

Question #1 of 120

Question ID: 555301

The link between savers and users of capital in an economy is the:

- A) the financial services industry.
 - B) government.
 - C) providers of capital.
-

Question #2 of 120

Question ID: 391718

Moral hazard and adverse selection are *most likely* to be concerns for which of the following types of financial intermediaries?

- A) Banks.
 - B) Insurance companies.
 - C) Prime brokers.
-

Question #3 of 120

Question ID: 555302

Financial intermediation is *most accurately* defined as the function of:

- A) controlling the money supply to increase growth or decrease inflation.
 - B) establishing regulations that govern markets.
 - C) linking savers with users of capital.
-

Question #4 of 120

Question ID: 391643

The investment industry benefits individuals by:

- A) reducing transactions costs.

- B) limiting the range of investment products.
 - C) absorbing excess liquidity.
-

Question #5 of 120

Question ID: 391644

Investment industry participants who estimate the values of securities and make recommendations on their investment prospects are *best* described as:

- A) auditors.
 - B) custodians.
 - C) analysts.
-

Question #6 of 120

Question ID: 391645

Which of the following forces that affect the investment industry is *most likely* to promote innovation and expand the services offered to investors?

- A) Computerization.
 - B) Regulation.
 - C) Competition.
-

Question #7 of 120

Question ID: 555303

Which of the following statements *best* describes what those who work in the investment industry must do to maintain individuals' and firms' trust in the industry?

- A) Avoid situations that create ethical conflicts.
 - B) Follow ethical standards.
 - C) Obey rules and regulations.
-

Question #8 of 120

Question ID: 391647

An employee who encounters a conflict of interest should put the interests of her:

- A) employer ahead of her own interests.
 - B) co-workers ahead of her clients' interests.
 - C) clients ahead of the integrity of financial markets.
-

Question #9 of 120

Question ID: 555304

Which of the following elements is *least likely* stated in the CFA Institute Code of Ethics?

- A) Present client materials that comply with Global Investment Performance Standards.
 - B) Promote the integrity of and uphold the rules governing capital markets.
 - C) Place the integrity of the investment profession and the interests of clients above their own personal interests.
-

Question #10 of 120

Question ID: 555305

Standards of Practice based on the CFA Institute Code of Ethics *most likely* call on investment industry participants to:

- A) give their clients an advantage whenever possible.
 - B) disclose conflicts of interest in footnotes to all sales materials.
 - C) act with reasonable care and exercise prudent judgment.
-

Question #11 of 120

Question ID: 555306

In what way does ethical conduct affect the liquidity of financial markets?

- A) Decreases liquidity.
 - B) Has no clear effect on liquidity.
 - C) Increases liquidity.
-

Question #12 of 120

Question ID: 555307

Unethical conduct by participants in the investment industry is *most likely* to increase:

- A) a financial firm's costs.
 - B) the supply of capital.
 - C) trust in the financial markets.
-

Question #13 of 120

Question ID: 555308

A framework for making ethical decisions is *best* described as:

- A) steps an individual can take when facing an ethical dilemma.
 - B) principles such as the CFA Institute Code of Ethics.
 - C) a firm's documented policies and procedures.
-

Question #14 of 120

Question ID: 555309

Objectives of financial industry regulation *least likely* include:

- A) ensuring fair and orderly markets.
 - B) increasing efficiency.
 - C) limiting excessive capital formation.
-

Question #15 of 120

Question ID: 391651

Regulation that focuses on ensuring investors are getting information they need to make rational decisions is *best* described as:

- A) disclosure-based.
- B) merit-based.
- C) principles-based.

Question #16 of 120

Question ID: 555310

Regulations concerning market manipulation are *best* described as:

- A) trading regulations.
 - B) gatekeeping regulations.
 - C) disclosure regulations.
-

Question #17 of 120

Question ID: 555311

Which of the following corporate policies is *least appropriate* for meeting a firm's obligations to consumers?

- A) Compensate employees based on sales volume.
 - B) Require employees to preclear personal trades.
 - C) Conduct background checks on new employees.
-

Question #18 of 120

Question ID: 391654

Systemic failure is *most likely* to result from:

- A) inadequate regulation.
 - B) efforts to prevent and detect violations.
 - C) compliance with corporate policies and procedures.
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Question #19 of 120

Question ID: 391670

If the price of shoes decreases, the quantity of shoes demanded is *most likely* to:

- A) decrease.
 - B) remain the same.
 - C) increase.
-

Question #20 of 120

Question ID: 391673

If other factors are not expected to change, an increase in price of a product is *most likely* to cause quantity demanded of a complementary product to:

- A) decrease.
 - B) remain the same.
 - C) increase.
-

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Question ID: 391672

A 1% increase in the price of a good leads to a 5% decrease in the quantity demanded. The own price elasticity of demand for this good is *best* described as:

- A) inelastic.
 - B) elastic.
 - C) unit elastic.
-

Question #22 of 120

Question ID: 391674

Economists generally view a firm's economic profit as being:

- A) less than accounting profit.
 - B) greater than accounting profit.
 - C) equal to accounting profit.
-

Question #23 of 120

Question ID: 391676

An industry composed of many sellers that earn normal profits, and in which no single buyer or seller can affect the market price, is *best* described as:

- A) perfect competition.
- B) monopoly.
- C) oligopoly.

Question #24 of 120

Question ID: 555312

An investment firm's financial analysts are *most likely* to use macroeconomic information to:

- A) estimate the cross price elasticity of demand for two of a company's products.
 - B) forecast a company's earnings if they are closely related to overall economic growth.
 - C) distinguish between a company's fixed costs and variable costs.
-

Question #25 of 120

Question ID: 391679

Which of the following is one of the basic components of gross domestic product (GDP)?

- A) Employment growth.
 - B) Inflation rate.
 - C) Consumption spending.
-

Question #26 of 120

Question ID: 391681

Growth in international trade has caused business cycles in different countries to become:

- A) more closely aligned.
 - B) neither less nor more closely aligned.
 - C) less closely aligned.
-

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Question ID: 555313

A large and rapid increase in all prices that disrupts people's ability to buy and sell is *best* described as:

- A) deflation.
- B) hyperinflation.

C) stagflation.

Question #28 of 120

Question ID: 555314

Taxation and government spending are *best* described as tools of:

- A) both fiscal policy and monetary policy.
 - B) fiscal policy only.
 - C) monetary policy only.
-

Question #29 of 120

Question ID: 391687

Comparative advantages among countries in producing various goods and services are *least likely* to result from differences in:

- A) trade barriers.
 - B) human and physical capital.
 - C) access to natural resources.
-

Question #30 of 120

Question ID: 391688

A country's current account balance primarily reflects:

- A) imports and exports of goods and services.
 - B) capital transfers into and out of the country.
 - C) financial transactions with other countries.
-

Question #31 of 120

Question ID: 391690

Under which exchange rate system is a central bank *most likely* to intervene in the foreign exchange market?

- A) Fixed exchange rate system.

- B) Managed floating exchange rate system.
 - C) Floating exchange rate system.
-

Question #32 of 120

Question ID: 391692

Which of the following factors is *most likely* to cause a country's currency to appreciate?

- A) Increasing interest rates.
 - B) High inflation.
 - C) Current account deficit.
-

Question #33 of 120

Question ID: 555315

A foreign exchange transaction in which the exchange rate is determined today, but the currencies are delivered on a future date, is *best* described as a:

- A) floating transaction.
 - B) spot transaction.
 - C) forward transaction.
-

Question #34 of 120

Question ID: 391655

The financial statement that shows the profit or loss for a given period is the:

- A) balance sheet.
 - B) income statement.
 - C) cash flow statement.
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Question #35 of 120

Question ID: 555316

Which of the following reasons *best* describes why a company's profit is typically different from its net cash flow?

- A) Purchases and sales of assets.
 - B) Accrual accounting.
 - C) General and administrative expenses.
-

Question #36 of 120

Question ID: 391659

Proceeds from a sale of a factory are classified as cash flow from:

- A) financing activities.
 - B) operating activities.
 - C) investing activities.
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Question #37 of 120

Question ID: 391657

Assume a firm does not pay any dividends. The firm's net income for a reporting period will be equal to the increase in:

- A) cash from operating activities on the cash flow statement.
 - B) total cash on the balance sheet and the cash flow statement.
 - C) retained earnings on the balance sheet.
-

Question #38 of 120

Question ID: 555317

Which of the following financial ratios is *most likely* to provide information about a firm's liquidity?

- A) Net profit margin.
 - B) Current ratio.
 - C) Return on equity.
-

Question #39 of 120

Question ID: 555318

A bank offers an account that pays an annual percentage rate of 3% with quarterly compounding. The 3% is *best* described as a(n):

- A) effective annual rate.
 - B) simple interest rate.
 - C) compound interest rate.
-

Question #40 of 120

Question ID: 391665

If a company must choose only one of two projects, it should choose the project that has the:

- A) higher net present value.
 - B) higher discount rate.
 - C) lower initial costs.
-

Question #41 of 120

Question ID: 391666

Which of the following descriptive statistics is a measure of central tendency?

- A) Range.
 - B) Median.
 - C) Standard deviation.
-

Question #42 of 120

Question ID: 391668

Two variables have a correlation of -1 . The *most appropriate* way to interpret their correlation is that:

- A) an increase in one variable causes the other variable to decrease.
 - B) the two variables change in opposite directions.
 - C) there is no relationship between the two variables.
-

Question #43 of 120

Question ID: 391701

The two characteristics of a debt security that determine its periodic fixed payments are the:

- A) coupon rate and par value.
 - B) coupon rate and maturity.
 - C) par value and maturity.
-

Question #44 of 120

Question ID: 391702

A corporate debt security that is backed by collateral is called:

- A) investment-grade debt.
 - B) subordinated debt.
 - C) secured debt.
-

Question #45 of 120

Question ID: 391703

Floating-rate bonds have changing:

- A) coupon rates.
 - B) payment dates.
 - C) par values.
-

Question #46 of 120

Question ID: 391704

Bonds that give the bondholder the right to sell the bonds back to the issuer are:

- A) callable bonds.
 - B) puttable bonds.
 - C) convertible bonds.
-

Question #47 of 120

Question ID: 555319

An asset-backed security is a debt security that is backed by a:

- A) company's plant and equipment.
 - B) third-party guarantee.
 - C) pool of loans.
-

Question #48 of 120

Question ID: 555320

When valuing a debt security using the discounted cash flow approach, the appropriate discount rate to use should reflect the bond's:

- A) face value.
 - B) coupon rate.
 - C) default risk.
-

Question #49 of 120

Question ID: 391706

If a bond's yield to maturity increases, the bond's price:

- A) increases.
 - B) decreases.
 - C) may increase or decrease.
-

Question #50 of 120

Question ID: 555321

For an investor in debt securities, credit risk is *best* described as the risk of losses due to:

- A) a borrower not paying interest or principal when due.
- B) decreases in the prices of debt securities due to a change in market interest rates.
- C) declines in the purchasing power of the loaned principal.

Question #51 of 120

Question ID: 391707

The credit spread of a corporate bond is the difference between the bond's:

- A) yield and a government bond yield.
- B) coupon rate and yield.
- C) bid and ask prices.

Question #52 of 120

Question ID: 555322

A security that is *most likely* to have voting rights is:

- A) corporate bonds.
- B) common stock.
- C) preferred stock.

Question #53 of 120

Question ID: 391695

In the event of a company bankruptcy, the priority of preferred stockholders' claims is:

- A) lower than common stockholders' claims.
- B) higher than common stockholders' claims.
- C) the same as common stockholders' claims.

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Question ID: 391697

In contrast with directly buying foreign shares, global depository receipts (GDRs) offer:

- A) lower transaction costs.
- B) voting rights.
- C) trading in the firm's domestic market.

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Question ID: 538091

A convertible bond may be converted into:

- A) preferred shares.
- B) warrants.
- C) common shares.

Question #56 of 120

Question ID: 391696

Compared to investing in preferred stock, an investment in common stock is:

- A) less risky.
- B) more risky.
- C) equally risky.

Question #57 of 120

Question ID: 391699

The asset-based valuation approach to valuing common stock *most likely* considers:

- A) estimated dividends and discount rates.
- B) a firm's liabilities.
- C) the price-to-book value ratio of a firm's peers.

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Question ID: 391700

A firm's number of outstanding shares is *most likely* to increase as a result of a:

- A) secondary equity offering.
- B) reverse stock split.
- C) share repurchase.

Question #59 of 120

Question ID: 555323

Key terms that are common to all types of derivatives contracts *least likely* include:

- A) marking to market.
- B) settlement details.
- C) size and price.

Question #60 of 120

Question ID: 391708

Which of the following derivatives contracts gives one of the parties the right, but not the obligation, to buy or sell an underlying asset?

- A) Swaps.
- B) Options.
- C) Forwards.

Question #61 of 120

Question ID: 391710

A long position in a forward contract gives an investor the:

- A) right to sell an asset.
- B) obligation to buy an asset.
- C) obligation to sell an asset.

Question #62 of 120

Question ID: 391711

A similarity shared by futures and forward contracts is that both:

- A) are traded on exchanges.
- B) have significant counterparty risk.
- C) obligate the buyer and the seller.

Question #63 of 120

Question ID: 391709

As the price of its underlying asset increases, the value of a put option:

- A) increases.
 - B) decreases.
 - C) remains the same.
-

Question #64 of 120

Question ID: 555324

The buyer of a put option has:

- A) an obligation to sell an asset for the exercise price.
 - B) the right to sell an asset for the exercise price.
 - C) the right to buy an asset for the exercise price.
-

Question #65 of 120

Question ID: 391713

A private equity fund that invests in the early stages of a company's development is a:

- A) venture capital fund.
 - B) growth equity fund.
 - C) buyout fund.
-

Question #66 of 120

Question ID: 555325

The *most* speculative category of real estate investing is:

- A) office space.
- B) apartments.
- C) raw land.

Question #67 of 120

Question ID: 391716

Which of the following types of firms in the investment industry primarily provide services that facilitate trading?

- A) Investment management services.
- B) Financial intermediaries.
- C) Brokers and dealers.

Question #68 of 120

Question ID: 391717

The investment management strategy that seeks to match the risk and return of an index is:

- A) passive investment management.
- B) active investment management.
- C) fundamental investment management.

Question #69 of 120

Question ID: 555326

Credit rating agencies are *best* described as:

- A) investment information services.
- B) investment management services.
- C) trading services.

Question #70 of 120

Question ID: 555327

Which of the following is *most accurately* described as a custodial service?

- A) Providing bid and ask prices.
- B) Matching buy and sell orders.
- C) Collecting dividends.

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Question ID: 391732

One difference between the roles of dealers and brokers is that dealers:

- A) trade directly with customers.
- B) receive commissions.
- C) specialize in large orders.

Question #72 of 120

Question ID: 391719

Which of the following firms in the investment industry is a sell-side firm?

- A) Investment bank.
- B) Mutual fund.
- C) Insurance company.

Question #73 of 120

Question ID: 555328

Client relations activities such as sales, marketing, and customer service are *best* described as:

- A) middle-office activities.
- B) back-office activities.
- C) front-office activities.

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Question ID: 391721

The executive of an investment firm who is responsible for the advice the firm provides to its clients is *most likely* the:

- A) chief investment officer.
- B) head trader.
- C) chief financial officer.

Question #75 of 120

Question ID: 391724

Which of the following investment choices is an example of indirect investing?

- A) Preferred stocks.
- B) Convertible bonds.
- C) Exchange-traded funds.

Question #76 of 120

Question ID: 555329

Which of the following pooled investment vehicles is *most likely* to be actively managed?

- A) Closed-end fund.
- B) Unit investment trust.
- C) Exchange-traded fund.

Question #77 of 120

Question ID: 391723

In which type of equity market index does the weight of each stock depend on its market capitalization?

- A) Value-weighted index.
- B) Equal-weighted index.
- C) Price-weighted index.

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Question ID: 555330

A fund that attempts to match the performance of a security market index by investing in a subset of the securities in the index is said to be engaging in:

- A) index reconstitution.
- B) sampling replication.
- C) full replication.

Question #79 of 120

Question ID: 391726

Compared to other pooled investment vehicles, hedge funds are:

- A) available to more investors.
- B) more liquid.
- C) less regulated.

Question #80 of 120

Question ID: 555331

A fund of funds is *best* described as a(n):

- A) investment bank that raises capital for hedge funds.
- B) insurance system for hedge funds in financial distress.
- C) hedge fund that invests in other hedge funds.

Question #81 of 120

Question ID: 555332

A managed account for multiple institutional clients who have the same investment strategy is *best* described as a:

- A) commingled account.
- B) wrap account.
- C) unit investment trust.

Question #82 of 120

Question ID: 391730

New issues of securities are sold to the public in:

- A) offering markets.
- B) primary markets.
- C) secondary markets.

Question #83 of 120

Question ID: 555333

A primary market transaction in which a company's shareholders are offered an opportunity to buy additional shares is a:

- A) shelf registration.
- B) rights offering.
- C) private placement.

Question #84 of 120

Question ID: 391733

Regulatory power in securities trading is *most likely* to be exercised by:

- A) neither exchanges nor alternative trading systems.
- B) exchanges, but not alternative trading systems.
- C) both exchanges and alternative trading systems.

Question #85 of 120

Question ID: 391731

In which type of market structure do dealers post bid and ask prices?

- A) Order-driven markets.
- B) Brokered markets.
- C) Quote-driven markets.

Question #86 of 120

Question ID: 391734

An investor takes a levered or leveraged position in a security by:

- A) paying the full price of the security in cash.
- B) taking a margin loan.
- C) borrowing a security and selling it.

Question #87 of 120

Question ID: 391735

Which of the following orders is an example of a validity instruction?

- A) Market order.
- B) Limit order.
- C) Good-till-canceled order.

Question #88 of 120

Question ID: 391736

When a stock has been traded, a transfer agent is *most likely* responsible for:

- A) maintaining a record of who now owns the stock.
- B) notifying both parties of the terms of the trade.
- C) ensuring the exchange of cash for the stock.

Question #89 of 120

Question ID: 391737

The largest component of transactions costs for a large institutional investor is *most likely* to be:

- A) bid-ask spreads.
- B) market impact.
- C) brokerage commissions.

Question #90 of 120

Question ID: 391738

Under which of the following conditions is a market said to be allocationally efficient?

- A) Transactions costs are low and trades are easily arranged.
- B) Resources flow to their highest valued uses.
- C) Prices reflect all the information that is available.

Question #91 of 120

Question ID: 391756

Which of the following institutional investors *most likely* has the shortest investment time horizon?

- A) Education endowment fund.
- B) Defined benefit pension fund.
- C) Property and casualty insurance company.

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Question ID: 555334

A pension plan in which participants choose how their funds are invested is *best* described as a(n):

- A) defined contribution plan.
- B) defined benefit plan.
- C) employee choice plan.

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Question ID: 391757

Willingness to take on risk depends on an investor's:

- A) time horizon.
- B) psychology.
- C) existing assets.

Question #94 of 120

Question ID: 555335

The category of risk that investors cannot diversify away is:

- A) unsystematic risk.
- B) market risk.
- C) specific risk.

Question #95 of 120

Question ID: 555336

Identifying the proportions of various types of assets in a portfolio that will address a client's needs in the long term is *best* described as:

- A) efficient asset allocation.
- B) strategic asset allocation.
- C) tactical asset allocation.

Question #96 of 120

Question ID: 391761

In contrast with passive investment managers, active investment managers seek to:

- A) match benchmark returns.
- B) find inefficiencies in markets.
- C) minimize tracking error.

Question #97 of 120

Question ID: 555337

Which of the following statements about an organization's risk is *least accurate*?

- A) Risk leads to negative outcomes such as losses.
- B) Risk may be defined as the effects of uncertainty.
- C) Risk may arise from external or internal events.

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Question ID: 555338

Risks related to managing people, systems, and the business environment are *best* described as:

- A) operational risk.
- B) investment risk.
- C) compliance risk.

Question #99 of 120

Question ID: 391746

In which step of a typical risk management process is a firm *most likely* to use a risk matrix?

- A) Select responses to risks.
- B) Assess and prioritize risks.
- C) Detect and identify risks.

Question #100 of 120

Question ID: 555339

A company's internal audit function should report to the company's:

- A) external auditor.
- B) board of directors.
- C) chief risk officer.

Question #101 of 120

Question ID: 391747

One of the costs associated with risk management is:

- A) slowing a firm's decision making.
- B) detecting violations of regulations or the firm's policies.
- C) recognizing who in the firm is accountable for managing risk.

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Question ID: 555340

Ensuring that no employee is involved in both front-office and back-office operations is *most likely* a policy designed to manage risks related to:

- A) rogue trading.
- B) settlement.
- C) business continuity.

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Question ID: 555341

Risk budgeting is *most likely* a process used for managing a firm's:

- A) compliance risk.
- B) investment risk.
- C) operational risk.

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Question ID: 391748

One limitation of using value at risk (VaR) as a risk measure is that it:

- A) is difficult to calculate and understand.
- B) is discouraged by financial regulators.
- C) does not estimate maximum loss.

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Question ID: 555342

The first stage of a performance evaluation process is to:

- A) attribute returns to their sources.
- B) measure returns achieved.
- C) compare returns to a benchmark.

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Question ID: 555343

Which of the following performance measures removes the performance effects of cash flows into and out of an account?

- A) Geometric mean return.
- B) Arithmetic mean return.
- C) Time-weighted return.

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Question ID: 555344

The average compound annual return over a five-year period is *most accurately* stated as a(n):

- A) median.
- B) geometric mean.
- C) arithmetic mean.

Question #108 of 120

Question ID: 391751

Which of the following measures of variability focuses on investment returns that are below the average return?

- A) Downside deviation.
- B) Sharpe ratio.
- C) Standard deviation.

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Question ID: 555345

The Treynor ratio is a measure of return per unit of:

- A) correlation.
- B) standard deviation.
- C) systematic risk.

Question #110 of 120

Question ID: 555346

The *least likely* use of benchmarks in investment management is for:

- A) managing passive funds.
- B) choosing index components.
- C) assessing performance.

Question #111 of 120

Question ID: 555347

An appropriate benchmark for an investment manager's performance should be:

- A) constructed in a way that is not known to the manager.
- B) compatible with the manager's investment strategy.
- C) selected during the investment period.

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Question ID: 391754

If an investment manager added value through active management, the information ratio is:

- A) zero.
- B) negative.
- C) positive.

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Question ID: 555348

Alpha is *best* described as the part of an investment manager's performance that is due to:

- A) the market return.
- B) luck.
- C) the manager's skill.

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Question ID: 555349

To determine whether a manager created value by asset allocation or stock selection, a firm is *most likely* to use:

- A) factor models.
- B) Sharpe ratios.
- C) attribution analysis.

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Question ID: 555350

In the context of the investment industry, a document is *best* defined as:

- A) any official record.
 - B) any communication between a firm and the public.
 - C) a written description of a firm's policies.
-

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Question ID: 391740

Classifying a document as "associated" or "derived" refers to the document's:

- A) origin.
 - B) direction.
 - C) standardization.
-

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Question ID: 555351

A policy document is *best* described as a(n):

- A) specific action employees must take to carry out a task.
 - B) internal document that identifies what a firm must do to achieve a desired result.
 - C) principle that a firm adopts to govern its actions.
-

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Question ID: 391742

Which of the following documents is *most likely* subject to regulation?

- A) Presentations.
- B) Procedures.
- C) Policies.

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Question ID: 391743

Which stage of a client investment cycle *most likely* requires external documentation that includes confirmation statements and wire transfer instructions?

- A) Marketing.
- B) Funding.
- C) Client on-boarding.

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Question ID: 391744

A straight-through processing system is used to manage:

- A) electronic documents only.
- B) physical documents only.
- C) both physical and electronic documents.