

FUTURE BUSINESS LEADERS OF AMERICA (FBLA) SECURITIES AND INVESTMENTS PRACTICE TEST (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

**VISIT US ONLINE FOR
THE FULL VERSION STUDY GUIDE**

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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. Which investment strategy involves buying securities and holding them for a long time with minimal trading?**
 - A. Active management
 - B. Strategic management
 - C. Passive management
 - D. Speculative management
- 2. What does reinvestment risk entail?**
 - A. The risk of capital loss due to market volatility
 - B. The risk that cash flows must be reinvested at a lower interest rate
 - C. The potential loss from holding assets in a down market
 - D. The risk associated with increased borrowing costs
- 3. Which factor is NOT considered in sustainable investing?**
 - A. Corporate governance practices
 - B. Environmental impact of investments
 - C. Short-term market fluctuations
 - D. Social responsibility of companies
- 4. What is the prime rate primarily associated with?**
 - A. Loans to high-risk borrowers
 - B. Unsecured loans to corporations with high credit ratings
 - C. Government bonds
 - D. Short-term government securities
- 5. What does arbitrage allow investors to do?**
 - A. Invest in high-risk assets with guaranteed returns
 - B. Take advantage of price differences in different markets for profit
 - C. Utilize borrowed funds for more extensive investments
 - D. Engage in long-term holdings with less risk
- 6. What is meant by margin trading?**
 - A. Buying stocks at full price
 - B. Trading stocks exclusively in cash
 - C. Borrowing funds from a broker to trade financial assets
 - D. Investing only in government bonds

- 7. What is the primary purpose of the Securities and Exchange Commission (SEC)?**
- A. To regulate and oversee securities markets and protect investors
 - B. To provide investment advice to individual investors
 - C. To facilitate mergers and acquisitions
 - D. To promote international trade agreements
- 8. What is the primary difference between a traditional IRA and a Roth IRA?**
- A. A traditional IRA allows for tax-free withdrawals; a Roth IRA does not
 - B. A traditional IRA allows for tax-deductible contributions; a Roth IRA allows for tax-free withdrawals in retirement
 - C. Both IRAs offer the same tax benefits
 - D. A traditional IRA can only be established by individuals under 50; a Roth IRA can be established by anyone
- 9. What does the Consumer Price Index (CPI) measure?**
- A. Interest rates across the economy
 - B. Inflation or deflation for basic consumer goods and services
 - C. Total gross domestic product
 - D. Unemployment rates in an economy
- 10. What is a subscription right in the context of stock offerings?**
- A. The right to vote on company matters
 - B. The ability to purchase additional shares at a discount
 - C. A type of fixed-income security
 - D. An option to buy back shares from the market

Answers

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

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Explanations

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1. Which investment strategy involves buying securities and holding them for a long time with minimal trading?

- A. Active management
- B. Strategic management
- C. Passive management**
- D. Speculative management

The correct answer is associated with a strategy that is fundamentally focused on long-term gains and minimizing trading activity. This investment approach is predicated on the idea that, over time, markets tend to rise, and by holding securities for an extended period, investors can benefit from overall market appreciation and compound growth. This strategy is typically characterized by lower fees due to reduced trading costs and a focus on the intrinsic value of investments rather than short-term market fluctuations. By using a passive management strategy, investors often track a market index or maintain a diversified portfolio to capture market returns without the need for frequent buying and selling. This method is rooted in the belief that timing the market effectively is highly challenging, and a buy-and-hold strategy allows for potentially reducing risks associated with market volatility in the short term. Other strategies, such as active management, involve regularly adjusting a portfolio based on market conditions to try to outperform benchmarks, while strategic management may imply a well-thought-out plan that adjusts based on market analysis. Speculative management generally denotes a high-risk strategy focused on short-term gains rather than long-term investment stability, which diverges from the principles of passive management.

2. What does reinvestment risk entail?

- A. The risk of capital loss due to market volatility
- B. The risk that cash flows must be reinvested at a lower interest rate**
- C. The potential loss from holding assets in a down market
- D. The risk associated with increased borrowing costs

Reinvestment risk refers to the potential decrease in income that arises when cash flows from a financial investment, such as interest from bonds or dividends from stocks, must be reinvested at lower interest rates than the original investment. For example, if an investor receives interest payments from a bond at a high initial rate and then faces a market environment where prevailing interest rates have dropped, any reinvestment of those cash flows will yield a lower return. This risk is particularly pronounced for instruments that pay off regularly, such as bonds, where the timing of the cash flows can affect the overall return. Understanding this risk is crucial for investors because it highlights the uncertainty surrounding future income generation from investments. Since reinvestment often occurs during periods of fluctuating interest rates, the income that can be achieved can vary widely, leading to potential shortfalls in expected financial performance if rates are lower than anticipated.

3. Which factor is NOT considered in sustainable investing?

- A. Corporate governance practices
- B. Environmental impact of investments
- C. Short-term market fluctuations**
- D. Social responsibility of companies

Sustainable investing focuses on incorporating environmental, social, and governance (ESG) factors into investment decisions to promote long-term sustainability while seeking financial returns. The correct answer highlights that short-term market fluctuations do not align with the principles of sustainable investing. In sustainable investing, factors such as corporate governance practices, environmental impact, and social responsibility are all crucial considerations. These elements play significant roles in evaluating how a company's operations affect society and the environment, which influences investor decisions aimed at promoting ethical and responsible business practices. Sustainable investors typically prioritize long-term performance and stability over reactionary moves to short-term market changes, which do not reflect the fundamental values of sustainability. Thus, while short-term market fluctuations may impact individual investments temporarily, they are not a key focus in the broader context of sustainable investing, which seeks to foster enduring positive impacts on society and the environment.

4. What is the prime rate primarily associated with?

- A. Loans to high-risk borrowers
- B. Unsecured loans to corporations with high credit ratings**
- C. Government bonds
- D. Short-term government securities

The prime rate is primarily associated with unsecured loans to corporations with high credit ratings. This interest rate is the benchmark that banks use to determine the interest rates they charge their most creditworthy customers, typically large corporations. These borrowers are often considered low-risk due to their strong financial positions, allowing them to secure loans at more favorable rates. The prime rate serves as an indicator of the overall cost of borrowing in the economy and is influenced by the federal funds rate set by the Federal Reserve. As changes to the prime rate occur, they affect various lending rates across the board, making it a key reference point in financial markets. In contrast, loans to high-risk borrowers would have higher interest rates due to the increased risk associated with such loans, making them less likely to be tied to the prime rate. Government bonds and short-term government securities relate more closely to fixed income investments and interest rates set by governmental entities rather than the prime rate that applies to corporate financing.

5. What does arbitrage allow investors to do?

- A. Invest in high-risk assets with guaranteed returns
- B. Take advantage of price differences in different markets for profit**
- C. Utilize borrowed funds for more extensive investments
- D. Engage in long-term holdings with less risk

Arbitrage allows investors to take advantage of price differences in different markets for profit. This strategy exploits the variations in the pricing of the same asset or similar assets across different markets. For example, if a stock is offered at a lower price on one exchange compared to another, an arbitrageur can buy the stock at the lower price and simultaneously sell it at the higher price, securing a risk-free profit. The essence of arbitrage lies in its ability to create profit opportunities without taking on significant risk. It requires the ability to act quickly, as such price discrepancies typically exist for only a short time before they are corrected by market forces. This makes arbitrage a crucial mechanism for ensuring that prices reflect true market value, promoting efficiency in financial markets. The other choices involve concepts that do not align directly with the definition of arbitrage. For instance, investing in high-risk assets with guaranteed returns or utilizing borrowed funds for extensive investments introduces various levels of risk that are not present in arbitrage transactions. Engaging in long-term holdings focuses on a different aspect of investing that does not pertain to the immediate profit-seeking nature of arbitrage.

6. What is meant by margin trading?

- A. Buying stocks at full price
- B. Trading stocks exclusively in cash
- C. Borrowing funds from a broker to trade financial assets**
- D. Investing only in government bonds

Margin trading refers to the practice of borrowing funds from a broker to purchase financial assets, such as stocks. This allows an investor to buy more shares than they could with just their own capital, amplifying both potential gains and potential losses. When investors engage in margin trading, they open a margin account, which typically requires them to deposit a certain percentage of the total purchase price of the assets, known as the initial margin requirement. The broker lends the remainder of the funds needed to complete the transaction. Utilizing margin can increase the buying power of an investor significantly. However, it's essential to recognize that while margin trading can enhance profits, it also comes with heightened risks, as losses can also be magnified. A decline in the value of borrowed securities can lead to a margin call, requiring the investor to deposit more funds or sell off assets to cover the borrowed amount. In contrast to this, buying stocks at full price means using one's own funds for the total purchase without any borrowing (which would make it impossible to act under the definition of margin trading). Trading stocks exclusively in cash implies that no leverage or borrowed funds are involved, thereby excluding any margin-related activities. Investing only in government bonds indicates a focus on fixed income instruments and avoids the concept

7. What is the primary purpose of the Securities and Exchange Commission (SEC)?

- A. To regulate and oversee securities markets and protect investors**
- B. To provide investment advice to individual investors
- C. To facilitate mergers and acquisitions
- D. To promote international trade agreements

The primary purpose of the Securities and Exchange Commission (SEC) is to regulate and oversee securities markets and protect investors. Established in response to the stock market crash of 1929, the SEC's mission is fundamentally about maintaining fair, orderly, and efficient markets. It aims to promote trust in the financial systems by requiring full disclosure of important financial information, thereby allowing investors to make informed decisions. The SEC enforces securities laws to prevent fraud and manipulation in the stock and securities markets, ensuring that all investors have access to the same critical information. This regulatory oversight also includes the registration of securities offerings, monitoring of trading practices, and enforcement of compliance with applicable laws. Focusing on the other options, while providing investment advice (the second option) might be beneficial for investors, it falls outside the SEC's role, which is more about regulation than advisory services. Facilitating mergers and acquisitions (the third option) is typically the domain of corporate finance professionals and regulatory bodies focused on antitrust laws rather than the SEC's core responsibilities. Promoting international trade agreements (the fourth option) is more aligned with governmental trade agencies and departments focused on international relations rather than the SEC's mission. Therefore, the correct answer accurately captures the essence of the SEC's primary role

8. What is the primary difference between a traditional IRA and a Roth IRA?

- A. A traditional IRA allows for tax-free withdrawals; a Roth IRA does not
- B. A traditional IRA allows for tax-deductible contributions; a Roth IRA allows for tax-free withdrawals in retirement**
- C. Both IRAs offer the same tax benefits
- D. A traditional IRA can only be established by individuals under 50; a Roth IRA can be established by anyone

The primary difference between a traditional IRA and a Roth IRA lies in the tax treatment of contributions and withdrawals. A traditional IRA allows for tax-deductible contributions, meaning the amount you contribute can reduce your taxable income for the year in which you make the contribution. As a result, you defer taxes on both contributions and investment gains until you withdraw the funds in retirement, at which time those withdrawals are taxed as ordinary income. In contrast, a Roth IRA does not provide a tax deduction for contributions; however, the significant benefit is that withdrawals made in retirement are tax-free, provided certain conditions are met. This structure allows for tax-free growth and tax-free withdrawals, benefiting individuals who expect to be in a higher tax bracket in retirement because they will not owe taxes on those distributions. This distinction makes the answer emphasizing the tax-deductible nature of a traditional IRA contributions and the tax-free withdrawals associated with a Roth IRA the correct choice. Options highlighting incorrect interpretations, like misidentified tax characteristics or restrictions based on age, do not accurately reflect the fundamental differences between these retirement accounts.

9. What does the Consumer Price Index (CPI) measure?

- A. Interest rates across the economy
- B. Inflation or deflation for basic consumer goods and services**
- C. Total gross domestic product
- D. Unemployment rates in an economy

The Consumer Price Index (CPI) measures the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. It specifically targets the inflation or deflation experienced by consumers in the marketplace. As such, CPI is a key indicator of the economic health of a country, reflecting how prices for everyday items—such as food, clothing, and housing—change. When prices rise, it indicates inflation; when they fall, it signals deflation. This index is crucial for understanding the purchasing power of consumers and is often used by policymakers, economists, and financial analysts to make decisions related to monetary policy and economic planning.

10. What is a subscription right in the context of stock offerings?

- A. The right to vote on company matters
- B. The ability to purchase additional shares at a discount**
- C. A type of fixed-income security
- D. An option to buy back shares from the market

A subscription right refers to the mechanism that allows existing shareholders to purchase additional shares of a company's stock, typically at a price that is lower than the current market value. This right is particularly relevant during a new offering of shares, as it enables shareholders to maintain their proportional ownership in the company and avoid dilution of their stake. In practice, subscription rights are often issued to existing shareholders when a company wants to raise capital. The discounted purchase price serves as an incentive for shareholders to exercise their rights and invest more in the company. This helps the company secure additional funding while providing existing investors an opportunity to buy more stock at favorable terms. Understanding subscription rights is crucial for investors as it can impact their investment decisions and the overall valuation of their holdings, especially in situations where the company is navigating through significant changes or expansions.

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!

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