

TREASURY MANAGEMENT EXAMINATION (12/2018)

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

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10. The Investment Policy Checklist for Pension Fund Assets indicates which of the following as the primary determinant of investment return?
- Diversification
 - Credit quality
 - Asset allocation
 - Security selection
11. Treasury securities are:
- considered by most investors to be the safest investments in the world.
 - federally taxable to investors.
 - generally more liquid than corporate obligations.
 - All of the above.
12. An investment policy statement should include which of the following?
- Policies regarding ethics and conflicts of interest
 - A statement of the standard of care
 - Delegation of investment authority
 - All of the above
13. Liquidity is:
- the frequency with which a government trades its securities.
 - the speed with which a government invests its cash resources into securities.
 - the ability to convert securities quickly into cash without loss in value.
 - the gain due to accurate trading timing.
14. The relationship between fixed-income security prices and interest rates can be described as:
- Direct
 - Inverse
 - Proportional
 - Unrelated
15. An upward sloping yield curve is also known as:
- Abnormal
 - Inverted
 - Flat
 - Normal
16. Which of the following takes priority in cash management?
- Reducing float
 - Maintaining liquidity
 - Obtaining highest yield
 - Speed in processing
17. Which of the following is preferred for the majority of the government's short-term borrowing?
- Direct loan
 - Line of credit
 - Tax Exempt Debt
 - Reverse Repo
18. Cash flow forecasting is used for all of the following EXCEPT:
- optimizing the use of the government's funds.
 - identifying aggressive investment opportunities.
 - insuring liquidity.
 - 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.
- high and falling
 - low and rising
 - high and rising
 - low and falling
20. What tool does the Federal Reserve Board NOT USE to meet its goal of maximizing employment and minimizing inflation?
- Open market operations
 - Set discount window rates
 - Set Bank Reserve requirements
 - Set tax rates and government spending levels

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21. Diversifying investments in a portfolio can help to reduce portfolio risk. Diversification can be achieved by all of the following EXCEPT:
- buying the highest quality assets.
 - limiting investments in a particular business sector.
 - limiting investments from a specific issuer.
 - 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?
- Primary dealers
 - Second-tier dealers
 - Regional dealers
 - Direct issuers
23. The practice of using delivery vs. payment (DVP) procedures when buying/selling an investment protects an investor from:
- churning.
 - fraud.
 - price gouging.
 - market risk.
24. Credit risk can be minimized by:
- limiting the number of investments in a portfolio that are subject to rapid market swings.
 - keeping maturities fairly short if interest rates are expected to rise.
 - investing only in U.S. Treasury securities.
 - employing a buy-and-hold investment strategy.
25. Non-negotiable certificates of deposit are:
- available on the secondary market.
 - highly volatile derivatives.
 - guaranteed by the full faith and credit of the U.S. government.
 - illiquid.
26. A prudent reason to use reverse repurchase agreements is to:
- enhance portfolio returns through leveraging.
 - diversify investments in a portfolio.
 - avoid liquidating securities to meet cash shortfalls.
 - avoid arbitrage calculations for bond proceeds.
27. A wire transfer agreement with the government's bank is important because it:
- specifies the responsibilities and liabilities of the parties to the transaction.
 - is required by the National Automated Clearing House Association (NACHA).
 - reduces processing time and allows the government to earn extra investment income.
 - is required by the Federal Reserve for delivery vs. payment (DVP) transactions.
28. Marking-to-market refers to the practice of:
- comparing the historical cost of an investment to its value at maturity.
 - determining the relative value of investments in various market sectors.
 - comparing investment performance to a benchmark.
 - determining the market value of an investment in a portfolio.
29. An investment adviser with discretionary authority:
- executes investment transactions on the government's behalf.
 - must obtain the government's approval for each investment transaction.
 - acts as a government's safekeeping agent.
 - provides indemnification for counterparty failures.

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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.

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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

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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