

# Financial Markets and Institutions Exam 1 Practice (Sample)

## Study Guide



**Everything you need from our exam experts!**

**Copyright © 2026 by Examzify - A Kaluba Technologies Inc. product.**

**ALL RIGHTS RESERVED.**

**No part of this book may be reproduced or transferred in any form or by any means, graphic, electronic, or mechanical, including photocopying, recording, web distribution, taping, or by any information storage retrieval system, without the written permission of the author.**

**Notice: Examzify makes every reasonable effort to obtain accurate, complete, and timely information about this product from reliable sources.**

**SAMPLE**

# Table of Contents

- Copyright** ..... 1
- Table of Contents** ..... 2
- Introduction** ..... 3
- How to Use This Guide** ..... 4
- Questions** ..... 5
- Answers** ..... 8
- Explanations** ..... 10
- Next Steps** ..... 15

SAMPLE

# 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

SAMPLE

- 1. What best defines Money Markets?**
  - A. Markets for debt securities with original maturities of one year or less**
  - B. Markets for long-term equity instruments**
  - C. Markets for currencies**
  - D. Markets for mortgage-backed securities**
  
- 2. Which money market instrument is essentially a collateralized loan using securities such as Treasury bills as collateral?**
  - A. Repurchase Agreement**
  - B. Banker's Acceptance**
  - C. Commercial Paper**
  - D. Treasury Bills**
  
- 3. Which regulatory body regulates the issue and trade of financial securities?**
  - A. Securities and Exchange Commission**
  - B. Federal Reserve**
  - C. FDIC**
  - D. CFTC**
  
- 4. Treasury Bills are:**
  - A. Issued by the U.S. Treasury and pay periodic coupons**
  - B. Issued by the U.S. Treasury, are virtually default-risk free, and pay no periodic interest, issued at a discount from par**
  - C. Issued by state governments**
  - D. Not considered risk-free**
  
- 5. Capital Markets are markets for which instruments?**
  - A. Debt instruments with original maturities greater than one year and equity instruments**
  - B. Short-term cash deposits**
  - C. Foreign currencies only**
  - D. Derivatives only**

- 6. An example of money market instruments would be which of the following?**
- A. Treasury bills**
  - B. Corporate bonds**
  - C. Common stock**
  - D. Mortgage-backed securities**
- 7. Which of the following is a non-deposit-taking financial institution?**
- A. Securities Firms**
  - B. Commercial Banks**
  - C. Savings Institutions**
  - D. Credit Unions**
- 8. Which instrument is an unsecured short-term promissory note issued by a corporation to raise short-term cash?**
- A. Banker's Acceptances**
  - B. Commercial Paper**
  - C. Federal Funds**
  - D. Negotiable Certificates of Deposit**
- 9. Subordinated debentures are unsecured debt that ranks lower than other debt in liquidation.**
- A. Subordinated debentures**
  - B. Debentures**
  - C. Mortgage bonds**
  - D. Equipment Trust Certificates**
- 10. How many members constitute the Board of Governors?**
- A. 7**
  - B. 9**
  - C. 12**
  - D. 5**

## Answers

SAMPLE

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

SAMPLE

## **Explanations**

SAMPLE

## 1. What best defines Money Markets?

- A. Markets for debt securities with original maturities of one year or less**
- B. Markets for long-term equity instruments**
- C. Markets for currencies**
- D. Markets for mortgage-backed securities**

Money markets are about short-term borrowing and lending using debt instruments that originally mature in one year or less. This short horizon makes them ideal for liquidity management—firms, banks, and governments park cash, cover day-to-day needs, and finance working capital with instruments that can be issued and traded quickly. Typical money-market instruments include Treasury bills, commercial paper, certificates of deposit, and repurchase agreements, all designed for high liquidity and relatively low risk. This differentiates money markets from other markets. Long-term equity instruments are traded in the capital markets, not the money markets. Markets for currencies are the foreign exchange market, which deals with exchanging one currency for another rather than short-term debt. Mortgage-backed securities are longer-term, securitized debt and don't fit the short-maturity focus of money markets. So the description involving debt securities with original maturities of one year or less best defines money markets.

## 2. Which money market instrument is essentially a collateralized loan using securities such as Treasury bills as collateral?

- A. Repurchase Agreement**
- B. Banker's Acceptance**
- C. Commercial Paper**
- D. Treasury Bills**

Think of a repurchase agreement as a short-term loan that is secured by securities. In this setup, one party needs cash and sells securities—often Treasury bills or other government securities—to another party with an agreement to buy those securities back at a later date for a higher price. The cash lender holds the securities as collateral, so if the borrower defaults, the lender can sell the collateral to recover the money. The difference between the sale price and the repurchase price represents interest on the loan, known as the repo rate. This structure is exactly a collateralized loan financed by securities, which is why it's used as a money market instrument. The other options don't fit this description. A banker's acceptance is a bank-guaranteed payment in trade finance, not a collateralized loan. Commercial paper is an unsecured short-term debt instrument issued by corporations. Treasury bills are government securities themselves, not loans secured by collateral.

**3. Which regulatory body regulates the issue and trade of financial securities?**

- A. Securities and Exchange Commission**
- B. Federal Reserve**
- C. FDIC**
- D. CFTC**

The important idea here is which agency is responsible for regulating the issuance and trading of securities. The Securities and Exchange Commission does this, overseeing the registration of new securities, the disclosure needed for investors, and enforcement against fraud. It also supervises exchanges, brokers, and investment advisers to keep markets fair and transparent. The Federal Reserve focuses on monetary policy and banking supervision, not on securities issuance and trading. The FDIC insures bank deposits and manages bank failures, not securities markets. The CFTC regulates futures and certain derivatives markets, not the broad issuance and trade of stocks and bonds. So, the SEC is the regulator that covers securities.

**4. Treasury Bills are:**

- A. Issued by the U.S. Treasury and pay periodic coupons**
- B. Issued by the U.S. Treasury, are virtually default-risk free, and pay no periodic interest, issued at a discount from par**
- C. Issued by state governments**
- D. Not considered risk-free**

Treasury bills illustrate the idea of zero-coupon, short-term government debt that serves as a near-risk-free benchmark. They are issued by the U.S. Treasury and sold at a discount to their face (par) value, with maturities of a year or less. They do not pay periodic interest; instead, the investor earns the return from the difference between the purchase price and the par value received at maturity. Because they are backed by the full faith and credit of the U.S. government, they are considered virtually default-free. This combination—issued by the U.S. Treasury, no periodic coupon, and discount pricing—is what makes them the best description. They are not issued by state governments, and they are viewed as risk-free, so saying they are not risk-free wouldn't fit.

**5. Capital Markets are markets for which instruments?**

- A. Debt instruments with original maturities greater than one year and equity instruments**
- B. Short-term cash deposits**
- C. Foreign currencies only**
- D. Derivatives only**

Capital markets are where long-term funding is raised and traded, focusing on securities with maturities beyond one year. This includes debt instruments that originally mature after more than one year and equity instruments like stocks. Short-term cash deposits and other money-market instruments handle horizons of one year or less, so they belong to the money market rather than the capital market. Foreign currencies are traded in the foreign exchange market, not in the capital markets, and while derivatives are traded broadly, the defining capital-market instruments are long-term debt and equity. Therefore, the statement describing debt instruments with maturities greater than one year along with equity instruments best captures what capital markets are.

**6. An example of money market instruments would be which of the following?**

- A. Treasury bills**
- B. Corporate bonds**
- C. Common stock**
- D. Mortgage-backed securities**

Money market instruments are short-term, highly liquid debt used for cash management. Treasury bills fit this category because they have maturities of one year or less (commonly a few weeks to a year) and are issued at a discount to par, redeeming at par at maturity. This structure provides near-cash liquidity with very low credit risk since they're issued by the government. The other instruments sit in different corners of the market: corporate bonds typically mature longer than a year, common stock is equity, and mortgage-backed securities are longer-term, more complex asset-backed claims. These characteristics place them outside the money market.

**7. Which of the following is a non-deposit-taking financial institution?**

- A. Securities Firms**
- B. Commercial Banks**
- C. Savings Institutions**
- D. Credit Unions**

The concept here is whether an institution takes deposits from savers. Securities firms are non-deposit-taking because they fund themselves through capital markets—underwriting, issuing securities, trading, and brokerage—rather than by taking customer deposits. They don't offer typical bank deposit accounts like checking or savings to the public. The other options are deposit-taking institutions: commercial banks, savings institutions, and credit unions all rely on deposits to fund their loans and operations and provide deposit accounts to customers.

**8. Which instrument is an unsecured short-term promissory note issued by a corporation to raise short-term cash?**

- A. Banker's Acceptances
- B. Commercial Paper**
- C. Federal Funds
- D. Negotiable Certificates of Deposit

Unsecured short-term promissory notes issued by a corporation to raise short-term cash are commercial paper. This instrument is designed for very brief maturities—often up to about nine months—and relies on the issuer's creditworthiness rather than collateral. It's typically sold in large denominations to institutional buyers in the money markets, usually at a discount, with repayment at maturity. Because it's unsecured, it carries more credit risk than secured funds, but it's cheaper for high-quality issuers. Other options don't fit: Banker's Acceptances are bank-guaranteed drafts used mainly in international trade; Federal Funds are overnight interbank loans between banks; Negotiable Certificates of Deposit are bank-issued time deposits that are negotiable, not issued by corporations.

**9. Subordinated debentures are unsecured debt that ranks lower than other debt in liquidation.**

- A. Subordinated debentures**
- B. Debentures
- C. Mortgage bonds
- D. Equipment Trust Certificates

Debt priority in liquidation is being tested. In a company's capital structure, secured debt is paid first, followed by senior unsecured debt, and only after those comes subordinated debt. Subordinated debentures are unsecured notes that are explicitly positioned below other debt in the repayment hierarchy, so their holders receive payments only after senior creditors are satisfied. This is why they match the description of ranking lower in liquidation. By contrast, mortgage bonds and Equipment Trust Certificates are secured by collateral and have higher priority, and plain debentures are unsecured but not necessarily subordinated to all other debt. The key idea is the order of repayment in liquidation and how subordinated debt sits below others.

**10. How many members constitute the Board of Governors?**

- A. 7**
- B. 9
- C. 12
- D. 5

The size of a Board of Governors is chosen to balance broad input with efficient decision-making. Seven members offers a practical middle ground: enough perspectives and areas of expertise to cover important issues, while still small enough to keep meetings focused, reach consensus, and maintain a manageable pace for decisions. This size also supports forming committees and assigning leadership roles without the group becoming unwieldy. The exact count is typically specified in the organization's charter or founding statute, and changing it usually requires formal approval. If the board were larger, coordination and timely decisions can suffer; if it were smaller, it might miss important viewpoints or risk decisions stalling due to lack of a quorum.

## 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](mailto:hello@examzify.com).**

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

**<https://finmarketsinstitutions1.examzify.com>**

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

SAMPLE