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Exam : ICWIM

Title : International Certificate in Wealth & Investment Management

Version : DEMO

1.The concept of the Sharpe ratio is to measure the:
A. Amount of performance attributable to a benchmark
B. Return above a risk-free rate
C. Effect the annual charge has on fund performance
D. Ability of the fund manager in different scenarios
Answer: B
Explanation:
Sharpe Ratio Defined
The Sharpe ratio measuresrisk-adjusted return, specifically the excess return over the risk-free rate per unit of volatility.
Formula: Sharpe Ratio=Portfolio Return - Risk-Free RateStandard Deviation of Portfolio Returns ext{Sharpe Ratio} = rac{ ext{Portfolio Return - Risk-Free Rate}}{ ext{Standard Deviation of Portfolio Returns}}Sharpe Ratio=Standard Deviation of Portfolio ReturnsPortfolio Return - Risk-Free Rate? Why the Answer is B
The ratio quantifies the return generated for each unit of risk taken, relative to the risk-free rate.
Why Other Options are Incorrect
A. Benchmark performance: The Sharpe ratio does not measure performance relative to a benchmark.
C. Annual charge effect: Unrelated to fund expenses.
D. Manager ability: Focuses on risk-adjusted returns, not managerial skill.
ICWIM Study Guide, Chapter on Risk-Adjusted Metrics: Explains the Sharpe ratio.
Portfolio Management Literature: Highlights its use in assessing performance.
Reference: Thus, the correct answer isB. Return above a risk-free rate.

2.Once a company reaches the point known as the minimum efficient scale, the "theory of the firm" suggests that the company should:
A. Halt its output expansion
B. Accelerate its output expansion
C. Increase its unit price
D. Decrease its unit price
Answer: D
Explanation:
Minimum Efficient Scale:
This is the point where a company achieves the lowest average cost per unit due to economies of scale. Once this level is reached, the firm can afford to lower prices to remain competitive and expand market share.
Elimination of Other Options:
A: Halting expansion would waste the cost advantages achieved.
B: Accelerating output expansion could lead to diseconomies of scale.
C: Increasing unit prices is counterintuitive at this stage.
Reference: ICWIM Module 3: Coverage of cost structures and the theory of the firm.

3.A business may need key person protection because:
A. The business relies on the input of an individual
B. It is a very small business

C. It is to cover a very significant customer
D. Its profits are very seasonal
Answer: A
Explanation:
Key Person Protection:
This insurance protects a business against financial loss if a critical employee (e.g., founder, CEO) becomes incapacitated or dies.
It is designed to mitigate reliance on essential individuals whose absence would disrupt operations.
Elimination of Other Options:
B: Size of the business is not the determining factor.
C: Significant customers are protected under other insurance (e.g., credit insurance).
D: Seasonal profits do not relate to key person risk.
Reference: ICWIM Module 5: Focus on business risk management and insurance needs.

4.How would an active fund manager seek to avoid underperforming their peer group when deciding on asset allocation?
A. Through the use of asset allocation by consensus
B. By assessing the prospects for each main asset class
C. By hedging currency and market risk
D. Through the use of quantitative models
Answer: A
Explanation:
Active Fund Management
Active fund managers aim to outperform or avoid underperforming their peers by dynamically managing asset allocation.
Asset allocation by consensus ensures alignment with the strategies and expectations of the broader investment community, minimizing the risk of significant divergence from the peer group.
Why the Answer is A
Using consensus-driven allocation avoids extreme deviations in performance relative to peers, which is key for managers seeking to maintain competitive performance.
Why Other Options are Incorrect
B. Assessing prospects: This involves market analysis but does not specifically address peer performance.
C. Hedging risks: Focuses on risk management, not peer alignment.
D. Quantitative models: Useful for analysis but not tailored to peer group considerations.
ICWIM Study Guide, Chapter on Portfolio Management: Discusses consensus-driven asset allocation.
Active Fund Management Literature: Highlights peer-relative performance strategies.
Reference: Thus, the correct answer is A. Through the use of asset allocation by consensus.

5.A rise in living standards will tend to:
A. Reduce the demand for commodities
B. Have no effect on commodities
C. Increase government participation in the commodities markets
D. Create an increased demand for commodities

Answer: D
Explanation:
Understanding the Question Context: The question examines the relationship between rising living standards and commodity demand. Commodities refer to basic goods used in commerce that are interchangeable with others of the same type, such as agricultural products (wheat, coffee), energy products (oil, gas), and metals (gold, copper).
Impact of Rising Living Standards:
Economic Theory: As living standards improve, disposable incomes generally increase, allowing individuals to purchase more goods and services.
Consumption Patterns: Higher living standards drive demand for:
Energy commodities: Increased vehicle ownership and industrial activity raise the demand for oil, gas, and electricity.
Agricultural commodities: Rising incomes lead to greater consumption of diverse and higher-quality food, including meat and grains (used for feed).
Industrial and precious metals: Construction, technology, and luxury markets grow with increased disposable income, driving demand for metals like steel, copper, and gold.
Explanation of the Correct Option (D):
Increased Demand: A direct relationship exists between rising living standards and commodity demand, as seen in both developed and developing economies.
Historical Context: Economic growth in emerging markets (e.g., China, India) has shown a clear correlation between rising GDP per capita and increased commodity consumption.
Rejection of Incorrect Options:
A (Reduce the demand for commodities): This contradicts economic principles; higher living standards typically boost demand for goods and services, including commodities.
B (Have no effect on commodities): Evidence shows a significant impact on commodities, making this incorrect.
C (Increase government participation in the commodities markets): While governments may engage in commodity markets for regulatory or strategic purposes, this is not a direct consequence of rising living standards.
Reference: from the International Certificate in Wealth & Investment Management:
Module 1: Macroeconomic Environment: Emphasizes the correlation between economic growth and demand for natural resources and commodities.
Module 3: Investment Assets and Markets: Discusses the role of commodities as essential assets whose demand rises with economic development and improved living standards.
Module 6: Trends in Emerging Markets: Demonstrates the increase in commodity demand with economic progression in developing economies.