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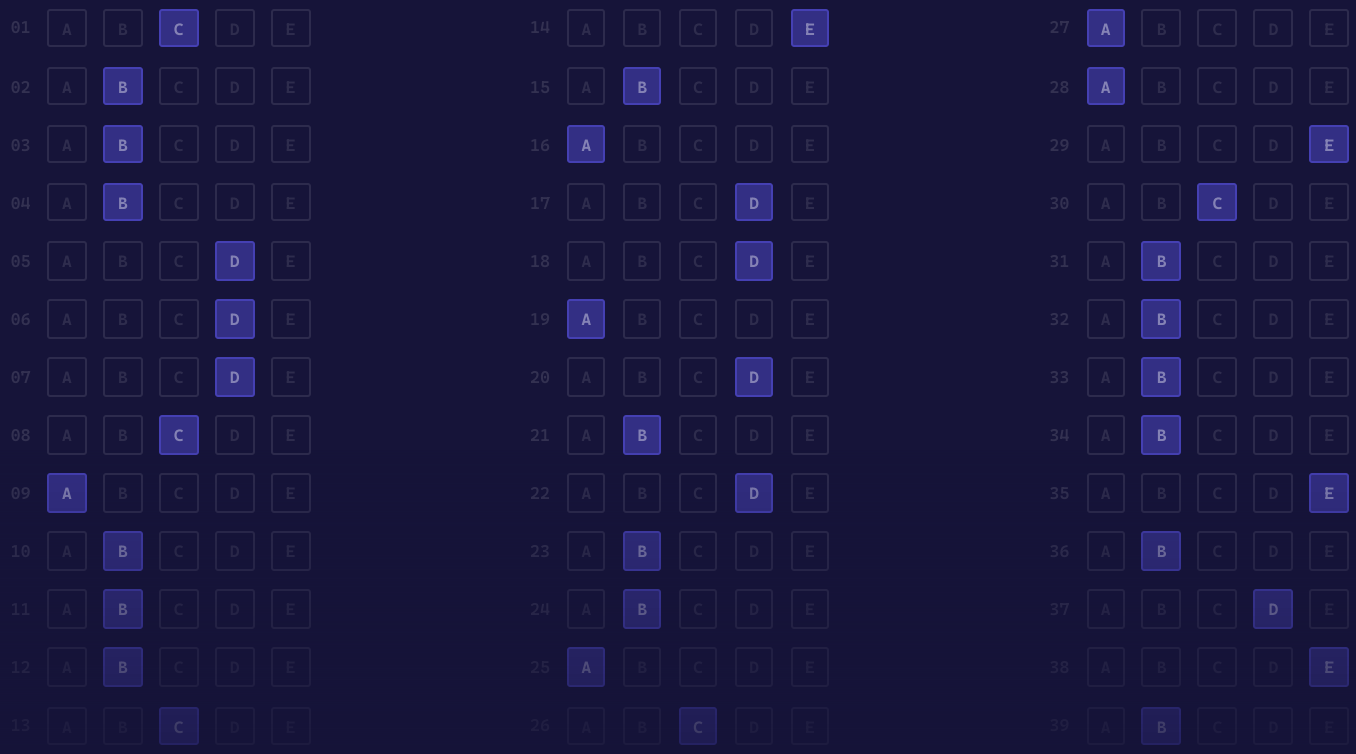

PRACTICE QUESTIONS

GISI – Ghana Investment and Securities Institute Limited

ISI

Securities and Investment Intermediate Level

EDITION	QUESTIONS	FORMAT
Demo	9	Limited Edition PDF

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Before you begin

What this is

9 practice questions for GISI – Ghana Investment and Securities Institute Limited `ISI`, each with its answer key and an explanation. Answer a question before you read its key — the explanation is worth more once you have committed.

If something looks wrong

Send us three things and we will check it:

- the exam code, `ISI`
- the question number
- the email address on your order

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QUESTION 1 MULTIPLE CHOICE

Which of the following are characteristics of money market instruments? (Choose two.)

A **They typically have maturities of one year or less from the date of issue.**

B They are traded only on a recognized stock exchange.

C **They are generally considered to have low credit and liquidity risk relative to capital market instruments.**

D They offer long-term capital growth potential similar to equities.

E They are issued exclusively by the central government.

ANSWER **A · C**

WHY Money market instruments are short-term debt securities with maturities of one year or less (A) and are generally regarded as lower-risk, highly liquid instruments relative to long-dated capital market paper (C). They are traded both on- and off-exchange, do not offer long-term equity-like growth, and are issued by a range of entities including corporations and financial institutions — not solely the government.

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QUESTION 2 MULTIPLE CHOICE

An investor is comparing an open-ended mutual fund with an exchange-traded fund (ETF) that tracks the same index. Which two statements correctly describe the differences between them? (Choose two.)

- **A** **ETF shares trade on a stock exchange throughout the trading day at market prices, whereas mutual fund units are bought and sold at a single end-of-day net asset value (NAV).**
- B Mutual funds always have lower total expense ratios than comparable ETFs.
- **C** **ETF investors can use limit and stop orders, while mutual fund investors generally cannot.**
- D Mutual funds are required by regulation to hold at least 50% of their assets in cash.
- E ETF prices are guaranteed by the fund sponsor to equal the NAV at all times.

ANSWER **A · C**

WHY ETFs trade intraday on an exchange at prevailing market prices (subject to premiums/discounts to NAV) and accept standard order types such as limit and stop orders, while open-ended mutual funds are priced once per day at NAV and orders are placed at the next calculated price (A, C). Expense ratios can go either way depending on the products, there is no such 50% cash rule, and ETF market prices can and do differ from NAV.

QUESTION 3 SINGLE CHOICE

Under the Capital Asset Pricing Model (CAPM), the expected return on a security is a function of which of the following?

- A The security's beta, the expected market return, and the variance of the security's returns.
- **B** **The risk-free rate, the security's beta, and the expected return on the market portfolio.**
- C The risk-free rate, the standard deviation of the security, and the correlation with the market.
- D The security's alpha, the market risk premium, and the standard deviation of the market.

ANSWER **B**

WHY The CAPM formula is $E(R_i) = R_f + \beta_i \times (E(R_m) - R_f)$. The expected return depends on the risk-free rate (R_f), the security's beta (β_i), and the expected return on the market ($E(R_m)$). Variance/standard deviation of the individual security and alpha do not appear in the basic CAPM equation.

QUESTION 4 SINGLE CHOICE

All else being equal, what happens to the price of an existing fixed-coupon bond when prevailing market interest rates rise?

A The bond price rises because its fixed coupon becomes more attractive.

B **The bond price falls because the present value of its fixed cash flows is discounted at a higher rate.**

C The bond price remains unchanged because the coupon is fixed.

D The bond price rises only if the bond is a zero-coupon bond.

ANSWER **B**

WHY Bond prices and yields move inversely. When market rates rise above a bond's fixed coupon, new buyers demand a discount so that the bond's yield to maturity rises to match the market, which mathematically reduces the present value of its fixed future cash flows (B). The price does not stay unchanged, and zero-coupon bonds experience the same directional effect (in fact more pronounced).

QUESTION 5 SINGLE CHOICE

An investor holds a portfolio of government bonds denominated in US dollars but lives in Ghana and consumes in Ghanaian cedis. Which risk is most directly relevant to this investor?

A Credit risk

B **Currency (exchange rate) risk**

C Liquidity risk

D Political risk specific to Ghana

ANSWER **B**

WHY Because the assets are denominated in USD while the investor's spending currency is the GHS, changes in the USD/GHS exchange rate directly affect the cedis-equivalent value of income and principal — this is currency/exchange rate risk (B). Credit, liquidity and Ghana-specific political risks are separate concepts and are not the most direct consequence of the currency mismatch described.

QUESTION 6 SINGLE CHOICE

Which body is responsible for the licensing, supervision and regulation of securities market operators and the protection of investors in Ghana?

A The Ghana Stock Exchange (GSE)

B The Bank of Ghana (BoG)

C The Securities and Exchange Commission (SEC) of Ghana

D The Ghana Investment Promotion Centre (GIPC)

ANSWER C

WHY The Securities and Exchange Commission (SEC) of Ghana is the statutory regulator of the securities industry — it licenses and supervises market operators and oversees investor protection (C). The GSE operates the exchange, BoG regulates banks, and GIPC promotes investments — none of these is the securities regulator.

QUESTION 7 SINGLE CHOICE

Under the Gordon Growth Model (a form of the dividend discount model), a share's value equals the next expected dividend divided by:

A The earnings per share (EPS).

B The difference between the required rate of return and the constant dividend growth rate.

C The book value per share.

D The current market price of the share.

ANSWER B

WHY The Gordon Growth Model is P0 = D1 / (r − g), where the discount rate is the investor's required rate of return (r) less the assumed constant dividend growth rate (g) (B). EPS, book value per share and the current market price do not appear in the model's formula.

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QUESTION 8 SINGLE CHOICE

Which yield measure represents the total return an investor would earn if a bond is held to maturity, assuming all coupons are reinvested at the same rate?

A Current yield

B Yield to maturity (YTM)

C Coupon yield

D Running yield

ANSWER B

WHY Yield to maturity (YTM) is the internal rate of return on a bond's cash flows (coupons plus principal at maturity) assuming coupons can be reinvested at the YTM itself (B). Current yield and running yield use only the annual coupon relative to the current price and ignore capital gain/loss and reinvestment assumptions.

QUESTION 9 SINGLE CHOICE

Combining two assets with low or negative correlation in a portfolio is most likely to achieve which of the following objectives?

A Maximise expected return without any change in risk.

B Eliminate all investment risk.

C Reduce portfolio-specific (unsystematic) risk through diversification.

D Increase the portfolio's exposure to systematic risk.

ANSWER C

WHY Diversification — particularly through combining assets with low or negative correlation — reduces unsystematic (asset-specific) risk because the individual risks partially offset each other (C). It cannot eliminate all risk (systematic/market risk remains), and it does not maximise expected return unconditionally nor intentionally increase systematic risk.

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