# Would You Get These Money Questions Right? - Transcript

**Tom Mullooly:** In episode 143, we're going to give you the questions that 25,000 college students got wrong. Stick around.

Welcome to the Mullooly Asset Show. I'm your host, Tom Mullooly, and this is episode number 143. Thanks for tuning in.

AIG, the insurance company, gave a money test to 25,000 college students recently. Very interesting results. Less than 1% of the college students answering the test got all the questions right, and it's not a big test, it's six questions. More than half of the 25,000 students got only one or two answers right. I wonder if AIG should've given those questions to their own executives 10 or 11 years ago before they went bust and needed a bailout.

Anyway, because were the kind of people we are, we're not only going to give you the questions, we're going to give you the answers too. All right, so here's the first question.

If a late payment is sent to a collections agency, how long will that late payment stay on your credit history?

The answer, between six and seven years. A lot of people have just a crazy notion that they can make late payments, and it's going to be okay. We don't all send money to the Bank of Dad. Making late payments does cost you in many ways.

Okay, second question. How do you calculate net worth?

I really hope that none of these 25,000 college students are business majors because if they can't get this right, they need to just change to a different major. The way you calculate net worth is assets minus liabilities equal net worth. I'm just stunned that people get that wrong.

All right, third question. Suppose you're earning 1% on your savings, and inflation is running at 2%. In one year, your ability to buy something, we also call that purchasing power, your ability to purchase something with this money will be ... the answer is, you'd be able to buy less than you can today.

Let me put this in terms everybody can understand. If you wanted to spend ... well, these went to college students, so if you wanted to spend $100 on beer, with inflation running at 2% that same $100 of beer today should cost $102 a year from now, but you only earned 1% so you only have $101 to spend. Sometimes putting it in dollar terms makes it easy to comprehend. We're going to come back to that.

Which of the following items about student loans is not true? All right, so I'm going to give you four options here, you pick the one that's not true.

In certain programs, the government pays the interest on your loan while you're in school. Option B, parents must sign a promissory note before money gets released. Option three, loan counseling for first time borrowers is required. Option four, you'll have to pay back your loans even if you don't graduate, or even if you don't find a job after finishing school.

What's the right answer?

What's not true is, when you get a student loan your parents don't have to sign some kind of promissory note to actually get the money out. That is something that's required when a parent is taking a plus loan. But all the other points are true. The government pays interest while you're in school, you still are required to pay back the loans even if you don't finish school. These things really matter.

Okay, let's move on to the next question. Number five. Let's say you have too many credit cards, and again four choices, you should close as many cards as possible. You should request a higher limit on your cards obviously, because you're running up all of these other cards that you currently have. Option three or C, you should be cautious about closing down credit cards. Option four, you should close cards with the lowest balance.

This is a little tricky, I'll admit this is a tricky question. But you should be cautious about closing down your cards. Your credit score could be effected by the way you close down some of these credit lines. It's important that you manage the risk that you've been handed. These credit card companies and banks will give you a credit limit, you have to manage that. It's not just an unlimited source of money, unlike some people think.

Okay, question six. As a general rule, how many months of expenses should you have on hand?

The answer is, typically 6 to 12 months of expenses should be left on hand. But there's a little wiggle room in this, because one of the other choices for answers was three to six months. It really kind of depends on your own situation, but unfortunately we talked to people who don't have any emergency savings and that's a real problem.

I know that we'll get some responses back from this video where people will say, "I'm just not a good test taker." My comment to that is there are some people who just don't test well, there's other people who are always in a hurry and they don't actually read the questions. That question about student loans, they were actually asking for which one of these is not true. Sometimes it really depends on our reading comprehension.

It's funny how we're finding that people still need basic skills. Yes, it's good to go to school and learn a specific topic or get into a specific niche, but you still need to have math skills, you still need to have reading comprehension skills. These things are really important. Don't skip over them.

But thanks for tuning in to episode 143, hopefully these have been helpful to you. Let us know how many you got right. Thanks for watching.