

2018

CFA® EXAM REVIEW



AFTERNOON
SESSION

LEVEL I CFA®
MOCK EXAM

WILEY

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Published by John Wiley & Sons, Inc., Hoboken, New Jersey.

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Mock Exam 6 – Afternoon Session – Questions

Questions 1–18 Ethical and Professional Standards

1. The research department at an investment management firm has drafted a report initiating coverage with a strong buy recommendation on a biotech company. Jessica Sampalo, an investment advisor at the firm, emails her largest clients with news about the recommendation to gauge their interest. The firm has no provision to charge higher fees for different levels of client service, but Sampalo places an order for the one client who indicates interest immediately after the report is officially disseminated. Sampalo has *most likely* violated the CFA Institute's Code and Standards by:
 - A. not purchasing stock for all clients.
 - B. only communicating with large clients.
 - C. not having a reasonable basis for the purchase order.
2. Which of the following statements is *least correct*?
 - A. Ethical conduct balances self-interest with how that behavior affects others.
 - B. Ethical principles include honesty, fairness, self-fulfillment, and respect for others
 - C. Unethical behavior can result in the loss of a job, reputational damage, fines, or a jail sentence.
3. Ezekiel Diempe, CFA, works as an investment consultant for a large investment bank in Paris, France. Over the past few years, Diempe has been volunteering as a treasurer for a local community group, and due to the rapid growth in one of their programs, his volunteer work for the group is likely to take up a significant part of his time. Which of the following statements is *most correct* regarding Diempe's compliance with CFA standards?
 - A. He should disclose his volunteer activities to his employer.
 - B. He does not need to disclose his volunteer activities as he does not receive compensation.
 - C. He does not need to disclose his volunteer activities as they are not in conflict with his role as an investment consultant.
4. Jamaal Greene, CFA, is an associate trader for Big House Investments (BHI). BHI has a referral arrangement with Armytage Annuities (AA) who pay BHI a referral fee for each client referred to an AA advisor. Greene refers a number of clients to AA and is compensated by BHI with a share of the referral fee. Greene only refers clients who have a need for an annuity-style product and discloses all the likely fees payable to AA. Which of the following statements is *most correct*? Greene has:
 - A. violated the Code and Standards by receiving referral fees.
 - B. violated the Code and Standards by not disclosing referral fees.
 - C. not violated the Code and Standards as he has disclosed all the fees likely to be paid by the client.

5. Which of the following statements regarding the GIPS standards is *least accurate*? GIPS verification:
- A. ensures the accuracy of performance presentations.
 - B. helps to improve internal processes and procedures.
 - C. may increase the level of consistency and quality of performance reports.
6. Ivan Kelly has just walked out of the CFA Level III exam and posts the following on his LinkedIn page:
- “Just finished my last (hopefully) CFA exam. It was super difficult and my hand is tired from all the writing, but I think I have done enough to pass.”*
- A. Kelly has not violated CFA Standards.
 - B. Kelly has violated CFA Standards by commenting on the difficulty of the exam.
 - C. Kelly has violated CFA Standards by implying that he has passed the exam.
7. Which of the following statements regarding GIPS compliance is *least correct*? To be compliant with the GIPS standards, a firm must:
- A. have at least one composite verified for compliance each year.
 - B. include all actual, discretionary, fee-paying portfolios in at least one composite.
 - C. make a reasonable effort to provide a compliant presentation to all prospective clients.
8. Jason Peters, CFA, is an investment advisor for a large broker based in London. The firm has received an allocation for the initial public offering (IPO) in Jet Atmosphere Travel (JAT). As the float is heavily oversubscribed most clients have had their requested allocations reduced considerably and he has allocated only the minimum share allotment to his own family’s various accounts. Which of the following statements is *most correct*?
- A. Peters has complied with the CFA standards.
 - B. Peters has not complied with the CFA standards as he should not have reduced client allocations.
 - C. Peters has not complied with the CFA standards as he should not have allocated shares to his family’s accounts.
9. Vito Gracos, CFA, is an investment advisor for a large practice in Denver, Colorado. He has recently prepared an investment plan for a new client, which includes a unique strategy to manage the client’s large holding of stock and options received as part of her executive remuneration package. The strategy requires a complicated option pricing model, which he develops with his colleagues, and comes with risks that are quite different from those found in a usual investment plan. Due to the success of the strategy, the client has referred Gracos to the rest of the executive

team, which leads to Gracos leaving his firm to start his own practice. Which of the following statements is *least correct*? To comply with the CFA standards Gracos should:

- A. maintain records of all new clients for at least seven years.
- B. maintain appropriate information regarding the client's unique circumstances.
- C. take with him the supporting records created as part of the client's investment plan.

10. Which of the following statements is *most correct*? According to the CFA standards, members must:

- A. avoid presenting opinions to clients and prospective clients.
- B. disclose to clients and prospective clients all limitations and risks associated with their investment services.
- C. disclose to clients and prospective clients the format and principles of the investment process they will use.

11. Regarding the GIPS standards, which of the following statements is *most correct*?

- A. Firms must calculate money-weighted rates of return.
- B. Returns from cash must be included in all return calculations.
- C. Firms can use only estimated trading fees when they cannot be segregated from a bundled fee.

12. Patty Van Buren, CFA, is an investment advisor in her own small practice in Birmingham, UK. She maintains a private blog for clients on the practice website, in which she provides insight into the important topics relating to the markets and the investment landscape. The blog has a comments section that can be seen only by clients and she receives regular correspondence from clients on the blog regarding personal situations. She often responds to these comments and queries directly via a phone call or email. Van Buren is *most likely* in violation of CFA standards as:

- A. she is not keeping client information private.
- B. she should not be responding to client comments.
- C. the blog is not an appropriate method of providing relevant insights.

13. Xue Bin, CFA, is a research analyst for a Swiss-based hedge fund. The fund specializes in distressed securities and requires Bin to meet with directors and executives all over the world, usually over a meal or drinks. She is successful in fulfilling her role, but often finds herself heavily inebriated after a day of meetings. This has given her a reputation in the firm for missing many days of work owing to the effects of excessive drinking. However, her research reports are among the best in the business and lead to many successful transactions. Which of the following is *most correct*?

- A. Bin has violated CFA standards by drinking excessively.
- B. Bin has violated CFA standards by drinking alcohol during business meetings.
- C. Bin has not violated CFA standards as her work product is not affected by her drinking.

14. Which of the following statements is *most correct*? Members can use material nonpublic information when providing investment recommendations:
- A. under no circumstances.
 - B. only where local law permits.
 - C. when applying the mosaic theory.
15. Which of the following must be presented in a GIPS compliant presentation?
- A. The number of portfolios in each composite.
 - B. A measure of skewness of individual portfolio returns.
 - C. Composite returns that are both net-of-fees and gross-of-fees.
16. Daniel Cauley, CFA, is a portfolio manager for an investment firm in Los Angeles, California. He currently has a large holding in an auto parts manufacturer and has just received a report from one of their brokers, whose research department has downgraded the stock to a “sell.” Cauley is upset with the report, as his holding in the stock suffers a significant loss just prior to the end of the month, triggered by the broker’s report. As a result, Cauley decides not to use the broker for any future trades. Which of the following is *most accurate*?
- A. Cauley has violated the CFA standards by ceasing to use the broker.
 - B. Cauley has not violated CFA standards as the broker caused a loss for his clients.
 - C. Cauley has not violated CFA standards as he should use brokerage services that are in the best interests of his clients.
17. Which of the following statements is *least correct*? Market manipulation includes:
- A. creating negative rumors in an effort to push down prices.
 - B. maintaining a large buy order below the bid price in order to push up bid prices.
 - C. the dissemination of information that could have a significant impact on a company’s share price.
18. Which of the following statements is *least correct*? To claim compliance with the GIPS standards, a firm’s advertisement must disclose:
- A. any conflicts of interest.
 - B. the definition of the firm.
 - C. how a prospective client can obtain information regarding the GIPS standards.

Questions 19–32 Quantitative Methods

19. In order to test the claim that the returns of a mutual fund have the same volatility as its benchmark (as measured by the variance of the returns), which of the following test statistics would be *most appropriate* to calculate?
- A. t -statistic
 - B. F -statistic
 - C. Chi-square statistic
20. A local economist states that the odds for a property market fall in the next year are 1 to 3. Based on these odds, the expected probability of a property market fall is *closest to*:
- A. 25%
 - B. 33%
 - C. 75%
21. An investor purchases preference shares in a company for \$97.20 per share, which are to pay an annual coupon of \$5.50 into perpetuity. The required return of the investor to hold the shares is *closest to*:
- A. 5.34%
 - B. 5.50%
 - C. 5.66%
22. A company has the opportunity to invest in one of the following projects:
- Project A, with an NPV of –\$20.6 million and an IRR of 7.9%
 - Project B with an NPV of –\$14.8 million and an IRR of 10.6%

Which of the following statements is *most correct*? The company should invest in:

- A. Project A.
 - B. Project B.
 - C. Neither project.
23. The following funds have the following probabilities of beating their respective benchmarks in any given month:
- | | |
|--------|-----|
| Fund X | 68% |
| Fund Y | 54% |
| Fund Z | 85% |

One of these funds is chosen at random and it is found to have beaten its benchmark for the month. The probability that Fund X was chosen is *closest to*:

- A. 32.9%
- B. 33.3%
- C. 33.7%

24. Which of the following statements is *most correct*? A difference between Monte Carlo simulation and historical simulation is:

- A. that historical simulation does not facilitate “what if” analysis.
- B. that Monte Carlo simulation does not provide cause-and-effect relationship information.
- C. that Monte Carlo simulation assumes that the distribution of a random variable depends on past trends.

25. Which of the following statements regarding stratified random sampling is *least correct*?

- A. Random sampling is applied to each subgroup based on their relative sizes.
- B. Collective exhaustiveness in stratification requires that all the subgroups together contain the whole population.
- C. Mutually exclusivity in stratification requires that each member of the population be assigned to the one subgroup.

26. A sample of the returns of Corporate Bond A and Corporate Bond B is conducted and yields the following information:

	Monthly Return	Monthly Standard Deviation
Bond A	0.38%	0.32%
Bond B	0.41%	0.37%

The sample size for both bonds was 60, and a test is to be conducted to investigate whether the mean return of the bonds is the same. If the population variances of the bonds’ returns are assumed to be equal, the *t*-statistic for the associated *t*-test is *closest to*:

- A. -0.67
- B. -0.55
- C. -0.48

27. Which of the following statements is *most correct*? Key tenets of Elliott Wave Theory include:

- A. grand super cycles, which take place over centuries.
- B. impulse waves, which, in a bull market, are sets of two up waves and one down wave.
- C. corrective waves, which, in a bear market, are sets of three down waves and two up waves.

28. Mary Sumner, CFA, has a client who wants to retire in 20 years' time with \$4 million in future savings. Her client has just paid off their home mortgage and currently has no savings. Sumner expects that her client will earn a quarterly rate of 6.5% p.a. on accumulated savings and she wants to save an equal amount each quarter going forward. If the client contributes to her savings account at the end of each quarter, the equal quarterly payments required to achieve her savings goal is *closest to*:
- A. \$24,704
 - B. \$25,756
 - C. \$26,798
29. A T-bill, with 60 days (2 months) left to maturity, is purchased at a money market yield of 2.95%. The bond equivalent yield of the bill is *closest to*:
- A. 1.48%
 - B. 2.96%
 - C. 8.85%
30. Which of the following statements is *least correct*?
- A. The normal distribution is mesokurtic.
 - B. Leptokurtic distributions have excess kurtosis that is less than 3.
 - C. Leptokurtic distributions have fatter tails than the normal distribution.
31. Simone Laker, CFA, constructs a chart to show the daily movement of the price of a stock over time. The chart clearly shows the highs and lows of each day and uses a shaded box to show days where the share price declined. Laker is *most likely* using a:
- A. bar chart.
 - B. candlestick chart.
 - C. point and figure chart.
32. A sample of 51 quarters of sales data for a company has revealed a sample mean of quarterly revenue growth of 1.65% and a standard deviation of 2.89%.

	Two-Tailed <i>t</i>-Test Values		
Df	0.1	0.05	0.01
49	1.677	2.010	2.680
50	1.676	2.009	2.678
51	1.675	2.008	2.676

The lower bound of the 95% confidence interval for the quarterly revenue growth is *closest to*:

- A. 0.81%
- B. 0.84%
- C. 1.54%

Questions 33–44 Economics

33. Which of the following indicators would *best* be considered a lagging indicator?
- A. Stock index
 - B. Inventory-to-sales ratio
 - C. Industrial production index
34. Which of the following functions is a central bank *least likely* to perform?
- A. Managing gold reserves
 - B. Conducting monetary policy
 - C. Issuing government bills and bonds
35. Which of the following statements about trade models is *most accurate*. The Ricardian Model:
- A. is also referred to as the factor proportions theory.
 - B. places technological differences as the key source of comparative advantage.
 - C. assumes that both capital and labor are variable factors of production.
36. Rob Booth, CFA, subscribes to the quantity theory of money. If the central bank were to increase the money supply, Booth would *most likely* expect which of the following outcomes?
- A. An increase in product prices
 - B. A decrease in the velocity of money
 - C. An increase in the quantity of products purchased.
37. Mason Jenkins, CFA, was made redundant 7 months ago and is currently working part-time as a window cleaner as he searches for a new full-time position. Which of the following categories *best* describes Jenkins' situation?
- A. Underemployed
 - B. Long-term unemployed
 - C. Frictionally unemployed
38. Which of the following statements about monopolistic firms is *least correct*?
- A. Monopolies can earn a markup above the marginal cost.
 - B. A monopolistic firm's output is high relative to that of a purely competitive firm.
 - C. Profit is maximized at the output level where marginal revenue equals marginal costs.

39. Interest rates in Country JKL are currently higher than those in Country MNO. Which of the following statements about their respective currencies is *most correct*?
- A. The currency for Country MNO will appreciate against the currency for Country JKL.
 - B. The currency for Country JKL will trade at a forward discount against the currency for Country MNO.
 - C. The exchange rate for the currency for Country JKL against the currency for Country MNO will trade at a rate above parity.
40. The demand equation for laptops (QD_L) is as follows:
- $$QD_L = 390.8 - 0.25P_L + 0.15I - 0.05P_S$$
- The price of laptops (P_L) is currently 710, and the price of software (P_S) is 142. The income level is 52 (\$52,000 p.a.). Given this information, the price elasticity of demand of laptops is *closest to*:
- A. -0.95
 - B. -0.88
 - C. -0.83
41. Which of the following statements is *least correct*? To ensure consistency in the method used to calculate GDP, only:
- A. the value of final goods and services is included.
 - B. goods and services that are priced in the local currency are included.
 - C. goods and services produced during the measurement period are included.
42. Which of the following statements is *most correct*? The kinked demand curve model:
- A. explains why stable prices have been seen in monopolistic markets.
 - B. assumes that if a firm increases its price, competitors will follow suit.
 - C. assumes that if a firm decreases its price, competitors will follow suit.
43. Country J has recently entered an economic slump and the central bank is looking to stimulate the economy by decreasing short-term interest rates. Which of the following actions by the Country J central bank would be *most likely*?
- A. Buy long-term bonds.
 - B. Sell short-term treasuries.
 - C. Decrease bank reserve requirements.

44. Country Q places a tariff on smartphones in the hope of spurring growth in domestic smartphone production. Which of the following outcomes is *most likely* to occur because of this decision?
- A. Trade deficit will increase.
 - B. Producer surplus will decrease.
 - C. Consumer surplus will decrease.

Questions 45–68 Financial Reporting and Analysis

45. Which of the following statements is *most correct*? The statement of changes in owners' equity:
- A. forms part of the statement of financial position.
 - B. provides a link between the income statement and the balance sheet.
 - C. reports the interrelationship between equity, assets, and liabilities.
46. Which of the following supplementary information is *least likely* to be included in the financial notes and supplementary information section of a financial report?
- A. Segment financials
 - B. Accounting policies
 - C. Key business strategies
47. Canary Homewares LLC has prepared its annual financial reports and submitted them to an independent auditor for review. The auditor finds that the reports have been presented fairly, but notes some issues with the way certain accounting standards have been (or not been) followed. The auditor has *most likely* issued which kind of opinion in regard to Canary Homewares' financial reports?
- A. Adverse opinion
 - B. Qualified opinion
 - C. Disclaimer of opinion
48. Which of the following statements is *least accurate* regarding the analysis of a company's financial statements. Prior to collecting data, the analyst should:
- A. establish time and resources required.
 - B. make appropriate adjustments to the financial information.
 - C. communicate with clients or supervisors on the requirements of the analysis.
49. Which of the following statements is *least correct*? A business activity that would be classified as an operating activity for a clothing retailer is:
- A. the incurring of income tax.
 - B. the sale of old cash registers.
 - C. the purchase of a new line of shoes.
50. Accumulated depreciation would *most likely* appear in which section of the balance sheet?
- A. Other expenses
 - B. Current liabilities
 - C. Noncurrent assets

51. Keller Engines has produced \$79.1 million in revenues for the year, while incurring \$80.6 million. Its retained earnings at the start of the year was \$58.8 million and its balance sheet at the end of the year had the following amounts (in \$ millions):

Current assets	24.6
Noncurrent assets	107.3
Current liabilities	18.0
Noncurrent liabilities	52.1
Contributed capital	10.7

Based on this information, the dividend declared by Keller Engines for the year is *closest to*:

- A. \$0
 - B. \$3.2 million
 - C. \$6.2 million
52. Jamie's Metalworks is a small business in Ireland. During the month of January, the business has the following activity:

Date	Activity	Amount (EUR)
01-Jan	Purchase and receive new inventory on credit	20,000
02-Jan	Pay utilities	1,500
04-Jan	Make sale on credit	2,800
08-Jan	Receive cash from client	1,200
14-Jan	Purchase new computer with cash	1,900
16-Jan	Make cash sale	1,600
20-Jan	Pay supplier	5,000
27-Jan	Pay rent	1,200
31-Jan	Pay tax	800

Based on this information, which of the following statements is *least correct* regarding changes to Jamie's Metalworks' accounts during the month of January?

- A. Cash will decrease by EUR 7,600.
 - B. Accounts receivable will not change.
 - C. Accounts payable will increase by EUR 15,000.
53. Which of the following accrual accounts would *most likely* be categorized as a liability?
- A. Prepaid rent
 - B. Accrued revenue
 - C. Unearned revenue

54. Company DEF currently owns shares in 3 listed companies. When they produce their annual financial reports, the end-of-year share price of these companies is reflected on Company DEF's balance sheet. This is an example of:
- A. an accrual adjustment.
 - B. a valuation adjustment.
 - C. an asset being reported at historical cost.
55. Regarding accounting systems, which of the following statements is *most correct*. The general ledger:
- A. sorts transactions into accounts.
 - B. is a chronological record of business transactions.
 - C. includes adjustments to accruals and prepayments that had not been considered as part of the initial trial balance.
56. Which of the following statements is *most accurate*? The organization with the authority to establish accounting standards for US listed companies is the:
- A. Securities and Exchange Commission (SEC).
 - B. Financial Accounting Standards Board (FASB).
 - C. International Accounting Standards Board (IASB).
57. Briar Furniture and Fittings (BFF) is currently part way through filling a long-term contract to renovate an office building. The completion percentage of the project cannot be measured reliably and BFF is currently preparing its annual financials. Assuming the company follows IFRS, which of the following revenue and expense recognition methods would be *most appropriate*? BFF should:
- A. only recognize costs until the project is completed.
 - B. not recognize any profits until the project is completed.
 - C. not recognize any revenues or expenses until the project is completed.
58. Company ABC has 400,000 shares outstanding at the start of the year (1 January) and buys back 10% of shares after 6 months (1 July). On 1 September, the company splits the shares in the company with a 5-for-2 share split, and a month later (1 October) distributes a 5% stock dividend to shareholders. Assuming no other share activity by Company ABC, the weighted average number of shares outstanding for the year is *closest to*:
- A. 651,250
 - B. 945,000
 - C. 997,500

59. Which of the following statements is *least correct*?
- A. Accounting goodwill is amortized annually.
 - B. Economic goodwill is not reflected on the balance sheet.
 - C. Accounting goodwill is the price paid for a business less the value of its net assets.
60. Which of the following is *not* a common component of owners' equity?
- A. Treasury shares
 - B. Subsidiary interests
 - C. Accumulated other comprehensive income
61. Aguera International categorizes the following cash flows as operating cash flows:
- Interest paid on outstanding bonds
 - Dividends received from share portfolio
 - Dividends paid to shareholders
- Based on this information, Aguera International is *most likely* following which accounting standard?
- A. IFRS only
 - B. US GAAP only
 - C. Either IFRS or US GAAP
62. Which of the following is *least likely* to be a limitation of ratio analysis?
- A. Conflicting ratio signals
 - B. Available range of accounting methods
 - C. Requirement for information outside of financial statements
63. Which of the following inventory valuation methods will *most likely* value cost of goods sold (COGS) in an economically accurate fashion?
- A. Last in, first out (LIFO)
 - B. First in, first out (FIFO)
 - C. Weighted average cost (AVCO)
64. Under US GAAP, research and development costs may be capitalized:
- A. never.
 - B. once there is an intention to use or sell a feasible product.
 - C. for software development, once technological feasibility has been established.

65. MyCloud Airlines (MCA) is preparing its financial reports and is reviewing its measurement of deferred tax items. If MCA follows IFRS, which of the following tax rates and laws would be *most appropriate* for MCA to use?
- A. Estimated tax rates and laws.
 - B. Only currently enacted tax rates and laws.
 - C. At least substantively enacted tax rates and laws.
66. Company XYZ operates a defined benefit pension plan for its employees, which was recorded as a net pension asset at the start of the year. Primarily due to actuarial changes throughout the year, the plan has since moved to become a net pension liability by the end of the year. Using IFRS, which of the following accounting items is *least likely* to appear in the annual financial reports?
- A. Actuarial loss
 - B. Net interest expense
 - C. Employee service cost
67. Directors at Portville Laboratories are expecting a large increase in revenue the following year as a result of the expiry of a competitor's drug patent. As such, they decide to delay the annual business conference and several R&D projects so that these expenses will fall into the following year's reporting. This is known as:
- A. real earnings management.
 - B. noncompliant accounting.
 - C. accounting earnings management.
68. Which of the following strategies would *most likely* be used to decrease profits for tax purposes in the current period?
- A. Channel stuffing
 - B. Switching from AVCO to FIFO
 - C. Decreasing the useful life of assets

Questions 69–76 Corporate Finance

69. Which of the following groups would *least likely* be considered to be a primary stakeholder of a local car mechanic business?
- A. National union for mechanics
 - B. Local environmental organization
 - C. Business banking team that looks after cash and overdraft facilities of the mechanic
70. Which of the following statements regarding environmental, social, governance (ESG) considerations is *most correct*? Positive screening:
- A. is used to exclude certain investments or sectors with poor ESG characteristics.
 - B. is used to include certain investments or sectors with good ESG characteristics.
 - C. uses ESG factors, along with traditional analysis, to find investment opportunities.
71. Manfred White, CFA, is analyzing a prospective project by calculating its discounted payback period. Which of the following statements is *least correct*? A drawback of using this type of evaluation approach is that it:
- A. does not provide a measure of project profitability.
 - B. ignores cash flows that occur after payback period.
 - C. does not take into account the time value of money.
72. PharmaSun Technologies (PST) is a large producer of household vitamins and supplements. Its shares trade at the local stock exchange and are currently priced at EUR 26.90. It recently paid its annual dividend of EUR 1.22 per share and this is expected to grow into perpetuity at 3.1% p.a. It also has preference shares that are currently trading at EUR 98.30, which also recently paid its annual dividend of EUR 6.50 per preference share. It finances its debt through bank loans and recently renegotiated its loans at a rate of 4.2% above the risk-free rate. Overall, PST's capital structure consists of 30% in loans, 20% in preference shares, and 50% in ordinary shares. If the risk-free rate is 2.4% p.a. and PST's effective tax rate is 25%, the weighted average cost of capital (WACC) for PST is *closest to*:
- A. 5.1%
 - B. 6.7%
 - C. 7.2%
73. Which of the following statements is *most correct*? The degree of operating leverage is:
- A. affected by a company's cost structure.
 - B. the sensitivity of net income to changes in operating income.
 - C. the sensitivity of operating income to changes in sales margins.

74. Which of the following statements regarding sources of liquidity is *least accurate*. A major drag on liquidity might be:
- A. tight credit.
 - B. obsolete inventory.
 - C. extension of terms on payables.

75. Banks and Sons Productions (BSP) manufacture fabrics for the interiors of passenger vehicles. They provide most of their goods on credit terms to their customers and they are concerned that a recent economic downturn may be affecting the payment of outstanding invoices. Their accounts receivables (A/R) aging schedule is currently as follows:

A/R Category	Average Days Receivable	A/R Outstanding (\$000's)
Early	18	225.4
Normal	37	312.6
Delayed	81	68.9
Default	119	33.2

Based on this information, BSP's current weighted average collection period is *closest to*:

- A. 39 days
 - B. 48 days
 - C. 64 days
76. The sovereign yield spread for Country UVW is currently 5.3% and the yield on 10-year US treasuries is 3.2%. The annualized standard deviation of Country UVW's stock market is 19.1%, which is much higher than the annualized standard deviation of Country UVW's 10-year USD sovereign bonds of 7.6%. If the expected return on Country UVW's stock market is 13.2%, their country risk premium is *closest to*:
- A. 5.3%
 - B. 13.3%
 - C. 26.5%

Questions 77–85 Portfolio Management and Wealth Planning

77. Which of the following statements is *least accurate*?
- A. The time horizon for life insurance companies is longer than the time horizon for banks.
 - B. The liquidity needs of banks are lower than the liquidity needs of defined-benefit pension plans.
 - C. The risk tolerance for foundations is higher than the risk tolerance for property insurance companies.
78. Which of the following statements is *least correct*? A separately managed account (SMA):
- A. takes into account the specific tax needs of the investor.
 - B. provides investors with units in a pooled investment vehicle.
 - C. generally requires a higher minimum investment than mutual funds.
79. Which of the following statements regarding risk management in an organization is *least correct*? The board is responsible for:
- A. setting the firm's risk tolerance.
 - B. monitoring the firm's risk levels.
 - C. guiding the firm's risk budgeting.
80. Barry Winters, CFA, is a derivatives trader for an investment house in New York and will be closing out a currency swap by sending EUR 200 million to the swap counterparty. Winters realizes that European markets are closed for a long weekend and that the repayment of the USD leg will be delayed, and he is concerned that if he sends the EUR notional amount now, there is a risk that the counterparty will default prior to being able to make their closing swap payment. Which of the following risks is Winters *most likely* exposed to?
- A. Default risk
 - B. Settlement risk
 - C. Counterparty risk
81. Felix Moon, CFA, purchased a stock for \$128.44 per share (after costs) and receives the following dividends at the end of each year:
- Year 1 \$5.65
 - Year 2 \$4.90
 - Year 3 \$6.20

Just following the Year 3 dividend, he sells the stock for \$165.32 per share (after costs). The money-weighted rate of return Moon has earned from the stock is *closest to*:

- A. 12.3%
- B. 12.5%
- C. 12.8%

82. Investor Y has a risk aversion coefficient of 2 and has the option of investing in one of the following portfolios:

Portfolio	Expected Return	Expected Variance
A	8.50%	1.10%
B	14.2%	2.80%
C	11.60%	1.60%

Which of these portfolios is Investor Y *most likely* to choose?

- A. Portfolio A
- B. Portfolio B
- C. Portfolio C

83. Which of the following statements regarding the efficient frontier is *least accurate*?

- A. The single optimal portfolio on the efficient frontier has the highest Sharpe ratio.
- B. An optimal investor portfolio occurs at the point of tangency between the capital market line and the investor's indifference curve.
- C. Investors can move from the single optimal portfolio to an optimal investor portfolio by moving to other portfolios along the efficient frontier.

84. Information regarding Portfolio D and the market are as follows:

- Risk-free rate 2.6%
- Market premium 5.5%
- Market standard deviation 10.8%
- Portfolio D expected return 11.8%
- Portfolio D standard deviation 12.9%

If Portfolio D has a correlation with the market of 0.87, which of the following statements is *least correct*?

- A. Portfolio D's Sharpe ratio is 0.7.
- B. Portfolio D's Treynor ratio is 8.9%.
- C. Portfolio D's Jensen's alpha is 2.2%.

85. Karen Underwood, CFA, is a financial advisor at a large bank in the UK. She is meeting with a new client and is currently discussing her investment needs and objectives. Underwood uncovers that her client has an above-average willingness to take on investment risk, but that her circumstances are more conducive to a below-average level of risk. Which of the following actions is *most appropriate* for Underwood to take?
- A. Recommend a lower risk portfolio to the client.
 - B. Recommend a higher risk portfolio to the client.
 - C. Explain to the client the conflict between her willingness and ability to take on investment risk.

Questions 86–97 Equity Investments

86. Which of the following statements is *most accurate*? A primary dealer:
- A. trades with the central bank.
 - B. provides brokerage services to fulfill large orders.
 - C. arranges the offering of securities on primary markets.
87. Jane Roswell, CFA, works on the dealing desk of a large broker. She receives an order to sell shares and places a sell order at a price below the best offer and above the bid. Which of the following statements is *most correct*? Roswell's order:
- A. is behind the market.
 - B. has made a new market.
 - C. will at least be partially executed immediately.
88. The TimeWell UK Equity ETF offers investors a passive exposure to companies listed on the London Stock Exchange. The proportion of each share's weight in the ETF is based on the relative size of each company's book value. Which weighting method will the TimeWell UK Equity ETF *most likely* follow?
- A. Equal weighting
 - B. Fundamental weighting
 - C. Float-adjusted market-capitalization weighting
89. Which of the following stock market indices was originally formulated by Dow Jones & Co and uses a modified price weighting approach?
- A. TOPIX
 - B. Nikkei Stock Average
 - C. HFRX Global Hedge Fund Index
90. Wilhelm Bulmer, CFA, notices that the value of his client's portfolios tends to generate more returns on Fridays and less so on Mondays. This anomaly is commonly referred to as the:
- A. value effect.
 - B. Friday effect.
 - C. weekend effect.
91. Company ABC has three classes of ordinary shares on issue as follows:
- Class A shares: no voting rights
 - Class B shares: statutory voting rights
 - Class C shares: cumulative voting rights

Which class of shares would *best* offer minority shareholders better representation on the board?

- A. Class A
- B. Class B
- C. Class C

92. BigSilk Textiles is a large producer of luxury linen and luggage for households and has historically enjoyed fast growth and a low level of market competition. However, growth is now slowing and competition both domestically and internationally has grown considerably causing their return on capital to fall considerably. Which of the following stages would *best* describe the current position of BigSilk's industry in the industry life-cycle model?

- A. Mature
- B. Decline
- C. Shakeout

93. Company OOO has recently sold off one of its poorer performing businesses to another firm. Due to synergistic benefits, they received a price well above the intrinsic value of the business segment and they have decided to return cash to shareholders by way of a share repurchase. Which of the following is *least likely* to be seen as a benefit of this type of corporate action to Company OOO's directors and shareholders?

- A. Tax effectiveness, as capital gains and dividends are taxed at the same low rate.
- B. Distribution flexibility, as the share repurchase does not raise expectations about ongoing dividend levels.
- C. Increase in shareholder value, as directors believe that the company's shares are currently undervalued.

94. Harrietta Fleece, CFA, is a portfolio manager for the GMZ Global Value Fund. A key filter for the fund is a company's P/E ratio and the fund only invests in companies with a leading justified P/E ratio of less than 12.0. She has identified two companies that would be a good inclusion in the fund and has prepared the following information on the companies:

	Company A	Company B
Retention rate	27%	36%
Expected return (p.a.)	9.70%	10.60%
Expected growth (p.a.)	3.50%	5.10%

If Fleece can invest in only one company and makes her decision based on leading justified P/E ratios, the company that Fleece will select is *most likely* to be:

- A. Company A
- B. Company B
- C. Neither Company A nor Company B

95. McDaniels is a fast-growing dessert chain located on the US West Coast. It is not currently paying dividends but is expecting to start paying dividends over the next few years as follows:

- Initial dividend of \$2.50 per share at the end of Year 3
- Dividend of \$3.00 at the end of Year 4 and \$4.00 at the end of Year 5
- Dividends to grow at a rate of 5% p.a. at the end of each year following Year 5

If investors require a return of 15% p.a. to invest in McDaniels, its share price is *closest to*:

- A. \$25.2
- B. \$26.2
- C. \$27.2

96. Which of the following statements is *least accurate*? The EV/EBITDA multiple might be appropriate when:

- A. a company is currently experiencing losses.
- B. the debt of companies is not publicly traded.
- C. companies in an industry tend to have a wide range of capital structures.

97. Which of the following factors is *not* a common external influence on a company or industry?

- A. Population growth
- B. Economies of scale
- C. Technological advancements

Questions 98–109 Fixed Income

98. Which of the following statements is *most accurate*? A currency option bond:
- A. makes coupon payments in one currency and the principal payment in another.
 - B. gives bondholders a choice of two currencies regarding coupon and principal payments.
 - C. provides bondholders with coupon and principal payments in multiple currencies at the prevailing currencies rate of interest.
99. Which of the following tax treatments is *least likely* regarding bonds?
- A. Tax exemption of certain bonds
 - B. Annual interest income tax payable on zero-coupon bonds
 - C. Capital loss claim in the year of purchase for bonds bought at a premium
100. Hazel Reid, CFA, is searching for a corporate bond for a client to add to their portfolio. All of the bonds on offer have embedded call options for the issuer. Which of the following types of bonds would *most likely* protect the interests of Reid's client in a rising interest rate environment?
- A. Step-up coupon bond
 - B. Deferred coupon bond
 - C. Payment-in-kind coupon bond
101. All else being equal, which of the following bonds would be the *least* expensive for a bondholder?
- A. Callable bond with a make-whole provision
 - B. Putable bond with multiple sellback opportunities
 - C. Callable bond with an initial call protection period
102. Which of the following statements regarding floating rate notes is *least correct*? The reference rate for a floating rate note:
- A. resets periodically.
 - B. is based on the issuer's creditworthiness.
 - C. usually depends on the place of issue and currency.
103. Intelligent Money Group (IMG) issues \$150 million in debt to investors. The return on the 5-year bond is linked to the 5-year government bond yield and the return on the S&P 500. The type of debt security issued by IMG would *best* be described as a:
- A. structured note.
 - B. convertible bond.
 - C. floating rate note.

104. Bunny Apparel is raising capital by issuing \$150 million in 12-year bonds to investors. They have set the annual coupon rate at 7.5% and are pleased to find the bond issue raises \$162.47 million. Based on this information, the yield required by investors in the bonds at issue is *closest to*:
- A. 4.8%
 - B. 6.0%
 - C. 6.5%
105. A 6-year bond that pays an annual coupon at 6.2% with a face value of \$100 per bond is currently trading at \$104.768. It is 143 days since the last coupon was paid and the bond's yield to maturity is 5.11% p.a. Following the 30/360 day-count convention, the bond's current flat price is *closest to*:
- A. \$101.0
 - B. \$102.3
 - C. \$107.2
106. The spot rates for the shorter-term government bonds are as follows:
- 1 year 4.2% p.a.
 - 2 year 5.1% p.a.
 - 3 year 5.9% p.a.
- Given this information, the 3-year par rate is *closest to*:
- A. 5.4%
 - B. 5.6%
 - C. 5.8%
107. A 7-year corporate bond, with an annual coupon of \$7.50, is currently trading at \$103.269 and will mature at 105% above par. The corresponding 7-year government bond is trading at \$107.338 and pays a 6% annual coupon. The G-spread of the corporate bond is *closest to*:
- A. 150 points
 - B. 271 points
 - C. 392 points

108. Which of the following statements regarding mortgage backed securities is *least accurate*?
Extension risk:
- A. occurs when interest rates rise.
 - B. leads to a greater amount of capital invested in lower yielding mortgages.
 - C. is characterized by price compression at low interest rates and negative convexity.
109. Which of the following statements is *most correct*? When the investment horizon of a bond is less than the Macauley duration of the bond:
- A. the duration gap is positive.
 - B. coupon reinvestment dominates market price risk.
 - C. the investor is concerned about interest rates falling.

Questions 110–115 Derivatives

110. In comparison to underlying spot markets, derivative markets tend to:
- A. be less liquid.
 - B. entail higher transaction costs.
 - C. offer easier access to leverage and short positions.
111. 90-day LIBOR is currently 1.88%, 180-day LIBOR is 2.05%, and 270-day LIBOR is 2.10%. The forward rate that a borrower would use to hedge a 180-day loan due to start in 90 days is *closest to*:
- A. 1.99%
 - B. 2.06%
 - C. 2.20%
112. BWC Chemicals is the fixed-rate payer on a plain-vanilla interest rate swap. Since swap commencement, interest rates have fallen considerably. Which of the following statements is *most accurate*?
- A. The swap will be an asset for BWC.
 - B. The swap fixed rate will have fallen.
 - C. The present value of floating-rate payments will be lower than the present-value of fixed-rate payments.
113. The price for an underlying security is currently \$5.20. A put option with an exercise price of \$5.28 has a premium of \$0.08. The put option is currently trading:
- A. in-the-money.
 - B. at-the-money.
 - C. out-of-the-money.
114. Which of the following statements is *most accurate*? The lowest value of a European put option is the greater of:
- A. the premium or the present value of the exercise price less the premium.
 - B. zero and the underlying spot price plus the present value of the exercise price.
 - C. zero and the present value of the exercise price less the underlying spot price.
115. Early exercise of an American option immediately before a dividend would *most likely* be warranted:
- A. for a stock call option.
 - B. when carry costs are significant.
 - C. for a put option well in-the-money.

Questions 116–120 Alternative Investments

116. Karen Yang, CFA, is an investment advisor to a family office. She is currently looking to add a nontraditional exposure to the family office portfolio with the following characteristics:

- low correlation with equity markets and business cycle
- moderate level of liquidity

Which of the following investments would be *most appropriate* for Yang to consider?

- A. hedge fund
- B. art collection
- C. private equity

117. Which of the following would *not* be considered an equity hedge strategy?

- A. market neutral
- B. distressed securities
- C. quantitative directional

118. Angelique Asset Advisors (AAA) are private equity managers based in Brussels, Belgium. One of their investments, a biotech firm specializing in wearable diagnostic tools, has done extremely well and AAA is now looking to exit the company. If equity markets are buoyant and interest rates are relatively high, which of the following exit strategies would be *most appropriate* for AAA to consider?

- A. Trade sale
- B. Liquidation
- C. Recapitalization

119. A proposed university investment is an example of which type of infrastructure asset?

- A. Brownfield, local infrastructure asset
- B. Greenfield, social infrastructure asset
- C. International, economic infrastructure asset

120. Which of the following statements is *least accurate*? Compared to listed equity, alternative assets can have a greater level of:

- A. agency cost.
- B. liquidity risk.
- C. systematic risk.

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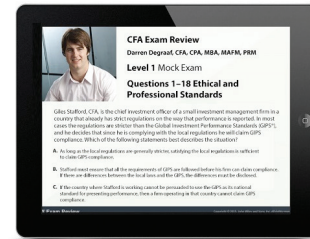
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