2018 Level I Mock Exam PM

The afternoon session of the 2018 Level I Chartered Financial Analyst® Mock Examination has 120 questions. To best simulate the exam day experience, candidates are advised to allocate an average of one and a half minutes per question for a total of 180 minutes (3 hours) for this session of the exam.

Questions	Topic	Minutes
1–18	Ethical and Professional Standards	27
19–33	Quant	22.5
34–45	Econ	18
46–69	Financial Reporting and Analysis	36
70–78	Corporate Finance	13.5
79–86	Portfolio Management	12
87–98	Equity	18
99–110	Fixed Income	18
111–115	Derivatives	7.5
116–120	Alternative Investments	7.5
	Total:	**180**

2018 LEVEL I MOCK EXAM PM

1 Which of the following is *least likely* a requirement of the GIPS standards? Firms are required to:

A have their performance records verified by an independent third party.

B include all discretionary, fee-paying portfolios in at least one composite.

C present a minimum of five years of annual investment performance compliant with GIPS standards.

2 In cases where applicable local laws governing calculation and presentation of investment performance conflict with the GIPS standards, firms are:

A unable to claim GIPS compliance in cases where local regulations prohibit accurate calculation.

B required to calculate and maintain two sets of performance data in order to claim GIPS compliance.

C required to comply with local regulations and make full disclose of the conflict to claim GIPS compliance.

3 Vishal Chandarana, an unemployed research analyst, recently registered for the CFA Level I exam. After two months of intense interviewing, he accepts a job with a stock brokerage company in a different region of the country. Chandarana posts on a social media blog how being a CFA candidate really helped him get a job. He also notes how relieved he was when his new employer didn't ask him about being fired from his former employer. Which CFA Institute Code of Ethics or Standards of Professional Conduct did Chandarana *least likely* violate?

A Misconduct

B Loyalty to Employers

C Reference to the CFA Program

4 Miranda Grafton, CFA, purchased a large block of stock at varying prices during the trading session. The stock realized a significant gain in value before the close of the trading day, so Grafton reviewed her purchase prices to determine what prices should be assigned to each specific account. According to the *Standards of Practice Handbook*, Grafton's *least* appropriate action is to allocate the execution prices:

A across the participating client accounts at the same execution price.

B across the participating client accounts pro rata on the basis of account size.

C on a first-in, first-out basis with consideration of bundling orders for efficiency.

5 Lawrence Hall, CFA, and Nancy Bishop, CFA, began a joint research report on Stamper Corporation. Bishop visited Stamper's corporate headquarters for several days and met with all company officers. Prior to the completion of the report, Bishop was reassigned to another project. Hall utilized his and Bishop's research to write the report but did not include Bishop's name on the report because he did not agree with and changed Bishop's conclusion included in the final report. According to the CFA Institute *Standards of Practice Handbook*, did Hall *most likely* violate any CFA Institute Standards of Professional Conduct?

A No.

B Yes, with respect to misrepresentation.

C Yes, with respect to diligence and reasonable basis.

6 Rebecca Wong is enrolled to take the Level I CFA examination. Her friend William Leung purchased Level I study materials from a well-known CFA review program the previous year. Leung made a photocopy of the previous year's copyrighted materials and sold it to Wong to help her study. Who *most likely* violated the CFA Institute Code of Ethics or any Standards of Professional Conduct?

A Both violated.

B Neither violated.

C Only Leung violated.

7 Which of the following groups is *most likely* responsible for maintaining oversight and responsibility for the Professional Conduct Program (PCP)?

A CFA Institute Board of Governors

B Disciplinary Review Committee

C Professional Conduct Division

8 When can a party, nonmember or firm, *most likely* claim compliance with the CFA Institute Code of Ethics and Standards of Professional Conduct? Once they have:

A ensured that their code and ethics meets the principles of the Code and Standards.

B notified the CFA Institute of their claim.

C verified their claim of compliance with the CFA Institute.

9 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

10 Richard Cardinal, CFA, is the founder of Volcano Capital Research, an investment management firm whose sole activity is short selling. Cardinal seeks out companies whose stocks have had large price increases. Cardinal also pays several lobbying firms to update him immediately on any legislative or regulatory changes that may impact his target companies. Cardinal sells short those target companies he estimates are near the peak of their sales and earnings and that his sources identify as facing legal or regulatory challenges. Immediately after he sells a stock, Cardinal conducts a public relations campaign to disclose all of the negative information he has gathered on the company, even if the information is not yet public. Which of Cardinal's following actions is *least likely* to be in violation of the CFA Institute Standards of Professional Conduct?

A Selling stock short

B Trading on information from lobbyists

C Disclosing information about target companies

11 Monique Gretta, CFA, is a research analyst at East West Investment Bank. Previously, Gretta worked at a mutual fund management company and has a long-standing client relationship with the managers of the funds and their institutional investors. Gretta often provides fund managers, who work for Gretta's former employer, with draft copies of her research before disseminating the information to all of the bank's clients. This practice has helped Gretta avoid several errors in her reports, and she believes it is beneficial to the bank's clients, even though they are not aware of this practice. Regarding her research, Gretta least likely violated the CFA Institute Code of Ethics and Standards of Professional Conduct because:

A her report is a draft.

B this practice benefits all clients.

C the long-standing client relationships are not disclosed.

12 Sisse Brimberg, CFA, is responsible for performance presentations at her investment firm. The presentation that Sisse uses states that when making performance presentations her firm:

1 deducts all fees and taxes;

2 uses actual and simulated performance results; and

3 bases the performance on a representative individual account.

Based on the above information, which of the following is the *most* appropriate recommendation to help Brimberg meet the CFA Institute Standards of Professional Conduct in her performance presentations? She should present performance based on:

A a gross of fee basis.

B actual not simulated results.

C a weighted composite for all similar discretionary portfolios.

13 Which of the following statements is *least likely* correct with regards to the nine major sections comprising the GIPS standards?

A To claim compliance, firms need only calculate their performance according to GIPS requirements

B All requirements must be met in order to be fully compliant with the GIPS

C Firms are encouraged to adopt and implement the recommendations

14 Jennifer Ducumon, CFA, is a portfolio manager for high-net-worth individuals at Northeast Investment Bank. Northeast holds a large number of shares in Babyskin Care Inc., a manufacturer of baby care products. Northeast obtained the Babyskin shares when they underwrote the company's recent IPO. Ducumon has been asked by the investment banking department to recommend Babyskin to her clients, who currently do not hold any shares in their portfolios. Although Ducumon has a favorable opinion of Babyskin, she does not consider the shares a buy at the IPO price nor at current price levels. According to the CFA Institute Code of Ethics and Standards of Professional Conduct the *most* appropriate action for Ducumon is to:

A ignore the request.

B recommend the shares after additional analysis.

C follow the request as soon as the share price declines.

15 Kelly Amadon, CFA, an investment advisor, has two clients: Ryan Randolf, 65 years old, and Keiko Kitagawa, 45 years old. Both clients earn the same amount in salary. Randolf, however, has a large amount of assets, while Kitagawa has few assets outside her investment portfolio. Randolf is single and willing to invest a portion of his assets very aggressively; Kitagawa wants to achieve a steady rate of return with low volatility so she can pay for her child's current college expenses. Amadon recommends investing 20 percent of both clients' portfolios in the stock of very low yielding small-cap companies. Amadon *least likely* violated the CFA Institute Code of Ethics and Standards of Professional Conduct with regards to his investment recommendations for:

A both clients' portfolio.

B only Randolf's portfolio.

C only Kitagawa's portfolio.

16 David Bravoria, CFA, is an independent financial advisor for a high-net-worth client with whom he had not had contact in more than two years. During a recent brief telephone conversation, the client states that he wants to increase his risk exposure. Bravoria subsequently recommends and invests in several high-risk venture capital funds on behalf of the client. Bravoria continues, as he has done in the past, to send to his client monthly, detailed, itemized investment statements. Did Bravoria *most likely* violate any CFA Standards?

A No.

B Yes, with regard to investment statements.

C Yes, with regard to purchasing venture capital funds.

17 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.

18 Anna Saar, CFA, is the head of compliance for Tranne Advisory Services, a regional financial services group including asset management, investment banking, and stock brokerage entities. Reviewing a draft client investment management agreement for the asset management unit, she is concerned that the relationships between the firm's various business units are not properly disclosed. To prevent violating CFA Institute Standard VI(A)–Disclosure of Conflicts, which of the following should *least likely* be addressed in the investment management agreement?

A The group subsidizes staff loans for share purchases.

B Management fees are frequently loss leaders for brokerage.

C Asset managers are likely to support corporate finance deals.

19 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%.

20 The dollar discount on a US Treasury bill with 91 days until maturity is $2,100. The face value of the bill is $100,000. The bank discount yield of the bill is *closest* to:

A 8.31%.

B 8.40%.

C 8.58%.

21 The belief that trends and patterns tend to repeat themselves and are, therefore, somewhat predictable *best* describes:

A arbitrage pricing theory.

B weak-form efficiency.

C technical analysis.

22 Event X and Event Y are independent events. The probability of X is 0.2 [$P(X) = 0.2$] and the probability of Y is 0.5 [$P(Y) = 0.5$]. The joint probability of X and Y, $P(XY)$, is *closest* to:

A 0.7.

B 0.3.

C 0.1.

23 A discrete uniform distribution consists of the following 12 values:

–2.5	5.3	6.7	8.8	–4.6	9.2
3.3	8.2	1.4	0.8	–5.3	6.9

On a single draw from the distribution, the probability of drawing a value between –2.0 and 2.0 from the distribution is *closest* to:

A 16.67%.

B 27.59%.

C 33.33%.

24 Which of the following is *best* described as a discrete random variable?

A The expected percentage change in a country's gross national product for the next year

B The number of days on which the DJIA experienced an increase since 2013

C The expected annual return on the Nikkei 225 Index over the next year

25 An investment in 10,000 common shares of a company for one year earned a 15.5% return. The investor received a $2,500 dividend just prior to the sale of the shares at $24 per share. The price that the investor paid for each share one year earlier was *closest* to:

A $20.80.

B $20.50.

C $21.00.

26 A fund manager would like to estimate the probability of a daily loss higher than 5% on the fund he manages. He decides to use a method that uses the relative frequency of occurrence based on historical data. The resulting probability is *best* described as a(n):

A subjective probability.

B a priori probability.

C empirical probability.

27 A sample of 240 managed portfolios has a mean annual return of 0.11 and a standard deviation of returns of 0.23. The standard error of the sample mean is *closest* to:

A 0.01485.

B 0.00096.

C 0.00710.

28 A hypothesis test fails to reject a false null hypothesis. This result is *best* described as a:

A Type II error.

B Type I error.

C test with little power.

29 Using a two-tailed test of the hypothesis that the population mean is zero, the calculated test statistic is 2.51. The sample has 23 observations. The population is normally distributed with an unknown variance.

Degrees of freedom	*p* = 0.10	*p* = 0.05	*p* = 0.025	*p* = 0.01	*p* = 0.005
21	1.323	1.721	2.080	2.518	2.831
22	1.321	1.717	2.074	2.508	2.819
23	1.319	1.714	2.069	2.500	2.807
24	1.318	1.711	2.064	2.492	2.797

An analyst will *most likely* reject the null hypothesis at significance levels of:

A 0.10 only.

B 0.10, 0.05, and 0.01.

C 0.10 and 0.05.

30 The *least* accurate statement about measures of dispersion for a distribution is that the:

A range provides no information about the shape of the data distribution.

B arithmetic average of the deviations around the mean will be equal to one.

C mean absolute deviation will be either less than or equal to the standard deviation.

31 Which sampling-related bias is *most likely* to result in finding apparent significance when none exists?

A Sample selection bias

B Look-ahead bias

C Data mining bias

32 When working backward from the nodes on a binomial tree diagram, the analyst is attempting to calculate:

A the number of potential outcomes.

B the probability of a given scenario.

C an expected value as of today.

33 It is *most likely* that the distance between the outer bands of Bollinger Bands will be farthest apart when

A the moving average period is longer.

B trading volume is higher.

C price volatility is higher.

34 The following information applies to a start-up company solely owned by an entrepreneur.

	Value
Total units produced	3,550
Average revenue	$1,110
Average variable cost	$750
Total fixed cost	$300,000
Total investment	$1,550,000
Required rate of return	12.5%
Opportunity cost of owner's labor	$125,000

The company's economic profit is *closest to*:

A $659,250.

B $784,250.

C $318,750.

35 The *most* relevant measure of income that economists use in determining household decisions to save and spend is personal:

A earned income.

B disposable income.

C taxable income.

36 The following data are for a basket of three consumption goods used to measure the rate of inflation:

	Prior Year		Current Year	
Goods	Quantity	Price	Quantity	Price
5 lb. bag sugar	150 bags	$3.12	180 bags	$2.92
5 lb. bag flour	800 bags	$2.18	750 bags	$3.12
Frozen pizza (each)	250	$2.90	250	$3.00

Using the consumption basket for the current year, the Paasche Index is *closest* to:

A 124.6.

B 123.7.

C 125.4.

37 Successful advertising and product differentiation are *most likely* to have a positive impact on the economic profits of a producer under:

A monopolistic competition.

B perfect competition.

C monopoly.

38 Based on the elasticities approach, a country can implement an exchange rate policy to improve its trade balance *most* effectively if it imports and exports products:

A that are consumer necessities.

B with no good substitute.

C traded in competitive markets.

39 Given the function

$$Q_x^d = 5.7 - 1.3P_x + 0.03I - 0.03P_y$$

where

Q_x^d = the quantity demanded of good X

P_x = the price per unit of good X
I = consumers' income
P_y = the price per unit of good Y

the *most likely* cause of a shift in the demand curve is a change in:

A P_y.

B Q_x^d

C P_x.

40 After noting positive changes in the aggregate index of coincident economic indicators, an increase in the ratio of consumer installment debt to income would *most likely* help confirm that an expansion is:

A forthcoming.

B underway.

C ending.

41 Assume that the nominal spot exchange rate (USD/EUR) increases by 7.5%, the eurozone price level decreases by 4%, and the US price level increases by 2.5%. The change in the real exchange rate (%) is *closest* to:

A 0.7%.

B –6.3%.

C 14.8%.

42 Assume economic activity is accelerating, inflation is increasing modestly, and unemployment is low. The economy is *most likely* in which phase of the business cycle?

A Peak

B Early expansion

C Late expansion

43 In a hypothetical economy, consumption is 70% of pre-tax income, and the average tax rate is 25% of total income. If planned government expenditures are expected to increase by $1.25 billion, the increase in total income and spending, in billions, is *closest* to:

A $2.6.

B $4.2.

C $1.3.

44 A developing country that maintains a fixed value for its currency relative to the US dollar is experiencing a decline in its economic activity, and its inflation rate falls below the level of inflation in the United States. The *most likely* result of the developing country's actions to maintain the fixed exchange rate target is that its:

A foreign exchange reserves will decrease.

B short-term interest rates will fall.

C money supply will contract.

45 Four countries operate within a customs union. One country proposes moving to a common market structure. What additional level of economic integration between the countries would *most likely* arise if this change took place? They would:

A begin to allow free movement of the factors of production.

B establish common economic institutions and coordination of economic policies.

C establish common trade barriers against non-members.

46 In 2013, a software company recorded unearned revenue related to a software license that it will recognize as revenue during 2014. Ignoring income taxes, the recognition of the software revenue in 2014 will *most likely* result in 2014 cash from operations being:

A lower.

B higher.

C unchanged.

47 During the year, a retailer purchases 1,000 units of inventory at £20.20 per unit. In addition, the following items relate to inventory acquisition and handling during the year.

Item Description	£ thousands
Volume rebate received	404
Import and sales taxes	2,970
Transport and transport insurance costs	325
Storage costs of finished goods	1,250
Warehouse administrative costs	3,300

The total costs (in thousands) that will be included in inventory are *closest* to:

A £24,341.

B £23,091.

C £22,766.

48 Which of the following is *best* described as a necessary characteristic for an effective financial reporting framework?

A Transparency to the underlying economics

B Consistency in the measurement basis used across the balance sheet

C Uniform treatment of transactions by different entities

49 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.

50 An e-commerce company sells hotel room nights on its website under agreement from a large number of major hotel chains. The hotel chains grant the company flexibility for the rooms they supply to the company's website and for the prices charged. These major chains bear the responsibility for providing all services once a customer books a room from the website. During the current year, the company received $5 million in payments from the sale of hotel rooms.

The cost of these rooms was $4.5 million, which does not include $250,000 in direct selling costs. Under US GAAP, the e-commerce company's cost of sales is *closest* to:

A $4,750,000.

B $4,500,000.

C $250,000.

51 The following common-size income statement data and tax rates are available on a company.

Financial Item	Current Year (%)
Revenues	100
Cost of goods sold	38.6
Interest expense	3.1
Research expenses	4.4
Selling and general expenses	32.9
Income tax rate	22%

Prior Year's Profitability Ratios	
Gross profit margin	60.5%
Operating profit margin	23.3%
Net profit margin	15.8%

The profitability ratio that had the *largest* absolute increase in value in the current year is the:

A operating profit margin.

B net profit margin.

C gross profit margin.

52 Assume a company has the following portfolio of marketable securities, which were acquired at the end of last year:

Category	Original Cost (in €) at the End of Last Year	Fair Market Value (in €) at the End of the Current Year
Held for trading	12,000,000	12,500,000
Available for sale	17,000,000	16,000,000

If the company reports under IFRS compared with US GAAP, its net income in the current year will *most likely* be:

A the same.

B €500,000 higher.

C €500,000 lower.

53 Under IFRS, the costs incurred in the issuance of bonds are *most likely*:

A expensed when incurred.

B included in the measurement of the bond liability.

C deferred as an asset and amortized on a straight-line basis.

54 In the current year, a company increased its deferred tax asset by $500,000. During the year, the company *most likely*:

A became entitled to a $500,000 tax refund.

B had permanent differences between accounting profit and taxable income.

C reported a lower accounting profit than taxable income.

55 Information about the coupon rates on the various long-term fixed-rate debt issues of a company can *most likely* be found in the:

A notes to the financial statements.

B non-current liabilities section of the balance sheet.

C Management Discussion and Analysis (MD&A).

56 The role of the International Organization of Securities Commissions (IOSCO) is *best* described as:

A promoting cross-border cooperation and uniformity in securities regulation.

B enforcing financial reporting requirements for entities participating in capital markets.

C promoting the use of International Financial Reporting Standards (IFRS) and the convergence of national accounting standards.

57 A company using the last-in, first-out (LIFO) inventory method reports a year-end LIFO reserve of $85,000, which is $20,000 lower than the prior year. If the company had used first-in, first-out (FIFO) instead of LIFO in that year, its financial statements would *most likely* have reported:

A a higher cost of goods sold (COGS) but a lower inventory balance.

B both a higher cost of goods sold (COGS) and a higher inventory balance.

C a lower cost of goods sold (COGS) but a higher inventory balance.

58 Amounts recorded as deferred revenue are *most likely* included in income when they are:

A earned.

B invoiced.

C paid.

59 The following information is available for a company ($):

December 31, 2011:	
Total assets	100,000
Net income for the year	4,000
Dividends paid	0
Assets are equally financed with debt and equity	
50% of the equity comes from contributed capital	

December 31, 2012:	
Total assets	92,000
Net income (loss) for the year	(3,000)
No new debt or equity issued or repurchased	

In 2012, the company *most likely*:

A paid a dividend of $1,000.

B did not pay a dividend because it incurred a loss.

C paid a dividend of $5,000.

60 The following annual financial data are available for a company:

	£ millions
Beginning interest payable	90.4
Cash paid for interest	103.3
Ending interest payable	84.5

Interest expense (in millions) for the year is *closest* to:

A £97.4.

B £109.2.

C £71.6.

61 The following financial statement data are available for a company:

Metric	$ thousands
Operating income	3,390
Net income	2,210
Operating assets	3,850
Change in cash and cash equivalents	1,010
Change in cash from operating activities	1,750
Free cash flow to the firm	2,240

The company's cash-to-income ratio is *closest* to:

A 0.79.

B 0.66.

C 0.52.

62 An analyst is comparing the solvency of a company over the past two years using the information below:

2013	¥ millions
Total debt	2,300
Total shareholders' equity	17,000
Total assets	20,000
Net income	375
Interest payments	200
Taxes paid	125

Ratios in 2012	
Debt to capital	12.7%
Interest coverage	2.9

The *best* conclusion the analyst can make about 2013 is that compared with 2012, the company's solvency has:

A been inconclusive because the ratios give conflicting results.

B deteriorated because both ratios have weakened.

C improved because both ratios have strengthened.

63 Which of the following is the *best* example of conservative accounting?

A Reducing the allowance for bad debt expense below the experienced loss rate.

B Deferring R&D expenses to a subsequent year.

C Choosing to depreciate new equipment over the shortest estimate of its useful life.

64 Selected information about a company is as follows:

	Current Year ($ thousands)	Projection for Next Year ($ thousands)
Sales	2,200	2,500
Variable operating costs (% of sales)	28%	30%
Fixed operating costs	1,400	1,400
Tax rate	25%	25%
Dividends paid	55	60
Interest bearing debt at 5%	500	500

The forecasted net income (in $ thousands) for next year is *closest* to:

A 169.

B 244.

C 202.

65 A company has announced that it is going to distribute a group of long-lived assets to its owners in a spin-off. The *most* appropriate way to account for the assets until the distribution occurs is to classify them as:

A held for sale with no depreciation taken.

B held for use until disposal with no deprecation taken.

C held for use until disposal with depreciation continuing to be taken.

66 All else being equal, which of the following depreciation methods is *most likely* to result in higher operating margins in the later years of an asset's useful life?

A Straight line

B Declining balance

C Units of production

67 Which of the following most likely results in an increase of owners' equity?

A Share repurchase

B Cash dividend

C New equity issuance

68 Which of the following will be higher using the LIFO method compared with the FIFO method during periods of rising inventory unit costs?

A Gross profit

B Cost of sales

C Ending inventory

69 An analysis used to forecast earnings that shows a range of possible outcomes as specific assumptions change *best* describes which of the following techniques?

A Scenario analysis

B Simulation

C Sensitivity analysis

70 The following information is available for a company:

- Bonds are priced at par and have an annual coupon rate of 9.2%.

- Preferred stock is priced at \$8.18 and pays an annual dividend of \$1.35.
- Common equity has a beta of 1.3.
- The risk-free rate is 4% and the market premium is 11%.
- Capital structure: Debt = 30%; Preferred stock = 15%; Common equity = 55%.
- The tax rate is 35%.

The weighted average cost of capital (WACC) for the company is *closest* to:

A 11.5%.

B 14.3%.

C 13.4%.

71 A company issues new 20-year \$1,000 bonds with a coupon rate of 6.2% payable semiannually at an issue price of \$1,030.34. Assuming a tax rate of 28%, the firm's annual after-tax cost of debt (%) is *closest* to:

A 5.94.

B 4.28.

C 4.46.

72 Business risk *most likely* incorporates operating risk and:

A financial risk.

B sales risk.

C interest rate risk.

73 The per unit contribution margin for a product is \$12. Assuming fixed costs of \$12,000, interest costs of \$3,000, and taxes of \$2,000, the operating breakeven point (in units) is *closest* to:

A 1,417.

B 1,000.

C 1,250.

74 A company that wants to determine its cost of equity gathers the following information:

Rate of return on 3-month Treasury bills	3.0%
Rate of return on 10-year Treasury bonds	3.5%
Market risk premium	6.0%
The company's equity beta	1.6
Dividend growth rate	8.0%
Corporate tax rate	35%

Using the capital asset pricing model (CAPM) approach, the cost of equity (%) for the company is *closest* to:

A 12.6%.

B 7.5%.

C 13.1%.

75 Based on good corporate governance practices, it is *most* appropriate for a company's compensation committee to:

A develop director remuneration policies.

B recommend remuneration for the external auditors.

C include some external directors.

76 The effective annualized cost (%) of a banker's acceptance that has an all-inclusive annual rate of 5.25% for a one-month loan of $2,000,000 is *closest* to:

A 5.54%.

B 5.38%.

C 5.27%.

77 A project has the following cash flows:

Year 0	Year 1	Year 2	Year 3	Year 4
–$1,000	$100	$100	$100	$1,100

The internal rate of return (IRR) for the project is *closest* to:

A 9.1%.

B 10.0%.

C 8.8%.

78 A credit rating agency assesses a company's corporate governance structure as favorable to creditor rights. The *most likely* impact of this assessment on the company is a(n):

A increase in its risk of default.

B reduction in its financial performance.

C reduction in its cost of debt.

79 A portfolio manager decides to temporarily invest more of a portfolio in equities than the investment policy statement prescribes because he expects equities will generate a higher return than other asset classes. This decision is *most likely* an example of:

A rebalancing.

B tactical asset allocation.

C strategic asset allocation.

80 An asset management firm generated the following annual returns in their US large-cap equity portfolio:

Year	Net Return (%)
2008	–34.8
2009	32.2
2010	11.1
2011	–1.4

The 2012 return needed to achieve a trailing five-year geometric mean annualized return of 5% when calculated at the end of 2012 is *closest* to:

A 27.6%.

B 17.9%.

C 35.2%.

81 A portfolio with equal parts invested in a risk-free asset and a risky portfolio will *most likely* lie on:

A the efficient frontier.

B a capital allocation line.

C the security market line.

82 All else held constant, a lower correlation between the assets in a portfolio most likely results in higher:

A diversification.

B volatility.

C portfolio return.

83 A major benefit of employing a risk budgeting process is that it *most likely*:

A allows the organization to determine its enterprise risk tolerance.

B forces risk tradeoffs across the organization.

C eliminates the need for hedging within the organization.

84 Which of the following is *most likely* a feature of a defined-contribution pension plan? The

A employer accepts the investment risk.

B employer provides a specified retirement benefit.

C employee accepts the investment risk.

85 The following information is provided about a stock market index *m* and security *i:*

Statistic	Value
Covariance between market return and security return [Cov(R_i,R_m)]	0.01104
Correlation coefficient between market return and security return ($\rho_{i,m}$)	0.3
Standard deviation of market return (σ_m)	0.16

The beta of security *i*, β_i, is *closest* to:

A 0.43.

B 0.23.

C 1.88.

86 An example of risk transfer combined with self-insurance is *most likely*:

A a bond portfolio hedged with an interest rate option.

B an insurance policy with a deductible.

C a bank that establishes a loan loss reserve fund.

87 An industry experiencing slow growth, high prices, and volumes insufficient to achieve economies of scale is *most likely* in the:

A shakeout stage.

B embryonic stage.

C mature stage.

88 Which of the following statements concerning the objectives of market regulation is *least* accurate? Regulators:

A set standards to ensure that all agents acting in the market are skilled.

B promote fair and orderly markets.

C ensure that systems are in place to prevent fraud.

89 For portfolio managers of passive funds, market indexes are *least* useful as:

A proxies to measure systematic risk.

B benchmarks for portfolio performance attribution.

C tools to develop exchange-traded funds for non-accessible markets.

90 An investor buys a stock on margin. Assume that the interest on the loan and the dividend are both paid at the end of the holding period. The data related to the transaction are as follows:

Number of shares	500
Purchase price per share	$28
Leverage ratio	3.33
Commission	$0.05/share
Position holding period	Six months
Sale price per share	$30
Call money rate	5% per year
Dividend	$0.40/share

The investor's total return on this investment over the margin holding period is *closest* to:

A 15.6%.

B 16.7%.

C 21.4%.

91 Which of the following statements concerning the use of industry analysis is most accurate? Industry analysis is *most* useful for:

A sector allocations in passive equity portfolios.

B portfolio performance attribution.

C evaluating market efficiency.

92 An analyst will *most likely* put a "sell" recommendation on a stock when its:

A intrinsic value is positive.

B market value is higher than intrinsic value.

C market value is lower than fundamental value.

93 Firms with which of the following characteristics are *most likely* candidates for a management buyout (MBO)?

A Firms with low levels of cash flow

B Firms with high dividend payout ratios

C Firms with large amounts of undervalued assets

94 A portfolio of securities representing a given security market, market segment, or asset class is best described as a:

A benchmark.

B security market index.

C total return index.

95 An investor gathers the following information about a company:

Current dividend per share	$3
Historical annual dividend growth rate	4%
Expected annual dividend growth rate for the next three years	8%
Expected stock value per share at the end of Year 3	$33

If the investor's required rate of return is 15%, the current estimate of the intrinsic value per share is *closest* to:

A $28.36.

B $29.65.

C $29.08.

96 A company's non-callable, non-convertible preferred stock that pays an annual dividend of $3.75 is currently selling at its par value of $50 per share. If the required rate of return increases by 75 bps, the preferred stock's new price is *closest* to:

A $45.45.

B $49.50.

C $55.56.

97 An investor considering the enterprise value approach to valuation gathers the following data:

Earnings before interest, taxes, depreciation, and amortization (EBITDA)	$65.8 million
Value of debt	$90.0 million
Value of preferred stock	$25.4 million
Cash and marketable securities	$6.9 million
Number of common shares outstanding	12.5 million
Firm's tax rate	30%
EV/EBITDA multiple	6×

The value per share of the company's common stock is *closest* to:

A $13.43.

B $22.35.

C $22.90.

98 In behavioral finance, which of the following statements *best* describes the bias of conservatism? Investors:

A tend to be slow to react to new information and continue to maintain their prior views or forecasts.

B focus on issues in isolation and respond to the issues based on how the issues are posed.

C assess new information and probabilities of outcomes based on similarity to the current state.

99 In a low interest rate environment, the effective duration of a callable bond relative to a comparable non-callable bond, will *most likely* be:

A higher.

B lower.

C the same.

100 The following table provides a history of a fixed-income security's coupon rate and the risk-free rate over a five-year period.

Year	Risk-Free Rate	Coupon Rate
1	3.00%	6.00%
2	3.50%	5.00%
3	4.25%	3.50%
4	3.70%	4.60%
5	3.25%	5.50%

The security is *most likely* a(n):

A inverse floater.

B deferred coupon bond.

C step-up note.

101 The type of residential mortgage *least likely* to contain a "balloon" payment is a(n):

A interest-only mortgage.

B fully amortizing mortgage.

C partially amortizing mortgage.

102 An investor is *least likely* exposed to reinvestment risk from owning a(n):

A amortizing security.

B zero-coupon bond.

C callable bond.

103 Consider a $100 par value bond with a 7% coupon paid annually and 5 years to maturity. At a discount rate of 6.5%, the value of the bond today is $102.08. One day later, the discount rate increases to 7.5%. Assuming the discount rate remains at 7.5% over the remaining life of the bond, what is *most likely* to occur to the price of the bond between today and maturity? The price:

A decreases then increases.

B increases then decreases.

C decreases then remains unchanged.

104 Using the following US Treasury forward rates, the value of a 2.5-year $100 par value Treasury bond with a 5% coupon rate is *closest* to:

Period	Years	Forward Rate
1	0.5	1.20%
2	1	1.80%
3	1.5	2.30%
4	2	2.70%
5	2.5	3.00%

A $104.87.

B $101.52.

C $106.83.

105 Which bonds *most likely* rank the highest with respect to priority of claims?

A Subordinated debt

B Second lien debt

C Senior unsecured bond

106 A bond has a 10-year maturity, a $1,000 face value, and a 7% coupon rate. If the market requires a yield of 8% on similar bonds, it will *most likely* trade at a:

A discount.

B premium.

C discount or premium, depending on its duration.

107 Compared with investment-grade bonds, the spread movements on high-yield bonds are influenced:

A less by interest rate changes and exhibit a greater correlation with movements in equity markets.

B less by interest rate changes and exhibit a lower correlation with movements in equity markets.

C more by interest rate changes and exhibit a greater correlation with movements in equity markets.

108 A bond has a duration of 4.50 and convexity of 39.20. If interest rates increase by 0.5%, the percentage change in the bond's price will be closest to:

A –2.20%.

B –2.15%.

C –2.25%.

109 China Construction Development Corporation needs to finance a three-year construction project in Singapore. The corporation plans to issue a bond with coupon payments to be paid in Chinese yuan and principal to be repaid in Singapore dollars. This bond is *most likely* an example of a:

A dual currency bond.

B currency option bond.

C foreign currency bond.

110 Which of the following are *most likely* a kind of supranational bonds? Bonds issued by the:

A Federal Farm Agency of the United States.

B Government of Malaysia.

C European Investment Bank.

111 According to put–call–forward parity, the difference between the price of a put and the price of a call is *most likely* equal to the difference between:

A forward price and spot price discounted at the risk-free rate.

B spot price and exercise price discounted at the risk-free rate.

C exercise price and forward price discounted at the risk-free rate.

112 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

113 Which of the following is *least likely* one of the main benefits of derivative markets? Derivative markets:

A exhibit lower volatility compared with the spot market.

B enable companies to more easily practice risk management.

C reveal prices and volatility of the underlying assets.

114 If a forward contract requires no cash outlay at initiation, it is *most likely* true that at initiation:

A value exceeds price.

B price exceeds value.

C price is equal to value.

115 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.

116 In the context of venture capital financing, seed-stage financing *most likely* supports:

A initial commercial production and sales.

B product development and/or marketing efforts.

C transformation of an idea into a business plan.

117 For a hedge fund investor, a benefit of investing in a fund of funds is *least likely* the:

A higher level of due diligence expertise.

B multilayered fee structure.

C ability to negotiate better redemption terms.

118 The return on a commodity index is *likely* to be different from returns on the underlying commodities because:

A data are subject to survivorship bias.

B indices are constructed using futures contracts.

C assets are not marked to market.

119 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.

120 Which of the following hedge fund strategies is *most likely* categorized as an event-driven strategy?

A Fixed-income convertible arbitrage

B Quantitative directional

C Merger arbitrage