

# **Test Bank for Foundations of Investments - An Introduction 2nd Adair**

## **Chapter 1 Introduction to Investments**

### **Multiple Choice**

1. Assets that either contribute to production or create income or wealth are
- financial assets.
  - real assets.
  - diversified assets.
  - income assets.

*ANSWER:* b

*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* Real vs. Financial Assets

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-01 - Describe the difference between real assets and financial assets.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Remember

2. A physical asset that has a value due to its substance and properties, such as precious metals, commodities, real estate, land, equipment, and natural resources, is a
- financial asset.
  - diversified asset.
  - capital gain.
  - real asset.

*ANSWER:* d

*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* Real vs. Financial Assets

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-01 - Describe the difference between real assets and financial assets.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Remember

3. The copyright for a music composition is an example of a
- financial asset.
  - diversified asset.
  - real asset.
  - capital gain.

*ANSWER:* c

*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* Real vs. Financial Assets

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-01 - Describe the difference between real assets and financial assets.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Understand

## **Chapter 1 Introduction to Investments**

4. A corporate stock is an example of a
- financial asset.
  - diversified asset.
  - real asset.
  - capital gain.

*ANSWER:* a

*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* Real vs. Financial Assets

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-01 - Describe the difference between real assets and financial assets.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Understand

5. A corporate bond is an example of a
- diversified asset.
  - financial asset.
  - real asset.
  - capital gain.

*ANSWER:* b

*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* Real vs. Financial Assets

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-01 - Describe the difference between real assets and financial assets.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Understand

6. Real assets are used to produce economic output, while what type of asset serves to allocate how that output is divided up?
- Diversified asset
  - Physical asset
  - Financial asset
  - Undiversified asset

*ANSWER:* c

*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* Real vs. Financial Assets

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-01 - Describe the difference between real assets and financial assets.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Understand

7. GameStop has approximately 76,000,000 shares common stock outstanding as of May 2022. Each share has the same value and rights as every other one. In this way, the asset is said to

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- a. lack volatility.
- b. be stable in value.
- c. be unique.
- d. lack uniqueness.

ANSWER: d

POINTS: 1

DIFFICULTY: Easy

REFERENCES: Real vs. Financial Assets

QUESTION TYPE: Multiple Choice

LEARNING OBJECTIVES: INVEST.ADAI.27.01-01 - Describe the difference between real assets and financial assets.

NATIONAL STANDARDS: United States - BUSPROG: Analytic

KEYWORDS: Bloom's: Apply

8. Compared to financial assets, physical assets tend to be

- a. less unique.
- b. more unique.
- c. more liquid.
- d. higher in volume.

ANSWER: b

POINTS: 1

DIFFICULTY: Easy

REFERENCES: Real vs. Financial Assets

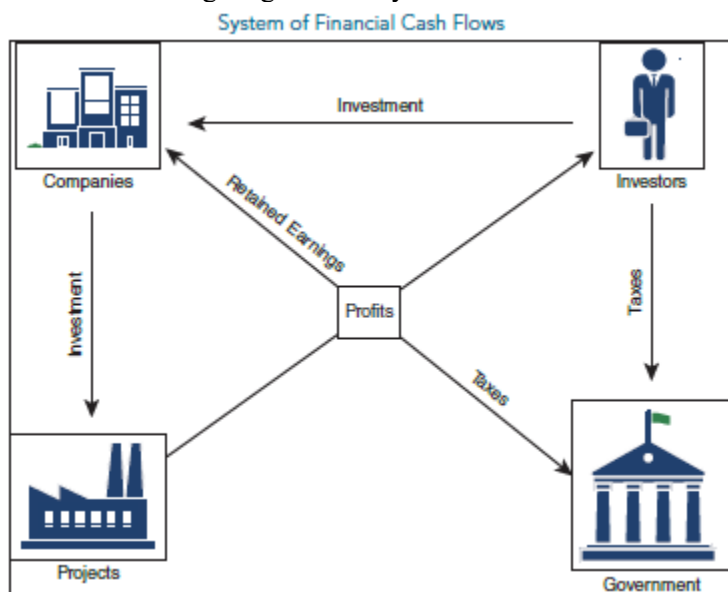
QUESTION TYPE: Multiple Choice

LEARNING OBJECTIVES: INVEST.ADAI.27.01-01 - Describe the difference between real assets and financial assets.

NATIONAL STANDARDS: United States - BUSPROG: Analytic

KEYWORDS: Bloom's: Understand

9. In the following diagram of a system of financial cash flows, from where does the initial investment come?



- a. Government

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- b. Projects
- c. Investors
- d. Companies

ANSWER: c

POINTS: 1

DIFFICULTY: Moderate

REFERENCES: Cash Flows and the Sources of Uncertainty

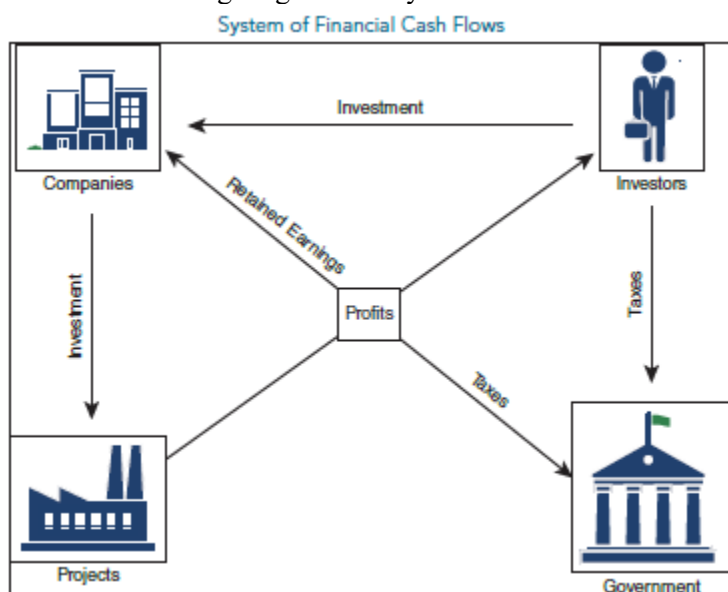
QUESTION TYPE: Multiple Choice

LEARNING OBJECTIVES: INVEST.ADAI.27.01-02 - Explain the system of cash flows between companies, investors, and the government.

NATIONAL STANDARDS: United States - BUSPROG: Analytic

KEYWORDS: Bloom's: Apply

10. In the following diagram of a system of financial cash flows, profits reinvested in the company are called



- a. government.
- b. retained earnings.
- c. taxes.
- d. projects.

ANSWER: b

POINTS: 1

DIFFICULTY: Moderate

REFERENCES: Cash Flows and the Sources of Uncertainty

QUESTION TYPE: Multiple Choice

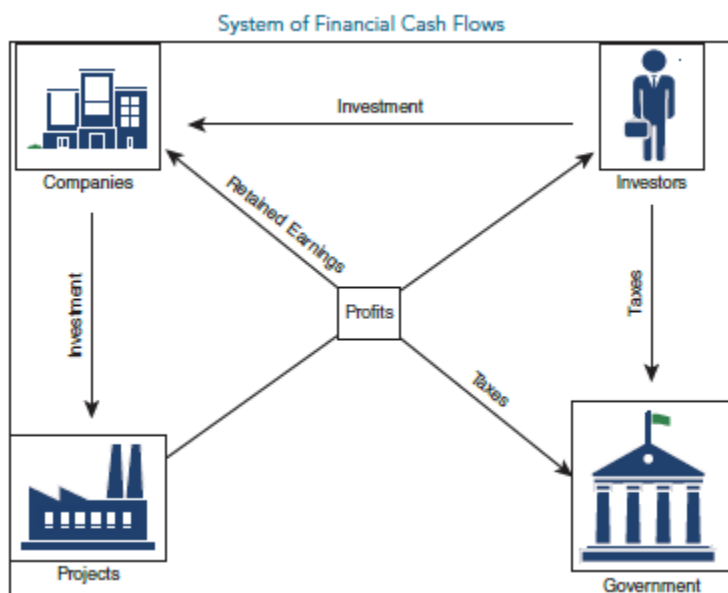
LEARNING OBJECTIVES: INVEST.ADAI.27.01-02 - Explain the system of cash flows between companies, investors, and the government.

NATIONAL STANDARDS: United States - BUSPROG: Analytic

KEYWORDS: Bloom's: Apply

11. In the following diagram of a system of financial cash flows, investment in projects comes from

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- a. taxes.
- b. investors.
- c. companies.
- d. government.

ANSWER:

c

POINTS:

1

DIFFICULTY:

Moderate

REFERENCES:

Cash Flows and the Sources of Uncertainty

QUESTION TYPE:

Multiple Choice

LEARNING OBJECTIVES:

INVEST.ADAL.27.01-02 - Explain the system of cash flows between companies, investors, and the government.

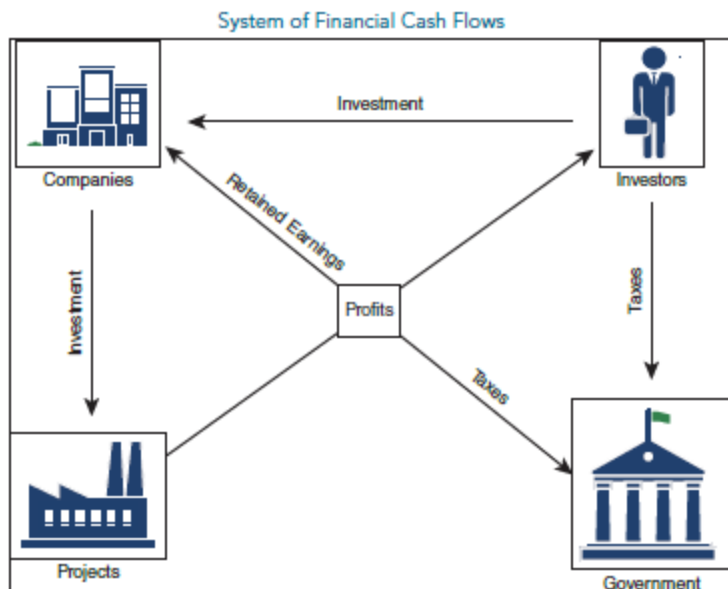
NATIONAL STANDARDS:

United States - BUSPROG: Analytic

KEYWORDS:

Bloom's: Apply

12. In the following diagram of a system of financial cash flows, taxes are paid by



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- a. taxes and investment.
- b. profits and investors.
- c. investors and companies.
- d. companies and retained earnings.

ANSWER:

b

POINTS:

1

DIFFICULTY:

Moderate

REFERENCES:

Cash Flows and the Sources of Uncertainty

QUESTION TYPE:

Multiple Choice

LEARNING OBJECTIVES:

INVEST.ADAI.27.01-02 - Explain the system of cash flows between companies, investors, and the government.

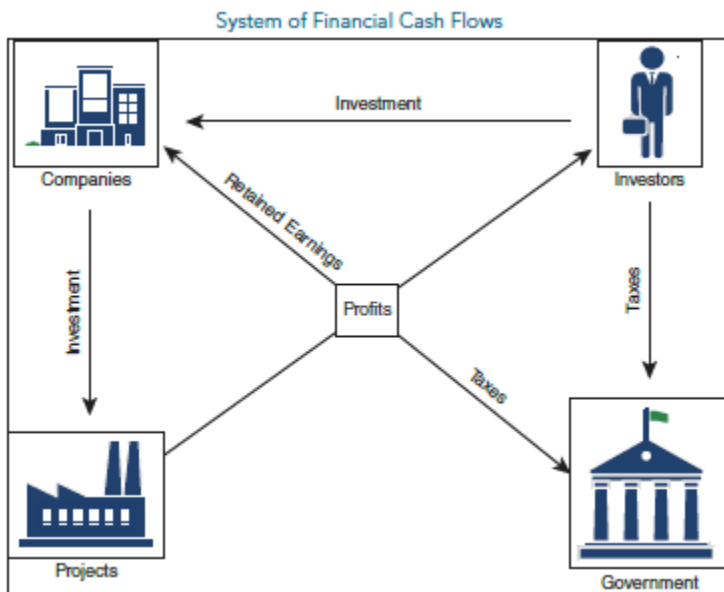
NATIONAL STANDARDS:

United States - BUSPROG: Analytic

KEYWORDS:

Bloom's: Apply

13. In the following diagram of a system of financial cash flows, what is the government's primary role?



- a. Provide support
- b. Pass regulation
- c. Make investments
- d. Collect taxes

ANSWER:

d

POINTS:

1

DIFFICULTY:

Moderate

REFERENCES:

Cash Flows and the Sources of Uncertainty

QUESTION TYPE:

Multiple Choice

LEARNING OBJECTIVES:

INVEST.ADAI.27.01-02 - Explain the system of cash flows between companies, investors, and the government.

NATIONAL STANDARDS:

United States - BUSPROG: Analytic

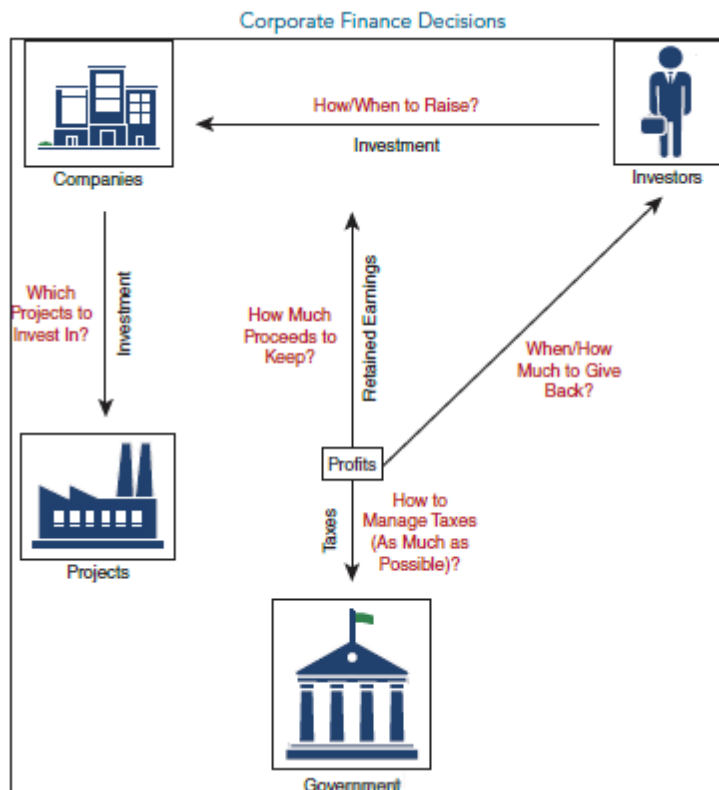
KEYWORDS:

Bloom's: Apply

14. In the following diagram of corporate finance decisions, which of these would be most concerned with selecting the

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right firm in which to invest funds?



- a. Investors
- b. Companies
- c. Government
- d. Employees

ANSWER:

a

POINTS:

1

DIFFICULTY:

Moderate

REFERENCES:

Cash Flows and the Sources of Uncertainty

QUESTION TYPE:

Multiple Choice

LEARNING OBJECTIVES:

INVEST.ADAI.27.01-02 - Explain the system of cash flows between companies, investors, and the government.

NATIONAL STANDARDS:

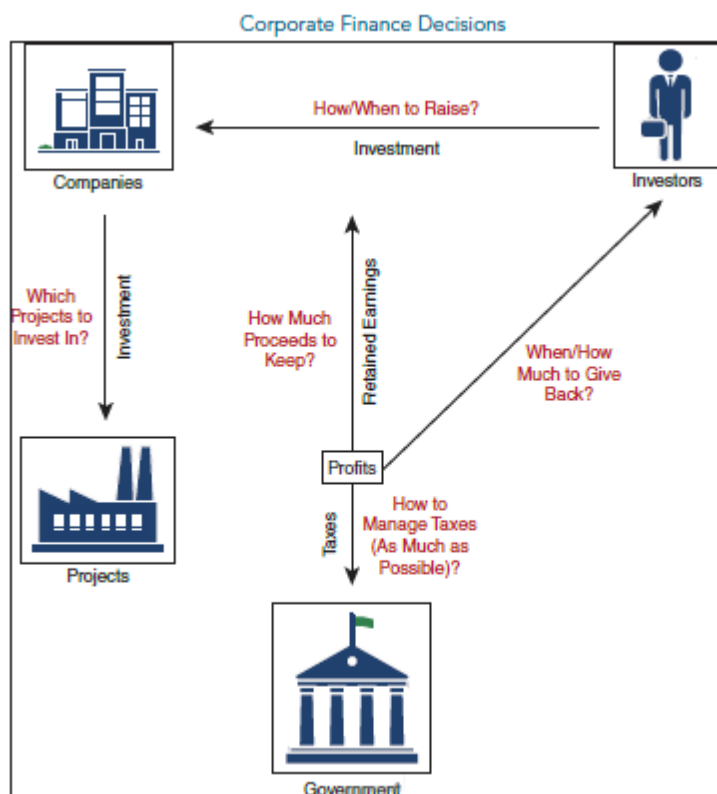
United States - BUSPROG: Analytic

KEYWORDS:

Bloom's: Apply

15. In the following diagram of corporate finance decisions, all cash flows are subject to

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- a. uncertainty.
- b. discretion.
- c. oversight.
- d. investment.

ANSWER:

a

POINTS:

1

DIFFICULTY:

Moderate

REFERENCES:

Cash Flows and the Sources of Uncertainty

QUESTION TYPE:

Multiple Choice

LEARNING OBJECTIVES: INVEST.ADAI.27.01-02 - Explain the system of cash flows between companies, investors, and the government.

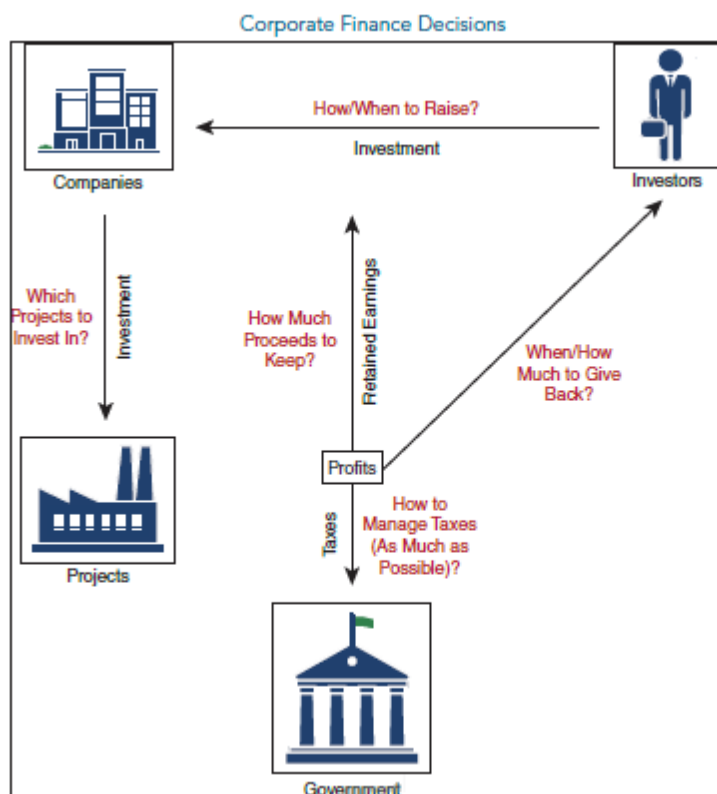
NATIONAL STANDARDS: United States - BUSPROG: Analytic

KEYWORDS:

Bloom's: Apply

16. In the following diagram of corporate finance decisions, investors should consider all of these questions EXCEPT which one?

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- In which firms and what types of financial instruments should investments be made?
- Which projects are most profitable?
- What terms and maturities of return cash flows should be pursued?
- What is the best way to manage the timing and amounts of taxes paid?

ANSWER: b

POINTS: 1

DIFFICULTY: Moderate

REFERENCES: Cash Flows and the Sources of Uncertainty

QUESTION TYPE: Multiple Choice

LEARNING OBJECTIVES: INVEST.ADAI.27.01-02 - Explain the system of cash flows between companies, investors, and the government.

NATIONAL STANDARDS: United States - BUSPROG: Analytic

KEYWORDS: Bloom's: Apply

17. When an investor chooses to buy a financial asset and submits a "buy" order, the price for the asset is
- locked in.
  - subject to change given market conditions.
  - guaranteed.
  - prone to discretion.

ANSWER: b

POINTS: 1

DIFFICULTY: Easy

REFERENCES: Cash Flows and the Sources of Uncertainty

QUESTION TYPE: Multiple Choice

## **Chapter 1 Introduction to Investments**

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-02 - Explain the system of cash flows between companies, investors, and the government.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Understand

18. A complicating factor of the system of cash flows is

- a. diversity of participants.
- b. the large number of participants.
- c. unionization of companies.
- d. unsystematic risk.

*ANSWER:* b

*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* Cash Flows and the Sources of Uncertainty

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-02 - Explain the system of cash flows between companies, investors, and the government.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Understand

19. Assets have value because they offer which type of benefits?

- a. Intrinsic
- b. Risk-adjusted
- c. Extrinsic
- d. Future

*ANSWER:* d

*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* Valuation

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-03 - List the factors involved in assessing value.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Understand

20. Asset valuation is based on two factors: the risks concerning the timing and amount of the cash flows and the expected

- a. pricing for an investment.
- b. future cash flows for an investment.
- c. speculation for an investment.
- d. income for an investment.

*ANSWER:* b

*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* Valuation

*QUESTION TYPE:* Multiple Choice

## **Chapter 1 Introduction to Investments**

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-03 - List the factors involved in assessing value.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Understand

21. Which of these is a quality of an investor who tends to take a risk only when adequately compensated for it?
- a. Systematically risky
  - b. Risk averse
  - c. Risk seeking
  - d. Speculative

*ANSWER:* b

*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* Valuation

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-03 - List the factors involved in assessing value.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Understand

22. Which of the following statements about time and risk is generally the case when the longer the time horizon?
- a. The less speculative an investor will be in investment choices
  - b. The more diversified an investor will be in investment choices
  - c. The less risky an investor will be in investment choices
  - d. The more risky an investor will be in investment choices

*ANSWER:* d

*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* Valuation

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-03 - List the factors involved in assessing value.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Analyze

23. Regardless of what motivates the purchase of an investment, the buyer makes the purchase in anticipation of
- a. risk.
  - b. return.
  - c. capital gains.
  - d. rates of return.

*ANSWER:* b

*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* Valuation

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-03 - List the factors involved in assessing value.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

## **Chapter 1 Introduction to Investments**

**KEYWORDS:** Bloom's: Understand

24. The annualized return earned by the investment relative to its cost is called

- a. speculation.
- b. rate of return.
- c. capital gain.
- d. risk.

**ANSWER:** b

**POINTS:** 1

**DIFFICULTY:** Easy

**REFERENCES:** Valuation

**QUESTION TYPE:** Multiple Choice

**LEARNING OBJECTIVES:** INVEST.ADAI.27.01-03 - List the factors involved in assessing value.

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**KEYWORDS:** Bloom's: Remember

25. In finance, the uncertainty that the investor will achieve the anticipated return is called

- a. rate of return.
- b. capital gain.
- c. risk.
- d. speculation.

**ANSWER:** c

**POINTS:** 1

**DIFFICULTY:** Easy

**REFERENCES:** Valuation

**QUESTION TYPE:** Multiple Choice

**LEARNING OBJECTIVES:** INVEST.ADAI.27.01-03 - List the factors involved in assessing value.

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**KEYWORDS:** Bloom's: Remember

26. The flow of money produced by an asset is called

- a. income.
- b. capital gain.
- c. tax.
- d. return.

**ANSWER:** a

**POINTS:** 1

**DIFFICULTY:** Easy

**REFERENCES:** Valuation

**QUESTION TYPE:** Multiple Choice

**LEARNING OBJECTIVES:** INVEST.ADAI.27.01-03 - List the factors involved in assessing value.

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**KEYWORDS:** Bloom's: Remember

## **Chapter 1 Introduction to Investments**

27. The increase in value of a capital asset is known as

- a. capital gain.
- b. income.
- c. risk.
- d. speculation.

*ANSWER:* a

*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* Valuation

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-03 - List the factors involved in assessing value.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Remember

28. An investment that offers a potentially large return but is also very risky is a(n)

- a. asset allocation.
- b. speculation.
- c. capital gain.
- d. valuation.

*ANSWER:* b

*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* Valuation

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-03 - List the factors involved in assessing value.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Remember

29. Cryptocurrencies were originally designed as digital cash. Which of the following best explains how their primary use has evolved over time?

- a. They are now primarily used by central banks to settle cross-border transactions.
- b. Retail investors increasingly treat them as speculative investments, driving prices sharply higher.
- c. They have been fully integrated into regulated U.S. securities markets alongside stocks and bonds.
- d. Their main function is now limited to replacing the U.S. dollar and the euro in daily retail transactions.

*ANSWER:* b

*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* Valuation

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-03 - List the factors involved in assessing value.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Remember

30. Which of the following best distinguishes Bitcoin from traditional government-backed currencies such as the U.S.

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dollar?

- a. Bitcoin is backed by gold reserves, whereas the U.S. dollar is backed only by the Federal Reserve.
- b. Bitcoin is decentralized and relies on blockchain cryptography, whereas the U.S. dollar is regulated and backed by the U.S. government.
- c. Bitcoin is insured by the Securities Investor Protection Corporation (SIPC), whereas the U.S. dollar is not.
- d. Bitcoin has lower volatility than the U.S. dollar due to its decentralized structure.

*ANSWER:* b

*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* Valuation

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-03 - List the factors involved in assessing value.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Remember

31. If one can buy and sell relatively large amounts of shares of a stock without affecting its price, the asset is said to be
- a. liquid.
  - b. stable.
  - c. risky.
  - d. cash-equivalent.

*ANSWER:* a

*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* Valuation

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-03 - List the factors involved in assessing value.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Remember

32. Financial assets that serve as stores of value possess all of the following attributes EXCEPT
- a. risk aversion.
  - b. marketability.
  - c. liquidity.
  - d. the potential to generate cash flow.

*ANSWER:* a

*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* Valuation

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-03 - List the factors involved in assessing value.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Understand

33. Because small sample sizes are unlikely to be representative of the whole population, results that are abnormally high or low should

## **Chapter 1 Introduction to Investments**

- a. be discounted.
- b. be heavily factored.
- c. never be used.
- d. average out.

*ANSWER:* a

*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* Efficient and Competitive Markets

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-04 - Describe the characteristics of an efficient market.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Understand

34. Efficient and competitive markets promote the

- a. risk-averse value of assets.
- b. overvaluing of assets.
- c. undervaluing of assets.
- d. proper valuation of assets.

*ANSWER:* d

*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* Efficient and Competitive Markets

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-04 - Describe the characteristics of an efficient market.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Understand

35. The concept of efficient financial markets implies that investors

- a. diversify the markets.
- b. cannot expect to beat the markets.
- c. generally beat the markets.
- d. never beat the markets.

*ANSWER:* b

*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* Efficient and Competitive Markets

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-04 - Describe the characteristics of an efficient market.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Understand

36. Which of these will not always select the stocks and bonds of firms that fail?

- a. Risk averse
- b. Investment

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- c. Well diversified
- d. Capital asset-based

ANSWER: c

POINTS: 1

DIFFICULTY: Easy

REFERENCES: Efficient and Competitive Markets

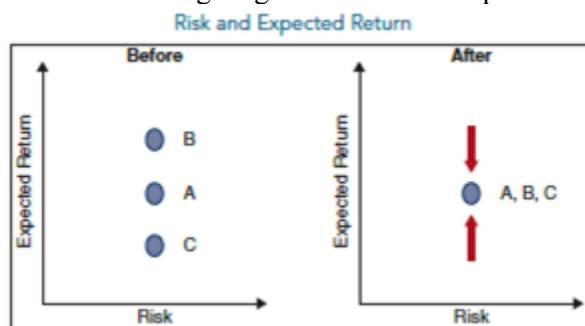
QUESTION TYPE: Multiple Choice

LEARNING OBJECTIVES: INVEST.ADAI.27.01-04 - Describe the characteristics of an efficient market.

NATIONAL STANDARDS: United States - BUSPROG: Analytic

KEYWORDS: Bloom's: Understand

37. In the following diagram of risk and expected return, what is the preferred investment in the BEFORE phase?



- a. A
- b. B
- c. C
- d. The investments are all equal.

ANSWER: b

POINTS: 1

DIFFICULTY: Moderate

REFERENCES: Diversification and Portfolio Construction

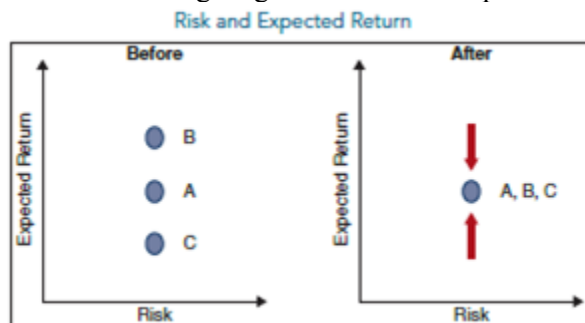
QUESTION TYPE: Multiple Choice

LEARNING OBJECTIVES: INVEST.ADAI.27.01-05 - Define how asset-specific risk and asset allocation contribute to portfolio diversification.

NATIONAL STANDARDS: United States - BUSPROG: Analytic

KEYWORDS: Bloom's: Apply

38. In the following diagram of risk and expected return, what is the preferred investment in the AFTER phase?



## **Chapter 1 Introduction to Investments**

- a. A
- b. B
- c. C
- d. The investments are all equal.

ANSWER: d

POINTS: 1

DIFFICULTY: Moderate

REFERENCES: Diversification and Portfolio Construction

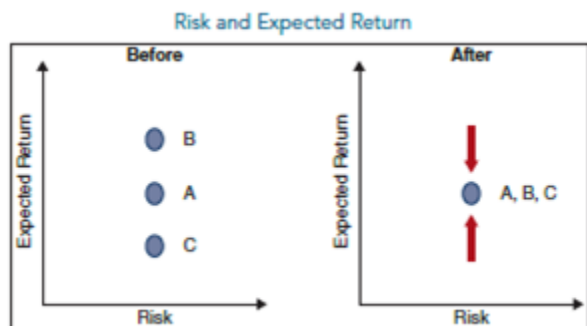
QUESTION TYPE: Multiple Choice

LEARNING OBJECTIVES: INVEST.ADAI.27.01-05 - Define how asset-specific risk and asset allocation contribute to portfolio diversification.

NATIONAL STANDARDS: United States - BUSPROG: Analytic

KEYWORDS: Bloom's: Apply

39. In the following diagram of risk and expected return, given an efficient market, what happens to investments A, B, and C?



- a. The price converges.
- b. Investment B continues to prevail as the best value.
- c. All stocks turn into a single stock.
- d. The balance of risk and expected return converge.

ANSWER: d

POINTS: 1

DIFFICULTY: Moderate

REFERENCES: Diversification and Portfolio Construction

QUESTION TYPE: Multiple Choice

LEARNING OBJECTIVES: INVEST.ADAI.27.01-05 - Define how asset-specific risk and asset allocation contribute to portfolio diversification.

NATIONAL STANDARDS: United States - BUSPROG: Analytic

KEYWORDS: Bloom's: Apply

40. Return volatility that is associated with the overall market is called

- a. diversifiable risk.
- b. liquidity risk.
- c. systemic risk.
- d. correlated risk.

ANSWER: c

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*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* Diversification and Portfolio Construction

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-05 - Define how asset-specific risk and asset allocation contribute to portfolio diversification.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Remember

41. Which of the following statements about systemic risk is true?

- a. Systemic risk is macroeconomically alleviated through diversification of a portfolio.
- b. Systemic risk may be alleviated through diversification of a portfolio.
- c. Systemic risk cannot be alleviated through diversification of a portfolio.
- d. Systemic risk must be alleviated through diversification of a portfolio.

*ANSWER:* c

*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* Diversification and Portfolio Construction

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-05 - Define how asset-specific risk and asset allocation contribute to portfolio diversification.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Analyze

42. Lockdowns associated with the COVID-19 pandemic are example of what type of risk?

- a. Systemic risk
- b. Diversifiable risk
- c. Liquidity risk
- d. Investment risk

*ANSWER:* a

*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* Diversification and Portfolio Construction

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-05 - Define how asset-specific risk and asset allocation contribute to portfolio diversification.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Understand

43. The amount of a portfolio allocated to different assets is known as

- a. asset allocation.
- b. risk aversion.
- c. financial planning.
- d. portfolio management.

*ANSWER:* a

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*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* Diversification and Portfolio Construction

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-05 - Define how asset-specific risk and asset allocation contribute to portfolio diversification.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Remember

44. Diversification is more of a tool for managing risk, while asset allocation is mainly a tool for
- minimizing risk.
  - maintaining value storage.
  - maximizing return.
  - minimizing loss.

*ANSWER:* c

*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* Diversification and Portfolio Construction

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-05 - Define how asset-specific risk and asset allocation contribute to portfolio diversification.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Understand

45. The 2008 and 2020 bear markets both involved dramatic declines in stock prices. Which of the following best captures the key difference in their causes?
- 2008 was driven by excessive bank risk-taking and a housing bubble collapse, while 2020 stemmed from global pandemic lockdowns and business closures.
  - 2008 was caused by rising interest rates and inflation, while 2020 was caused by central bank policy failures.
  - 2008 was a response to geopolitical conflicts, while 2020 was triggered by oil price shocks.
  - 2008 and 2020 were both primarily driven by declining corporate earnings due to overvalued technology stocks.

*ANSWER:* a

*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* The Financial Crises of 2008 and 2020 and Associated Recoveries

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-06 - Explain the importance of integrating the macroeconomic environment into the investing process.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Understand

46. Which of the following best illustrates the principle that “it isn’t just one stock market—it is a market of stocks,” as highlighted by the COVID-19 financial crisis?
- The simultaneous collapse of banking and housing markets in 2008

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- b. The simultaneous decline in all global stock indices during March 2020
- c. The decline of travel-related stocks like airlines and cruises, while remote-work technology firms like Zoom and DocuSign experienced strong gains
- d. The uniform rebound of all industries once governments provided stimulus in 2020

*ANSWER:* c

*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* The Financial Crises of 2008 and 2020 and Associated Recoveries

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-06 - Explain the importance of integrating the macroeconomic environment into the investing process.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Remember

47. Investment professionals are most likely found in all of the following EXCEPT

- a. investment banks.
- b. commercial banks.
- c. human resource agencies.
- d. pension funds.

*ANSWER:* c

*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* Investment Careers

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-07 - Describe careers in the investment service sector.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Understand

48. Which of these is a financial professional in charge of making the buy, sell, and hold decisions for a portfolio?

- a. Stockbroker
- b. Securities analyst
- c. Financial planner
- d. Portfolio manager

*ANSWER:* d

*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* Investment Careers

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-07 - Describe careers in the investment service sector.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Remember

49. Which of these helps individuals and families navigate the process of saving, investing, and ultimately providing retirement income?

- a. Financial planner

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- b. Portfolio manager
- c. Stockbroker
- d. Securities analyst

*ANSWER:* a

*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* Investment Careers

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-07 - Describe careers in the investment service sector.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Remember

50. Which of these helps companies and governments acquire capital through the issuance of financial securities?

- a. Investment banker
- b. Financial planner
- c. Financial manager
- d. Securities analyst

*ANSWER:* a

*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* Investment Careers

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-07 - Describe careers in the investment service sector.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Remember

51. Which of the following combinations correctly identifies the risks and potential benefits of investing in Bitcoin?

- a. Risks: hacking, low volatility, SIPC protection limits — Benefits: stable value tied to government oversight
- b. Risks: extreme volatility, lack of SIPC protection, cybersecurity threats — Benefits: potential for high growth and independence from central banks
- c. Risks: government overregulation and low adoption rates — Benefits: insurance protection and daily price stability
- d. Risks: limited supply and government control — Benefits: price stability and official regulation by the SEC

*ANSWER:* b

*POINTS:* 1

*DIFFICULTY:* Moderate

*REFERENCES:* Valuation

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-03 - List the factors involved in assessing value.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Apply

52. A bear market is typically defined as

- a. a decline of at least 10% in a stock index over a short period.

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- b. a decline of at least 20% in a stock index from its recent high.
- c. any market period lasting longer than 12 months.
- d. a situation where investors are optimistic and stock prices trend upward.

*ANSWER:* b

*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* The Financial Crises of 2008 and 2020 and Associated Recoveries

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-06 - Explain the importance of integrating the macroeconomic environment into the investing process.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Remember

53. Why are companies increasingly adopting artificial intelligence (AI) as part of their core strategies?
- a. To comply with government regulations requiring AI integration
  - b. To streamline processes, reduce costs, and improve decision-making through data-driven insights
  - c. To eliminate the need for human workers entirely
  - d. Because AI automatically increases a company's stock price

*ANSWER:* b

*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* AI, High Tech, and the Magnificent 7

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-07 - Describe careers in the investment service sector.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Remember

54. In addition to investing in companies that use AI, investors are also investing in
- a. only financial service companies adopting AI in banking.
  - b. firms that produce the technologies needed for AI, such as Nvidia and Google.
  - c. government-run AI programs and research grants.
  - d. companies unrelated to technology for diversification purposes.

*ANSWER:* b

*POINTS:* 1

*DIFFICULTY:* Easy

*REFERENCES:* AI, High Tech, and the Magnificent 7

*QUESTION TYPE:* Multiple Choice

*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-07 - Describe careers in the investment service sector.

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*KEYWORDS:* Bloom's: Remember

55. Which of the following companies is NOT part of the “Magnificent 7”?
- a. Nvidia (NVDA)
  - b. Tesla (TSLA)

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- c. Broadcom (AVGO)
- d. Meta (META)

*ANSWER:* c  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*REFERENCES:* AI, High Tech, and the Magnificent 7  
*QUESTION TYPE:* Multiple Choice  
*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-07 - Describe careers in the investment service sector.  
*NATIONAL STANDARDS:* United States - BUSPROG: Analytic  
*KEYWORDS:* Bloom's: Remember

56. Approximately what percentage of the total S&P 500 market capitalization is held by the Magnificent 7 companies?
- a. 10%
  - b. 20%
  - c. 30%
  - d. 50%

*ANSWER:* c  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*REFERENCES:* AI, High Tech, and the Magnificent 7  
*QUESTION TYPE:* Multiple Choice  
*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-07 - Describe careers in the investment service sector.  
*NATIONAL STANDARDS:* United States - BUSPROG: Analytic  
*KEYWORDS:* Bloom's: Remember

57. Why are the Magnificent 7 so closely watched by the media, investors, and fund managers?
- a. They are the only companies required to report earnings monthly.
  - b. Their performance significantly impacts overall markets due to their large weight in major indices.
  - c. They determine the federal interest rate through their growth.
  - d. They are government-regulated entities.

*ANSWER:* b  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*REFERENCES:* AI, High Tech, and the Magnificent 7  
*QUESTION TYPE:* Multiple Choice  
*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-07 - Describe careers in the investment service sector.  
*NATIONAL STANDARDS:* United States - BUSPROG: Analytic  
*KEYWORDS:* Bloom's: Understand

58. What is a key risk of having a high concentration of a few stocks like the Magnificent 7 in an index?
- a. It guarantees consistent positive returns.
  - b. It increases diversification by spreading risk evenly.
  - c. It reduces the effectiveness of diversification and can cause larger swings in portfolio values.
  - d. It eliminates the need for risk management strategies.

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*ANSWER:* c  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*REFERENCES:* AI, High Tech, and the Magnificent 7  
*QUESTION TYPE:* Multiple Choice  
*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-07 - Describe careers in the investment service sector.  
*NATIONAL STANDARDS:* United States - BUSPROG: Analytic  
*KEYWORDS:* Bloom's: Remember

59. In 2023, the Magnificent 7 accounted for approximately what share of U.S. equity returns?

- a. One-third
- b. Nearly two-thirds
- c. Half
- d. All of the returns

*ANSWER:* b  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*REFERENCES:* AI, High Tech, and the Magnificent 7  
*QUESTION TYPE:* Multiple Choice  
*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-07 - Describe careers in the investment service sector.  
*NATIONAL STANDARDS:* United States - BUSPROG: Analytic  
*KEYWORDS:* Bloom's: Remember

60. While no stockbroker or investment analyst can guarantee that a particular investment will outperform the market, they can help investors determine if

- a. their expected returns regress toward the mean.
- b. returns are diversified around physical assets.
- c. returns are diversified around unique assets.
- d. the risks in the portfolio justify their expected returns.

*ANSWER:* d  
*POINTS:* 1  
*DIFFICULTY:* Easy  
*REFERENCES:* Investment Careers  
*QUESTION TYPE:* Multiple Choice  
*LEARNING OBJECTIVES:* INVEST.ADAI.27.01-07 - Describe careers in the investment service sector.  
*NATIONAL STANDARDS:* United States - BUSPROG: Analytic  
*KEYWORDS:* Bloom's: Understand