Finance and Investment Challenge Practice Test (Sample)

Study Guide

Everything you need from our exam experts!

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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.

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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!

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Questions

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1. **What is a municipal bond?**
   - A. An security issued by a local government, or its agencies.
   - B. A security issued by the federal government.
   - C. A private loan between individuals.
   - D. An insurance policy with tax benefits.

2. **They're a form of tax in which the users of public services are charged a specified fee to cover some of all of the cost of providing that service.**
   - A. Tariffs
   - B. Excise tax
   - C. User Fees
   - D. Property tax

3. **Which option has the greatest value in a comparison of: $1,000,000; the value of 1 cent doubled daily for 30 days; 10 shares of Berkshire Hathaway stock; or $500,000?**
   - A. $1,000,000
   - B. $500,000
   - C. 10 shares of Berkshire Hathaway stock
   - D. The value of 1 cent doubled daily for 30 days

4. **Experian, Equifax, and TransUnion are examples of what?**
   - A. Banks
   - B. The major credit reporting agencies
   - C. Insurance rating agencies
   - D. Stock exchanges

5. **A co-signer is defined as which of the following?**
   - A. The lender
   - B. An insurance policy
   - C. Another adult who takes responsibility for your debt if you cannot afford it
   - D. The primary borrower

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6. Which of the following is a disadvantage of a sole proprietorship?

A. Access to large capital

B. Fewer legal restrictions

C. Unlimited legal liability

D. It's the easiest to organize

7. If the risk-free rate is 3%, the expected market return is 9%, and the stock's beta is 1.0, what is the expected return according to CAPM?

A. 6%

B. 9.5%

C. 9%

D. 12%

8. Which financial metric measures profitability relative to a company's assets?

A. Return on Equity (ROE)

B. Debt Service Coverage Ratio

C. Return on Assets (ROA)

D. Gross Margin

9. Using the Gordon Growth Model, with D1 = $2, growth g = 3%, and required return r = 10%, what is the stock price?

A. 28.57

B. 25.00

C. 30.00

D. 22.22

10. A Dividend Reinvestment Plan (DRIP) primarily encourages investors to do what?

A. Reinvest dividends to buy more shares

B. Take cash payouts with higher taxes

C. Sell shares to rebalance portfolio

D. Use dividends to purchase bonds

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Answers

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

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Explanations

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1. What is a municipal bond?

A. An security issued by a local government, or its agencies.

B. A security issued by the federal government.

C. A private loan between individuals.

D. An insurance policy with tax benefits.

Municipal bonds are debt securities issued by local governments or their agencies to raise funds for public projects such as schools, roads, or water systems. When you buy one, you're lending money to the issuer and receiving periodic interest payments plus the return of principal at maturity. A key feature is their tax treatment: the interest is typically exempt from federal income tax and often from state and local taxes for residents of the issuing jurisdiction, which can make them especially attractive to investors in higher tax brackets. This tax advantage helps distinguish them from securities issued by the federal government, which do not carry the same tax-exempt status, and from private loans or personal loans, which are not issued by government entities and lack the same purpose or tax benefits. Municipal bonds can be general obligation bonds, backed by the issuer's taxing power, or revenue bonds, backed by revenues from a specific project.

2. They're a form of tax in which the users of public services are charged a specified fee to cover some of all of the cost of providing that service.

A. Tariffs

B. Excise tax

C. User Fees

D. Property tax

User fees are payments charged to those who use a public service, intended to cover all or part of the cost of providing that service. This approach ties the payment directly to usage—for example, tolls on roads, park entrance fees, or library printing charges—so the people who benefit from the service contribute to its cost. Tariffs are duties on imported or exported goods, not on the use of public services. Excise taxes are taxes on specific goods like alcohol or gasoline, again not tied to service usage. Property tax is levied on the value of real estate and funds general local government, not a particular service based on use.

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3. **Which option has the greatest value in a comparison of: $1,000,000; the value of 1 cent doubled daily for 30 days; 10 shares of Berkshire Hathaway stock; or $500,000?**

    A. $1,000,000

    B. $500,000

    C. 10 shares of Berkshire Hathaway stock

    D. The value of 1 cent doubled daily for 30 days

The key idea is exponential growth from compounding. A tiny amount that doubles every day can become very large very quickly. Starting with 1 cent, after 30 days you have 0.01 × 2^30 dollars. Since 2^30 is 1,073,741,824, that total is 0.01 × 1,073,741,824 = 10,737,418.24 dollars. That's about $10.7 million, which easily surpasses the fixed sums of $1,000,000 and $500,000. Ten shares of Berkshire Hathaway depend on the stock price, which can fluctuate. Even if each share is hundreds of thousands of dollars, ten shares would typically amount to a few million at most, which is still less than the $10.7 million from the doubling penny. Because the doubling scenario yields a fixed, clearly larger value under these conditions, it is the greatest option.

4. **Experian, Equifax, and TransUnion are examples of what?**

    A. Banks

    B. The major credit reporting agencies

    C. Insurance rating agencies

    D. Stock exchanges

These are credit reporting agencies. They collect and maintain records of individuals' and businesses' credit activities from lenders and other data furnishers, then compile credit reports and provide this information to lenders to assess creditworthiness. They also supply the data that scoring models use to generate credit scores, like FICO, which lenders rely on when deciding approvals and terms. They are not banks, insurance rating agencies, or stock exchanges; their role is to document and report credit history, not to issue loans, rate insurance, or trade securities. They're commonly called the major credit reporting agencies, often referred to as the Big Three.

5. **A co-signer is defined as which of the following?**

    A. The lender

    B. An insurance policy

    C. Another adult who takes responsibility for your debt if you cannot afford it

    D. The primary borrower

A co-signer is someone who shares responsibility for a debt from the start. They sign the loan along with the borrower and are legally obligated to repay the loan if the borrower cannot. This arrangement lowers the lender's risk and can help the borrower qualify for credit or obtain a better rate. The co-signer's credit is at stake—missed payments affect their credit as well, and they can be pursued for repayment if the debt isn't paid. It's not the lender, which is the entity providing the funds. It's not an insurance policy, which is a separate product and does not guarantee loan repayment. It's not the primary borrower, who is the person receiving the funds; the co-signer is someone else who agrees to take on the responsibility.

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6. Which of the following is a disadvantage of a sole proprietorship?

A. Access to large capital

B. Fewer legal restrictions

C. Unlimited legal liability

D. It's the easiest to organize

In a sole proprietorship the owner and the business are not separate legal entities, so there is unlimited liability. This means the owner is personally responsible for all business debts and obligations, and personal assets like savings, home, or car can be used to cover them if the business can’t pay. That exposure to personal financial risk is the main disadvantage of this structure. The other statements describe advantages rather than downsides—it's typically easy to organize and has fewer formal restrictions. So they don’t describe the negative aspect that sets apart a sole proprietorship.

7. If the risk-free rate is 3%, the expected market return is 9%, and the stock's beta is 1.0, what is the expected return according to CAPM?

A. 6%

B. 9.5%

C. 9%

D. 12%

CAPM uses the idea that expected return equals the risk-free rate plus a premium for taking on market risk. The formula is E[r] = rf + beta × (E[rm] − rf). With rf = 3%, E[rm] = 9%, and beta = 1, the calculation is 3% + 1 × (9% − 3%) = 3% + 6% = 9%. So the stock’s expected return is 9%. If you see the other numbers: 6% would be only the market risk premium and ignores the risk-free base, 12% would be adding the whole market return to the risk-free rate (double-counting), and 9.5% would come from a miscalculation of the premium.

8. Which financial metric measures profitability relative to a company's assets?

A. Return on Equity (ROE)

B. Debt Service Coverage Ratio

C. Return on Assets (ROA)

D. Gross Margin

This question tests how profitability relates to asset use. Return on Assets measures exactly that by dividing net income by average total assets, showing how much profit is generated from each dollar of assets. It reflects asset efficiency and operational performance, helping compare companies with different asset bases. For example, if net income is 20 and average assets are 200, the ROA is 10%, meaning each dollar of assets earns ten cents of profit. The other metrics don’t capture profitability relative to assets: return on equity ties profits to shareholders’ equity, not total assets; debt service coverage measures the ability to meet debt payments; gross margin compares profit to sales rather than to asset use.

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9. Using the Gordon Growth Model, with D1 = $2, growth g = 3%, and required return r = 10%, what is the stock price?

A. 28.57

B. 25.00

C. 30.00

D. 22.22

The Gordon Growth Model values a stock as the present value of an infinite series of dividends that grow at a constant rate. The price today is D1 divided by (r minus g), where D1 is the next dividend, r is the required return, and g is the growth rate. Here, D1 = 2, g = 0.03, r = 0.10. Compute the denominator: 0.10 − 0.03 = 0.07. Then price = 2 / 0.07 = 28.571…, which rounds to $28.57. Since r is greater than g, the price is finite, as the model requires.

10. A Dividend Reinvestment Plan (DRIP) primarily encourages investors to do what?

A. Reinvest dividends to buy more shares

B. Take cash payouts with higher taxes

C. Sell shares to rebalance portfolio

D. Use dividends to purchase bonds

A Dividend Reinvestment Plan is all about turning the dividends you receive into more shares of the same stock. When the company pays a dividend, the plan automatically uses that cash to buy additional shares for you (often including fractional shares). This automatic reinvestment builds your stake over time, and because those new shares also generate dividends, you get a compounding effect. It’s especially appealing for long-term growth since it increases your share count and potential future returns without you needing to take cash now or make separate purchases. The other ideas—taking cash payouts, selling shares to rebalance, or using dividends to buy bonds—don’t capture the automatic, ongoing reinvestment feature characteristic of a DRIP.

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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://financeinvestmentchallenge.examzify.com

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

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