FUNDAMENTALS OF FINANCIAL SERVICES (VERSION 7)

TIME ALLOWED: 1 HOUR

How to use this sample paper

These 30 questions should be answered in one hour in the real exam, so make sure you time yourself accurately.

Record your answer for each question by circling your selected answer.

When you have finished the test, you may check your answers against the **Answer Sheet** at the back of this paper.

The exam is scored as follows:

21-30	Pass
0-20	Fail

For those questions you answered incorrectly, the answer sheet will show you the corresponding syllabus element, sub element and learning objective against which the questions were written, so you can identify any syllabus areas where you may need to revise further.

1 In which of the following ways do investment banks help companies to expand?

A Buying bonds from them

B Lending companies money for large capital projects

C Offering advice on mergers and acquisitions

D Purchasing shares in the companies

2 A bank is offering a loan with interest charged at 6.4% pa and interest is added every six months. What is the effective annual rate?

A 5.87%

B 6.50%

C 6.56%

D 6.93%

3 What is the name of the service provided by the financial services industry to ease the transfer of one currency to another?

A Cash transmission

B Currency conversion

C Foreign exchange

D Money transfer

4 By co-locating its computers near outlet servers, an investment firm aimed to improve its latency when undertaking which type of dealing activity?

A Equity crowd funding

B Foreign exchange dealing

C High frequency trading

D Mortgage lending

5 Which ordinary shareholders of a company are normally invited to attend the company's general assembly?

A All of them

B Only representatives of corporate shareholders

C Only those who have held the shares for at least 12 months

D Only non-corporate shareholders

6 Insurance Company X is part of a syndicate of insurers in relation to the insurance of a large oil rig. This normally means that X's level of cover in this case is:

A a pre-agreed fixed percentage of the syndicate's total risk

B only quantified if and when the syndicate receives a valid claim

C only realised if the lead member of the syndicate becomes insolvent

D 100% of the risk in excess of the threshold cover level set by the syndicate

7 Which of the following types of borrowing operates on a repayment on demand basis?

A Bank overdrafts

B Capital and interest mortgages

C Payday loans

D Personal car loans

8 When using bonds to generate income, adopting the principle of diversification usually results in a reduction in the level of:

A asset liquidity

B coupon payments

C investment risk

D professional expertise

9 Why would the owners of a successful business wish to split their ownership with other people by issuing shares?

A In order to have a presence on the stock market

B So that they are not liable for all the company's debts themselves

C The reputation of the company will be improved

D To raise money to fund growth in the business

10 The Nikkei 225 index represents the shares of which country?

A China

B Hong Kong

C Indonesia

D Japan

11 What are normally sold during an initial public offering?

A Bonds

B Deposit accounts

C Equities

D Retail properties

12 The dividends from shares are normally:

A a fixed proportion of net annual profits

B not guaranteed and can be zero

C paid on a monthly basis

D set by the issuer's regulator

13 Which of the following statements correctly describes the link between the risks and potential rewards of investing in a start-up company?

A Low risk, higher potential returns

B Low risk, lower potential returns

C High risk, higher potential returns

D High risk, lower potential returns

14 For which of the following reasons is it becoming more and more important that people start saving earlier into a pension scheme?

A Governments are expected to begin to tax older people at higher rates

B People are living longer in retirement

C Returns on pension savings are expected to fall over the coming years

D State pensions are being phased out

15 A lender offers loans based on a quoted interest rate with no other charges. This rate will only differ from the effective annual rate of borrowing if:

A interest is charged more frequently than once a year

B interest is payable in advance rather than in arrears

C the interest rate is higher than the rate of inflation

D the interest rate is variable rather than fixed

16 Which of the following benefits can the owner of a corporate bond expect to receive?

A A distribution of profits in the form of a dividend

B Pre-emption rights to any new securities issued by the company

C Repayment of a set sum at a given date in the future

D Voting rights at the company's Annual General Meeting

17 If a bank's customers are exclusively firms and businesses, this is normally described as what type of banking?

A Corporate banking

B Primary banking

C Retail banking

D Secondary banking

18 A company has two people who have invested in a business, each of whom holds 50% of the shares. If the company goes bankrupt owing suppliers £80,000, how much would each of the shareholders lose?

A 50% of their investment each

B 100% of their investment each

C 100% of their investment plus £40,000 each

D 100% of their investment plus £80,000 each

19 One of the typical reasons why a company might undertake an initial public offering is to:

A centralise its ownership

B consolidate its credit risk

C improve its autonomy

D increase its profile

20 An investor purchased a bond which matures in five years. When is he normally permitted to sell this bond?

A At any time during the five years

B Only at the end of the five years

C Only during the 14 days either side of the coupon payment date

D Only on a coupon payment date

21 The obligation to buy an underlying stock at an agreed price at a specified future date is known as a:

A call option

B future

C put option

D swap

22 What do Forex dealers trade in?

A Commodities

B Currencies

C Eurobonds

D Financial futures

23 Where an index is drawn from shares listed on just one stock exchange, this is normally known as a:

A primary market index

B primary value index

C single market index

D single value index

24 A company is 80% funded by equity and 20% funded by debt. This means that if the value of its equity subsequently increases, then:

A the actual amount of borrowing must be proportionally reduced

B the actual amount of borrowing must be proportionally increased

C the increase will be diluted in terms of shareholders' proportionate gains

D the increase will be magnified in terms of shareholders' proportionate gains

25 A company paid half-yearly dividends of $1.20 over the last couple of years. If the share price is currently $62.60, what is the dividend yield?

A 1.92%

B 2.61%

C 3.83%

D 5.22%

26 Ethical behaviour in the financial services industry is essential in order to ensure there is:

A competitive service

B legal compliance

C trust

D value for money

27 Where a buyer and a seller enter into a deal through a stock exchange, this is normally described as:

A matching

B pooling

C a syndication

D a trade

28 Investing in bonds provides which of the following?

A Inheritance tax protection

B Regular income

C Risk-free saving

D Tax-free growth

29 An insurance company accepts a very large risk and then transfers some of it to another insurance company. The second stage in the process is normally described as:

A captive insurance

B co-insurance

C mutual insurance

D reinsurance

30 One of the factors affecting the choice of repayment date when a company issues a bond is:

A current inflation levels

B current interest rates

C the company's financial plans

D the company's market share position

Fundamentals of Financial Services (Version 7)

Question Number	Answer	Syllabus Reference
1	C	3.1.7
2	B	3.1.4
3	C	2.1.6
4	C	8.5.4
5	A	4.1.5
6	A	8.2.1
7	A	3.1.1
8	C	8.1.1
9	D	4.1.1
10	D	7.1.4
11	C	2.1.1
12	B	4.1.3
13	C	2.1.3
14	B	8.4.1
15	A	3.1.3
16	C	5.1.5
17	A	3.1.1
18	B	4.1.6
19	D	7.1.2
20	A	5.1.3
21	B	6.1.1
22	B	8.2.1
23	C	7.1.3
24	D	5.1.7
25	C	4.1.4
26	C	1.1.1
27	D	7.1.1
28	B	5.1.1
29	D	2.1.5
30	C	5.1.2