

# CISI Level 4 Investment Advice Diploma 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 is 'delta' in options pricing?

- A) The time value decay in an option's premium
- B) The sensitivity of an option's price to a £1 change in the price of the underlying asset, ranging from 0 to 1 for calls and -1 to 0 for puts
- C) The volatility implied by the option's market price
- D) The difference between the option's intrinsic value and its time value

## 4. 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

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

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