

ARIZONA STATE UNIVERSITY (ASU) FIN 300 FUNDAMENTALS OF FINANCE EXAM 2 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 statement describes vanilla bonds or debentures?**
 - A. They are secured by collateral and pay fixed coupons.
 - B. They always pay higher coupons than government bonds.
 - C. They are typically unsecured and pay fixed coupons for the life of the bond.
 - D. They have no provisions for covenants.
- 2. Which description best matches investment-grade bonds?**
 - A. They are issued by corporations only
 - B. They have variable interest payments
 - C. They are bonds rated BBB or higher
 - D. They are bonds rated BBB or higher
- 3. What does CIP stand for in bond terminology?**
 - A. Call Interim Payment
 - B. Call Index Price
 - C. Call Premium
 - D. Coupon Interest Premium
- 4. If a bond's coupon rate is higher than its yield, the bond's price will be what relative to face value, and when is this likely?**
 - A. It trades below par when the coupon rate is higher than yield.
 - B. It trades above par when the coupon rate is higher than yield.
 - C. It trades at par when coupon rate is higher than yield.
 - D. It trades at the same value regardless of coupon rate.
- 5. Which entities are typically required to purchase only investment-grade securities?**
 - A. Commercial Banks, Insurance Companies, Pension Funds
 - B. Retail Investors
 - C. Commercial Banks, Credit Unions, and Small Businesses
 - D. Municipal Governments

- 6. Which two measures are commonly used to quantify risk in finance?**
- A. Real rate
 - B. Holding period return
 - C. Systematic risk
 - D. Variance and Standard Deviation
- 7. The measure that captures market risk, which cannot be diversified away, is:**
- A. Beta
 - B. Standard Deviation
 - C. Alpha
 - D. Correlation
- 8. A measure of the risk associated with an investment for each 1 percent of expected return is:**
- A. Standard Deviation
 - B. Coefficient Of Variation
 - C. Beta
 - D. Alpha
- 9. Bonds that sell at prices above par value are known as which type?**
- A. Discount bonds
 - B. Premium bonds
 - C. Callable bonds
 - D. Stripped bonds
- 10. When interest rates decline, which type of bonds are more likely to be called?**
- A. Low-yield bonds
 - B. High-yield bonds
 - C. Bonds with long maturities only
 - D. All bonds equally

Answers

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

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Explanations

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1. Which statement describes vanilla bonds or debentures?

- A. They are secured by collateral and pay fixed coupons.
- B. They always pay higher coupons than government bonds.
- C. They are typically unsecured and pay fixed coupons for the life of the bond.**
- D. They have no provisions for covenants.

Plain-vanilla bonds are standard, straightforward debt that is typically unsecured and promises a fixed coupon rate paid until maturity, with the principal returned at the end. Because they're not backed by collateral, these bonds rely on the issuer's creditworthiness rather than asset security. The fixed coupons mean the interest rate remains constant over the life of the bond, barring any unusual features. While many plain-vanilla bonds do include protective covenants to constrain issuer actions, the absence of covenants isn't a defining trait. Also, coupon levels aren't guaranteed to be higher than government bonds—their rate depends on the issuer's credit risk and market conditions.

2. Which description best matches investment-grade bonds?

- A. They are issued by corporations only
- B. They have variable interest payments
- C. They are bonds rated BBB or higher
- D. They are bonds rated BBB or higher**

Investment-grade bonds are defined by high credit quality as judged by rating agencies. A bond earns investment-grade status when its credit rating is BBB or higher (for example, BBB-, BBB, A, AA, AAA with S&P/Fitch, or Baa3 and above with Moody's). This rating signals a lower probability of default compared to lower-rated bonds, which is why investors accept typically lower yields for the added safety. The correct description among the options is the one that states bonds rated BBB or higher. While investment-grade bonds can be issued by corporations or governments, the defining feature is the credit quality reflected in the rating, not who issues the bond. Fixed-rate coupons are common for investment-grade bonds, though floating-rate versions exist as well.

3. What does CIP stand for in bond terminology?

- A. Call Interim Payment
- B. Call Index Price
- C. Call Premium**
- D. Coupon Interest Premium

In bonds, when a bond is callable, the issuer may redeem it before its maturity and must pay more than just the face value to do so. This extra amount is the compensation to the investor for ending the contract early and for the lost future interest. That premium above the par value is called the call premium. So CIP stands for Call Premium, the extra paid over the par value when a bond is called. The other terms aren't standard in bond terminology for this concept—they don't describe the additional amount paid to exercise a call.

4. If a bond's coupon rate is higher than its yield, the bond's price will be what relative to face value, and when is this likely?

- A. It trades below par when the coupon rate is higher than yield.
- B. It trades above par when the coupon rate is higher than yield.**
- C. It trades at par when coupon rate is higher than yield.
- D. It trades at the same value regardless of coupon rate.

Bond prices adjust so that the present value of all future cash flows matches the going market yield. If the coupon rate is higher than the yield investors require, those fixed coupon payments are more valuable than the going rate, so buyers are willing to pay more than the face value. That pushes the price above par. This is typical when current market rates have fallen below the bond's coupon rate (older issues with higher coupons become more attractive as rates drop). If the market yield were equal to the coupon, the price would be at par; if the yield were higher, the price would be below par. For example, a bond paying a 6% coupon will trade above 100 when the market yield is around 4%.

5. Which entities are typically required to purchase only investment-grade securities?

- A. Commercial Banks, Insurance Companies, Pension Funds**
- B. Retail Investors
- C. Commercial Banks, Credit Unions, and Small Businesses
- D. Municipal Governments

Institutions that face strict regulatory and fiduciary constraints focus on credit quality and liquidity, so they're typically restricted to investment-grade securities. Investment-grade means the securities are rated high quality, usually BBB- or higher by major rating agencies (or Baa3 or higher by Moody's). This standard helps ensure that the assets used to back obligations are less likely to default and more likely to be easy to sell in a pinch. For commercial banks, insurance companies, and pension funds, these rules are baked into how they manage risk, capital, and liquidity. Banks need high-quality liquid assets to meet withdrawal demands and regulatory capital requirements; insurers have long-term liabilities that require stable, predictable asset values; pension funds have fiduciary duties to beneficiaries and generally favor safer, more liquid investments to protect retirement funds. Retail investors aren't bound by the same regulatory asset-quality mandates and often seek a balance of risk and return that can include non-investment-grade options. Municipal governments and smaller institutions don't share the same universal obligation to hold only investment-grade assets, even though they may still prioritize high-quality investments in practice.

6. Which two measures are commonly used to quantify risk in finance?

- A. Real rate
- B. Holding period return
- C. Systematic risk
- D. Variance and Standard Deviation**

Risk in finance is about how much returns can vary. The two most common ways to quantify that variability are variance and standard deviation. Variance measures how spread out the possible returns are around the average return, by averaging the squared deviations. Standard deviation takes the square root of variance, giving a measure in the same units as returns, which makes it easier to interpret and compare across investments. This combination is central to assessing uncertainty and to portfolio optimization, since you often work with the variance-covariance structure of returns. Other options don't directly quantify the variability of returns: the real rate is an inflation-adjusted return, not a risk measure; holding period return is the total return over a period, not a dispersion metric; systematic risk is about market-wide risk and is typically gauged with beta, not a basic measure of return dispersion. So, variance and standard deviation are the two commonly used measures to quantify risk.

7. The measure that captures market risk, which cannot be diversified away, is:

- A. Beta**
- B. Standard Deviation
- C. Alpha
- D. Correlation

Market risk, the portion of risk that cannot be diversified away, is captured by beta. Beta measures how sensitive an asset's returns are to moves in the overall market. If an asset has a beta greater than one, it tends to swing more than the market in both directions; if its beta is less than one, its moves are smaller; a negative beta implies moves opposite to the market. This is why beta is central in the Capital Asset Pricing Model, where expected return is tied to the market risk premium times the asset's beta plus the risk-free rate. Standard deviation accounts for total risk, including diversifiable (idiosyncratic) risk, and can be reduced through diversification. Alpha is a performance metric indicating returns in excess of what the asset would be expected to earn given its risk (not a measure of risk itself). Correlation describes how two assets move together, not the asset's sensitivity to broad market movements.

8. A measure of the risk associated with an investment for each 1 percent of expected return is:

- A. Standard Deviation
- B. Coefficient Of Variation**
- C. Beta
- D. Alpha

Risk per unit of return is captured by the coefficient of variation, which is the standard deviation divided by the expected return. This relative measure lets you compare investments with different return levels because it shows how much risk you're taking for each percentage point of return. Standard deviation alone tells you volatility but not how that volatility scales with the amount of return you expect. Beta concerns how an asset moves with the market (systematic risk), not risk per unit of return, and alpha measures excess return beyond what risk would predict, not the risk per unit of return. For example, an asset with an 8% expected return and a 4% standard deviation has a coefficient of variation of 0.5, indicating moderate risk per unit of return.

9. Bonds that sell at prices above par value are known as which type?

- A. Discount bonds
- B. Premium bonds**
- C. Callable bonds
- D. Stripped bonds

Bonds priced above their face value are premium bonds. This happens when the bond's coupon rate is higher than current market yields. Investors are willing to pay more than par to receive those higher periodic coupons, pushing the price above the face value. The higher purchase price reflects the value of the greater cash flows, and the yield to maturity adjusts so that the overall return aligns with market rates. If a bond is priced above par, it will still pay par at maturity, which is part of how the market price and yield balance out. The other terms describe different features or pricing situations: a discount bond sells below par because its coupons are lower than market yields; a callable bond can be redeemed early by the issuer; stripped bonds are created by separating principal and coupon payments.

10. When interest rates decline, which type of bonds are more likely to be called?

- A. Low-yield bonds
- B. High-yield bonds**
- C. Bonds with long maturities only
- D. All bonds equally

When rates fall, issuers with callable debt have a strong incentive to refinance at the lower cost. The bond that is most attractive to call is the one carrying the highest coupon payments, because replacing a high fixed coupon with new, cheaper debt yields the largest annual savings. High-yield bonds typically carry higher coupon rates to compensate for greater risk, so they offer the greatest potential savings if called and refinanced. Bonds with low coupons provide smaller savings, and the decision to call is driven by the comparison of current rates to the coupon being paid, not by maturity length alone. All bonds aren't equally likely to be called, so the ones with the higher coupons are more likely to be called when rates decline.

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://asu-fin300exam2.examzify.com>

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

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