

Investment Practice Test Questions and Answers

1. What is the relationship between risk and return in investing?

- A) No relationship exists
- B) Higher risk typically offers higher potential returns
- C) Lower risk always guarantees higher returns
- D) Risk eliminates all returns

2. What is diversification in investment portfolios?

- A) Investing in one stock only
- B) Spreading investments across different assets to reduce risk
- C) Only buying expensive stocks
- D) Avoiding all investments

3. What does P/E ratio measure in stock analysis?

- A) Company size
- B) Price relative to earnings per share
- C) Profit margins
- D) Employee count

4. What is compound interest in investing?

- A) Simple interest only
- B) Earning interest on both principal and previously earned interest
- C) Fixed monthly payments
- D) One-time profit calculation

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

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