

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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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 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
2. What is the difference between a Dividend Discount Model (DDM) with constant growth and a no-growth model?
 - A. Constant growth: $P_0 = D_1 / (R_e - g)$; no-growth: $P_0 = D / R_e$
 - B. Constant growth: $P_0 = D_1 / R_e$; no-growth: $P_0 = D_1 / R_e$
 - C. Constant growth: $P_0 = D_0 / (R_e - g)$; no-growth: $P_0 = D_0 / R_e$
 - D. Constant growth: $P_0 = D / R_e$; no-growth: $P_0 = D_1 / R_e$
3. What is yield to maturity (YTM) conceptually?
 - A. The rate that discounts price to future value
 - B. The average of coupon rate and yield
 - C. The single discount rate that equates PV of all remaining cash flows to the current price
 - D. The rate that discounts price to present value
4. What is the Enterprise Value in corporate finance?
 - A. $EV = \text{Market value of equity} + \text{Market value of debt} - \text{Cash}$
 - B. $EV = \text{Market value of equity} + \text{Market value of debt} + \text{Cash}$
 - C. $EV = \text{Cash} - (\text{Debt} + \text{Equity})$
 - D. $EV = \text{Equity} - \text{Debt} + \text{Cash}$
5. Which of the following is NOT a factor shaping the yield curve?
 - A. Real rate of interest
 - B. Credit risk premium
 - C. Expected rate of inflation
 - D. Interest rate risk

6. How do you calculate the cost of equity using the Dividend Discount Model (DDM) with constant growth?
- A. $Re = (P_0 / D_1) + g$
 - B. $Re = (D_1 / P_0) + g$
 - C. $Re = D_1 * P_0 + g$
 - D. $Re = (D_0 / P_0) + g$
7. Given net income of 200 and dividends of 40, which statement correctly states the payout and retention ratios?
- A. Payout 0.25; Retention 0.75
 - B. Payout 0.40; Retention 0.60
 - C. Payout 0.20; Retention 0.80
 - D. Payout 0.10; Retention 0.90
8. HPR is the abbreviation for which investment measure?
- A. Holding period return
 - B. Systematic risk
 - C. Real rate
 - D. Par value
9. The CAPM formula $Re = R_f + \text{Beta} * (R_m - R_f)$ is used to estimate which financial metric?
- A. The cost of equity under CAPM
 - B. The after-tax cost of debt
 - C. The weighted average cost of capital
 - D. The expected net present value of a project
10. A measure of how the returns on two assets covary is:
- A. Covariance Of Returns
 - B. Correlation
 - C. Beta
 - D. Variance

Answers

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

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Explanations

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1. 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.

2. What is the difference between a Dividend Discount Model (DDM) with constant growth and a no-growth model?

- A. Constant growth: $P_0 = D_1 / (R_e - g)$; no-growth: $P_0 = D / R_e$**
- B. Constant growth: $P_0 = D_1 / R_e$; no-growth: $P_0 = D_1 / R_e$
- C. Constant growth: $P_0 = D_0 / (R_e - g)$; no-growth: $P_0 = D_0 / R_e$
- D. Constant growth: $P_0 = D / R_e$; no-growth: $P_0 = D_1 / R_e$

This question tests how the Dividend Discount Model values a stock when dividends grow forever versus when they stay flat. In the constant-growth case, dividends rise by g each year, so the stock's value today is the next year's dividend D_1 divided by R_e minus g : $P_0 = D_1 / (R_e - g)$. This is the Gordon growth model and it reflects the fact that a growing income stream is worth more only if you discount it by a rate that exceeds the growth rate. In the no-growth case, dividends are constant forever, so the stock behaves like a perpetuity. The value is the constant dividend D divided by the required return R_e : $P_0 = D / R_e$. If you think of D_1 in this zero-growth scenario, D_1 equals D , so you could also write it as $P_0 = D_1 / R_e$, but the standard form uses D for the perpetual dividend. So the correct expressions are $P_0 = D_1 / (R_e - g)$ for the constant-growth model and $P_0 = D / R_e$ for the no-growth model. Incorrect options mix up the dividend used in the numerator or omit the growth term in the denominator, or swap the forms between scenarios.

3. What is yield to maturity (YTM) conceptually?

- A. The rate that discounts price to future value
- B. The average of coupon rate and yield
- C. The single discount rate that equates PV of all remaining cash flows to the current price**
- D. The rate that discounts price to present value

Yield to maturity is the internal rate of return on a bond if you hold it to maturity and reinvest the coupon payments at the same rate. It is the single discount rate that makes the present value of all remaining cash flows—each coupon payment plus the final principal repayment—equal to the bond's current price. In other words, if you discount every future cash flow by YTM, their sum equals what you paid today. This captures the bond's total expected return under the assumptions of holding to maturity and reinvesting at the same rate. It isn't an average of coupon rate and yield, and it isn't simply about discounting to a future value—the core idea is using one rate to discount future cash flows back to present value to match the current price.

4. What is the Enterprise Value in corporate finance?

A. $EV = \text{Market value of equity} + \text{Market value of debt} - \text{Cash}$

B. $EV = \text{Market value of equity} + \text{Market value of debt} + \text{Cash}$

C. $EV = \text{Cash} - (\text{Debt} + \text{Equity})$

D. $EV = \text{Equity} - \text{Debt} + \text{Cash}$

Enterprise value represents the price tag on a whole business, reflecting what it would cost to acquire the company and take on its financing. To get that value, you combine what the market assigns to the equity (the value of all shares) with what the company owes (the value of its debt), and then remove cash the buyer would receive upon purchase. Subtracting cash is important because cash could be used to pay down debt or returned to owners, reducing the net amount a buyer would need to acquire the business. If you added cash instead of subtracting it, you'd overstate the net cost of buying the company. For example, if equity value is 120, debt is 40, and cash is 20, the enterprise value would be $120 + 40 - 20 = 140$.

5. Which of the following is NOT a factor shaping the yield curve?

A. Real rate of interest

B. Credit risk premium

C. Expected rate of inflation

D. Interest rate risk

The yield curve is shaped by the path of real interest rates, expected inflation, and the extra compensation investors require for tying up money for longer periods (term premium). The real rate sets the baseline return, expected inflation lifts nominal yields, and term premium accounts for the increased interest-rate risk of longer maturities. Credit risk premium, which is the extra yield to cover the possibility of default, reflects issuer risk and is not a factor in the standard yield curve for safe, default-free securities. So, the factor that does not shape the typical yield curve is the credit risk premium. For riskier bonds, it would matter, but not for the usual yield-curve construction.

6. How do you calculate the cost of equity using the Dividend Discount Model (DDM) with constant growth?

A. $Re = (P_0 / D_1) + g$

B. $Re = (D_1 / P_0) + g$

C. $Re = D_1 * P_0 + g$

D. $Re = (D_0 / P_0) + g$

In the Dividend Discount Model with constant growth (Gordon Growth Model), the stock price today is the present value of all future dividends growing at rate g . The key relationship is $P_0 = D_1 / (Re - g)$. Solving for the cost of equity gives $Re = (D_1 / P_0) + g$. Here D_1 is the dividend expected next year, P_0 is the current stock price, and g is the constant growth rate of dividends. If you only know D_0 , you can find $D_1 = D_0 \times (1 + g)$ and then plug into the formula. This approach uses next year's dividend in the ratio, not the current dividend, and it shows how the required return combines the dividend yield (D_1/P_0) with the growth rate g .

7. Given net income of 200 and dividends of 40, which statement correctly states the payout and retention ratios?

- A. Payout 0.25; Retention 0.75
- B. Payout 0.40; Retention 0.60
- C. Payout 0.20; Retention 0.80**
- D. Payout 0.10; Retention 0.90

Payout ratio tells you what portion of net income is paid out as dividends, while the retention ratio is the portion kept to reinvest in the business. Here, dividends are 40 and net income is 200, so the payout ratio is $40/200 = 0.20$. The retention ratio is then $1 - 0.20 = 0.80$ (or equivalently, $(200 - 40)/200 = 160/200 = 0.80$). This matches the description of a payout of 0.20 and a retention of 0.80. The other options would require different dividend levels for the same net income, which isn't the case here.

8. HPR is the abbreviation for which investment measure?

- A. Holding period return**
- B. Systematic risk
- C. Real rate
- D. Par value

Holding period return measures the total return earned on an investment from the time you buy it to the time you sell it. It includes both price changes and any cash distributions received during that period, expressed as a percentage of the initial investment. You calculate it as (ending price plus distributions minus beginning price) divided by the beginning price. For example, if you buy at \$50, sell at \$60, and receive a \$2 dividend, the HPR is $(60 - 50 + 2) / 50 = 12 / 50 = 0.24$, or 24%. This captures how the investment performed over the holding period. The other terms aren't measures of total return over a period: systematic risk is market risk, the real rate is inflation-adjusted return, and par value is the face value of a bond or security.

9. The CAPM formula $Re = Rf + \text{Beta} \times (Rm - Rf)$ is used to estimate which financial metric?

- A. The cost of equity under CAPM**
- B. The after-tax cost of debt
- C. The weighted average cost of capital
- D. The expected net present value of a project

CAPM tells you what return investors require on a company's stock based on its risk. The formula $Re = Rf + \text{Beta} \times (Rm - Rf)$ directly yields the return expected on equity, which is the cost of equity under CAPM. This reflects the idea that the more the stock moves with the market (higher Beta), the higher the compensation investors demand for bearing that risk, on top of the risk-free rate. It's not the after-tax cost of debt, nor the overall WACC, nor the net present value of a project. Those use different concepts or combine multiple components, whereas this formula isolates the cost of equity implied by systematic risk.

10. A measure of how the returns on two assets covary is:

A. Covariance Of Returns

B. Correlation

C. Beta

D. Variance

Covariance of returns captures how the returns on two assets move together. When they tend to move in the same direction, the covariance is positive; when they move in opposite directions, it's negative. This directly describes the co-movement between two assets, which is what the phrase "covary" is referring to. Correlation is related but standardizes the covariance to a -1 to 1 scale, making it easier to compare across pairs. Beta measures how much an asset's return moves with the overall market, not with another specific asset. Variance looks at the variability of a single asset's returns, not the relationship between two assets. So the best match for a measure of how two assets' returns covary is covariance of returns.

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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://asu-fin300exam2.examzify.com>

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

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