

# **300Hours: CFA Level 1 Mock Exam**

This Chartered Financial Analyst (CFA®) Mock Exam has 90 questions, courtesy of Salt Solutions.

To best simulate the exam day experience, candidates are advised to allocate an average of 1.5 minutes per question for a total of 135 minutes (2 hours 15 minutes) for this session of the exam.

Once completed, please submit your answers at <https://3h.rs/CFAL1Mock> to get your score, performance benchmark and answer explanations.

## 1. Fixed Income

All else equal, which of the following actions would *most likely* cause a bond's price to be less sensitive to a small, parallel shift in a benchmark yield curve?

- A. Lengthening its maturity
- B. Lowering its coupon rate
- C. Adding an embedded put option

## 2. Derivatives

Which of the following statements about derivatives market participants is *most accurate*?

- A. Speculative transactions are inherently destabilizing to derivative markets
- B. Speculative traders reduce the cost of modifying risk exposures in derivative markets
- C. Hedgers are more beneficial to the functioning of derivative markets than speculators

## 3. Equity Investments

Multi-market indices are *most likely* designed to represent multiple:

- A. asset classes.
- B. investment styles.
- C. economic development groups.

## 4. Financial Statement Analysis

Which of the following statements is *most accurate*? All else equal, using LIFO rather than FIFO during a period of rising prices and stable inventory quantities results in a higher:

- A. current ratio.
- B. operating profit margin.
- C. inventory turnover ratio.

## 5. Alternative Investments

Two years ago, Black Ridge Capital acquired Toldo Confectioners and took the company private. Today, Black Ridge needs to access funds to expand its portfolio, but continues to believe in

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Toldo's prospects and does not want to cede any control over the company. Which of the following strategies is *most appropriate* for Black Ridge to pursue?

- A. Liquidation
- B. Recapitalization
- C. Initial public offering

## 6. Quantitative Methods

An analyst takes a sample of an equity index's monthly returns over a five-year period and determines that the natural logarithm of this random variable follows a normal distribution. Based only on this information, it is *most likely* that:

- A. the index's monthly return data is normally distributed.
- B. the index's monthly return data is lognormally distributed.
- C. there is not sufficient evidence to reach a conclusion about the distribution of the index's monthly return data.

## 7. Portfolio Management

A mutual fund which investors buy and sell on the open market (as opposed to investing directly with the fund) is *most accurately* described a(n):

- A. no-load fund.
- B. open-end fund.
- C. closed-end fund.

## 8. Fixed Income

A bond's bid-ask spread is *most likely* used as a measure of:

- A. liquidity risk.
- B. interest rate risk.
- C. reinvestment risk.

## 9. Corporate Issuers

Network effects are *least likely* to be an explicit consideration for a company that uses which of the following pricing strategies?

- A. Dynamic pricing
- B. Freemium pricing
- C. Penetration pricing

## 10. Equity Investments

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

- A. Preferred shares offer protection against declines in the share price
- B. Preferred shares offer lower dividend returns compared to common shares
- C. Preferred shares have a higher claim on a company's assets than common shares

## 11. Economics

Unlike economies of scale, diseconomies of scale are *most likely* represented by an upward-sloping:

- A. short-run marginal cost curve.
- B. long-run average total cost curve.
- C. short-run average total cost curve.

## 12. Financial Statement Analysis

Which of the following, considered in isolation, would *\*most likely\** increase a company's receivables turnover?

- A. Having customers settle accounts quicker
- B. Allowing more customers to purchase on credit
- C. Holding inventory for shorter periods before sale

### 13. Financial Statement Analysis

An ounce of platinum is currently trading for \$850 in the spot market and the risk-free rate is 4%. The annualized costs incurred to own platinum are \$10 per ounce for storage and \$8 per ounce for insurance. Insurance premiums must be paid upfront, while storage costs are not incurred until the end of the year. Assuming no convenience yield or other benefits, the no-arbitrage price per ounce for a one-year platinum futures contract is closest to:

- A. \$866.38.
- B. \$901.31.
- C. \$902.32.

### 14. Alternative Investments

Which of the following real estate investment strategies *most likely* offers the highest return?

- A. Core
- B. Value-add
- C. Opportunistic

### 15. Fixed Income

Euroyen bonds are *most likely*:

- A. denominated in euros.
- B. underwritten by an international syndicate.
- C. issued simultaneously in both the Eurobond market and the Japanese domestic market.

### 16. Corporate Issuers

An analyst makes the following statement:

"All else equal, if Modigliani and Miller's assumptions hold, adding more debt to TWP's capital structure will result in a higher asset beta."

Is the analyst's claim in the statement *most likely* correct?

- A. Yes
- B. No, because adding debt will result in a lower asset beta

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- C. No, because adding debt will have no effect on the asset beta

## 17. Equity Investments

An equally-weighted stock index is composed of the following constituents:

Stock	Share price	Shares outstanding
ABC	\$40	2,000,000
KLM	\$20	1,500,000
XYZ	\$10	3,000,000

If the index's initial value is set to \$1,000, the number of KLM shares that you would include in the index is *closest* to:

- A. 11.
- B. 14.
- C. 17.

## 18. Portfolio Management

A manager believes that equities will outperform commodities in the near term and adjusts the portfolio to overweight equities. This is *most likely* an example of:

- A. security selection.
- B. tactical asset allocation.
- C. strategic asset allocation.

## 19. Financial Statement Analysis

For a transportation company that reports in accordance with US GAAP, which of the following transactions would *most likely* be considered an operating activity for the cash flow statement?

- A. Raising capital by issuing bonds
- B. Making coupon payments to bondholders
- C. Purchasing new vehicles to expand operations

## 20. Quantitative Methods

Consider the three scenarios below:

- Scenario 1: Justine Stedman uses the cost averaging technique to build her position in Stock JKL over time. She wishes to calculate the average price she pays for each stock.
- Scenario 2: Keith Long, a financial advisor, tells his prospective clients that his personal portfolio has beaten the market index on an annual basis. He makes this comparison by calculating the annualized return of his portfolio, which was established 5 years ago, and the S&P 500 index.
- Scenario 3: Sean Kim wants to calculate the mean of the P/E ratios of the stocks in his portfolio. One of the stocks has an exceptionally high P/E because the company was forced to pay a massive fine last year, resulting in unusually low earnings.

The geometric mean is *most likely* preferable to the harmonic mean as a measure of central tendency in:

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

## 21. Economics

A government that implements capital restrictions is *least likely* to achieve which of the following objectives?

- A. Lower government bond yields
- B. Increased government revenues
- C. Increased efficiency of domestic firms

## 22. Fixed Income

A fixed-income portfolio includes 15 bonds with an average maturity of 10 years. Each of these bonds is a high-yield bond with an embedded call option. The *most appropriate* measure to use in an assessment of the portfolio's interest rate risk is:

- A. effective duration.
- B. modified duration.

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- C. Macaulay duration.

### 23. Derivatives

All else equal, in response to an increase in the risk-free rate assumption used in the one-period binomial option pricing model, the risk-neutral probability of an upward price movement will *most likely*:

- A. increase.
- B. be unaffected.
- C. decrease.

### 24. Equity Investments

Which of the following is *most likely* assumed by analysts using free-cash-flow-to-equity (FCFE) models?

- A. marginal revenue is greatest.
- B. marginal revenue equals marginal cost.
- C. the difference between marginal revenue and marginal cost is greatest.

### 25. Alternative Investments

A high water mark on a hedge fund will *most likely*:

- A. protect investors from paying fees twice for the same performance.
- B. protect investors from paying any incentive fees unless a minimum return is achieved.
- C. ensure that incentive fees are only charged on returns in excess of a minimum level.

### 26. Portfolio Management

How is an investor's indifference curve *most likely* affected by their utility and risk aversion?

- A. Both utility and risk aversion affect the shape of the curve
- B. Utility affects the location of the curve while risk aversion affects the shape of the curve
- C. Utility affects the shape of the curve while risk aversion affects the location of the curve

## 27. Financial Statement Analysis

Which of the following assets is *most likely* to be amortized?

- A. Goodwill
- B. Machinery with a 5-year expected useful life
- C. A purchased patent, set to expire in 10 years

## 28. Economics

The *most likely* reason that forward currency exchange rates are considered to be poor predictors of future spot rates is:

- A. systematic over-estimation.
- B. systematic under-estimation.
- C. the margin of error is too great.

## 29. Fixed Income

Which of the following is *least likely* to be used by banks as a source of short-term funds?

- A. Retail deposits
- B. Common stock
- C. Certificates of deposit

## 30. Quantitative Methods

If an analyst believes that two variables are positively correlated, which of the following is the most appropriate way to denote the alternative hypothesis,  $H_a$ , for a test of statistical significance?

- A.  $\rho \neq 0$
- B.  $\rho > 0$
- C.  $\rho \leq 0$

## 31. Equity Investments

Real assets *most likely* appeal to investors who are seeking assets that are:

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- A. easy to trade.
- B. easy to manage.
- C. mispriced relative to their value.

### 32. Economics

Last year, Alphaton and Betaville established a customs union. Previously, Alphaton imposed a 15% tariff on copper imports from all countries. Upon entering the customs union, Alphaton eliminated tariffs on products and services imported from Betaville while maintaining its existing tariffs for other countries. In the year before this trade arrangement came into effect, Alphaton imported 10 million tons of copper from Gammaland, which has a lower cost of production than either Alphaton or Betaville. Over the first year of the customs union, Alphaton imported 6 million tons of copper from Betaville and 4 million tons from Gammaland. The change in Alphaton's copper purchasing is *most accurately* classified as:

- A. trade creation.
- B. trade diversion.
- C. comparative advantage.

### 33. Corporate Issuers

A board of directors that includes significant numbers of both executive and non-executive members is *most accurately* described as having a:

- A. one-tier structure.
- B. supervisory board.
- C. dual-class structure.

### 34. Alternative Investments

Arnica Capital has a fund that charges a 20% performance fee subject to a hurdle rate of 7% and a 1.75% catch-up return. Assuming no management fee, if the fund has earned an IRR of 16%, the return, in percent, that the LP will receive is *closest* to:

- A. 11.7%.
- B. 12.8%.
- C. 14.2%.

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### 35. Fixed Income

Which of the following statements is *most* accurate? Ratings agencies:

- A. anticipate event risk well.
- B. rarely change ratings once they have been issued.
- C. base their ratings on material, non-public information.

### 36. Financial Statement Analysis

Which of the following statements is *most* accurate?

- A. Inventory is recognized as an expense when goods are sold
- B. Inventory is recognized as an expense at the time it is acquired
- C. The timing of inventory expense recognition depends on which inventory valuation method is used

### 37. Portfolio Management

Which of the following statements with respect to the implications of risk aversion when adding risky assets to a portfolio is *most* accurate?

- A. Risk-seeking investors expect a positive risk premium
- B. Risk-neutral investors do not expect to earn a risk premium
- C. Risk-averse investors expect to earn at least the risk-free rate

### 38. Equity Investments

A security's intrinsic value *most likely*:

- A. does not fluctuate.
- B. cannot be known with certainty.
- C. is different for different investors.

### 39. Derivatives

One Australian dollar (AUD) currently purchases 0.7290 Swiss francs (CHF), meaning that the spot CHF/AUD rate is 0.7290. With risk-free rates of 1.70% in Switzerland and 2.15% in Australia, the exchange rate for a 6-month CHF/AUD forward contract is 0.7274.

Assuming that the risk-free rates in both countries experience an instantaneous increase of 0.1%, the 6-month CHF/AUD forward exchange rate would *most likely* be:

- A. less than 0.7274.
- B. unchanged at 0.7274.
- C. greater than 0.7274.

### 40. Quantitative Methods

ESN stock has a variance of 0.25. PNX stock has a variance of 0.20. If the covariance between the two stocks is -0.10, their correlation is *closest* to:

- A. -0.48.
- B. -0.45.
- C. -0.43.

### 41. Fixed Income

Which of the following statements about mortgage backed securities (MBS) and covered bonds is *most accurate*?

- A. A covered bond has lower credit risk and higher prepayment risk than an otherwise similar MBS
- B. An MBS has a static pool of underlying loans while a covered bond is backed by a dynamic cover pool
- C. An MBS provides investors recourse to the underlying loans while recourse for a covered bond is limited to the issuer

### 42. Financial Statement Analysis

An analyst who suspects that a company is using aggressive accrual accounting policies can *most likely* confirm this suspicion by determining if the company's:

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- A. inventory turnover ratio is declining.
- B. interest coverage ratio has fallen below 2.0.
- C. ratio of cash flow from operations to net income is persistently below 1.0.

### 43. Economics

Which of the following metrics *is most likely* to be classified as a lagging indicator of economic activity?

- Indicator 1: Inventory-to-sales ratio
  - Indicator 2: Average duration of unemployment
- A. Indicator 1 only
  - B. Indicator 2 only
  - C. Both Indicator 1 and Indicator 2

### 44. Alternative Investments

A hedge fund takes long and short positions in traditional publicly traded equities and has an overall beta of approximately zero. The hedge fund *most likely* uses a:

- A. macro strategy.
- B. market neutral strategy.
- C. fundamental value strategy.

### 45. Equity Investments

Alphya Corp. (APC) has issued 45 million common shares with a book value of \$11.20 per share. Currently, the company's debt is worth \$165 million and its common stock is trading for \$13.60 per share. APC is carrying \$32 million in cash on its balance sheet. The company's market capitalization is *most likely*:

- A. \$612 million.
- B. \$745 million.
- C. \$777 million.

**46. Portfolio Management**

A model that uses the relationships between security returns and interest rates is *most* accurately classified as a:

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

**47. Corporate Issuers**

An analyst gathers the following information on a company:

	Equity	Debt
Cost of capital	12.5%	8.5%
Book value weight	50%	50%
Market value weight	70%	30%
Target value weight	60%	40%

Assuming a marginal tax rate is 30%, the company's weighted average cost of capital is *closest* to:

- A. 9.20%.
- B. 9.90%.
- C. 10.50%.

**48. Fixed Income**

An analyst gathers the following data for a bond:

- Annual Macaulay duration: 8.35
- Annual effective duration: 8.61
- Full price: \$98.50
- Face value: \$100.00
- Annual yield: 5.4%

The bond's money duration for a 100 basis point change in its yield is *closest* to:

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- A. \$780.
- B. \$820.
- C. \$850.

#### 49. Derivatives

Which of the following is *most likely* to cause an increase in an option's price?

- A. A higher exercise price for a European call
- B. A higher exercise price for an American put
- C. A shorter time to maturity for an American call

#### 50. Alternative Investments

Which of the following statements is *most likely* correct for a commodity market in contango?

- A. The risk-free yield curve is upward-sloping
- B. Futures prices are greater than the spot price
- C. The commodity's convenience yield exceeds its storage costs

#### 51. Financial Statement Analysis

A qualified audit opinion is *most likely* required:

- A. for a company with related-party transactions.
- B. when the scope of the auditing process has not been limited.
- C. in financial statements for the quarter after a major accounting policy change is implemented.

#### 52. Equity Investments

You are provided the following information about a stock:

- Most recent dividend paid: \$3.80
- Expected dividend growth rate: 3.5%

If the required rate of return on this stock is 9.0%, the stock's intrinsic value is *closest* to:

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- A. \$43.70.
- B. \$69.09.
- C. \$71.51.

### 53. Quantitative Methods

Text analytics is *least likely* to be used:

- A. for predictive analysis.
- B. as part of a machine learning algorithm.
- C. to derive meaning from voice-based datasets.

### 54. Corporate Issuers

The CEO of a publicly-listed company makes the following statement: "By using proper governance mechanisms and control systems, it is possible to completely eliminate information asymmetry between principals and agents. However, it may be in the best interests of shareholders to maintain some level of information asymmetry relative to their agents."

This statement is *most likely*:

- A. correct.
- B. incorrect because any information asymmetry is detrimental to shareholders.
- C. incorrect because it is not possible to completely eliminate information asymmetry between principals and agents.

### 55. Fixed Income

From the perspective of bondholders, an advantage of a callable bond relative to an otherwise equivalent option-free bond is *\*most likely\** that the callable bond offers:

- A. a higher yield.
- B. more predictable cash flows.
- C. greater protection against reinvestment risk.

**56. Portfolio Management**

A portfolio has 32% of its funds in Stock A, which has a standard deviation of 14%. The remaining balance of the portfolio is allocated to Stock B, which has a standard deviation of 11%. If the correlation between these two stocks is 0.71, the portfolio's standard deviation is *closest to*:

- A. 11.12%.
- B. 12.11%.
- C. 13.45%.

**57. Economics**

Eastland is a large country with a developed, diversified economy. After experiencing a minor recession last year, the country's economy is currently expanding at close to its underlying real trend growth rate of 2.4% and inflation is near the central bank's 2% target rate. Over the past six months, Eastland's fiscal policy has tightened significantly. This tightening is *most likely* attributable to:

- A. political pressure.
- B. automatic stabilizers.
- C. monetary accommodation.

**58. Financial Statement Analysis**

Triton Mechanics is a major supplier of auto parts. If the company has a debt-to-capital ratio of 0.35, its debt-to-assets ratio is *most likely*:

- A. less than 0.35.
- B. equal to 0.35.
- C. greater than 0.35.

**59. Quantitative Methods**

Over the past 36 months, the standard deviation of a hedge fund's monthly returns has been 2.1%. If you are testing whether this sample standard deviation exceeds 2.0%, which of the following statements is *most likely* correct?

- A. The test statistic is 38.6

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- B. The test statistic is 39.7
- C. The rejection point is 38.6

## 60. Equity Investments

Which of the following securities issued by a French retailer would *most likely* trade in the company's domestic equity markets?

- A. Global registered shares only
- B. Global depository receipts only
- C. Neither global registered shares nor global depository receipts

## 61. Derivatives

Jason Friedman, a fixed-income portfolio manager, is considering the following exchange-traded derivative transactions to position his fund to profit from his expectation that interest rates will fall over the next six months:

- Selling a European-style interest rate option contract
- Buying an interest rate futures contract

If both contracts mature in six months and have the Secured Overnight Financing Rate (SOFR) as their underlying, Friedman's analysis will *\*most likely\** focus on how these derivative instruments differ with respect to:

- A. basis risk.
- B. liquidity risk.
- C. counterparty credit risk.

## 62. Fixed Income

A term in a CMBS contract requiring the borrower to purchase a portfolio of government securities that is sufficient to cover any remaining obligations if they want to make prepayments is *most accurately* referred to as:

- A. defeasance.
- B. a prepayment lockout.
- C. prepayment penalty points.

### 63. Alternative Investments

A private equity fund began trading with \$100 million in assets at inception. The management fee is 2% and it is calculated on assets under management (AUM) gross of fees at the end of each calendar year. The manager's 15% incentive fee is based on year-end AUM net of the management fee and is subject to a hard hurdle rate of 9%. If the fund earns a 14% return on assets in its first year gross of fees, the investor's return on a net of fees basis is closest to:

- A. 10.64%.
- B. 10.97%.
- C. 11.31%.

### 64. Corporate Issuers

Evelyn Archer owns and operates EA Wealth Management, a boutique investment firm catering to high-net-worth individuals. Recently, Archer has been considering the possibility of converting her firm from a sole proprietorship into a general partnership. She believes that this change would help her grow the firm and retain talented associates who might otherwise accept offers to work for larger firms. Additionally, Archer has been advised that this will help her transition the firm to new leaders after she retires.

Which of the following statements is *most* accurate? By converting EA Wealth Management into a general partnership, Archer:

- A. would continue to have unlimited liability exposure.
- B. would no longer be taxed personally on the firm's profits.
- C. could raise more capital for the firm through public markets.

### 65. Portfolio Management

Which of the following statements is *most likely* consistent with the assumptions of capital market theory?

- A. Investors have different economic expectations, but there is a single optimal risky portfolio
- B. All investors have the same economic expectations and there is a single optimal risky portfolio
- C. All investors have the same economic expectations and there is a range of possible optimal risky portfolios

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## 66. Equity Investments

Which of the following market structures relies *most* heavily on dealers as a source of liquidity?

- A. Order-driven markets
- B. Quote-driven markets
- C. Continuous trading markets

## 67. Financial Statement Analysis

Last year, a forest products company's pulp division sold 2 million tonnes at an average unit price of \$700 per tonne. An analyst covering the company estimates that the price of this commodity will be 5% higher on average over the next 12 months. Assuming that the price elasticity of demand for pulp is 0.5, the analyst's estimate of the company's pulp sales in the upcoming year is closest to:

- A. \$1,365 million.
- B. \$1,433 million.
- C. \$1,463 million.

## 68. Quantitative Methods

An analyst has gathered the following information about a mutual fund's monthly returns over two distinct periods:

- A. 2.3
- B. 3.6.
- C. 4.3.

## 69. Fixed Income

In response to a parallel upward shift in the yield curve, the price of a 10-year, 8.5% annual coupon bond yielding 2.75% will *most likely*:

- A. decrease.
- B. not change.
- C. Increase.

## 70. Derivatives

The potential payoff for a company's shareholders is *most accurately* described as:

- A. the minimum of zero or the value of a firm's assets.
- B. the maximum of a firm's assets or the value of its debt.
- C. the maximum of zero or the value of a firm's net assets.

## 71. Corporate Issuers

An analyst has gathered the following data for ABC Corp. and its industry over the last two years:

	ABC (20X2)	Industry (20X2)	ABC (20X1)	Industry (20X1)
Current ratio	2.2	2.1	2.4	1.8
Quick ratio	0.50	0.45	0.60	0.55
Days of receivables	28	30	26	32
Days of inventory	33	34	31	35
Days of payables	28	27	29	28

The company's liquidity position can be *most accurately* be described as:

- A. better than the industry, worse than the prior year.
- B. worse than the industry, better than the prior year.
- C. better than the industry and better than the prior year.

## 72. Economics

A country's disposable income is *most accurately* described as national income:

- A. minus taxes plus transfer benefits.
- B. minus taxes and transfer benefits.
- C. multiplied by one plus the net tax rate.

### 73. Alternative Investments

HNR Management, a private equity firm, has held JDL Corp. in its portfolio for five years. If HNR would like to realize the highest valuation for JDL while retaining some upside potential, it will *most likely* pursue which of the following exit strategies?

- A. trade sale.
- B. secondary sale.
- C. initial public offering.

### 74. Equity Investments

The presence of momentum patterns that allow investors to consistently earn abnormal profits can *most accurately* be described as a challenge to:

- A. all three forms of the efficient market hypothesis.
- B. the weak form of the efficient market hypothesis only.
- C. the strong and semi-strong forms of the efficient market hypothesis only.

### 75. Financial Statement Analysis

Berkley Manufacturing collected \$2.3 million in cash from a tenant renting one of its unused facilities. The company recognizes this as deferred revenue for accounting purposes and pays taxes based on the cash payment. This will *most likely* result in Berkley recording:

- A. a deferred tax asset.
- B. a deferred tax liability.
- C. neither a deferred tax asset nor a deferred tax liability.

### 76. Fixed Income

A fixed income security has a modified duration of 10.3 and a convexity of 88.5. If the bond's yield increases from 5.1% to 6.9%, the estimated percentage change in its price is *closest* to:

- A. -15.7%.
- B. -17.1%.
- C. -20.0%.

## 77. Ethical and Professional Standards

Which of the following statements is *most* accurate? Under Standard IV(B) - Additional Compensation Arrangements, members and candidates are required to obtain consent from their employer before accepting:

- A. direct or indirect compensation from other employers.
- B. direct or indirect compensation from clients or other employers.
- C. direct compensation, gifts, or benefits from clients or other employers.

## 78. Ethical and Professional Standards

Rashida James, CFA, is a portfolio manager who works with institutional investors. James learns from her husband that the pension plan for which he is a trustee has recently decided to replace one of the firms managing its funds. The next day, James calls another of the pension plan's trustees before this information becomes public knowledge to offer her services as a portfolio manager. James has *most likely* violated the CFA Standards concerning:

- A. misconduct.
- B. client confidentiality.
- C. material non-public information.

## 79. Ethical and Professional Standards

Adam Fleisher, CFA, is a money manager who works with individual investors. Recently, Fleisher's wife, Joan, told him that Royal Petroleum, a major oil and gas producer, had made a \$50,000 donation to an international charity for which she serves as a director. The donation would help fund development work with rural communities in Indonesia. Upon hearing this, Fleisher concluded that Royal Petroleum must have discovered new oil reserves near these communities and is seeking to foster goodwill with the local population. Although his wife told him that news of the donation had not yet been made public, as soon as the market opened the next morning, Fleisher purchased Royal Petroleum stock for all of his clients for whom he believes it is an appropriate investment. Two weeks later, Royal Petroleum announced that it had discovered significant new oil reserves in Indonesia as well as a revenue-sharing agreement that would ensure a good relationship with the local population. Within minutes of this announcement, Royal Petroleum's share price rose by 10%. Has Fleisher *most likely* violated the Standards?

- A. No
- B. Yes, with respect to diligence and reasonable basis

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- C. Yes, with respect to material nonpublic information

## **80. Ethical and Professional Standards**

Teddy Larson, CFA, a portfolio manager with Pedigo Investments, exercises proxies on behalf of his clients most of the time, but not in every case. When Larson does exercise these proxies, he often does so in accordance with management's recommendations. Has Larson *most likely* violated the Standards?

- A. No
- B. Yes, by failing to vote all proxies
- C. Yes, by often voting proxies in accordance with management's recommendations

## **81. Ethical and Professional Standards**

Which of the following statements is *most* accurate? A member or candidate whose firm does not allow the details of short-term incentive-based compensation to be disclosed to clients:

- A. must immediately dissociate from this activity.
- B. must immediately disclose this information to clients.
- C. should submit a written request that employees be allowed to disclose this information.

## **82. Ethical and Professional Standards**

Terence Hart, CFA, is a hedge fund manager who specializes in identifying merger arbitrage opportunities. Hart has researched Steller Energy (STE) extensively and feels confident that it will be acquired in the near future. However, he is concerned about the possibility that the company will report disappointing earnings that reduce the number of prospective bidders. He places an order to buy 500,000 STE shares - twice the average daily trading volume - on behalf of his fund, hoping that the resulting price increase will motivate competitors to acquire STE before its next earnings announcement. Has Hart *\*most likely\** violated the Standards?

- A. No
- B. Yes, with respect to market manipulation only
- C. Yes, with respect to both market manipulation and priority of transactions

**83. Ethical and Professional Standards**

In addition to being awarded a CFA charter, Jane Haverford has earned an MBA degree and PhD in finance. Which of the following statements is *most likely* correct? When listing her academic and professional designations after her name, Haverford:

- A. may list them in an order she chooses.
- B. must list her CFA designation after her academic designations.
- C. must list her CFA designation before her academic designations.

**84. Ethical and Professional Standards**

A supervisor who discovers evidence that an employee has violated firm policies should *most likely*:

- A. suspend the employee immediately.
- B. increase oversight of the employee's activities.
- C. provide the employee with additional compliance training.

**85. Ethical and Professional Standards**

Gerald Johnson, CFA, manages a hedge fund with a mandate to invest in thinly-traded stocks issued by consumer technology firms. Over the course of three months, Johnson's fund acquires twenty percent of the shares issued by Botchford Electronics (BTC) with a series of small orders intended to minimize the volume-weighted average purchase price. Johnson continues to follow BTC closely and is sufficiently impressed with its growth prospects that he authorizes his fund to purchase some of the company's debt. Has Johnson *most likely* violated the Standards?

- A. No
- B. Yes, with respect to suitability
- C. Yes, with respect to market manipulation

**86. Ethical and Professional Standards**

Meghan Eriksen, CFA, oversees managerial allocations for a municipal pension fund. Over the past three months, Eriksen led a team tasked with choosing a new asset manager after the fund's trustees voted to increase its allocation to international fixed-income securities. During one of several meetings with Isaac Layton of Diallo Asset Management as part of the due

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performance benchmark and answer explanations*

diligence process, Eriksen inquired about the firm's philanthropic activities. Layton explains that Diallo donates 1% of its revenues to various charities each year. Eriksen mentions her volunteer work on behalf of a charitable organization that funds leukemia research. Although noting she no longer has any direct involvement with the organization, Eriksen encourages Layton to consider it when making decisions about which organizations Diallo will support at the end of this year. Diallo later donated \$50,000 of its \$2 million budget for charitable donations to the leukemia research organization recommended by Eriksen. Has Eriksen *\*most likely\** violated the Standards?

- A. No
- B. Yes, with respect to independence and objectivity
- C. Yes, with respect to additional compensation arrangements

### **87. Ethical and Professional Standards**

Karl Wexler, CFA, a portfolio manager with Santa Fe Capital, has applied for a promotion to a position that would have him supervise all of his colleagues in the firm's portfolio management division. During the interview process, Wexler discovers that the firm's compliance policies are flawed to such a degree that he does not believe he would be able to effectively execute the responsibilities of the position for which he is being considered. If offered the position, Wexler should *most likely*:

- A. accept the position so that he will be better positioned to influence changes to the firm's compliance policies.
- B. accept the position and disclose to clients and prospective clients that he has a conflict of interest as the supervisor of a division in which he was previously employed.
- C. decline in writing to accept the position until the firm adopts and enforces compliance procedures that he believes would allow him to carry out his responsibilities as a supervisor.

### **88. Ethical and Professional Standards**

Nicholas Boudreaux, CFA, manager of a high yield bond fund, is giving a presentation at an investment conference. In order to finish within his allocated time, Boudreaux includes only a brief summary of his fund's returns over the past five years alongside the performance of an appropriate benchmark over the same period. Later, in response to an audience member's question, Boudreaux notes that more detailed information on his fund's performance is available to all clients upon request. He encourages prospective clients who would like more information to become clients. Has Boudreaux *most likely* violated the Standards?

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performance benchmark and answer explanations

- A. No
- B. Yes, with respect to performance presentation only
- C. Yes, with respect to both performance presentation and misrepresentation

### **89. Ethical and Professional Standards**

A portfolio manager increases the maximum that a fund can invest in mid-cap companies from \$500 million to \$600 million due to inflation. The manager's investment process remains the same and she plans to inform the customer of this update during the scheduled revision of the Investment Policy Statement at the beginning of next year. Has the manager *most likely* violated the Standards?

- A. No
- B. Yes, with respect to fair dealing
- C. Yes, with respect to communication with clients and prospective clients

### **90. Ethical and Professional Standards**

Phylicia Chan, CFA, lives and works in a country where laws and regulations governing the activities of financial professionals have historically been less stringent than the CFA Institute Code of Ethics and Standards of Professional Conduct (Code and Standards). In order to demonstrate its commitment to ethical practices, her company considered adopting a code of conduct based on the Code and Standards, but decided not to do so last month when the country's parliament passed several new laws, due to come into effect next year, that create even stricter requirements. Chan has been asked to make trades that she believes are intended to distort the price of securities. As she considers what to do, Chan should *most likely* adhere to:

- A. the Code and Standards.
- B. her country's current laws.
- C. her country's recently-passed laws.