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QUESTION 1

The long-run objective of financial management is to:

- A. Maximize earnings per share
- B. Maximize the value of the firm's common stock
- C. Maximize return on investment
- D. Maximize market share

Correct Answer: B

QUESTION 2

What of a life insurer's is determined by applying factors for risk components to specific on and off-balance sheet assets or liabilities and by adding the results?

- A. The annual Return
- B. Business policy
- C. Provincial act
- D. Capital requirement

Correct Answer: D

QUESTION 3

If you had a savings account at a bank, which of the following would be correct concerning the interest that you would earn on this account?

- A. Sales tax may be charged on the interest that you earn
- B. You cannot earn interest until you pass your 18th birthday
- C. Earnings from savings account interest may not be taxed
- D. Income tax may be charged on the interest if your income is high enough

Correct Answer: D

QUESTION 4

Which of the following function removes the fear of buying and selling at ripe of price?

- A. Fair pricing function



- B. Economic function
- C. Exchange function
- D. Continuous pricing function

Correct Answer: A

QUESTION 5

This is a type of employee benefit plan wherein the employer allocates a certain amount of money and then the employee spends that money for benefits selected from a menu covering everything from child care to health and life insurance to retirement benefits.

- A. Flexible benefit plan
- B. Cafeteria plan
- C. Short-term financial plan
- D. Both of the above are one and the same

Correct Answer: D

QUESTION 6

A process designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations is called:

- A. External control
- B. Internal auditing
- C. Internal control
- D. None of the above

Correct Answer: C

QUESTION 7

An extension of time beyond the April 15 deadline during which taxpayers, with the approval of the IRS, can file their returns without incurring penalties.

- A. Filing extension
- B. Amended return
- C. Estimated taxes
- D. None of the above



Correct Answer: A

QUESTION 8

A legal claim permitting the lender in case the borrower defaults, to liquidate the items serving as collateral to satisfy the obligation is called:

- A. Chattel mortgage
- B. Lien
- C. Collateral note
- D. Loan application

Correct Answer: B

QUESTION 9

Espinosa Coffee and Trading, Inc.'s common stock measured beta is calculated to be 0.75. The market beta is, of course, 1.00 and the beta of the industry of which the company is a part is 1.10. If Merrill Lynch were to calculate an "adjusted beta" for Espinosa's common stock, that adjusted beta would most likely be:

- A. less than 0.75
- B. more than 0.75, but less than 1.10
- C. equal to 1.10
- D. equal to 0.95 {i.e., $(1/3) \times (0.75 + 1.00 + 1.10)$ }

Correct Answer: B

QUESTION 10

The duration of a bond:

- A. Is less than the maturity for bonds paying coupon interest
- B. Is directly related to coupon yield
- C. Decreases with maturity
- D. Is greater than maturity for zero coupon bond

Correct Answer: A

QUESTION 11



The phase of the economic cycle when levels of employment and production fall and the growth of the economy slows is called:

- A. Growth
- B. Expansion
- C. Recession
- D. Recovery

Correct Answer: C

QUESTION 12

It is a term life policy provision allowing the insured to renew the policy at the end of its term without having to show evidence of insurability

- A. Straight term policy
- B. Term life insurance
- C. Decreasing term policy
- D. Renewability

Correct Answer: D

QUESTION 13

Companies that have capitalization amounts more than \$2 billion are known as:

- A. Small cap companies
- B. Mid cap companies
- C. Growth companies
- D. Large cap companies

Correct Answer: D

QUESTION 14

An investment is the current commitment of dollars for a period of time in order to derive future payments that will compensate the investor for:

- A. The time the funds are committed
- B. The expected rate of inflation during this time period



C. The uncertainty of future payments

D. All of these

Correct Answer: D

QUESTION 15

The organizations in which the ownership and control of operations are vested in the policyholders are known as:

A. Private entities

B. Public entities

C. Reciprocal entities

D. Mutual entities

Correct Answer: D

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