Sample Examination

1. Duration:
   a) is a weighted average maturity of the present value of cash flows for a security.
   b) is influenced by the coupon rate and yield to maturity.
   c) provides an approximation of the percentage price change in a bond due to a change in interest rates.
   d) all of the above.

2. Monetary policy refers to:
   a) the government’s use of spending and taxation to influence the economy.
   b) the government’s use of reserve requirements to influence the money supply.
   c) the government’s use of open market operations to influence the money supply.
   d) B and C

3. Which of the following is not a consideration in interest rate swap agreements?
   a) Floating-rate index
   b) Fixed-rate payer
   c) Floating-rate payer
   d) Fixed-rate index

4. The primary Interest Rate Risk concern of holders of long-term fixed income securities is:
   a) interest rates will rise and reduce the value of the bond portfolio.
   b) interest rates will fall and reduce the value of the bond portfolio.
   c) interest rates will fall and limit the ability to invest at high rates.
   d) interest rates will rise and increase the value of the bond portfolio.

5. In comparison to similar non-callable securities, callable securities have:
   a) higher required and expected yields than non-callable securities.
   b) longer expected maturity.
   c) less constraint on upward price movement.
   d) lower coupon rates.

6. The value of active portfolio management for small governments is potentially limited by all of the following EXCEPT:
   a) Time consuming
   b) Increased transaction costs
   c) Need for greater investment management skills
   d) Ignores changes in the markets

7. For long-term investments, which accounting method provides superior information for decision making?
   a) Cash basis accounting
   b) Accrual basis accounting
   c) Market (fair) value accounting
   d) All methods can be equally useful.

8. Securities lending is appropriate:
   a) for all governments.
   b) for governments seeking safe returns.
   c) for governments willing to take risk to obtain higher returns.
   d) for governments with little experience in investment management.

9. Investment grade bonds have the following ratings [by Standard and Poor’s (Moody’s)]:
   a) AAA (Aaa)
   b) AA (Aa) or higher
   c) BBB (Baa) or higher
   d) BB (Ba) or higher
TREASURY MANAGEMENT EXAMINATION (12/2018)

Sample Examination

10. The Investment Policy Checklist for Pension Fund Assets indicates which of the following as the primary determinant of investment return?
   a) Diversification  
   b) Credit quality  
   c) Asset allocation  
   d) Security selection

11. Treasury securities are:
   a) considered by most investors to be the safest investments in the world.  
   b) federally taxable to investors.  
   c) generally more liquid than corporate obligations.  
   d) All of the above.

12. An investment policy statement should include which of the following?
   a) Policies regarding ethics and conflicts of interest  
   b) A statement of the standard of care  
   c) Delegation of investment authority  
   d) All of the above

13. Liquidity is:
   a) the frequency with which a government trades its securities.  
   b) the speed with which a government invests its cash resources into securities.  
   c) the ability to convert securities quickly into cash without loss in value.  
   d) the gain due to accurate trading timing.

14. The relationship between fixed-income security prices and interest rates can be described as:
   a) Direct  
   b) Inverse  
   c) Proportional  
   d) Unrelated

15. An upward sloping yield curve is also known as:
   a) Abnormal  
   b) Inverted  
   c) Flat  
   d) Normal

16. Which of the following takes priority in cash management?
   a) Reducing float  
   b) Maintaining liquidity  
   c) Obtaining highest yield  
   d) Speed in processing

17. Which of the following is preferred for the majority of the government’s short-term borrowing?
   a) Direct loan  
   b) Line of credit  
   c) Tax Exempt Debt  
   d) Reverse Repo

18. Cash flow forecasting is used for all of the following EXCEPT:
   a) optimizing the use of the government’s funds.  
   b) identifying aggressive investment opportunities.  
   c) insuring liquidity.  
   d) avoiding need to sell securities before maturity.

19. Interest rates are generally ________ at the peak of the business cycle and beginning the retreat into recession.
   a) high and falling  
   b) low and rising  
   c) high and rising  
   d) low and falling

20. What tool does the Federal Reserve Board NOT USE to meet its goal of maximizing employment and minimizing inflation?
   a) Open market operations  
   b) Set discount window rates  
   c) Set Bank Reserve requirements  
   d) Set tax rates and government spending levels
Sample Examination

21. Diversifying investments in a portfolio can help to reduce portfolio risk. Diversification can be achieved by all of the following EXCEPT:
   a) buying the highest quality assets.
   b) limiting investments in a particular business sector.
   c) limiting investments from a specific issuer.
   d) varying the credit quality of investments.

22. Which of the following are required to comply with the Federal Reserve Bank of New York’s capital adequacy guidelines?
   a) Primary dealers
   b) Second-tier dealers
   c) Regional dealers
   d) Direct issuers

23. The practice of using delivery vs. payment (DVP) procedures when buying/selling an investment protects an investor from:
   a) churning.
   b) fraud.
   c) price gouging.
   d) market risk.

24. Credit risk can be minimized by:
   a) limiting the number of investments in a portfolio that are subject to rapid market swings.
   b) keeping maturities fairly short if interest rates are expected to rise.
   c) investing only in U.S. Treasury securities.
   d) employing a buy-and-hold investment strategy.

25. Non-negotiable certificates of deposit are:
   a) available on the secondary market.
   b) highly volatile derivatives.
   c) guaranteed by the full faith and credit of the U.S. government.
   d) illiquid.

26. A prudent reason to use reverse repurchase agreements is to:
   a) enhance portfolio returns through leveraging.
   b) diversify investments in a portfolio.
   c) avoid liquidating securities to meet cash shortfalls.
   d) avoid arbitrage calculations for bond proceeds.

27. A wire transfer agreement with the government’s bank is important because it:
   a) specifies the responsibilities and liabilities of the parties to the transaction.
   b) is required by the National Automated Clearing House Association (NACHA).
   c) reduces processing time and allows the government to earn extra investment income.
   d) is required by the Federal Reserve for delivery vs. payment (DVP) transactions.

28. Marking-to-market refers to the practice of:
   a) comparing the historical cost of an investment to its value at maturity.
   b) determining the relative value of investments in various market sectors.
   c) comparing investment performance to a benchmark.
   d) determining the market value of an investment in a portfolio.

29. An investment adviser with discretionary authority:
   a) executes investment transactions on the government’s behalf.
   b) must obtain the government’s approval for each investment transaction.
   c) acts as a government’s safekeeping agent.
   d) provides indemnification for counterparty failures.
Sample Examination

30. Collection float can be reduced by using which of the following?
   a) Remote deposit capture
   b) Purchasing card program
   c) Positive pay
   d) Concentration account

31. GFOA’s Sample Investment Policy states that to mitigate interest rate risk, the government shall:
   a) limit investments to the safest types of securities.
   b) diversify the investment portfolio.
   c) invest primarily in longer-term securities.
   d) structure the investment portfolio with maturities to match cash needs.

32. Credit analysis of banks should consider:
   a) cross-industry and time-series ratio analysis.
   b) CRA rating.
   c) expected size of deposits.
   d) capital adequacy.

33. Repurchase agreements are:
   a) derivatives.
   b) buy-sell transactions.
   c) unsecured lending arrangements.
   d) collateralized loans.

34. Required rates of return on U.S. Government fixed income investments include a real rate of return to compensate investors for deferring consumption and additional required return to compensate for:
   a) recent inflation.
   b) expected inflation.
   c) market risk.
   d) reinvestment rate risk.

35. To maintain a high credit rating, rating agencies expect governments to:
   a) keep a fund balance equal to 25% of annual revenues.
   b) avoid derivative securities.
   c) have a written investment policy.
   d) issue bonds regularly.

36. Which of the following techniques should a public sector investor use to reduce the risks of dealing with unscrupulous securities dealers?
   a) Keep all funds on deposit at local banks
   b) Execute trades only with in-state firms
   c) Execute trades only with primary dealers
   d) Avoid buying securities from “cold calls”

37. Every investment policy should contain a concise statement of objectives because it:
   a) limits liability in case of investment losses.
   b) ensures the safety of the funds covered by the policy.
   c) sets the tone and direction of the investment program.
   d) reduces credit risk in the portfolio.

38. Which of the following is NOT a goal of cash flow forecasting?
   a) optimize use of funds
   b) meet liquidity needs
   c) mitigate need for short-term borrowing
   d) establish prioritization of expenditures

39. A Separately Managed Account (SMA) provides:
   a) benefits of professionally managed assets
   b) direct ownership of assets
   c) a pooled investment product
   d) both a. and b.
Sample Examination

40. Which of the following is NOT considered a passive investment strategy?

   a) Matching disbursements
   b) Yield curve optimization
   c) Laddering
   d) Cash horizon investing
Sample Examination

KEY:

1. D
2. D
3. D
4. A
5. A
6. D
7. C
8. C
9. C
10. C
11. D
12. D
13. C
14. B
15. D
16. B
17. B
18. B
19. A
20. D
21. A
22. A
23. B
24. C
25. D
26. C
27. A
28. D
29. A
30. A
31. D
32. D
33. B
34. B
35. C
36. D
37. C
38. D
39. D
40. B