

ifs Level 3 Certificate in Financial Studies (CeFS) – 501/0049/X

Why Money Matters (WMM) – K/501/8463

Specimen paper: A

Answers and Justification document

This document has been designed to provide teachers and learners with clear information relating to specimen exam questions. The aim is to clarify the approach to answering questions, and identify why plausible distractors are incorrect.

The document consists of two sections as follows:

- **Answers** – this shows the question number, correct answer (A-D) and the syllabus reference.
- **Justification** – The justifications are brief explanations of why one answer is correct and the three others are incorrect. In this section the correct answer is highlighted in bold; followed by the syllabus reference. Underneath the justifications appear for each answer (A-D).

Note: When using this document you will need to refer to the specimen paper to which it relates and the relevant unit syllabus.

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Answers

Multiple-choice

- 1 A
- 2 B
- 3 C
- 4 B
- 5 A
- 6 D
- 7 D
- 8 D
- 9 A
- 10 A
- 11 D
- 12 C
- 13 A
- 14 C
- 15 C
- 16 C
- 17 D
- 18 C
- 19 A
- 20 D
- 21 C
- 22 C
- 23 A
- 24 A
- 25 A
- 26 B
- 27 D
- 28 C
- 29 C
- 30 D
- 31 C
- 32 D
- 33 D
- 34 A
- 35 B
- 36 B
- 37 C
- 38 A
- 39 A
- 40 D
- 41 D
- 42 A
- 43 B
- 44 A
- 45 B
- 46 B
- 47 A
- 48 A
- 49 C
- 50 C

Answers and Justifications

Q1 A CFS1101

- A Correct. Bartering is the term for exchanging goods and services.
- B Dealing usually involves the exchange of money. Bartering is the correct term for exchanging goods or services.
- C The correct term for exchanging goods or services is bartering.
- D Trading involves the exchange of money. Bartering is the correct term for exchanging goods or services.

Q2 B CFS1101

- A This is a function of money but not one which allows sellers and buyers to enter into credit agreements.
- B This function of money does allow sellers and buyers to enter into credit agreements; as it says in the text, 'money lets us pay for things some time after we bought them'.
- C This is a function of money but not one which allows sellers and buyers to enter into credit agreements.
- D This is a function of money but not one which allows sellers and buyers to enter into credit agreements.

Q3 C CFS1102

- A Notes and coins in the UK do possess the feature of divisibility, ie they can be divided into small units that can be combined to make up any amount.
- B Notes and coins in the UK do possess the feature of fiduciary value, ie their acceptability relies on you trusting in their value.
- C Notes and coins in the UK do not possess the feature of intrinsic value, ie they do not have a value in their own right.
- D Notes and coins in the UK do possess the feature of recognisability, ie they are immediately recognised and accepted by the people who receive them.

Q4 B CFS1102

- A Acceptability is an attribute of money.
- B Correct.
- C Homogeneity is an attribute of money.
- D Recognisability is an attribute of money.

Q5 A CFS1201

- A Correct.
- B Most people have paid off their mortgage at this stage.
- C Most people have paid off their mortgage at this stage.
- D Teenagers are unlikely to have a mortgage.

Q6 D CFS1201

- A This stage of the personal life cycle is unlikely to involve such significant financial responsibilities because such people are still very young.
- B This stage of the personal life cycle is less likely to involve such significant financial responsibilities because although the people will be older, they are very likely to be still living at home.
- C This stage of the personal life cycle is less likely to involve such significant financial responsibilities because although the people will be even older, they are likely to have less financial responsibilities than people in the maturity stage of the life cycle.
- D This stage of the personal life cycle is most likely to involve such significant financial responsibilities because these people are more likely to have family and property responsibilities.

Q7 D CFS1202

- A In this stage of the personal life cycle, expenditure and income are both likely to be rising.
- B In this stage of the personal life cycle, expenditure and income are both likely to be rising.
- C In this stage of the personal life cycle, expenditure and income are both likely to be rising.
- D In this stage of the personal life cycle, expenditure may still be rising but it is likely that there will be a fall in income as people retire.

Q8 D CFS1202

- A The stage of adolescence in the personal life cycle will be in chronological order, ie after childhood and before young adult.
- B The stage of maturity in the personal life cycle will be in chronological order, ie after young adult and before middle age.
- C The stage of old age in the personal life cycle will be in chronological order, ie after middle age.
- D The state of death in the personal life cycle is placed after old age but it can, of course, occur at any time in a person's life.

Q9 A CFS1203

- A Education has provided more career options for individuals and has allowed them to become more 'socially and upwardly mobile'. As it says in the text, 'education means that nowadays people have options they didn't have in the past'.
- B Health services are likely to enable people to live longer but they will not necessarily provide for more career options.
- C Social services will benefit people in various ways but they will not necessarily provide for more career options.
- D Welfare services will benefit people in various ways but they will not necessarily provide for more career options.

Q10 A CFS1203

- A Correct.
- B The UK has an ageing population.
- C The UK has an ageing population.
- D The UK has an ageing population.

Q11 D CFS1301

- A They will be influenced the most by their values.
- B They will be influenced the most by their values.
- C They will be influenced the most by their values.
- D Correct.

Q12 C CFS1301

- A This is a form of ethical investment.
- B This is a form of ethical investment.
- C Correct.
- D This is a form of ethical investment.

Q13 A CFS1401

- A An aspiration is something that people hope for in the future, ie they have an ambition to achieve something in the long-term; wanting to be dentist, therefore, is an example of an aspiration rather than a want.
- B This is a relatively short-term desire and is, therefore, a want.
- C This is a relatively short-term desire and is, therefore, a want.
- D This is a relatively immediate desire and is, therefore, a want.

Q14 C CFS1401

- A A need is something that people must have to survive; the desire to be a teacher is actually an aspiration.
- B The desire to buy a flashy sports car is a want.
- C Food is an example of something that people must have to survive and is therefore a need.
- D The desire to visit nightclubs every weekend is a want.

Q15 C CFS1402

- A Peoples' needs may be relatively constant but their wants and aspirations may well change over time.
- B It is most unlikely that peoples' needs, wants and aspirations will never change throughout their life cycle.
- C This statement is the most accurate because it is very likely that as people get older, their lives change, and so do their needs and wants.
- D It is likely that as people get older, their needs will remain relatively constant but that their wants and aspirations will change.

Q16 C CFS1402

- A Advertisers try to persuade people to do certain things, such as buy a particular product, and so they are unlikely to provide a person with 'norms' of behaviour.
- B The media give out a number of messages which can sometimes be distorted in some way and so it is unlikely to provide a person with 'norms' of behaviour.
- C Peers refers to other people who are broadly similar to us and so they can provide a person with ideas about the 'norms' of behaviour in terms of what is seen to be acceptable behaviour.
- D Role models refer to people we look up to, and try to be like; you can be influenced by a role model but they tend to be better than others and so they are less likely to provide a person with ideas about the 'norms' of behaviour.

Q17 D CFS1501

- A She wants to be able to access and use her own money easily and quickly; she does not wish to borrow any money.
- B She wants to be able to access and use her own money easily and quickly; she does not wish to have it tied up in an investment product.
- C She wants to be able to access and use her own money easily and quickly; she does not desire a protection solution.
- D Correct. She wants to be able to access and use her own money easily and quickly; she therefore needs a transaction solution which will provide a way to handle financial transactions easily and to make payments safely and securely.

Q18 C CFS1501

- A The couple wish to use the excess of income over expenditure; a borrowing solution, therefore, is not required.
- B The couple wish to use the excess of income over expenditure to help them pay for a summer holiday; an investment solution, therefore, would not be required as that is more of a long-term solution.
- C The couple wish to use the excess of income over expenditure to help them pay for a summer holiday; a savings solution, therefore, would be most appropriate to deposit the money and earn interest.
- D The couple wish to use the excess of income over expenditure to help them pay for a summer holiday; this is a medium-term aim and so a transaction solution, therefore, would be less appropriate.

Q19 A CFS1501

- A She should consider investing the £10,000 in the stock market; investing is regarded as a long-term solution and she will not need the money for at least ten years.
- B The purchase of general insurance would not require an expenditure of anything like £10,000.
- C Over a ten year period, it is very likely that the return on money invested in the stock market will be greater than the interest received from money deposited in a building society account.
- D It would be unlikely that she would consider borrowing money by taking out a loan if she has just received a sum of £10,000.

Q20 D CFS1501

- A A personal pension plan does allow the purchase of an annuity but this would not be regarded as a major benefit, especially given the fall in the value of annuities in recent years.
- B It may include some insurance cover but not necessarily; it is up to the individual to choose whether to buy extra benefits, such as insurance cover.
- C It is a long-term commitment.
- D This is the correct answer because it is tax efficient; for example, for a basic rate taxpayer, for every £80 they contribute the government will add a further £20.

Q21 C CFS1502

- A This may not be a convenient method for a regular payment; it may also be regarded as less safe than other possible methods.
- B This may also not be a convenient method for a regular payment as the person has to remember to write and send the cheque each month.
- C This will be a much safer and more convenient method for a regular payment; the direct debit, once set up, can then pay different amounts each month.
- D This is a safe and convenient method for making a regular payment but it can only be used when the amount is the same each month; it would, therefore, not be appropriate where the payment is for a different amount each month.

Q22 C CFS1502

- A Regular statements of accounts would be issued for both investments and savings.
- B Investments and savings would both be sourced by funds, which were not required for everyday living.
- C The risk of losing as well as gaining is a feature of investment but not of a savings account.
- D Both are a physically safe place for money rather than 'under the mattress' where money can be mislaid, lost or stolen.

Q23 A CFS1502

- A This is a true statement.
- B This is untrue because borrowing may not be relatively cheap and it may not always be economically advantageous for the borrower, especially when there are high rates of interest involved.
- C This is untrue; protection solutions are designed to restore an individual to a previous position, not make him or her better off as a result.
- D This is untrue; the cost of protection may exceed the benefits.

Q24 A CFS1502

- A Correct.
- B As this is unplanned and one-off expenditure a direct debit would not be appropriate.
- C She is most likely to pay by credit card.
- D As this is unplanned and one-off expenditure a standing order would not be appropriate.

Q25 A CFS1502

- A Correct.
- B They are known as Gilts.
- C They are known as Gilts.
- D They are known as Gilts.

Q26 B CFS1502

- A A mortgage is used to buy a property and can typically be repaid over 25-30 years. A credit card is a short-term method of borrowing.
- B Correct.
- C A mortgage is used to buy a property and can typically be repaid over 25-30 years. An overdraft is a short-term method of borrowing.
- D A mortgage is used to buy a property and can typically be repaid over 25-30 years. A personal loan is a shorter term method of borrowing.

Q27 D CFS1601

- A This is concerned with the purchasing power of money in different countries, not with the inflation rates in the two countries.
- B This is concerned with the purchasing power of money in different countries, not with the interest rates on saving and borrowing in the two countries.
- C This is concerned with the purchasing power of money in different countries, not with the concept of opportunity cost which is the next best alternative that is foregone as a result of taking a decision.
- D This is the correct answer as purchasing power explains what money will be able to buy in different countries.

Q28 C CFS1601

- A This is concerned with the fall in the value of a given sum of money, not with any possible credit risk.
- B This is concerned with the fall in the value of a given sum of money, not with the exchange rate, which shows the value of one currency in terms of another.
- C Correct. This is concerned with the fall in the value of a given sum of money; this fall is the result of inflation in the country.
- D This is concerned with the fall in the value of a given sum of money, not with the interest rates that happen to apply to savers and/or borrowers.

Q29 C CFS1602

- A This is an incorrect answer.
- B The compound rate refers to a way of calculating interest as it is compounded over a period of time but this does not apply to these figures.
- C The 4% interest rate is known as the 'headline' rate, ie unlike APR, it does not take into account other considerations, such as an arrangement fee.
- D The net rate is the rate after tax has been deducted; there is no reference here to either gross or net so it can be assumed that both are gross figures.

Q30 D CFS1602

- A The administration fees would be a very relevant factor to take into account when considering the costs of taking out a loan.
- B The arrangement fee would be a very relevant factor to take into account when considering the costs of taking out a loan.
- C The method of charging interest would be a very relevant factor to take into account when considering the costs of taking out a loan.
- D The rate of inflation would be the least relevant factor to take into account when considering the costs of taking out a loan as it is not relevant to the costs.

Q31 C CFS1603

- A This is incorrect; it is the correct answer of 125 euros divided by 10.
- B This is incorrect; it is the result of dividing 100 by 125 multiplied by 100.
- C This is correct; it is the result of multiplying 100 by 1.25.
- D This is incorrect; it is the amount in £s.

Q32 D CFS1603

- A This does not refer to the difference between the buying and selling exchange rate.
- B This does not refer to the difference between the buying and selling exchange rate.
- C This does not refer to the difference between the buying and selling exchange rate.
- D This does refer to the difference between the buying and selling exchange rate.

Q33 D CFS1604

- A It is not the method of calculating the current value of money; it is the method used to measure the average price rise for a mix of products and services that the UK government thinks the average UK household buys over a year.
- B It is not the method of comparing buying power across countries; it only relates to the prices of a selection of goods and services in the UK.
- C It is not the way of expressing interest rates; this would be APR or AER.
- D The Consumer Prices Index (CPI), as the text states, is one of 'two standard measures of price inflation in the UK'.

Q34 A CFS1604

- A Correct.
- B Inflation will have the greatest impact.
- C Inflation will have the greatest impact.
- D Inflation will have the greatest impact.

Q35 B CFS1701

- A Transaction services can be provided by both a bank and a building society.
- B A building society may want to convert to a bank to raise cash for capital investment by becoming a plc and raising income through the issuing of shares.
- C This would not be a reason for a building society to want to convert to a bank; it does not have shareholders and so there couldn't be any conflict between shareholders and customers.
- D This would not be a reason for a building society to want to convert to a bank; it can already release profits to members, such as the scheme operated by the Britannia Building Society.

Q36 B CFS1701

- A These are not the two main categories of insurance offered by an insurance company.
- B These are the two main categories of insurance offered by an insurance company, as the text makes clear.
- C These are not the two main categories of insurance offered by an insurance company.
- D These are not the two main categories of insurance offered by an insurance company.

Q37 C CFS1701

- A Deregulation in the financial services marketplace enabled banks to increase their product ranges.
- B Deregulation in the financial services marketplace enabled banks to increase their product ranges.
- C Correct.
- D Deregulation in the financial services marketplace enabled banks to increase their product ranges.

Q38 A CFS1701

- A Correct.
- B This may be true, but it is mostly because their customers trust their brand.
- C This is true, but it is mostly because their customers trust their brand.
- D This is true, but it is mostly because their customers trust their brand.

Q39 A CFS1702

- A Building societies normally use a branch based distribution system; as the text says, 'branch-based delivery is the route traditionally used by providers such as the high-street banks and building societies'.
- B Insurance companies would be much less likely to use a branch based distribution system.
- C Investment companies would also be much less likely to use a branch based distribution system.
- D Tied financial advisers would be much more likely to give face-to-face service without maintaining a network of branches.

Q40 D CFS1702

- A This is a major benefit of promoting products through a website.
- B This is a major benefit of promoting products through a website.
- C This is a major benefit of promoting products through a website.
- D Correct.

Q41 D CFS1801

- A This does not correctly complete the sentence.
- B This does not correctly complete the sentence.
- C This does not correctly complete the sentence.
- D This does correctly complete the sentence.

Q42 A CFS1801

- A Correct.
- B Caveat emptor means 'let the buyer beware'.
- C Caveat emptor means 'let the buyer beware'.
- D Caveat emptor means 'let the buyer beware'.

Q43 B CFS1801

- A They do not have to declare this.
- B Correct.
- C They do not have to declare this.
- D They do not have to declare this.

Q44 A CFS1802

- A The Financial Ombudsman Service has been set up to deal specifically with customer complaints.
- B The Financial Services Authority is an independent body that regulates the financial services industry in the UK.
- C The Financial Services Compensation Scheme is an industry body that protects consumers from losing money if a financial services organisation goes bust.
- D The Office of Fair Trading is responsible for enforcing the Consumer Credit Act.

Q45 B CFS1802

- A The services provided by the Financial Ombudsman Service are paid for by the financial services industry and so consumer is the wrong answer.
- B The services provided by the Financial Ombudsman Service are paid for by the financial services industry and so this is the correct answer.
- C The services provided by the Financial Ombudsman Service are paid for by the financial services industry and so government is the wrong answer.
- D The services provided by the Financial Ombudsman Service are paid for by the financial services industry and so this is the wrong answer.

Q46 B CFS1802

- A Competence is one of the three areas that the FSA looks into but it is not the name of the process of checking.
- B This is the correct name for this type of check.
- C This is not the correct name for this type of check.
- D This is not the correct name for this type of check.

Q47 A CFS1803

- A Citizens Advice would be the most suitable organisation that may be able to assist him as it is able to give advice on such matters.
- B The Financial Ombudsman Service can only help if a formal complaint by a customer cannot be resolved and so would not be appropriate.
- C The Financial Services authority is the body, which regulates the financial services industry and so would not be appropriate.
- D The Office of Fair Trading regulates such things as the calculation of the APR and the Consumer Credit Act and so would not be appropriate.

Q48 A CFS1803

- A Correct.
- B Fraud and money laundering have not been eliminated in the UK.
- C Consumer protection has not reduced the number of providers.
- D Errors do still happen.

Q49 C CFS1804

- A It would not be necessary to calculate the APR as that is required to be shown by law.
- B It would not be necessary to know the provider's solvency margin when entering into a personal loan agreement.
- C It would be important to know the terms for early repayment when entering into a personal loan agreement.
- D It would not be necessary to understand your risk profile when entering into a personal loan agreement.

Q50 C CFS1804

- A This is a fictitious organisation.
- B The Financial Ombudsman Service deals with customer complaints; it would not be appropriate if a bank had gone out of business.
- C The Financial Services Compensation Scheme was set up specifically to deal with such a situation and so is the correct answer.
- D The Office of Fair Trading is not concerned with the consequences of a financial institution going out of business.