

University of Central Florida (UCF) FIN2100 Personal Finance and Investments Midterm 2 Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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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 of the following best describes a collaboration of individuals in a class-action suit?**
 - A. A small group contesting minor issues**
 - B. A few individuals protecting a collective interest against injustice**
 - C. Lawyers representing multiple clients in different cases**
 - D. A single individual's case addressed by the legal system**
- 2. True or False: Common stocks always provide higher returns than bonds and money market investments.**
 - A. True**
 - B. False**
 - C. Only in bull markets**
 - D. Only for short-term investments**
- 3. Which of the following best describes systemic risk?**
 - A. Risk tied to individual stocks**
 - B. Risk affecting the overall financial system**
 - C. Risk related to a specific industry**
 - D. Risk from economic downturns**
- 4. What does the term 'liquidity' refer to in investments?**
 - A. The ability to convert assets into cash quickly**
 - B. The interest earned on investments**
 - C. The risk associated with investing**
 - D. The diversification of a portfolio**
- 5. What is the most basic form of ownership in a corporation?**
 - A. Preferred stocks**
 - B. Growth stocks**
 - C. Common stocks**
 - D. Debt securities**

6. What is the purpose of medical payments coverage in automobile insurance?

- A. To cover lost wages for the insured**
- B. To cover medical expenses for injuries sustained within a vehicle**
- C. To insure against collision damages**
- D. To pay for property damage liability**

7. Preferred stocks are considered what type of security?

- A. Only a stock**
- B. A bond only**
- C. A hybrid security**
- D. A derivative security**

8. What is the primary purpose of long-term care insurance (LTC)?

- A. To provide coverage for short-term medical emergencies**
- B. To offer daily care for long-term illnesses or disabilities**
- C. To pay for preventive health services**
- D. To cover costs associated with surgical procedures**

9. What aspect of Medicaid is primarily aimed at?

- A. Providing coverage for elderly citizens**
- B. Offering medical assistance for low-income individuals and families**
- C. Creating a universal healthcare system**
- D. Regulating health insurance providers**

10. What distinguishes the secondary market?

- A. A market for newly issued stocks**
- B. A market for existing financial securities among investors**
- C. A market for commodities and physical goods**
- D. A market exclusive to bond trading**

Answers

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

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Explanations

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1. Which of the following best describes a collaboration of individuals in a class-action suit?

- A. A small group contesting minor issues**
- B. A few individuals protecting a collective interest against injustice**
- C. Lawyers representing multiple clients in different cases**
- D. A single individual's case addressed by the legal system**

A class-action suit is characterized by a collective effort where a large group of individuals joins together to sue a defendant, typically because they share common grievances related to similar issues or injustices. This collective approach allows individuals who might not have the resources to pursue litigation on their own to come together for greater impact and to seek a remedy for their shared complaints. The selected response highlights this concept by emphasizing that a few individuals work to protect a collective interest against perceived injustice, embodying the essence of a class-action suit where the decisions and outcomes affect the whole group. This collaborative nature is what sets class-action cases apart from other legal actions, which might involve individual lawsuits or smaller groups addressing issues that may not represent a wider collective grievance. By uniting, these individuals can address significant issues that affect a larger population, often leading to more effective legal recourse and greater visibility for their concerns.

2. True or False: Common stocks always provide higher returns than bonds and money market investments.

- A. True**
- B. False**
- C. Only in bull markets**
- D. Only for short-term investments**

Common stocks do not always provide higher returns than bonds and money market investments, which is why the answer is considered false. While historically, over the long term, stocks have generated higher returns on average compared to bonds and money market instruments, this does not hold true in every circumstance or time frame. For example, during periods of market downturns or economic recessions, stocks can experience significant declines, whereas bonds, particularly high-quality government bonds, may remain stable or increase in value due to their safer nature. Additionally, money market investments tend to have lower risk and provide stable but lower returns, which can sometimes outperform stocks in short-term scenarios or specific economic conditions. Moreover, the risk profile of these investments varies: common stocks are generally considered more volatile, which means they can potentially offer higher returns over long periods but also come with greater risk of loss. Consequently, it's crucial to understand that the performance of these asset classes can vary widely based on market conditions and investment horizons.

3. Which of the following best describes systemic risk?

- A. Risk tied to individual stocks
- B. Risk affecting the overall financial system**
- C. Risk related to a specific industry
- D. Risk from economic downturns

Systemic risk refers to the potential for a major disruption in the financial system that can impact the overall economy and not just specific entities or sectors. It encompasses scenarios where failures or losses in one part of the financial system can cause widespread instability, affecting multiple institutions or markets. This kind of risk can manifest during financial crises, where issues like bank failures, credit crunches, or market crashes ripple through the entire economy, demonstrating that the financial system is interconnected. The distinction of systemic risk from other types of risk is crucial. For instance, risk tied to individual stocks pertains to the factors that could cause the stock price of a specific company to fluctuate, which does not necessarily impact the broader market. Similarly, risk related to a specific industry may affect companies within that industry but would not have the same broad implications as systemic risk, nor would it influence the entire financial system or economy on a large scale. Lastly, risk from economic downturns may be a component of systemic risk, but it is too narrow as economic downturns can affect various sectors differently and do not encompass the interconnected nature of systemic risk events. Therefore, the most accurate description of systemic risk is one that emphasizes its effect on the overall financial system.

4. What does the term 'liquidity' refer to in investments?

- A. The ability to convert assets into cash quickly**
- B. The interest earned on investments
- C. The risk associated with investing
- D. The diversification of a portfolio

Liquidity refers to the ability to convert assets into cash quickly and without significant loss of value. This is a crucial concept in personal finance and investments because it directly impacts an investor's flexibility and accessibility to funds. For instance, cash is considered highly liquid since it can be used immediately for transactions. On the other hand, real estate or certain collectibles might take a longer time to sell and could require a price reduction to attract buyers, making them less liquid. Understanding liquidity is significant when making investment decisions, especially when it comes to emergencies or opportunities that require immediate cash. An investor needs to consider how quickly they can access their money and at what cost, which is what liquidity essentially measures. The other options do not accurately define liquidity—interest refers to earnings, risk pertains to the potential for loss, and diversification relates to spreading investments across different assets to reduce risk.

5. What is the most basic form of ownership in a corporation?

- A. Preferred stocks
- B. Growth stocks
- C. Common stocks**
- D. Debt securities

The most basic form of ownership in a corporation is represented by common stocks. When an individual buys common stock, they are purchasing a share that indicates ownership in the company. Holders of common stocks typically have voting rights, allowing them to participate in corporate decisions, such as electing the board of directors or approving major changes to the company. Owning common stock also means that shareholders can benefit from the company's growth through price appreciation and dividends, although dividends are not guaranteed. This contrasts with preferred stocks, which provide some advantages like fixed dividends but do not usually come with voting rights. Growth stocks refer to shares of companies expected to grow at an above-average rate compared to their industry, focusing more on expansion potential rather than ownership structure. Debt securities, such as bonds, represent loans made to corporations and do not provide ownership rights but rather the obligation of the corporation to pay back the borrowed amount with interest. Thus, common stocks are foundational to ownership in a corporation, distinguishing them from other forms of equity and debt.

6. What is the purpose of medical payments coverage in automobile insurance?

- A. To cover lost wages for the insured
- B. To cover medical expenses for injuries sustained within a vehicle**
- C. To insure against collision damages
- D. To pay for property damage liability

Medical payments coverage in automobile insurance is specifically designed to cover medical expenses incurred due to injuries sustained by the insured or passengers in the insured vehicle, regardless of who is at fault in an accident. This type of coverage can assist with hospital bills, rehabilitation costs, and other medical-related expenses that arise following an automobile accident. It's crucial as it provides immediate financial support for medical care, which can alleviate the stress of high medical bills immediately after an accident. This coverage typically applies to not only the driver but also any passengers and sometimes even pedestrians who may be involved in the accident, reinforcing its role in protecting health and well-being after vehicular incidents. Other options focus on different aspects of automobile insurance. For instance, covering lost wages is not what medical payments coverage addresses; rather, it is aimed at medical expenses. Collision damages are typically covered under a separate collision coverage policy that pays for damage to the insured vehicle, while property damage liability pertains to damage caused to someone else's property and is not related to the coverage of medical expenses. Thus, the foundation of medical payments coverage is its focus on medical expenses resulting from a vehicle-related injury.

7. Preferred stocks are considered what type of security?

- A. Only a stock
- B. A bond only
- C. A hybrid security**
- D. A derivative security

Preferred stocks are considered a hybrid security because they possess characteristics of both equity and debt instruments. As a type of equity security, preferred stocks represent ownership in a company, similar to common stock. However, they also behave more like debt securities because they typically provide fixed dividend payments that resemble interest on bonds. This consistent income feature is appealing to investors seeking stable cash flows, akin to the way bonds function. Moreover, in the event of a company's liquidation, preferred stockholders have a higher claim on assets than common stockholders, although they are subordinate to bondholders. This blending of features contributes to the classification of preferred stocks as hybrid securities, bridging the gap between the stock and bond markets. The other options do not accurately capture this dual nature: thinking of preferred stocks only as a stock overlooks their debt-like traits, while categorizing them as a bond fails to recognize their equity aspects. Derivative securities, on the other hand, are financial contracts whose value is derived from the performance of an underlying asset, making them a different category altogether. Thus, the classification of preferred stocks as hybrid securities reflects their unique characteristics in the context of financial instruments.

8. What is the primary purpose of long-term care insurance (LTC)?

- A. To provide coverage for short-term medical emergencies
- B. To offer daily care for long-term illnesses or disabilities**
- C. To pay for preventive health services
- D. To cover costs associated with surgical procedures

The primary purpose of long-term care insurance (LTC) is to offer daily care for long-term illnesses or disabilities. This type of insurance is designed to help individuals who require assistance with daily activities due to chronic conditions, disabilities, or cognitive impairments such as Alzheimer's disease. Unlike other forms of insurance that may cover short-term medical emergencies or surgical procedures, LTC specifically addresses the ongoing care needs that can arise as people age or face debilitating health issues. Long-term care can occur in various settings, including in-home care, assisted living facilities, or nursing homes, and it often encompasses services such as personal care assistance, custodial care, and therapy services. This coverage is critical because medical insurance typically does not cover the costs associated with this kind of extended care; hence, LTC provides financial protection against the potentially high costs of long-term care. By focusing on helping individuals maintain a certain quality of life when facing prolonged health challenges, long-term care insurance meets a specific need that is often overlooked in traditional health insurance plans.

9. What aspect of Medicaid is primarily aimed at?

- A. Providing coverage for elderly citizens
- B. Offering medical assistance for low-income individuals and families**
- C. Creating a universal healthcare system
- D. Regulating health insurance providers

Medicaid is a healthcare program that is specifically designed to provide medical assistance to low-income individuals and families. This initiative plays a crucial role in ensuring that those who may not be able to afford health care due to financial constraints have access to necessary medical services. The program covers a variety of health care services, including hospital visits, long-term care, and preventive services, all aimed at supporting the well-being of the financially disadvantaged. The focus on low-income individuals and families distinguishes Medicaid from other programs like Medicare, which primarily caters to elderly citizens. Unlike universal healthcare systems, which aim to provide coverage for all citizens regardless of income, Medicaid specifically targets those who meet certain income qualifications. Additionally, Medicaid does not regulate health insurance providers; rather, it serves as a direct source of health coverage funded by both state and federal governments to address the healthcare needs of vulnerable populations.

10. What distinguishes the secondary market?

- A. A market for newly issued stocks
- B. A market for existing financial securities among investors**
- C. A market for commodities and physical goods
- D. A market exclusive to bond trading

The secondary market is characterized by the trading of existing financial securities among investors. This means that after securities such as stocks or bonds have been issued in the primary market, they can be bought and sold by investors in the secondary market. This trading allows investors to exchange securities without the involvement of the issuing companies. This market plays a critical role in providing liquidity, as it enables investors to easily enter and exit investments. The prices of securities in the secondary market fluctuate based on supply and demand, reflecting changes in market sentiment and the perceived value of the underlying assets. The other options describe other types of markets. The primary market is where newly issued stocks or bonds are sold for the first time, commodities and physical goods are typically traded in separate markets, and while bonds are indeed traded in the secondary market, there is no exclusivity to bond trading, as stocks and other financial instruments are also actively traded.

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://ucf-fin2100-midterm2.examzify.com>

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

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