

AAFM Practice Test Questions and Answers

1. What is Modern Portfolio Theory (MPT)?

- A) A framework for constructing diversified portfolios that maximize expected return for a given level of risk
- B) Only investing in modern companies
- C) A theory about digital currencies
- D) A method for timing the stock market

2. Diversification helps in investment by:

- A) Increasing exposure to one asset class.
- B) Maximizing taxes.
- C) Spreading risk across different assets.
- D) Guaranteeing higher returns.

3. What is the Sharpe Ratio and how is it used?

- A) A measure of risk-adjusted return calculated as $(\text{portfolio return} - \text{risk-free rate}) / \text{portfolio standard deviation}$
- B) The ratio of shares to bonds in a portfolio
- C) A tax calculation method
- D) A measure of market volatility only

4. What does ROI stand for in financial analysis?

- A) Rate of Inventory
- B) Return on Investment
- C) Risk of Inflation
- D) Revenue over Income

Answers: 1-A 2-C 3-A 4-B

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