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Exam A

QUESTION 1

_____ refers to failure to meet legal obligations in a contract, specifically, failure to make the monthly payments on the mortgage.



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- A. Foreclosure
- B. Default
- C. Amortization
- D. Callable debt

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 2

The difference between fair market value and current indebtedness is called:

- A. Down payment
- B. Amortization
- C. Equity
- D. Fixed rate mortgage

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 3

An account held by the lender into which the home buyer pays money for tax or insurance payments.

- A. Entitlement
- B. Deed of trust
- C. Escrow
- D. Earnest money

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 4

It is a document that gives evidence of an individual's ownership of property. What is it?

- A. Title
- B. Lien
- C. Deed of trust
- D. Escrow

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 5

Mutual funds let you invest_____.

- A. Invest risk free
- B. Avoid taxes
- C. Profit in any market
- D. Invest in many stocks with relatively little money

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 6

The fund's investment objective can be found in:

- A. The prospectus
- B. Statement of omitted information
- C. Letter from the president
- D. Statement of additional information

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 7

Large- value funds own_____.

- A. Large company stocks considered overvalued
- B. Large amounts of value companies
- C. Large company stocks considered under valued
- D. Largely overvalued stocks

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 8

_____ specializes in low cost index funds.

- A. Vanguard
- B. Fidelity
- C. T. Rowe Price
- D. Tocqueville

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 9

Small-value funds own_____:

- A. Small company stock considered undervalued
- B. Stocks of small value
- C. Small amounts of value companies
- D. Small company stocks considered overvalued

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 10

Loan funds_____:

- A. Charge extra fees to buy or sell shares
- B. Don't perform as well as no load funds
- C. Invest only in foreign securities
- D. Can't be bought through fund supermarkets

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 11

Dollar cost averaging _____:

- A. Is the best way to beat the market
- B. Requires minimum paperwork
- C. Means investing based on the dollar value
- D. Means investing a fixed amount periodically

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 12

Large growth funds own:



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- A. Large company stocks that have grown recently
- B. Large company stocks expected to grow fast
- C. Large amount of growing companies
- D. Growing amounts of large companies

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 13

Small growth funds own_____:

- A. Small company stocks that have grown recently
- B. Small company stocks expected to grow fast
- C. Small amount of growing companies
- D. Small amounts of large companies

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 14

Which turnover rate suggests a more tax efficient funds?

- A. 10%
- B. 100%
- C. 5%
- D. 200%

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 15

A typical mutual fund doesn't generally:

- A. Invest commercial papers
- B. Invest in small growth companies
- C. Invest in large growth companies
- D. Invest in stocks

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 16

The number of mutual funds is:

- A. Under 10 thousand
- B. Under 5 thousand
- C. Over 100 thousand
- D. Over 15 thousand

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 17

Bond funds offer_____:

- A. Zero volatility
- B. Relatively stable income
- C. Superior capital appreciation
- D. No-risk investment

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 18

Mutual funds make you money through:

- A. Currency appreciation
- B. Tax deductions
- C. income and capital appreciation
- D. Yield

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 19

The 12b-1 fee covers_____:

- A. Fund's distribution and advertising cost
- B. Investor education
- C. Fund manager's travel expenses
- D. Brokerage expenses

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 20

A_____ is the time to pay your credit card bill without incurring finance charges.

- A. Time line
- B. Grace period
- C. Overtime pay
- D. Extension

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 21

An informal term for credit card is:



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- A. ATM
- B. Discount card
- C. Plastic
- D. Play money

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 22

The total amount that you have to pay on a certain billing is:

- A. Monthly membership fees
- B. Minimum payment
- C. Outstanding balance
- D. Balancing act

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 23

_____ is the term used for the monthly report of all the accumulated charges.

- A. Savings account
- B. Balance
- C. Purchase breakdown
- D. Billing statement

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 24

It occurs when you don't make full payment on your previous bill.

- A. Discount
- B. Reward points
- C. Finance charge
- D. Membership fee

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 25

The least amount of money that you should pay on or before your due date is called:

- A. Interest charge
- B. Minimum payment
- C. Total payment

D. Monthly fee

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 26

You can earn a _____ when you continuously use your credit card for purchasing stuff.

- A. Credit
- B. Interest
- C. Reward
- D. Punishment

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 27

Credit cards offer _____ so you can withdraw money instantly.

- A. Cash reward
- B. Credit cash
- C. Mortgage
- D. Cash advance

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 28

In credit card payments, late payment charges occur when you only pay the minimum payment.

- A. True
- B. False
- C. It depends
- D. There are no such charges

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 29

Dealer invoice is the amount a dealer is billed by the car manufacturer.

- A. True
- B. False
- C. It depends
- D. There is no such invoice

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 30

APR is the same as the interest rate.

- A. True
- B. False
- C. It depends
- D. APR is not comparable with interest rate

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 31

Dealer holdback is an allowance:

- A. That manufacturer gives to the buyer
- B. That supplier gives to the buyer
- C. That wholesaler gives to the buyer
- D. None of these

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 32

Dealer charges include:

- A. Manufacturer warranty
- B. Retailer warranty
- C. Producer warranty
- D. None of these

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 33

APR stands for:

- A. Average postal rate
- B. Annual percentage rate
- C. Average prudential rate
- D. Average percentage rate

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 34

Dealer charges include extras such as extended warranty.



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- A. False
- B. True
- C. There are no such charges
- D. Sometimes it includes, sometimes not

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 35

In stocks, technical analysis is based on studying:

- A. P/E

- B. EPS trends
- C. Stock fundamentals
- D. Stock Charts

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 36

Socks that tends to periodically rise and fall are called:

- A. Defensive stocks
- B. Blue chips
- C. Cyclic stocks
- D. Income stocks

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 37

High price earnings ratio often indicate that investors:

- A. Are avoiding the company stock
- B. Are optimistic about the company
- C. Like the company products
- D. Don' t worry about the inflation

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 38

Defensive stocks:

- A. Are y relatively independent from the business cycle
- B. Are blue chip stocks
- C. Are growth stocks
- D. None of these

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 39

Stock beta measures:

- A. Stock volatility
- B. Company earnings
- C. Stock correlation with the CPI
- D. Company debt

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 40

Penny stocks are traded on_____:

- A. NYSE
- B. AMEX
- C. NASDAQ
- D. OTC

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 41

Stocks of established companies are called:

- A. Growth stocks
- B. Blue chip stocks
- C. Cyclic stocks
- D. Income Stocks

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 42

Income stocks

- A. Stocks that pay relatively high dividend
- B. Are traded in OTC
- C. Are low dividend paying stocks
- D. Both A and B

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 43

_____ are usually expected to produce significant gains.

- A. Defensive stocks
- B. Income stocks
- C. Blue chips
- D. Growth stocks

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 44

Fundamental analysis is based on studying:

- A. Company debt
- B. The company's financial data
- C. Return on equity
- D. Stock charts

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 45

The way in which people make, distribute, and use their goods and services is called?

- A. Opportunity cost
- B. Short-term goals
- C. Economics
- D. Wealth watch

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 46

Financial plans that are more than five years off are called?

- A. Opportunity plans
- B. Long-term goals
- C. Intermediate goals
- D. Attainable goals

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 47

The amount of goods and services available for sale is called?

- A. Demand
- B. Reserve
- C. Supply
- D. Economy

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 48

Saving for vacation next summer or paying off small debts are examples of ?

- A. opportunity planning
- B. short-term goals
- C. long-term goals
- D. opportunity results

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 49

Spending, saving and investing to have the kind of life you want and financial security can be achieved by?

- A. Personal financial planning
- B. Paying interest
- C. Discussing your financial situation with a friend
- D. Regulating inflation

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 50

_____ is concerned with the acquisition, financing, and management of assets with some overall goal in mind.

- A. Financial management
- B. Profit maximization
- C. Agency theory
- D. Social responsibility

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 51

Jensen and Meckling showed that _____ can assure themselves that the _____ will make optimal decisions only if appropriate incentives are given and only if the _____ are monitored.

- A. Principals; agents; agents
- B. Agents; principals; principals
- C. Principals; agents; principals
- D. Agents; principals; agents

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 52

Which of the following statements is not correct regarding earnings per share (EPS) maximization as the primary goal of the firm?

- A. EPS maximization ignores the firm's risk level
- B. EPS maximization does not specify the timing or duration of expected EPS
- C. EPS maximization naturally requires all earnings to be retained
- D. EPS maximization is concerned with maximizing net income

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 53

Which of the following is not a perquisite (perk)?

- A. Company-provided automobile

- B. Expensive office
- C. Salary
- D. Country club membership

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 54

What is the most important of the three financial management decisions?

- A. Asset management decision
- B. Financing decision
- C. Investment decision



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- D. Accounting decision

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 55

How are earnings per share calculated?

- A. Use the income statement to determine earnings after taxes (net income) and divide by the previous period's earnings after taxes. Then subtract 1 from the previously calculated value
- B. Use the income statement to determine earnings after taxes (net income) and divide by the number of common shares outstanding

- C. Use the income statement to determine earnings after taxes (net income) and divide by the number of common and preferred shares outstanding
- D. Use the income statement to determine earnings after taxes (net income) and divide by the forecasted period's earnings after taxes. Then subtract 1 from the previously calculated value

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 56

The _____ decision involves a determination of the total amount of assets needed, the composition of the assets, and whether any assets need to be reduced, eliminated, or replaced.

- A. asset management
- B. Financing
- C. Investment
- D. Accounting

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 57

You need to understand financial management even if you have no intention of becoming a financial manager. One reason is that the successful manager of the not-too-distant future will need to be much more of a _____ who has the knowledge and ability to move not just vertically within an organization but horizontally as well. Developing _____ will be the rule, not the exception.

- A. Specialist; specialties
- B. Generalist; general business skills
- C. Technician; quantitative skills
- D. Team player; cross-functional capabilities

Correct Answer: D

Section: (none)

Explanation**Explanation/Reference:****QUESTION 58**

The _____ decision involves determining the appropriate make-up of the righthand side of the balance sheet.

- A. asset management
- B. Financing
- C. Investment
- D. Capital budgeting

Correct Answer: B

Section: (none)

Explanation**Explanation/Reference:****QUESTION 59**

Which of the following statements is correct regarding profit maximization as the primary goal?

- A. Profit maximization considers the risk level
- B. Profit maximization will not lead to increasing short-term profits at the expense of lowering expected future profits.
- C. Profit maximization does consider the impact on individual shareholder's EPS
- D. Profit maximization is concerned more with maximizing net income than the stock price

Correct Answer: D

Section: (none)

Explanation**Explanation/Reference:****QUESTION 60**

In negotiating car prices, choosing among various makes, models, and options can make comparison difficult. You can check one of the popular price guides to research used car prices. What is that guide?

- A. National Automobile Dealers Association
- B. National Automobile manufacturer Association
- C. National Automobile vendor Association
- D. None of these

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 61

It is an agreement to purchase an automobile that states the offering price and all conditions of the offer; when signed by the buyer and seller, the contract legally binds them to its terms.

- A. Financing Contract
- B. Sales Contract
- C. Car Financing Agreement
- D. Dealer's Agreement

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 62

Once the dealer accepts your offer, you complete the purchase transaction and take the delivery of the car. If you are not paying cash for the car, you can arrange financing:

- A. Through a consumer finance company
- B. At your bank
- C. A credit union
- D. All of these

Correct Answer: D

Section: (none)

Explanation**Explanation/Reference:****QUESTION 63**

Lease is:

- A. An arrangement in which the lessee receives the use of a car (or the asset) in exchange for making monthly lease payments over a specified period
- B. An arrangement in which the lessee receives the use of a car (or the asset) in exchange for making weekly lease payments
- C. An arrangement in which the lessee receives the use of a car (or the asset) in exchange for making Quarterly lease payments over a specified period
- D. An arrangement in which the lessee receives the use of a car (or the asset) in exchange for making monthly lease payments

Correct Answer: A

Section: (none)

Explanation**Explanation/Reference:****QUESTION 64**

The most popular form of automobile lease is the one in which at the end of its term the lessee simply turns in the car (assuming the preset mileage limit has not been exceeded and the car hasn't abused)

- A. Close-end lease
- B. Open-end lease
- C. Walk away lease
- D. Both A and C

Correct Answer: D

Section: (none)

Explanation**Explanation/Reference:****QUESTION 65**

Open-end lease is:

- A. An automobile lease under which the estimated actual value of the car is used to determine lease payments
- B. If the car is worth less than this value at the end of the lease, the lessee must pay the difference
- C. If the car is worth less than this value at the end of the lease, the lesser must pay the difference
- D. An automobile lease under which the estimated residual value of the car is used to determine lease payments

Correct Answer: BD

Section: (none)

Explanation

Explanation/Reference:

QUESTION 66

A form of direct ownership of an individual unit in a multi-unit project in which lobbies, swimming pools, and other common areas are jointly owned by all property owners in the project.

- A. Condominium
- B. Single family homes
- C. Cooperative apartment
- D. Rental units

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 67

An apartment in a building in which each tenant owns a share of nonprofit cooperation that owns the building.

- A. Cooperative Apartment
- B. Rental contract
- C. Rent-or-buy
- D. None of these

Correct Answer: A

Section: (none)

Explanation**Explanation/Reference:****QUESTION 68**

A rental contract:

- A. A legal instrument that protects both the lesser and the lessee from an adverse action by the other party
- B. It specifies the amount of monthly payment
- C. It specifies the length of the lease agreement
- D. All of these

Correct Answer: D

Section: (none)

Explanation**Explanation/Reference:****QUESTION 69**

The maximum percentage of the value of a property that the lender is willing to loan is called:

- A. Loan to value ratio
- B. Private mortgage
- C. Price earnings ratio
- D. Mortgage points

Correct Answer: A

Section: (none)

Explanation**Explanation/Reference:****QUESTION 70**

An insurance policy that protects the mortgage lender from loss in the event the borrower defaults on the loan; typically required by lenders when the down payment is less than 20%.

- A. Private mortgage insurance
- B. Public mortgage insurance
- C. Down payment
- D. Loan to value ratio

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 71

_____ acronym is that refers to a mortgage payment including stipulated portions of principal, interest, property, taxes and homeowner's insurance.

- A. PITI
- B. Homeowner insurance
- C. ABI
- D. DITI

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 72

The principal reason for the existence of leasing is that:



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- A. Intermediate-term loans are difficult to obtain
- B. This is a type of financing unaffected by changes in tax law

- C. Companies, financial institutions, and individuals derive different benefits from owning
- D. Leasing is a renewable source of intermediate-term funds

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 73

A way to analyze whether debt or lease financing would be preferable is to:

- A. Compare the net present values under each alternative, using the cost of capital as the discount rate
- B. Compare the net present values under each alternative, using the after-tax cost of borrowing as the discount rate
- C. Compare the payback periods for each alternative
- D. Compare the effective interest costs involved for each alternative

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 74

A conventional revolving credit agreement allows:

- A. To borrow a fixed amount for the entire commitment period
- B. To borrow for a short-period with a right to renew the loan during the commitment period
- C. To possibly include a provision to convert the credit agreement into a term loan contract at maturity
- D. All of the above

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 75

Real estate commissions generally range _____ for new homes and _____ for previously occupied homes or resales. It may be possible to negotiate a lower decision with your broker or to find one who charges a flat fee.

- A. From 5%-6% for new and from 6%-7%
- B. From 4%-6% for new and from 6%-9%
- C. From 4%-6% for new and from 8%-9%
- D. From 4%-6% for new and from 6%-7%

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 76

It is the process of arranging with a mortgage lender, in advance of buying a home, to obtain the amount of mortgage financing the lender deems affordable to home buyer.

- A. Multiple listing service
- B. Prequalification
- C. Earnest money deposit
- D. Contingency clause

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 77

Prequalification provides estimates of required down payment and closing costs of different types of mortgages. It identifies in advance any problems such as:

- A. Credit report errors
- B. Bargaining power with the seller of a house
- C. Mortgage loans

D. Earnest money deposit

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 78

Michael Cohn is a "member" (a type of owner) of a marine supply business. Michael's business is:

- A. A sole proprietorship
- B. A corporation
- C. A limited liability company
- D. A general partnership

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 79

The Counting House, Inc., purchased 5-year property class equipment for \$60,000. It uses the MACRS method of depreciation. What is tax depreciation for the second year of the asset's life?

- A. \$12,000
- B. \$19,200
- C. \$20,000
- D. \$24,000

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 80

A 30-year bond issued by Gary's Plaid Pants Warehouse, Inc., in 1997 would now trade in the:

- A. Primary money market
- B. Secondary money market
- C. Primary capital market
- D. Secondary capital market

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 81

A corporation in which you are a shareholder has just gone bankrupt. Its liabilities are far in excess of its assets. You will be called on to pay:

- A. A proportionate share of bondholder claims based on the number of common shares that you own.
- B. A proportional share of all creditor claims based on the number of common shares that you own.
- C. An amount that could, at most, equal what you originally paid for the shares of common stock in the corporation.
- D. None of these

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 82

Contingency clause:

- A. Is the clause in a real estate sales contract that makes the agreement conditional on such factors as the availability of financing, property inspections, or obtaining expert advice
- B. Is the clause in a real estate purchase contract that makes the agreement conditional on such factors as the availability of financing, property inspections, or obtaining expert advice
- C. Is the clause in a automobile sales contract that makes the agreement conditional on such factors as the availability of financing, property inspections, or

obtaining expert advice

- D. Is the clause in a prequalification that makes the agreement conditional on such factors as the availability of financing, property inspections, or obtaining expert advice

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 83

A federal law requiring mortgage lenders to give potential borrowers a government publication describing the closing process and providing clear, advance disclosure of all closing costs to home buyers is called:

- A. Multiple listing service
- B. Real Estate settlement procedure Act
- C. Title check
- D. Closing statement

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 84

Money market mutual funds:

- A. Enable individuals and small businesses to invest indirectly in money-market instruments
- B. Are available only to high net-worth individuals
- C. Are involved in acquiring and placing mortgages
- D. Are also known as finance companies

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 85

The purpose of financial markets is to:

- A. Increase the price of common stocks
- B. Lower the yield on bonds
- C. Allocate savings efficiently
- D. Control inflation

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 86

Which of the following is NOT an example of a financial intermediary?

- A. International Business Machines, Inc. (IBM)
- B. Vanguard Mutual Fund
- C. El Dorado Savings and Loan Association
- D. Bank of America

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 87

How are funds allocated efficiently in a market economy?

- A. The most powerful economic unit receives the funds
- B. The economic unit that is willing to pay the highest expected return receives the funds
- C. The economic unit that considers itself most in need of funds receives them

D. Receipt of the funds is rotated so that each economic unit can receive them in turn

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 88

Assume that a "temporary" additional (US federal tax related) first-year bonus depreciation of 50 percent applies to a new, \$100,000 piece of equipment purchased by Bellemans Chocolatier, Inc. The asset has a \$10,000 estimated final salvage value. If this asset is fully depreciated for tax purposes over its useful life, the overall amount that Bellemans will have depreciated for tax purposes is .

- A. \$90,000
- B. \$100,000
- C. \$135,000
- D. \$150,000

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 89

It is the mortgage that starts with unusually low payments that rise over several years to a fixed payment.

- A. Shared appreciation mortgage
- B. Balloon payment mortgage
- C. Interest-only mortgage
- D. Graduated-payment mortgage

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 90

If an investment banker has agreed to sell a new issue of securities on a best-efforts basis, the issue:

- A. Most likely involves an unusually large stock offering
- B. Most likely involves bonds instead of common stock
- C. Results in no assumption of underwriting risk by the investment banker
- D. Most likely involves a well-established, large company

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 91

In mortgage loans closing costs are made up of all of the following Except:

- A. Loan application and origination fees paid to the lender
- B. Loan application and origination fees paid to the borrower
- C. Mortgage points
- D. Title search

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 92

A preliminary prospectus is known as a:

- A. Golden Parachute
- B. Red herring
- C. Blue sky
- D. Green shoe

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 93

Letter stock is:



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- A. A handwritten certificate representing a corporate IOU
- B. A mass mailing offering a security for sale
- C. Securities issued by the United States Postal Service
- D. Privately placed common stock that cannot be immediately resold to the general public

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 94

The actual market value of a right will differ from its theoretical value for all of the following reasons Except for:

- A. The size of the firm's marginal tax rate
- B. The amount of transactions costs incurred
- C. Investor speculation
- D. The irregular exercise and sale of rights over the subscription period

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 95

When the investment banker bears the risk of not being able to sell a new security at the established price, this is known as:

- A. A best efforts offering
- B. Underwriting
- C. Shelf registration
- D. Making a market

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 96

To say that there is "asymmetric information" in the issuing of common stock or debt means that:

- A. Investors have nearly perfect information
- B. The markets have nearly perfect information
- C. Investors have more accurate information than management has
- D. Management has more accurate information than investors have

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 97

A best efforts offering is sometimes used in connection with a of new, long-term securities.

- A. Private placement
- B. Privileged subscription
- C. Public issue
- D. All of the above

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 98

_____ is a financing made available by a builder or a seller to a potential new home buyer at well below market interest rate, often only for a short period, is called:

- A. Buydown
- B. Prerequisite
- C. FHA
- D. Growing equity mortgage

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 99

A loan on which payments equal to half the regular monthly payments is called:

- A. Biweekly mortgage
- B. Semiweekly mortgage
- C. Growing equity mortgage
- D. None of these

Correct Answer: A

Section: (none)

Explanation**Explanation/Reference:****QUESTION 100**

It is a guarantee offered by the U.S Veterans Administration to lenders who make qualified mortgage loans to eligible veterans of the U.S. Armed Forces and their unmarried surviving spouses. What is it?

- A. Buydown
- B. FHA mortgage
- C. VA loan guarantee
- D. Biweekly mortgage

Correct Answer: C

Section: (none)

Explanation**Explanation/Reference:****QUESTION 101**

People typically use credit as a way to pay for goods and services that cost more than they can afford to take from their current income. Whatever their age group, people tend to borrow for several major reasons. Which of the following is out of those reasons?

- A. To meet financial emergency
- B. For convenience
- C. To avoid paying cash for large outlays
- D. None of these

Correct Answer: ABC

Section: (none)

Explanation**Explanation/Reference:****QUESTION 102**

One can avoid the possibility of future repayment socks by keeping in mind the some types of transactions for which you should not generally use credit. Which of the following is Not out of those transactions?

- A. To meet basic living expenses
- B. To make impulse purchases
- C. To purchase non-durable (short-lived) goods and services
- D. To purchase durable goods and services

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 103

Lenders often look the 5 C's of credit as a way to assess the willingness and ability of a borrower to repay a loan. Those 5 C's are all of the following Except:

- A. Character
- B. Collateral
- C. Credit term
- D. Condition

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 104

Sound financial planning dictates that you need a good idea of how much credit you can comfortably tolerate. One can do some measures to build a strong credit history. Which of the below mentioned points can be out of those measure?

- A. Fulfill all the terms of credit
- B. Be consistent in making payments promptly
- C. Do not consult creditors immediately
- D. None of these

Correct Answer: AB

Section: (none)

Explanation

Explanation/Reference:

QUESTION 105

Consider someone who takes home \$2500 a month. Using a 20% ratio, he/she should have monthly consumer credit payments of no more than \$500 i.e., $\$2500 \times 0.20 = \500 . This is the _____ amount of her monthly disposable income that she should need to pay off both personal loans and other forms of consumer credit.

- A. Maximum
- B. Minimum
- C. Same
- D. Actual

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 106

Cash advance is:

- A. A loan that can be obtained by a bank credit cardholder at any participating bank or financial institution
- B. A debt that can be obtained by a bank credit cardholder at any participating bank or financial institution
- C. A financial leverage that can be obtained by a bank credit cardholder at any participating bank or financial institution
- D. A and B both

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 107

A short period of time, usually 20 to 30 days, during which you can pay your credit card bill in full and not incur any interest charges, is:

- A. Grace period
- B. Base period
- C. Term of credit
- D. Cash in advance

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 108

It is a bank credit card that combines features of a traditional bank credit card with an additional incentive, such as rebates and air mileage.

- A. Reward credit card
- B. Co-branded credit card
- C. Merchandise rebates
- D. Both A and B are one and the same

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 109

About half of the credit cards are rebate cards, and new cards are introduced every day. In one credit card incentive program card holder earn free frequent flyer miles for each dollar charged on his/her credit card. These frequent flyer miles can then be used with airline-affiliated programs for free tickets, first –class upgrades, and other travel related benefits. This program is a/an:

- A. Automobile rebate program
- B. Frequent flyer program
- C. Merchandise program
- D. Balance transfer program

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 110

About half of the credit cards are rebate cards, and new cards are introduced every day. In one credit card incentive program, a number of credit cards allow cardholder to earn annual rebates of up to 5% for new car purchases or leases and gas and auto maintenance purchases up to specified limits.

- A. Automobile rebate program
- B. Frequent flyer program
- C. Other merchandise program
- D. Balance transfer program

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 111

Debit card is a card use to make transactions for cash rather than credit; replaces the need for cash or checks by initiating charges against the checking account. Its big disadvantage is that:

- A. It does provide line of credit
- B. It does not provide line of credit
- C. Repaying of cash process is complicated
- D. Merchants may even charge you for just using your credit cards

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 112

A line of credit issued against the existing equity in a home is called:

- A. Home equity credit line
- B. Overdraft protection line
- C. Revolving line of credit
- D. Unsecured personal credit line

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 113

It is a line of credit made available to an individual on an as-needed basis.

- A. Home equity credit line
- B. Overdraft protection line
- C. Revolving line of credit
- D. Unsecured personal credit line

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 114

Overdraft protection line is:

- A. A line of credit linked to a checking account



- B. Its account allows depositor to overdraw the account up to a specified amount
- C. A line of credit linked to a checking account that allows a depositor to overdraw the account up to a specified amount
- D. None of these

Correct Answer: AB

Section: (none)

Explanation

Explanation/Reference:

QUESTION 115

It is a type of open account offered by banks and other financial institutions that can be accessed by writing checks against demand deposit or specially designated credit line accounts. What is it?

- A. Revolving line of credit
- B. Unsecured personal credit line
- C. Overdraft protection line
- D. Both A and B

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 116

It is referred to an investigation that involves contacting credit references or corresponding with a credit bureau to verify information on a credit application.

- A. Credit bureau
- B. Credit scoring
- C. Credit investigation
- D. Credit line

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 117

Using data provided by the credit applicant, along with any information obtained from the credit bureau, the store or bank must decide whether to grant credit. Very likely, some type of credit scoring scheme will be used to make the decision. An over all credit score is developed for you by assigning values to such factors as:

- A. Annual income
- B. Level of debt paid
- C. Level of existing debt
- D. Presence of savings accounts

Correct Answer: ABD

Section: (none)

Explanation

Explanation/Reference:

QUESTION 118

A company can ensure the complete success of a rights offering by making use of a:

- A. Standby arrangement
- B. Oversubscription privilege
- C. Green shoe provision
- D. Shelf registration

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 119

The market price of K-T-Lew Corporation's common stock is \$60 per share, and each share gives its owner one subscription right. Four rights are required to

purchase an additional share of common stock at the subscription price of \$54 per share. If the common stock is currently selling "rights-on," the theoretical value of a right is closest to:

- A. \$0.96
- B. \$1.20
- C. \$1.5
- D. \$6.0

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 120

Financial intermediaries:

- A. Do not invest in new long-term securities
- B. Include insurance companies and pension funds
- C. Include the national and regional stock exchanges
- D. Are usually underwriting syndicates

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 121

You are considering borrowing \$10,000 for 3 years at an annual interest rate of 6%. The loan agreement calls for 3 equal payments, to be paid at the end of each of the next 3 years. (Payments include both principal and interest.) The annual payment that will fully pay off (amortize) the loan is closest to:

- A. \$2674
- B. \$2890
- C. \$3741
- D. \$4020

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 122

You can use to roughly estimate how many years a given sum of money must earn at a given compound annual interest rate in order to double that initial amount.

- A. Rule 415
- B. the Rule of 72
- C. the Rule of 78
- D. Rule 144

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 123

Loan disclosure statement is:

- A. A document which lenders are required to supply borrowers
- B. That states the dollar amount of finance charges
- C. That states APR applicable to a loan
- D. All of these

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 124

In a typical loan amortization schedule, the dollar amount of interest paid each period.

- A. Increases with each payment
- B. Decreases with each payment
- C. Remains constant with each payment
- D. Any one of these can be the case

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 125

When $n = 1$, this interest factor equals one for any positive rate of interest.

- A. PVIF
- B. FVIF
- C. PVIFA
- D. FVIFA

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 126

For \$1,000 you can purchase a 5-year ordinary annuity that will pay you a yearly payment of \$263.80 for 5 years. The compound annual interest rate implied by this arrangement is closest to:

- A. 8%
- B. 9%
- C. 10%
- D. 11%

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 127

To increase a given present value, the discount rate should be adjusted:

- A. Upward
- B. Downward
- C. True
- D. Fred

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 128

You are considering investing in a zero-coupon bond that sells for \$250. At maturity in 16 years it will be redeemed for \$1,000. What approximate annual rate of growth does this represent?

- A. 8%
- B. 9%
- C. 12%
- D. 25%

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 129

In 3 years you are to receive \$5,000. If the interest rate were to suddenly increase, the present value of that future amount to you would:

- A. Fall
- B. Rise
- C. Remain unchanged
- D. Cannot be determined without more information

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 130

The amount of interest one pays to open credit depends_____ on the method the lender uses to calculate the balances on which they apply finance charges.

- A. Partly
- B. Fully
- C. Quarterly
- D. None of these

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 131

They say it pays to shop around and when it comes to credit cards that are certainly true. Regardless of which category they fall into, there are basically four credit card features to look for. Which of the following is/are out of those features?

- A. Annual fees
- B. Rate of interest charged on account balance
- C. Length of the expiration period
- D. Method of calculating balances

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 132

It is a form of legal recourse open to insolvent debtors, who may petition a court for protection from creditors and arrange for the orderly liquidation and distribution of their assets.

A. Personal bankruptcy



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B. Straight bankruptcy

C. Wage earn plan

D. Both A and B

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 133

It is a legal proceeding that results in “wiping the slate clean and starting anew”; most of the debtor’s obligations are eliminated in an attempt to put the debtor’s financial affairs in order. What is it?

A. Personal bankruptcy

B. Straight bankruptcy

C. Wage earn plan

D. Both A and B

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 134

It is a professional financial advisor who assists overextended consumers in repairing budgets for both spending and debt repayment.

- A. Credit counselor
- B. Consumer counselor
- C. Financial planner
- D. Underwriter

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 135

Loans made for specific purposes using formally negotiated contracts that specify the borrowing terms and repayments are called:

- A. Mortgage loans
- B. Credit lines
- C. Consumer loans
- D. SME loans

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 136

Collateral is a/an:

- A. An item of value used to secure the interest amount
- B. An item of value used to secure the principle portion of a loan
- C. An item of value used to secure the credit line of a loan
- D. An item of value used to secure the repayments of a loan

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 137

Student loans are amortized with monthly payments over a period of 5 to 10 years. To help you service the debt, if you have several student loans outstanding then you can consolidate the loans, at a single blended rate, and extend the repayment period to s long as:

- A. 20 years
- B. 30 years
- C. 25 years
- D. 40 years

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 138

Single payment loan is a loan:

- A. Made for a specified period
- B. At the end of which payment is due in full
- C. At the end of which half of the payment is due
- D. That expires within a year

Correct Answer: AB

Section: (none)

Explanation**Explanation/Reference:****QUESTION 139**

A loan that is repaid in a series of fixed, scheduled payments rather than a lump-sum is referred to as:

- A. Single payment loan
- B. Mortgage loan
- C. Installment loan
- D. College savings plan

Correct Answer: C

Section: (none)

Explanation**Explanation/Reference:****QUESTION 140**

In _____ the use of single-payment loan to finance a purchase or pay bills in situations where the funds to be used for repayment are known to be forthcoming in the near future.

- A. Interim financing
- B. Installment loans
- C. College savings plan
- D. Commercial loans

Correct Answer: A

Section: (none)

Explanation**Explanation/Reference:****QUESTION 141**

A firm that makes secured and unsecured personal loans to qualified individuals, also called a small loan company is called:

- A. Credit unions
- B. Consumer finance company
- C. Sales finance company
- D. Captive finance company

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 142

With continuous compounding at 10 percent for 30 years, the future value of an initial investment of \$2,000 is closest to:

- A. \$34,898
- B. \$40,171
- C. \$164,500
- D. \$328,282

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 143

You want to buy an ordinary annuity that will pay you \$4,000 a year for the next 20 years. You expect annual interest rates will be 8 percent over that time period. The maximum price you would be willing to pay for the annuity is closest to:

- A. \$32,000
- B. \$39,272
- C. \$40,000
- D. \$80,000

Correct Answer: B

Section: (none)

Explanation**Explanation/Reference:****QUESTION 144**

A profitability index of .85 for a project means that:

- A. The present value of benefits is 85% greater than the project's costs
- B. The project's NPV is greater than zero
- C. The project returns 85 cents in present value for each current dollar invested
- D. The payback period is less than one year

Correct Answer: C

Section: (none)

Explanation**Explanation/Reference:****QUESTION 145**

BackInSoon, Inc., has estimated that a proposed project's 10-year annual net cash benefit, received each year end, will be \$2,500 with an additional terminal benefit of \$5,000 at the end of the tenth year. Assuming that these cash inflows satisfy exactly BackInSoon's required rate of return of 8 percent, calculate the initial cash outlay. (Hint: With a desired IRR of 8%, use the IRR formula: $ICO = \text{discounted cash flows}$.)

- A. \$16,775
- B. \$19,090
- C. \$25,000
- D. \$30,000

Correct Answer: B

Section: (none)

Explanation**Explanation/Reference:****QUESTION 146**

Which of the following statements is correct?

- A. If the NPV of a project is greater than 0, its PI will equal 0
- B. If the IRR of a project is 0%, its NPV, using a discount rate, k , greater than 0, will be 0
- C. If the PI of a project is less than 1, its NPV should be less than 0
- D. If the IRR of a project is greater than the discount rate, k , its PI will be less than 1 and its NPV will be greater than 0

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 147

Assume that a firm has accurately calculated the net cash flows relating to an investment proposal. If the net present value of this proposal is greater than zero and the firm is not under the constraint of capital rationing, then the firm should:

- A. calculate the IRR of this investment to be certain that the IRR is greater than the cost of capital
- B. Compare the profitability index of the investment to those of other possible investments
- C. Calculate the payback period to make certain that the initial cash outlay can be recovered within an appropriate period of time
- D. Accept the proposal, since the acceptance of value-creating investments should increase shareholder wealth

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 148

A project's profitability index is equal to the ratio of the of a project's future cash flows to the project's.

- A. Present value; initial cash outlay
- B. Net present value; initial cash outlay
- C. Present value; depreciable basis
- D. Net present value; depreciable basis

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 149

The discount rate at which two projects have identical is referred to as Fisher's rate of intersection.

- A. Present values
- B. Net present values
- C. IRRs
- D. Profitability indexes

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 150

Two mutually exclusive investment proposals have "scale differences" (i.e., the cost of the projects differ). Ranking these projects on the basis of IRR, NPV, and PI methods give contradictory results.

- A. Will never
- B. Will always
- C. May
- D. Will generally

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 151

If capital is to be rationed for only the current period, a firm should probably first consider selecting projects by descending order of.

- A. Net present value
- B. Payback period
- C. Internal rate of return
- D. Profitability index

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 152

The method provides correct rankings of mutually exclusive projects, when one is Not subject to capital rationing.

- A. Net present value
- B. Internal rate of return
- C. Payback period
- D. Profitability index

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 153

In an NPV sensitivity graph, a steep sensitivity line for a particular input variable means that a in that variable results in a in NPV.

- A. Small percentage change; large change



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- B. Large percentage change; small change
- C. Large percentage change; large change
- D. Small percentage change; small change

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 154

One potential problem with sensitivity analysis is that it generally looks at sensitivity "one variable at a time." However, one way to judge the sensitivity of results to simultaneous changes in two variables, at least, is to construct an.

- A. NPV profile
- B. NPV sensitivity matrix
- C. NPV sensitivity graph
- D. None of these

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 155

A bond issue may be retired by:

- A. calling the bonds if there is a call feature
- B. converting the bonds (if convertible) into common stock
- C. making a single-sum payment at final maturity
- D. All of the above

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 156

Protective covenants are:

- A. To protect employees
- B. To protect the interest of the company
- C. To protect shareholders
- D. To protect bondholders

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 157

Which of the following bonds offer the investor the most protection?

- A. First-mortgage bonds
- B. Debentures
- C. Subordinated Debentures
- D. Income bonds

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 158

A company refunds its bonds for any of the following reasons Except for:

- A. To eliminate restrictive covenants
- B. To reduce interest costs
- C. To show higher reported profits

D. To issue new bonds at higher rate of interest

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 159

The call-option value of a callable bond is likely to be high when:

- A. Interest rates are volatile
- B. Interest rates are low and expected to remain low
- C. Interest rate are high and expected to remain high
- D. Markets are inefficient

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 160

Treasury stock is:

- A. Common stock issued by the U.S. government
- B. Preferred stock issued by the U.S. government
- C. Common stock that has been repurchased and is being held by the issuing company
- D. A corporation's common stock outstanding

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 161

A call provision, a sinking fund, and/or conversion are used to retire:

- A. Bonds and preferred stock
- B. Bonds and common stock
- C. Preferred stock and common stock
- D. Only common stock

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 162

Preferred shareholders' claims on assets and income of a firm come those of creditors those of common shareholders.

- A. Before; and also before
- B. After; but before
- C. After; and also after
- D. Equal to; and equal to

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 163

Dual classes of are common in new ventures where promotional usually goes to the founders.

- A. Bonds; bonds
- B. Preferred stock; preferred stock
- C. Common stock; common stock
- D. Warrants; warrants

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 164

Palo Alto Industries has a debt-to-equity ratio of 1.6 compared with the industry average of 1.4. This means that the company:

- A. Will not experience any difficulty with its creditors
- B. Has less liquidity than other firms in the industry
- C. Will be viewed as having high creditworthiness
- D. Has greater than average financial risk when compared to other firms in its industry

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 165

A legal claim permitting the lender in case the borrower defaults, to liquidate the items serving as collateral to satisfy the obligation is called:

- A. Chattel mortgage
- B. Lien
- C. Collateral note
- D. Loan application

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 166

It is a mortgage on personal property given as a security for the payment of an obligation.

- A. Chattel mortgage
- B. Lien
- C. Collateral note
- D. Loan application

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 167

_____ is a legal note giving to the lender the right to sell collateral if the borrower defaults on the obligation.

- A. Chattel mortgage
- B. Lien
- C. Collateral note
- D. Loan application

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 168

These are additional charges you may owe if you decide to pay off your loan prior to maturity. What are these?

- A. Prepayment penalty
- B. Loan rollover
- C. Loan disclosure
- D. Loan repayment

Correct Answer: A

Section: (none)

Explanation**Explanation/Reference:****QUESTION 169**

A universal life insurance policy provides two types of death protection. The first type, known as Option A, provides a level death benefit. As the cash value increases:

- A. The amount of pure insurance protection decreases
- B. The amount of pure insurance protection increases
- C. The amount of pure insurance protection remains same
- D. The amount of pure insurance protection start vary

Correct Answer: A

Section: (none)

Explanation**Explanation/Reference:****QUESTION 170**

A method of calculating interest by computing finance charges on the original loan balance and then adding the interest to that balance.

- A. Rule of 78s
- B. Add-on method
- C. Credit life
- D. Pre-payment penalties

Correct Answer: B

Section: (none)

Explanation**Explanation/Reference:****QUESTION 171**

Credit life or disability insurance is:

- A. A type of insurance in which the coverage decreases at the same rate as the loan balance
- B. A type of insurance in which the coverage increases at the same rate as the loan balance
- C. A type of insurance in which the coverage decreases at an inverse rate as the loan balance
- D. A type of insurance in which the coverage decreases at the half rate as the loan balance

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 172

Sometimes, as a condition of receiving an installment loan, a borrower is required to buy credit life insurance. From borrower's perspective, credit life insurance not a good deal because:

- A. It's very costly
- B. It does little more than give lenders a lucrative source of income
- C. It increases market interest charges
- D. It increases inflation

Correct Answer: AB

Section: (none)

Explanation

Explanation/Reference:

QUESTION 173

An activity that reduces the probability that a loss will occur is called:

- A. Risk avoidance
- B. Loss Control
- C. Loss prevention
- D. Insurance policy

Correct Answer: C

Section: (none)

Explanation**Explanation/Reference:****QUESTION 174**

Loss control is an activity that:

- A. Avoid the act that would create loss
- B. Lessens the severity of loss once it occurs
- C. Lessens the severity of loss after its occurrence
- D. None of these

Correct Answer: B

Section: (none)

Explanation**Explanation/Reference:****QUESTION 175**

Underwriting directly affects an insurance company's chances of success. If underwriting standards are too high, then people will be unjustly denied insurance converge and insurance sales will:

- A. Boost up
- B. Rise
- C. Drop
- D. Remain same

Correct Answer: C

Section: (none)

Explanation**Explanation/Reference:****QUESTION 176**

Just as with other aspects of personal financial planning, life insurance decision can be made easier by following a step-by-step approach. You will need to answer some questions. Which of the following is/are Not out of those questions?

- A. Do you need life insurance?
- B. If so, how much life insurance do you need?
- C. Which type of life insurance is best?
- D. What risk factor can affect the final decision?



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Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 177

Life insurance is intangible. You can't see, smell, touch or taste its benefits and those benefits mainly happen when someone is died. However, life insurance does have some important benefits that should not be ignored in the financial planning process. Which of the following is out of those benefits?

- A. Protection from debtors
- B. Financial protection from dependents
- C. Vehicle for savings
- D. Interest benefit

Correct Answer: BC

Section: (none)

Explanation

Explanation/Reference:

QUESTION 178

A method of determining the amount of life insurance coverage needed by multiplying gross annual earnings by some selected number is called:

- A. Multiple of earnings method
- B. Need analysis method
- C. Tax saving method
- D. Whole life coverage

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 179

According to multiple of earnings method, the rule of thumb used by many insurance agents is that your insurance coverage should be equal to 5 to 10 times your current income. For example, if you currently earn \$70,000 a year, using the multiple of earning method then you need between:

- A. \$300,000 and \$700,000 life insurance
- B. \$400,000 and \$700,000 life insurance
- C. \$390,000 and \$800,000 life insurance
- D. \$350,000 and \$700,000 life insurance

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 180

Need analysis method is a more detailed approach than multiple-of-earnings method. This method considers both financial obligations and financial resources of the insured and his or her dependents. Which of the following steps is/are involved in this method?

- A. Estimate the total economic resources needed if the individual were to die
- B. Determine all financial resources that would be available after death, including existing life insurance and pension plan death benefits
- C. Subtract available resources from the amount needed to determine how much additional life insurance is required
- D. All of these

Correct Answer: D

Section: (none)

Explanation**Explanation/Reference:****QUESTION 181**

Insurance that provides only death benefits, for a specified period, and does not provide accumulation of cash value is called:

- A. Straight term policy
- B. Term life insurance
- C. Decreasing term policy
- D. Renewability

Correct Answer: B

Section: (none)

Explanation**Explanation/Reference:****QUESTION 182**

It is a term life policy written for a given number of years with coverage remaining unchanged throughout the effective period. What is it?

- A. Straight term policy
- B. Term life insurance
- C. Decreasing term policy
- D. Renewability

Correct Answer: A

Section: (none)

Explanation**Explanation/Reference:****QUESTION 183**

It is a term life policy provision allowing the insured to renew the policy at the end of its term without having to show evidence of insurability

- A. Straight term policy

- B. Term life insurance
- C. Decreasing term policy
- D. Renewability

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 184

Decreasing term policy is:

- A. A term insurance policy that maintains a level premium throughout all periods of coverage while the amount of protection decreases
- B. A term insurance policy that maintains a level premium throughout all periods of coverage while the amount of protection increases
- C. A term insurance policy that maintains a level premium throughout all periods of coverage while the amount of protection remains unchanged
- D. None of these

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 185

_____ is the accumulated refundable value of an insurance policy; results from the investment earnings on paid-in insurance premiums.

- A. Cash value
- B. Nonforfeiture right
- C. Decreasing term policy
- D. Continuous premium

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 186

Three major types of whole life policies are available. Which of the following is/are Not out of those?

- A. Continuous Premium
- B. Limited Premium
- C. Single premium
- D. None of these

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 187

Whole life insurance is a life insurance designed to offer ongoing insurance coverage over the course of an insured's entire life. The noteworthy advantage of whole life insurance is:

- A. Premium payments contribute towards building an estate
- B. One can budget premium payments for a long period
- C. It's a low-load life insurance
- D. These are sold only by agents

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 188

Group health insurance is the health insurance consisting of contracts written between a group, (employer, union, etc.) and the health care provider. Most health insurance plans fall into one of two categories. Which one of the following set represents those two categories?

- A. Traditional indemnity and PPO
- B. Traditional indemnity and managed care plans

- C. Fee-for-service indemnity and managed care plans
- D. Both B and C

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 189

A form of HMO in which subscribers receive services from physicians practicing from their own offices and from community hospitals affiliated with the IPA.

- A. Individual practice association
- B. Preferred provider organization
- C. Exclusive provider organization
- D. Point-of-service plan

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 190

It's a managed care plan that is similar to a plan that is similar to a PPO but reimburses members only when affiliated providers are used. What is it?

- A. Individual practice association
- B. Preferred provider organization
- C. Exclusive provider organization
- D. Point-of-service plan

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 191

_____ is a hybrid form of HMO that allows members to go outside the HMO network for care and reimburses them at a specified percentage of the cost.

- A. Individual practice association
- B. Preferred provider organization
- C. Exclusive provider organization
- D. Point-of-service plan

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 192

If you have caused an accident, which type of automobile insurance would cover damage to your own car?

- A. Term
- B. Collision
- C. Comprehensive
- D. Liability

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 193

Many savings programs are protected by the federal government against loss. Which of the following is Not?

- A. A bond issued by one of the 50 states
- B. A U.S. Treasury bond
- C. A U.S. savings bond
- D. A certificate of deposit at the bank

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 194

Which of the following instruments is NOT typically associated with spending?

- A. Cash
- B. Credit card
- C. Debit card
- D. Certificate of deposit

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 195

Doug must borrow \$12,000 to complete his college education. Which of the following would NOT be likely to reduce the finance charge rate?

- A. If his parents took out an additional mortgage on their house for the loan
- B. If the loan was insured by the federal government
- C. If he went to a state college rather than a private college
- D. If his parents co-signed the loan

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 196

If you had a savings account at a bank, which of the following would be correct concerning the interest that you would earn on this account?

- A. Sales tax may be charged on the interest that you earn
- B. You cannot earn interest until you pass your 18th birthday
- C. Earnings from savings account interest may not be taxed
- D. Income tax may be charged on the interest if your income is high enough

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 197

Under which of the following circumstances would it be financially beneficial to you to borrow money to buy something now and repay it with future income?

- A. When some clothes you like go on sale
- B. When the interest on the loan is greater than the interest you get on your savings
- C. When you need to buy a car to get a much better paying job



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- D. When you really need a weeklong vacation

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 198

Retirement income paid by a company is called:

- A. Rents and Profits

- B. Social security
- C. 401(k)
- D. Pension

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 199

Many people put aside money to take care of unexpected expenses. If John and Jenny have money put aside for emergencies, in which of the following forms would it be of LEAST benefit to them if they needed it right away?

- A. Stocks
- B. Saving account
- C. Invested in a down payment in the house
- D. Checking account

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 200

Many young people receive health insurance benefits through their parents. Which of the following statements is true about health insurance coverage?

- A. Young people don't need health insurance because they are so healthy
- B. You continue to be covered by your parents' insurance as long as you live at home, regardless of your age
- C. You are covered by your parents' insurance until you marry, regardless of your age
- D. If your parents become unemployed, your insurance coverage may stop, regardless of your age

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 201

If your credit card is stolen and the thief runs up a total debt of \$1,000, but you notify the issuer of the card as soon as you discover it is missing, what is the maximum amount that you can be forced to pay according to federal law?

- A. Nothing
- B. \$50
- C. \$500
- D. \$1000

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 202

Kelly and Pete just had a baby. They received money as baby gifts and want to put it away for the baby's education. Which of the following tends to have the highest growth over periods of time as long as 18 years?

- A. A U.S. government savings bond
- B. A savings account
- C. A checking account
- D. Stocks

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 203

Maria worked her way through college earning \$20,000 per year. After graduation, her first job pays \$40,000. The total dollar amount Maria will have to pay in federal income taxes in her new job will:

- A. Stay the same as when she was in college
- B. Be lower than when she was in college
- C. Double, at least, from when she was in college
- D. Go up a little from when she was in college

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 204

A voluntary program under Medicare that provides payments for services not covered under basic hospital insurance is called:

- A. Supplementary medical insurance
- B. Medicare
- C. National health care
- D. Blue cross

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 205

Prescription drug coverage is:

- A. A voluntary program
- B. A state-run public assisted program
- C. Needs co-payments and co-insurances
- D. Both A and C are correct

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 206

A universal life insurance provides two types of death protections, i.e. Type A and B. As with any insurance policy, universal life insurance has its own pros and cons. There are two principle advantages. Which of the followings is/are out of those advantages?

- A. Flexibility
- B. Flexibility and savings feature
- C. Flexibility and variability
- D. Variability and savings feature

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 207

It is an insurance plan designed to supplement the basic coverage of hospitalization, surgical and physician expenses; used to finance more catastrophic medical costs. What is it?

- A. Major medical plan
- B. Covered medical services
- C. Comprehensive major medical insurance
- D. None of these

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 208

_____ is a health insurance plan that combines into a single policy the coverage for basic hospitalization, surgical, and physician expenses along with major medical protection.

- A. Major medical plan
- B. Covered medical services
- C. Comprehensive major medical insurance
- D. None of these

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 209

Most of the major types of health plans are sufficient to meet the protection needs of most individuals and families. But, insurance companies offer other options that provide limited protection against certain types of perils. Which one of the following is the example of those limited types of protections?

- A. Accident protection
- B. Home income policies
- C. Comprehensive medical insurance
- D. Both A and B

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 210

It is the initial amount not covered by an insurance policy and thus the insured's responsibility; it's usually determined on a calendar-year basis or on a per-illness or per-accident basis. We may call it as:

- A. Participation clause
- B. Deductible
- C. Internal limits
- D. Co-insurance

Correct Answer: B

Section: (none)

Explanation**Explanation/Reference:****QUESTION 211**

A participation or co-insurance clause stipulates that the company will pay some portion of the covered loss in excess of the deductible rather than the entire amount. How much portion of the covered loss may be paid by the company?

- A. 60%-70%
- B. 70%- 90%
- C. 80%-90%
- D. Any one of these

Correct Answer: C

Section: (none)

Explanation**Explanation/Reference:****QUESTION 212**

There is a feature which is commonly found in health insurance policies that limit the amount that will be paid for certain specified expenses, even if the claim does not exceed overall policy limit. What is that feature?

- A. Internal limits
- B. External limits
- C. Credit limits
- D. Insurance limits

Correct Answer: A

Section: (none)

Explanation**Explanation/Reference:****QUESTION 213**

Several insurance provisions affect a health insurance plan's value to you. Some important provisions address:

- A. The persons and places covered
- B. Cancellation
- C. Re-existing conditions
- D. Rehabilitation coverage

Correct Answer: ABD

Section: (none)

Explanation

Explanation/Reference:

QUESTION 214

Many health insurance plans omit or offer only reduced benefits for treatment of mental disorders. For example, a health insurance policy may offer hospitalization benefits that continue to pay as long as you are hospitalized except for mental illness. It may restrict payment for mental illness to one-half of the normally provided payment amounts and for a period not to exceed:

- A. 15 days
- B. 20 days
- C. 30 days
- D. 25 days

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 215

The delivery of medical and personal care, other than hospital care, to persons with chronic medical conditions resulting from either illness or frailty is called:

- A. Short-term care
- B. Basic care
- C. Long-term care
- D. Guaranteed renewability

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 216

_____ is a policy provision ensuring continued insurance coverage for the insured's lifetime as long as premiums continue to be paid.

- A. Waiting period
- B. Guaranteed Renewability
- C. Optional renewability
- D. None of these

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 217

Even if the policy's requirements are met, the insured must pay long-term care expenses during waiting, or elimination period. Typical waiting periods are:

- A. 90 to 100 days
- B. 80 to 90 days
- C. 60 to 70 days
- D. 70 to 100 days

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 218

It is a contractual clause allowing the insured to continue insurance only at the insurer's option. What is it?

- A. Waiting period
- B. Guaranteed Renewability
- C. Optional renewability



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- D. ADL

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 219

When a family member becomes sick for an extended period, the effect on the family goes beyond medical bills. The average chance of a person age 35 becoming disabled for 90 days or longer before 65 is about:

- A. 30%
- B. 40%
- C. 50%
- D. 55%

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 220

Insurance coverage that protects real and personal property from catastrophic losses caused by a variety of perils, such as fire, theft, vandalism, and windstorm is referred as:

- A. Property insurance
- B. Insurance premium
- C. Liability insurance
- D. Peril

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 221

Negligence is:

- A. Failing to act in a reasonable manner
- B. Failing to take necessary steps to protect others from harm
- C. Causing a loss
- D. Losing the judgment

Correct Answer: AB

Section: (none)

Explanation

Explanation/Reference:

QUESTION 222

What is that principle which states that an insured may not be compensated by the insurance company in an amount exceeding the insured's economic loss?

- A. Principle of cash value
- B. Principle of indemnity
- C. Right of subrogation
- D. Co-insurance

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 223

Assume that fire destroys two rooms of furniture that were 6 years old and had an estimated useful life of 10 years. The replacement cost is \$5,000. Therefore at the time of loss, the furniture was subject to an assumed physical depreciation of 60%, i.e., 3,000 in this case. Because the actual cash value is estimated at \$2,000. So, the maximum insurer would have to pay is:

- A. \$2,200
- B. \$2,000
- C. \$3,000
- D. \$5,000

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 224

Co-insurance is:

- A. A provision in property insurance
- B. A provision in actual cash value
- C. A provision in liability insurance
- D. A provision in health insurance

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 225

The amount of insurance coverage you receive depends on the type of homeowner's policy you buy. You can also obtain coverage if you're a renter or a condominium owner. The basic form(HO-1) covers perils like:

- A. Smoke and Hail
- B. Theft vandalism
- C. Civil commotion
- D. All of the above

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 226

_____ is an endorsement or policy providing either blanket or scheduled coverage of expensive personal property not adequately covered in a standard homeowner's policy.

- A. Personal property floater
- B. Peril
- C. Condominium
- D. Co-insurance

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 227

Many types of properties are covered by homeowner's policies. These policies also define the types of losses they cover and the persons and the locations covered. There are three types of property-related losses when misfortune occurs. Which one of the following is Not out of those losses?

- A. Direct loss of property
- B. Indirect loss occurring due to damaged property
- C. Additional expenses occurring due to direct and indirect losses
- D. Replacement cost

Correct Answer: D

Section: (none)

Explanation**Explanation/Reference:****QUESTION 228**

A comprehensive automobile insurance policy designed to be easily understood by the “typical” insurance purchaser is called:

- A. Personal automobile policy
- B. Bodily injury liability
- C. Property damage
- D. Auto insurance coverage

Correct Answer: A

Section: (none)

Explanation**Explanation/Reference:****QUESTION 229**

Uninsured motorists insurance is fairly low in cost. Because, the cost of the coverage is low compared to the amount of protection it provides, drivers should purchase at least:

- A. The maximum available limit
- B. The minimum available limit
- C. The equality limit
- D. None of these

Correct Answer: B

Section: (none)

Explanation**Explanation/Reference:****QUESTION 230**

It is an automobile insurance that reimburses the parties involved in an accident without regard to negligence.

- A. No-fault automobile insurance
- B. Comprehensive automobile insurance
- C. Collision insurance
- D. Automobile accidental damage coverage

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 231

An insurance policy providing excess liability coverage for homeowner's and automobile insurance as well as additional coverage not provided by either policy is referred as:

- A. Personal liability umbrella policy
- B. Captive agent
- C. Independent agent
- D. Claims adjuster

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 232

What can be the possible strategy to avoid liability?

- A. Understand what causes liability
- B. Develop you own safety program
- C. Carry adequate liability insurance
- D. None of these

Correct Answer: ABC

Section: (none)

Explanation

Explanation/Reference:

QUESTION 233

_____ is an insurance specialist who works for the insurance company as an independent adjuster or for an adjustment bureau, to investigate claims.

- A. Personal liability umbrella
- B. Captive agent
- C. Independent agent
- D. Claims adjuster

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 234

What is that form of investing in which future value and expected returns are highly uncertain?

- A. Hedging
- B. Speculating
- C. Short-term investment
- D. Long-term investment

Correct Answer: AB

Section: (none)

Explanation

Explanation/Reference:

QUESTION 235

_____ is a statement, preferably written, that specifies how investment capital will be invested to achieve a specific goal.

- A. Investment Line

- B. Investment plan
- C. Investment direction
- D. Investment goal

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 236

People often put money aside, sometimes for years, to save up enough to make just one major expenditure. Here are some common ones. Which of the following is Not out of those expenditures:

- A. The down payment on a home
- B. An regular vacation



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- C. Some capital for going into business
- D. Funds for retirement

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 237

Securities market is a market place in which stocks, bonds, and other financial instruments are traded. Such markets can be:

- A. Physical businesses
- B. Electronic businesses

- C. Having outstanding securities
- D. All of these

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 238

A document made available to prospective security buyers that describes the firm and a new security issue. _____ are responsible for ensuring that all the information in the prospectus accurately represents the facts.

- A. Federal agencies
- B. Private parties
- C. Local governments
- D. State government

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 239

Which of the following is least likely to be considered a short-term marketable security?

- A. An original issue 30-year corporate bond with one-year remaining until final maturity
- B. An original issue 30-year government bond with one-year remaining until final maturity
- C. A 90-day Treasury bill
- D. Short-term corporate debt instruments with a 9-month original maturity

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 240

The optimal balance of marketable securities held to take care of probable deficiencies in the firm's cash account is referred to as the _____ segment in the one's portfolio of short-term marketable securities.

- A. Ready cash
- B. Controlled cash
- C. Free cash
- D. Cash and cash equivalent

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 241

The marketable securities available for unassigned purposes at the current time is referred to as the _____ segment in the one's portfolio of short-term marketable securities.

- A. Ready cash
- B. Controlled cash
- C. Free cash
- D. Cash and cash equivalent

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 242

Insurance agents act as contractors in groups who express one or more entity with express authority to act for the entity in dealing with insured.

- A. True
- B. False

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 243

The methods used for the premium rates establishment are:

- A. Manual, judgmental and premium rating
- B. Commercial, judgmental and merit rating
- C. Manual, experimental and merit rating
- D. Manual, judgmental and merit rating

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 244

Spreading of risks among insurance entities is called:

- A. Reinsurance
- B. Syndication
- C. Consortium act
- D. Risk Diffusion

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 245

The entity transferring the risk is called the ceding entity and the entity to which the risk is transferred is called the assuming entity.

- A. True
- B. False

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 246

What is applied to the sale of all or a block of an entity's insurance in force of another entity?

- A. Insurance impede
- B. Portfolio Reinsurance
- C. Poly-holder insurance
- D. Syndicated insurance

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 247

When no tax deductions are allowed if risks are not transferred, whereas premiums paid to insurers are tax deductible, this leads to the formation of:

- A. Portfolio
- B. Claims
- C. Captives
- D. Fronting

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 248

Insurance entities establish _____ to investigate and settle some or all of the claims of the member companies.

- A. Company competency
- B. Claim opportunities
- C. Corrective strategies
- D. Adjustment bureaus

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 249

Principal objectives of state statutes are:

- A. restrict investments of insurance entities
- B. prescribe methods of admitted asset recovery
- C. acquisition of risk-based capitals
- D. Both B & C

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 250

The reason behind, when an insurance entity may request permission from the domiciliary state regulatory authority to use a specific accounting practice in the preparation of its statutory financial statements, may include:

- A. the entity wishes to depart from Statutory Accounting Practices (SAP)
- B. the prescribes SAP address the accounting for transaction

- C. Both A & B
- D. Neither A nor B

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 251

Short-duration contracts provide insurance protection for fixed period and can cancel the contract at the end of any contract period.

- A. True
- B. False

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 252

The contracts that are not subject to unilateral changes in its provision and requires the performance of various functions and services for an extended period is called:

- A. Short-duration
- B. Long-duration
- C. Medium-duration
- D. Fixed-duration

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 253

SAP stresses measurement of emerging earnings of a business from period to period while GAAP stresses measurement of the ability to pay claims in the future.

- A. True
- B. False

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 254

Audit risk consists of:

- A. Risk of material misstatement
- B. detection of risk
- C. Both A & B
- D. Neither A nor B

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 255

The maximum error in the population that the auditor is willing to accept is called:

- A. Risk of material misstatement
- B. detection of risk
- C. Both A & B
- D. Neither A nor B

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 256

Which risk assessment procedures are used to obtain an understanding of the entity and its environment, including its internal control?

- A. Inquiries of management
- B. Analytical procedures
- C. Observation
- D. All of the above

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 257

The profitability of an insurance entity on a statutory basis is generally gauged by:

- A. combined ratio and its operating ratio
- B. single module ratio and its operating ratio
- C. Net ratio
- D. Gross ration and actual ratio

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 258

The combined ratio is the sum of it:

- A. loss ratio
- B. Expense ratio

- C. Dividend ratio
- D. All of the above

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 259

The operating ratio is the combined ratio less than the ratio of investment income, to earned premiums.

- A. True
- B. False

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 260

The auditor should obtain a sufficient understanding by performing risk assessment procedures to:

- A. Evaluate the design of controls not relevant to audit of financial statement
- B. Determine whether design of controls have been implemented
- C. Both A & B
- D. Neither A nor B

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 261

A process designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations is called:

- A. External control
- B. Internal auditing
- C. Internal control
- D. None of the above

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 262

Which of the following is NOT the interrelated component of internal control?

- A. Control environment
- B. Risk assessment
- C. Control activities
- D. Planning control

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 263

Which control includes the procedures for system design, including the acquisition of software packages, should encourage active participation by the accounting department and internal auditors?

- A. Organizations and operations control
- B. System development control
- C. Access control
- D. Procedural control

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 264

Final approval should be obtained prior to placing a new system into operation is the activity that can be fall into which control?

- A. Organizations and operations control
- B. System development control
- C. Access control
- D. Procedural control

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 265

An attitude that includes a questioning mind and a critical assessment of audit evidence is called:

- A. Operational skepticism
- B. Audit skepticism
- C. Professional skepticism
- D. None of the above

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 266

Which are the types of misstatements relevant to the auditor's consideration of fraud in a financial statement audit?

- A. Misstatements arising from fraudulent financial reporting
- B. Misstatements arising from misappropriations of assets
- C. Both A & B



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- D. Neither A nor B

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 267

Which of the following may Not involve a high degree of management judgment and subjectivity and may present risks of material misstatement due to fraud?

- A. Investments
- B. Deferred acquisition costs
- C. Reinsurance
- D. key estimates

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 268

An estimate due to time lags in the receipt of reports from cedants is called reinsurance.

- A. True

B. False

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 269

The auditor responds to risks of material misstatements due to fraud in which of the following ways?

- A. A response that has an overall effect on how the audit is conducted
- B. A response to identified risks involving the nature, timing and extent of auditing procedures to be performed
- C. A response involving the performance of certain procedures to further address the risk of material misstatement due to fraud involving management override of controls
- D. All of the above

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 270

The Module Rule requires the insurer to provide:

- A. To the insurance commissioner of the state of domicile, a copy of notification of adverse financial condition
- B. To the auditor, evidence that the notification has been provided to the organization
- C. Both A & B
- D. Neither A nor B

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 271

The SEC rules clarify that management's assessment and report is limited to internal control over financial reporting.

- A. True
- B. False

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 272

_____ is an unmanaged fund designed to replicates closely as possible the performance of a specified index of market activity.

- A. Index fund
- B. Reserve fund
- C. Mutual fund
- D. Pension fund

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 273

Short-term portfolios are:

- A. Portfolios consisting of liabilities with maturities of one year to meet dollar needs.
- B. Portfolios consisting of combined revenues of less than one year to meet liquidity needs.
- C. Portfolios consisting of assets with maturities of less than one year to meet liquidity needs.
- D. Portfolios consisting of expenses with maturities of less than or equal to one year to meet dollar needs.

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 274

Audit regulatory is more reliable when it is obtained from knowledgeable independent sources inside the entity.

- A. True
- B. False

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 275

_____ is provided by original documents is more reliable than audit evidence provided by photocopies or facsimiles.

- A. Enterprise evidence
- B. Property evidence
- C. Audit evidence
- D. Regulatory evidence

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 276

When policy periods expire, the premiums written are earned and are recognized as _____.

- A. Liabilities
- B. Expenses
- C. Revenues

D. None of the above

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 277

The pro rata portion of premiums written allocable to unexpired policy periods represents unearned premiums, which are reflected as _____ in the balance sheet.

- A. Liabilities
- B. Expenses
- C. Revenues
- D. None of the above

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 278

Tax Act states that:

- A. A life insurer is subject to an investment income tax of 15 percent on its 'net Canadian life investment income
- B. A life insurer is subject to an investment income tax of 25 percent on its 'net Canadian life investment income
- C. A life insurer is subject to an investment income tax of 35 percent on its 'net Canadian life investment income
- D. A life insurer is subject to an investment income tax of 45 percent on its 'net Canadian life investment income

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 279

An investment is the current commitment of dollars for a period of time in order to derive future payments that will compensate the investor for:

- A. The time the funds are committed
- B. The expected rate of inflation during this time period
- C. The uncertainty of future payments
- D. All of these

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 280

Assume our typical 65-year-old investor likewise has adequate insurance coverage and a cash reserve. Let's also assume she is retiring this year. This individual will want less risk exposure than the 25-year-old investor, because her earning power from employment will soon be ending; she will not be able to recover any investment losses by saving more out of her paycheck. Depending on her income from social security and a pension plan, she may need some current income from her retirement portfolio to meet living expenses. Given that she can be expected to live an average of another 20 years, she will need protection against inflation. A risk-averse investor will choose a combination of current income and capital preservation strategy; a more risk-tolerant investor will choose:

- A. A combination of current income and capital depreciation in an attempt to have principal growth outpace inflation
- B. A combination of current income and capital preservation strategy
- C. A combination of current income and capital appreciation in an attempt to have principal growth outpace inflation
- D. A combination of current income and total return in an attempt to have principal growth outpace inflation

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 281

Which of the following is not the correct technical indicator?

- A. Moving Average Convergence/Divergence

- B. Relative strength index
- C. On balance volume
- D. Broadening formation

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 282

Buying power of an investor is calculated as:

- A. Assets-liabilities
- B. Equity-debt balances
- C. Short term debt-long term debt
- D. Current assets-current liabilities

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 283

Which of the following is a pattern that occurs during high volatility, when a security shows great movement with little direction?

- A. Broadening formation
- B. Relative strength index
- C. On balance volume
- D. Bollinger bands

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 284

Companies that have capitalization amounts more than \$2 billion are known as:

- A. Small cap companies
- B. Mid cap companies
- C. Growth companies
- D. Large cap companies

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 285

All of the following are sentiment indicators Except:

- A. Quick asset ratio
- B. Odd lot short ratio
- C. Shares sold short
- D. Short interest ratio

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 286

Which of the following analysts think that supply and demand play an important role?

- A. Ratio analysts
- B. Fundamental analysts
- C. Technical analysts
- D. Research Analysts

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 287

All of the following are properties of stop order Except:

- A. Protecting profits
- B. Minimizing losses
- C. Rapid execution
- D. Continuous inflation

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 288

Which of the following promotes education and ethical behavior among those involved in investment business?

- A. Securities investor protection corporation
- B. Licensed international financial analyst
- C. Chartered financial analyst institute
- D. Securities and exchange commission

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 289

Which of the following function removes the fear of buying and selling at ripe of price?

- A. Fair pricing function
- B. Economic function
- C. Exchange function
- D. Continuous pricing function

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 290

What is inferred in case the share price is moving above the simple moving average line?

- A. Share is inferior
- B. Price is increasing
- C. Market is positive
- D. Company is good

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 291

Which of the following shows relationship between two moving averages of prices?

- A. Moving average convergence/divergence
- B. Relative strength index
- C. On balance volume
- D. Bollinger bands

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 292

Which of the following is the current market in which all buying and selling is done on cash or margin basis?

- A. Target market
- B. Historic market
- C. Regular market
- D. Borough market

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 293

Which of the following statements hold true for bid price?

- A. It is the price at which broker is willing to sell a certain security
- B. It is the price at which investor can buy units from the funded company
- C. It is the price asked by the seller of securities from buyers
- D. It is the price at which broker is willing to buy a certain security



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Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 294

In which of the following cases resistance occurs?

- A. Inability to break below prior high
- B. Inability to break below prior low
- C. Inability to surpass prior high
- D. Inability to repair beyond prior low

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 295

Which of the following represents an unusually risky stock?

- A. Blue chip stock
- B. Growth stock
- C. Penny stock
- D. None of these

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 296

Which of the following types of bonds are usually unsecured debts maturing in 20-40 years and paying semi-annual interest?

- A. Municipal bonds

- B. Convertible bonds
- C. Zero coupon bonds
- D. Corporate bonds

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 297

Which of the following involves an additional source of basis risk due to the difference between the asset being hedged and the asset underlying the futures?

- A. Long hedge
- B. Short hedge
- C. Cross hedge
- D. Stack hedge

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 298

Which of the following measures the sensitivity of the asset's price to interest rate movements, expressed as a number of years?

- A. Duration
- B. Yield to maturity
- C. Convexity
- D. Immunization

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 299

Which of the following is the right to buy?

- A. Put option
- B. Strategic option
- C. System option
- D. Call option

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 300

Which of the following is NOT an example of derivative security?

- A. Futures
- B. Options
- C. Swaps
- D. Bonds

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 301

Which of the following bonds are high yield bonds issued by companies that are considered highly speculative because of risk of default?

- A. Junk bonds
- B. Municipal bonds
- C. Callable bonds
- D. Convertible bonds

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 302

Which of the following is the right to sell?

- A. System option
- B. Strategic option
- C. Call option
- D. Put option

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 303

Individuals can invest in REITs:

- A. By purchasing their shares directly on an open exchange
- B. By investing in a mutual fund that specializes in public real estate
- C. Both A&B
- D. Either A or B; it depends

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 304

Securities products include:

1. Trusts
2. Annuities
3. Derivatives
4. Stocks
5. Bonds
6. Commodities
7. Mutual Funds
8. Pension Funds
9. Term Loans
10. Asset Management
11. Money Market Products

- A. Only 1, 2, 3,4,5,10,11
- B. Only 1, 3, 5, 10
- C. All except 8, 9
- D. All except 8,9,10

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 305

The objective/s of a trust department audit is/ are to:

- A. Detect and prevent irregularities such as errors and fraud
- B. Access adequacy of accounting, operating, and administrative controls and procedures
- C. Determine the quantity of account administration
- D. all of the above

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 306

The objective/s of trust department's administration of corporate trust accounts include:

- I. Policies and producers ensure compliance with governing instruments, applicable law and accepted fiduciary principles
- II. Deficiencies are identified and corrective action is promptly initiated
- III. There is sufficient management and staff expertise to administer these accounts
- IV. Effective policies, procedures and internal controls have been established
- V. The legitimate needs of security holders and other interested parties are met in a professional and timely manner

- A. III and IV
- B. I, II and IV
- C. II, III and V
- D. All of these

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 307

Personal trust accounts may be:

- A. Living or testamentary
- B. Revocable or irrevocable
- C. Both of these
- D. None of these

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 308

Trust under will is a term referred to:

- A. Living trust

- B. Testamentary trust
- C. Revocable trust
- D. None of these

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 309

The administration of personal trust accounts is primarily controlled by all of the following EXCEPT:

- A. Terms of Governing instrument
- B. A will
- C. Trust agreement
- D. Court order

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 310

Which one of the following is not commonly granted trustee's powers?

- A. Pertaining to the retention, purchase and sale of assets
- B. Those pertaining to distributions of principal
- C. Those pertaining to make dealings
- D. None of these

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 311

Defined benefits & defined contribution plans and individual retirement accounts are commonly administered:

- A. Corporate Trusts
- B. Charitable Trusts
- C. Estate Administrations
- D. Employee benefit trusts

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 312

Performance as _____ is normally the only true trust relationship administered by a corporate trust department.

- A. Trustee under a bond indenture
- B. Bank under a bond indenture
- C. Trust under a bond indenture
- D. None of these

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 313

Charitable trust that is an irrevocable trust and that may be testamentary or inter-vivos (Between living persons) is called:

- A. Foundations
- B. Charitable Remainder Unitrust
- C. Charitable Remainder Annuity Trust
- D. None of these

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 314

The duties of a guardian in guardianship arrangements are similar to those of a trustee. Specifically, the guardian is obligated to:

- 1) Protect and preserve the assets
- 2) Submit an inventory and appraisal to the court
- 3) Retain or divest assets
- 4) Use principal and income for the benefit of the ward
- 5) Submit an annual accounting to the court

- A. Only 1,3,4
- B. All of these
- C. Only 1, 2
- D. All except 3

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 315

The responsibility of setting an estate includes:

- A. Taking possession of the property included within the decedent's estate
- B. Valuing the estate's property
- C. Paying any debts of the decedent's
- D. All of these

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 316

Unlike trust, there is no conveyance of title to the account assets. When the _____ relationship is established; legal title to the property remains with the principal.

- A. Guardianship
- B. Estate Administration
- C. Agency Services
- D. None of these

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 317

To server as family and/or financial planning tool
To provide for retirement
To obtain favorable tax treatment
These are the primary reasons

- A. For establishing a trust
- B. For naming an institution as trustee
- C. of Safekeeping
- D. of Custodial

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 318

Relief from administrative details and continuity are the major reasons for:

- A. Trust acceptance
- B. Trustee termination
- C. Naming a financial institution as a trustee
- D. Convenience and complete services of trusts

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 319

The trustee is responsible for producing a schedule of distribution which includes information as:

- A. Assets and their current fair market value
- B. The method of distribution
- C. Each beneficiary's share of assets and the trust's liability
- D. All of these

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 320

The accumulation phase in annuities can last from as long as:

- A. One day to five years
- B. One day to decades



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- C. Ten days to ten years
- D. All of these

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 321

Annuities can be purchased through the following methods EXCEPT:

- A. Single payment deferred
- B. Periodic payment deferred
- C. Immediate payment
- D. Single payment accrued

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 322

The benefits of tax deferral will outweigh the costs of a variable annuity only if the investor holds it as:

- A. Long-Term investment
- B. Short-Term investment
- C. Credit-Risk investment
- D. Annuity investment

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 323

- I. Surrender Changes
- II. Mortality and Expense risk change
- III. Administrative Fees
- IV. Underlying funds expenses
- V. Fees charges for other features

These are the charges which investors pay when they invest in:

- A. Variable annuity
- B. Fixed annuity
- C. Mixed annuity
- D. Both B & C depends upon situation

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 324

Guaranteed investment contracts are contracts between:

- A. A bank and insurance company
- B. An insurance company and a corporate retirement plan
- C. A retirement plan and a brokerage house
- D. None of these

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 325

When one buys a cash instrument, for example 100 shares of ABC Inc., the payoff is linear (disregarding the impact of dividends). If share are purchased at \$50 and the price appreciated to \$75, we have _____ on a mark-to-mark basis.

- A. Made \$2500
- B. Lost \$2500
- C. Made \$2500
- D. None of these

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 326

A derivative with a convex payoff-profile at some point before the option's maturity is a simple plan vanilla option. As the option becomes progressively more-in-the money, the rate at which the position makes money increases until a sympathetically approaches the linear payoff of the future. Similarly, as the option becomes progressively more out-of – the money, the rate at which the position loses money decreases until that rate becomes zero. This is an example of:

- A. Spot rate
- B. Non linear derivate
- C. Linear derivate
- D. None of these

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 327

One of the largest components of the global derivative markets and natural adjunct to the fixed income markets is the:

- A. Volatility
- B. Interests rate Swaps
- C. Commodity Swaps
- D. Both B & C

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 328

A gold producer wants to hedge his losses attributable to a fall in the price of gold for his current gold currency. This is an example of:

- A. Currency Swaps
- B. Commodity Swaps
- C. Interests rate Swaps
- D. All of these

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 329

An entity that purchases and sells securities on its own behalf is acting as:

- A. A broker
- B. A dealer
- C. An agent
- D. A principal

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 330

Which of the following statements about the over-the-counter market is false?

- A. Mutual funds and other new issues are initially issued over the counter
- B. Security prices are determined through auction bidding
- C. Broker dealers must be resigned
- D. Securities are traded at many locations throughout the country

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 331

General Market indices in the commodities market with which many people would be familiar include:

- A. Goldman Sachs Commodities Index (GSCI)
- B. Commodities Research board
- C. Acme Tool & Die
- D. Both A&B

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 332

_____ swaps give companies extra flexibility to exploit their comparative advantage in their respective borrowing markets.

- A. Fixed-floating swaps
- B. Currency swaps
- C. Interest rate swaps
- D. None of these

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 333

Standard and poor's 500 index, the Dow Jones Industrial average, or the Toronto stock Exchange index is the examples of:

- A. Equity indices
- B. Stock exchange indices
- C. OTC market indices
- D. All of these

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 334

The main objective/s of an audit of swaps is/are:

- A. To determine the adequacy and effectiveness of controls relating to rate swap transactions
- B. To ascertain that swap transaction are properly recorded in accordance with their term
- C. To ensure that the company's financial statements and regulatory reports properly reflect in accordance with generally accepted accounting principles, the results of swap activity
- D. All of these

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 335

Adequate procedures and controls associated with swap transactions should exist to help minimize the risks inherent in transaction process. Example/s of these controls may include:

- A. A daily reconciliation of traders' positions should be performed
- B. To minimize market risk in hedge transactions:
There should be independent sign-off procedures for hedging models All hedge strategies should be clearly defined All software and products should be secure and temper resistant
- C. All transactions should be authorized and affirmed
- D. All of these

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 336

Occasionally, a company will issue additional shares of its stocks, called _____, to raise additional capital.

- A. Secondary Offering
- B. IPO
- C. Private Placement
- D. Preferred Offering

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 337

Customer accounts:

Ensure that the firm is exercising due diligence in the opening and supervision of customer accounts. The procedures should be formalized in writing and in accordance with the rules and regulations of the appropriate regulatory authority. Ensure that daily customer positions and option exercises are in accordance with the limits established by the appropriate exchange. Verify that commissions generated by customer trades are properly calculated and posted to the general ledger.

- A. This is one of the primary audit objectives of stock and options
- B. This is one of the primary audit objectives of swaps
- C. This is one of the primary audit objectives of bonds
- D. None of these

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 338

Call provisions are often part of _____, but usually not bonds issued by _____.

- A. Zero coupon bond, Federal Government bonds
- B. Corporate bonds, Zero coupon bonds
- C. Corporate and municipal bonds, bonds issued by Federal Government
- D. None of these

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 339

Audit objectives that apply to one sales portion are all EXCEPT:

- A. Ensure that daily activity of each salesman is reviewed by head salesman
- B. Ensure that inventory is being accurately market to market on a continuing basis
- C. Ensure customer markups are reasonable relative to NASD
- D. None of these

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 340

Which of the following is not an audit objective of a commodity department?

- A. All customer accounts are opened and maintained in accordance with the rules and regulations commodity futures trading commission (CFTC) and the various commodity Exchanges
- B. Adequate control exist to ensure the accuracy and propriety of information contained in regulatory reports, such as the commodity futures trading commission form 1-FR, and the focus report
- C. Verify the accuracy and reporting (inventory reports, fail reports, again reports and profit and loss reports.)
- D. None of these

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 341

I- With reference to the granting of customer credit lines a thorough analysis of the customer's overall financial position is performed prior to trading authorization.
II- confirmations of each transaction are sent to customers indicating the quantity, delivery month and the contract price to ensure the integrity of transactions.
III- Original margin deposits in cash or acceptable securities to guarantee performance of contracts are determined in accordance

These all are adequate procedures and controls associated with:

- A. Commodity transaction
- B. Mutual funds audit
- C. Bond audit
- D. None of these

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 342

There are some investment companies, known as exchange-traded funds or ETFs, which are legally classified as open-end companies or UITs. ETFs differ from traditional open-end companies and UITs because:

- A. Pursuant to SEC exemptive orders
- B. Shares issued by ETFs Traded on a secondary market
- C. Are lonely redeem able in very large blocks (Blocks of 50,000 shares for example)
- D. All of these

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 343

If a mutual fund has an NAV of \$100 million, and investors own \$10,000,000 of fund's shares, the funds per share value will be:

- A. \$100
- B. \$1
- C. \$10



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- D. None of these

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 344

The approximate per-share NAV plus any fees the fund imposes is the price:

- A. That investors pay to purchase mutual fund
- B. That investors receive on redemptions

- C. Per share NAV
- D. All of these

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 345

A UIT typically issues redeemable securities (or “units”), like a mutual fund, which means:

- A. That the UITs typically will make a one-time “public offering”
- B. A UIT does not actively trade its investment portfolio
- C. That the UIT will, buy back an investor’s request at their approximate net asset value
- D. All of these

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 346

Close-end funds are traded on:

- A. A primary market
- B. Secondary market
- C. Tertiary market
- D. Are not traded anywhere

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 347

Close-end funds:

- A. Are not redeemable
- B. The investment portfolios generally are managed by separate entities
- C. Are permitted to invest in a greater amount of “illiquid” securities than mutual funds.
- D. All of these

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 348

One fund may invest on mostly established “blue chip” (Companies that pay regular dividends). Another fund may invest in newer technology companies that pay no dividends but that may have more potential for growth. These are the examples of:

- A. Mutual funds
- B. Index funds
- C. Stock funds
- D. Bond funds

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 349

Mutual funds provide an attractive investment choice because they generally offer the following feature/s:

- A. Professional Management
- B. Diversification
- C. Affordability
- D. All of these

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 350

All of these are disadvantages of mutual funds EXCEPT:

- A. Cost despite negative returns
- B. Liquidity
- C. Lack of control
- D. Price uncertainty

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 351

Investors typically cannot ascertain the exact makeup of a fund's portfolio at any given time, nor can they directly influence which securities the fund manager buys and sells or the timing of those trades. This is because of _____ in mutual funds.

- A. Price uncertainty
- B. Lack of control
- C. Costs despite negative returns
- D. All of these

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 352

I- A gold producers wants to hedge his losses attributable to a fall in the price of gold for his current gold inventory.

II- A cattle farmer wants to hedge his exposure to changes in the price of his livestock These are the examples of _____ who need to manage their exposure to fluctuations in the prices of their commodities.

- A. Hedgers
- B. Producers
- C. Speculators
- D. None of these

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 353

End users need to hedge the prices at which they can purchase these commodities for instance:

- A. A University might want to lock in the price at which it purchases electricity to supply its air conditioning units for upcoming summer months
- B. An airline wants to lock in the price of the jet fuel it needs to purchase in order to satisfy the peak in seasonal demand for travel
- C. A cotton producer wants to hedge his exposure to changes in the price of fertilizers or his end product (cotton)
- D. Only A and B

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 354

Money market funds bond funds (also called “fixed income” funds), and stock funds (also called equity funds) are the categories of:

- A. Mutual funds
- B. Professionally managed portfolio
- C. Hedge funds
- D. None of these

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 355

_____ have relatively low risks, compared to other mutual funds.

- A. Stock funds
- B. Hedge funds
- C. Money funds
- D. Both B and C

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 356

Money market funds:

- A. Can invest in only certain high-quality, short-term investments issued by Federal State and local government
- B. Try to keep their NAV at a stable \$1.00 per share
- C. Pay dividends that generally reflect short-term interest rates
- D. All of these

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 357

Some of the risks associated with bond funds are all of the following EXCEPT:

- A. Credit Risk
- B. Interest Rate Risk
- C. Payment Risk
- D. Liquidity Risk

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 358

If interest rates fall, a bond issuer may decide to pay off (or “retire”) its debt and issue new bonds that pay a lower rate. When this happens, the fund may not be able to reinvest the proceeds in an investment with a high return or yield. This is an example of:

- A. Credit risk in bond funds
- B. Prepayment risk in bond funds
- C. Interest rate risk in bond funds
- D. All of these

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 359

Overall “market risk” poses the greatest potential danger for investors in _____.

- A. Bonds funds
- B. Hedge funds
- C. Stock funds
- D. Growth funds

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 360

_____ funds may specialize in a particular industry segment, such as technology or consumer products stocks.

- A. Index
- B. Sector
- C. Growth
- D. Income

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 361

There are different classes of mutual funds. Classes that typically do not have a front-end sales load. Instead they may impose a contingent deferred sales load and a 12b-1 fee (along with other annual expenses) is called:

- A. Class A
- B. Class B
- C. Class C
- D. Both B&C

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 362

Hedge funds:

- A. Seek to profit in all kinds of markets by pursuing leveraging and other speculative investment practices
- B. Are subject to very few regulatory controls
- C. Also have voluntarily restricted investment to wealthy investors through high investment minimums (e.g. \$1 million)
- D. All of these

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 363

Some objectives of an audit related to mutual funds might include determining that:

- A. Mutual fund checks are issued in accordance with firm policies and supported by valid trades
- B. Mutual fund purchases are confirmed on a timely basis
- C. Mutual fund switches are not authorized by the client
- D. All EXCEPT "C"

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 364

Major types of Real Estate Investment Trust (REITs) include all of the following EXCEPT:

- A. Equity REITs
- B. Mortgages REITs
- C. Hybrid REITs
- D. None of these

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 365

Not all misstatements will be material enough to affect the fair presentation of the financial statement. A material misstatement is one that the auditors determine would change or influence the opinion of a reasonable person relying on the financial statements for information. Ultimately, auditors must exercise judgment to assess materiality based on the qualitative nature of the misstatements and their quantitative extent. Materiality is also based on auditors' assessment of control risk levels in the organization. The following factors may influence the auditors' assessment of control risk EXCEPT:

- A. Management's awareness or lack of awareness of applicable laws and regulations
- B. Client policy regarding such matters as acceptable operating practices and codes of conduct
- C. Assignment of responsibility and delegation of authority to deal with such matters as organizational goals and objectives, operating functions, and regulatory requirements
- D. None of these

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 366

Which of the following bonds do not pay interest during the life of the bonds?

- A. Municipal bonds
- B. Callable bonds
- C. Convertible bonds
- D. Zero coupon bonds

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 367

_____ is a temporary restriction on program trading in a particular security or market, usually to reduce dramatic price movements.

- A. Super Dot
- B. NYSE direct
- C. Trading curb
- D. Ticker tape

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 368

Bond prices are expressed as a percentage of:

- A. Discount value
- B. Par value
- C. Future value
- D. Intrinsic value

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 369

Which of the following industry is sensitive to business cycle and price changes?

- A. Growth industry
- B. Cyclical industry
- C. Defensive industry
- D. Interest sensitive industry

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 370

On which of the following financial statements would you expect to find assets, liabilities, and stockholders' equity?

- A. Balance sheet
- B. Income statement
- C. Statement of cash flows
- D. Statement of changes in equity

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 371

Which of the following is NOT a source of Return on Equity (ROE)?

- A. Return on assets
- B. Leverage
- C. Book value per share
- D. Sales per total assets

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 372

Which of the following is the theories searching the patterns in randomness?

- A. Elliott wave theory
- B. Chaos theory



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- C. Portfolio theory
- D. Valuation theory

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 373

Companies that have capitalization amounts of more than \$2 billion are known as _____.

- A. Small cap companies
- B. Mid cap companies
- C. Growth companies
- D. Large cap companies

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 374

What does the abbreviation SIC stands for?

- A. Standard Industrial Classification
- B. Symbolic Industry Consortium

- C. Southeastern Illinois Compendium
- D. None of these

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 375

Which of the following is known as Secondary trend in Dow Theory?

- A. Wave
- B. Triangle
- C. Tide
- D. Rounded bottom

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 376

All of the following are the forms of risk, EXCEPT:

- A. Political risks
- B. Interest rate risks
- C. Presented risks
- D. Economic risks

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 377

Technical Analysis method that tries to pinpoint when a security's shares are being accumulated (being bought) or are being sold is known as.

- A. Relative strength index
- B. On Balance Volume
- C. Moving average
- D. None of the above

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 378

In a bar chart what does the red line represents?

- A. Stock prices are getting high
- B. Stock prices are getting low
- C. Stock prices are closing
- D. Stock prices are opening

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 379

Red color indicates market or share price is going down

- A. Leverage ratios are designed to
- B. Measure a company's capital structure
- C. Measure the quality of a company's operations
- D. Measure a company's ability to cover its short-term obligations

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 380

Changes in Government rules and regulation will adversely affect which of the following industry?

- A. Defensive industry
- B. Cyclic industry
- C. Growth industry
- D. None of the given options

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 381

All of the following steps are involved in estimating the earnings stream, EXCEPT:

- A. Estimating corporate sales
- B. Estimating corporate earnings before taxes
- C. Estimating corporate liabilities and assets
- D. Estimating corporate earnings after taxes

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 382

Which of the following is known as "Type 1" account?

- A. CFA account
- B. Cash account
- C. Real account
- D. Margin A/c

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 383

Procter & Gamble is not affected by the recession in the economy; we will consider Procter & Gamble as:

- A. Cyclic industry
- B. Defensive industry
- C. Interest sensitive industry
- D. None

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 384

Which of the following terms refer to the recurring and fluctuating levels of economic activity that an economy experiences over a long period of time?

- A. Claims cycle
- B. Reaction cycle
- C. Capital cycle
- D. Business Cycle

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 385

Which of the following factor contributes to the price volatility of a bond?

- A. Maturity
- B. Coupon
- C. Yield to maturity
- D. All of the given options

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 386

Which of the following measures the sensitivity of an asset's price to interest rate movements, expressed as a number of years?

- A. Duration
- B. Yield to maturity
- C. Convexity
- D. Immunization

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 387

Which of the following is also called the Gordon's Growth Model?

- A. Dividend discount model

- B. Binomial models finance
- C. Capital asset pricing model
- D. Black scholes model finance

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 388

A company that might not have historical perspective in background but it will find a place in the future depending on the product or industry is a _____.

- A. Value company
- B. Large cap company
- C. Small cap company
- D. Growth company

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 389

The trend lines can have the following trends, EXCEPT:

- A. Upward trend
- B. Downward trend
- C. Trend range
- D. Round phase

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 390

Which of the following is NOT true about technical analysis?

- A. It requires some subjective decision-making
- B. It requires much accounting information
- C. Its success would mean markets are not efficient
- D. Technical analysis is older than fundamental analysis

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 391

Which of the following orders are placed prior to the execution of trade?

- A. Market and stop orders
- B. Market and limit orders
- C. Stop and limit orders
- D. Stop and mitigate orders

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 392

Which of the following is a current market in which all buying and selling is done on cash or margin basis?

- A. Target market
- B. Historic market
- C. Regular market
- D. Borough market

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 393

Standard & Poor's Composite Index is composed of how many "large" firm stocks?

- A. 250
- B. 500
- C. 750
- D. 1000

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 394

Which of the following charts give the economic information on weekly or yearly basis?

- A. Line charts
- B. Bar charts
- C. Pie charts
- D. Symbol charts

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 395

Which of the following captures cash flows during the evaluation period?

- A. Actual diminishing returns
- B. Dollar-weighted returns
- C. Time-weighted returns
- D. Opportunity cost returns

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 396

What does the abbreviation RSI stands for?

- A. Repetitive String Instruments
- B. Relative strength index



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- C. Rapid Succession Intrigues
- D. Review of Symbolic Inquests

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 397

Which of the following is a characteristic of cyclical stock?

- A. Their value is tied with the overall state of economy.
- B. They are low-priced, speculative and risky securities.
- C. They have stable earnings and no extensive liabilities
- D. None of the above

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 398

Which of the following is referred to as risk-free bond?

- A. Government Bond
- B. Municipal bond
- C. Sovereign bond
- D. Junk bond

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 399

Apart from the balance sheet or retained earnings what else must the financial analyst take into consideration in fundamental analysis?

- A. The assortment track record
- B. The previous track record
- C. The crowbar track record
- D. The advisor track record

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 400

_____ stipulate a relationship between expected return and risk.

- A. APT
- B. CAPM
- C. Both CAPM and APT
- D. Neither CAPM nor APT

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 401

Which of the following is an income that is the source of revenue for members or brokers?

- A. Copyright fee
- B. Application fee
- C. Fixed cost fee
- D. Trading fee

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 402

All of the following are the causes of change in investor's circumstances, EXCEPT:

- A. Investment horizon changes
- B. Liquidity requirement changes

- C. Authority circumstance changes
- D. tax circumstances changes

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 403

In which of the following markets do the investor cannot short sell?

- A. Target market
- B. Historic market
- C. Borough market
- D. Regular market

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 404

When Beta > 1.0 , it indicates that:

- A. Security is more risky than the market
- B. Security is less risky than the market
- C. Security is as risky as the market
- D. Security is not risky at all

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 405

Which of the following suggests that people express a different degree of emotion towards gains than towards losses?

- A. Loss aversion
- B. Prospect theory
- C. Illusion of control
- D. Anchoring

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 406

A form of the EMH which states that security prices fully reflect all public and private information.

- A. Strong form efficiency
- B. Weak form efficiency
- C. Semi strong form efficiency
- D. None of the given options

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 407

Which of the following is an objective of a tax shelter?

- A. Eliminate tax liabilities
- B. Postpone tax liabilities as long as possible
- C. Reduce tax liabilities as much as possible
- D. Shift tax liabilities to other taxpayers

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 408

All of the following are examples of financial assets EXCEPT.

- A. Stocks
- B. Transport vehicles
- C. Bonds
- D. Bank deposits

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 409

Which of the following equation is FALSE?

- A. Total risk = general risk + specific risk
- B. Total risk = market risk + issuer risk
- C. Total risk = systematic risk + nonsystematic risk
- D. Total risk = un-diversified risk + equity risk

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 410

Which of the following ratios will be used if portfolio's numerous other assets systematic risk of investment is the best?

- A. Treynor reward-to-volatility ratio
- B. Jensen's differential return ratio
- C. Jennet's return on liquidity ratio
- D. Sharpe reward-to-variability ratio

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 411

Which order will be executed automatically at the current bid or ask price?

- A. Limit order
- B. Market order
- C. Stop order
- D. Good till cancelled

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 412

Which of the following is the ratio of share price to stockholder equity as measured on the balance sheet?

- A. Price to book value ratio
- B. Price to sales ratio
- C. Leverage ratio
- D. Debt coverage ratio

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 413

Which of the following trading systems is used by the Stock Exchange?

- A. ISECTS
- B. LOTS
- C. KATS
- D. PETS

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 414

The S&P 500 Composite Stock Index is favored by most institutional investors and money managers. What does S&P stands for?

- A. Sophisticated and Poised
- B. Standard and Poor
- C. Stylish and Permanent
- D. Sojourn and Perennial

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 415

More investors are using technical analysis now than in earlier periods because:

- A. Investors are able to know the quantitative calculations of technical analysis

- B. More business schools are now teaching technical analysis
- C. The Internet makes more data available to track stock prices
- D. There is now more empirical evidence supporting technical analysis

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 416

The industries that are least affected by recessions and economic adversity are referred as which of the following?

- A. Growth industries
- B. Cyclical industries
- C. Interest-sensitive industries
- D. Defensive industries

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 417

Which of the following depicts a bullish trend in stock market?

- A. Stock price drop below support level
- B. Stock price rises above support level
- C. Stock price drop below resistant level
- D. None of given options

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 418

In bottom-up approach of fundamental analysis, investors begin their analysis with:

- A. Industry
- B. Economy
- C. Market
- D. Company

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 419

In which of the following charts days do not matter?

- A. Line and pie charts
- B. Bar and pie charts
- C. Bar and line charts
- D. Point and figure charts

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 420

In which of the following the investors look at the historical perspective?

- A. Value investment
- B. Interactive investment
- C. Growth investment
- D. Accredited investment

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 421

Which one of the following is correct formula for calculating gross margin?

- A. Net Profit/Net Sales
- B. Gross Profit/Net Sales
- C. Net income/Net Sales
- D. Gross Profit/credit Sales

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 422

The circuit breaker that is applied where stock prices in the market are dropping is known as which of the following?

- A. Starter
- B. Floor



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- C. Ceiling
- D. Simulator

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 423

On Balance Volume one of technical indicator use _____ as base.

- A. Demand
- B. Supply
- C. Volume
- D. Price

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 424

In which of the following accounts the trading charges are high?

- A. Savings account
- B. System account
- C. Personal account
- D. Cash account

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 425

Which one of the following is correct formula for calculating operating margin?

- A. Net Profit/Net Sales
- B. Net income/Net Sales
- C. Operating income/Net Sales
- D. Operating income/credit sales

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 426

_____ do not change the collective wealth of shareholders.

- A. Stock splits
- B. Bonus shares
- C. Right shares
- D. All of the following

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 427

Which of the following is the reason stock prices behave the way they do at resistance lines?

- A. Many investors want to buy at this price
- B. Market makers resist moving prices lower than this price
- C. Many investors want to sell at this price
- D. Market makers support prices at this level

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 428

Which of the following ratios are of more concern for the shareholders?

- A. Liquidity and profitability
- B. Liquidity and leverage
- C. Profitability and activity
- D. Profitability and leverage

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 429

Which of the following statements hold TRUE for ask price?

- A. It is the price at which a broker is willing to sell a certain security
- B. It is the price at which a broker is willing to buy a certain security
- C. It is the quoted price in an order to buy shares of a company
- D. It is the rate at which a dealer will buy the base currency

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 430

All of the following are characteristics of stop orders EXCEPT:

- A. Protecting profits
- B. Minimizing losses

- C. Rapid execution
- D. It is seldom used by investors

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 431

All of the following are the problems associated to the Dividend Discount Model, EXCEPT:

- A. This model need infinite stream of dividends
- B. This model has uncertain dividend stream
- C. This model must estimate future dividends
- D. This model requires constant earnings per share

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 432

An account that permits an investor to borrow part of the cost of investment firm a brokerage firm.

- A. Dealer account
- B. Option account
- C. Margin account
- D. Cash account

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 433

Long term directs in Dow Theory is depicted through:

- A. Holes
- B. Strings
- C. Waves
- D. Tides

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 434

Which of the following is the ratio of a company's total market value (price times number of shares) divided by sales?

- A. Price to sales ratio
- B. Price to book value ratio
- C. Debt coverage ratio
- D. Leverage ratio

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 435

Which of the following take place at the expansion stage of the industry life cycle?

- A. Firm operations get more stable and dependable
- B. No rapid growth in demand
- C. Costs get stable rather than decreasing or increasing
- D. Sales growth decline as new products are developed

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 436

An investor wants to buy 100 shares of a company but due to shortage of funds investor can only 30% of the total share price and will borrow rest of 70% from brokerage firm. Which of the following type of account will be suitable for investor in this situation?

- A. Cash account
- B. Margin account
- C. Real account
- D. CFA account

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 437

Which of the following does not pay fix income (interest/ dividend) to investors?

- A. Preferred stock
- B. Government bond
- C. Common stock
- D. Treasury bond

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 438

Which of the following is not a type of the multistage dividend discount model?

- A. Two-stage models
- B. Y models
- C. H models
- D. Three-stage models

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 439

Which of the following programs propagate the ethics?

- A. London Instruments Fiscal Attachment
- B. Laurel Immigration Fairness Analysis
- C. Low Income Financial Association
- D. Licensed International Financial Analyst

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 440

Which of the following shows relationship between market yield and time to maturity?

- A. Smart curves
- B. Bezier curves
- C. Yield curves
- D. Filling curves

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 441

Of the following statement identify the advantages of market measures to the investor?

- A. These measures identify the population to be measured and its methods
- B. These measures offer equivalents of common sizes and metric units
- C. These measures regulates the access to and cost of imports and exports
- D. These measures quickly judge the overall portfolio performance

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 442

Current yield is defined as:

- A. Internal rate of return that equates the prevailing market price with future interest and principle payments
- B. Approximate yield to call for premium bonds
- C. Coupon interest divided by average of market and call prices
- D. Coupon rate expressed as a percent of the prevailing market price

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 443

The trend lines can have following trends, Except:

- A. Upward trend
- B. Downward trend
- C. Trend range
- D. Round phase

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 444

Which of the following measures variation of the bond's price yield curve from a straight line?

- A. Bond duration
- B. Bond convexity
- C. Bond valuation
- D. All of the above

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 445

Which of the following is the basic exchange rate in the economy?

- A. External rate of return
- B. Real rate of return
- C. Rate of return on assets
- D. Net present value rate of return

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 446

The higher the coupon on the bond:

- A. The lesser is its reinvestment rate risk
- B. The higher is its reinvestment rate risk
- C. The higher is its reinvestment rate of return
- D. The lesser is its reinvestment rate of return

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 447

In which of the following condition an investment is considered desirable?

- A. When the cost is less than the future value of present cash flows
- B. When profit is less than the present value of future cash flows
- C. When present value of future cash flows is less than the cost
- D. None of these

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 448

Which of the following depicts a bullish trend in the stock market?

- A. Stock price drop below support level
- B. Stock price drop below resident level

- C. Stock price never drops below support level
- D. None of these

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 449

Which of the following bond will have the longest duration?

- A. 5 year, 10 percent coupon bond
- B. 5 year, 15 percent coupon bond
- C. 10 year, zero percent coupon bond
- D. 10 year, 10 percent coupon bond

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 450

Dow Jones industrial average is composed of how many blue chip stocks?

- A. 10
- B. 30
- C. 50
- D. 70

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 451

Which of the following make use of divisor to adjust for stock splits?

- A. Capitalization weighting
- B. Price weighting
- C. Equal weighting
- D. Base weighting

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 452

Bonds and preferred stocks do not ensure:

- A. Fixed income
- B. Security
- C. Ownership
- D. None of the above

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 453

Which of the following give payback period of investment made?

- A. Future cash flows
- B. Present cash flows
- C. Operating cash flows
- D. Free cash flows

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 454

Which of the following is pattern that occurs during high volatility, when a security shows great movement with the direction?

A. Broadening formation



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B. Relative strength index

C. On balance volume

D. Bollinger bands

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 455

Which of the following is payment to owners in stock?

A. Penny stock

B. Stock dividend

C. Stock flicker

D. Stock ticker

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 456

Which of the following bonds may be exchanged for another asset at the owner's discretion?

- A. Municipal bonds
- B. Callable bonds
- C. Convertible bonds
- D. Zero coupon bond

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 457

All of the following are the levels of market efficiency, Except:

- A. Low PE effect
- B. The neglecting firm effect
- C. Common size effect
- D. The small firm effect

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 458

High yield bonds:

- A. Pay lower coupon rate than investment-grade bonds

- B. Have a lower probability of default than junk bonds
- C. Are avoided by institutional investors
- D. None of these

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 459

Which of the following compares the magnitude of recent gains to recent losses in an attempt to determine overbought and oversold conditions of an asset?

- A. Moving average convergence/Divergence
- B. Relative strength index
- C. On balance volume
- D. Bollinger bands

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 460

Which of the following are required inputs of the present value approach?

- A. Discount rate and the expected cash flows
- B. Expenses paid in cash and dividends disbursed
- C. Earnings in valuing stocks and stock-in-trade
- D. Retained earnings and dividend payout ratio

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 461

Which of the following is NOT a test semi-strong form efficiency?

- A. Stock splits
- B. Accounting changes
- C. Dividend announcements
- D. Insider transactions

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 462

Which of the following is difference between the expected return and actual return on an investment?

- A. Expected return
- B. Abnormal Return
- C. Normal return
- D. Tax return

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 463

Which of the following tests is used to test the weak form of market efficiency?

- A. Stock splits
- B. Insider transactions
- C. Accounting changes
- D. None of these

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 464

Which of the following usually represents an unusually risky stocks?

- A. Blue chip stock
- B. Growth stock
- C. Penny stock
- D. None of these

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:



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