# CFA INVESTMENT PRACTICE EXAM (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.

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# 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!

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# Questions

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**1. What is a primary role of a broker in financial markets?**

A. To trade for their own accounts

B. To provide services for settling trades

C. To facilitate transactions between buyers and sellers

D. To manage investment portfolios

**2. In 2011, which country was most likely to experience a self-adjusting change in its exchange rate to correct its current account deficit?**

A. Spain

B. France

C. The United Kingdom

D. Germany

**3. Unpaid operating expenses at year-end are classified as:**

A. Accounts receivable in current assets.

B. Operating expenses when paid.

C. Accrued expenses in current liabilities.

D. Short-term investments.

**4. What key factor can lead to a regulatory failure?**

A. Inadequate public funding

B. Market inefficiency

C. Incorrect data analysis

D. High competition rates

**5. Securities regulations are primarily developed by which of the following entities?**

A. Legislative bodies

B. Individual investors

C. Government agencies

D. Financial institutions

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**6. A merchant imports wine from France shipped on a Canadian vessel, insured by an English company. Where should this export be reported?**

A. United States only.

B. France only.

C. France, England, and Canada.

D. United States, France, England, and Canada.

**7. Compared to GDP calculated using the expenditure approach, gross domestic income will likely be:**

A. Lower

B. Higher

C. The same

D. More volatile

**8. What is a typical feature of actively managed open-end mutual funds?**

A. Predominantly passively managed assets

B. Higher fees due to active management

C. Lower regulatory requirements

D. No need for diversification

**9. Who is at risk of call risk in a falling interest rate environment?**

A. Corporate bond issuers

B. Fixed-rate bond investors

C. Floating-rate bond investors

D. Mortgage lenders

**10. Which principle best describes the diminishing satisfaction experienced from additional consumption of a good?**

A. The supply and demand theory

B. The law of diminishing returns

C. The law of diminishing marginal utility

D. The principle of market equilibrium

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# Answers

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

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# Explanations

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## 1. What is a primary role of a broker in financial markets?

A. To trade for their own accounts

B. To provide services for settling trades

C. To facilitate transactions between buyers and sellers

D. To manage investment portfolios

*The primary role of a broker in financial markets is to facilitate transactions between buyers and sellers. Brokers act as intermediaries, connecting individuals or institutions looking to buy or sell securities. They help streamline the trading process by providing access to the market and executing orders on behalf of their clients. This function is crucial in maintaining market liquidity and efficiency, as it allows buyers and sellers to find each other more easily, negotiate prices, and complete transactions without difficulty. In contrast, trading for their own accounts involves a different role typically associated with dealers or proprietary traders, who take positions in securities intending to profit from price changes. Providing services for settling trades is a function often managed by clearinghouses or custodians, which ensure that transactions are completed and recorded accurately. Managing investment portfolios pertains to investment advisors or portfolio managers, who construct and oversee a collection of assets on behalf of clients, a role distinct from that of brokers whose primary duty is to facilitate market transactions.*

## 2. In 2011, which country was most likely to experience a self-adjusting change in its exchange rate to correct its current account deficit?

A. Spain

B. France

C. The United Kingdom

D. Germany

*The United Kingdom would most likely experience a self-adjusting change in its exchange rate to correct its current account deficit in 2011. This is primarily due to its flexible exchange rate regime. With a flexible exchange rate, the currency value can fluctuate based on market forces, such as supply and demand. If the UK is running a current account deficit, it implies that the country is importing more goods and services than it is exporting. This excess demand for foreign currency (to pay for imports) tends to lead to depreciation of the British pound. As the pound depreciates, British exports become cheaper for foreign buyers, which can stimulate an increase in export sales. Simultaneously, imports become more expensive for domestic consumers, likely reducing import demand. This self-correcting mechanism helps the UK to potentially balance its current account over time through changes in the exchange rate. In contrast, the other countries listed (Spain, France, and Germany) were all part of the Eurozone in 2011. They used the euro as their currency, which is governed by the European Central Bank and does not allow for individual member states to independently adjust their exchange rates. Thus, these countries would not have experienced the same type of self-adjusting exchange rate mechanism to correct*

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## 3. Unpaid operating expenses at year-end are classified as:

A. Accounts receivable in current assets.

B. Operating expenses when paid.

C. Accrued expenses in current liabilities.

D. Short-term investments.

*Unpaid operating expenses at year-end are considered accrued expenses in current liabilities. This classification is grounded in the accrual accounting principle, which dictates that expenses should be recognized in the period they are incurred, regardless of when the cash payment is made. When a company incurs operating expenses but has not yet paid them by the end of the accounting period, those expenses create a liability on the balance sheet because the company has an obligation to pay those amounts in the future. By recognizing unpaid operating expenses as accrued expenses, businesses accurately reflect their financial position. This provides stakeholders with a clearer picture of the company's obligations and cash flows. Current liabilities are made up of obligations that are due within one year, aligning well with the nature of unpaid operating expenses. Other classifications, such as accounts receivable or short-term investments, do not apply since those relate to assets, while unpaid expenses do not represent future economic benefits in the same manner. Operating expenses when paid would only recognize those expenses at the point of cash outflow, which would not align with the principle of accrual accounting that is relevant here. Thus, classifying unpaid operating expenses as accrued expenses in current liabilities is the correct and logical approach.*

## 4. What key factor can lead to a regulatory failure?

A. Inadequate public funding

B. Market inefficiency

C. Incorrect data analysis

D. High competition rates

*The selection of market inefficiency as a key factor leading to regulatory failure is grounded in the understanding that inefficiencies can prevent effective enforcement of regulations and diminish market transparency. When markets are inefficient, they may not allocate resources optimally, which can lead to situations where regulations are not appropriately followed or where market participants exploit these inefficiencies to their advantage. For instance, if information asymmetries exist due to inefficiencies, regulators may struggle to identify violations of the rules, leading to an inability to maintain market integrity. In such cases, there could be a failure to adequately safeguard investors or ensure fair competition, which fundamentally undermines the objectives of regulation. While inadequate public funding, incorrect data analysis, and high competition rates can contribute to challenges in the regulatory framework, they are not inherently linked to the fundamental functioning of the market itself as inefficiency is. Instead, these factors could impact how regulations are implemented or monitored, but market inefficiencies pose a more systemic risk that can directly undermine the effectiveness of regulatory mechanisms.*

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**5. Securities regulations are primarily developed by which of the following entities?**

A. Legislative bodies

B. Individual investors

C. Government agencies

D. Financial institutions

*Securities regulations are primarily developed by government agencies because these agencies are entrusted with the responsibility of enforcing laws designed to protect investors, maintain fair and efficient markets, and facilitate capital formation. These agencies, which include the Securities and Exchange Commission (SEC) in the United States, have the authority to create rules and regulations that set the standards for the conduct of public companies, brokerage firms, and other financial participants. They analyze market practices, evaluate the impacts of financial products, and adjust regulations as necessary to respond to emerging trends and issues in the financial markets. While legislative bodies play a role in shaping the overarching laws that govern the securities industry, it is the government agencies that interpret and implement these laws through detailed regulations. Individual investors and financial institutions do not have the capacity to singularly develop regulations; rather, they are subject to the rules established by these regulatory bodies. This distinction emphasizes the critical role of government agencies in the regulatory landscape.*

**6. A merchant imports wine from France shipped on a Canadian vessel, insured by an English company. Where should this export be reported?**

A. United States only.

B. France only.

C. France, England, and Canada.

D. United States, France, England, and Canada.

*The correct reporting for this export reflects the fact that multiple countries are involved in the transaction, each playing a significant role in the export process. The wine originates in France, which means France is the country of export and must report the export activity. Additionally, while the vessel used for shipping is Canadian, this also necessitates reporting in Canada because it is critical to the logistics of the export. Finally, the insurance provided by an English company means that England has to be aware of the export for oversight and regulatory purposes. Each involved country's role in the export chain contributes to the necessity of reporting. France, as the origin, maintains records related to the export of goods. Canada must account for the movement of goods shipped on its vessels. England must report its financial involvement linked to the insurance. Therefore, the appropriate response encompasses all three countries involved: France, England, and Canada. This ensures comprehensive tracking and compliance with international trade regulations.*

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## 7. Compared to GDP calculated using the expenditure approach, gross domestic income will likely be:

A. Lower

B. Higher

C. The same

D. More volatile

*Gross Domestic Income (GDI) represents the total income earned by residents of a country, including wages, profits, rents, and taxes, less subsidies. The expenditure approach to calculating Gross Domestic Product (GDP) sums the total spending on a nation's final goods and services, which includes consumption, investment, government spending, and net exports. In theory, GDP calculated using the expenditure approach and GDI should arrive at the same value because both measure the same economic activity from different perspectives. The expenditure approach illustrates how resources are utilized in the economy, while GDI focuses on the income generated from those resources. However, discrepancies can arise due to statistical discrepancies in data collection methods, measurement errors, and timing differences between when income is earned and when it is spent. Nonetheless, for practical purposes and under normal circumstances, these two measures are intended to be equal in an efficient economy, often adjusted for inconsistencies to align closely. Therefore, in an ideal scenario, GDI will likely be the same as GDP calculated by the expenditure approach.*

## 8. What is a typical feature of actively managed open-end mutual funds?

A. Predominantly passively managed assets

B. Higher fees due to active management

C. Lower regulatory requirements

D. No need for diversification

*Actively managed open-end mutual funds are characterized by their management style, which involves making investment decisions with the goal of outperforming a benchmark or index. This active management typically requires more research, analysis, and frequent trading, which leads to higher operational costs. Consequently, fund managers charge higher fees for their expertise and the resources they devote to managing the portfolio. This fee structure typically includes management fees and potentially performance fees, making option B the most accurate representation of a typical feature of actively managed mutual funds. In contrast, passively managed assets do not require the same level of ongoing management, leading to lower fees, while regulatory requirements for mutual funds are generally similar regardless of management style. Additionally, diversification is a fundamental principle of both actively and passively managed funds and is critical to risk management, making the suggestion that active funds do not need to diversify inaccurate.*

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## 9. Who is at risk of call risk in a falling interest rate environment?

A. Corporate bond issuers

B. Fixed-rate bond investors

C. Floating-rate bond investors

D. Mortgage lenders

*In a falling interest rate environment, fixed-rate bond investors are particularly at risk of call risk. Call risk refers to the possibility that a bond issuer will redeem (call) a bond before its maturity date, typically because they want to refinance the debt at lower interest rates when market conditions become favorable. When interest rates decline, issuers of callable bonds, which often include corporate bonds or mortgage-backed securities, are incentivized to call their bonds and reissue new ones at lower rates, thereby saving on interest payments. This process can result in fixed-rate bond investors losing their investment early, forcing them to reinvest the proceeds in a lower interest rate environment where they may not earn as favorable a return as they did with the original bonds. This risk is unique to fixed-rate bond investors because their returns are based on the fixed coupon payments they receive. Floating-rate bond investors are less affected by falling interest rates as their coupons adjust in response to the current market rates. Thus, they do not face the same reinvestment risks associated with a callable bond being redeemed early. Mortgage lenders are also not directly impacted by call risk in the same manner; they may encounter prepayment risks from borrowers refinancing their loans, but that is distinct from bond call risk. In*

## 10. Which principle best describes the diminishing satisfaction experienced from additional consumption of a good?

A. The supply and demand theory

B. The law of diminishing returns

C. The law of diminishing marginal utility

D. The principle of market equilibrium

*The law of diminishing marginal utility is a key principle in economics that describes how the additional satisfaction or utility a consumer derives from each additional unit of a good decreases as more units are consumed. When a person consumes a good or service, the first unit typically provides significant satisfaction, but as they consume more of that good, the incremental satisfaction gained from each subsequent unit tends to diminish. This principle helps explain consumer behavior, as it illustrates why individuals may choose to diversify their consumption rather than continue to consume more of the same product. For example, if someone eats pizza, the first slice might bring a lot of joy, the second slice might still be enjoyable but not as much as the first, and by the time they reach the third or fourth slice, the pleasure derived from each additional slice may significantly decrease. This concept is crucial for understanding demand curves in economics, where a decrease in marginal utility can lead to a reduction in the quantity demanded as the price rises. Understanding this principle is essential for economists and businesses alike, as it influences pricing strategies, product offerings, and marketing decisions, ensuring that they align with consumer preferences and consumption patterns.*

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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://cfainvestment.examzify.com

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

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