

Personal Finance © 2012

Chapter 13: Real Estate and Other Investments

Check Your Answers: Section Assessment

Section 1

Review Key Concepts

1. Your own home; vacation homes which may be used as rental property; and duplexes, apartments, land, and commercial property used for rental income.
2. Syndicates are temporary associations organized to perform a task that requires a large amount of funds; REITs combine money from many investors to invest in real estate; a high-risk mortgage has the potential for a high return; and participation certificates are safe investments in mortgages that have been purchased by a government agency.
3. Advantages include: protection against inflation; you can combine money to purchase commercial property; you can be a limited partner. Disadvantages include: illiquidity; if the economy is in decline the value may decrease; difficult to build a diversified portfolio; property management can be a full-time job.

Higher Order Thinking

4. People who invested in real estate for the tax advantages rather than profitability saw a decrease in the value of their investments. The Act likely contributed to the end of the 1980s real estate boom. Investors with sinking real estate values became desperate to unload their properties.

21st Century Skills

5. **Create Media Products** Advertisements will vary but should stress the limited financial commitment and the guaranteed nature of the investment.

Mathematics

6. **Financial Leverage** Without borrowed funds = $(\$165,000 - \$140,000)/\$140,000 = 17.9\%$; With borrowed funds = $\$140,000 - \$125,000 = \$15,000$; Interest paid = $\$5,500 \times 3 \text{ years} = \$16,500$; Profit = $(\$165,000 - \$140,000) - \$16,500 = \$8,500$; Return = $\$8,500/\$15,000 = 56.7\%$

Section 2

Review Key Concepts

1. Gold, platinum, palladium, rhodium, silver, diamonds, sapphires, rubies, and emeralds.
2. They are small, durable, easy to store, and offer some degree of protection against inflation.

3. Collectibles offer the knowledgeable collector or investor both pleasure and an opportunity for profit. The Internet has made buying and selling collectibles efficient and convenient.

4. Storing precious metals can be difficult due to size and weight, and they do not earn interest like stocks or bonds; gems are not easy to convert into cash; global, economic, financial, and political factors affect the supply and pricing of precious metals and gems.

Higher Order Thinking

5. Research quality and current values; do not assume that claims about condition or value are true, or that photographs are accurate—print out and save the description and any photos to document the claims; only conduct business with reputable dealers and auction sites; get the name, physical street address, email address, and phone number of contacts; be cautious when dealing with other countries.

English Language Arts

6. **Show and Tell** Answers will vary depending on collection. Students should describe their process in determining the value and history of the items. Presentations should include information about the value, history, and manner of trade.

Mathematics

7. **Buying Gold** 2009: $(1/3) \times 15 \text{ oz.} = 5 \text{ oz.}$; Sale: $5 \text{ oz.} \times \$944 = \$4,720.00$; Investment: $5 \text{ oz.} \times \$422 = \$2,110.00$; Profit = $\$4,720.00 - \$2,110.00 = \$2,610.00$. 2010: $(2/3) \times 15 \text{ oz.} = 10 \text{ oz.}$; $10 \text{ oz.} \times \$1,254 = \$12,540.00$; $10 \text{ oz.} \times \$422 = \$4,220.00$; Profit = $\$12,540.00 - \$4,220.00 = \$8,320.00$. All sold in 2009: Sale: $15 \text{ oz.} \times \$944 = \$14,160.00$; Investment: $15 \text{ oz.} \times \$422 = \$6,330.00$; Profit = $\$14,160.00 - \$6,330.00 = \$7,830.00$. All sold in 2010: $15 \text{ oz.} \times \$1,254.00 = \$18,810.00$; Profit = $\$18,810.00 - \$6,330.00 = \$12,480.00$