



**CFA Institute**  
Investment Foundations

# **SAMPLE QUESTIONS**

The following 30 questions are drawn from the CFA Institute Investment Foundations supplemental study materials. The format and difficulty level are similar to what candidates experience on the live Investment Foundations examination.



1. The feature of a well-functioning investment industry that gives investors the ability to quickly buy and sell a significant amount of an investment without having a material impact on the price is described as:
  - (a) liquidity
  - (b) competitive markets
  - (c) risk transfer
2. According to fundamental ethical and professional principles applicable to the investment industry, which group should have its interests ranked first?
  - (a) Clients
  - (b) Employers
  - (c) Co-workers
3. Regulators often seek public consultation prior to the implementation of new regulations in order to:
  - (a) ensure the new rules are favorable to those likely to be affected
  - (b) educate consumers and service providers on the new rules
  - (c) improve the final rules by undertaking a cost-benefit analysis
4. A financial advisory firm that implements internal policies regarding information barriers, suitability standards, and restrictions on self-dealing is addressing issues related to which of the following types of regulation?
  - (a) Sales practices rules
  - (b) Trading rules
  - (c) Disclosure rules
5. The *best* financial statement to use to find information about what a company owns and owes others is called the:
  - (a) income statement
  - (b) balance sheet
  - (c) cash flow statement
6. If two variables do not have a strong (linear) relationship, the correlation coefficient between the two variables will be *closest* to:
  - (a) 0
  - (b) -1
  - (c) +1

7. If a decrease in the selling price of a company's only product results in an increase in the company's total revenue, the demand for the company's product is:
- (a) elastic
  - (b) unit-elastic
  - (c) inelastic
8. Which of the following actions taken by a central bank is expansionary?
- (a) Increasing the reserve requirement
  - (b) The purchase of government bonds
  - (c) Increasing its policy rate
9. Which of the following government actions will *most* likely lead to an increase in the level of aggregate demand? A reduction in:
- (a) transfer payments
  - (b) public spending on social goods and infrastructure
  - (c) the capital gains tax
10. If Mexico is running a large current account deficit with Canada, which of the following will *most* likely occur?
- (a) Canada will reduce its imports from Mexico
  - (b) The Mexican peso will depreciate relative to the Canadian dollar
  - (c) There will be an increase in Canadian exports to Mexico
11. If a company is liquidated, proceeds from asset sales are distributed to common shareholders:
- (a) before unsecured debt investor and preferred shareholder claims are paid
  - (b) after secured debt investor and preferred shareholder claims are paid
  - (c) after preferred shareholder claims are paid but before unsecured debt investor claims are paid
12. Which of the following is not a sovereign bond issue?
- (a) State of New York municipal bond
  - (b) US Treasury note
  - (c) German bund
13. Which of the following bonds contains an embedded option that provides the issuer certain rights?
- (a) Puttable bond
  - (b) Callable bond
  - (c) Convertible bond
14. In contrast to forward contracts, futures contracts:
- (a) trade on organized exchanges
  - (b) have contract sizes tailored to investor needs
  - (c) have negotiable expiration dates
15. Which type of private equity strategy is *most* likely used to finance a start-up company?
- (a) Growth equity
  - (b) Buyout
  - (c) Venture capital
16. In commercial real estate investment, the amount derived from discounting future cash flows of lease and rental payments plus capital appreciation represents the value of the:
- (a) asset
  - (b) equity
  - (c) liability
17. The type of bank that is exclusively owned by its members is a:
- (a) savings and loan bank
  - (b) commercial bank
  - (c) mutual bank
18. A form of pension plan in which the participant has some ability to determine how pension contributions are invested is described as a(n):
- (a) defined contribution plan
  - (b) endowment plan
  - (c) defined benefit plan
19. An investor attempting to replicate a price-weighted index would hold an equal:
- (a) percentage of outstanding shares of each security in the index
  - (b) amount invested in each security in the index
  - (c) number of units (shares) of each security in the index
20. From the standpoint of taxes, investors will benefit from:
- (a) deferring taxes to the future if tax rates will be higher in the future
  - (b) realizing gains via stock repurchases as opposed to receiving the same gains as dividends
  - (c) selling appreciated shares to meet cash needs instead of borrowing against them

21. At which stage in the trading process is cash exchanged for securities between parties in a given security trade?
- Settlement
  - Confirmation
  - Clearing
22. A consumer pays off a car loan held by a bank with which he has no other business. Which of the following is the *most* appropriate document management practice for the bank to follow?
- Return all documents to the consumer
  - Shred all documents related to the transaction
  - Determine which documents to retain and which to dispose of
23. Which of the following is *not* a factor to consider in a document classification system?
- Direction in which documents flow
  - Ensuring that all documents are standardized
  - Source of the document
24. The possibility that a portfolio manager will lose money because the bond valuation model he uses is flawed is an example of:
- operational risk
  - investment risk
  - compliance risk
25. A limitation of the value at risk (VaR) approach to measuring risk is that it fails to specify:
- the probability that a loss could occur
  - a time frame for potential losses
  - the maximum loss that could occur
26. A fund manager does not compare his portfolio with the benchmark in terms of:
- performance
  - composition
  - fees
27. A fund manager's alpha is that part of the fund's return that can be attributed to:
- the market
  - skill
  - luck
28. Which of the following is considered an institutional investor?
- Accredited investor
  - Sovereign wealth fund
  - Separately managed account
29. Diversification will *not* help reduce a portfolio's:
- systematic risk
  - specific risk
  - overall risk
30. Compared with passive investment management, active investment management will involve:
- tracking a benchmark
  - market timing
  - lower transaction costs

## ANSWERS

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|---------|---------|---------|
| 1. (a)  | 11. (b) | 21. (a) |
| 2. (a)  | 12. (a) | 22. (c) |
| 3. (c)  | 13. (b) | 23. (b) |
| 4. (a)  | 14. (a) | 24. (a) |
| 5. (b)  | 15. (c) | 25. (c) |
| 6. (a)  | 16. (a) | 26. (c) |
| 7. (a)  | 17. (c) | 27. (b) |
| 8. (b)  | 18. (a) | 28. (b) |
| 9. (c)  | 19. (c) | 29. (a) |
| 10. (b) | 20. (b) | 30. (b) |

