

INVESTMENT BANKING TECHNICAL INTERVIEW PRACTICE TEST (SAMPLE)

STUDY GUIDE



**SAMPLE STUDY GUIDE
WITH LIMITED QUESTIONS**

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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 company is likely to have a higher Cost of Equity?**
 - A. A \$1 billion market cap company
 - B. A \$5 billion market cap company
 - C. A \$500 million market cap company
 - D. A \$10 billion market cap company
- 2. What is a common exit strategy for sponsors in an LBO?**
 - A. Investment in new startups
 - B. Sale of a business to a strategic buyer
 - C. Direct market investments
 - D. Expansion to foreign markets
- 3. How does a dividend discount model differ from a standard DCF model?**
 - A. It uses free cash flows instead of dividends
 - B. It focuses on shareholder equity instead of market value
 - C. It projects dividends rather than free cash flow
 - D. It incorporates tax implications in calculations
- 4. Why does the Income Statement not reflect changes in inventory until the products are sold?**
 - A. Because inventory is not considered a current asset
 - B. Inventory expenses are only recorded upon sale
 - C. Changes in inventory are only reflected annually
 - D. Inventory is expensed over multiple periods
- 5. When depreciation expense increases by \$10, how is the impact reflected in the Cash Flow Statement?**
 - A. Net Income decreases by \$6, and cash flow from operations increases by \$10
 - B. Net Income decreases by \$6, and cash flow from operations increases by \$4
 - C. Net Income remains unchanged, and cash flow from operations remains unchanged
 - D. Net Income decreases by \$10, and cash flow from operations remains unchanged

- 6. What does the term "synergies" refer to in a merger context?**
- A. The negative impact of merging companies
 - B. Improvements resulting from the combination of two companies
 - C. The destruction of company culture
 - D. Reduction in assets and workforce
- 7. The equation for determining Net Income is?**
- A. $\text{Net Income} = \text{Revenues} - \text{Expenses}$
 - B. $\text{Net Income} = \text{Assets} - \text{Liabilities}$
 - C. $\text{Net Income} = \text{Cash Inflows} - \text{Cash Outflows}$
 - D. $\text{Net Income} = \text{Earnings Before Interest and Taxes}$
- 8. What happens to the risk associated with a stock when a company increases its leverage?**
- A. The risk decreases
 - B. The risk remains unchanged
 - C. The risk increases
 - D. The risk becomes irrelevant
- 9. What characterizes a fixed exchange ratio?**
- A. The number of shares exchanged changes regularly
 - B. The exchange rate depends on market conditions
 - C. A constant number of shares is exchanged for each share
 - D. Exchange ratios are determined post-deal
- 10. What is a major method by which a company can signal confidence in its stock to the market?**
- A. Raising dividend payouts
 - B. Initiating a stock buyback program
 - C. Increasing the number of shares offered
 - D. Announcing layoffs

Answers

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

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Explanations

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1. Which company is likely to have a higher Cost of Equity?

- A. A \$1 billion market cap company
- B. A \$5 billion market cap company
- C. A \$500 million market cap company**
- D. A \$10 billion market cap company

A company with a lower market capitalization, such as one with a \$500 million market cap, is likely to have a higher Cost of Equity compared to larger companies. The Cost of Equity reflects the return expected by investors to compensate for the risk they undertake investing in a company's equity. Smaller companies typically carry higher risk because they often have less diversified revenue streams, more volatility in their earnings, and less established market presence. These factors contribute to a higher perceived risk from the investor's perspective. Consequently, investors will demand a higher return to compensate for that heightened risk, resulting in a higher Cost of Equity. In contrast, larger companies, like those with a \$1 billion, \$5 billion, or \$10 billion market cap, tend to have more stable operations, established markets, and better access to capital. These attributes generally lead to a lower Cost of Equity, as investors feel more secure investing in established companies with proven track records. Thus, the smaller company is perceived as being riskier, explaining its higher Cost of Equity.

2. What is a common exit strategy for sponsors in an LBO?

- A. Investment in new startups
- B. Sale of a business to a strategic buyer**
- C. Direct market investments
- D. Expansion to foreign markets

In the context of leveraged buyouts (LBOs), sponsors typically seek to exit their investments in a manner that maximizes returns to their investors. The sale of a business to a strategic buyer is a common exit strategy because strategic buyers are often willing to pay a premium for a company that fits well within their existing operations or enhances their competitive position. This type of buyer may see significant synergies that can be realized post-acquisition, thereby justifying a higher purchase price. The process involves positioning the business to attract such buyers, who might be in the same industry or seek to diversify their offerings. Successful exits through strategic sales can provide the sponsors with substantial returns on their investment, as strategic acquirers often aim for growth and value creation that aligns closely with their operational goals. Other alternatives like investing in new startups or expanding to foreign markets do not align with the typical exit strategies pursued by LBO sponsors, as these options often involve different risk profiles and time horizons. Similarly, direct market investments generally do not encapsulate the focused strategy of exiting an LBO investment.

3. How does a dividend discount model differ from a standard DCF model?

- A. It uses free cash flows instead of dividends
- B. It focuses on shareholder equity instead of market value
- C. It projects dividends rather than free cash flow**
- D. It incorporates tax implications in calculations

The dividend discount model (DDM) fundamentally differs from a standard discounted cash flow (DCF) model in that it specifically projects dividends as the cash flows to be discounted back to present value. The DDM is used primarily for valuing companies that pay dividends, relying on the assumption that dividends will grow at a constant rate into perpetuity. In contrast, a standard DCF model typically focuses on free cash flows, which represent the cash generated by a company that is available to be distributed to all securities holders, including both equity and debt holders. Thus, the DCF considers a broader range of cash flows than simply dividends. The choice mentions free cash flows as part of its distinction from the DDM; however, the DCF model evaluates how all stakeholders can benefit from a company's cash-generating ability, which is usually a more comprehensive measure of overall corporate performance compared to solely dividends. While shareholder equity and market value considerations may come into play with both models, they are not defining differences in the context of cash flow consideration. Similarly, tax implications might affect the overall valuation, but they are not a core differentiator between the two models. Hence, the emphasis on projecting dividends as opposed to free cash flow succinctly captures the essence of how

4. Why does the Income Statement not reflect changes in inventory until the products are sold?

- A. Because inventory is not considered a current asset
- B. Inventory expenses are only recorded upon sale**
- C. Changes in inventory are only reflected annually
- D. Inventory is expensed over multiple periods

The Income Statement reflects revenues and expenses based on realized transactions, which is why inventory changes are not recorded until the products are sold. Inventory represents the cost of goods that are held for sale; it is recorded on the balance sheet as a current asset until the inventory is sold. At the point of sale, the cost associated with that inventory transitions from the balance sheet to the Income Statement as Cost of Goods Sold (COGS). This matching principle ensures that expenses are recognized in the same period as the revenues they help to generate. Thus, the expenses associated with inventory are only recorded upon sale, which directly influences the profitability reflected in the Income Statement for that particular period. In contrast, options concerning inventory being a current asset, changes being reflected annually, or being expensed over multiple periods do not accurately capture the underlying concept of revenue recognition and matching principles. The key understanding is that the expense recognition relating to inventory doesn't take place until a sale is made.

5. When depreciation expense increases by \$10, how is the impact reflected in the Cash Flow Statement?

- A. Net Income decreases by \$6, and cash flow from operations increases by \$10
- B. Net Income decreases by \$6, and cash flow from operations increases by \$4**
- C. Net Income remains unchanged, and cash flow from operations remains unchanged
- D. Net Income decreases by \$10, and cash flow from operations remains unchanged

In the context of how depreciation affects the financial statements, the correct choice illustrates that an increase in depreciation expense leads to a decrease in net income, which is a typical response in an accrual accounting framework. When depreciation expense increases by \$10, it reduces net income by that same amount since depreciation is an expense that reduces taxable income. However, the key to understanding the impact on the Cash Flow Statement lies in how cash flows are reconciled from net income. Since depreciation is a non-cash expense, it does not involve an actual cash outflow in the period; therefore, while net income decreases, it does not affect cash flow from operations directly. In the reconciliation of net income to cash flows, we add back any non-cash expenses, which in this case is the \$10 depreciation. While net income decreases by \$10, cash flow from operations reflects this non-cash expense by increasing by the same amount when added back. Therefore, while the net income decrease is acknowledged, the cash flow from operations experiences a net increase, balancing the equation. This helps in understanding the flow of information through financial statements, particularly how non-cash expenses like depreciation affect cash flows despite reducing net income on the income statement. Thus, the net income

6. What does the term "synergies" refer to in a merger context?

- A. The negative impact of merging companies
- B. Improvements resulting from the combination of two companies**
- C. The destruction of company culture
- D. Reduction in assets and workforce

In the context of a merger, "synergies" refer to the improvements or enhanced value that results from the combination of two companies. When two entities merge, they aim to create a situation where the combined organization is more valuable than the sum of its parts. This can manifest in various ways, such as cost savings through operational efficiencies, increased revenue opportunities due to broadened market reach, enhanced technological capabilities, or improved bargaining power with suppliers. Synergies typically arise from two main categories: operational synergies and financial synergies. Operational synergies involve efficiencies such as streamlined processes, reduced redundancies, and shared resources. Financial synergies can result in lower costs of capital or improved access to financing. Understanding synergies is crucial for investment bankers and corporate strategists as they assess the potential success of a merger or acquisition. Investors and stakeholders often look at the expected synergies to gauge whether a deal justifies its price and aligns with strategic objectives. Thus, recognizing the beneficial outcomes from merging entities captures the essence of why the term "synergies" is a key component of discussions surrounding mergers and acquisitions.

7. The equation for determining Net Income is?

- A. Net Income = Revenues - Expenses
- B. Net Income = Assets - Liabilities
- C. Net Income = Cash Inflows - Cash Outflows
- D. Net Income = Earnings Before Interest and Taxes

The equation for determining Net Income is accurately represented by the equation where net income is calculated as revenues minus expenses. This means that net income reflects the company's profitability after accounting for all costs associated with generating revenue. Revenues represent the total income generated from sales of goods or services before any expenses are deducted, while expenses include all costs required to operate the business and generate that revenue. When you subtract total expenses from total revenues, you obtain the net income figure, which is a crucial measure of a company's financial performance over a specific period. This fundamental relationship is essential in financial analysis, as it directly influences other key financial metrics, including earnings per share, return on equity, and overall business valuation. Thus, understanding that net income is derived from the difference between revenues and expenses is critical for evaluating a company's profitability and operational efficiency.

8. What happens to the risk associated with a stock when a company increases its leverage?

- A. The risk decreases
- B. The risk remains unchanged
- C. The risk increases
- D. The risk becomes irrelevant

When a company increases its leverage, it takes on a greater proportion of debt relative to equity in its capital structure. This heightened level of debt influences the risk profile of the company's stock in several ways. Firstly, debt obligations require fixed repayments, meaning the company must ensure consistent cash flow to meet these payments regardless of its operational performance. If the company experiences a downturn or lower-than-expected earnings, the pressure of these fixed payments becomes significantly intense, increasing the risk of default. Secondly, as leverage increases, the financial risk borne by equity holders rises. This is because the claims of debt holders must be satisfied before any profits can be distributed to equity holders. Increased leverage magnifies both potential returns and potential losses; while shareholders may enjoy higher returns during strong economic periods due to enhanced earnings per share, they also face greater losses during downturns since their capital is now at risk after the fixed debt obligations. Thus, the relationship between leverage and risk is direct: increased leverage corresponds to increased financial risk for equity shareholders, making investments in such a company riskier. This is why the correct answer highlights that the risk associated with a stock increases when a company increases its leverage.

9. What characterizes a fixed exchange ratio?

- A. The number of shares exchanged changes regularly
- B. The exchange rate depends on market conditions
- C. A constant number of shares is exchanged for each share**
- D. Exchange ratios are determined post-deal

A fixed exchange ratio is characterized by the consistent exchange of a specific number of shares for each share from the other party involved in a transaction, such as a merger or acquisition. This means that the terms of the agreement stipulate that for each share of the target company, a predetermined number of shares from the acquiring company will be exchanged. This provides certainty to both parties regarding the value and number of shares involved in the transaction, which can simplify the valuation process and reduce the risk associated with fluctuations in stock prices during the deal's negotiation period. In contrast, other choices highlight characteristics that do not align with the definition of a fixed exchange ratio. Changes in the number of shares exchanged regularly or dependence on market conditions indicate a variable exchange ratio, where the terms could fluctuate based on external factors. Similarly, determining exchange ratios post-deal would imply that the ratio is not fixed at the time of agreement, further diverging from the concept of a fixed exchange ratio.

10. What is a major method by which a company can signal confidence in its stock to the market?

- A. Raising dividend payouts
- B. Initiating a stock buyback program**
- C. Increasing the number of shares offered
- D. Announcing layoffs

A stock buyback program serves as a strong signal of confidence from a company to the market regarding its stock value. When a company initiates a buyback, it effectively communicates that it believes its shares are undervalued and that repurchasing them will enhance shareholder value. This action reduces the number of shares outstanding, which can lead to an increase in earnings per share (EPS) and potentially a higher stock price. Investors often interpret this move as a positive indicator of the company's financial health and prospects. While raising dividend payouts can also signal confidence, it is usually a response to stable or growing earnings rather than a proactive measure regarding the perceived stock value. Increasing the number of shares offered typically dilutes existing shareholders and does not convey confidence in the stock's worth at that moment. Announcing layoffs, on the other hand, might indicate restructuring in response to poor performance or financial struggles, which generally does not suggest confidence in the company's operational stability. This makes the stock buyback program a more direct and compelling way to convey confidence to the market.

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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