

CISI IAD Practice Test Questions and Answers

1. What is a 'futures contract'?

- A) A contract giving the right but not the obligation to buy or sell an asset at a future date
- B) A legally binding agreement to buy or sell a standardised amount of an asset at a specified price on a specified future date
- C) A contract that pays the difference in value of an asset between two dates
- D) A corporate bond that matures in more than 10 years

2. What is the 'UCITS' framework?

- A) A UK framework for regulating defined benefit pension schemes
- B) An EU regulatory framework for collective investment schemes (Undertakings for Collective Investment in Transferable Securities) allowing passporting of retail funds across EU member states
- C) A US framework for exchange-traded funds
- D) An OECD framework for sovereign wealth fund governance

3. What does the Sharpe ratio measure?

- A) The absolute return of a portfolio
- B) The risk-adjusted return of a portfolio relative to the risk-free rate
- C) The correlation between two assets
- D) The tax efficiency of an investment

4. What is the 'premium' of an option?

- A) The profit made on an option trade
- B) The price paid by the option buyer to the option seller (writer) for the right conferred by the option contract
- C) The excess of the strike price above the current market price
- D) The annual management fee charged by derivatives brokers

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

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