

# **FinQuiz.com**

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**Level I of CFA<sup>®</sup> Program**  
**1<sup>st</sup> Mock Exam**  
**2020/2021**  
**Revision 4**

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**FinQuiz.com – 1<sup>st</sup> Mock Exam 2020 (AM Session)**

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**Questions 1 through 18 relate to Ethical and Professional Standards**

1. Overconfidence bias makes adherence to ethical conduct difficult as investment professionals are more likely to overestimate the morality of their:
  - A. clients.
  - B. industry.
  - C. own behavior.
  
2. Alonzo Myers manages accounts at GRTY Securities. Jerry Reed, one of his clients, e-mailed Myers to buy 300 shares in the IPO of JJKS Corp’s stock. Few days later, despite being a hot issue, Myers succeeded prorating 500 shares of JJKS Corp. for his clients. After purchasing 500 shares for his clients and 300 shares for Reed as per request, he purchased remaining 200 shares for his wife. Myers:
  - A. did not violate the standards by purchasing 200 shares for his wife and 300 shares for Reed.
  - B. violated the standards by purchasing 200 shares for his wife and only 300 shares for Reed.
  - C. violated the standards by purchasing 200 shares for his wife but is in compliance for purchasing 300 shares for Reed as per his request.
  
3. McKinney Alpha is an accredited research firm that only hires experienced and competent analysts offering them training and financial courses from time to time. The firm allows analysts to either prepare their own research or rely on secondary sources. Tyler Klein, an analyst at McKinney uses a research report prepared at Gemma Brokerage. If Klein will use that report, he will:
  - A. violate Standard I-C ‘Misrepresentation’ by relying on work not prepared by himself for his clients.
  - B. violate Standard IV-A ‘Loyalty to employers’ as he is not allowed to use the report prepared by Gemma Brokerage.
  - C. not violate any standard if he makes reasonable efforts to determine that research is sound and uses the information in good faith.

4. By complying with GIPS standards firms cannot:
- A. eliminate the need for in-depth due diligence on the part of the investor.
  - B. participate in competitive bids against other compliant firms throughout the world.
  - C. assure prospective clients that the reported historical track record is complete and fairly presented.
5. In conversation with a prospective client, a portfolio manager stated “I cannot guarantee that you will earn 18% on equities this year but I can provide you a range within which your return will lie. My range is quite popular among my clients and has a history of ten years. Each year, I develop the range by using financial models, economic forecasts and accredited reports. Based on the CFA Institute Standards, the portfolio manager:
- A. did not violate any standard.
  - B. violated standard I-C ‘Misrepresentation’.
  - C. violated standard III-D ‘Performance Presentation’.
6. Eleanor Chavez, CFA is a senior analyst at W&W Securities (W&WS) and is responsible for managing the High Beta Mutual Fund (HBMF). Curtis Fowler, aged 56 and dependent on his portfolio returns, is W&WS’s client. His portfolio will now be managed by Chavez, who has been asked to invest 20% of his portfolio funds in HBMF. Chavez fills the request forms and immediately purchases shares of HBMF for Fowler. Is Chavez in compliance with codes and standards, and if not, what should be the recommended course of action for Chavez?
- A. Yes, she is in compliance with codes and standards.
  - B. No, she should consult Fowler’s existing investment policy statement (IPS) and should judge the suitability of his investments in the context of his total portfolio.
  - C. No, she should make reasonable inquiry about Fowler’s risk and return objectives and financial constraints prior to taking investment action requested by Fowler.

7. Gilbert Love worked as financial analyst at Milton Securities. During his employment at Milton, Love covered Indigo Corp and developed detailed financial models, assumptions and supporting reports. When Milton switched his job, his new employer assigned him to analyze Indigo Corp. Milton developed a new model with improved assumptions and specifications and re-created the supporting records by gathering data from the covered company. Has Milton violated any CFA Institute Code and Standards?
- A. No, he is in compliance with the Code and Standards.
  - B. Yes, he has violated Standard V-C ‘Record Retention’ by re-creating the supporting records.
  - C. Yes, he violated ‘Misrepresentation’ and ‘Record Retention’ by developing the model and re-creating the supporting records for Indigo Corp.
8. According to Standard II-A ‘Material Non-Public Information’, if a member or candidate determines that information is material he should make reasonable efforts to:
- A. achieve public dissemination of the information.
  - B. alter current investment recommendations for clients.
  - C. protect information from those who can possibly act on that information.
9. Lauren Sims, marketing director of Karma Advisors, planned a brief performance presentation in five different U.S states where majority of the firm’s clients are located, in celebration of Karma’s five years of success. In his presentation, Sims clearly includes references to the information presented and also prepared a detailed information report to support his brief presentation. At the conclusion, Sims provided the report only to the clients who requested it. By failing to provide the report to all the clients who attended the session, Sims:
- A. violated Standard III-B ‘Fair Dealing’
  - B. violated Standard III-D ‘Performance Presentation’.
  - C. did not violate any CFA Institute codes and standards.

10. Mathew Chambers manages individual accounts, including his father's, at Harvey Securities. During a Sunday lunch at a restaurant with his friend Neil Rojas, Chambers noticed the directors of Navarro Motors sitting at the adjacent table. Rojas stated, "I believe Navarro has hired a new CEO as the firm is undertaking many positive amendments in its production process". On Monday Chambers noticed a \$1 increase in Navarro's share price and purchased 500 shares for his father's account. Chambers *least likely* violated:
- A. Standard VI-B 'Priority of Transactions'.
  - B. Standard II-A 'Material Non-public Information'.
  - C. Standard V-A 'Diligence and Reasonable Basis'.
11. Blanco Shell Investments (BSI) is a small family owned investment bank and its shares are relatively illiquid. In a casual meeting Brett Palmer, managing director at BSI, told his friend, Leon Fox, that BSI is going to earn substantial profits in its commodities business. In the next few days Fox purchases BSI shares while Palmer disposes his position in BSI and switches his job. Two months later BSI announces huge losses in its commodities business and the share price decreases by \$2. Palmer has violated the CFA Institute Standards of Professional Conduct concerning
- A. 'Market Manipulation' only.
  - B. 'Material Nonpublic Information' only
  - C. 'Market Manipulation' and 'Material Nonpublic Information'.
12. After 5-years of service with Jacob Securities as a financial planner, Shane Alvarado planned to start his own practice in his hometown. He informed his employer through email three days before starting his independent practice. The employer was on a business trip for a week and on his return he accepted his resignation. Alvarado always maintained his personal records related to training programs that he conducted at Jacob Securities, and he used that material in his new project. Alvarado:
- A. is in compliance with standards regarding timely notification and using his own personal records.
  - B. violated the standards by rendering services without receiving consent from his employer and by using records.
  - C. violated the standards by using records but is in compliance with standards in notifying his employer regarding his independent practice.

13. During the morning section of the CFA Level 1 exam, when the proctor made the final 5 minutes announcement, Enrique, a candidate next to Rachael noticed and told Rachael that she was not filling her answers on the sheet provided. Rachael immediately started transferring answers on to the answer sheet. When the proctor made the final announcement, Rachael succeeded filling 100 circles and by the time proctor reached at her table, she had only 5 circles left to fill. Rachael instantly handed her sheet to the proctor. Is Rachael or Enrique in violation of the standard relating to conduct as members and candidates in the CFA Program?
- A. Only Enrique is in violation.
  - B. Only Rachael is in violation.
  - C. Both Rachael and Enrique are in violation.
14. Dan Fisher is an investment manager at Rotterdam Securities and often uses Topaz brokerage services for his clients. Corey Foster, Fisher’s client, has directed him to use the services of Luna Brokerage House for him. Fisher believes that Topaz offers best price and better research reports compared to Luna. The best course of action for Fisher is to use the services of:
- A. Topaz for all of his clients as he is obligated to seek best price and best execution.
  - B. Luna for Foster and should disclose to him that he may not be getting best execution.
  - C. Topaz for all his clients as brokerage commission is the asset of the Rotterdam and will be used to maximize the value of client’s portfolio.
15. Reginald Fuller manages institutional portfolios on behalf of BDY Advisors. Fuller also manages an account of a trust company named SOTO Trust. The trust offered Fuller a \$50,000 cash gift if he succeeded in achieving a 20% return this year. The best practice for Fuller includes:
- A. refusing the offer of SOTO trust to avoid a conflict of interest with his employer.
  - B. accepting the offer and achieving the target without compromising his objectivity towards other clients.
  - C. making an immediate written report to his employer specifying the \$50,000 cash offer proposed by the trust

16. GIPS standards *least likely* resolve misleading practices related to:
- A. survivorship bias.
  - B. varying time periods.
  - C. analyst financial statement adjustments.
17. Sullivan Investments, an asset management firm, complied with the GIPS standards on 1 January 2006. Can Sullivan link its non-GIPS compliance performance for periods beginning on or after 1 January 2000 with its GIPS compliance performance?
- A. No.
  - B. Yes.
  - C. Only if it discloses periods of non-compliance.
18. Which of the following statements is *most likely* correct regarding the major sections of GIPS standards?
- A. According to Section 4 ‘Disclosures’, firms are required to make negative assurance disclosures.
  - B. According to Section 3 ‘Composite Construction’, a composite return is the asset weighted average of the performance of all portfolios in the composite.
  - C. According to section 5 ‘Presentation and Reporting’, firms cannot include in GIPS-compliant presentations information not addressed by the GIPS standards.



**Questions 19 through 28 relate to Quantitative Methods**

19. Three friends Sam, Patricia and Robert will receive equal dollar amounts in two years from their maturing investments, however, they invested in such a way that:
- the interest rate offered to Patricia and Sam is same but compounding for Patricia is monthly and for Sam is quarterly.
  - compounding for Robert and Patricia is same but the interest rate offered to Robert is higher.

The present value of whose investment would be the lowest?

- A. Sam.
  - B. Robert.
  - C. Patricia.
20. The efficiency of an unbiased estimator is measured by its:
- A. variance.
  - B. sample size.
  - C. mean value.
21. A property and potential benefit of using arithmetic mean is its ability to:
- A. handle extreme values.
  - B. focus on the relative positions of the ranked observations.
  - C. use all the data about the size and magnitude of the observations.

22. An analyst calculated the expected value of Howe Inc.’s EPS as \$5.91 based on the probability distribution of Howe’s EPS for the current fiscal year.

Probability distribution for Howe’s EPS	
Probability	EPS (\$)
0.12	7.75
0.45	6.20
0.33	5.50
0.10	3.75

The standard deviation of the Howe’s EPS for the current fiscal year is *closest* to:

- A. 0.9662.
  - B. 0.9829.
  - C. 2.8816.
23. A professor is practicing a new method of teaching and is unsure about its impact on students’ performance. His students generally maintained an average 3.2 GPA throughout the semester. He selects a sample of 25 students with a mean GPA of 3.0 and standard deviation of 0.62. The professor is concerned whether the sample results are consistent with the average GPA results of 3.2.

**Exhibit: T-Table**

<i>df.</i>	$p = 0.05$	$p = 0.10$
24	1.711	1.318
25	1.708	1.316

Determine whether the null hypothesis is rejected or not at the 0.10 level of significance.

- A. The null hypothesis is rejected as the t-value of 1.6129 is  $> 1.318$  at the 0.10 significance level.
- B. The null hypothesis is not rejected as  $-1.6129$  does not satisfy either  $t > 1.711$  or  $t < -1.711$ .
- C. The null hypothesis is not rejected as the calculated t value of 0.322 is less than 1.318 at the 0.10 significance level.

24. An analyst gathered the following information about return distributions of two portfolios.

	Kurtosis	Skewness
Portfolio A	2.5	-3.7
Portfolio B	1.3	+4.2

Which of the following statements is *most likely* correct regarding portfolio A and B?

- A. Portfolio A is more peaked than normal distribution.
  - B. For portfolio B, mean value is higher than median value.
  - C. Distribution of portfolio A has frequent small losses and few large gains.
25. Which of the following *least* accurately outlines a property of the normal distribution function? It:
- A. has a symmetrical shape.
  - B. has a skewness of 0 and kurtosis of 3.
  - C. is completely described by using variance and standard deviation of returns.
26. Intergenerational data mining involves using:
- A. an extensive search of variables in an international database.
  - B. info established by preceding researchers to guide current research.
  - C. info that might not become publicly available until sometime in the future.
27. A lognormal distribution:
- A. is bounded below by 1 and has a long right tail.
  - B. is not completely described by two parameters i.e. the mean and the variance.
  - C. describes a stock price whose continuously compounded returns follow a normal distribution.

28. Which of the following statements is *most likely* correct regarding parametric and non-parametric tests?
- A. Parametric tests are relatively unaffected by violations of assumptions.
  - B. In a parametric test, observations are converted into ranks according to their magnitude.
  - C. Nonparametric tests are considered distribution-free methods because they do not rely on any underlying distribution assumption.

**Questions 29 through 40 relate to Economics**

29. Under perfect competition, a firm:
- A. is a price taker at any quantity supplied to the market.
  - B. breaks even when marginal revenue equals average variable cost.
  - C. should shut down production when marginal revenue is less than average fixed cost.
30. An analyst gathered the following national data (in millions of U.S dollars) for a country for the year 2019.

**Exhibit:**

Consumer spending (m)	\$461,580	Personal disposable income	\$555,790
Government spending	\$392,676	Interest paid by consumers	\$13,400
Personal Income	\$906,230	Consumer transfers to foreigners	\$1,500

- Using the data provided in exhibit 1, the household saving (in millions) is *closest* to:
- A. \$37,074.
  - B. \$68,904.
  - C. \$79,310.
31. Which of the following is *most likely* common among the assumptions of the Ricardian model and Heckscher-Ohlin model?
- A. Labor is a variable factor of production.
  - B. Capital is not a variable factor of production.
  - C. There are homogenous products and homogenous inputs.
32. In 2018, a firm earned \$500,000 for selling 1,000 units. However, if 1,500 units were sold, revenue would be total \$720,000. The marginal revenue per unit associated with selling 1,500 units instead 1,000 units would be *closest* to:
- A. \$440
  - B. \$480
  - C. \$500

33. Aggregate demand (AD) curve will be flatter if:
- A. saving is highly sensitive to income.
  - B. investment expenditure is highly sensitive to interest rates.
  - C. money demand is highly sensitive to income and interest rates.
34. Which of the following indicator measures the price of the basket of goods and services produced within an economy in a given year?
- A. GDP deflator.
  - B. Producer price index.
  - C. Consumer price index.
35. Which of the following is *least likely* a consequence of a period of hyperinflation?
- A. Too much money in circulation.
  - B. Reduced supply of money but increased velocity of money.
  - C. People are eager to change their cash into real goods.
36. To determine the impact of changes in exchange rates on trade balance, the 'absorption approach' *most likely* exhibits the:
- A. effect of changing the relative price of domestic and foreign goods.
  - B. effect of exchange rates on aggregate expenditure or saving decisions.
  - C. microeconomic view of the relationship between exchange rates and trade balance.
37. Over the last week, the Japanese yen has appreciated 15.7% against pound sterling (GBP). The depreciation of GBP against the Japanese yen will be *closest* to:
- A. 14.4%
  - B. 15.7%.
  - C. 18.6%

38. Leading economic indicators (LEI) are variables that:
- A. change before nominal GDP of economy changes.
  - B. provide information regarding economy's past condition.
  - C. are useful for predicting economy's near-term future state.
39. Which of the following characteristics *most likely* demonstrates that the firm is operating in monopolistic competition?

	<b>Entry Barriers</b>	<b>Sellers</b>	<b>Long-run profits</b>
A.	Low	Many	None
B.	High	Few	Positive
C.	Low	Few	None

40. To deal with short-run stabilization, as compared to monetary policy, fiscal policy is *most likely*:
- A. less effective as it is very time consuming.
  - B. more effective as it is easy to implement.
  - C. equally effective as both policies work well in combination.

**Questions 41 through 58 relate to Financial Reporting and Analysis**

41. Alba Inc. and Zimmer Corp. belonging to construction industry, lease same equipment for their operations under 10-years' lease term. Alba Inc. reports under the IFRS whereas Zimmer Corp reports under the US GAAP. Zimmer categorizes the lease as finance lease. Alba Inc. does not report the leased asset as 'low value'.

Keeping other things constant, the accounting treatment for the lease will be:

- A. same for both firms at inception and after the inception.
  - B. different for both firms at inception and after the inception.
  - C. same for both firms at inception but will be different after inception.
42. DCT Inc. sells an asset with a historical acquisition cost of \$7.8 million and an accumulated depreciation of \$1.6 million and reports a loss on the sale of \$0.5 million. The sale price of the asset is *closest* to:
- A. \$5.7 million.
  - B. \$6.7 million
  - C. \$7.3 million.
43. Which of the following statements is *most likely* correct regarding the audit of financial statements?
- A. Disclaimer of opinion occurs when an auditor issues an opinion despite scope limitations.
  - B. When an auditor has concerns regarding some unreported pending contingent liabilities he might issue a qualified opinion.
  - C. Auditors can provide absolute assurance about the accuracy and precision of financial statements if the opinion is unqualified.
44. When securities are classified as 'available for sale' securities in U.S. GAAP unrealized gains and losses are:
- A. reported in the income statement.
  - B. not reported in the income statement but are recognized in equity.
  - C. neither reported in the income statement nor recognized in equity.



45. An analyst gathered the following information from a company's 2019 financial statements.

Net income	= \$24 million
Non cash charges	= \$6 million
Cash flow from operations	= \$12 million
After tax interest paid	= \$2.6 million
Capital expenditure	= \$9.5 million
Tax rate	= 35%

The free cash flow for the firm (FCFF) is *closest* to:

- A. \$5.1 million.
  - B. \$8.7 million.
  - C. \$11.1 million.
46. Earnings smoothing can result from conservative choices to:
- A. overstate earnings in periods when a company's operations are struggling.
  - B. understate earnings in periods when a company's operations are struggling.
  - C. understate earnings in periods when a company's operations are performing well.
47. Which of the following is *least likely* an (International Organization of Securities Commissions) (IOSCO) principle for issuers? Issuers should:
- A. prepare their financial statements using internationally acceptable accounting standards.
  - B. timely, fully and accurately disclose financial results, risks and other material information to investors.
  - C. make consistent choices with respect to accounting standards and their financial statements should be comparable.

48. Winstar Industries manufactures spare parts for medium-duty trucks. In the year 2019, the firm purchased automobile parts on credit from one of its vendors for \$450,000. The credit term allowed Winstar to pay the vendor in March 2020. During December 2019, Winstar sold spare parts in cash for \$650,000 and paid \$35,000 in cash for administrative expenses. Assuming no other transaction occurred in December 2019, Winstar’s profit for the year 2019 will be:
- A. \$165,000
  - B. \$200,000
  - C. \$615,000

49. An analyst gathered the following information for a firm:

Net income for the year	= \$8 million
Beginning shareholders’ equity	= \$25 million
Unrealized gain on trading securities	= \$1.5 million
Unrealized loss on available for sale securities	= \$2 million
Foreign currency translation gain	= \$1.5 million
Cash dividends for the year	= \$1 million

The ending shareholders’ equity of the company is *closest* to:

- A. \$30.0 million.
  - B. \$31.5 million.
  - C. \$33.0 million.
50. An analyst observed the following percentage changes in Hunt PAL Inc.’s financials from 2018 to 2019:

Revenue	+33%
Net Income	+38%
Assets	+27%

If the major portion of the growth in net income is attributed to non-recurring items, the analyst will *least likely* conclude that Hunt PAL Inc.:

- A. has increased its efficiency.
- B. has failed to increase its profitability.
- C. cannot easily attract equity capital.

51. The financial leverage ratio of a firm, whose total debt ratio is 54% and debt-to-equity is 1.15, is *closest* to:
- A. 0.47.
  - B. 0.62.
  - C. 2.13.
52. An investor asked two questions from an analyst regarding the goodwill of a company.

Question 1: Which goodwill is reflected in the stock price of a company?

Question 2: Which goodwill is recognized when an acquisition takes place?

The *most appropriate* response of the analyst to questions 1 and 2, respectively, is:

- |    |                       |             |
|----|-----------------------|-------------|
|    | Question 1:           | Question 2: |
| A. | Economic              | Accounting  |
| B. | Accounting            | Economic    |
| C. | Economic & Accounting | Economic    |

53. In 2019, the cost of ending inventory reported by T&M, a manufacturer of office equipment, was \$22 million. T&M compiles its financial statements in accordance with IFRS.

Exhibit 1

Replacement cost	\$20.5 million
NRV	\$21.2 million
NRV less profit margin	\$19.7 million

Based on the data shown in Exhibit 1, T&M would *most likely* write its inventory down by:

- A. \$0.8 million.
- B. \$1.5 million.
- C. \$2.3 million.

54. A publishing firm contributed \$250,000 to support some philanthropic projects. The firm immediately expensed that amount in its income statement for the current fiscal year. According to applicable tax legislation such contributions are not tax-deductible.

Which of the following statements is *most likely* correct?

- A. A temporary difference of \$250,000 gives rise to a deferred tax liability.
  - B. A deferred tax asset arises, as taxable income is greater than accounting profit.
  - C. The treatment of \$250,000 for accounting and tax purposes represents a permanent difference.
55. Under IFRS the definitional criteria for identifiable intangible assets *most likely* includes:
- A. the cost of the asset can be reliably measured.
  - B. it is probable that the expected future economic benefits of the asset will flow to the company.
  - C. the asset must be identifiable, under the control of company and expected to generate future economic benefits.
56. Knin Inc. issued a 6-year, 7% annual-coupon paying bond with a face value of \$10 million on 1<sup>st</sup> January 2019 when the market interest rate was 7.7%. Using the effective interest rate method, the interest expense on bonds reported in 31 December 2020 is *closest* to:
- A. \$700,000.
  - B. \$744,854.
  - C. \$748,308.
57. Compared to using a finance lease, an IFRS-reporting lessor that makes use of operating lease will *most likely* recognize:
- A. leased asset as lease receivable.
  - B. depreciation expense on leased asset.
  - C. a single straight-line allocation of lease expense over the lease term.

58. An investor uses simple stock screen criteria based on a P/E ratio of less than 5 and financial leverage ratio of less than 0.5. The investor will *least likely* exclude stocks of companies:
- A. with poor profitability.
  - B. with excessive financial risk.
  - C. that are expensive for good reason.

**Questions 59 through 70 relate to Corporate Finance**

59. The cash flows of projects A and B are given below:

Year	Cash flows	
	Project A	Project B
0	-1,500	-1,500
1	400	500
2	300	500
3	600	500
4	800	500

For a 12% discount rate, as compared to project B, the discounted payback period of project A is approximately:

- A. equivalent.
  - B. 0.93 years higher.
  - C. 1.25 years higher.
60. Net present value method assumes that cash flows are reinvested at the:
- A. internal rate of return.
  - B. accounting rate of return.
  - C. opportunity cost of capital.
61. Compute the cost of trade credit if terms are 1/10 net 30 and the account is paid on the 30<sup>th</sup> day?
- A. 13.01%
  - B. 20.13%
  - C. 44.32%

62. An analyst gathered the following information to estimate the cost of equity for JJ Inc. located in Fiji.

**Exhibit 1**

Risk free rate	3.2%
Market risk premium	5.5%
Beta	1.3
U.S 10-year T-bond yield	2.84%
Fiji's 10-year dollar denominated Govt. bond yield	10.81%
Annualized SD of Fiji's stock market	44%
Annualized SD of Fiji's dollar denominated bond	37%

The sovereign yield spread and JJ Inc.'s cost of equity are *closest* to:

- A. 7.97% and 18.51% respectively.
  - B. 9.48% and 19.83% respectively.
  - C. 7.97% and 22.67% respectively.
63. Which of the following statements is *most likely* correct regarding 'uncommitted lines of credit'?
- A. An uncommitted line is very unstable and is only as good as a bank's desire to offer it.
  - B. Uncommitted lines require compensation, typically, in the form of commitment fee.
  - C. Uncommitted lines of credit are the form of bank line of credit that most companies refer as regular line of credit.
64. When a reliable current market price for a firm's debt is not available, the cost of debt can be estimated using the:
- A. matrix pricing model.
  - B. coupon rate of the same bonds.
  - C. interest expense of the firm's income statement.

65. A manager is computing the cost of trade credit for the terms 2/10 net 30 and the account is paid on 20<sup>th</sup> day. The cost of trade credit is *closest* to:
- A. 24.69.
  - B. 44.59%.
  - C. 109.05%.
66. An analyst gathered the following financial information from Daniel Inc.

	<b>2019</b>	<b>Expected 2020</b>
Units Sold	1300	1400
Revenue (\$)	130,000	140,000
Operating income (\$)	38,000	52,000
Interest cost (\$)	12,000	12,000
Other financing cost (\$)	8,000	8,000
Tax (\$)	6300	11,200
Net Income (\$)	11,700	20,800

- The degree of operating leverage of Daniel Inc. from 2013 to expected 2014 is *closest* to:
- A. 2.11.
  - B. 3.68.
  - C. 4.78.
67. Mike Dolan is evaluating potential impact of changes in economy and health care conditions on Hi-Pharm Corp, a firm in the pharmaceutical business. Hi-Pharm's uncertainty with respect to the price and quantity of drugs produced is referred as:
- A. sales risk
  - B. financial risk
  - C. operating risk



68. Seth Shelton, a financial analyst at UII Advisors is assessing the capital structure of BenChip Corp. Seth observed that the company is also using capital and operating leases as a source of capital along with debt and equity.

Which of the following statements is *least likely* correct with regards to the treatment of company's capital and operating leases? Seth should:

- A. include the cost of these leases in the BenChip's cost of capital.
  - B. not consider these leases as BenChip's debt with option-like feature.
  - C. treat these leases similar to the BenChip's other short-term borrowings.
69. Clothiers is a U.S. based company that manufactures garments. The Clothiers number of days of inventory for year 2018 is 81 days whereas the Clothiers' historic average inventory turnover ratio is 5.2.

It appears that Clothiers(‘):

- A. allowance for bad debt has increased.
  - B. is losing sales as a result of stock-outs.
  - C. management is projecting sales growth in 2019.
70. Aiden Inc. is planning to borrow \$2 million from Next Bank as an asset-based loan. The loan is secured using Aiden Inc.'s inventory as collateral. Under the arrangement, Next Bank requires Aiden Inc. to certify that the goods are segregated and held in trust, with proceeds of any sale remitted to the lender immediately. However, there is no involvement of 3<sup>rd</sup> party to supervise the inventory.

The arrangement type between Aiden and Next Bank is *most likely*:

- A. inventory blanket lien
- B. trust receipt arrangement
- C. warehouse receipt arrangement

**Questions 71 through 83 relate to Equity**

71. For short selling purposes, if a security is extremely hard to borrow, the short rebate rate may be:
- A. very high.
  - B. negative or very low.
  - C. 10 basis points more than the overnight rate.
72. Which of the following statements is *most likely* correct regarding the fundamental weighting method?
- A. It is not biased towards shares of firms with largest market capitalization.
  - B. It is similar to momentum investment strategy where securities' weights are reduced when their relative investment values are increased.
  - C. It is biased towards highest priced stocks as they receive highest weights in the index.
73. Smith owns 500 shares of Wood Craft Inc. and the firm is going to elect 10 board directors. Under statutory voting Smith can cast:
- A. 500 votes to members in any desired proportion.
  - B. a maximum of 500 votes only for each member of board.
  - C. 5,000 votes and can spread them across candidates in any proportion.
74. An investor placed a market buy order for thinly traded shares of G.Z.T Inc. The main drawback for the investor would be that:
- A. the order may be filled at a low price.
  - B. it would be very difficult to execute the order.
  - C. the trade would be very expensive to execute.
75. The performance of commodity indices can be quite different from their underlying commodities because
- A. commodity returns are more volatile than commodity index returns.
  - B. returns of commodity indices are influenced by more than one factor.
  - C. commodity indices are relatively illiquid and depict less information transparency.

76. Which of the following statements is *most likely* correct? Enterprise value:
- A. is incapable of reflecting the real economic value of a company.
  - B. is prone to the negative earnings problem because of the use of EBITDA.
  - C. is applicable to the comparisons of companies with significantly different capital structures.
77. A firm will start paying dividends four years from now and thereafter that will be expected to grow 5% into perpetuity. Expected dividend in year 4 is \$5. If an investor’s required rate of return is 7%, the intrinsic value of the stock is *closest* to:
- A. \$200.
  - B. \$204.
  - C. \$227.
78. Which of the following is *least likely* a macroeconomic influence that affects an industry’s growth? Changes in:
- A. inflation.
  - B. interest rates.
  - C. technologies.
79. Which of the following *most* accurately illustrates the pricing rule used by the type of order driven market?

Uniform pricing rule	Discriminatory pricing rule	Derivative Pricing rule
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- A. Call market                      Continuous market      Crossing network
  - B. Continuous market      Call market              Crossing network
  - C. Crossing network      Call market              Continuous market
80. Asset based valuation models work well for companies that do not have a high proportion of:
- A. intangibles.
  - B. fixed assets.
  - C. current assets.

81. An investor holds 500 shares of Siena Inc. for one year on margin. Both the interest on loan and dividends on shares are paid at the end of the year. The other details are as follows:

Purchase price	\$45/share
Sale price	\$42/share
Dividend	\$1/share
Commission	\$0.1/share
Leverage ratio	1.5
Call money rate	4%

The investor's total loss is *closest* to:

- A. 7%.
  - B. 9%.
  - C. 10%.
82. The £40 par value of a non-callable non-convertible preferred stock with maturity in two years and £5 semi-annual dividend is trading for £53.22. If the required rate of return for the investor is 7%, the preferred stock is:

- A. over-valued.
- B. fairly valued.
- C. under-valued.

83. A wheat farmer is worried that wheat prices will be lower than expected when his wheat will be ready for sale hence, he entered into a forward contract with a baker to sell his wheat of a specified quantity at a specified price on a specific future delivery date.

Which of the following is *most likely* the primary purpose of the farmer to arrange this trade?

- A. to manage risk
- B. to trade on information
- C. to save money for the future

**Questions 84 through 90 relate to Derivatives**

84. Value of a forward contract at expiration is the value of the asset:
- A. plus the forward price.
  - B. minus the forward price.
  - C. minus the present value of the forward price.
85. Which of the following factors *least likely* reduce the value of a European call option on a stock?
- A. Larger dividends
  - B. Lower exercise price
  - C. Less time to expiration
86. Derivative price *least likely* depends on:
- A. risk free rate.
  - B. investor's risk aversion.
  - C. Characteristics of the underlying.
87. A type of credit derivative in which credit protection buyer makes a series of regularly scheduled payments to credit protection seller while the seller makes no payment until a credit event occurs is categorized as a:
- A. total return swap.
  - B. credit linked note.
  - C. credit default swap.
88. Which of the following factors affect the value of a European option on a stock?
- A. Dividend paid by the underlying.
  - B. Volatility of the investor's portfolio.
  - C. The total amount invested in the option.

89. Information can flow into the derivative before it gets into the spot market due to the fact that derivative markets:
- A. require less capital.
  - B. are highly centralized.
  - C. are operated by more professional traders.
90. An investor buys a unit of commodity for \$45. The risk-free rate is 4 percent and the price of the commodity is expected to be \$45.50 after one year. Which of the following *most likely* represent a possible reason for the investor to hold the commodity?
- A. The time value of money
  - B. Interim cashflows on the asset
  - C. The commodity is in short supply

**Questions 91 through 103 relate to Fixed Income**

91. Which of the following is the *highest* ranked unsecured debt?
- A. First lien loan.
  - B. Senior unsecured.
  - C. Senior subordinated.
92. A U.S. based firm has a position in a European bond for a par value of €50 million. For a 1 basis point increase in yield the market value of the investment changes to €49.85 million and for a 1 basis point decrease in yield investment value changes to €51.23 million. The price value of basis point for the investment is *closest* to:
- A. 0.013.
  - B. 0.027.
  - C. 0.690.
93. In repurchase agreements, repo margin provides a margin of safety to the:
- A. dealer, if the lender of the cash defaults.
  - B. cash lender, if the collateral's market value declines.
  - C. security lender, if the collateral's market value declines.
94. An investor purchases a 2-year zero-coupon bond with par value of \$1,000 at \$960. The implied interest earned on the bond is *closest* to:
- A. \$0.
  - B. \$21.
  - C. \$40.

95. An analyst observed the profitability and cash flows of firms A and B and collected the results below.

	<b>Firm A</b>	<b>Firm B</b>
Earnings before interest and tax	104 million	96.5 million
Free cash flow before dividends	-12.5 million	8.5 million
Free cash flow after dividends	N/A	-0.5 million

The firm(s) not suitable for deleveraging is (are):

- A. firm A only.
  - B. firm B only.
  - C. firms A and B.
96. An investor buys a 10-year, 7% annual coupon payment bond and sells the bond after 3 years. Assuming that the coupon payments are reinvested at 11.5% for 3 years. The interest on interest gain from compounding the coupon payments is *closest* to:
- A. \$2.51.
  - B. \$5.21.
  - C. \$23.5.
97. A recently issued sovereign bond for a given maturity is also referred to as:
- A. floating issue.
  - B. of-the-run issue.
  - C. benchmark issue.
98. A high yield bond issuer has offered the ‘change of control put’ to its bondholders. Under this covenant in the event of acquisition, the bondholder has a (n):
- A. right to put limits on how much secured debt an issuer can have.
  - B. option to change a certain percentage of his bond value with the equity of the issuer.
  - C. right to require the issuer to buy back their debt at par or at some premium to par.



99. An annual modified duration of a fixed rate bond is 5.75. Although there is no change in benchmark yields but due to improved financial reporting quality and a ratings upgrade, the flat price of the bond has increased from 98.10 to 101.65 per 100 of par value. The estimated change in the credit spread of the bond is *closest* to:

- A. -62.93 bps.
- B. -20.75 bps.
- C. 361.88 bps.

100. Current forward curve for one-year rates is given below:

<b>Time Period</b>	<b>Forward Rate</b>
0y1y	1.90%
1y1y	2.25%
2y1y	3.50%
3y1y	4.41%

The three-year implied spot rate is *closest* to:

- A. 2.55%.
- B. 3.18%.
- C. 4.41%.

101. For rating agencies, the primary factor in assigning their ratings is:

- A. likelihood of default.
- B. potential loss severity.
- C. priority of payment in the event of a default.

102. Consider a 2-year 5% semiannual coupon-paying bond and the following sequence of spot rates:

<b>Term to maturity</b>	<b>Spot Rates</b>
6-months	1.00%
12-months	2.50%
18-months	4.00%
24-months	4.50%

The yield to maturity of the bond is *closest* to:

- A. 2.2%.
  - B. 3.0%.
  - C. 4.5%.
103. Which of the following statements is *most likely* correct about floating rate notes (FRNs)?
- A. The higher the issuer's credit quality, the higher the spread of a floating rate note.
  - B. The interest payments of a floating rate note are highly dependent on the current level of a reference interest rate.
  - C. The spread of a floating rate note is set when the bond is issued and then resets periodically during the tenure of the bond.

**Questions 104 through 110 relate to Alternative Investments**

104. Mezzanine financing is capital provided:
- A. for major expansion.
  - B. to prepare for an IPO.
  - C. to initiate commercial manufacturing.
105. During periods of financial crises, the correlation between hedge funds and financial market performances may:
- A. increase.
  - B. decrease.
  - C. become 0.
106. The four broad categories of hedge fund strategies identified by HFRI are:
- A. Equity-driven, Market neutral, Arbitrage and Hedge strategies.
  - B. Event-driven, Relative value, Equity hedge and Macro strategies.
  - C. Event-driven, Equity driven, Relative value and Market neutral strategies.
107. For venture capital investing, later stage financing is the capital provided for a company:
- A. to prepare for an IPO.
  - B. to plan for major expansion.
  - C. to initiate commercial manufacturing and sales.
108. Which of the following is a suitable risk return measure for an analyst wanting to assess the downside risk of an alternative investment?
- A. Sharpe ratio
  - B. Sortino ratio
  - C. Standard deviation.

109. Jerry invested \$11.25 m in EV Fund of funds (EVFOF) that invested the money with Tsar Hedge Fund (THF). EV FOF and THF have “1 & 10” and “2 & 20” fee structures respectively. Management fees are calculated using beginning of period capital and both management and incentive fees are computed independently. THF earned 17% annual return before management and incentive fees. Based on the data provided, net of fees return to Jerry is *closest* to:
- A. 7.08%.
  - B. 8.90%.
  - C. 9.44%.
110. The returns of which type of investments rely to a great extent on manager skills?
- A. Commodity investments
  - B. Infrastructure investments
  - C. Private equity investments

**Questions 111 through 120 relate to Portfolio Management**

111. The type of chart drawn on a grid, which consists of column X's alternating with column O's and does not represent time or volume is *most likely* the:
- A. bar chart.
  - B. candlestick chart.
  - C. point and figure chart.
112. Which of the following quantifies and allocates the tolerable risk by specific metrics?
- A. Risk tolerance
  - B. Risk Budgeting
  - C. Enterprise risk management
113. When an investor's ability to take risk is above average but willingness is below average, the investor's risk tolerance is
- A. average.
  - B. above average.
  - C. below average.
114. The intercept of security characteristic line (SCL) is:
- A. Beta.
  - B.  $R_M - R_F$ .
  - C. Jensen's alpha.
115. Generating sufficient income and maintaining the real capital value of the fund are *most likely* the objectives of:
- A. insurance companies.
  - B. university endowments.
  - C. investment companies.

116. An investor earned -0.5% returns in predicting the one-week movement in the dollar/pound exchange rate from 06/01/19 to 06/07/19. The loss an investor can suffer by the end of May 2020 keeping the given return as representative of future losses is *closest* to:
- A. 1.98%.
  - B. 22.9%.
  - C. 29.6%.
117. Which of the following two measures are based on the total risk and provide similar rankings?
- A.  $M^2$  and Sharpe ratio.
  - B. Sharpe and Treynor ratios.
  - C. Treynor ratio and Jensen's alpha.
118. Generating higher returns from security selection *most likely* depends upon:
- A. lower index turnover and passive management.
  - B. higher informational efficiency and lower index turnover.
  - C. lower informational efficiency and higher skills of investment managers.
119. Assuming the correlation between an asset and market is 0.67 and the asset and market have standard deviations of 0.34 and 0.19 respectively, the asset beta would be *closest* to:
- A. 0.09.
  - B. 1.00.
  - C. 1.20.
120. Which of the following type of stock analysis relies on information that is external to the market in an attempt to evaluate a security's value relative to its current price.
- A. Technical analysis
  - B. Fundamental analysis
  - C. Relative strength index