Question 1: All funds make regular distributions to investors of any income they have realized on their investments, such as the capital gains from selling securities. Why?

- ☐ A) To reduce tracking error with their indexes.
- ☐ B) To avoid forcing their investors to realize tax events.
- ☐ C) To meet investor demand for high rates of cash payout.
- ☐ D) To qualify for exemption from corporate income tax.

Question 2: Which of these fund types represents the most assets in the United States?

- ☐ A) Closed-end fund.
- ☐ B) Mutual fund.
- ☐ C) Exchange-traded fund.
- ☐ D) Hedge fund.

Question 3: Which of the following is more important for a mutual fund than an ETF?

- ☐ A) Maintaining cash balances to meet investor redemptions.
- ☐ B) Distributing dividends and coupons received on portfolio investments.
- ☐ C) Informing authorized participants about the fund's holdings.
- ☐ D) In-kind transactions to create or redeem shares.

Suppose a fund's balance sheet consists of 1000 shares outstanding, 100 shares of another company's stock that are each worth $20, and $500 cash. It has no liabilities.

Question 4: What is the fund's NAV per share?

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Question 5: Suppose an investor redeems 100 shares of the fund, and the fund uses its cash to cover this redemption. What will be the fund's NAV per share afterward?

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