

CFA INVESTMENT PRACTICE EXAM (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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- 1. The impact of low interest rates is often to:**
 - A. Encourage public savings
 - B. Undermine investment
 - C. Stimulate borrowing
 - D. Control inflation
- 2. What is the primary purpose of ethical behavior among investment industry members?**
 - A. Equitable distribution of profits across investors
 - B. A reduction in competition between individual investors
 - C. Trust among investment industry participants
 - D. Maximizing profits for all firms
- 3. According to economic theories, reduced capital flow restrictions may:**
 - A. Enhance international trade.
 - B. Increase tariffs.
 - C. Lead to exchange rate manipulation.
 - D. Stabilize domestic economies.
- 4. What is subtracted from a portfolio's return when calculating the Sharpe ratio?**
 - A. The risk-free return
 - B. The benchmark return
 - C. The standard deviation of portfolio returns
 - D. The inflation rate
- 5. When a country has a comparative advantage, it indicates that it:**
 - A. Is a net importer of the good.
 - B. Produces the good more efficiently.
 - C. Has imposed a quota on the good.
 - D. Is unable to compete in the market.

- 6. Which market is primarily involved in the issuance of new securities?**
- A. Secondary market
 - B. Primary market
 - C. Derivatives market
 - D. Forex market
- 7. Which investment vehicle allows public market exposure specifically to real estate?**
- A. Equity funds
 - B. Limited partnerships
 - C. Investment trusts (REITs)
 - D. Real estate mutual funds
- 8. When a product is sold on credit, the company will report an increase in:**
- A. Revenue and cash flow
 - B. Profit but not cash flow
 - C. Cash flow but not profit
 - D. Neither profit nor cash flow
- 9. What is the main goal of all economic systems?**
- A. Produce sufficient goods and services
 - B. Support government spending on public services
 - C. Efficiently allocate scarce resources to their most productive uses
 - D. Maximise consumer satisfaction
- 10. The progressive loss of satisfaction from consuming multiple units of a good is known as what?**
- A. The law of demand
 - B. The substitution effect
 - C. The law of diminishing returns
 - D. The law of diminishing marginal utility

Answers

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1. C
2. C
3. A
4. A
5. B
6. B
7. C
8. B
9. C
10. D

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Explanations

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1. The impact of low interest rates is often to:

- A. Encourage public savings
- B. Undermine investment
- C. Stimulate borrowing**
- D. Control inflation

Low interest rates typically lower the cost of borrowing, making it more attractive for both individuals and businesses to take out loans. When interest rates are low, the expense associated with borrowing is reduced, which can lead to an increase in consumer spending and business investments. This increased borrowing can stimulate economic growth as it allows individuals to finance large purchases (like homes or vehicles) and enables businesses to invest in expansion, equipment, and research. In an environment of low interest rates, banks are more likely to lend, and consumers and businesses are more inclined to take on debt. This, in turn, can spur economic activity, as increased borrowing leads to higher consumption and investment overall. While other factors may influence the overall economic context—such as inflation, savings behavior, or investment strategies—low interest rates generally serve as a catalyst for stimulating borrowing activity.

2. What is the primary purpose of ethical behavior among investment industry members?

- A. Equitable distribution of profits across investors
- B. A reduction in competition between individual investors
- C. Trust among investment industry participants**
- D. Maximizing profits for all firms

The primary purpose of ethical behavior among investment industry members is to foster trust among all participants in the financial markets. Trust is fundamental in creating a stable and functioning market environment. When investors believe that the parties they are dealing with are acting ethically, they are more likely to engage in transactions, share information, and participate actively in the market. This trust is critical because ethical behavior helps ensure that all members are treated fairly, promoting transparency and accountability, which in turn leads to greater market efficiency and integrity. While the distribution of profits, competition, and profitability for firms are important features of the investment industry, they are secondary to the overarching need for trust. Ethical conduct is essential in maintaining a level playing field and preventing fraudulent activities, which can undermine confidence and deter investment. Thus, the emphasis on ethical behavior is rooted in its ability to facilitate trust, which is a cornerstone of healthy market dynamics.

3. According to economic theories, reduced capital flow restrictions may:

- A. Enhance international trade.**
- B. Increase tariffs.
- C. Lead to exchange rate manipulation.
- D. Stabilize domestic economies.

Reduced capital flow restrictions can enhance international trade by facilitating the movement of capital across borders, thereby allowing for more investment in foreign markets and broader access to goods and services. When barriers to capital movement are lowered, businesses can invest in supply chains and operations in other countries more easily, which can lead to increased efficiency and production. This influx of capital helps to promote trade relationships as firms seek out new markets for their products, leading to a more interconnected global economy. In contrast, increased tariffs would be more likely to restrict trade rather than enhance it, as tariffs impose additional costs on imported goods, discouraging trade. Exchange rate manipulation is a separate concern that typically addresses a government's interference in the market, often when economies impose restrictions. Lastly, while reduced capital flow restrictions can potentially lead to greater economic stability, it does not guarantee stabilization of domestic economies due to the complex interplay of various economic factors. Thus, the most relevant outcome of reduced capital flow restrictions is the enhancement of international trade.

4. What is subtracted from a portfolio's return when calculating the Sharpe ratio?

- A. The risk-free return**
- B. The benchmark return
- C. The standard deviation of portfolio returns
- D. The inflation rate

The Sharpe ratio is a measure used to evaluate the risk-adjusted return of an investment or portfolio. It is calculated by taking the difference between the portfolio's return and the risk-free rate of return, which represents the return on an investment with zero risk. This difference is then divided by the standard deviation of the portfolio's excess return, which measures the portfolio's volatility. By subtracting the risk-free return, the Sharpe ratio assesses how much excess return a portfolio generates per unit of risk compared to a risk-free investment. This is important because it provides investors with insight into whether the additional risk taken by investing in the portfolio is justified by the excess returns achieved. The risk-free return serves as a benchmark to understand whether the returns from the portfolio are adequate relative to a safe investment. Thus, subtracting the risk-free return allows investors to focus on the excess compensation they receive for taking on additional risk, making it a crucial component in the calculation of the Sharpe ratio.

5. When a country has a comparative advantage, it indicates that it:

- A. Is a net importer of the good.
- B. Produces the good more efficiently.**
- C. Has imposed a quota on the good.
- D. Is unable to compete in the market.

A country having a comparative advantage implies that it can produce a particular good at a lower opportunity cost compared to other goods. This means that the country can efficiently allocate its resources to produce that good more effectively than other countries, leading to increased overall economic efficiency and productivity in the production of that good. Comparative advantage is a foundational concept in international trade that explains how countries benefit from specializing in the production of goods where they have a lower relative cost of production, allowing them to trade with one another for mutual benefit. This notion is distinct from being a net importer or having quotas, as they pertain more to market intervention and trade policies rather than intrinsic production efficiencies. While the ability to produce goods more efficiently may suggest a broader efficiency advantage, comparative advantage focuses specifically on the opportunity cost of production, emphasizing the trade-offs involved. Thus, the correct understanding reinforces the idea that nations can gain from trade even if one country is less efficient across the board; what's crucial is producing the good that has the lowest opportunity cost relative to alternatives.

6. Which market is primarily involved in the issuance of new securities?

- A. Secondary market
- B. Primary market**
- C. Derivatives market
- D. Forex market

The primary market is where new securities are issued and sold for the first time. In this market, companies, governments, and other entities can raise capital by selling stocks, bonds, and other financial instruments directly to investors. This process often involves initial public offerings (IPOs) for equities or new debt offerings. In contrast, the secondary market is where previously issued securities are traded among investors. This market does not involve the creation of new securities; rather, it facilitates the buying and selling of existing ones. The derivatives market focuses on financial contracts whose value is derived from underlying assets, rather than the direct issuance of new securities. Similarly, the forex market deals with currency trading and is not involved in the issuance of securities. Understanding the distinction between these markets is crucial for recognizing how capital flows in the financial system and how entities obtain funding through new securities.

7. Which investment vehicle allows public market exposure specifically to real estate?

- A. Equity funds
- B. Limited partnerships
- C. Investment trusts (REITs)**
- D. Real estate mutual funds

The correct response is investment trusts, commonly known as Real Estate Investment Trusts (REITs), because they are specifically structured to provide investors with exposure to real estate assets in a public market setting. REITs invest directly in real estate properties or mortgages, allowing public investors to gain access to the income-producing potential of real estate without the need to directly own or manage properties. Investors in REITs receive dividends from the income generated by the real estate, which typically includes rental income from properties owned by the trust. Additionally, REITs are traded on major stock exchanges, which provides liquidity and transparency akin to other publicly traded equities, making them a unique and attractive vehicle for gaining exposure to real estate markets. In contrast, while equity funds might invest in real estate companies or related sectors, they do not focus solely on real estate assets and can include a broader range of investments. Limited partnerships might involve private investments in real estate, but they typically lack the liquidity and public market exposure that REITs offer. Real estate mutual funds also invest in real estate but usually do so through stocks of companies engaged in real estate development or management, which may not capture direct real estate asset exposure the same way REITs do.

8. When a product is sold on credit, the company will report an increase in:

- A. Revenue and cash flow
- B. Profit but not cash flow**
- C. Cash flow but not profit
- D. Neither profit nor cash flow

When a product is sold on credit, the revenue from that sale is recognized at the point of sale, as per the accrual accounting principle. This means that the company records the revenue earned from the transaction, even though cash has not yet been received. As a result, profit will increase because it reflects all revenues earned during the accounting period, regardless of cash transactions. However, cash flow is only affected when cash is actually received. Since the sale was made on credit, there is no immediate impact on cash flow at the time of the sale. This scenario leads to an increase in profit, as the revenue is recorded, but does not result in an increase in cash flow until the receivable is collected. Thus, the response that correctly captures this accounting principle is the one indicating an increase in profit but not in cash flow.

9. What is the main goal of all economic systems?

- A. Produce sufficient goods and services
- B. Support government spending on public services
- C. Efficiently allocate scarce resources to their most productive uses**
- D. Maximise consumer satisfaction

The main goal of all economic systems is to efficiently allocate scarce resources to their most productive uses. This principle stems from the fundamental concept of scarcity, where resources (such as land, labor, and capital) are limited while human wants are virtually unlimited. Economic systems, regardless of their structure—capitalist, socialist, or mixed—must find ways to arrange and utilize these resources effectively to meet the needs and wants of society. Efficient allocation of resources ensures that they are used in a manner that maximizes productivity and economic output. This involves decisions about what to produce, how to produce, and for whom to produce, all aimed at optimizing resource utilization. When resources are allocated efficiently, it helps in minimizing waste and enhances overall economic welfare, which is a primary focus of any economic system. Other aspects, such as producing sufficient goods and services or maximizing consumer satisfaction, are indeed important, but they are often secondary or a means to implement the broader goal of efficient resource allocation. Supporting government spending is a function within an economic system rather than a primary goal, as it typically relies on the overall efficiency of resource allocation to ensure that public services can be funded sustainably.

10. The progressive loss of satisfaction from consuming multiple units of a good is known as what?

- A. The law of demand
- B. The substitution effect
- C. The law of diminishing returns
- D. The law of diminishing marginal utility**

The progressive loss of satisfaction from consuming multiple units of a good is referred to as the law of diminishing marginal utility. This economic principle states that as a person consumes more units of a specific good or service, the additional satisfaction (or utility) gained from each subsequent unit tends to decrease. For example, the first slice of pizza may bring a high level of satisfaction, while the second slice might provide less pleasure, and the third even less, demonstrating diminishing marginal utility. This concept is critical in understanding consumer behavior and demand, as it underpins the rationale for why consumers may not continue to purchase additional units of a product if those units do not provide sufficient added value or satisfaction. It also helps explain the downward-sloping nature of the demand curve, as as prices decrease, consumers are willing to buy more of a good, but the additional satisfaction received from each unit tends to decline. The law of demand focuses on the relationship between price and quantity demanded, which is different from the specific concept of diminishing marginal utility. The substitution effect describes how consumers may change their purchasing behavior in response to price changes relative to substitutes. The law of diminishing returns relates to production and input usage rather than consumer consumption and satisfaction. Thus, while they are important concepts in economics,

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://cfainvestment.examzify.com>

We wish you the very best on your exam journey. You've got this!

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