FBLA NEW SECURITIES AND INVESTMENTS 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

1. What is a bond called when it is trading below its par value?

A. Premium bond

B. Par bond

C. Discount bond

D. Callable bond

2. What type of swap involves parties exchanging cash flows based on interest rate risks?

A. Currency Swap

B. Credit Swap

C. Interest Rate Swap

D. Commodity Swap

3. Which type of ETFs is likely to see a change in portfolio composition on a daily basis?

A. Passive ETFs

B. Index ETFs

C. Actively Managed ETFs

D. Sector ETFs

4. What law was enacted to strengthen government oversight of financial markets after the financial crisis of 2008-2009?

A. Dodd-Frank Act

B. Glass-Steagall Act

C. Sarbanes-Oxley Act

D. National Banking Act

5. What document allows an individual to dictate the management of their assets after death?

A. Trust

B. Will

C. Power of Attorney

D. Living will

6. What characteristic defines variable interest rate bonds?

A. The interest rate remains fixed
B. The interest rate may change periodically
C. The bond pays no interest
D. The bond is issued at a premium

7. What role does a conduit borrower play in bond issuance?

A. They guarantee bondholder returns
B. They receive all bond proceeds
C. They agree to repay the issuer
D. They manage bond sales

8. What is an IPO?

A. A private sale of stock
B. A secondary market transaction
C. A corporation's first sale of stock to public investors
D. A debt issuance by a company

9. What type of pension plan guarantees a specified level of retirement income?

A. Defined contribution plan
B. Defined benefit plan
C. 403b plan
D. Individual Retirement Account

10. What is the term for the amount of money a whole life policyholder would receive if the policy were surrendered before death or maturity?

A. cash value
B. death benefit
C. premium return
D. accumulated value

Answers

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

Explanations

1. What is a bond called when it is trading below its par value?

A. Premium bond

B. Par bond

C. Discount bond

D. Callable bond

A bond trading below its par value is known as a discount bond. When investors purchase such bonds, it indicates that the market price of the bond is lower than its face value, typically due to factors such as rising interest rates or perceived risk associated with the issuer. For example, if a bond has a par value of $1,000 and is trading at $950, it is considered a discount bond. Investors are often attracted to discount bonds because they can potentially offer a higher yield, as the investor will receive the full par value at maturity plus the interest payments during the bond's life. In contrast, a premium bond is one that trades above its par value, a par bond trades at its nominal value, and a callable bond is one that can be redeemed by the issuer before its maturity date. Each of these terms represents different characteristics and pricing situations in the bond market, which helps investors make informed decisions based on their investment strategies.

2. What type of swap involves parties exchanging cash flows based on interest rate risks?

A. Currency Swap

B. Credit Swap

C. Interest Rate Swap

D. Commodity Swap

The correct answer is interest rate swap. This type of swap specifically involves two parties agreeing to exchange cash flows that are tied to interest rates. Typically, one party will pay a fixed interest rate, while the other will pay a floating interest rate, which is usually adjusted based on a benchmark rate. This format allows organizations to manage their exposure to interest rate fluctuations, making it easier to align their cash flows with their financial strategies or investment needs. Interest rate swaps are often used by companies to hedge against interest rate risk, particularly if they have outstanding debt. By entering into a swap agreement, they can potentially lower their borrowing costs or stabilize their interest expenses. Overall, this financial instrument plays a crucial role in risk management for entities dealing with variable interest rates. In contrast, other types of swaps serve different functions. A currency swap involves exchanging cash flows in different currencies and is focused on hedging currency risk. A credit swap deals with transferring credit risk associated with an underlying asset or default risk. Lastly, a commodity swap is centered around exchanging cash flows related to the prices of physical goods or commodities. Each type of swap addresses specific financial risks but an interest rate swap is distinctly geared toward managing interest rate risks.

3. Which type of ETFs is likely to see a change in portfolio composition on a daily basis?

A. Passive ETFs

B. Index ETFs

C. Actively Managed ETFs

D. Sector ETFs

Actively managed ETFs are designed to be responsive to changing market conditions, which leads to frequent adjustments in their portfolio composition. Fund managers actively buy and sell securities to exploit perceived market inefficiencies or to respond to macroeconomic or sector trends. This dynamic approach allows them to adapt their holdings on a daily basis as they seek to enhance returns or manage risk. In contrast, passive ETFs and index ETFs typically aim to replicate the performance of a specific index, which means they maintain a relatively stable portfolio that only changes at set intervals, typically when the underlying index rebalances. Sector ETFs may focus on specific industry sectors but do not inherently imply an active management approach, potentially resulting in a more static composition than actively managed ETFs. The active management strategy is what fundamentally sets actively managed ETFs apart, as they do not have a predetermined structure like the others, leading to the frequent reallocation of assets within the fund.

4. What law was enacted to strengthen government oversight of financial markets after the financial crisis of 2008-2009?

A. Dodd-Frank Act

B. Glass-Steagall Act

C. Sarbanes-Oxley Act

D. National Banking Act

The Dodd-Frank Act was enacted specifically to address the deficiencies in the financial regulatory framework that contributed to the financial crisis of 2008-2009. This comprehensive piece of legislation aimed to improve financial stability by increasing transparency and accountability within the financial sector. It introduced numerous reforms, including the creation of the Consumer Financial Protection Bureau (CFPB) to safeguard consumers in financial transactions, and it established stricter rules for financial institutions to minimize risks associated with derivatives and enhance the regulation of the banking industry. The act also aimed to end the "too big to fail" doctrine by implementing measures to monitor and manage systemic risk, thereby making institutions more resilient to potential future crises. By focusing on increased regulation and oversight, the Dodd-Frank Act significantly reformed how financial markets operate and provided tools for authorities to protect the economy from similar crises in the future. Other acts, although important, either predate the 2008-2009 crisis or serve different purposes. For instance, the Glass-Steagall Act was originally designed to separate commercial banking from investment banking, while the Sarbanes-Oxley Act focused primarily on corporate governance and financial reporting. The National Banking Act established a system of national banks but does not specifically relate to the

5. What document allows an individual to dictate the management of their assets after death?

A. Trust

B. Will

C. Power of Attorney

D. Living will

The correct choice is a will, as it is a legal document that outlines how a person's assets will be distributed after they pass away. A will allows individuals to specify beneficiaries for their property, appoint an executor to manage the process of settling their estate, and include any specific wishes they have regarding the handling of their affairs after death. This is a fundamental tool in estate planning that ensures that one's assets are managed and transferred according to their wishes rather than the default laws of intestacy, which may not align with the deceased's preferences. In contrast, a trust is a legal arrangement that can manage assets during a person's lifetime and after death, but it requires a different level of legal work and is not specifically solely about distribution after death as a will is. A power of attorney is used to appoint someone to manage financial or legal decisions on behalf of another individual, typically during their lifetime, and does not apply after death. A living will, while important in defining medical wishes, specifically addresses healthcare decisions and does not involve the distribution of assets.

6. What characteristic defines variable interest rate bonds?

A. The interest rate remains fixed

B. The interest rate may change periodically

C. The bond pays no interest

D. The bond is issued at a premium

Variable interest rate bonds, also known as floating rate bonds, are characterized by an interest rate that may change periodically. This adjustment typically aligns with a benchmark interest rate, such as LIBOR or the U.S. Treasury rate, leading to varying interest payments over the life of the bond. As interest rates rise or fall in the market, the coupon payments on variable interest rate bonds will also increase or decrease correspondingly, allowing investors to benefit from higher rates and potentially mitigating interest rate risk. The option stating that the interest rate remains fixed refers to fixed-rate bonds, which do not offer the same adjustment potential and can pose a greater risk if prevailing rates rise. The option that suggests the bond pays no interest describes zero-coupon bonds, which do not make periodic interest payments. Lastly, bonds issued at a premium are sold above their face value, independent of whether the interest rate is fixed or variable. Therefore, the defining characteristic of variable interest rate bonds is indeed that the interest rate may change periodically.

7. What role does a conduit borrower play in bond issuance?

A. They guarantee bondholder returns

B. They receive all bond proceeds

C. They agree to repay the issuer

D. They manage bond sales

In the context of bond issuance, a conduit borrower typically plays the role of an intermediary that facilitates the borrowing process. When a conduit borrower agrees to repay the issuer, it establishes an obligation to use the funds raised through the bonds for a specified purpose, usually related to a project or investment. This repayment agreement is crucial because it assures bondholders that there is a responsible party committed to repaying the debt, thereby enhancing the overall credibility and security of the bond offering. This role is particularly prominent in situations such as municipal bonds, where a conduit borrower often refers to a non-profit organization or other designated entity that borrows money on behalf of a project that may not have the capacity to issue bonds directly. By doing so, conduit borrowers help to streamline the process and often provide access to lower borrowing costs due to the creditworthiness associated with the bond issuer. Other options tend to represent functions that are either not central to the role of a conduit borrower or are responsibilities held by different parties involved in the bond issuance process. Therefore, in the bond issuance structure, the agreement to repay the issuer is a defining characteristic of a conduit borrower's role.

8. What is an IPO?

A. A private sale of stock

B. A secondary market transaction

C. A corporation's first sale of stock to public investors

D. A debt issuance by a company

An IPO, or Initial Public Offering, refers to a corporation's first sale of stock to public investors. This process allows a private company to raise capital by offering its shares to the general public for the first time. Through an IPO, the company transitions from being privately held to publicly traded, which can significantly enhance its visibility, credibility, and financial resources. When a company decides to go public, it typically works with investment banks to determine the offering price, navigate regulatory requirements, and market the shares to potential investors. This capital raised can be used for various purposes, including funding expansion, paying off debt, or enhancing research and development efforts. Understanding this definition reinforces the concept of how companies can leverage public financing to support sustainable growth and development. The other options, while related to stock and securities, do not accurately capture the essence of an IPO as they refer to different concepts entirely, such as private sales or established trading activities in the secondary market.

9. What type of pension plan guarantees a specified level of retirement income?

A. Defined contribution plan

B. Defined benefit plan

C. 403b plan

D. Individual Retirement Account

A defined benefit plan guarantees a specified level of retirement income to participants, typically based on a formula that considers factors such as years of service and salary history. This means that employees can expect to receive a predetermined amount upon retirement, providing a stable and predictable income stream. The employer is responsible for funding the plan and managing the investment risks associated with it. This type of pension plan is designed to offer more security to retirees, as they can be assured of the financial support they will receive during their retirement years. In contrast, a defined contribution plan, such as a 401(k), is dependent on the contributions made by the employee and potentially the employer, with retirement income fluctuating based on investment performance. A 403(b) plan is a type of defined contribution plan meant for specific non-profit organizations and educational institutions. An Individual Retirement Account (IRA) is also a type of defined contribution plan but is typically set up by an individual to save for retirement independently. These alternatives do not guarantee a fixed retirement income and carry more uncertainty regarding the eventual amount retirees will receive.

10. What is the term for the amount of money a whole life policyholder would receive if the policy were surrendered before death or maturity?

A. cash value

B. death benefit

C. premium return

D. accumulated value

The term for the amount of money a whole life policyholder would receive if the policy were surrendered before death or maturity is known as the cash value. Whole life insurance policies accumulate cash value over time, which represents a savings component of the policy. Policyholders can access this cash value through loans or by surrendering the policy. The cash value grows at a guaranteed rate and can also produce dividends if the insurer performs well financially. This feature differentiates whole life insurance from term insurance, which does not build any cash value. The other terms listed, such as death benefit, refer to the amount paid to beneficiaries upon the policyholder's death, while premium return and accumulated value do not specifically describe the surrender value of a whole life policy.

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:

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