FINANCE AND INVESTMENT CHALLENGE PRACTICE TEST (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 the intrinsic value of a European call option with strike price $50 when the stock price is $60?

A. 10

B. 0

C. 5

D. 15

2. If net income is $80 and equity is $500, what is return on equity (ROE)?

A. 8%

B. 20%

C. 12%

D. 16%

3. Tariffs are taxes imposed by governments on imports, not exports.

A. True

B. Not sure

C. Sometimes

D. False

4. Which company is a major credit reporting agency?

A. Microsoft

B. Experian

C. Boeing

D. Visa

5. Discrimination is defined as

A. Unjust or prejudicial treatment of different categories of people and/or things

B. Equal treatment of all individuals regardless of category

C. The policy of free market competition

D. The process of evaluating risk

6. Which financial metric is calculated by subtracting sales returns and discounts from gross sales?

A. Net Sales

B. Gross Sales

C. Operating Revenue

D. Net Income

7. A convertible bond can be converted into what type of security when certain conditions are met?

A. Bonds

B. Shares of common stock

C. Cash

D. Preferred stock

8. Which item is not typically listed on a balance sheet?

A. Assets

B. Liabilities

C. Shareholders' equity

D. Net income

9. If net income is $80 and total assets are $1,000, what is return on assets (ROA)?

A. 0.8%

B. 8%

C. 10%

D. 80%

10. What is a line of credit?

A. A savings account with a credit limit.

B. A fixed-term loan with a set repayment schedule.

C. A pre-approved amount of money that can be borrowed on demand.

D. A credit card with a spending limit.

Answers

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

Explanations

1. What is the intrinsic value of a European call option with strike price $50 when the stock price is $60?

A. 10

B. 0

C. 5

D. 15

Intrinsic value is the immediate exercise payoff: max(S − K, 0). With the stock at 60 and the strike at 50, exercising now would yield 60 − 50 = 10, so the intrinsic value is 10. For a European call, this reflects what it would be worth if you could exercise today, even though it can only be exercised at expiration in reality; the option's total price could be higher due to time value. The other numbers don't match the immediate exercise payoff (they would correspond to different S and K scenarios).

2. If net income is $80 and equity is $500, what is return on equity (ROE)?

A. 8%

B. 20%

C. 12%

D. 16%

Return on equity measures how much profit a company generates from each dollar of shareholders' equity. It's calculated as net income divided by equity. With net income of 80 and equity of 500, ROE = 80 / 500 = 0.16, or 16%. This means the company earns 16 cents for every dollar of equity invested. For context, an ROE of 8% would imply 40 in net income, 12% would imply 60, and 20% would imply 100, so those values don't align with the given numbers.

3. Tariffs are taxes imposed by governments on imports, not exports.

A. True

B. Not sure

C. Sometimes

D. False

Tariffs are taxes on goods crossing borders. They are most commonly charged on imports to raise revenue and protect domestic industries. However, governments can also impose tariffs on exports (export duties) in some cases, which means the idea that tariffs apply only to imports and never to exports isn't accurate. Because tariffs can target both sides of trade, the statement isn't strictly true, making the broader statement false.

4. Which company is a major credit reporting agency?

A. Microsoft

B. Experian

C. Boeing

D. Visa

Credit reporting agencies gather and maintain individuals' credit histories and provide lenders with credit reports and scores to assess risk. Experian is one of the largest players in this space, along with Equifax and TransUnion, and it specializes in compiling credit reports for lenders as well as offering consumer services. The other options don't fit this role: Microsoft is a technology company, Boeing is an aerospace manufacturer, and Visa is a payment network that processes transactions but does not compile credit histories. Since the question points to a major credit reporting agency, Experian is the best answer.

5. Discrimination is defined as

A. Unjust or prejudicial treatment of different categories of people and/or things

B. Equal treatment of all individuals regardless of category

C. The policy of free market competition

D. The process of evaluating risk

Discrimination means unjust or prejudicial treatment of different categories of people and/or things, rather than judging individuals on their own merits. It shows up when someone is treated less favorably because of characteristics like race, gender, age, religion, disability, or other protected status, instead of evaluating their qualifications or behavior. This bias can affect hiring, promotions, housing, or access to services, and it undermines fairness and equal opportunity. In contrast, aiming for equal treatment of all individuals regardless of category reflects a different approach—one that seeks to remove bias and judge people by relevant criteria. Concepts like free market competition and evaluating risk are separate ideas related to economics and risk assessment, not to how people are treated based on category. For example, refusing a job due to someone's race is discrimination; assessing a candidate's skills and experience without regard to race is fair treatment.

6. Which financial metric is calculated by subtracting sales returns and discounts from gross sales?

A. Net Sales

B. Gross Sales

C. Operating Revenue

D. Net Income

Net sales is the revenue figure that reflects what a company actually keeps from sales after deductions for returns and discounts. You start with gross sales—the total amount billed from sales before any reductions—and subtract sales returns (goods customers returned) and discounts (price reductions or allowances given). What remains is net sales, the revenue the company recognizes from its sales activities. This matters because gross sales alone can be inflated by returns and discounts, giving a misleading picture of how much revenue the business truly earned from its customers. Net income, by contrast, is further along the financial statement, representing profit after all expenses, taxes, and interest. Operating revenue is related but doesn't specifically capture the subtraction of returns and discounts, which is the key distinction here.

7. A convertible bond can be converted into what type of security when certain conditions are met?

A. Bonds

B. Shares of common stock

C. Cash

D. Preferred stock

A convertible bond can be converted into shares of common stock when certain conditions are met. This built-in option means the bondholder can exchange the fixed-income instrument for a specified number of the issuer's common shares, typically at a predetermined conversion price and ratio. The appeal is upside potential: if the company's stock price rises above the conversion price, converting can be profitable because you get equity exposure and any dividends or voting rights that come with common stock. Until conversion, you still receive interest payments and have the bond's principal protection, but conversion ends the debt obligation and replaces it with equity. It's not meant to convert into cash under normal terms, and it doesn't convert into preferred stock because the feature is specifically about turning the debt into common equity. Some exotic terms could allow cash settlements or other arrangements, but the standard mechanism is exchanging the bond for common shares.

8. Which item is not typically listed on a balance sheet?

A. Assets

B. Liabilities

C. Shareholders' equity

D. Net income

Balance sheets show a company's position at a moment in time, with three main sections: assets, liabilities, and shareholders' equity. Net income, on the other hand, is a flow measure that comes from the income statement and represents profit over a period. Its impact shows up in the equity section as retained earnings, not as a separate line item on the balance sheet. So while profits boost equity, you don't see net income listed as its own item on the balance sheet. That's why net income is not typically listed there.

9. If net income is $80 and total assets are $1,000, what is return on assets (ROA)?

A. 0.8%

B. 8%

C. 10%

D. 80%

Return on assets (ROA) measures how efficiently a company uses its assets to generate profit. It's calculated as net income divided by total assets, expressed as a percentage. Here, ROA = 80 ÷ 1000 = 0.08, which is 8%. So, for every dollar of assets, about 8 cents of net income were earned in the period. This reflects asset efficiency; higher ROA means more profit per unit of asset. The other options would imply profit levels inconsistent with the given numbers (e.g., far less than 8% or far more), so 8% is the correct interpretation.

10. What is a line of credit?

A. A savings account with a credit limit.

B. A fixed-term loan with a set repayment schedule.

C. A pre-approved amount of money that can be borrowed on demand.

D. A credit card with a spending limit.

A line of credit is a flexible borrowing arrangement that gives you a pre-approved amount you can borrow on demand. You can draw from it up to the credit limit whenever you need funds, and you only pay interest on the amount you actually borrow. You can repay what you've borrowed and then borrow again, up to the limit, making it a revolving source of funds rather than a one-time loan. This differs from a savings account, which simply holds your money and earns interest; it's not money you borrow. It also differs from a fixed-term loan, which has a set amount, a fixed repayment schedule, and a defined end date. And while credit cards are also revolving uses of credit, a line of credit is a separate borrowing facility with a pre-approved limit that you access as needed, not a card you use for purchases with a monthly statement.

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!