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38	A	B	C	D	E
39	A	B	C	D	E

PRACTICE QUESTIONS

DANTES Eligible Military Service Member (DSST)

SN550

Personal Finance

EDITION

Demo

QUESTIONS

9

FORMAT

Limited Edition PDF

Before you begin

What this is

9 practice questions for DANTES Eligible Military Service Member (DSST) **SN550**, each with its answer key and an explanation. Answer a question before you read its key — the explanation is worth more once you have committed.

If something looks wrong

Send us three things and we will check it:

- the exam code, **SN550**
- the question number
- the email address on your order

Write to **support@mometrix.net**. We reply within one business day.

QUESTION 1

SINGLE CHOICE

Which of the following best describes 'earned income'?

- ☒ **A** Income earned from wages, salaries, tips, and commissions
- ☐ **B** Income received from interest on a savings account
- ☐ **C** Income received from rental property
- ☐ **D** Income received as a gift from a relative

ANSWER A

WHY Earned income is generated through active work, including wages, salaries, tips, and commissions. Interest, rental income, and gifts are classified as unearned or other types of income, not earned income.

QUESTION 2

SINGLE CHOICE

A household budgets using the 50/30/20 rule. If their monthly take-home income is \$5,000, how much should be allocated to savings and debt repayment combined?

- ☒ **A** \$1,000
- ☐ **B** \$1,500
- ☐ **C** \$2,500
- ☐ **D** \$2,000

ANSWER A

WHY The 50/30/20 rule allocates 50% to needs, 30% to wants, and 20% to savings and debt repayment. Twenty percent of \$5,000 is \$1,000.

QUESTION 3

SINGLE CHOICE

What is the primary benefit of starting to invest early in life, even with small amounts?

- ☐ A It guarantees a higher rate of return than older investors will receive.
- ☒ B It maximizes the effect of compounding over a longer time horizon.
- ☐ C It eliminates all investment risk through dollar-cost averaging.
- ☐ D It allows the investor to avoid paying any taxes on investment gains.

ANSWER B

WHY The main advantage of starting early is compound growth: returns earned in early years generate their own returns in later years. Early investing does not guarantee higher returns, eliminate risk, or exempt gains from taxes.

QUESTION 4

SINGLE CHOICE

Which credit card fee is typically charged when a cardholder borrows money to pay a bill after the due date?

- ☐ A Annual fee
- ☐ B Cash advance fee
- ☒ C Finance charge
- ☐ D Balance transfer fee

ANSWER C

WHY A finance charge is the cost of borrowing on a credit card, applied when a balance is carried past the grace period. Annual fees, cash advance fees, and balance transfer fees are separate types of charges.

QUESTION 5

SINGLE CHOICE

Which type of insurance is specifically designed to replace a portion of a worker's income if they are unable to work due to a non-work-related illness or injury?

- ☐ A Workers' compensation insurance
- ☒ B Disability income insurance
- ☐ C Liability insurance
- ☐ D Unemployment insurance

ANSWER B

WHY Disability income insurance replaces a percentage of earned income when an illness or injury (not work-related) prevents the insured from working. Workers' compensation covers work-related injuries, while unemployment and liability insurance serve different purposes.

QUESTION 6

SINGLE CHOICE

Which of the following documents is typically issued by an employer and reports an employee's annual wages and the taxes withheld from their paychecks?

- ☐ A Form 1099-INT
- ☒ B Form W-2
- ☐ C Form 1040
- ☐ D Form 1098-T

ANSWER B

WHY Form W-2, the Wage and Tax Statement, is issued by employers to report wages paid and taxes withheld for the year. Form 1099-INT reports interest income, Form 1040 is the individual income tax return, and Form 1098-T reports tuition payments.

QUESTION 7

SINGLE CHOICE

A homebuyer is comparing two fixed-rate mortgages. Which factor should they compare in order to evaluate the total cost of borrowing?

- ☐ A The advertised interest rate only
- ☒ B The Annual Percentage Rate (APR), which includes most closing costs
- ☐ C The required down payment only
- ☐ D The loan term in years only

ANSWER B

WHY APR includes the interest rate plus most loan-related fees, providing a more complete measure of borrowing cost than the interest rate alone. Looking only at the rate, down payment, or term ignores other expenses of the loan.

QUESTION 8

SINGLE CHOICE

Which investment is generally considered to have the highest long-term return potential along with the highest short-term risk?

- ☐ A U.S. Treasury bills
- ☐ B Certificates of deposit
- ☒ C Common stocks
- ☐ D Money market savings accounts

ANSWER C

WHY Common stocks (equities) have historically offered the highest long-term returns among these choices but also experience the largest short-term price fluctuations. Treasury bills, CDs, and money market accounts are low-risk, low-return instruments.

QUESTION 9

MULTIPLE CHOICE

Which of the following are features of a traditional employer-sponsored 401(k) plan? (Choose two.)

- ☒ **A** Contributions are typically made with pre-tax dollars, reducing current taxable income.
- ☒ **B** Investment gains and contributions are taxed only when withdrawn in retirement.
- ☐ **C** Contributions are limited to \$500 per year regardless of income.
- ☐ **D** Withdrawals are never subject to income tax under any circumstances.
- ☐ **E** Many employers offer a matching contribution up to a stated percentage of pay.

ANSWER **A - B**

WHY Traditional 401(k) contributions are generally pre-tax and grow tax-deferred until withdrawal. Employers commonly match a portion of employee contributions. There is no \$500 cap, and withdrawals are indeed subject to ordinary income tax.