Name _____ Class _____ Date _____

CHAPTER 11 SECTION 1

STUDENT ACTIVITY

What's the Risk? 3

For each of the individuals below, indicate the type of risk or risks that he or she is taking.

Types of Investment Risk

Credit risk: risk that borrowers may not pay back the money they have borrowed
Inflation rate risk: risk that an investment's growth and return will not keep up with inflation (a general increase in prices)
Liquidity risk: risk that it will be difficult to turn an investment into cash when the investor needs it
Time risk: risk that investment in one asset will deprive the investor of better investment opportunities

Investment Situations

Individual	Situation	Type(s) of Risk
Beth	buys a house for $150,000 that she hopes to sell in two years for $500,000	
Maria	keeps $500 in her savings account at her credit union, which is currently paying 3% interest	
Quinn	loans $1,000 to a friend, to be repaid in 2 years at 4% interest	
Robert	spends $2,000 on comic books that he expects to triple in value to $6,000 over the next year	
Rashid	buys $1,000 worth of U.S. government savings bonds that mature in 10 years and pay a variable interest rate that is linked to the rate of inflation	
Sean	keeps $800 in a safe in his home	
Sarah	purchases 100 shares of stock in Nike, which she plans to sell when the price of Nike stock increases by 50%	
Amit	buys 500 shares of a mutual fund that has performed very well over the past 5 years	
Fatima	buys a 10-year certificate of deposit from a bank, which pays 5% interest	
Carlos	loans $2,000 to a friend, to be repaid in 2 months at 6% interest	

Copyright © by Pearson Education, Inc., or its affiliates. All rights reserved.