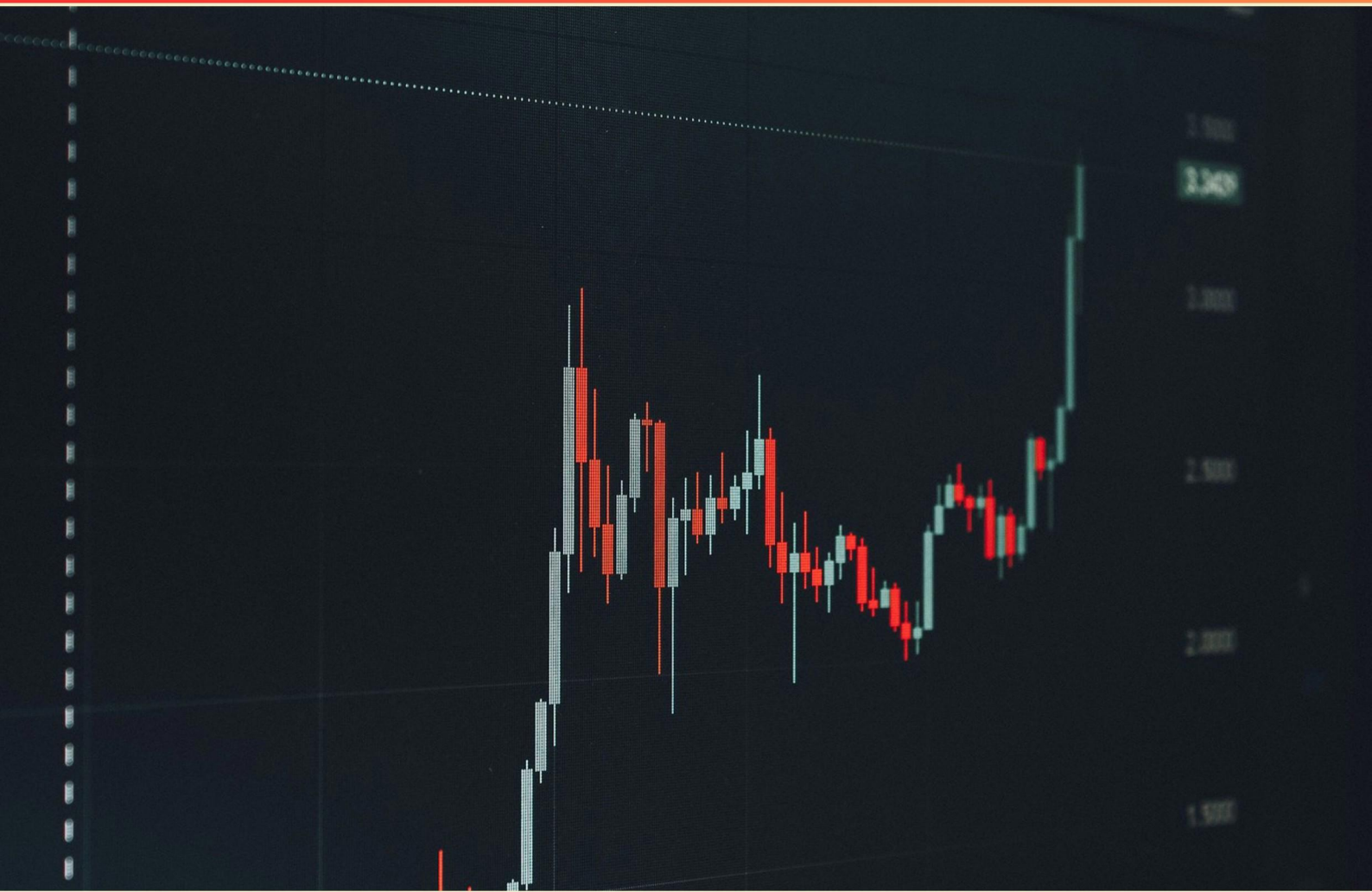


SALES & TRADING INTERVIEW PRACTICE TEST (SAMPLE)

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. When pricing a simple fixed leg of an interest rate swap with a notional and yield curve, which describes the present value?**
 - A. PV of fixed leg = sum over accrual periods fixed rate times period length times the discount factor for that period; equivalently use par-swap curve to price.
 - B. PV fixed = Notional times fixed rate.
 - C. PV fixed depends only on the first period's discount factor.
 - D. PV fixed is always equal to PV floating.
- 2. What is a basis swap and what is basis risk?**
 - A. A basis swap exchanges fixed payments for floating payments; basis risk is that rates move together.
 - B. A basis swap exchanges cash flows tied to two different floating rates or indices; basis risk is the risk that the two indices diverge, causing imperfect hedges.
 - C. A basis swap exchanges currencies.
 - D. A basis swap is a type of option.
- 3. Which three objectives are identified as the Federal Reserve's main objectives?**
 - A. Maximum employment, stable prices, and moderate long-term interest rates
 - B. Price stability only
 - C. Full employment with zero inflation
 - D. High growth irrespective of inflation
- 4. Which services are offered by the institution?**
 - A. Retail banking, asset management, real estate services, global markets, securities and advisory services.
 - B. Insurance and mortgage lending only.
 - C. Manufacturing services and logistics.
 - D. Education and public outreach.
- 5. What is 'alpha' in portfolio management?**
 - A. Alpha represents excess return beyond the benchmark.
 - B. Beta measures a stock's sensitivity to market moves.
 - C. Alpha equals systematic risk.
 - D. Alpha is identical to duration.

- 6. When a trader expects a large, illiquid order, which approach best estimates price impact?**
- A. Execute immediately at best available price across a single venue.
 - B. Break the order into smaller slices and use hidden liquidity only.
 - C. Break the order into smaller slices and use liquidity measures across venues.
 - D. Cancel the order.
- 7. Which statement about price discovery is true?**
- A. Price discovery is the process of setting board lot sizes.
 - B. Price discovery is determined by a single participant.
 - C. Price discovery is a random process with no relation to information.
 - D. Price discovery is the product of market participants processing information through supply and demand, and is aided by high liquidity and low latency.
- 8. Mezzanine debt often includes a preemptive right. What does this preemptive right allow?**
- A. The holder to buy discounted shares before others
 - B. The right to convert debt into equity at par
 - C. The right to demand immediate repayment
 - D. The right to vote on corporate strategy
- 9. What is no-arbitrage principle in pricing derivatives?**
- A. No-arbitrage implies there exists a price such that no risk-free profits are possible in equilibrium.
 - B. It allows price deviations based on risk preferences.
 - C. It ignores discounting entirely.
 - D. It requires deterministic prices.
- 10. The face value of a bond refers to**
- A. The market price of the bond
 - B. The coupon rate
 - C. The principal amount repaid at maturity
 - D. The yield to maturity

Answers

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

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Explanations

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1. When pricing a simple fixed leg of an interest rate swap with a notional and yield curve, which describes the present value?

- A. PV of fixed leg = sum over accrual periods fixed rate times period length times the discount factor for that period; equivalently use par-swap curve to price.
- B. PV fixed = Notional times fixed rate.
- C. PV fixed depends only on the first period's discount factor.
- D. PV fixed is always equal to PV floating.

Pricing the fixed leg relies on the fact that those payments are known in advance and occur at multiple future dates. Each payment is the fixed rate times the notional times the accrual fraction for that period. To bring those cash flows to today, you discount each one with the corresponding discount factor from the yield curve and sum them up. Put simply, the present value is the sum over all accrual periods of $\text{fixed_rate} \times (\text{accrual length}) \times \text{notional} \times \text{discount_factor}$ for that date. This is the correct way to value the fixed leg, and it lines up with using the par-swap curve because that curve encapsulates the set of discount factors and the fixed rate that makes the swap fair. The other statements miss essential pieces: the PV of the fixed leg is not just notional times the fixed rate, since you must account for the accruals and discounting of each payment. It does not depend only on the first period's discount factor, as all future payments contribute. And the fixed leg's PV is not always equal to the floating leg's PV—equality holds when the swap is priced at par (the fixed rate equals the par rate); otherwise they can differ.

2. What is a basis swap and what is basis risk?

- A. A basis swap exchanges fixed payments for floating payments; basis risk is that rates move together.
- B. A basis swap exchanges cash flows tied to two different floating rates or indices; basis risk is the risk that the two indices diverge, causing imperfect hedges.
- C. A basis swap exchanges currencies.
- D. A basis swap is a type of option.

A basis swap involves exchanging cash flows tied to two different floating-rate benchmarks or indices. This lets you hedge when your assets and liabilities reference different floating rates, so the net exposure reflects the difference between those rates rather than a single rate. The key idea behind basis risk is that those two floating benchmarks do not move in perfect lockstep. The spread between them can widen or narrow over time, so even if you hedge one rate, changes in the other can leave your net cash flows imperfectly matched. That imperfect alignment is exactly what basis risk captures. For example, swapping payments based on two distinct floating rates—such as one leg tied to Rate A and the other to Rate B—embodies a basis swap. If the relationship between Rate A and Rate B changes, the hedge effectiveness deteriorates, which is the basis risk you're taking on. Other options describe different instruments: a plain vanilla swap exchanges fixed for floating, a currency swap involves exchanging principal and interest in different currencies, and an option is a different type of derivative altogether. The defining feature of a basis swap is the exchange of two floating-rate cash flows tied to different benchmarks, with basis risk arising from their potential divergence.

3. Which three objectives are identified as the Federal Reserve's main objectives?

- A. Maximum employment, stable prices, and moderate long-term interest rates
- B. Price stability only
- C. Full employment with zero inflation
- D. High growth irrespective of inflation

The main concept here is the Fed's mandate to guide the economy through monetary policy. The best answer reflects the three goals the Fed pursues: maximum employment, stable prices, and moderate long-term interest rates. Maximum employment means aiming for as many people who want to work to have jobs, while avoiding actions that would cause excessive inflation. Stable prices mean keeping inflation low and predictable so that the purchasing power of money doesn't fluctuate wildly and households and businesses can plan. Moderate long-term interest rates help ensure that borrowing costs for households and firms are stable over time, which supports sustainable investment and growth. This combination matters because focusing on just price stability, or insisting on zero inflation with full employment, or chasing high growth without regard to inflation, would either ignore the labor market, lead to unstable costs of borrowing, or allow inflation to run too hot. The option that lists all three goals captures the Fed's approach to balanced, sustainable economic health.

4. Which services are offered by the institution?

- A. Retail banking, asset management, real estate services, global markets, securities and advisory services.
- B. Insurance and mortgage lending only.
- C. Manufacturing services and logistics.
- D. Education and public outreach.

Understanding the breadth of services offered by a diversified financial institution helps you see how such firms combine consumer banking, asset management, real estate-related services, and capital markets under one umbrella. The mix of retail banking, asset management, real estate services, global markets, and securities and advisory services shows a comprehensive financial-services firm that serves everyday banking needs, manages investments, handles property-related finance, participates in trading and financing in capital markets, and provides investment banking advice. This breadth reflects how these firms operate across multiple business lines to support clients and diversify risk, rather than focusing on a single function. The other options describe sectors that don't align with a typical financial institution's service mix: one is too narrow (insurance and mortgage lending only), another is about manufacturing and logistics, and the last is education and public outreach, which are not financial services.

5. What is 'alpha' in portfolio management?

- A. Alpha represents excess return beyond the benchmark.**
- B. Beta measures a stock's sensitivity to market moves.
- C. Alpha equals systematic risk.
- D. Alpha is identical to duration.

Alpha is the portion of a portfolio's return that comes from the manager's skill, after you account for the risk you took from market movements. In practice you look at how much return the portfolio produced beyond what its exposure to the market would predict. That predictive part comes from beta and the market's overall move, usually via a CAPM framework or a regression of portfolio excess returns on market excess returns. If the actual return is higher than the return expected from that exposure, the difference is alpha. For example, suppose the market earns 8% and the risk-free rate is 2%. If a portfolio has a beta of 1, its expected return under CAPM is $2\% + 1 \cdot (8\% - 2\%) = 8\%$. If the portfolio actually returns 12%, the alpha is 4 percentage points. That extra 4% is attributed to the manager's ability to add value beyond simply riding the market. This concept is distinct from beta, which measures how sensitive a portfolio is to market moves (its market risk), and from duration, which relates to how a bond's price moves with interest rates. Positive alpha suggests outperformance after adjusting for risk, while negative alpha suggests underperformance after such adjustment. However, alpha isn't a guarantee—it can reflect luck or other factors not captured in the model.

6. When a trader expects a large, illiquid order, which approach best estimates price impact?

- A. Execute immediately at best available price across a single venue.
- B. Break the order into smaller slices and use hidden liquidity only.
- C. Break the order into smaller slices and use liquidity measures across venues.**
- D. Cancel the order.

When you're dealing with a large, illiquid order, the price impact grows with how much liquidity you consume at once. Breaking the order into smaller pieces and routing them to venues where liquidity actually exists lets you avoid sweeping the book and signaling big demand all at once. This slicing approach, combined with using liquidity measures across venues, gives a more accurate picture of where depth lies and how prices are likely to move as you execute over time. It reduces immediate slippage, improves fill probabilities, and provides a realistic estimate of overall price impact. In contrast, trying to execute immediately on a single venue risks pushing prices against you, relying on opaque hidden liquidity can hide true depth and leave you uncertain about fills, and canceling the order obviously defeats the goal of execution.

7. Which statement about price discovery is true?

- A. Price discovery is the process of setting board lot sizes.
- B. Price discovery is determined by a single participant.
- C. Price discovery is a random process with no relation to information.
- D. Price discovery is the product of market participants processing information through supply and demand, and is aided by high liquidity and low latency.**

Price discovery is the market's process of turning information into prices through the actions of many buyers and sellers reacting to supply and demand. The best statement captures that prices reflect how participants process information and adjust to it, with high liquidity and low latency helping that process work efficiently. When new information arrives, traders reevaluate value, and in a market with plenty of liquidity there are enough willing counterparties to trade at prices that reflect that information. Low latency ensures those adjustments happen quickly, so prices incorporate new data faster. The other ideas miss how price is formed: board lot sizes are about trade sizes, not how prices are discovered; a single participant cannot determine prices in a competitive market; and treating price discovery as random and unrelated to information contradicts how markets respond to new data and expectations.

8. Mezzanine debt often includes a preemptive right. What does this preemptive right allow?

- A. The holder to buy discounted shares before others**
- B. The right to convert debt into equity at par
- C. The right to demand immediate repayment
- D. The right to vote on corporate strategy

Preemptive rights protect an investor from dilution by giving them the option to participate in future equity issuances. In mezzanine financing, this means the holder can buy new shares before other investors, usually at favorable terms (often described as a discount to the new issue price). This preserves the investor's proportional ownership and potential upside from the company's equity. It isn't about converting debt into equity at a set price, nor about demanding immediate repayment, nor about voting on strategy. So the best description is that the holder may buy discounted shares before others to maintain their stake in future equity rounds.

9. What is no-arbitrage principle in pricing derivatives?

- A. No-arbitrage implies there exists a price such that no risk-free profits are possible in equilibrium.**
- B. It allows price deviations based on risk preferences.
- C. It ignores discounting entirely.
- D. It requires deterministic prices.

No-arbitrage means there should be a price for the derivative that rules out any strategy yielding a risk-free, zero-net-investment profit. If such a price didn't exist, traders could build a portfolio using the derivative, the underlying, and borrowing or lending at the risk-free rate to lock in a sure gain, and arbitrage would push prices toward that no-arbitrage level. This idea underpins risk-neutral pricing: once no-arbitrage holds, you can value derivatives by taking the expected payoff under a risk-neutral measure and discounting at the risk-free rate. The concept doesn't depend on risk preferences, so prices can move with the underlying and be stochastic, but they must be consistent with the absence of arbitrage. Discounting is essential in this framework, and deterministic prices are not a requirement.

10. The face value of a bond refers to

- A. The market price of the bond
- B. The coupon rate
- C. The principal amount repaid at maturity
- D. The yield to maturity

The face value is the principal amount the issuer promises to repay at maturity. It's the fixed amount used to determine coupon payments—the coupon rate is applied to this face value to calculate how much interest is paid periodically. The market price of a bond can move above or below this amount based on interest rates and demand, but the face value itself is the repayment at the end. Yield to maturity, by contrast, is a measure of the overall return considering price paid, coupons received, and the time to maturity, not the fixed principal itself. So, the face value refers specifically to the principal repaid at maturity.

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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://salestradinginterview.examzify.com>

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

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