union would lend the remaining $22,000 at 5.9% APR for 60 months, with payments of $424.30. Which choice costs less in total, and by about how much?

(A) The 0% financing, by about $458
(B) The rebate, by about $3,000
(C) The rebate, by about $458
(D) The 0% financing, by about $7.63

24) Kai Nelson of Knoxville puts $5,000 in a 12-month CD that pays 4.20% simple interest. The early-withdrawal penalty is 3 months of interest. If he cashes out after 5 months, how much interest does he keep?

(A) $87.50
(B) $52.50
(C) $0
(D) $35.00

25) A loan of $14,000 at 7.9% is repaid over 60 months. The monthly payment is $283.20. What is the total cost of credit?

(A) $2,992.00
(B) $3,398.40
(C) $1,106.00
(D) $16,992.00

26) Ravi Menon of Nashville sells commercial printers. His pay record for last month is below.

Pay record: Ravi Menon	**Amount**
Base pay	$3,150.00
Sales for the month	$31,500.00
Commission: 6% of sales above a $20,000 quota	_____
Traditional 401(k): 5% of gross pay	_____
Social Security 6.2% and Medicare 1.45%	_____
Federal income tax withheld	$265.00

The 401(k) deferral is not subject to income tax but is subject to Social Security and Medicare. What is Ravi's net pay for the month?

(A) $3,103.92
(B) $3,281.24
(C) $4,137.44
(D) $3,089.24

27) Ayesha Rahman of Franklin, 32, has two young children and a tight budget. She wants $750,000 of life insurance to protect her family until the children finish school in about 20 years. Which choice best fits her need?

(A) A whole life policy, because it costs less for the same death benefit
(B) A 20-year term life policy
(C) A 5-year term life policy, because it has the lowest premium
(D) Only her employer's group life policy, because it always follows her to new jobs

28) A tenant signs a 12-month lease and wants to move out after 7 months. What is the tenant usually responsible for?

(A) Only the security deposit
(B) Rent under the lease terms, unless the lease allows early termination or the unit is re-rented
(C) Nothing, because a lease can be ended at any time
(D) Rent only for the month in which the tenant moves out

29) What can happen if a borrower defaults on a federal student loan?

(A) Wages can be garnished and tax refunds can be withheld to repay the loan
(B) The loan is forgiven after 30 days of missed payments
(C) The borrower's future Social Security benefits increase
(D) Nothing happens until the borrower retires

30) Jordan Whitfield can take an unpaid 10-week summer internship that would cost him $1,800 for transit and meals, or a summer job paying $15 an hour for 30 hours a week over the same 10 weeks. Ignoring taxes, how much better off in cash would he be at the end of the summer with the paid job?

(A) $4,500 (B) $2,700
(C) $6,300 (D) $1,800

31) What is the main purpose of a rental application's request for employment and income information?

(A) To help the landlord judge whether the applicant can pay the rent
(B) To decide how much rent the applicant will be charged
(C) To open a bank account for the tenant
(D) To let the landlord collect rent directly from the applicant's paycheck

32) After a data breach exposed her Social Security number, what step makes it hardest for someone to open new credit accounts in her name?

(A) Placing a free credit freeze with each of the three credit bureaus
(B) Closing her checking account
(C) Changing her email address
(D) Paying for a new Social Security number right away

33) Brianna Walsh, who lives in Johnson City, owes $12,400 on a car that is worth $9,000 as a trade-in. She buys a $21,500 car with no down payment, and the dealer rolls the unpaid balance of her old loan into the new loan. Ignoring taxes and fees, how much will she finance?

(A) $21,500 (B) $18,100
(C) $24,900 (D) $12,500

34) Two shoppers each pay $60 of sales tax in a year. One earns $20,000 and the other earns $80,000. Why is this sales tax called regressive?

(A) It charges higher rates on larger purchases
(B) It takes a larger dollar amount from the higher earner
(C) It takes a larger share of the lower earner's income
(D) It uses the same rate for everyone, so it is a flat tax