

LIBF Level 2 Award in Financial Education  
(AiFE) 601 / 6360 / 4

LIBF Level 2 Certificate in Financial Education  
(CeFE) 601 / 1239 / 6

**Unit 1 – Finance, the Individual and Society (FIS)  
R / 505 / 4681**

Specimen paper: A  
Length of examination: 45 minutes

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**Instructions to learners**

1. Open this question paper when instructed to do so.
2. Answer **all** questions.
3. Use the examination answer sheets provided for your answers. Please do **not** note your answers in this booklet, as they will **not** be recorded.
4. Read the instructions on both sides of the answer sheet carefully.
5. Before you leave the examination room you **must** hand in all the examination materials including the answer sheet and question paper.

**Information for learners**

1. Silent non-programmable (including scientific) calculators are allowed. Programmable calculators are not allowed.

1. The most popular country for British people wanting to emigrate to is:
  - A Australia.
  - B Germany.
  - C the Netherlands.
  - D the Philippines.
  
2. Low inflation results in:
  - A greater levels of savings.
  - B greater unemployment.
  - C lower interest rates.
  - D more expensive houses.
  
3. The decimalisation of British currency occurred in the:
  - A 1950s.
  - B 1960s.
  - C 1970s.
  - D 1980s.
  
4. The main source of a full-time teacher's income is **most likely** to be:
  - A pension income.
  - B salary.
  - C savings income.
  - D state benefits.

5. Which of the following is exempt from value added tax?
- A Adults' clothing.
  - B Biscuits.
  - C Furniture.
  - D Postage stamps.
6. The system under which employees pay tax is known as Pay As You:
- A Earn.
  - B Go.
  - C Save.
  - D Work.
7. A decrease in income tax is likely to have which of the following effects?
- A People are likely to borrow more.
  - B People are likely to make spending cuts.
  - C People are likely to save more.
  - D Work is likely to become less attractive.
8. Which of the following statements relating to the third sector is correct?
- A It exists to make a profit.
  - B It has no economic impact.
  - C It includes charities and social enterprises.
  - D Social enterprises are not permitted to make a profit.

9. A term used by the regulator to describe good financial management is financial:
- A capability.
  - B capacity.
  - C competence.
  - D know-how.
10. Poor financial choices can lead to:
- A falling prices.
  - B low levels of personal debt.
  - C overspending.
  - D people saving more money.
11. Over time, the value of money:
- A accumulates.
  - B appreciates.
  - C depreciates.
  - D stabilises.
12. The UK government's inflation target is:
- A 1%
  - B 2%.
  - C 3%.
  - D 4%.

13. The amount of interest paid by a savings account before taking inflation into account is known as:
- A gross interest.
  - B net interest.
  - C nominal interest.
  - D simple interest.
14. Interest that is calculated only on the principal amount is known as:
- A compound interest.
  - B gross interest.
  - C net interest.
  - D simple interest.
15. If the real interest rate on a savings account is 5% and inflation is running at 3%, what is the nominal rate of return on the account?
- A 2%.
  - B 3%.
  - C 5%.
  - D 8%.
16. The term for people moving from one town or city in the UK to another is:
- A emigration.
  - B internal migration.
  - C immigration.
  - D urbanisation.

17. Japan's currency is:
- A dollars.
  - B euros.
  - C pound sterling.
  - D yen.
18. Weak currencies can mean:
- A higher interest rates.
  - B higher rates of unemployment.
  - C lower export levels.
  - D more tourists.
19. Which of the following groups of people is likely to have the most **irregular** income pattern?
- A Children.
  - B The employed.
  - C The retired.
  - D The self-employed.
20. Which of the following insurance products protects against damage to a family's personal belongings?
- A Buildings.
  - B Car.
  - C Contents.
  - D Health.

### Case Study 1

Chloe has been making hand-made cards for many years now. She has sold them to friends and family, donating any proceeds to a local mental health charity. However, having taken voluntary redundancy from her administrative job in a large financial services firm, she now plans to turn her hobby into a small business.

Chloe has just come to an agreement with her local library to run a craft stall in its foyer five mornings a week. She will give the library 15% of her profits instead of paying rent for the stall. Unfortunately, there are no 'chip and PIN' facilities at the library, but there is a local branch of Chloe's bank within walking distance where she can deposit her daily takings. Chloe's only savings are held with this bank and amount to £7,500.

21. Given the location of her stall and the facilities available, what choice of payment methods is Chloe **most likely** to want to offer her customers?
- A Cash or cheque.
  - B Cash or credit card.
  - C Cash or debit card.
  - D Debit card or cheque.
22. Once her stall is up and running, Chloe's main source of income will be from:
- A employment.
  - B savings.
  - C self-employment.
  - D the state.
23. In making her own goods and selling them on her stall, Chloe is contributing to the economy in the roles of both:
- A distributor and wholesaler.
  - B producer and consumer.
  - C producer and distributor.
  - D wholesaler and consumer.

### Case Study 2

Emily and Ed rent a one-bedroomed flat in Swansea. They both work at a distribution centre at the nearby business park, each earning £25,000 a year. They chose the flat because it is within walking distance of the business park, so they can manage without a car.

Saving money is a priority for Emily and Ed because they want to buy a home of their own within the next year, preferably a two-bedroomed house with a small garden. Their savings outside their ISA were given a boost by Emily selling a portfolio of shares that she had acquired over the years and on which she had made a profit of just over £15,000. They have now saved up just enough money for a 10% deposit and to pay the legal costs involved.

24. At what rate does Ed pay income tax on his earnings?
- A Additional rate.
  - B Basic rate.
  - C Higher rate.
  - D Starting rate.
25. What tax would the profits from Emily's shares be liable to?
- A Capital gains tax.
  - B Income tax.
  - C Inheritance tax.
  - D Stamp duty.
26. An increase in which of the following taxes would cause Emily and Ed's future plans to suffer?
- A Corporation tax.
  - B Fuel duty.
  - C Income tax.
  - D Inheritance tax.

### Case Study 3

Craig is a builder by trade and works across the UK in order to get enough work to bring in sufficient money to meet his family's needs. Last year, he was unfortunate enough to witness his tools being stolen from his van and the case is now being brought to court.

His partner, Nicky, stays at home and looks after their two pre-school children. She has heard that she can get some free childcare for the children. The family will be better off financially if she can find some part-time work while the children are being looked after. Nicky is in charge of the family's budget and works hard to make their money go as far as possible.

Craig and Nicky try to avoid being in debt although Nicky has a credit card which she uses only if she absolutely has to. If the credit card is used, Craig usually works more hours the following month so that it can be paid off in full. Nicky tries to save a little each month for their children's future.

27. By virtue of Craig being a witness to a crime, he now has a legal responsibility to:
- A be a member of the jury when the case comes to court.
  - B be protected from crime.
  - C ensure the defendant has a fair trial.
  - D tell the truth in court.
28. Changes in which of the following government policies could have an impact on Nicky's plans for her immediate future?
- A Availability of free childcare for pre-schoolers.
  - B Capping of long-term care costs for the elderly.
  - C Introduction of Universal Credit.
  - D Raising of tuition fees.
29. Which of the following attitudes reflects Craig and Nicky's view of money? People should:
- A borrow money whenever they need to.
  - B live within their means.
  - C spend for today, worry tomorrow.
  - D use their credit card whenever possible.

#### Case Study 4

Joshua currently earns a good salary, but prior to his current job he was unemployed for three years. During that time he accumulated lots of debt. Once Joshua started his new job, he took out a fixed-rate loan at a rate of 8.49%, repayable over ten years, to tackle his debt problem.

Joshua's new job has meant him incurring additional costs, such as new clothes that he bought by taking out a store card. He also bought an annual season ticket for the train using his credit card.

All of this means that Joshua cannot afford to go on nights out with his new colleagues. He feels that he is missing out on the opportunity to get to know them outside of work.

30. Which of the following is an example of a **social** impact of Joshua's poor financial decision-making?
- A Being unable to meet more than the minimum repayments on his credit and store cards.
  - B Being unable to spend time with his new colleagues outside of work.
  - C Having less disposable income.
  - D Needing to have an overdraft.
31. Which of Joshua's borrowing products would be unaffected by a rise in interest rates?
- A Credit card.
  - B Loan.
  - C Overdraft.
  - D Store card.
32. Given his financial circumstances, which of the following is likely to be Joshua's **main** concern in the event of a further recession taking place?
- A Increased corporate taxation.
  - B Inflation.
  - C Reduced government spending.
  - D Unemployment.

### Case Study 5

Karen and Wayne are both retired. They are both dog lovers and, in addition to having two rescue dogs of their own, they help to raise funds for their local dogs' home by recycling old postage stamps. They collect the stamps and send them off in return for cash, which they donate to the dogs' home.

Karen and Wayne have always lived within their means. They have four financial priorities:

- paying their rent;
- paying their heating bills;
- buying food;
- saving for a cruise.

They intend to cruise around Norway, on a British cruise ship, to celebrate their 40<sup>th</sup> wedding anniversary in two years' time.

33. In which of the following ways has Karen and Wayne's stamp-collecting enterprise contributed to their local economy? It has:
- A created local employment.
  - B improved social justice.
  - C provided an essential service.
  - D raised money for a local cause.
34. Out of Karen and Wayne's four financial priorities, which of the following would be classified as a want rather than a need?
- A Cruise.
  - B Food.
  - C Heating.
  - D Rent.
35. What will it mean for Karen and Wayne's cruise if the pound strengthens against the Norwegian krone?
- A It will cost them less to treat themselves to days out in Norway while they are away.
  - B It will cost them more to buy snacks in Norway while they are away.
  - C It will increase the cost of their cruise tickets.
  - D They will receive fewer krone at the bureau de change for their pound.