

<b>Questions 1~27 Relate to Ethical and Professional Standards.....</b>	<b>2</b>
<b>Questions 28~45 Relate to Quantitative Methods .....</b>	<b>12</b>
<b>Questions 46~63 Relate to Economics .....</b>	<b>17</b>
<b>Questions 64~90 Relate to Financial Statement Analysis .....</b>	<b>22</b>
<b>Questions 91~108 Relate to Corporate Issuers.....</b>	<b>30</b>
<b>Questions 109~128 Relate to Equity Investments .....</b>	<b>35</b>
<b>Questions 129~148 Relate to Fixed Income .....</b>	<b>40</b>
<b>Questions 149~159 Relate to Derivatives .....</b>	<b>45</b>
<b>Questions 160~169 Relate to Alternative Investments.....</b>	<b>48</b>
<b>Questions 170~180 Relate to Portfolio Management .....</b>	<b>51</b>

**MOCK EXAM 1**

Last Name: \_\_\_\_\_ First Name: \_\_\_\_\_

No: \_\_\_\_\_ Date: \_\_\_\_\_

**Questions 1~27 Relate to Ethical and Professional Standards**

1. The CFA Institute Code of Ethics and Standards of Professional Conduct are *most likely* designed to foster and reinforce a culture of:
  - A. responsibility and professionalism.
  - B. regulatory compliance.
  - C. service to the firm.
  
2. Examples of the beneficial features of using an ethical decision-making framework *least likely* includes analyzing:
  - A. the best course of action when alternatives are available.
  - B. the decision maker's perspective of contemplated actions.
  - C. a broader picture from a long-term point of view.
  
3. Disclosure of confidential CFA exam information will *most likely* be detected by the Professional Conduct staff through:
  - A. monitoring online and social media.
  - B. analysis of Proctor Reports.
  - C. annual Professional Conduct Statements.
  
4. Which CFA Institute Standard of Professional Conduct *most likely* includes a sub-section entitled "Communication with Clients and Prospective Clients"?
  - A. Investment Analysis, Recommendations, and Actions
  - B. Conflicts of Interest
  - C. Duties to Clients
  
5. Chan Liu, CFA, is the new research manager at the Pacific MicroCap Fund. Liu observed the

following activities after she published a research report on a thinly traded micro cap stock that included a “buy” recommendation:

- Pacific traders purchased the stock for Pacific’s proprietary account and then purchased the same stock for all client accounts; and
- Pacific marketing department employees disseminated positive, but false, information about this stock in widely read Internet forums.

Liu notes the stock’s price increased more than 50% within a period of two days and was then sold for Pacific’s account. Which of the following steps is most appropriate for Liu to take to avoid violating the CFA Institute Code of Ethics and Standards of Professional Conduct?

- A. Report the observed activities to her employer.
- B. Remove her name from the micro cap stock research report.
- C. Publicly refute the false information posted on Internet forums.

6. Ri Lin, CFA, is a Portfolio Manager with Dynasty Investment Management. Lin is performing research on Titan Mining for potential inclusion in his fund. Management at Titan is interested in having a well-known fund manager such as Lin as a shareholder. Titan pays for Lin to fly to a company retreat in Tokyo, where a brief introductory meeting is followed by attending a sporting event and then dinner at one of the city’s top restaurants. Lin participates after disclosing the activities to Dynasty’s compliance department. Which standard did Lin’s actions *most likely* violate?

- A. Disclosures of Conflicts
- B. Independence and Objectivity
- C. Diligence and Reasonable Basis

7. Jean-Luc Schlumberger, CFA, is an independent research analyst providing equity research on companies listed on exchanges in emerging markets. He often incorporates statistical data he obtains from the web sites of the World Bank and the central banks of various countries into the body of his research reports. While not indicated within the reports, whenever his clients ask where he gets his information he informs them the information is in the public domain but he doesn’t keep his own records. When the clients ask for the specific web site

addresses he provides the information. Which Standard has Schlumberger *least likely* violated?

- A. Record Retention
- B. Misrepresentation
- C. Performance Presentation

8. Maria Martinez is a research analyst and a Level II CFA candidate. Recently, friends of Martinez organized a party for her thirtieth birthday. At the party, Martinez received an inexpensive gift from a friend who is the CEO of a publicly listed company Martinez recommends to clients. Martinez also received gifts from some of the firm's best clients. Aware of her employer's policy requiring her to report all gifts received within one week of receipt, Martinez declares the gifts she received from the firm's clients two days after the party. Does Martinez *most likely* violate the CFA Institute Standards of Professional Conduct?

- A. Yes.
- B. No, because her CEO friend's gift was inexpensive.
- C. No, because the gifts do not impact her research independence and objectivity.

9. Tonya Tucker, CFA, is a financial analyst at Bowron Consolidated. Bowron has numerous subsidiaries and is actively involved in mergers and acquisitions to expand its businesses. Tucker analyzes a number of companies, including Hanchin Corporation. When Tucker speaks with the CEO of Bowron, she indicates that many of the companies she has looked at would be attractive acquisition targets for Bowron. After her discussion with the CEO, Tucker purchases 100,000 shares of Hanchin Corporation at \$200 per share. Bowron does not have any pre-clearance procedures, so the next time she meets with the CEO, Tucker mentions she owns shares of Hanchin. The CEO thanks her for this information but does not ask for any details. Two weeks later, Tucker sees a company-wide email from the CEO announcing Bowron's acquisition of Hanchin for \$250 a share. With regards to her purchase of Hanchin stock, Tucker *least likely* violated the CFA Institute Standards of Professional Conduct concerning:

- A. Loyalty.

B. Priority of Transactions.

C. Material Nonpublic Information.

10. Lewis McChord, CFA, a research analyst at an investment bank, covers the auto industry.

McChord recently read a report on an auto manufacturing company written by Pierce Brown.

Brown's report provided extensive coverage of the company's newly launched products

indicating that sales volume, not yet publicly available, would raise future profits. Intrigued

by the report, McChord called a senior executive at the company whom she has known

personally for years. The officer gave her specific details on new vehicle sales, indicating that

profits would double in the current quarter. McChord added this data to Brown's report and

then circulated it within her firm as her own report. McChord *least likely* violated which of

the following CFA Institute Standards of Professional Conduct?

A. Misrepresentation

B. Preservation of Confidentiality

C. Material Nonpublic Information

11. Dimitri Kuznetsov, CFA, is a portfolio manager and holds shares of Barnikoff Limited and

Matric Ventures in all client portfolios. Both companies have upcoming annual general

meetings scheduled for the same day. The management of Barnikoff proposes to change its

financial year-end from September to December, while Matric Ventures proposes to enter into

a high-risk venture. The proxy voting policy clause in all client investment management

agreements managed by Kuznetsov states, "When voting proxies provides a cost benefit to

the client, the manager must vote a proxy." With regard to the proxy votes for Matric and

Barnikoff, Kuznetsov would *least likely* violate CFA Institute Standard III(A)—Loyalty,

Prudence, and Care if he votes:

A. with management.

B. only the Matric proxy.

C. only the Barnikoff proxy.

12. Kam Bergeron, CFA, is an equity portfolio manager who often takes time off in the afternoon

to play golf with important clients. Today, Bergeron is on the golf course when his game is interrupted by a phone call from his office. The call is from Bergeron's assistant, who notifies him of a steep and accelerating market decline. Bergeron, eager to get back to his golf game, tells his assistant to raise cash by selling 15% of all clients' holdings. Bergeron instructs his assistant to first sell the most liquid stocks in each client's portfolio and then do the same for his personal account. Bergeron is *least likely* to be in violation of which of the CFA Institute Standards of Professional Conduct?

- A. Suitability
- B. Priority of transactions
- C. Diligence and reasonable basis

13. Abe Seneca, CFA, supervises a team of analysts who create index funds for institutional investors. When Seneca makes sales demonstrations without his colleagues to potential clients simulating the fund's performance, the scenarios he prepares show outcomes based on assumptions reflecting upside bias and positive risk assessments. Gail Tremblay, CFA, an analyst in Seneca's group, observes that the actual performance of these index funds is less than indicated in the scenario outcomes shown in the sales meetings. Seneca *least likely* violated which of the following CFA Institute Standards of Professional Conduct?

- A. Loyalty
- B. Performance Presentation
- C. Responsibilities of Supervisors

14. Teresa Staal, CFA, is an investment officer in a bank trust department. She manages money for celebrities and public figures, including an influential local politician. She receives a request from the politician's political party headquarters to disclose his stock holdings. The request indicates that local law requires the disclosure. What steps should Staal *most likely* take to ensure she does **not** violate any CFA Institute Standards of Professional Conduct?

- A. Provide the information and inform her client.
- B. Send the requested documents and inform her supervisor.
- C. Check with her firm's compliance department to determine her legal responsibilities.

15. Preeta Singh, a CFA candidate, is an asset manager employed by a fund management company managing very large segregated pension funds. In her spare time outside of working hours, Singh likes to provide management consulting services to small companies to help grow their businesses, focusing on strategic planning. Singh is paid for the consulting services and has also provided her employer information about these outside activities. Does Singh *most likely* violate the CFA Code of Ethics with regard to Duties to Employers?
- A. No.
  - B. Yes, with regard to Loyalty.
  - C. Yes, with regard to Additional Compensation Arrangements.
16. Kim Klausner, CFA, monitors several hundred employees as head of compliance for a large investment advisory firm. Klausner has always ensured that his company's compliance program met or exceeded those of its competitors. Klausner, who is going on a long vacation, has delegated his supervisory responsibilities to Sue Chang. Klausner informs Chang that her responsibilities include detecting and preventing violations of any capital market rules and regulations, and the CFA Institute Code and Standards. Klausner *least likely* violated the CFA Institute Standards of Professional Conduct by failing to instruct Chang to also consider:
- A. firm policies.
  - B. legal restrictions.
  - C. industry standards.
17. Meshack Bradovic, CFA, was recently hired as a credit analyst at a credit rating agency whose major clients include publicly listed companies on the local stock exchange. One of the clients is currently preparing to issue a new bond to finance a major factory project. Analysts are speculating that without the new factory the company will not survive the onslaught of competition from increasing imports; therefore, the company is counting on an upgraded credit rating to enhance the subscription level of the issue. Bradovic's research suggests that the creditworthiness of the company has severely deteriorated over the last year due to negative operating cash flows. Without conducting extensive research, Bradovic's boss

puts pressure on him to upgrade the credit rating to an investment grade rating. Bradovic reports this to the firm's compliance department where he is encouraged to follow his boss's advice. What course of action is *most* appropriate for Bradovic to prevent any violation of the CFA Institute Code or Standards?

- A. Quit his position with the firm
  - B. Upgrade the rating but note his objections in writing
  - C. Disassociate with the credit rating report, the bond issue and the client
18. Priscilla Moab, CFA, is the director of marketing at Red Lantern Investments. Red's investment approach uses technical and fundamental analysis as well as portfolio construction to minimize risk. Moab plans to market an online investment newsletter to retail clients. Moab decides to let prospective clients have access to Red's buy and sell recommendation list by posting this information on a social media site. The posting also provides information on Red's basic investment process and logic. To avoid violating the CFA Institute Code of Ethics and Standards of Professional Conduct, Moab should *most likely*:
- A. describe the investment approach in detail.
  - B. update investment process changes annually.
  - C. indicate that additional information and analysis are available.
19. Gregor Pavlov, CFA, is a fund manager working for the general partner of a new private equity fund. Pavlov includes in the fund marketing material his performance history from his previous employer. He received permission from his former employer to take his historical recommendations and the supporting research reports he used to make those recommendations. Did Pavlov *most likely* violate the CFA Institute Standards?
- A. No
  - B. Yes, with regard to Loyalty
  - C. Yes, with regard to Record Retention
20. Oliver Rae, CFA, is an individual investment adviser specializing in commercial real estate.



Rae recently packaged a real estate limited partnership (RELP), which he sold in a private placement to his existing advisory clients. Prior to the private placement the partnership had purchased four properties in which Rae held a 5% minority interest. According to the CFA Institute Code of Ethics and Standards of Professional Conduct, Rae should:

- A. manage the partnership separately from his advisory business.
  - B. disclose conflicts related to the real estate he sold to the partnership.
  - C. return all profits earned from his minority interest to the limited partners.
21. Colleen O'Neil, CFA, manages a private investment fund with a balanced global investment mandate. Her clients insist that her personal investment portfolio replicate the investments within their portfolio to ensure them that she is willing to put her money at risk. By undertaking which of the following simultaneous investment actions for her own portfolio would O'Neil *most likely* be in violation of Standard VI(B)–Priority of Transactions?
- A. Sale of a listed US blue chip value stock.
  - B. Participation in a popular frontier market IPO.
  - C. Purchase of a UK government bond in the primary market.
22. Hezi Cohen, a CFA candidate, is a heavy user of social networking sites on the Internet. His favorite site only allows a limited number of characters for each entry so he has learned to abbreviate everything, including CFA trademarks. Cohen also enjoys professional networking sites and contributes regularly to blogs that discuss the broad topical areas covered within the CFA Program. In addition, he posts to these blogs pieces he has written in his area of expertise: retirement planning. By claiming to be an expert on retirement planning, he believes his stature within the investment community increases and he can gain more clients. Which internet activity can Cohen *most likely* continue to be in compliance with the CFA Standards of Professional Conduct?
- A. Use of abbreviations.
  - B. Claiming retirement planning expertise.
  - C. Blogging about broad topical areas within the CFA Program.

23. For firms to claim compliance with the GIPS® standards, they *most likely* must:
- A. take responsibility for their claim of compliance and maintaining that compliance.
  - B. hire an independent third party to test a sample of their composites.
  - C. provide assurance that the firm's policies and procedures have been implemented on a firm-wide basis.
24. Regarding composite construction in the GIPS® standards, the statement that is *most likely* accurate is that firms may:
- A. include nondiscretionary portfolios in a composite.
  - B. include non-fee-paying, discretionary portfolios in a composite.
  - C. exclude portfolios from composites based solely on legal structure differences.
25. Elana Paralova, a Level I CFA candidate working at an asset management firm, wants to make a good impression on a prospective client. She tells the prospect: "Getting the CFA Charter will show I am serious about protecting the interests of my clients and it will boost my reputation. Once I get the Charter, I also hope to make more money by getting promoted!" Her colleague, Jacob Klemmer, CFA, tells Paralova: "Study all subjects for each exam, you never know what will be included. The three exams will be the most difficult exams you will ever take. Any promotion and pay raise will reflect your enhanced skills." Did either Paralova or Klemmer violate the Standards?
- A. No.
  - B. Only Paralova violates the Standards.
  - C. Only Klemmer violates the Standards.
26. Jayson Kite, CFA, a senior analyst, is preparing a research report on a shipping company. Kite concludes that the stock of a company is a good investment and decides to put a "buy" recommendation on the stock. According to the recommended procedures for compliance, Kite should communicate the recommendation:
- A. within the firm first and then to customers.
  - B. to customers first and then within the firm.

C. simultaneously within the firm and to customers.

27. Ekta Prakash, CFA, works as an investment advisor for TXM Investments (TXM). Prakash advises a client to transfer \$150,000 from a tax-deferred investment account to TXM's multi-cap fund. Prakash discloses to her client that withdrawals from the tax-deferred account will attract a penalty of \$15,000 but assures the client that the cost can be recovered through better investment returns from TXM's fund. Prakash has violated the Standard(s) relating to:

- A. only misrepresentation.
- B. only loyalty, prudence, and care.
- C. both misrepresentation and loyalty, prudence, and care.

**Questions 28~45 Relate to Quantitative Methods**

28. Once an investor chooses a particular course of action, the value forgone from alternative actions is *best* described as a(n):
- A. sunk cost.
  - B. required return.
  - C. opportunity cost.
29. If the stated annual interest rate is 9% and the frequency of compounding is daily, the effective annual rate (EAR) is closest to:
- A. 9.00%.
  - B. 9.86%.
  - C. 9.42%.
30. A borrower is considering three competing mortgage loan offers from her bank. The amount borrowed on the mortgage is \$100,000 with monthly compounding.

<b>Mortgage Type</b>	<b>Stated Annual Interest Rate at Initiation of the Loan</b>	<b>Year in Which Rate First Adjusts</b>
30-year fixed rate	5.000%	N/A
20-year fixed rate	4.385%	N/A
30-year adjustable-rate mortgage (ARM)	3.750%	3

The rate on the ARM resets at the end of Year 3. Assuming the ARM is permanently reset at 5.500% (i.e., the remaining balance on the loan is assumed to be repaid with a 5.500% stated annual interest), which of the three loans will have the smallest monthly payment after the rate reset at the end of Year 3?

- A. 30-year fixed-rate loan
  - B. 20-year fixed-rate loan
  - C. 30-year ARM
31. The following 10 observations are a sample drawn from a normal population: 25, 20, 18, -5, 35, 21, -11, 8, 20, and 9. The mean of the sample is *closest* to:
- A. 17.20.

B. 14.00.

C. 15.56.

32. Which of the following *most* accurately describes a distribution that is more peaked than normal?

A. Leptokurtic

B. Mesokurtic

C. Platykurtic

33. A tree diagram is *most likely* used when dealing with investment problems that involve outcomes that are:

A. independent at each node.

B. mutually exclusive.

C. unconditional at each node.

34. An analyst develops a set of criteria for evaluating distressed credits. Companies that do not receive a passing score are classed as likely to go bankrupt within the next year. The analyst concludes the following:

- Forty percent of the companies tested will go bankrupt within a year:  $P(\text{non-survivor}) = 0.40$ .
- Fifty-five percent of companies tested will pass:  $P(\text{pass test}) = 0.55$ .
- There is an eighty-five percent probability that a company will pass the test given that it survives a year:  $P(\text{pass test} / \text{survivor}) = 0.85$ .

Using the total probability rule, the probability that a company passed the test given that it goes bankrupt can be determined. The  $P(\text{pass test} / \text{non-survivor})$  is closest to:

A. 0.22.

B. 0.35.

C. 0.10.

35. Assuming no short selling, a diversification benefit is *most likely* to occur when the correlations among the securities contained in the portfolio are:

- A. greater than +1.
- B. equal to +1.
- C. less than +1.

36. A company has an unsecured line of credit and needs to maintain its EBIT-to-interest coverage ratio greater than 2.0. Its EBIT is estimated to be between \$36 million and \$48 million, with all values equally likely. If the forecasted interest charge for the year is \$20 million, the probability that EBIT/interest will be more than 2.0 is *closest* to:
- A. 61.5%.
  - B. 33.3%.
  - C. 66.7%.

37. An analyst develops the following capital market projections.

	<b>Stocks</b>	<b>Bonds</b>
Mean Return	10%	2%
Standard Deviation	15%	5%

Assuming the returns of the asset classes are described by normal distributions, which of the following statements is correct?

- A. On average 99% of stock returns will fall within  $\pm 30\%$  from the mean.
  - B. Bonds have a higher probability of a negative return than do stocks.
  - C. The probability of a bond return  $\leq 3\%$  is determined using a Z-score of 0.25.
38. An analyst studying the Sharpe ratios of mutual funds globally uses only the data from the standard internal database, which covers 12 mutual funds. This sampling method is *best* described as:
- A. cluster sampling.
  - B. judgmental sampling.
  - C. convenience sampling.
39. All else held constant, the width of a confidence interval for a population mean is *most likely* to be smaller if the sample size is:

- A. larger and the degree of confidence is lower.
  - B. larger and the degree of confidence is higher.
  - C. smaller and the degree of confidence is lower.
40. Which of the following statements about bootstrap resampling is *most accurate*? The bootstrap resampling process requires:
- A. drawing random samples with replacement.
  - B. an analytic formula to perform statistical inference.
  - C. the number of repetitions to be equal to the sample size.
41. When testing a hypothesis, the power of a test is *best* described as the:
- A. same as the level of significance of the test.
  - B. probability of rejecting a true null hypothesis.
  - C. probability of correctly rejecting the null hypothesis.
42. A parametric test is *most likely* preferred to a non-parametric test when:
- A. the data are given in ratio or ordinal scale.
  - B. defined sets of assumptions are given.
  - C. the population is heavily skewed.
43. An analyst runs a simple linear regression to test whether the variation in the demand for corn explains the variation in the supply of wheat. In this model, the demand for corn is a(n):
- A. indicator variable.
  - B. explained variable.
  - C. independent variable.
44. With respect to a simple linear regression, the *F*-distributed test statistic is *most* appropriate to use when testing if:
- A. the intercept is significantly different from zero.
  - B. the independent and dependent variables are significantly positively correlated.

- C. there is a significant linear relationship between the dependent and independent variables.
45. An indicator variable used in a simple linear regression is *best* described as a variable taking a value:
- A. of either 0 or 1.
  - B. between 0 and 1.
  - C. in the range -1 to 1.



**Questions 46~63 Relate to Economics**

46. The price of a good falls from \$15 to \$13. Given this decline in price, the quantity demanded of the good rises from 100 units to 120 units. The own-price elasticity of demand for the good is *closest* to:
- A. -0.67.
  - B. -1.50.
  - C. -1.25.
47. Which of the following is *most likely* to be a characteristic of a Giffen good? Its:
- A. substitution effect is negative.
  - B. demand curve slopes downward.
  - C. income effect is negative.
48. Which of the following factors is *most likely* to lead to economies of scale?
- A. Supply constraints
  - B. Duplication of product lines
  - C. Specialization by workers
49. The demand curve of a perfectly competitive firm is:
- A. vertical.
  - B. horizontal.
  - C. downward sloping.
50. A power generation company is a monopoly that has very high barriers to entry. The quantity demand ( $Q_D$ ) for its product is  $Q_D = 800 - 0.25 \times P$  (where  $P$  is price). The slope of the marginal revenue curve is *closest* to:
- A. -0.25.
  - B. -8.00.
  - C. -4.00.

51. For a given economy and a given period of time, GDP measures the:

- I. aggregate income earned by all households, all companies, and the government.
- II. total income earned by all of the country's citizens, firms, and the government.
- III. total market value produced of resalable and final goods and services.

The *most* appropriate description of what is measured by GDP is given by:

- A. I only.
- B. I and II.
- C. I and III.

52. An increase in both aggregate demand and supply occurs, with aggregate supply increasing more than aggregate demand. The *most likely* result is a decrease in the:

- A. real GDP.
- B. participation rate.
- C. price level.

53. Credit cycles:

- A. can amplify business cycles.
- B. are defined as fluctuations in real GDP.
- C. tend to be shorter than business cycles.

54. The Austrian economic school of thought argues that:

- A. business cycles arise primarily due to market failures.
- B. policy makers should strongly intervene in the economy.
- C. excessive credit growth during boom times results in subsequent recessions.

55. According to the monetarist school of economic thought, business cycles may occur because of:

- A. exogenous shocks only.
- B. government intervention only.
- C. both exogenous shocks and government intervention.

56. In a fractional reserve banking system, the reserve requirement is:
- A. equal to the money multiplier.
  - B. directly correlated with potential money creation.
  - C. the portion of deposits that must be held in cash.
57. A central bank *most likely*:
- A. lends money to banks facing serious shortages.
  - B. is one of many suppliers of a country's currency.
  - C. does not manage a country's foreign currency reserves.
58. The neutral policy rate for an economy is the real trend rate of growth and the:
- A. short-term growth rate that gives rise to no inflation.
  - B. long-term growth rate that gives rise to stable inflation.
  - C. short-term growth rate that gives rise to stable inflation.
59. Which of the following statements is *most* accurate? For a country to gain from trade, it *must* have:
- A. economies of scale or lower labor costs.
  - B. an absolute advantage.
  - C. a comparative advantage.
60. During the last month, a food company located in the United States had the following transactions:

Transaction Amount	(US\$ millions)
Bought raw material from Indonesia	50.0
Sold food products to France	65.0
Received royalty fees from its branch in the United Kingdom	0.5
Donated to a charitable institution in Africa	0.1
Borrowed from a bank in Singapore	2.0
Paid legal fees to its German legal consultant	1.2

company

Received interest coupon from its investment 0.8  
in Eurobonds issued in Luxembourg

These transactions will *most likely* increase the US current account by:

- A. \$15.0 million.
- B. \$14.5 million.
- C. \$17.0 million.

61. A New Zealand traveler returned from Singapore with SGD7,500 (Singapore dollars). A foreign exchange dealer provided the traveler with the following quotes:

Ratio	Spot Rates
USD/SGD	1.2600
NZD/USD	0.7670
USD: US dollar; NZD: New Zealand dollar	

The amount of New Zealand dollars (NZD) that the traveler would receive for his Singapore dollars is *closest* to:

- A. NZD7,248.
- B. NZD4,565.
- C. NZD7,761.

62. An investor examines the following rate quotes for the Brazilian real (BRL) and the Australian dollar (AUD) and shorts BRL500,000.

- Spot rate BRL/AUD: 2.1128
- BRL 1-year interest rate: 4.1%
- Forward rate BRL/AUD: 2.1388
- AUD 1-year interest rate: 3.1%

The risk-free arbitrage profit that is available is *closest* to:

- A. –BRL6,327.
- B. BRL1,344.
- C. BRL6,405.

63. In the classification of currency regimes, a currency board system (CBS) *most likely* differs

from a fixed-rate parity system in that:

- A. a CBS can peg to a basket of currencies but a fixed-rate system cannot.
- B. the monetary authority within a CBS does not act as a traditional lender of last resort.
- C. a CBS has a discretionary target level of foreign exchange reserves.

**Questions 64~90 Relate to Financial Statement Analysis**

64. The financial statement that would be *most* useful to an analyst in understanding the changes that have occurred in a company's retained earnings over a year is the statement of:
- A. comprehensive income.
  - B. financial position.
  - C. changes in equity.
65. During the process data phase of financial statement analysis, an analyst will *most likely* develop a:
- A. statement of purpose.
  - B. common-size balance sheet.
  - C. statement of cash flows.
66. According to the International Financial Reporting Standards framework, which of the following qualities of financial information is *least likely* cited as one of the two fundamental characteristics that make financial information useful?
- A. Faithful representation
  - B. Accrual accounting
  - C. Relevance
67. In applying the principles of expense recognition, companies should:
- A. record any estimates of uncollectible amounts as a direct reduction of revenues.
  - B. exclude costs of intangible assets with indefinite useful lives.
  - C. recognize credit losses on customer receivables when defaults occur.
68. The following data are available on a company:

Metric	(\$ millions)
Total assets	145
Total revenues	282
Total expenses	241
Research and development expenses	12

Under a common-size analysis, the value used for research and development expenses is *closest* to:

- A. 4.2%.
- B. 8.3%.
- C. 5.0%.

69. An analyst notes that a company's most recent financial statements show £65 million in net income, £7 million in dividends paid to common shareholders, and £5 million of other net expense items excluded from the net income calculation. The company's comprehensive income is:

- A. £60 million.
- B. £65 million.
- C. £53 million.

70. Which of the following *best* describes a use of the balance sheet? A company's balance sheet:

- A. provides detail on its overall financial position at the end of a period.
- B. includes detail on its cash receipts and payments made during a period.
- C. specifies how much revenue it generated during a period.

71. Deferred tax liabilities result when:

- A. taxable income in a period is less than reported financial statement income before taxes.
- B. items of expense are included in financial statement income in earlier periods than those for which taxable income is reported.
- C. straight-line depreciation methods are used for tax purposes and accelerated methods are employed for financial statement purposes.

72. The following data are available on a company:

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<b>Metric</b>	
Working capital	\$60 million
Non-current assets	\$235 million
Equity	\$170 million

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Current ratio	1.75
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The company's financial leverage is *closest* to:

- A. 1.7.
- B. 2.2.
- C. 1.2.

73. If a company issues shares in exchange for a capital asset, the transaction is *most likely* reported as:

- A. supplementary information to the cash flow statement.
- B. a financing inflow and an investing outflow in the cash flow statement.
- C. an investing inflow and outflow in the cash flow statement.

74. Which of the following is the *most likely* reason for an analyst to choose the direct method rather than the indirect method for analyzing a firm's operating cash flows?

- A. To understand the relationship between net income and operating cash flows
- B. To identify operating cash flows by source and by use
- C. To avoid making adjustments for non-cash items

75. The following financial statement data are available for a company:

Metric	£ thousands
Net income	500
Depreciation	150
Cash flow from operations	600
Free cash flow to the firm	300
Beginning total assets	4,000
Ending total assets	6,000
Ending cash balance	50
Book value	3,000

---

The company's cash return on assets ratio is *closest* to:

- A. 12%.
- B. 10%.
- C. 13%.



76. All else being equal, a decrease in which of the following financial metrics would *most likely* result in a lower return on equity (ROE)?

- A. The tax rate
- B. Leverage
- C. Days of sales outstanding

77. The following data are available on a company:

<b>Metric</b>	<b>\$ thousands</b>
Interest expense and payments	1,000
Income tax expense	1,100
Net income	3,400
Lease payments	500

The company's fixed charge coverage ratio is *closest* to:

- A. 3.67.
- B. 4.00.
- C. 2.27.

78. A firm that prepares its financial statements according to US GAAP and uses a periodic inventory system had the following transactions during the year:

<b>Date</b>	<b>Activity</b>	<b>Tons (thousands)</b>	<b>\$ per Ton</b>
	Beginning inventory	1	600
February	Purchase	5	650
May	Sale	2	700
August	Purchase	3	680
November	Sale	4	750

The cost of sales (in thousands) is *closest* to:

- A. \$5,890 using weighted average.
- B. \$4,080 using LIFO.
- C. \$3,850 using FIFO.

79. An analyst gathers the following information about a company:

<b>(\$ thousands)</b>	<b>2014</b>	<b>2013</b>
Sales	2,125	2,003
End-of-year inventories	312	280

(LIFO)

LIFO reserve	82	64
Net profit margin	4.9%	4.0%

---

 Corporate tax rate for current and all prior years: 30%
 

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If first-in, first-out (FIFO) instead of last-in, first-out (LIFO) is used, the net income (in \$ thousands) for 2014 will be higher by an amount *closest* to:

- A. 18.0.
- B. 57.4.
- C. 12.6.

80. Because of a problem with the production process, a manufacturer produced a batch of defective finished goods with a total cost of \$18,000. The sales value of this batch in its current condition is \$6,000. With \$3,000 of additional processing, however, the batch could be sold for \$11,000. The value of the unsold inventory, on the balance sheet of a company using International Financial Reporting Standards (IFRS), is *closest* to:

- A. \$9,000.
- B. \$8,000.
- C. \$11,000.

81. The following information is available for an asset purchased at the start of its first year of operations (Year 1):

- Purchase price: \$1.8 million
- Estimated useful life: 5 years
- Estimated residual value: \$500,000

If the company uses the double declining balance method of depreciation, the depreciation expense in Year 3 will be *closest* to:

- A. \$187,200.
- B. \$259,200.
- C. \$148,000.

82. The following information is available for a company that prepares its financial statements in

accordance with US GAAP:

- It has production facilities with a net book value of \$28.4 million.
- Recently, several other companies have entered the market, and the company now estimates that it will be able to generate cash flows of only \$3 million per year for the next seven years with its facilities.
- The firm has a cost of capital of 10%.

Reflecting these recent events related to its production facilities, the company's financial statements will *most likely* report (in millions) a:

- A. \$13.8 impairment loss on the income statement.
- B. \$7.4 reduction in the balance sheet carrying amount.
- C. \$13.8 reduction in operating cash flows.

83. A technology company, reporting under US GAAP, has three classes of intangible assets. The table below shows information on each of the three classes:

**Accumulated Impairment Losses and Amortization (Currency in USD)**

(in thousands)	Goodwill	Licenses	Computer Software
31 December 2019	65,321	8,243	5,257
Exchange movements	7,324	821	334
Amortization charge for year	—	1,244	2,102
Net additions (disposals)	—	(25)	—
Impairment charge for the year	?	?	?
31 December 2020	73,194	10,856	8,214

Based on the data provided, the intangible asset that has the largest absolute impairment charge for the period ended 31 December 31 2020, is:

- A. computer software.
- B. licenses.
- C. goodwill.

84. If a company has a deferred tax asset reported on its statement of financial position and the tax authorities reduce the tax rate, which of the following statements is *most* accurate

concerning the effect of the change? The existing deferred tax asset will:

- A. not be affected.
- B. increase in value.
- C. decrease in value.

85. A company that provides cruise ship vacations uses term loans to finance the acquisition of new cruise ships. Which of the following is *most likely* a negative covenant for the loans?

The company must:

- A. ensure the ships are insured.
- B. seek lender approval to pay dividends.
- C. maintain a minimum level of working capital.

86. Which of the following statements *best* describes the effect of finance leases on financial statements?

- A. A lessee reports the interest portion of the lease payment as operating cash flow under IFRS and financing cash flow under US GAAP.
- B. The lessor reports a profit on the sale of the leased asset on the income statement in the case of a sales-type lease.
- C. Balance sheet effects differ based on whether the lease is a direct financing lease or a sales-type lease.

87. Accounting choices within GAAP that decrease reported performance in the current period and may increase performance in later periods are *most likely* examples of:

- A. aggressive accounting.
- B. conservative accounting.
- C. earnings that are not sustainable.

88. An analyst would *most likely* conduct additional analysis when faced with which of the following financial presentations?

- A. A non-GAAP financial measure that excludes an expense that is likely to recur

- B. Reporting a non-GAAP financial measure in an SEC filing
  - C. A change from LIFO inventory accounting to FIFO
89. A financial analyst determines that a company appears to be in the process of accumulating a “war chest.” It is *most likely* that she will conclude that it will be used for:
- A. recapitalization.
  - B. strategic acquisitions.
  - C. share buybacks.
90. For which of the following companies would forecasting future operating profits based on historical performance be *most* appropriate?
- A domestic industrial security company that has served a stable portfolio of clients for many years
  - A domestic mining company whose extraction costs are quite stable even though the underlying commodities are volatile in price
  - An international personal care products company that manufactures and sells in many countries, with relatively stable local demand and stable local costs at its manufacturing sites
- A. The mining company
  - B. The personal care products company
  - C. The industrial security company

**Questions 91~108 Relate to Corporate Issuers**

91. According to good corporate governance practices, which of the following committees is *most likely* to have members from executive management?

- A. Remuneration
- B. Audit
- C. Environmental health and safety

92. Which of the following features is *most likely* to be found in a well-structured executive compensation plan?

- A. Links to factors that drive overall corporate performance
- B. Reasonably consistent total compensation from year to year
- C. Higher total remuneration relative to peer companies with comparable performance

93. The following table shows the incremental after-tax cash flows (in \$ millions) for three independent investments:

Year	0	1	2	3	4	5
Investment 1	-80	0	0	60	60	
Investment 2	-125	35	60	80	-20	
Investment 3	-100	11	11	11	11	11 into perpetuity

The opportunity cost of capital ( $r$ ) is 12%. A company is *most likely* to undertake which investment(s)?

- A. Investments 1 and 2
- B. Investment 1 only
- C. Investments 2 and 3

94. The acceptance of which of the following capital budgeting projects is *most likely* to expose a company to the highest level of uncertainty?

- A. Replacement of worn out equipment
- B. Expansion projects
- C. Newly launched product or services

95. An option to abandon a capital investment at a future date if the NPV of the project is less than expected is a type of:

- A. sizing option.
- B. timing option.
- C. flexibility option.

96. Which of the following is categorized as an external source of funding for a company?

- A. Assigning accounts receivable
- B. Liquidating marketable securities
- C. Extending the accounts payable period

97. An analyst gathers the following information (in € millions) about three companies:

	Company 1	Company 2	Company 3
Cash and short-term securities	50	60	90
Accounts receivable	30	70	40
Inventory	40	20	60
Current liabilities	60	90	100

The company with the highest quick ratio is:

- A. Company 1.
- B. Company 2.
- C. Company 3.

98. Passive borrowing strategies *most likely*:

- A. diversify the types of borrowing.
- B. expose borrowers to rollover risk.
- C. seek to increase the number of lenders.

99. A firm's estimated costs of debt, preferred stock, and common stock are 12%, 17%, and 20%, respectively. Assuming equal funding from each source and a marginal tax rate of 40%, the weighted average cost of capital (WAAC) is *closest* to:

- A. 13.9%.

- B. 14.7%.
- C. 16.3%.

100. A company's asset beta is 1.2 based on a debt-to-equity ratio (D/E) of 50%. If the company's tax rate increases, the associated equity beta will *most likely*:

- A. increase.
- B. decrease.
- C. remain unchanged.

101. A company issues a noncallable, nonconvertible perpetual preferred stock with the following terms:

Par value	\$25.00
Issue price	\$24.75
Annual dividend	\$1.30
Corporate tax rate	10%

The cost of preferred stock is *closest* to:

- A. 4.73%.
- B. 5.20%.
- C. 5.25%.

102. All else being equal, in which life cycle stage is a company *most likely* able to maintain the highest leverage?

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

103. For an analyst estimating a company's target capital structure, which of the following methods is *most* appropriate?

- A. Apply the company's current capital structure at book value weights
- B. Use the average capital structure of a diversified group of companies
- C. Infer the target capital structure by analyzing management statements on capital structure



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104. Company management in which of the following industries is *most likely* to have the highest information asymmetry?

- A. Utility
- B. Retail
- C. Software

105. A small manufacturer sources raw material from a number of large companies. If this manufacturer decides to increase long-term financial leverage, which of the following stakeholders is *most* negatively impacted?

- A. Preferred shareholders
- B. Suppliers of raw materials
- C. Short-term, senior secured debt holders

106. The unit contribution margin for a product is \$20. A firm's fixed costs of production up to 300,000 units is \$500,000. The degree of operating leverage (DOL) is *most likely* the lowest at which of the following production levels (in units):

- A. 300,000.
- B. 200,000.
- C. 100,000.

107. All else being equal, if a highly profitable company reduces financial leverage, it is *most likely* that the company's ROE level:

- A. decreases and ROE variability increases.
- B. increases and ROE variability decreases.
- C. decreases and ROE variability decreases.

108. An analyst gathers the following information about a manufacturing company and its products:

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Number of units produced and sold	1,000,000
Contribution margin	\$10,000,000
Fixed operating costs	\$200,000
Fixed financial costs	\$100,000

---

The break-even number of units is:

- A. 10,000.
- B. 20,000.
- C. 30,000.

**Questions 109–128 Relate to Equity Investments**

109. Which of the following is most likely a characteristic of real assets?

- A. Substantial management costs
- B. High liquidity
- C. Homogeneity

110. An investor buys a stock on margin and holds the position for one year.

Shares purchased	700
Purchase price	\$22/share
Call money rate	4%
Dividend	\$0.60/share
Leverage ratio	1.6
Total return on the investment	12%

Assuming that the interest on the loan and the dividend are both paid at the end of the year, the price at which the investor sold the stock is *closest* to:

- A. \$23.05.
- B. \$23.98.
- C. \$23.38.

111. If the current share price is \$60, a trader who wants to purchase the share at \$58 or less will *most likely* place a:

- A. limit order.
- B. market order.
- C. stop-buy order.

112. A market index has the following information:

Period	Quarterly Price Returns (%)	Dividend Income (%)	Value of Index
At the beginning of the year			1,000.00 (Base)
Quarter 1	3.0%	1.5%	
Quarter 2	2.0%	—	
Quarter 3	–5.0%	—	

By the end of Quarter 3, which of the following statements is *most* accurate?

- A. The value of the price return index is 998.1.
- B. The value of the total return index is below 1,000.
- C. The price return is 1.26%.

113. A market index contains the following two securities:

Stock	Shares in Index	Start-of-Period	End-of-Period	Dividend per
		Price (\$)	Price (\$)	Share (\$)
A	600	40	37	2.00
B	500	50	52	1.50

The total return on an equal-weighted basis is *closest* to:

- A. -1.75%.
- B. 2.78%.
- C. 2.25%.

114. Which of the following statements regarding indexes for alternative investments is *most* accurate?

- A. Commodity index returns are based on changes in the prices of the underlying commodities.
- B. Commodity indexes consist of a market-weighted basket of one or more specific commodities.
- C. Hedge funds determine whether their results will be included in an index.

115. In a highly efficient market, unexpected positive news on a stock is announced to the public.

After this announcement, the difference between the market value and the intrinsic value of the stock will *most likely*:

- A. remain zero.
- B. decrease.
- C. increase.

116. If a test rejects the hypothesis that market prices reflect private information but does not reject the hypothesis that they reflect past market data and public information, then the form of market efficiency is *best* described as:

- A. weak.
- B. strong.
- C. semi-strong.

117. An overreaction in the financial markets causes a security's price to experience a significant loss during a short period. If this overreaction is caused by investors that sell because other investors are selling, the behavior is *best* described as:

- A. herding.
- B. overconfidence.
- C. loss aversion.

118. The advantages to an investor owning convertible preference shares of a company *most likely* include:

- A. less price volatility than the underlying common shares.
- B. an opportunity to receive additional dividends if the company's profits exceed a pre-specified level.
- C. preference dividends that are fixed contractual obligations of the company.

119. Compared with public equity markets, which of the following statements is *most* accurate about private equity markets? Operating in the private market:

- A. offers stronger incentives to improve corporate governance.
- B. allows more opportunities to raise capital.
- C. allows management to better adopt a long-term focus.

120. The voting rights of an unsponsored depository receipt (DR) belong to the:

- A. depository bank.
- B. direct owners of the foreign common shares.
- C. foreign company whose shares are held by the depository.

121. Which of the following statements is *most* accurate about recessions?

- A. If severe, the demand for products of defensive companies will eventually be adversely affected.
- B. Consumers are more likely to defer purchases of products of defensive companies than of cyclical companies.
- C. Non-cyclical companies tend to underperform cyclical companies.

122. When constructing a list of peer companies to be used in equity valuation, which of the following would *least likely* improve the group? Companies in the same peer group should ideally:

- A. be exposed to similar stages in the business cycle.
- B. have similar valuations.
- C. have the effects of finance subsidiaries minimized.

123. An industry characterized by rising volumes, improving profitability, falling prices, and relatively low competition among companies is *most likely* in which of the following life-cycle stages?

- A. Growth
- B. Mature
- C. Embryonic

124. A corporate manager pursuing a low-cost strategy will *most likely*:

- A. engage in offering products of unique quality or type.
- B. have strong market research teams for product development and marketing.
- C. invest in productivity-improving capital equipment.

125. Which of the following dates in the dividend chronology can fall on a weekend? The

- A. payment date.
- B. record date.
- C. ex-date.

126. The Gordon growth model is *most* appropriate for valuing the common stock of a dividend paying company that is:

- A. mature and relatively insensitive to economic fluctuations.
- B. young and just entering the growth phase.
- C. experiencing growth that is higher than the sustainable growth rate.

127. An analyst gathered the following information about a company:

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Current earnings per share	\$6.00
Current dividend per share	\$2.40
Current market price per share	\$35
Required rate of return on the stock	15.0%
Expected growth rate of earnings and dividends	8.0%

---

Which of the following statements best describes the company's price-to-earnings ratio (P/E)? Compared to the company's trailing P/E ratio, the justified forward P/E ratio based on the Gordon growth dividend discount model is:

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

128. Which of the following *best* describes an advantage of the EV/EBITDA multiple for valuing equity? An advantage is that:

- A. the multiple must be positive.
- B. it does not require the market value of debt.
- C. EBITDA is a proxy for operating cash flow.

**Questions 129–148 Relate to Fixed Income**

129. Which of the following *most likely* has the highest priority claim in the event of default?
- A. Unsecured debt
  - B. Subordinated debt
  - C. Secured debt
130. Which one of the following is *least likely* to be an example of a Eurobond?
- A. A Japanese company issuing euro-denominated bonds to investors domiciled in the United Kingdom
  - B. A UK-based company issuing Japanese yen-denominated bonds to investors domiciled in Japan
  - C. An Australian company issuing US\$-denominated bonds to investors domiciled in Japan
131. A bond portfolio manager is considering three bonds—A, B, and C—for his portfolio. Bond A allows the issuer to call the bond before the stated maturity, Bond B allows the investor to put the bond back to the issuer before the stated maturity, and Bond C contains no embedded options. The bonds are otherwise identical. The manager tells his assistant, “Bond A and Bond B should have larger nominal yield spreads to a US Treasury than Bond C to compensate for their embedded options.” Is the manager *most likely* correct?
- A. No, Bond A’s nominal yield spread should be less than Bond C’s
  - B. No, Bond B’s nominal yield spread should be less than Bond C’s
  - C. Yes
132. Which of the following is *most likely* an indicator of liquidity in the secondary market for bonds?
- A. Bid-to-cover ratio
  - B. Bid–offer spread
  - C. Settlement period
133. Which of the following embedded options *most likely* provides a right to the issuer?



- A. Conversion provision
- B. Put feature
- C. Call feature

134. Zet Bank has entered into a contract with Louly Corporation in which Zet agrees to buy a 2.5% US Treasury bond maturing in 10 years and promises to sell it back next month at an agreed-on price. From Zet Bank's perspective, this contract is *best* described as a:

- A. repo.
- B. collateralized loan.
- C. reverse repo.

135. Consider a five-year option-free bond that is priced at a discount to par value. Assuming the discount rate does not change, one year from now the value of the bond will *most likely*:

- A. stay the same.
- B. decrease.
- C. increase.

136. A credit analyst is *least likely* to use matrix pricing to estimate the required yield and price of a(n):

- A. newly underwritten bond.
- B. actively traded speculative grade bond.
- C. inactively traded investment grade bond.

137. Which of the following statements is *most likely* correct regarding the spot and forward curves. The spot curve:

- A. can be calculated from the forward curve, and the forward curve can be calculated from the spot curve.
- B. can be calculated from the forward curve, but the forward curve cannot be calculated from the spot curve.
- C. cannot be calculated from the forward curve, but the forward curve can be calculated from

the spot curve.

138. Which of the following is *least likely* a component of yield spread?

- A. Taxation
- B. Expected inflation rate
- C. Credit risk

139. The absolute priority rule is *most likely* violated in a:

- A. bankruptcy liquidation.
- B. special purpose entity securitization.
- C. bankruptcy reorganization.

140. Residential mortgage-backed securities issued in the US by government-sponsored enterprises are guaranteed by:

- A. the full faith and credit of the government.
- B. the government-sponsored enterprise.
- C. external credit enhancements.

141. Which scenario is *most likely* to result in a competitive return to a CDO equity holder?

- A. The collateral earns a higher yield than the bond classes.
- B. The senior bond class experiences early principal repayment.
- C. The debt funding costs are higher than the CDO return.

142. Consider bonds that have the same yield to maturity and maturity. The bond with the greatest reinvestment risk is *most likely* the one selling at:

- A. a premium.
- B. par.
- C. a discount.

143. In a rising interest rate environment, the effective duration of a puttable bond relative to an

otherwise identical non-puttable bond, will *most likely* be:

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

144. For a non-callable bond with an approximate annual modified duration of 15.213 and an approximate annual convexity of 350.32, if the bond's yield increases by 100 basis points, the estimated percentage decline in the price of the bond is *closest* to:

- A. 0.15%.
- B. 8.21%.
- C. 13.46%.

145. The real rate duration for an option-free, fixed-rate bond is equivalent to the bond's:

- A. inflation duration and liquidity duration.
- B. credit duration and not its inflation duration.
- C. inflation duration and not its liquidity duration.

146. As credit quality for a non-investment-grade bond deteriorates, analysis would *most likely* increasingly focus on:

- A. spread risk.
- B. the recovery rate.
- C. default probability.

147. For two equally rated speculative grade bonds, what factor is *least likely* to account for differences in their valuation?

- A. Severity of loss
- B. Probability of default
- C. Perceived creditworthiness of the companies

148. A credit analyst observes the following information for Alpha Co. at fiscal years ending 20X1

and 20X2.

**Excerpt from the Consolidated Income Statement of Alpha Co. for the Fiscal Years  
Ending 31 December 20X1 and 20X2 (in millions)**

	<b>20X1</b>	<b>20X2</b>
Gross profit	\$550.0	\$505.0
Operating expenses	450.0	370.0
Operating profit	100.0	135.0
Interest expense	30.0	35.0
Income before taxes	70.0	100.0
Income taxes (at 30%)	21.0	30.0
Net income	49.0	70.0
<i>Additional information</i>		
Depreciation and amortization	25.0	35.0

Based on this information, over this period Alpha's interest coverage ratio has:

- A. improved.
- B. remained unchanged.
- C. deteriorated.

**Questions 149~159 Relate to Derivatives**

149. Which of the following is *least likely* to be an example of a derivative?
- A. An exchange-traded fund
  - B. A contract to sell Alphabet Inc.'s shares at a fixed price
  - C. A contract to buy Australian dollars at a predetermined exchange rate
150. For a call option, if the underlying asset's value is less than the option's exercise price, the option is said to be:
- A. at the money.
  - B. out of the money.
  - C. in the money.
151. In an efficient market, it is *more likely* that fundamental value will be reflected in the:
- A. underlying spot market before the derivative market.
  - B. derivatives market and the underlying spot market at the same time.
  - C. derivatives market before the underlying spot market.
152. Which of the following attributes is *least likely* to be a requirement for the existence of riskless arbitrage? The underlying security:
- A. can be sold short.
  - B. is a financial asset.
  - C. is relatively liquid.
153. Over time, a forward contract *most likely* has variable:
- A. value and constant price.
  - B. price and constant value.
  - C. value and variable price.
154. Which of the following statements *best* describes changes in the value of a long forward position during its life?

- A. As the time to maturity goes down, the value of the position goes up.
- B. As the price of the underlying goes up, the value of the position goes up.
- C. As interest rates go down, the value of the position goes up.

155. Forward rate agreements are *most likely* used to hedge an exposure in the:

- A. foreign exchange market.
- B. money market.
- C. equity market.

156. A swap that involves the exchange of a fixed payment for a floating payment can be interpreted as a series of forward contracts with different expiration dates. These implied forward contracts will *most likely* have:

- A. different prices due to differences in the price of the underlying at expiration.
- B. identical prices.
- C. different prices due to differences in the cost of carry.

157. The price of an interest rate swap that involves the exchange of a fixed payment for a floating payment is *most likely*:

- A. equal to its value at expiration.
- B. set at initiation and constant over time.
- C. affected by changes in the floating payment.

158. According to put–call parity, for European options, a long call on an asset is equal to:

- A. long put + long asset + long risk-free bond.
- B. long put + long asset + short risk-free bond.
- C. short put + short asset + long risk-free bond.

159. For a stock that pays no dividends, the value of an American call option is *most likely*:

- A. the same as the value of a European call option with otherwise identical features.
- B. greater than the value of a European call option with otherwise identical features.

C. less than the value of a European call option with otherwise identical features.

**Questions 160–169 Relate to Alternative Investments**

160. Categories of alternative investments would *least likely* be described by which of the following?
- A. Fine wine and other tangibles
  - B. Schools and other long-lived real assets
  - C. Cash and other liquid investments
161. Do management fees *most likely* get paid to the manager of a hedge fund, regardless of the fund's performance?
- A. No, only when the fund's net asset value exceeds the previous high-water mark
  - B. No, only when the fund's gross return is positive
  - C. Yes
162. High-water marks are typically used when calculating the incentive fee on hedge funds. They are *most likely* used by clients to:
- A. avoid prime brokerage fees.
  - B. avoid paying twice for the same performance.
  - C. claw back the management fees.
163. A private equity firm sells a portfolio company to a buyer that is active in the same industry as the portfolio company. This transaction is best described as a(n):
- A. trade sale.
  - B. secondary sale.
  - C. initial public offering.
164. With respect to alternative investments, which of the following investment methods would *most likely* subject the investor to adverse selection bias where the fund manager makes less attractive investment opportunities available to the investor?
- A. Co-investing
  - B. Fund investing



## C. Direct investing

165. Commodity futures prices are *most likely* in backwardation when:

- A. interest rates are high.
- B. storage costs are high.
- C. the convenience yield is high.

166. An investor seeking an indirect debt investment in real estate will:

- A. purchase a mortgage-backed security.
- B. purchase a commercial property.
- C. originate a residential mortgage.

167. Which of the following infrastructure investments would *most likely* be easiest to value? A:

- A. master limited partnership holding greenfield investments.
- B. master limited partnership holding brownfield investments.
- C. private equity fund holding brownfield investments.

168. Which of the following uses downside deviation of returns?

- A. Sortino ratio
- B. Capital loss ratio
- C. Maximum drawdown

169. An investor allocates \$10 million at the beginning of the year to a hedge fund charging a management fee of 2% and an incentive fee of 20% with a 6% (hard) hurdle rate. At year-end the value of the investment is \$11.8 million. The incentive fee is calculated net of the management fee and the management fee is based on the year-end value. The net-of-fees return the investor earned is *closest* to:

- A. 13.71%.
- B. 13.24%.
- C. 13.93%.



**Questions 170~180 Relate to Portfolio Management**

170. Which of the following types of mutual funds *most likely* places the highest pressure on the portfolio manager to manage liquidity?
- A. A no-load open-end fund
  - B. A load closed-end fund
  - C. A no-load closed-end fund
171. The time-weighted rate of return:
- A. results in a lower return when compared with the money-weighted rate of return.
  - B. is affected by the amount and timing of cash flows to and from a portfolio.
  - C. calculates multi-period cash flows mirroring a portfolio's compound growth rate.
172. An investment portfolio consists of equal weights in two government bonds of different nations. What correlation level will *most likely* result in the lowest portfolio standard deviation?
- A. 0.5
  - B. -0.2
  - C. 0.0
173. An investor whose portfolio lies to the right of the market portfolio on the capital market line (CML) has *most likely*:
- A. borrowed funds at the risk-free rate and invested all available funds in the market portfolio.
  - B. invested all available funds in the risk-free asset.
  - C. loaned some funds at the risk-free rate and invested the remaining funds in the market portfolio.
174. A stock has a correlation of 0.45 with the market and a standard deviation of returns of 12.35%. If the market has a standard deviation of returns of 8.25%, then the beta of the stock is *closest* to:
- A. 0.30.

- B. 0.67.
- C. 1.50.

175. The strategic asset allocation and portfolio rebalancing policy are *most likely* addressed in which section of an investment policy statement?

- A. Appendices
- B. Investment objectives
- C. Procedures

176. When presented with new information, if an analyst asks themselves the question "how much does this information change my forecast?" then which of the following biases is the analyst *most likely* trying to overcome?

- A. Hindsight bias
- B. Self-control bias
- C. Conservatism bias

177. Two risk managers are discussing how an organization's risk tolerance should be determined. The first manager says, "The risk tolerance must reflect the losses or shortfalls that will cause the organization to fail to meet critical objectives." The second manager responds, "The risk tolerance must reflect the external forces that bring uncertainty to the organization." Which of them is *most likely* correct?

- A. The second risk manager
- B. The first risk manager
- C. Both risk managers

178. A risk metric that measures how different an actual investment outcome could be from what the investor expects is *most likely* a:

- A. vega.
- B. duration.
- C. standard deviation.

179. A stock is declining in price and reaches a price range wherein buying activity is sufficient to stop the decline. This range is *best* described as the:

- A. change in polarity point.
- B. resistance level.
- C. support level.

180. The advantage of distributed ledger technology (DLT) systems that will *most likely* lead to their successful adoption by the investment industry is that:

- A. they can help uncover fraudulent activity.
- B. they are efficient and require only minimal amounts of storage capacity.
- C. trade cancellations must be made by placing an equal and offsetting trade.