QUALIFIED FINANCIAL ADVISER (QFA) INVESTMENTS 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.

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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. A deposit Tracker Bond with 100% capital guarantee and a 10% maturity bonus on €100,000 will have a maturity value before tax?

A. €100,000

B. €110,000

C. €120,000

D. €105,000

2. Which statement best defines real return and its use in adviser decisions?

A. Real return equals nominal return minus inflation; inflation-adjusted return reflects true purchasing power and risk-adjusted performance; used to compare investments.

B. Real return equals inflation minus nominal return; inflation-adjusted return ignores purchasing power.

C. Real return is simply the nominal return after taxes.

D. Real return is the same as the risk-free rate.

3. The benefits offered by the Treasury Bond to Peter are: (i) income not subject to DIRT; (ii) loss on sale offsettable for capital gains tax; (iii) gain on sale liable to a reduced capital gains tax rate of 20%. Which statements are true?

A. (i) only.

B. (ii) only.

C. (i) and (ii) only.

D. (ii) and (iii) only.

4. Which of the following would be considered traditional investment asset classes?

A. Bonds and Equities.

B. Bonds and Gold.

C. Gold and Equities.

D. Bonds, Gold and Equities.

5. Which components constitute the cost of capital in a typical firm valuation framework?

A. Only cost of debt

B. Cost of debt after tax and cost of equity via CAPM

C. Cash flow to equity

D. Cost of capital is the same as the risk-free rate

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6. Mary has entered a lease arrangement with a financial institution for a car. Which statement is correct?

A. The financial institution owns the car during the term of the lease

B. The financial institution never owns the car

C. Mary automatically becomes the owner when she signs the lease

D. Mary automatically becomes the owner when she makes the first payment

7. The main difference between a deposit broker and a deposit agent is that the deposit broker can:

A. Legally only arrange deposits for consumers with one bank.

B. Arrange deposits for consumers with a number of banks.

C. Also act as an insurance intermediary, which a deposit agent can't.

D. Hold client deposits.

8. Which of the following is NOT typically a cost associated with actively managed funds?

A. Management fees

B. Transaction costs

C. Lower expense ratios

D. Fund operating costs

9. How is a portfolio's tracking error calculated and what does it signify?

A. Tracking error = the average difference between portfolio and benchmark returns.

B. Tracking error = the covariance of portfolio and benchmark returns.

C. Tracking error = standard deviation of the difference between portfolio and benchmark returns; measures how closely the portfolio tracks the benchmark.

D. Tracking error = the correlation with the benchmark returns.

10. Rents from foreign property are assessed for income tax under which Schedule?

A. D Case I.

B. D Case II.

C. D Case III.

D. F.

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Answers

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

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Explanations

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1. A deposit Tracker Bond with 100% capital guarantee and a 10% maturity bonus on €100,000 will have a maturity value before tax?

A. €100,000

B. €110,000

C. €120,000

D. €105,000

The deposit has a 100% capital guarantee, so you recover the original €100,000 at maturity. The maturity bonus is 10% of €100,000, which adds €10,000. Add the two together: €100,000 + €10,000 equals €110,000. Since the question asks for the value before tax, that makes the maturity value €110,000.

2. Which statement best defines real return and its use in adviser decisions?

A. Real return equals nominal return minus inflation; inflation-adjusted return reflects true purchasing power and risk-adjusted performance; used to compare investments.

B. Real return equals inflation minus nominal return; inflation-adjusted return ignores purchasing power.

C. Real return is simply the nominal return after taxes.

D. Real return is the same as the risk-free rate.

Real return shows how much an investment actually grows in purchasing power after inflation. It's calculated by subtracting the inflation rate from the nominal return, so you're measuring true wealth growth rather than just dollar gains. This matters for adviser decisions because inflation can erode returns, making high nominal gains meaningless if purchasing power doesn't rise. By focusing on real return, you can compare different investments on a like-for-like basis across time and asset classes, seeing which ones genuinely increase cash-buying power rather than just inflating dollar amounts. The idea that inflation-adjusted return reflects true purchasing power is key, and it's this perspective that makes real return a useful comparison tool for investments. Real return isn't simply the nominal return after taxes, nor is it the same as the risk-free rate; those are separate concepts. Some statements might imply a different subtraction or conflate real return with risk or taxes, but the essential definition and use in adviser decisions center on real return as nominal minus inflation and its role in comparing true growth in purchasing power.

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3. The benefits offered by the Treasury Bond to Peter are: (i) income not subject to DIRT; (ii) loss on sale offsettable for capital gains tax; (iii) gain on sale liable to a reduced capital gains tax rate of 20%. Which statements are true?

A. (i) only.

B. (ii) only.

C. (i) and (ii) only.

D. (ii) and (iii) only.

DIRT and capital gains treatment for government bonds differ from ordinary deposit income. The key idea is that Irish Government Bonds carry tax exemptions that most ordinary savings don't have. Interest from a Treasury Bond is not subject to DIRT, so Peter's bond interest would escape DIRT withholding. That makes the first statement true. When it comes to selling the bond, gains on disposal of Irish Government Bonds are not taxed under capital gains tax. There isn't a CGT liability at the standard rates (and there isn't a reduced 20% CGT rate applying to such gains). Because there's no CGT on these gains, the idea of offsetting a loss against CGT doesn't apply, and the notion of a reduced CGT rate on a gain isn't relevant for this instrument. That's why the other two statements aren't true.

4. Which of the following would be considered traditional investment asset classes?

A. Bonds and Equities.

B. Bonds and Gold.

C. Gold and Equities.

D. Bonds, Gold and Equities.

Traditional investment asset classes are broad categories of investable assets with distinct risk and return profiles used as core building blocks in portfolios. The two classic traditional asset classes are equities (ownership in companies, with potential for capital growth and dividends) and bonds (debt instruments, providing income and generally lower risk than equities). Gold, while a widely used investment and a common diversification tool, is a commodity rather than a traditional core asset class. It doesn't generate income in the way bonds do and its price behavior isn't driven by the same cash-flow dynamics as equities. So the pair that fits the traditional framework is bonds and equities.

5. Which components constitute the cost of capital in a typical firm valuation framework?

A. Only cost of debt

B. Cost of debt after tax and cost of equity via CAPM

C. Cash flow to equity

D. Cost of capital is the same as the risk-free rate

Cost of capital in a typical firm valuation reflects the return required by all providers of capital—debt and equity. The debt portion is taken as the after-tax cost because interest is tax-deductible, so it uses $R_d \times (1 - T_c)$. The equity portion is estimated with CAPM: $R_e = R_f + \beta \times (R_m - R_f)$, which captures the extra return equity investors require for bearing systematic risk. These two components are then combined using the firm's target capital structure to give the overall cost of capital (the WACC). Cash flow to equity is a type of cash flow, not the cost itself, and the cost of capital is not just the risk-free rate—it includes compensation for risk on both debt and equity, so it typically exceeds the risk-free rate.

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6. Mary has entered a lease arrangement with a financial institution for a car. Which statement is correct?

A. The financial institution owns the car during the term of the lease

B. The financial institution never owns the car

C. Mary automatically becomes the owner when she signs the lease

D. Mary automatically becomes the owner when she makes the first payment

In a lease, the owner of the asset remains the lender or lessor for the duration of the contract, while the lessee gains the right to use the asset in exchange for payments. That means the financial institution holds title to the car during the lease term, and Mary uses it under the lease agreement. Ownership wouldn't pass just by signing the lease or by making the first payment; it would only change if there's a specified end-of-lease buyout option and she chooses to exercise it. So the statement that the financial institution owns the car during the term is the correct understanding.

7. The main difference between a deposit broker and a deposit agent is that the deposit broker can:

A. Legally only arrange deposits for consumers with one bank.

B. Arrange deposits for consumers with a number of banks.

C. Also act as an insurance intermediary, which a deposit agent can't.

D. Hold client deposits.

The main idea here is the range of banks the intermediary can work with. A deposit broker operates across multiple banks, arranging or placing client deposits with a number of institutions. This lets clients shop for the best rates and terms rather than being limited to one bank. A deposit agent, by contrast, is typically tied to a single bank (or a limited set), so they can't arrange deposits across a wide network. That broader access is what makes the broker the better choice in this context: it enables the client to compare options across several banks. Brokers don't usually hold the client's funds themselves; the deposits are placed with the banks.

8. Which of the following is NOT typically a cost associated with actively managed funds?

A. Management fees

B. Transaction costs

C. Lower expense ratios

D. Fund operating costs

When evaluating actively managed funds, the costs you typically encounter come from the fund manager's expertise and the trading activity needed to try to outperform a benchmark. That means management fees are a direct charge for the manager's services, transaction costs arise from buying and selling securities within the fund, and fund operating costs cover administrative and other ongoing expenses. The expense ratio is the annual percentage of assets to cover all these costs. Actively managed funds usually carry higher expense ratios due to active research and frequent trading. So describing "lower expense ratios" as a cost is not typical for actively managed funds—that would signify cheaper costs, more characteristic of passively managed funds. In short, the other items reflect actual ongoing costs, while lower expense ratios are not a typical cost associated with active management.

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9. How is a portfolio's tracking error calculated and what does it signify?

A. Tracking error = the average difference between portfolio and benchmark returns.

B. Tracking error = the covariance of portfolio and benchmark returns.

C. Tracking error = standard deviation of the difference between portfolio and benchmark returns; measures how closely the portfolio tracks the benchmark.

D. Tracking error = the correlation with the benchmark returns.

The idea being tested is how tracking error is measured and what it tells us about a portfolio's relationship to its benchmark. Tracking error is the standard deviation of the differences between the portfolio's returns and the benchmark's returns (the active returns). This captures how much and how consistently the portfolio diverges from the benchmark over time, not just the average level of divergence. A small tracking error means the portfolio tends to move in lockstep with the benchmark, indicating tight tracking, while a larger tracking error signals greater deviation and hence more active risk. Other formulas like the average difference, covariance, or correlation don't describe the variability of the deviation itself in the same way; the standard deviation of the differences is the metric that expresses both the magnitude and consistency of the tracking error. In practice, tracking error is often annualized and used to gauge the manager's active risk relative to the benchmark.

10. Rents from foreign property are assessed for income tax under which Schedule?

A. D Case I.

B. D Case II.

C. D Case III.

D. F.

Rents from foreign property are treated as income from property but with special considerations for location, currency, and any foreign taxes paid. The schedule that handles foreign-property rental income is designed to capture these nuances, separating it from domestic property rents and other types of income. That's why this item points to the Case III pathway under the Schedule D framework: it specifically covers rents from property located abroad, allowing for the appropriate calculations and reliefs (such as currency considerations and, where applicable, foreign tax credits). Rents on property within the home country would be handled under the domestic rental case, while other income types would use their respective schedules. The option labeled as unrelated to rental income isn't applicable to this scenario.

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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://qfainvestments2.examzify.com

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

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