

300Hours: CFA Level 1 Mock Exam

This Chartered Financial Analyst (CFA®) Mock Exam has 90 questions, courtesy of IFT.

To best simulate the exam day experience, candidates are advised to allocate an average of 1.5 minutes per question for a total of 135 minutes (2 hours 15 minutes) for this session of the exam.

Once completed, please submit your answers at <https://3h.rs/CFAL1Mock> to get your score, performance benchmark and answer explanations.

1. Ethical and Professional Standards

Sumita Khatri wrote a research report and followed the necessary due diligence steps before sharing the report with her client. It turned out that there was a mistake in the report. This was pointed out by her client. Khatri apologized and re-submitted the corrected report.

Did Khatri violate any CFA Institute Standards?

- A. No.
- B. Yes, relating to performance presentation.
- C. Yes, relating to misconduct.

2. Ethical and Professional Standards

Aryana Reid, CFA, is a private wealth manager. She writes a popular blog called “Aryana’s Investments” that has several thousand subscribers. The objective of the blog is to attract new clients; every post is also sent as an e-mail to its subscribers. The blog posts are usually a detailed analysis about her investment recommendations and actions.

Recently, Reid issued a sell recommendation for Jubilant Inc. However, a few days after publishing her initial recommendation, she decides to change the recommendation from sell to buy based on some new information.

In order to comply with the CFA Institute Standards, which of the following is the *most appropriate* method for disseminating the change in investment recommendation?

- A. Publish the post and send it as a mail to the blog subscribers.
- B. Publish the post, send a mail to blog subscribers and email her clients simultaneously.
- C. Email her clients first.

3. Ethical and Professional Standards

Kent Miller is an investment adviser at UBN Investments, who is registered to take Level I of the CFA Exam. He meets with Carrie Hartford, a new client of the firm, who has just moved her account from Northern Investment Bank. She tells Miller that she has read about derivatives and would like to invest in them. Miller explains the upside potential and downside risks of some strategies with derivatives and recommends protective put for her portfolio.

To be consistent with the CFA Institute Standards, Miller should:

- A. determine Hartford’s needs, objectives, and tolerance for risk before making a recommendation.

- B. explain to Hartford in detail about the characteristics of his firm and the investment vehicles it offers, including the nature of the industry.
- C. explain to Hartford his recent candidacy in the CFA Program, and its importance within the investment community.

4. Ethical and Professional Standards

Justin Zoghlin, CFA, was hired as a wealth manager to manage the \$2 billion estate of a family in Oklahoma a year ago. He was given the flexibility to choose his working hours. When Zoghlin took the job, he served as the President of his religious community that conducted social welfare programs on a regular basis. In addition, he managed the investments for his large extended family. He did not get paid for his religious community activity or the family investments. Seeing the impressive returns he generated, his friends persuaded him to manage their investments, as well.

Now, a year later, he has stopped serving the religious community. He manages investments for non-family members, but charges 10% of the portfolio value as his fee. Zoghlin has not informed his employer of any of these activities.

With regard to which of the business activities, has Zoghlin *least likely* violated the CFA Institute Standards of Professional Conduct?

- A. Serving the religious community.
- B. Managing non-family investments.
- C. Managing family investments.

5. Ethical and Professional Standards

Rani Kaporwala, CFA, an analyst at Smart Securities, has just finished writing a newsletter to the firm's clients about a new investment strategy involving derivatives. Due to the complex nature of the strategy designed to manage risk and the different trading patterns involved in various economic scenarios, Kaporwala decides to include only the top three liquid securities, with relatively lower volatility in the market to explain the strategy. She consequently withholds information regarding the portfolio construction and valuation scheme.

Has Kaporwala violated any CFA Institute Standards?

- A. No.
- B. Yes, relating to communications with clients and prospective clients.
- C. Yes, relating to fair dealing.

6. Ethical and Professional Standards

Cara Knightly is a much respected portfolio manager at RMC investment management company. Knightly is planning to sell her shares in General Tyre Company (GTC) from her personal portfolio to pay for her child's college tuition. Knightly duly informs her supervisor according to the firm's pre-clearance procedures and receives approval. RMC has however published its research report on GTC with a "buy" recommendation, and Knightly has advised some of her clients to purchase the stock for their portfolios, where suitable.

Has Knightly violated any CFA Institute Standards?

- A. Yes, related to priority of transactions.
- B. Yes related to loyalty, prudence, and care.
- C. No.

7. Ethical and Professional Standards

Andy McCarthy, CFA, resigns from his position as a portfolio manager with Drexell Investments and takes up a part-time teaching position at a local college. For the next two years, he does not file a completed Professional Conduct Statement with CFA Institute and does not pay his CFA Institute membership dues.

After two years, McCarthy starts his independent practice as a financial analyst and writes his CFA designation on his business cards and next to his name. McCarthy does not reinstate his CFA Institute membership by filing his Professional Conduct Statement and paying the CFA membership fees. He feels that for the past two years he has not been involved in the investment profession therefore he is not required to reinstate his CFA Institute membership.

Has McCarthy violated any CFA Institute Standards?

- A. No.
- B. Yes, relating to reference to the CFA Institute, the CFA designation, and the CFA Program.
- C. Yes, relating to loyalty.

8. Ethical and Professional Standards

During lunch with his friend, who is an analyst in the software industry, John Smith, CFA, a trader with Zeta Capital finds out that there are rumors of a merger between two software companies. Smith has always valued his friend's suggestions and the next day places a large buy order to be distributed equally to all discretionary accounts for which the target firm is suitable. He also informs all his non-discretionary accounts of the recommendation.

By acting on his friend's advice did Smith violate any CFA Institute Standards of Professional Conduct?

- A. Yes, with respect to diligence and reasonable basis.
- B. Yes, with respect to priority of transactions.
- C. Yes, with respect to fair dealing.

9. Ethical and Professional Standards

Which of the following is *least likely* correct under the Code and Standards?

- A. Financial analysts may use conclusions as recommendations derived from analysis of public and non material nonpublic information, even if those conclusions would have been material inside information if directly communicated by the company.
- B. Financial analysts are free to act on material nonpublic information if it is received from industry experts.
- C. Member or candidate should make reasonable efforts to achieve public dissemination of material information.

10. Ethical and Professional Standards

Stewart is an analyst at a small investment firm, Axel Capital. While meeting a former colleague named Andre, Stewart finds out that GYTEX will announce its quarter-end earnings before the end of the week. Andre expects GYTEX's quarter-end earnings to be almost 8% higher than the current market expectations. Stewart has always valued Andre's opinion in the past.

The next day, Stewart checks his firm's recommendation of the stock and learns that it is a "hold". The portfolio managers at Axel have not placed any purchase orders for GYTEX. Stewart feels he does not have a reasonable basis to suggest a change in recommendation to the portfolio managers of his firm. The following day, Stewart buys a significant number of GYTEX's shares for his personal portfolio and completes the transaction a day before the earnings announcement. Prior to trading in GYTEX's stock, Stewart conforms to the compliance procedures of his firm, receives pre-clearance for trade and fulfils all the reporting requirements of Axel.

Has Stewart violated the Code and Standards?

- A. Yes, relating to priority of transactions.
- B. No.
- C. Yes, relating to material nonpublic information.

11. Ethical and Professional Standards

Which of the following actions is *least likely* to ensure fair treatment of clients of an asset management firm when an investment recommendation is changed?

- A. Distributing recommendation to high net worth and institutional clients prior to individual accounts.
- B. Minimizing the time between decision and dissemination of the investment recommendation.
- C. Limiting the number of people involved who are privy to the information that the recommendation is going to be disseminated.

12. Ethical and Professional Standards

Which of the following is *not correct* about verification?

- A. Verification must be performed by an independent third-party.
- B. A firm cannot perform its own verification.
- C. Verification ensures compliance of specific composites and departments.

13. Ethical and Professional Standards

Which of the following is *not* a requirement of GIPS for composite construction?

- A. one or more portfolios.
- B. portfolios selected on an ex-post basis.
- C. portfolios managed according to a similar investment strategy.

14. Quantitative Methods

Cassandra Turnbull is planning a college fund for her daughter who will start college after exactly 6 years. The expected college expense will be USD55,000 per year payable at the start of each year for four years. Turnbull plans to invest in a fund which yields 6%. Turnbull has USD100,000 in savings at this time.

What equal amount must she invest at the end of year 1, year 2, year 3, year 4 and year 5 to fund her daughter's four-year college?

- A. USD10,069.
- B. USD18,116.
- C. USD24,000.

15. Quantitative Methods

An equity analyst has categorized some stocks based on the industry sector to which they belong.

Which measurement scale is the analyst *most likely* using?

- A. Interval.
- B. Nominal.
- C. Ordinal.

16. Quantitative Methods

Steve Rowling is analyzing the historical performance of a portfolio manager who claimed to outperform its benchmark 70 percent of the time over a one-year time horizon. Steve has eight months record of the portfolio manager's monthly performance. The portfolio manager outperformed the benchmark in five months.

If all the outperformance results are independent and the portfolio manager's performance is as claimed, what is the probability of observing two or fewer profitable recommendations out of eight in total?

- A. 7.5 %
- B. 5.76 %
- C. 11.3 %

17. Quantitative Methods

An economist is evaluating the relation between economic growth and currency appreciation. He uses historical data to determine the probability that the economy grows is 63%, the probability that the economy shrinks is 24% and the probability that the economy stays flat is 13%. He later finds out that the currency appreciates.

The economist estimates that given the new information regarding the currency, the probabilities that the economy, shrinks or stays flat are as follows:

- $P(\text{currency appreciation} \mid \text{economy shrinks}) = 11\%$
- $P(\text{currency appreciation} \mid \text{economy grows}) = 74\%$
- $P(\text{currency appreciation} \mid \text{economy unchanged}) = 15\%$

What is the probability that the economy will shrink, given the new information that the currency appreciated?

- A. 5.16%
- B. 11.0%
- C. 23.5%

18. Quantitative Methods

Bernhard Schwaiger, an equity analyst, wants to look at the ROE of all the companies in the S&P 500 for the year 2015. He would *most likely* require:

- A. time-series data.
- B. cross-sectional data.
- C. panel data.

19. Quantitative Methods

Which of the following types of probabilities is *most likely* based on historical data?

- A. An empirical probability.
- B. A priori probability.
- C. A subjective probability.

20. Quantitative Methods

It is *least likely* for a binomial random variable that:

- A. the standard deviation of the variable is $np(1 - p)$.
- B. the probability of success, p , is constant for all trials.
- C. the experiment has only two outcomes.

21. Quantitative Methods

Choosing not to reject a null hypothesis that the return on an investment grade bond that we are considering to buy is more than zero percent, is *most likely* a:

- A. statistical decision.
- B. economic decision.
- C. investment decision.

22. Quantitative Methods

Which of the following is *least likely* true for a normal probability distribution?

- A. It has an excess kurtosis of 3.0.
- B. The mean is equal to the median.
- C. It is completely described by its mean and (or standard deviation).

23. Economics

Assume that the nominal spot exchange rate (USD/AUD) increases by 6.5 percent, the Australian price level decreases by 2.5 percent, and the U.S. price level increases by 2 percent. The change in the real exchange rate is *closest* to:

- A. 1.80 percent.
- B. 1.82 percent.
- C. 1.14 percent.

24. Economics

A firm will *most likely* shut down its production in the short-run, when:

- A. the total revenue is less than the total cost.
- B. the total revenue is less than the total variable cost.
- C. the marginal revenue is equal to the marginal cost.

25. Economics

Which of the following statements about Giffen goods is *least accurate*?

- A. Demand curve is positively sloped.
- B. Income effect overwhelms the substitution effect.
- C. Income and substitution effects are in the same direction.

26. Economics

Aggregate demand (AD) curve will shift left if:

- A. interest rates are lower.
- B. taxes are higher.
- C. companies are operating at near or full capacity.

27. Economics

Assume that the nominal spot exchange rate (USD/EUR) increases by 7.2%, the eurozone price level decreases by 3%, and the U.S. price level increases by 2%.

The change in the real exchange rate (%) is *closest* to:

- A. 12.72 %.
- B. 1.94 %.
- C. -2.52%

28. Economics

According to the Fischer effect, a decrease in expected inflation will most likely decrease:

- A. both nominal and real interest rates.
- B. the nominal interest rate.
- C. the real interest rate.

29. Economics

A large country wants to increase its national welfare by imposing a tariff. Assuming its trading partner does not retaliate, which of the following conditions must hold in order for the large country to achieve its objective?

- A. It must have a comparative advantage in the production of the imported good.
- B. The deadweight loss must be smaller than the benefit of its improving terms of trade.
- C. It must auction the import licenses for a fee to offset the decline in the consumer surplus.

30. Economics

One of the reasons aggregate demand curve is downward sloping is because a higher price level means that the real exchange rate:

- A. depreciates, making domestic goods cheaper in other countries and imports less competitive, resulting in a higher level of net exports.
- B. appreciates, making domestic goods more expensive in other countries and imports more competitive, resulting in a lower level of net exports.
- C. appreciates, making the country's exports and imports less competitive and leading to lower net exports.

31. Economics

The firms involved in a cartel have collusive agreements. Collusion is successful in some cases, but not in all. Which of the following factors will *most likely* result in the collusive behavior being overpowered?

- A. Homogenous products.
- B. Few firms having similar market shares.
- C. Similar cost structures.

32. Financial Reporting and Analysis

Which of the following companies will have the lowest financial reporting quality?

- A. A company that combines the results of the two segments it operates in: healthcare and retail.
- B. A company that reports good performance due to favorable exchange rate movement.
- C. A company that provides delayed reports, but ones that are GAAP-compliant and decision-useful.

33. Financial Reporting and Analysis

A separate purchases account is *most likely* required by:

- A. the periodic inventory system.
- B. the perpetual inventory system.
- C. the specific identification valuation method.

34. Financial Reporting and Analysis

Pardew Jewels had 340,000 common shares outstanding and 45,000 shares of preferred stock paying USD10 dividend per share. Each preferred share is convertible into one common share. In 2008, the company reported a net income of USD2.1 million for the year.

What is the reported diluted EPS on the company's financial statements?

- A. 4.85
- B. 5.45
- C. 6.18

35. Financial Reporting and Analysis

A company recently purchased a warehouse property and related equipment for EUR 20 million, which were valued by an appraiser as follows: land EUR 6 million, building EUR 9 million, and equipment EUR 8 million.

The company incurred the following additional costs in getting the warehouse ready to use:

- EUR 0.3 million to modify the interior layout to meet their needs
- EUR 1.0 million for repairs to the building's roof and windows which will extend the life of the building
- EUR 0.2 million on an orientation and training session for employees to familiarize them with the facility

The cost to be capitalized to the building account (in millions) for accounting purposes is *closest* to:

- A. EUR 20.0.
- B. EUR 21.3.
- C. EUR 24.5.

36. Financial Reporting and Analysis

Larson Inc. is involved in manufacturing consumer products and has a series of outlets which are being operated through contractual agreements separately.

One of the Companies with which it has contractual agreement is GoTo. All inventory risk and credit risk on all goods which are being sold via these outlets is borne by Larson. Larson pays commissions to GoTo. Prices are being used as set by Larson Inc.

During 2019, Larson had the following information:

- Total sales price of items sold by Larson through GoTo during 2019 was USD4,750,000.
- Total commissions paid by Larson to GoTo during 2019 for these items was USD800,000.

Which of the following statement(s) is *most likely* correct with respect to the above stated information?

- A. GoTo should report USD4,750,000 revenue on its 2019 income statement.
- B. GoTo should report USD800,000 revenue on its 2019 income statement.
- C. GoTo should report USD3,950,000 revenue on its 2019 income statement.

37. Financial Reporting and Analysis

The most appropriate way to account for the assets, that have been selected to be spun-off, until the distribution occurs is to classify them as:

- A. held for sale with no depreciation taken.
- B. held for use until disposal with no depreciation taken.
- C. held for use until disposal with depreciation continuing to be taken.

38. Financial Reporting and Analysis

For 2013, Judy Co. reported cost of goods sold of USD25 million, beginning inventory of USD2 million, and an ending inventory of USD5 million. If the accounts payable increased by USD3 million, the cash paid to its suppliers during the year is closest to:

- A. USD22 million.
- B. USD25 million.
- C. USD28 million.

39. Financial Reporting and Analysis

A company wants to match the actual historical cost of the inventory items to their physical flow, the inventory valuation method that *most likely* achieves this objective is:

- A. FIFO
- B. LIFO
- C. Specific identification

40. Financial Reporting and Analysis

In a cash flow statement prepared according to US GAAP, interest paid is *most likely* included in which activity?

- A. Operating.
- B. Financing.
- C. Either operating or financing.

41. Financial Reporting and Analysis

An analyst is most likely to conclude that there are problems with the quality of a company's earnings if the cash flow earnings index (operating cash flow divided by net income) were consistently:

- A. equal to 1.0.
- B. less than 1.0.
- C. greater than 1.0.

42. Financial Reporting and Analysis

A company issues bonds of £5 million face value. For this issuance, the company will record a:

- A. cash inflow from investing activities.
- B. cash outflow from financing activities.
- C. cash inflow from financing activities.

43. Financial Reporting and Analysis

Which of the following statements is *least accurate*?

- A. Treasury stock is non-voting and receives dividends.
- B. Minority interest on the balance sheet represents the proportion of ownership of a subsidiary not held by the parent company.
- C. A classified balance sheet groups various assets and liabilities into subcategories.

44. Financial Reporting and Analysis

Which of the following is *least likely* a valuation ratio?

- A. Quick ratio.
- B. P/E ratio.
- C. Diluted EPS.

45. Financial Reporting and Analysis

If the lease is classified as an operating lease instead of a finance lease under US GAAP, EBITDA margin and Asset Turnover will be:

- A. the same.
- B. lower.
- C. higher.

46. Alternative Investments

Relative to traditional investments, alternative investments are less likely to be characterized by:

- A. low correlation with traditional investments.
- B. high level of regulation.
- C. unique legal and tax consideration.

47. Alternative Investments

Analyst 1: The management fee for a private equity fund is based on assets under management.

Analyst 2: The management fee for a private equity fund is based on committed capital.

Which analyst's statement is *most likely* correct?

- A. Analyst 1.
- B. Analyst 2.
- C. Neither of them.

48. Alternative Investments

An investor may prefer a fund of funds to a single hedge fund if she:

- A. seeks better redemption terms.
- B. is concerned about extra layer fee structure.
- C. is willing and able to make a large initial investment.

49. Alternative Investments

A type of private equity fund that invests in established profitable and cash generative companies is *most likely* described as a:

- A. venture capital.
- B. fundamental growth.
- C. leveraged buyout.

50. Alternative Investments

Which of the following investments offers a current income stream as a component of total return and historically has low correlation with other asset classes?

- A. antiques
- B. timberland
- C. commodities

51. Alternative Investments

SHM Capital is a hedge fund with USD200 million of initial investment capital. They charge a 3 percent management fee based on assets under management at year-end and a 15 percent incentive fee.

In its first year, SHM Capital has a 28 percent return. Assume management fees are calculated using end-of-period valuation. In the second year, the fund value declines to USD225 million. In the third year, the fund value increases to USD250 million.

If the incentive and management fees are calculated independently, the fees earned by SHM in the second year is *closest to*:

- A. USD2.10 million.
- B. USD4.65 million.
- C. USD6.75 million.

52. Corporate Issuers

Which of the following is considered a “pull” on liquidity?

- A. Limits on short term lines of credit.
- B. Obsolete inventory.
- C. Increased difficulty in collecting receivables.

53. Corporate Issuers

A company's USD100 par value preferred stock with a dividend rate of 15% annually is currently priced at USD112. The company's growth rate is expected to be 5% annually for the next 7 years. The company's cost of preferred stock is *closest to*:

- A. 13.4%
- B. 14.1%
- C. 15.0%

54. Corporate Issuers

For a company, the fixed costs are USD15,000, interest costs are USD5,000 and taxes are USD4,000. If the price per unit is USD15 and the variable cost per unit is USD7, the operating breakeven (in units) is *closest to*:

- A. 1000
- B. 1875
- C. 2500

55. Corporate Issuers

Which of the following committees would monitor the financial reporting integrity of a company?

- A. Audit committee.
- B. Governance committee.
- C. Risk committee.

56. Corporate Issuers

Which of the following is a mistake that managers may make when analyzing capital allocation projects?

- A. Spending the entire investment budget.
- B. Adjusting the discount rate for the risk inherent in the project.
- C. Incorporating economic responses into the investment analysis.

57. Corporate Issuers

A company decreasing its credit terms for customers from 1/10, net 35, to 1/10, net 20, will *least likely* experience:

- A. a decrease in cash on hand.
- B. a lower level of uncollectible accounts.
- C. a decrease in the average collection period.

58. Corporate Issuers

Which of the following will be classified as a drag on liquidity?

- A. Earlier payment of vendor dues
- B. Obsolete inventory
- C. Reduced credit limits

59. Corporate Issuers

In which stage of development, cheaper debt financing is *most likely* available often on an unsecured basis?

- A. Start-up
- B. Growth
- C. Maturity

60. Derivatives

Analyst 1: Market makers earn a profit in both exchange and over-the-counter derivatives markets by charging a commission on each trade.

Analyst 2: Market makers earn a profit in both exchange and over-the-counter derivatives markets by buying at one price, selling at a higher price, and hedging any risk.

Which analyst's statement is *most likely* correct?

- A. Analyst 1.
- B. Analyst 2.
- C. Neither of them.

61. Derivatives

Ali takes a long position in 50 futures contracts on Day 1. The futures have a daily price limit of EUR 10 and closes with a settlement price of EUR 105. On Day 2, the futures trade at EUR 115 and the bid and offer move to EUR 116 and EUR 118, respectively. The futures price remains at these price levels until the market closes.

The marked-to-market amount the trader receives in his account at the end of Day 2 is *closest* to:

- A. EUR 500.
- B. EUR 550.
- C. EUR 650.

62. Derivatives

Which of the following is *most likely* to be greater for derivative markets compared to underlying spot markets?

- A. Capital requirements.
- B. Liquidity.
- C. Transaction costs.

63. Derivatives

When an arbitrage opportunity exists, the combined action of all arbitrageurs:

- A. results in a locked-limit situation.
- B. results in sustained profit to all.
- C. forces the prices to converge.

64. Derivatives

Which of the following is not a derivative?

- A. A contract to purchase shares of Infosys, a technology company, at a fixed price.
- B. An asset backed security.
- C. A global equity mutual fund.

65. Derivatives

As compared to exchange-traded derivatives, over-the-counter derivatives are *more likely* to have:

- A. lower credit risk.
- B. customized contract terms.
- C. lower risk management uses.

66. Equity Investments

A financial system characterized by liquid markets, low commissions and order price impacts is said to be which of the following?

- A. Allocationally efficient.
- B. Informationally efficient.
- C. Operationally efficient.

67. Equity Investments

Which of the following is *least likely* a pooled investment vehicle?

- A. Asset-backed securities.
- B. Convertible debt.
- C. Hedge funds.

68. Equity Investments

A mutual fund invests primarily in fixed-income securities. Which of the following is *least likely* to be a part of this fund?

- A. Warrants.
- B. Treasury bills.
- C. Repurchase agreements.

69. Equity Investments

On the basis of market, fixed income indices can be *least likely* classified as:

- A. global.
- B. currency zone.
- C. investment grade.

70. Equity Investments

The index weighting method that requires adjustment to the divisor after a stock split is:

- A. price weighting.
- B. equal weighting.
- C. float adjusted market-capitalization weighting.

71. Equity Investments

Which of the following statements *most accurately* depict a company pursuing the differentiation strategy?

- A. Strong market research teams to match customer needs with product development.
- B. Tight cost controls with highly efficient operating and reporting systems.
- C. Investment in productivity improving capital equipment.

72. Equity Investments

Which of the following characteristics is *most likely* to be exhibited by the industry that is experiencing intense competitive rivalry among incumbent companies?

- A. Customers basing purchase decisions largely on price.
- B. Small number of suppliers with high bargaining power.
- C. Substitute products available with low exit barriers.

73. Equity Investments

The following data is available for a company:

- Par value of preferred stock offered at a 6% dividend rate: USD100
- Company's sustainable growth rate: 3%
- Yield on comparable preferred stock issues: 9.5%
- Investor's marginal tax rate: 40%

The value of the company's preferred stock is *closest* to:

- A. USD43.48.
- B. USD55.26.
- C. USD63.16

74. Equity Investments

Which of the following statements is incorrect about FCFE model?

- A. FCFE is a measure of a firm's expected dividends.
- B. It can also be used for a non-dividend paying stock unlike DDM which requires the timing and the amount of the first dividend to be paid.

- C. Not all of the available cash flow is distributed to shareholders because a company retains some part of it for future investments as a going concern.

75. Equity Investments

K-Electric Power Company is a power generation company, while Procter and Gamble is a consumer products company and Toyota Motors is an automobile manufacturing company.

Which of the following is *most likely* to issue special dividends for sharing profits with shareholders in times of profitability, but conserve cash otherwise?

- A. K-Electric Power Company.
- B. Procter and Gamble.
- C. Toyota Motors.

76. Fixed Income

Many issuers roll over their commercial papers on a regular basis. To reduce roll over risk they are usually required to:

- A. have sufficient T-bills as collateral.
- B. apply for a bilateral loan.
- C. maintain backup lines of credit with banks.

77. Fixed Income

Party A sells a 90-day T-bill to Party B for USD 99.85 with a commitment to buy the T-bill back the next day for USD 99.87. From the perspective of Party B this transaction can be referred to as a:

- A. repo agreement.
- B. reverse repo agreement.
- C. forward rate agreement.

78. Fixed Income

The price of a bond issued in Singapore by an American company and denominated in Singaporean dollars is most likely to:

- A. change as Singapore's interest rates change.

- B. change as U.S interest rates change.
- C. be unaffected by changes in U.S. and Singaporean interest rates.

79. Fixed Income

The bond is most likely to be priced at a premium above par value when:

- A. Coupon rate < Market discount rate.
- B. Coupon rate = Market discount rate.
- C. Coupon rate > Market discount rate.

80. Fixed Income

The method to estimate the required yield to maturity of bonds that have low liquidity or that are not traded is *most likely* called:

- A. mix pricing.
- B. matrix pricing.
- C. average pricing.

81. Fixed Income

What does the notation 5y3y *most likely* represent?

- A. 3 year loan to be made after 5 years.
- B. 5 year loan to be made after 3 years.
- C. 5 year loan to be made at 3 year yield.

82. Fixed Income

A principal repayment of EUR 1 billion on the collateral of a EUR 10 billion face value non-amortizing asset backed security, during the lockout period will result in the security having a total face value of:

- A. EUR 9 billion.
- B. EUR 10 billion.
- C. EUR 11 billion.

83. Fixed Income

Charles Dent obtains a non-recourse loan for USD 200,000. A year later the principal on the loan is USD 180,000 and Charles defaults on the loan. The lender forecloses and sells the house for USD 150,000. What amount is the lender entitled to claim from Charles?

- A. USD0.
- B. USD30,000.
- C. USD50,000.

84. Fixed Income

Which of the following is an important consideration of non-agency residential mortgage-backed security (RMBS) as compared to an agency RMBS?

- A. Credit risk.
- B. Extension risk.
- C. Contraction risk.

85. Fixed Income

Consider a CMO with three sequential pay tranches A, B and C. The average lives for the tranches are 4.6, 10.3, and 15.0 years respectively under a 150 PSA assumption. An investor concerned about contraction risk is *most likely* to invest in:

- A. tranche A.
- B. tranche B.
- C. tranche C.

86. Portfolio Management and Wealth Planning

Which of the following combinations is *most likely* to have its portfolio's risk and return presented in the form of the capital market line, CML?

- A. Risk-free asset and market portfolio.
- B. Risk-free asset and any risky portfolio.
- C. Risky asset and a leveraged portfolio.

87. Portfolio Management and Wealth Planning

Which of the following assumptions of the capital market theory allows for optimal risky portfolio i.e. market portfolio to exist?

- A. All investors plan for the same holding period
- B. All investors are price takers
- C. All investors have homogeneous expectations

88. Portfolio Management and Wealth Planning

Which of the following is not an example of model risk?

- A. Using the one-year risk-free rate to discount the face value of a one-year government bond.
- B. Assuming the tails of a returns distribution are thin when they are, in fact, fat.
- C. Using standard deviation to measure risk when the returns distribution is asymmetric.

89. Portfolio Management and Wealth Planning

If a company has a one-day 10% Value at Risk of USD1 million, this means:

- A. 10% of the time the firm is expected to lose at least USD1 million in one day.
- B. 90% of the time the firm is expected to lose at least USD1 million in one day.
- C. 10% of the time the firm is expected to lose no more than USD1 million in one day.

90. Portfolio Management and Wealth Planning

One of the key advantages of technical analysis over fundamental analysis is that:

- A. technical analysts have actual and observable data available to arrive at the results.
- B. technical analysis incorporates the relevant economic data to arrive at the results.
- C. technical analysis can be effectively put into use for thinly traded stocks.

