

<b>Questions 1~18 Relate to Ethics .....</b>	<b>2</b>
<b>Questions 19~32 Relate to Quantitative analysis .....</b>	<b>9</b>
<b>Questions 33~44 Relate to Economics .....</b>	<b>14</b>
<b>Questions 45~68 Relate to Financial Statement Analysis.....</b>	<b>18</b>
<b>Questions 69~76 Relate to Corporate finance .....</b>	<b>26</b>
<b>Questions 77~88 Relate to Equity investment.....</b>	<b>28</b>
<b>Questions 89~94 Relate to Derivatives .....</b>	<b>31</b>
<b>Questions 95~106 Relate to Fixed-income Analysis .....</b>	<b>33</b>
<b>Questions 107~110 Relate to Alternative Investments.....</b>	<b>36</b>
<b>Questions 111 ~120 Relate to Portfolio Management .....</b>	<b>37</b>

**MOCK EXAM 113**

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

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

**Questions 1~18 Relate to Ethics**

1. Alexander Newton, CFA, is the chief compliance officer for Mills Investment Limited. Newton institutes a new policy requiring the pro rata distribution of new security issues to all established discretionary accounts for which the new issues are appropriate. The policy also provides for the exclusion of newly established discretionary accounts from the distribution until they have reached their one-month anniversary date. This policy is disclosed to all existing and potential clients. Did Newton most likely violate any CFA Institute Standards of Professional Conduct?
  - A. No, because the policy has been adequately disclosed to all existing and potential clients
  - B. No, because the allocation policy is not inequitable under the standards
  - C. Yes
  
2. Ian O'Sullivan, CFA, is the owner and sole employee of two companies, a public relations firm and a financial research firm. The public relations firm entered into a contract with Mallory Enterprises to provide public relations services, with O'Sullivan receiving 40,000 shares of Mallory stock in payment for his services. Over the next 10 days, the public relations firm issued several press releases that discussed Mallory's excellent growth prospects. O'Sullivan, through his financial research firm, also published a research report recommending Mallory stock as a "buy." According to the CFA Institute Standards of Professional Conduct, O'Sullivan is most likely required to disclose his ownership of Mallory stock in:
  - A. the press releases only.
  - B. both the press release and the research report.
  - C. the research report only.
  
3. When Jefferson Piedmont, CFA, joined Branch Investing, Branch began using a quantitative stock selection model Piedmont had developed on his own personal time prior to his

employment with Branch. One year later when Piedmont left Branch Investing, he found the original copy of the model he had developed in a file at his home and presented it to his new employer, which immediately began using the model. According to the Standards of Practice Handbook, did Piedmont most likely violate any CFA Institute Standards of Professional Conduct?

- A. Yes, because he misappropriated property now belonging to Branch
  - B. Yes, because he failed to inform his new employer the model was the same one used by his previous employer
  - C. No
4. Reiko Kimisaki, CFA, is an investment adviser for a national social security fund in a frontier market with a very limited and illiquid capital market. The labor force is young and has an investment time horizon of 25 to 30 years. Kimisaki has been asked to suggest ways to increase the investment return of the overall portfolio. After careful assessment of the fund's previous investment history, and available asset classes, she considers investment in private equity. What is Kimisaki's lowest priority to avoid any Code and Standards violations prior to making this investment recommendation?
- A. Determine whether the investment policy statement allows for alternative investments.
  - B. Assess the risk tolerance of the fund.
  - C. Analyze the expected returns of private equity in the market.
5. Heidi Katz is a CFA candidate and an analyst at a pension consulting firm. Her father is a major shareholder and managing director at Saturn Partners, a large hedge fund. When assisting in an alternative manager search for a pension client, Katz plans to recommend Saturn's market-neutral strategy because she believes it meets all of the pension plan's criteria. Given this situation, the best course of action for Katz is to:
- A. disclose the potential conflict to the pension client when discussing this recommendation.
  - B. disclose the potential conflict to her employer and follow their guidance regarding disclosure of her relationship to the client.
  - C. not present this strategy to the client and recommend another strategy.

6. Rebecca Wong is enrolled to take the Level I CFA exam. 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. Only Leung violated.
  - C. Neither violated.
7. The Global Investment Performance Standards least likely require:
- A. composites to be defined according to similar investment objectives and/or strategies.
  - B. non-fee-paying portfolios to be excluded in the returns of appropriate composites.
  - C. nondiscretionary portfolios to be included in composites.
8. According to the Global Investment Performance Standards (GIPS), firms must do all of the following except:
- A. adhere to certain calculation methodologies and make specific disclosures along with their performance.
  - B. provide investors with a comprehensive view of their performance only in terms of returns.
  - C. comply with all requirements of the GIPS standards, such as updates, guidance statements, and clarifications.
9. Andrew Smith, CFA, works for Granite, a commercial bank that also has a sizable sell-side research division. Smith is presenting financing solutions to a potential business client, Dynamic Materials Corp. As part of his presentation, Smith mentions that Granite will initiate research coverage on Dynamic. Is Smith's arrangement most likely appropriate with regard to the Code and Standards?
- A. No, because Smith cannot offer to provide research coverage on a company if it becomes a corporate finance client

- B. No, because Granite cannot provide research coverage on a corporate finance client because it constitutes a violation of research independence
- C. Yes
10. Fundamental Asset Managers claims compliance with the CFA Institute Global Investment Performance Standards (GIPS) and manages both discretionary and non-discretionary accounts. When constructing a single composite for Fundamental, Juma Dzuya includes all discretionary, fee-paying accounts with both value and growth strategies. Does the composite constructed by Dzuya most likely meet the criteria of the GIPS standards?
- A. No, because non-discretionary accounts are not included
- B. Yes
- C. No, because of non-similar investment strategies
11. In order to provide investors with a more comprehensive view of a firm's performance, the current GIPS standards includes new provisions related to:
- A. the unique characteristics of each asset class.
- B. all aspects of performance measurement.
- C. various measures of risk.
12. Adira Badawi, CFA, who owns a research and consulting company, is an independent board member of a leading cement manufacturer in a small local market. Because of Badawi's expertise in the cement industry, a foreign cement manufacturer looking to enter the local market has hired him to undertake a feasibility study. Under what circumstances can Badawi most likely undertake the assignment without violating the CFA Institute Code of Ethics and Standards of Professional Conduct?
- A. He makes full disclosure to both companies.
- B. He signs confidentiality agreements with both companies.
- C. He receives written permission from the local company.
13. Amanda Covington, CFA, works for McJan Investment Management. McJan employees must

receive prior clearance of their personal investments in accordance with McJan's compliance procedures. To obtain prior clearance, McJan employees must provide a written request identifying the security, the quantity of the security to be purchased, and the name of the broker through which the transaction will be made. Precleared transactions are approved only for that trading day. As indicated below, Covington received prior clearance.

Security	Quantity	Broker	Prior Clearance
A	100	Easy Trade	Yes
B	150	Easy Trade	Yes

Two days after she received prior clearance, the price of Stock B decreased, so Covington decided to purchase 250 shares of Stock B only. In her decision to purchase 250 shares of Stock B only, did Covington violate any CFA Institute Standards of Professional Conduct?

- A. Yes, relating to diligence and reasonable basis
- B. Yes, relating to her employer's compliance procedures
- C. No

14. Claire Jones, CFA, is an analyst following natural gas companies in the United States. At an industry energy conference, the chief financial officer of Alpine Energy states that the company is interested in making strategic acquisitions. At a separate event, Alpine's head of exploration commented that he is bullish on natural gas production prospects within northeastern Pennsylvania. Jones is aware that Alpine currently has very little exposure to this region. She also knows another company in her universe, Pure Energy, Inc. is based in northeastern Pennsylvania and controls significant assets in the area. Pure Energy is highly leveraged, and Jones believes it will need to raise additional capital or partner with another firm to move to the production phase with their assets. Jones attempts to contact Alpine's chief executive officer with an unrelated question and is told he is unavailable because he is on a business trip to northeastern Pennsylvania. Jones updates her research on Pure Energy and then recommends the stock to Lisa Wong, CFA, a portfolio manager, who purchases significant positions in client accounts. The following week, Pure Energy announces it has entered into an agreement to be purchased by Alpine for a significant premium. Has either

Jones or Wong most likely violated standards with regard to the integrity of capital markets?

- A. Yes, both Jones and Wong have acted on insider information
- B. No
- C. Yes, Jones' recommendation is based on insider information

15. Which of the following is not a component of the CFA Institute Code of Ethics?

- A. Place the integrity of the investment profession and the interests of clients above your own personal interests.
- B. Practice and encourage others to practice in a professional and ethical manner that will reflect credit on themselves and the profession.
- C. Promote financial integrity and seek to prevent and punish abuses in the financial markets.

16. After a firm presents a minimum required number of years of GIPS- compliant performance, the firm must present an additional year of performance each year, building up to a minimum of:

- A. 5 years of GIPS-compliant performance.
- B. 15 years of GIPS-compliant performance.
- C. 10 years of GIPS-compliant performance.

17. Jimmy Lan, CFA, is a technology analyst at Pacific Securities, Inc. and is a leading authority on Japanese technology companies. Lan's clients include many leading Japanese equity managers. While still employed at Pacific, Lan makes plans during the weekends to start a new company, JL Consulting. His plans consist of contracting office space, interviewing potential employees, and purchasing office equipment. Once he feels ready to launch his new firm, Lan provides Pacific with his resignation notice. After leaving, Lan constructs earnings models of the technology companies he previously covered, using the knowledge and experience gained while at Pacific. He then contacts former clients by using public sources and encourages them to become clients of his new firm. Are Lan's actions in compliance with the Code and Standards?

- A. No, because the names of former clients, modeling skills, and experience gained by Lan are

confidential information of Pacific Securities

- B. Yes, assuming he is not in breach of any non-compete agreement signed while at Pacific Securities
- C. No, because he is prohibited from engaging in activities related to starting his new business while still employed by Pacific Securities

18. Marc Davidson, CFA, works as a trust specialist for Integrity Financial. Davidson starts a part-time consulting business providing advice to trustees for a fee. He conducts this business on his own time and therefore did not notify Integrity Financial of his consulting. Davidson asks his assistant to compile a list of Integrity's clients and their contact information. The following month, Davidson is offered a similar role at Integrity's largest competitor, Legacy Trust Services, Inc. After he begins working at Legacy, his new manager arranges for him to meet with a number of prospective clients, many of whom are clients of Integrity. After meeting with Davidson, a number of former Integrity clients decide to transfer their business to Legacy. Did Davidson's action violate the Code and Standards?

- A. Yes, both Davidson's part-time consulting business and his meetings with Integrity clients are violations of the Standards
- B. Yes, Davidson's part-time consulting business is a violation of the Standards
- C. No



**Questions 19~32 Relate to Quantitative analysis**

19. 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. 66.7%.
- B. 61.5%.
- C. 33.3%.

20.

Cumulative Probabilities for a Standard Normal Distribution										
$P(Z \leq x) = N(x)$ for $x \geq 0$ or $P(Z \leq z) = N(z)$ for $z \geq 0$										
x or z	0	0.01	0.02	0.03	0.04	0.05	0.06	0.07	0.08	0.09
1.10	0.8643	0.8665	0.8686	0.8708	0.8729	0.8749	0.8770	0.8790	0.8810	0.8830
1.20	0.8849	0.8869	0.8888	0.8907	0.8925	0.8944	0.8962	0.8980	0.8997	0.9015
1.30	0.9032	0.9049	0.9066	0.9082	0.9099	0.9115	0.9131	0.9147	0.9162	0.9177
...										
1.90	0.9713	0.9719	0.9726	0.9732	0.9738	0.9744	0.9750	0.9756	0.9761	0.9767
2.00	0.9772	0.9778	0.9783	0.9788	0.9793	0.9798	0.9803	0.9808	0.9812	0.9817
2.10	0.9821	0.9826	0.9830	0.9834	0.9838	0.9842	0.9846	0.9850	0.9854	0.9857
...										
2.50	0.9938	0.9940	0.9941	0.9943	0.9945	0.9946	0.9948	0.9949	0.9951	0.9952
2.60	0.9953	0.9955	0.9956	0.9957	0.9959	0.9960	0.9961	0.9962	0.9963	0.9964
2.70	0.9965	0.9966	0.9967	0.9968	0.9969	0.9970	0.9971	0.9972	0.9973	0.9974

A variable is normally distributed with a mean of 5.00 and a variance of 4.00. Using the excerpt above from the cumulative distribution function for the standard normal random variable table, the probability of observing a value of  $-0.40$  or less is closest to:

- A. 8.85%.
- B. 0.35%.
- C. 2.44%.

21. An analyst applies four valuation screens to a set of potential investments. The screens are independent of each other.

Valuation Screen	Probability of Passing
1	0.65
2	0.45
3	0.40
4	0.30

If there are 1,200 potential investments, the number expected to simultaneously pass all four screens is closest to:

- A. 360.
- B. 42.
- C. 97.

22. If the probability for an event Z is 14% (i.e.,  $P(Z) = 14\%$ ), the odds for Z are closest to:

- A. 0.123.
- B. 0.163.
- C. 0.071.

23. Assume that a stock's price over the next two periods is as shown below.

Time = 0	Time = 1	Time = 2
$S_0 = 100$	$S_u = 110$	$S_{uu} = 121$
	$S_d = 92$	$S_{ud}, S_{du} = 101.20$
		$S_{dd} = 84.64$

The initial value of the stock is \$100. The probability of an up move in any given period is 40%, and the probability of a down move in any given period is 60%. Using the binomial model, the probability that the stock's price will be \$101.20 at the end of two periods is closest to:

- A. 16%.
- B. 48%.

C. 24%.

24. Based on historical returns, a portfolio has a Sharpe ratio of 2.0. If the mean return to the portfolio is 20%, and the mean return to a risk-free asset is 4%, the standard deviation of return on the portfolio is closest to:

A. 12%.

B. 10%.

C. 8%.

25. A Type I error is best described as the probability of:

A. failing to reject a false null hypothesis.

B. rejecting a true alternative hypothesis.

C. rejecting a true null hypothesis.

26. A financial contract offers to pay €1,200 per month for five years with the first payment made immediately. Assuming an annual discount rate of 6.5%, compounded monthly the present value of the contract is closest to:

A. € 61,663.

B. € 63,731.

C. € 61,330.

27. When an investigator wants to test whether a particular parameter is greater than a specific value, the null and alternative hypothesis are best defined as:

A.  $H_0: \theta \geq \theta_0$  versus  $H_a: \theta < \theta_0$ .

B.  $H_0: \theta \leq \theta_0$  versus  $H_a: \theta > \theta_0$ .

C.  $H_0: \theta = \theta_0$  versus  $H_a: \theta \neq \theta_0$ .

28. The following information applies to a portfolio composed of Fund A and Fund B:

	Fund A	Fund B
Portfolio weights (%)	70	30
Expected returns (%)	10	16
Standard deviations (%)	7	13
Correlation between the returns of Fund A and Fund B	0.80	

The portfolio's standard deviation of return is closest to:

- A. 8.80%.
- B. 8.35%.
- C. 7.38%.

29. 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. 0.1.
- B. 0.7.
- C. 0.3.

30. Use the following values from a student's t-distribution to establish a 95% confidence interval for the population mean given a sample size of 10, a sample mean of 6.25, and a sample standard deviation of 12. Assume that the population from which the sample is drawn is normally distributed and the population variance is not known.

Degrees of Freedom	p = 0.10	p = 0.05	p = 0.025	p = 0.01
9	1.383	1.833	2.262	2.821
10	1.372	1.812	2.228	2.764
11	1.363	1.796	2.201	2.718

The 95% confidence interval is closest to a:

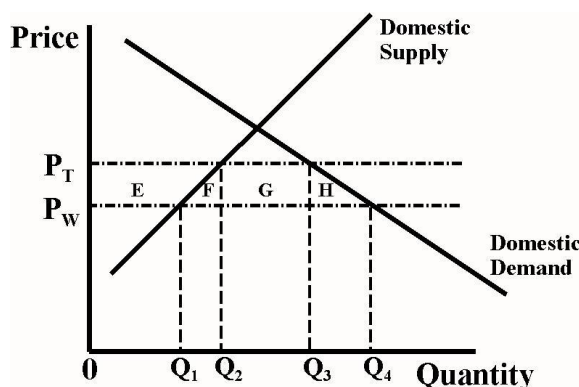
- A. lower bound of -0.71 and an upper bound of 13.21.
- B. lower bound of -2.33 and an upper bound of 14.83.
- C. lower bound of -2.20 and an upper bound of 14.70.

31. When rolling two six-sided dice and summing their outcomes, which of the following sums is most likely to occur?
- A. Nine
  - B. Six
  - C. Five
32. By definition, the probability of any Event E is a number between:
- A. zero and positive one.
  - B. minus one and positive one.
  - C. zero and positive infinity.

## Questions 33~44 Relate to Economics

33.

The diagram to the right shows the domestic demand and supply curves for a country which imports a commodity, where  $P_W$  is its world price and  $P_T$  is its domestic price after the imposition of a tariff.



The reduction in the net national welfare of this country as a result of the tariff is best described by the area(s):

- A. E.
- B. F+H.
- C. G.

34. Given stable aggregate supply, which of the following changes in aggregate demand is most likely to cause economic expansion?

- A. An increase in foreign currency per unit of domestic currency
- B. An increase in corporate income tax
- C. An increase in capacity utilization

35. According to the Fisher effect, an increase in expected inflation will most likely increase:

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

36. Which of the following statements is most accurate concerning the sum-of-value-added

method used to determine GDP based on expenditures?

- A. The method shows a larger GDP value compared with the value-of-final-output method.
- B. The method is based on the prices consumers pay for the products and services.
- C. The method involves summing the income created at each stage of the production and distribution process.

37. 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.

38. Which of the following statements with respect to Giffen and Veblen goods is least accurate?

- A. Both types of goods demonstrate the possibility of a positively sloping demand curve.
- B. Both types of goods violate the fundamental axioms of demand theory.
- C. Giffen goods are "inferior," whereas Veblen goods are "high-status" goods.

39. Which of the following is most likely to cause a shift to the right in the aggregate demand curve?

- A. Boom in the stock market
- B. Decrease in real estate values
- C. Increase in taxes

40. A college student's monthly demand for pizza is given by the following equation:

$QD_{\text{Pizza}} = 11 - 0.70 * P_{\text{Pizza}} + 0.009 * I - 0.20 * P_{\text{Cola}}$	
where	$QD_{\text{Pizza}}$ is the number of pizzas ordered per month
	$P_{\text{Pizza}}$ is the price of a pizza
	I is her monthly food budget
	$P_{\text{Cola}}$ is the price of cola per bottle

where

$QD_{\text{Pizza}}$  is the number of pizzas ordered per month

$P_{\text{Pizza}}$  is the price of a pizza

$I$  is her monthly food budget

$P_{\text{Cola}}$  is the price of cola per bottle

The student's current monthly food budget is \$500, the price of a pizza is \$5, and the price of a bottle of cola is \$1.25 per bottle. If the student's monthly food budget were to increase to \$700, the slope of her demand curve for pizza would be closest to:

- A. - 0.70.
- B. - 1.43.
- C. - 2.42.

41. Over a given period, the price of a commodity falls by 5.0%, and the quantity demanded rises by 7.5%. The price elasticity of demand for the commodity is best described as:

- A. perfectly elastic.
- B. inelastic.
- C. elastic.

42. Which of the following is most likely to lead to a recessionary gap?

- A. Easing monetary policy
- B. Rising stock prices
- C. Declining consumer confidence

43. Consumer surplus is best described as:

- A. always greater than or equal to zero.
- B. at times positive and at other times negative.
- C. always less than or equal to zero.

44. Which of the following is least likely to be a characteristic of a Giffen good? Its:

- A. substitution effect is negative.



- B. demand curve slopes upward.
- C. income effect is negative.

**Questions 45~68 Relate to Financial Statement Analysis**

45. The following data is available on two companies that operate in the same industry:

Metric (\$ millions)	Company X	Company Y
Sales	11.2	14.5
Cost of goods sold	5.7	7.7
Administration costs	1.9	2.2
Interest expense	0.3	0.7
Research & development expenses	1.5	1.7

Which of the following statements is most appropriate? Better margin performance will be reported by:

- A. X at the gross margin level and Y at the operating margin level.
- B. Y at the gross margin level and X at the operating margin level.
- C. Y at both the gross margin and operating margin levels.

46. At the start of the year a company that uses U.S. GAAP entered a contract to design and build a bridge with the following terms:

Contract length	3 years
Fixed contract price	\$40 million
Estimated contract cost	\$32 million
Costs incurred in first year	\$12 million

The company was initially quite certain about its cost estimates and intended to recognize revenue based on them. However, unexpected problems during the first year have caused engineers to suggest that a more expensive design may be required, costing up to \$8 million more. If the appropriate design cannot be determined before the company's financial statements are issued, the difference in the amount of revenue the company would recognize is closest to:

- A. \$15 million.
- B. \$ 0.
- C. \$ 3 million.

47. Previously, a manufacturer of high-quality industrial electrical generators only sold its units to

customers, but it has just introduced a leasing program. The generators have expected useful lives of about 25 years, and the company anticipates that the leases will have a term of 20 years or more. The company reports under International Financial Reporting Standards. Which of the following statements about the first year of the new leasing program is most accurate?

- A. Regardless of how the company classifies the lease, its operating cash flow is unchanged.
- B. If the lease is classified as a finance lease, it will decrease the company's liquidity position compared with when the company was only selling its generators.
- C. If the lease is classified as an operating lease, the company's profits should be higher for a given leased asset than they would be under a finance lease.

48. An accounting document that records transactions in the order in which they occur is best described as a:

- A. general ledger.
- B. general journal.
- C. trial balance.

49. A company incurs the following costs related to its inventory during the year:

Cost	¥ millions
Purchase price	100,000
Trade discounts	5,000
Import duties	20,000
Shipping of raw materials to manufacturing facility	10,000
Manufacturing conversion costs	50,000
Abnormal costs as a result of waste material	8,000
Storage cost of finished goods prior to shipping to customers	2,000

The amount charged to inventory cost (in millions) is closest to:

- A. ¥175,000.

B. ¥185,000.

C. ¥177,000.

50. The following is selected balance sheet data for a company along with information about its financial and operating lease obligations.

	As of 31 December 2014 (€ millions)
Long-term debt	1,347
Total shareholder's equity	11,268
Total assets	20,097

Note 18. Financial and Operating Leases

A. Financial Leases

The implicit interest rate on finance leases for 2014 was 6.0%.

B. Operating Lease Commitments as of 31 December 2014 (€ Millions)

Due 1 January 2015	130
Due 1 January 2016	130
Due 1 January 2017	130
Due 1 January 2018	130
Due 1 January 2019	80
Total of future lease payment's there after*	240
Total commitments	840

\*After 2019, all lease payments are assumed to be the same as in 2019.

If the company were to capitalize its long-term leases, its adjusted long-term debt-to-assets ratio as of the end of December 2014 would be closest to:

A. 10.4%.

B. 10.2%.

C. 9.9%.

51. Which of the following is least likely to be a general feature underlying the preparation of financial statements within the International Financial Reporting Standards (IFRS) Conceptual Framework?

- A. Accrual basis
- B. Materiality
- C. Matching

52. Which of the following statements is most accurate about the responsibilities of an auditor for a publicly traded firm in the United States? The auditor must:

- A. express an opinion about the effectiveness of the company's internal control systems.
- B. state that the financial statements are prepared according to generally accepted accounting principles.
- C. ensure that the financial statements are free from error, fraud, or illegal acts.

53. The International Financial Reporting Standards (IFRS) Conceptual Framework identifies fundamental qualitative characteristics that make financial information useful. Which of the following is least likely to be one of these characteristics?

- A. Faithful representation
- B. Materiality
- C. Relevance

54. The following data is available on a company for the current year:

Metric	(£'000)
Comprehensive income	246,000
Dividends paid	60,000
Ending retained earnings	821,000
Opening retained earnings	580,000

The company will most likely report other comprehensive income (OCI) (in £000) as a:

- A. gain of 186,000.
- B. gain of 301,000.
- C. loss of 55,000.

55. The following information is available on a company for the current year.

Net income	\$1,000,000
Average number of common shares outstanding	100,000
Details of convertible securities outstanding:	
Convertible preferred shares outstanding	2,000
Dividend/share	\$10
Each preferred share is convertible into five shares of common stock	
Convertible bonds, \$100 face value per bond	\$80,000
8% coupon	
Each bond is convertible into 25 shares of common stock	
Corporate tax rate	40%

The company's diluted EPS is closest to:

- A. \$7.57.
- B. \$7.72.
- C. \$7.69.

56. 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

57. For which of the following inventory valuation methods is the gross profit margin least likely to be the same under both a perpetual inventory system and a periodic inventory system?
- A. Specific identification
  - B. LIFO
  - C. FIFO
58. Under IFRS which of the following balance sheet presentation formats is most acceptable?
- Classifying assets and liabilities:
- A. into operating, investing, and financing categories.
  - B. as monetary vs. non-monetary.
  - C. in liquidity order.
59. According to the International Accounting Standards Board's (IASB) Conceptual Framework for Financial Reporting, the two fundamental qualitative characteristics that make financial information useful are best described as:
- A. timeliness and accrual accounting.
  - B. relevance and faithful representation.
  - C. understandability and verifiability.
60. For which of the following assets is it most appropriate to test for impairment at least annually?
- A. A trademark with an indefinite expected life
  - B. Land
  - C. A patent with a legal life of 20 years
61. In a period of rising prices, when compared with a company that uses weighted average cost for inventory, a company using FIFO will most likely report higher values for its:
- A. debt-to-equity ratio.
  - B. inventory turnover.

C. return on sales.

62. What is the most likely effect on the accounting equation when a company purchases office equipment with cash?

- A. Assets increase and liabilities increase
- B. Assets decrease and owners' equity decreases
- C. No effect on the accounting equation

63. A company that prepares its financial statements using IFRS wrote down its inventory value by €20,000 at the end of year 1. In year 2, prices increased and the same inventory at the end of the year was worth €30,000 more than its value at the end of the prior year. Which of the following statements is most accurate? In year 2, the company's cost of sales:

- A. decreased by €30,000.
- B. decreased by €20,000.
- C. was unaffected.

64. Notes to financial statements most likely include:

- A. a discussion of significant trends, events and uncertainties that affect the operating results.
- B. supplementary information about accounting policies, methods and estimates.
- C. an auditor's opinion as to the fair presentation of the financial statements.

65. A manufacturer of jets also enters purchase and leaseback arrangements of used aircraft. The buy and leaseback arrangements are classified as operating leases, with the lease payments due in advance at the beginning of each period. The company depreciates these used aircraft on a straight-line basis over the life of the lease. The most likely effect on the manufacturer's financial statements of entering into one of these purchase and leaseback arrangements is an increase in its:

- A. lease receivables.
- B. EBIT by an amount equal to the lease payments.
- C. capital assets.



66. Providing information about the performance of a company, its financial position, and changes in financial position that is useful to a wide range of users is most accurately described as the role of:

- A. the audit report.
- B. financial statement analysis.
- C. financial reporting.

67. Which of the following statements is most accurate?

- A. Accrued expenses arise when a company incurs expenses that have not yet been paid as of the end of the accounting period.
- B. A valuation adjustment for an asset converts its historical cost to its depreciated value.
- C. Accrued revenue arises when a company receives cash prior to earning the revenue.

68. The notes to the financial statements of a company reporting under US GAAP contains the following information for the year 2014:

Note 11. Property and Equipment (all figures in \$ thousands)
Depreciation expense for 2014 is \$362. This amount includes capitalized interest of \$143. Interest is allocated and capitalized to construction in progress by applying the firm's cost of borrowing rate to qualifying assets. Interest capitalized in 2014 is \$170.

Ignoring the effects of income taxes, the expensing of previously capitalized interest most likely causes the company's cash flow from operations to be:

- A. unaffected.
- B. higher.
- C. lower.

**Questions 69~76 Relate to Corporate finance**

69. 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. 4.46.
- B. 5.94.
- C. 4.28.

70. The optimal capital budget for a firm is best described as occurring when the company's marginal cost of capital is:

- A. less than the investment opportunity schedule.
- B. equal to the investment opportunity schedule.
- C. greater than the investment opportunity schedule.

71. A company has an equity beta of 1.4 and is 60% funded with debt. Assuming a tax rate of 35%, the company's asset beta is closest to:

- A. 1.01.
- B. 0.98.
- C. 0.71.

72. The following data apply to two comparable companies that are in direct competition.

	Company A	Company B
Times interest earned ratio	2.50	2.50
Return on equity (ROE)	10.13%	16.88%
Return on assets (ROA)	6.75%	11.25%
Asset turnover	1.50	2.50

Which of the following statements is most accurate?

- A. Company A has a lower net profit margin.
- B. Company A has a higher degree of financial leverage than Company B.
- C. Both companies have the same amount of interest expense.

73. Which action is most likely considered a secondary source of liquidity?
- A. Renegotiating current debt contracts to lower interest payments
  - B. Increasing the availability of bank lines of credit
  - C. Increasing the efficiency of cash flow management
74. When computing the cash flows for a capital project, which of the following is least likely to be included?
- A. Opportunity costs
  - B. Tax effects
  - C. Financing costs
75. A company intends to issue new common stock with flotation costs of 5.0% per share. The expected dividend next year is \$0.32, and the dividend growth rate is expected to be 10% in perpetuity. Assuming the shares are issued at a price of \$14.69, the cost (%) of external equity for the firm is closest to:
- A. 12.3.
  - B. 12.5.
  - C. 12.2.
76. A project has a cost of €16,253 with a net present value (NPV) of €423.11. The corresponding profitability index (PI) is most likely:
- A. 0.03.
  - B. 1.42.
  - C. 1.03.

**Questions 77~88 Relate to Equity investment**

77. Information-motivated traders are most likely to differ from pure investors in that they:
- A. hold well-diversified portfolios.
  - B. pay lower transaction fees.
  - C. expect to earn excess returns.
78. The index weighting that results in portfolio weights shifting away from securities that have increased in relative value toward securities that have fallen in relative value whenever the portfolio is rebalanced is most accurately described as:
- A. fundamental weighting.
  - B. float-adjusted market-capitalization weighting.
  - C. equal weighting.
79. A trader seeking to sell a very large block of stock for her client will most likely execute the trade in a(n):
- A. order-driven market.
  - B. quote-driven market.
  - C. brokered market.
80. The behavioral bias in which investors tend to avoid realizing losses but rather seek to realize gains is best described as:
- A. mental accounting.
  - B. the disposition effect.
  - C. the gambler's fallacy.
81. A university endowment fund is mandated to hold some of its value in alternative investments. Which of the following would most likely be included in the fund's alternative investments portfolio?
- A. Convertible preferred shares
  - B. Exchange-traded funds

## C. Real estate securities

82. Which of the following situations will most likely promote an increase in market efficiency?

- A. An increase in arbitrage opportunities
- B. A decrease in trading activity
- C. An increase in information availability

83. Which of the following statements is least accurate with respect to fixed-income indices?

- A. Compared with equity indices, it is easier and less expensive to replicate fixed-income indices.
- B. The indices are susceptible to turnover of the underlying securities.
- C. Many of the underlying securities in the index tend to be illiquid.

84. Forward contracts are most likely to be attractive hedging vehicles to investors who:

- A. want to reserve the right to close out their position early.
- B. are not in a position to investigate the creditworthiness of their counterparties.
- C. do not want to make an upfront outlay of cash.

85. Which of the following statements concerning a security market index is most accurate?

- A. The divisor will be adjusted to prevent changes not related to prices of constituent securities.
- B. Estimated market prices of constituent securities are not used to calculate the index value.
- C. At inception, the total return version of an index will be greater than the price version of an index.

86. A closed-end fund is trading at a premium to its net asset value. This scenario most likely reflects:

- A. excess demand for redemption of the shares.
- B. concerns about the quality of management.
- C. a belief that the portfolio securities are undervalued.

87. If the following three stocks are held in a portfolio, the portfolio's total return on an equal-weighted basis is closest to:

Stock	Number of Shares Owned	Beginning of Period Price per Share (\$)	End of Period Price per Share (\$)	Dividend per Share during the Period (\$)
A	500	40	37	2.00
B	320	50	52	1.50
C	800	30	34	0.00

A. 6.37%.

B. 3.28%.

C. 5.94%.

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

A. mature stage.

B. embryonic stage.

C. shakeout stage.

**Questions 89~94 Relate to Derivatives**

89. Which of the following statements best describes changes in the value of a long forward position during its life?
- A. As interest rates go 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 the time to maturity goes down, the value of the position goes up.
90. If the implied volatility for options on a broad-based equity market index goes up, then it is most likely that:
- A. the broad-based equity market index has gone up in value.
  - B. market interest rates have gone up.
  - C. the general level of market uncertainty has gone up.
91. For a forward contract with a value of zero, a situation where the spot price is above the forward price is best explained by high:
- A. convenience yield.
  - B. interest rates.
  - C. storage costs.
92. According to put-call parity, if a fiduciary call expires in the money, the payoff is most likely equal to the:
- A. face value of the risk-free bond.
  - B. difference between the market value of the asset and the face value of the risk-free bond.
  - C. market value of the asset.
93. A high convenience yield is most likely associated with holding:
- A. commodities.
  - B. equities.
  - C. bonds.

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94. There are two forward contracts, contract 1 and contract 2, on the same underlying. The underlying makes no cash payments, does not yield any nonfinancial benefits, and does not incur any storage costs. Contract 1 expires in one year while contract 2 expires in two years. It is most likely that the price of contract 1:
- A. is less than the price of contract 2.
  - B. is equal to the price of contract 2.
  - C. exceeds the price of contract 2.

**Questions 95~106 Relate to Fixed-income Analysis**

95. 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.

96. What type of risk most likely affects an investor's ability to buy and sell bonds in the desired amounts and at the desired time?

- A. Spread
- B. Market liquidity
- C. Default

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

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

98. The option-free bonds issued by ALS Corp. are currently priced at 108.50. Based on a

portfolio manager's valuation model, a 1bp increase in interest rates will result in the bond price falling to 108.40, whereas a 1bp decrease in interest rates will result in the bond price rising to 108.59. The price value of a basis point (PVBP) for the bonds is closest to:

- A. 0.088.
- B. 0.190.
- C. 0.095.

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

100. Ted Nguyen is an investor domiciled in a country with an original issue discount tax provision. He purchases a zero-coupon bond at a deep discount to par value with the intention of holding the bond until maturity. At maturity, he will most likely face:

- A. neither a capital loss nor gain.
- B. a capital loss.
- C. a capital gain.

101. A two-year spot rate of 5% is most likely the:

- A. coupon rate in Year 2 on a coupon-paying bond maturing at the end of Year 4.
- B. yield to maturity on a zero-coupon bond maturing at the end of Year 2.
- C. yield to maturity on a coupon-paying bond maturing at the end of Year 2.

102. A long-term bond investor with an investment horizon of 8 years invests in option-free, fixed-rate bonds with a Macaulay duration of 10.5. The investor most likely currently has a:

- A. positive duration gap and is currently exposed to the risk of higher interest rates.
- B. negative duration gap and is currently exposed to the risk of higher interest rates.
- C. positive duration gap and is currently exposed to the risk of lower interest rates.

103. The process of securitization is least likely to allow banks to:
- A. reduce the layers between borrowers and ultimate investors.
  - B. repackage loans into simpler structures.
  - C. originate loans.
104. Which of the following most likely exhibits negative convexity?
- A. An option-free bond
  - B. A callable bond
  - C. A puttable bond
105. The market value of an 18-year zero-coupon bond with a maturity value of \$1,000 discounted at a 12% annual interest rate with semi-annual compounding is closest to:
- A. \$122.74.
  - B. \$192.86.
  - C. \$130.04.
106. Two years ago, a homeowner took out a \$1 million home mortgage from a bank. The current principal on the loan is \$750,000 and the homeowner has defaulted on the loan. Following foreclosure proceedings, the Bank sells the property for \$600,000 and is only entitled to use these funds to satisfy the loan obligation. The homeowner most likely had a:
- A. non-recourse loan.
  - B. recourse loan.
  - C. bullet loan.

**Questions 107~110 Relate to Alternative Investments**

107. The following information is available about a hedge fund:

Initial fund assets	\$100 million
Fund assets at the end of the period (before fees)	\$110 million
Management fee based on assets under management	2%
Incentive fee based on the return	20%
Soft hurdle rate	8%

No deposits to the fund or withdrawals from the fund occurred during the year. Management fees are calculated using end-of-period valuation. Management fees and incentive fees are calculated independently. The net-of-fees return of the investor is closest to:

- A. 7.8%.
- B. 5.8%.
- C. 7.4%.

108. Which of the following most likely belongs in an alternative asset category?

- A. Securitized commercial real estate debt.
- B. Equity in an emerging market company that is traded over-the-counter.
- C. A limited partnership that takes long and short positions in publicly traded equity.

109. Which of the following investments most likely provides an investor with indirect equity exposure to real estate?

- A. Real estate limited partnerships
- B. Commercial mortgage-backed securities
- C. Real estate investment trusts

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

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

**Questions 111 ~120 Relate to Portfolio Management**

111. An investment policy statement's risk objective states that over a 12-month period, with a probability of 95%, the client's portfolio must not lose more than 5% of its value. This statement is most likely a(n):
- A. relative risk objective.
  - B. total risk objective.
  - C. absolute risk objective.
112. Based on the capital asset pricing model (CAPM), the expected return on FGL Corp's shares is 12%. Using a model independent of the CAPM, an analyst has estimated the returns on the stock at 10%. Based on this information, the analyst is most likely to consider the stock to be:
- A. undervalued.
  - B. correctly valued.
  - C. overvalued.
113. Which of the following portfolio performance measures are the most appropriate for an investor who holds a fully diversified portfolio?
- A. Treynor ratio and Jensen's alpha.
  - B. M-Squared and Sharpe ratio.
  - C. Sharpe ratio and Treynor ratio.
114. Which of the following performance measures most likely relies on systematic risk as opposed to total risk when calculating a risk-adjusted return?
- A. Treynor ratio
  - B. M-squared
  - C. Sharpe ratio
115. Risk management is most likely the process by which an organization:
- A. adjusts its risk to a predetermined level.
  - B. maximizes its risk-adjusted return.

- C. minimizes its exposure to potential losses.

116. Following its decision to divest its non-core assets, analysts expect HCL Corp's standard deviation of returns to rise to 30% and its correlation with the market portfolio to remain unchanged at 0.8. The risk-free rate and the market risk premium are expected to remain unchanged at 6% and 8%, respectively. However, the market portfolio's standard deviation of returns is expected to decrease to 15%. The firm's expected return after the restructure is closest to:

- A. 9.2%.
- B. 18.8%.
- C. 17.6%.

117. If Investor A has a lower risk aversion coefficient than Investor B, will Investor B's optimal portfolio most likely have a higher expected return on the capital allocation line?

- A. No, because Investor B has a higher risk tolerance
- B. Yes
- C. No, because Investor B has a lower risk tolerance

118. A return-generating model that provides an estimate of the expected return of a security based on such factors as earnings growth and cash flow generation is best described as a:

- A. fundamental factor model.
- B. macroeconomic factor model.
- C. market factor model.

119. Which of the following institutional investors is most likely to have a low tolerance for investment risk and relatively high liquidity needs?

- A. Insurance company
- B. Defined benefit pension plan
- C. Charitable foundation

120. Consider a portfolio with two assets. Asset A comprises 25% of the portfolio and has a standard deviation of 17.9%. Asset B comprises 75% of the portfolio and has a standard deviation of 6.2%. If the correlation of these two investments is 0.5, the portfolio standard deviation is closest to:

- A. 9.13%.
- B. 7.90%.
- C. 6.45%.