

THINK CRITICALLY

Handwrite your responses in the space below; 2 sentences each.

1. Explain how risk and return are related to each other.
2. Describe the ideal investment.
3. What is investment risk? What are some factors that can affect investment risk?
4. What is a bond?
5. What is inflation risk?
6. Name some events that might affect political risk.
7. How are tax-free earnings different from tax-deferred earnings?
8. Describe the possible tax advantages of long-term saving and investing.

IN DEPTH: Investment Criteria

The criteria for an ideal investment appear in the following list.:

- The principal is safe (no risk).
 - The rate of return is high.
 - The investment is liquid (you can get your money quickly without a penalty).
 - You can invest quickly and easily.
 - There are no costs of investing, and you can buy in with small amounts.
 - The investment is tax-free (both the earnings and the long-term gains) or tax-deferred.
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For each situation below, tell which two criteria you think would be the most important for choosing a savings plan or an investment. EXPLAIN YOUR ANSWERS.

1. Joshua plans to create an emergency fund to pay for unexpected expenses.

2. Maria wants to see her money grow over several years. She has a separate fund for emergencies that is in a liquid, no-risk account.

3. Chin wants to save money for retirement. He has a separate fund for emergencies that is in a liquid, no-risk account. He has other investments to help achieve other long-term goals.

4. Ellen wants to save money to pay for a college education for her daughter, who is now 3 years old.