

CFA Practice Test Questions and Answers

1. The Sharpe ratio measures:

- A) Excess return per unit of systematic risk (beta)
- B) Excess return per unit of total risk (standard deviation)
- C) Absolute return relative to the risk-free rate
- D) Portfolio return divided by portfolio volatility without adjusting for risk-free rate

2. The Gini coefficient measures:

- A) A country's total income relative to its GDP
- B) Income inequality within a country, ranging from 0 (perfect equality) to 1 (maximum inequality)
- C) The correlation between economic growth and inflation
- D) A country's trade openness as a percentage of GDP

3. Delta (Δ) of an option measures:

- A) The sensitivity of option price to changes in implied volatility
- B) The rate of change of option price with respect to a \$1 change in the underlying asset price
- C) The time decay of the option's value as expiration approaches
- D) The sensitivity of delta itself to changes in the underlying price

4. A bull call spread is constructed by:

- A) Buying a call at a lower strike and selling a call at a higher strike
- B) Buying a call and selling a put at the same strike
- C) Buying two calls at different strikes and selling the underlying
- D) Selling a call at a lower strike and buying a call at a higher strike

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

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