

LO.a: Explain ethics.

1. Standards of conduct can be *least likely* described as:
 - A. a set of principles that define rules for acceptable and forbidden behaviour.
 - B. minimal acceptable behaviour expected of members of a community.
 - C. a set of principles that define the legal boundaries of a community.
2. Which of the following statements is *most likely* correct?
 - A. Ethics can be described as a set of moral principles that provide guidance for our behaviour.
 - B. Ethical conduct is behaviour that balances one's own interest with only the direct consequences of the behaviour on others.
 - C. Professional associations adopt a code of ethics to protect their own professional community.

LO.b: Describe the role of a code of ethics in defining a profession.

3. A profession can be *best* described as:
 - A. work done to earn a livelihood in the short-term.
 - B. a job that requires specialized skills, is based on the service to others and requires adherence to a code of ethics.
 - C. a job to which one is well suited.
4. Which one of the following is a *least likely* reason for a profession to establish a code of ethics?
 - A. A code of ethics serves as an aid in decision-making.
 - B. A code of ethics helps instil confidence among clients and prospective clients.
 - C. A code of ethics helps ensure that members of the profession will follow the law.
5. Which one of the following statements *most likely* differentiates clients from customers?
 - A. A client's relationship is transactional in nature whereas a customer uses the services of a professional on an ongoing basis.
 - B. A customer's relationship is limited to small transactions whereas a client engages in relatively large transactions.
 - C. A customer's relationship is transactional in nature whereas a client uses the services of a professional on an ongoing basis.

LO.c: Identify challenges to ethical behavior.

6. Which of the following is *least likely* a challenge faced by professionals to display ethical behaviour?
 - A. People tend to believe they are more ethical than they actually are.
 - B. People tend to underestimate their own morality.
 - C. People tend to underestimate the impact of situational influences.
7. Which of the following statements is *most likely* correct?
 - A. Money and prestige prod people to act in their own self-interests and take actions that are less ethical.

- B. Loyalty to employer and colleagues can only have a positive effect on one's ethical behaviour.
- C. Processes focused solely on compliance simplify decision making and help the larger cause.

LO.d: Describe the need for high ethical standards in the investment industry.

8. Which of the following statements is *least likely* accurate? Trust is particularly important in the investment profession because:
 - A. investment professionals have specialized knowledge and access to information is asymmetrical.
 - B. products and services in the investment industry tend to be intangible.
 - C. returns cannot be guaranteed for most types of investments.
9. Which of the following statements is *most likely* accurate?
 - A. Ethical firms are subject to higher costs as compared to less ethical firms.
 - B. Investors expect a lower return on their capital when they lose trust.
 - C. Lack of trust in financial markets can lower investments consequently harming society.

LO.e: Distinguish between ethical and legal standards.

10. Which of the following is *most likely* a good example of ethical conduct?
 - A. Make appropriate choices even in the absence of clear laws.
 - B. Restrict one's behaviour to what is legally acceptable.
 - C. Make sensible decisions that minimize the risks to one's employer only.
11. Which of the following is *least likely* a reason for laws being insufficient to ensure ethical conduct among market participants?
 - A. Laws can be interpreted differently.
 - B. Laws are largely the same across jurisdictions.
 - C. Passing a law takes significant time.

LO.f: Describe and apply a framework for ethical decision making.

12. Which of the following statements about ethical decision framework is/are *most likely* accurate?
 - **Statement 1:** An ethical decision framework helps decision makers justify actions to stakeholders.
 - **Statement 2:** Too many choices can at best lead to inaction.
 - **Statement 3:** An ethical decision framework serves as a tool for investment professionals to choose the best possible alternative.
 - A. Statement 1 and 3.
 - B. Statement 3 only.
 - C. Statement 1, 2 and 3.
13. Which of the following parties should an investment professional consider as stakeholders while making decisions in an ethical manner?
 - A. Employer and clients only.

- B. Clients and market participants only.
 - C. Employer, clients, family and market participants.
14. Which of the following would be a step in the consideration phase in an ethical decision-making process?
- A. Assess the decision to see if it had the desired outcome.
 - B. Seek guidance to navigate through situational influences.
 - C. Assess any potential conflicts of interest.

Solutions

1. C is correct. Standards of conduct can sometimes be different from what is stated in the law. Statements A and B are accurate descriptions of standards of conduct.
2. A is correct. Statement B is incorrect because ethical conduct is behaviour that balances one's own interest with the direct and indirect consequences of the behaviour on others. Statement C is incorrect.
3. B is correct. A profession is a type of job that 1) requires specialized training and skills, 2) is based on service to others, and 3) is practiced by members who share and adhere to a common code of ethics.
4. C is correct. The code of ethics cannot ensure that members of the profession will follow the law. Statements A and B are true.
5. C is correct. Clients differ from customers. A customer is one who engages in a single or a series of transactions to buy a good or service. The relationship is transactional in nature. A client, on the other hand, uses the services of a professional for his knowledge and skills on the subject on an ongoing basis, for a fee.
6. B is correct. Challenges faced by professionals to display ethical behaviour include: 1) overestimating one's morality and 2) underestimating the effect of situational influences.
7. A is correct. Statement B is incorrect because loyalty can have both positive and negative effects towards one's behaviour. Statement C is incorrect because processes focused solely on compliance oversimplify decision making and that does not necessarily help the larger cause.
8. C is correct. Statement A and B are valid reasons for trust being important in the investment profession. C does not represent a reason for why trust is particularly important in the investment industry.
9. C is correct. Statement A is incorrect because ethical firms enjoy lower costs as they are not subjected to investigations by regulators. Statement B is incorrect because when investors lose trust, they expect higher returns for their capital, which in turn increases the cost for borrowers.
10. A is correct. Statement B is incorrect because ethical conduct requires a professional to go beyond what is legally required. Statement C is incorrect because a professional should minimize the risks of all stakeholders such as the employer, clients, family, and market participants.
11. B is correct. Laws can vary across jurisdictions. This may encourage questionable practice to move to places that are less restrictive in nature. Statements A and C are valid reasons for why the law alone might be insufficient to ensure ethical behaviour.
12. C is correct. All three statements regarding ethical decision frameworks are correct.

13. C is correct. An investment professional should consider the risk to all stakeholders such as employer, clients, family, and market participants while making decisions.
14. B is correct. Statement A is a step once the decision is already made and Statement C is a step in the identification phase of the ethical decision-making process.