Level I of the CFA® 2025 Exam

Questions - Equity

Offered by AnalystPrep

Last Updated: Aug 1, 2024

Table of Contents

Learning Module 1: Market Organization & Structure

Q.99 When investing in the stock markets, what is *most likely* the initial margin?

A. The portfolio's total value.

B. The investment's total value.

C. The minimum amount of equity required by an investor.

Q.100 A stop-sell order is often placed when a trader:

A. wants to enter a long position.

B. wants to limit the loss on a long position.

C. wants to double down on a long position.

Q.101 An investor buys 100 shares of a stock on a margin at $146 a share using an initial leverage ratio of 2. At what stock price will he receive a margin call if the maintenance margin requirement for the position is 40%?

A. $58.40

B. $116.80

C. $121.67

Q.806 A stock is selling for $50. An investor's valuation model estimates its intrinsic value to be $40. Based on his estimate, he would *most likely* place a:

A. short-sale order.

B. stop order to buy the security.

C. market order to buy the security.

Q.808 Which of the following is a security that entitles the holder to buy the underlying stock of the issuing company at a fixed price called the exercise price until the expiry date?

A. A warrant.

B. A common stock.

C. A preferred share.

Q.809 Which assets give its owner the right to buy or sell an asset at a specific exercise price at some specified time in the future?

A. A swap contract.

B. An option contract.

C. A forward contract.

Q.810 Which of the following does *least likely* act as a financial intermediary?

A. Issuers.

B. Brokers.

C. Insurance companies.

Q.811 In which of the following types of markets do stocks *most likely* trade at any time the market is opened?

A. Call markets.

B. Exchange markets.

C. Continuous markets.

Q.813 A financial intermediary buys a stock and then resells it a few days later at a higher price. Which intermediary would this *most likely* describe?

A. A dealer.

B. A broker.

C. An arbitrageur.

Q.814 Which of the following would *least likely* be an objective of market regulations?

A. To reduce accounting standards.

B. To prevent investors from using inside information in securities trading.

C. To make it easier for investors to compare the performance of different firms.

Q.815 Which of the following is *most likely* similar to a short position in the underlying asset?

A. Buying a put.

B. Buying a call.

C. Writing a put.

Q.1122 A small investor just bought 100 shares of UYA on margin. The share price of UYA at the time of purchase was $50, the initial margin requirement is 50%, and the maintenance margin is 30%. Given this information, the margin call trigger price is *closest to*:

A. $31.25.

B. $35.71.

C. $79.

Q.1124 Which of the following *most likely* describes a pure auction market?

A. A market that consists of individual dealers who are assigned specific securities.

B. A market in which participants submit their bid and ask prices to a central location.

C. A market where buying and selling parties are brought together through the activities of a broker.

Q.1125 Which of the following is *least accurate* regarding efficient markets?

A. In an efficient market, it isn't easy to find inaccurately priced securities.

B. In an efficient market, the time frame required for security prices to reflect any new information is concise.

C. In an efficient market, securities may be mispriced, and trading these securities can offer positive risk-adjusted returns.

Q.1127 An investor buys 300 shares of XYZ at the market price of $200 on full margin. The initial margin requirement is 30%, and the maintenance margin requirement is 20%. If the shares are later sold at $250 per share, the margin transaction return is *closest to*:

A. 3.33%.

B. 25%.

C. 83.33%.

Q.1128 Which of the following statements is *least likely* accurate?

A. Good-on-close orders are also called market-on-close orders.

B. Fill or kill (FOK) orders are the same as good-on-close orders.

C. Immediate or cancel (IOC) orders attempt to execute the entire order. Any portion not filled immediately gets canceled.

Q.1130 Which of the following is *least likely* one of the three main functions of a financial system?

A. To allocate capital to its most effective uses.

B. To help people achieve their purposes in using the financial system.

C. To facilitate the discovery of the rate of return where aggregate savings equal aggregate borrowings.

Q.1131 Which of these agents provide brokerage services to large traders?

A. Block Brokers.

B. Trade Brokers.

C. Large Enterprise Brokers.

Q.1630 Which of the following is *least likely* a function of the financial system?

A. Determine inflation rates.

B. Allocate capital efficiently.

C. Allow entities to save and borrow money

Q.1631 When is a financial system *best* at performing its roles?

A. When the markets are illiquid.

B. When transaction costs are low.

C. When information is not readily available.

Q.1633 On which of the following markets do options and commodities *most* often trade?

A. Exchanges.

B. Real money market.

C. Over-the-counter (OTC) market.

Q.1634 Markets of immediate delivery are referred to as:

A. spot markets.

B. capital markets.

C. secondary markets.

Q.1636 Which of the following is *least likely* a type of fixed income securities?

A. Warrants.

B. Commercial paper.

C. Repurchase agreement.

Q.1637 John Dapper is an investor who has just purchased shares of Grande Investments, a pooled investment vehicle, on the New York Stock Exchange (NYSE). Grande Investments is *most likely*:

A. not a mutual fund.

B. an open-end mutual fund.

C. a closed-end mutual fund.

Q.1638 Which of the following funds have special provisions allowing the conversion of fund's shares into portfolio securities?

A. Hedge funds.

B. Mutual funds.

C. Exchange-traded funds.

Q.1639 Which of the following statements regarding block brokers is *correct*?

A. Block brokers can place small orders.

B. Block brokers are involved in placing large orders.

C. Block brokers do not conceal the intentions of their clients which helps in moving the market.

Q.1641 Which of the following traders will buy an asset from one market and sell it in another market without taking any risk?

A. An arbitrageur.

B. A broker-dealer.

C. A primary dealer.

Q.1642 Which one of these is *most likely* relevant example of a short-sell trade on a stock?

A. Sell the asset now with the obligation to repurchase it in the future.

B. Borrow and sell the asset now, with the obligation to buy back the asset in the future.

C. Buy a put option on the asset now with the right but not the obligation to repurchase the asset in the future.

Q.1643 A trade in which an investor borrows funds from a broker to buy assets is called a:

A. long position.

B. short position.

C. leveraged position.

Q.1644 Muhammad Umar is a fund manager who wants to purchase 5,000 stocks of Wellington Inc. at the current price of $92. If the initial margin required to open up a leveraged position is 35%, the leverage ratio is *closest to*:

A. 2.86

B. 3.10

C. 4.45

Q.3591 An investment bank offers its customers the option to carry out leveraged trades. If the investors are required to maintain a margin of 20% and pay a commission of 0.25% of the trade value, then the leverage ratio for the trade is *closest to*:

A. 4.94.

B. 5.

C. 5.06.

Q.3592 An investment bank offers its customers the option to carry out leveraged trades. The investors must maintain a margin of 30% and pay a commission of 0.25% of the trade value. If an investor intends to carry out a trade of 2,000 shares, each with a price per share of $30, the total investment required for the trade is *closest to*:

A. $17,850.

B. $18,150.

C. $42,150.

Q.3594 An equity investor is bullish on a particular stock. He buys 20 futures contracts on the stock currently trading at $40/share on full margin. The broker requires its clients to maintain an initial margin of 35% and a maintenance margin of 25%.
If one futures contract equals 1,000 shares, then the maximum share price at which the margin call will get triggered is *closest to*:

A. $34.66.

B. $36.

C. $37.

Q.3595 A trader has purchased 2000 shares of a non-dividend-paying firm on margin at a price of $80 per share. The leverage ratio is 2.5. Six months later, the trader sells these shares at $90 per share. Ignoring the interest paid on the borrowed amount and the transaction costs, the return to the trader during the six months is *closest to*:

A. 12.5%

B. 15%

C. 31.25%

Q.3596 An equity analyst tracks the Information Technology (IT) sector. His analysis indicates that Value Information Technology Limited has excellent growth prospects. However, he concludes that its shares are currently slightly overvalued. If the analyst wants to buy the shares, he is *most likely* to place a:

A. limit order.

B. market order.

C. immediate or cancel order.

Q.3597 The market price and net asset value of ETFs converge because:

A. ETFs are open-end funds.

B. Authorized participants have the option to trade directly with the ETF.

C. Authorized participants can redeem ETFs from the fund at the market price.

Q.3598 Which of the following financial instruments is *least likely* traded in an exchange market?

A. Options.

B. Futures.

C. Forwards.

Q.3599 Financial intermediaries securitize assets by creating Special Purpose Vehicles (SPVs) because:

A. it increases overall return.

B. SPVs decrease the liquidity of securitized assets.

C. it protects the SPV in case the financial intermediary goes bankrupt.

Q.3600 An investor places an 'immediate or cancel' sell order for 20 contracts at a limit price of $41.50. The current pending orders in the market are given in the following exhibit.

Exhibit 1: Pending orders

Counterparty	Contract size	BUY/SELL ORDER	Price
A	10	BUY	$41.00
B	5	BUY	$42.00
C	10	BUY	$43.00
D	5	SELL	$44.00
E	5	SELL	$45.00
F	10	SELL	$46.00

The number of contracts that get filled and the average trade price, respectively, are *closest to*:

A. Number of contracts = 15, Average trade price = $42.33.

B. Number of contracts =20, Average trade price = $42.25.

C. Number of contracts =15, Average trade price = $42.67.

Q.3601 If a currency transaction is carried out on Wednesday, September 8th, 2017, then the trade settlement will *most likely* happen on:

A. September 9th, 2017.

B. September 10th, 2017.

C. September 11th, 2017.

Q.3602 An oil producer is worried that the price of crude oil may soon decrease. To hedge his risk, the crude oil producer must:

A. buy a futures crude oil contract.

B. sell a forward crude oil contract.

C. buy a forward crude oil contract.

Q.3603 A currency trader wants to sell the Australian dollar against the US dollar. He requested a quote from a dealer and received the quote as indicated in Exhibit 1.

Exhibit 1: AUD/USD Quote

AUD/USD	0.776/0.779

The rate at which the trader will sell the Australian dollar to the dealer is *closest to*:

A. 0.7760.

B. 0.7775.

C. 0.7790.

Q.3604 The main advantage of issuing shares through shelf registration is:

A. it lowers transaction costs.

B. it allows corporations the flexibility to issue shares when required.

C. it allows unreliable corporations to issue shares in the secondary market.

Q.3605 Which of the following statements is/are *most likely* accurate?

I. In a ‘best effort offering,’ the underwriters buy an issue and use their best effort to sell the issue to investors.
II. In an ‘underwritten offering,’ the underwriters buy an issue and then attempt to sell the issue to investors.
III. A ‘best effort offering’ is the most common type of offering.

A. II

B. I & III

C. II & III

Q.3606 Michael Bugatti, a large Wall Street bank trader, wants to buy 500,000 shares of apples right before Q4 earnings. However, he is afraid that high-frequency algorithms might front-run him and offer slightly higher prices than his large order. To avoid this, Bugatti can *most likely* use a/an:

A. iceberg order.

B. all-or-nothing order.

C. good-till-canceled order.

Q.3607 A technical analyst has 100 shares of LOLO, which are currently trading at $40.32. The chart structure indicates that once the share price crosses the $50.58 mark, the share price is expected to reach $71.86. If the technical analyst wants to purchase 100 more shares of LOLO once its price reaches $50.58, then he must *most likely* use a:

A. market order.

B. stop buy order at $50.58.

C. limit buy order at $50.58.

Q.3867 The segregated cash flows from securitized assets are called:

A. Tranches

B. Dark pools

C. Special purpose entities

Q.3870 What is a *most likely* benefit of a corporation issuing new securities in a private placement instead of an initial public offering?

A. Lower cost of capital.

B. Cheaper offering costs.

C. More liquidity for investors.

Learning Module 2: Security Market Indices

Q.103 A Dow Jones ETF was $117 exactly one year ago. It is now at $128 and has paid a $3 dividend. The Dow Jones ETF's price return is *closest to*:

A. 8.6%.

B. 9.4%.

C. 11.9%.

Q.104 A price-weighted index is composed of 3 stocks. Stock A is trading at $221, stock B at $51 and stock C at $42. One year later, stock A is now worth $159, stock B is $71, and stock C is $45. The total return for this index is *closest to*:

A. -12.42%.

B. -14.18%.

C. 18.15%.

Q.106 An equal-weighted index is composed of 3 stocks. Stock A is trading at $53, stock B at $75 and stock C at $81. One year later, stock A is now worth $41, stock B is $76, and stock C is $128. The total return for this index is *closest to*:

A. 12.24%.

B. 81.99%.

C. 166.50%.

Q.107 A capitalization-weighted index is composed of 2 stocks. Stock A is trading for $75, and stock B is trading for $51. If there are 6 million shares outstanding in stock A, and 13 million shares outstanding in stock B, then the index value is *closest to*:

A. 47.59

B. 58.58

C. 60.70

Q.108 An index with a fundamental weighting has:

A. a value tilt.

B. an earnings tilt.

C. a market capitalization tilt.

Q.818 A Finance student wants to create an index with the stock he bought in a paper trading account. The notes from his record show the following:
Initial price - Stock A: $10; Stock B: $15
Current price - Stock A: $15; Stock B: $30

Assuming an initial index value of 105, the equal-weighted index value for the two stocks is now *closest to*:

A. 75

B. 150

C. 183.75

Q.819 The market float of a stock is best described as its:

A. total outstanding shares.

B. shares available to domestic investors.

C. outstanding shares excluding those held by controlling shareholders.

Q.820 Most of the widely used global security indices are:

A. price-weighted.

B. equal-weighted.

C. market-capitalization weighted.

Q.821 The returns of hedge fund indices are *most likely*:

A. biased upward.

B. biased downward.

C. similar to other indices.

Q.822 Which of the following is *not* a real estate index category?

A. Appraisal index.

B. Initial sales index.

C. Repeat sales index.

Q.823 When creating a security market index, the target market:

A. is usually a broadly defined asset class.

B. determines the number of securities to be included in the index.

C. determines the investment universe and the securities available for inclusion in the index.

Q.824 Given the following information:
<u>Stock A</u>
Beginning price: 10$
Ending price: 14$
Total dividend in the period: 1$

The total return of the index is *closest to*:

A. 10%.

B. 40%.

C. 50%.

Q.825 Given the following information for a 2-stock index for the year 2016:
<u>Stock A</u>
Beginning price: 10$
Ending price: 14$
Total dividend in the period: 1$

<u>Stock B</u>
Beginning price: 10$
Ending price: 13$
Total dividend in the period: 1$

The equally weighted price return of the index is *closest to*:

A. 35%.

B. 40%.

C. 50%.

Q.826 Given the following information for a 3-stock index for the year 2016:
<u>Stock A</u>
Beginning price: 10$
Ending price: 14$
Total dividend in the period: 1$

<u>Stock B</u>
Beginning price: 10$
Ending price: 13$
Total dividend in the period: 1$

<u>Stock C</u>
Beginning price: 10$
Ending price: 12$
Total dividend in the period: 1$

The total return of this equal-weight index is *closest to*:

A. 30%.

B. 35%.

C. 40%.

Q.827 The value of a price return index and a total return index consisting of identical equal-weighted dividend-paying equities will be equal:

A. only at inception.

B. at inception and on rebalancing dates.

C. at inception and on reconstitution dates.

Q.828 Which of the following index weighting methods *most likely* requires the most frequent rebalancing?

A. Price-weighting.

B. Equal-weighting.

C. Market-capitalization weighting.

Q.1126 Which of the following statement is *least likely* accurate?

A. A price return index only reflects the prices of constituent securities.

B. The values of both a price return index and a total return index are not the same at inception.

C. A total return index reflects prices and assumes reinvestment of all income received since inception.

Q.1172 What is the simplest method to weigh an index and the one used by Charles Dow to construct the Dow Jones Industrial Average?

A. Price-weighting.

B. Fundamental weighting.

C. Market-capitalization weighting

Q.1173 Which of the following is *least likely* a drawback of equal-weighting?

A. Simple to construct at the initiation.

B. Securities that constitute the largest fraction of the target market value are underrepresented.

C. After the index is constructed and the prices of constituent securities change, the index is no longer equally weighted.

Q.1174 Which of the following is *most likely* a primary disadvantage of market capitalization-weighting?

A. Constituent securities are held in proportion to their value in the target market.

B. Its simplicity and failure to take into account other factors such as the volume of shares sold.

C. Constituent securities whose prices have risen the most (or fallen the most) have a greater (or lower) weight in the index.

Q.1175 What do you call this method that attempts to address the disadvantages of market-capitalization weighting by using measures of a company's size that are independent of its security price?

A. Optimal Weighting.

B. Fundamental Weighting.

C. Market-capitalization weighting method.

Q.1177 Which of the following statement regarding reconstitution is *most likely* accurate?

A. Reconstitution does not create turnover in an index.

B. Reconstitution is similar to a portfolio manager deciding to change the securities in his or her portfolio.

C. Reconstitution is necessary because the weights of the constituent securities change as their market prices change.

Q.1178 Which of the following is *least likely* a major use of market indices?

A. Market indices act as proxies for measuring and modeling returns.

B. Market indices act as proxies for asset classes in asset allocation models.

C. Market indices measure the overall performance of the economy as a whole.

Q.1179 A security market index represents the:

A. risk of a security market.

B. value of the security market as a whole.

C. value of a given security market, market segment, or asset class.

Q.1645 Which of the following is *least likely* used in the calculation of the return on security market indices?

A. Total returns.

B. Price returns.

C. After-tax returns.

Q.1646 Which of the following questions is *least likely* considered in the construction and management of market indices?

A. How often should the index be rebalanced?

B. What is the target market the index is intended to measure?

C. Which securities among the high-performing securities should be included?

Q.1647 Which of the following is *most likely* a disadvantage of price-weighted indices?

A. Its construction is too simple.

B. The percentage changes in the price of low-priced securities have a greater impact.

C. The percentage changes in the price of high-priced securities have a greater impact.

Q.1648 Which of the following is the *most appropriate* term for excluding shares held by owners and shares unavailable for foreign buyers while constructing a market-capitalization-weighted index?

A. Free float.

B. Index float.

C. Market float.

Q.1649 Which of the following is *least likely* a market-capitalization weighted index?

A. S&P 500 Composite Index.

B. Dow Jones Industrial Average.

C. Financial Times Ordinary Share Index.

Q.1650 Which of the following index weighting method is based on earnings, dividend, or cash flow?

A. Price weighting.

B. Equally weighting.

C. Fundamental weighting.

Q.1651 Using the following table, calculate the price-weighted one-month return for the index.

	Price on June 30, 2016	Price on July 31, 2016	Numbers of shares
Stock A	40	35	20,000
Stock B	18	25	10,000
Stock C	32	40	10,000
Stock D	25	20	15,000

A. 4.35%

B. 5.65%

C. 11.80%

Q.1652 A hypothetical price-weighted index is comprised of four securities, whose information is given in the following table:

	Price on June 30, 2016	Price on July 31, 2016	Numbers of shares
Stock A	40	35	20,000
Stock B	18	25	10,000
Stock C	32	40	10,000
Stock D	25	20	15,000

Assuming that Stock C splits 2-for-1 on August 1st, 2016 and that there are no other changes in the prices of the securities, the new denominator for the index is *closest to*:

A. 3.33

B. 4.35

C. 5

Q.1653 Using the data given in the following table, calculate the market-capitalization-weighted return on the index. Assume June 30, 2016, as the base period and that the number of shares is constant over both periods.

	Price on June 30, 2016	Price on July 31, 2016	Numbers of shares
Stock A	40	35	20,000
Stock B	18	25	10,000
Stock C	32	40	10,000
Stock D	25	20	15,000

A. -1.5%

B. -3.5%

C. 1.5 %

Q.1654 Which of the following activities involves adding and subtracting the securities that make up an index?

A. Repricing.

B. Rebalancing.

C. Reconstructing.

Q.1655 A market index is *least likely* used:

A. to measure beta and risk-adjusted returns.

B. as a benchmark for measuring the performance of portfolios.

C. as a reflection of the management's sentiment of the companies whose securities are included in the index.

Q.1656 Which of the following is *least likely* a type of equity market index?

A. Russell 2000 Index

B. S&P 500 Bond Index

C. NASDAQ Composite Index

Q.1657 Which of the following is *most likely* a potential challenge faced by investors during the construction of fixed income securities indices?

A. A diverse universe of securities.

B. A lack of diverse investment vehicles.

C. Investment barriers imposed by authorities/government

Q.1658 Downie Jones is a hedge fund manager. He is analyzing different indices to compare the performance of hedge funds. Which one of these indices is *most appropriate* for Jones?

A. FTSE EPRA.

B. Morningstar Style Index.

C. HFRX Equal Weighted Strategies EUR Index.

Q.1659 Using the data given in the following table, calculate the market-capitalization weighted return on the index.

	Price on June 30, 2016	Price on July 31, 2016	Numbers of shares
Stock A	40	50	20,000
Stock B	18	25	10,000
Stock C	32	40	10,000
Stock D	25	30	15,000

A. 20.96%

B. 25.37%

C. 29.88%

Q.3608 An equal-weighted index consists of the following stocks:

	Starting Price	Ending Price	Dividends
Stock A	20.00	22.00	0.75
Stock B	15.00	18.00	1.00
Stock C	30.00	33.00	1.50
Stock D	13.00	11.00	2.00

The total return of the index is *closest to*:

A. 12.85%.

B. 13.85%.

C. 14.85%.

Q.3609 The composition of a price-weighted index is given in the following exhibit:

Exhibit 1: Price-Weighted Index

	Price - Beginning of period	Price - End of period
Stock A	$40	$38
Stock B	$20	$22
Stock C	$35	$40
Stock D	$26	$20
Stock E	$50	$55
Stock F	$22	$25

The return generated during the period by the index is *closest to*:

A. 3.6%.

B. 4.6%.

C. 5.6%.

Q.3611 Which of the following is *least likely* accurate for a market capitalization weighted index?

A. The rebalancing of the index is not required.

B. Index investing is similar to momentum investing.

C. Index investing results in an accumulation of undervalued stocks.

Q.3612 Which of the following is *most likely* correct regarding fixed-income indices?

A. The turnover in equity indices exceeds that of fixed-income indices.

B. As compared to fixed-income indices, index investing is easier in the case of equity indices.

C. The high level of liquidity in fixed-income securities makes the pricing of fixed income indices easier than that of equity indices.

Q.3613 The majority of hedge fund indices are:

A. price-weighted indices.

B. equal-weighted indices.

C. fundamental-weighted indices.

Q.3614 The components of a price-weighted index are given in exhibit 1.

Exhibit 1: Price-weighted Index

	Share Price	Market Capitalization
Stock A	$92.16	$123 million
Stock B	$52.73	$167 million
Stock C	$98.12	$35 million
Stock D	$12.03	$188 million
Stock E	$35.67	$163 million
Stock F	$12.54	$158 million

If a portfolio manager wants to beat this index, the strategy that would give him the highest probability of beating the index would be to:

A. overweight Stock C.

B. overweight Stock D.

C. underweight Stock D.

Q.3615 The components of a market-capitalization index are given in exhibit 1.

Exhibit 1: Market-capitalization Index

Company	Stock Price	Shares Outstanding
AAA	$100.32	100 million
BBB	$80.96	160 million
CCC	$72.17	35 million
DDD	$66.13	180 million

If a portfolio manager wants to beat this index, the strategy that would *most likely* give him the highest probability of beating the index would be to:

A. overweight Stock AAA.

B. overweight Stock BBB.

C. overweight Stock DDD.

Q.3616 The performance of commodity indices can be different from that of the underlying commodities because:

A. the indices consist of futures contracts.

B. the indices also have an equity component.

C. the indices overweight certain commodities.

Q.3617 Which of the following does the return on commodity indices reflect?

I. The risk-free interest rate.
II. The changes in futures contract prices.
III. The roll yield.

A. I.

B. II & III.

C. I, II & III.

Q.3618 An equity analyst wants to create an index to measure the yields of US T-Bills. Which of the following is *most likely* the primary issue in creating such an index?

A. The index will be difficult to price.

B. The index will require frequent reconstitution.

C. Creating an index of fixed income security is not possible.

Q.3619 In fundamentally weighted multi-market indices, the securities are weighted based on:

A. market capitalization while the country weight in the index is based on its GDP.

B. market capitalization while the country weight in the index is based on its domestic currency exchange rate compared to a basket of currencies.

C. market capitalization while the country weight in the index is based on the number of constituent securities that originate from this country.

Q.3871 The market float of a stock is *best* described as its:

A. Total outstanding shares.

B. Shares available to domestic investors.

C. Outstanding shares excluding those held by controlling shareholders.

Q.3876 The performance of commodity indices:

A. Reflects the risk-free interest rate.

B. Is affected solely by changes in commodity prices.

C. Is identical to the performance of underlying commodities.

Q.3877 Most of the widely used global security indices are:

A. Price-weighted.

B. Equal-weighted.

C. Market capitalization-weighted.

Learning Module 3: Market Efficiency

Q.109 Which of the following statements regarding market efficiency is *least likely* accurate?

A. There are three forms of market efficiency: weak, semi-strong, and strong.

B. In an efficient market, the prices of stocks will slowly adjust to new information.

C. An efficient capital market reflects all of the information about its securities, including risk.

Q.1001 Which of the following is *least likely* accurate about intrinsic values?

A. Intrinsic values are uncertain.

B. Intrinsic values keep on changing.

C. Intrinsic values are higher than the market value.

Q.1002 When the number of investors in a market increases, the market *most likely* becomes:

A. less efficient.

B. more efficient.

C. as efficient as before/no change.

Q.1003 Which of the below is *least likely* a characteristic of an efficient market?

A. Lower transaction costs.

B. Few market participants.

C. Fewer restrictions on trading.

Q.1004 Price changes are independent from one period to another in which form(s) of market efficiency?

A. Strong form efficiency only.

B. Semi-strong and strong form efficiency only.

C. Weak, semi-strong, and strong form efficiency.

Q.1005 An investor can achieve positive risk-adjusted returns on average by using the fundamental analysis trading strategy in which of the following forms of market efficiency?

A. Weak form efficiency only.

B. Strong form efficiency only.

C. Weak and semi-strong form efficiency only.

Q.1006 Fundamental analysis is *most likely* based on which of the following?

A. Cost of information.

B. Trading and analysis.

C. Earnings and dividends.

Q.1007 Semi-strong form of markets in developed countries are:

A. efficient.

B. inefficient.

C. can not be ascertained.

Q.1008 Which of the following calendar anomalies *least likely* exists anymore?

A. Turn-of-the-year effect.

B. Turn-of-the-month effect.

C. Both turn-of-the-year and turn-of-the-month effects.

Q.1009 The effect when we find out that firms with poor stock returns over the previous 3-5 years continue posting poor returns, whereas firms with good returns over the previous 3-5 years continue posting good returns is *most likely* known as?

A. Anomaly effect.

B. Momentum effect.

C. Overreaction effect.

Q.1011 Investors tend to be:

A. less risk-averse when faced with potential gains.

B. less risk-averse when faced with potential losses.

C. more risk-averse when faced with potential gains.

Q.1162 Which of the following statements regarding strong-form market efficiency is *most likely* accurate?

A. Investors will often use the dividend discount model.

B. Investors may try to develop an independent estimate of intrinsic value.

C. Investors will usually accept market prices as accurately reflecting intrinsic values.

Q.1165 In which form(s) of market efficiency does the market price *most likely* reflect past market data, public information, and private information?

A. Strong form.

B. Semi-strong form.

C. Semi-strong and strong form.

Q.1166 Which of the following statements is *most likely* accurate regarding the weak form of market efficiency?

A. Security prices fully reflect all past market data.

B. Security prices reflect all publicly known and available information.

C. Security prices reflect past market data, publicly known and private information.

Q.1167 The process of examining publicly available information and formulating forecasts to estimate the intrinsic value of assets is *most likely* known as?

A. Technical analysis.

B. Historical analysis.

C. Fundamental analysis.

Q.1168 If markets are inefficient, the difference between the intrinsic value and the market value of a company's security is *most likely*:

A. zero.

B. always positive.

C. dependant on whether the stock is overvalued or undervalued.

Q.1169 If markets are semi-strong efficient, standard fundamental analysis will yield abnormal trading profits that are *most likely*:

A. positive.

B. negative.

C. equal to zero.

Q.1170 Suppose a market is in the semi-strong form of market efficiency. In that case, the risk-adjusted returns of a passively managed portfolio relative to an actively managed portfolio are *most likely*:

A. equal.

B. lower.

C. higher.

Q.1171 A stock is said to be overvalued if its market price is:

A. less than its book value.

B. less than its intrinsic value.

C. greater than its intrinsic value.

Q.1660 An informationally efficient capital market is *most likely* defined as a market in which security prices:

A. fully reflect all the publicly available security information.

B. fully reflect all the available information about the security.

C. fully reflect all the available and inside information about the security.

Q.1661 Fatima Al-Mukhtar is an investment manager who invests in the informationally efficient capital market of Libya. Assuming that Al-Mukhtar only invests in mid-cap Libyan stocks, which of the following investment styles will *most likely* result in the highest returns?

A. Active management.

B. Passive management.

C. Both methods will result in the same net returns

Q.1665 Which form of market hypothesis *most likely* suggests that current market prices fully reflect all information from public and private sources?

A. Weak form market efficiency.

B. Strong form market efficiency.

C. Semi-strong form market efficiency.

Q.1666 According to the efficient market hypothesis (EMH), which of the following forms of market efficiencies will an investor *most likely* achieve positive risk-adjusted returns on average using fundamental analysis?

A. Weak form market efficiency.

B. Strong form market efficiency.

C. Semi-strong from market efficiency.

Q.1667 Technical analysis is used to test if a market is weak-form efficient. Which of the below data sets is *most likely* required to conduct technical analysis?

A. Non-public material data.

B. Past (historic) prices and volumes data.

C. Current earnings, dividends, and accounting ratio data.

Q.1668 Joe Timberlake is a trader who trades equities in the United Arab Emirates (UAE). Timberlake is consistently able to earn abnormal profits by using fundamental data, but when he uses only technical analysis, he isn't profitable. UAE's market efficiency is *most likely*?

A. Weak-form efficient.

B. Strong-form efficient.

C. Semi-strong form efficient.

Q.1669 In which form of market efficiency will active management *most likely* earn consistent abnormal profits?

A. Weak form market efficiency.

B. Strong form market efficiency.

C. Semi-strong form market efficiency.

Q.1670 The process of investigating data until a statistically significant relationship is found is *least likely* referred to as:

A. data mining.

B. data snooping.

C. market anomaly.

Q.1672 Which of the following is *most likely* a cross-sectional anomaly?

A. Value effect.

B. Earning surprises.

C. Day-of-the-week effect.

Q.1674 Which of the following is the result of uninformed or less informed traders that watch and mimic the actions of other investors?

A. Loss aversion.

B. Momentum effect.

C. Information cascade.

Q.2884 Shares of Fition Corp. are trading at $67 today while analysts expect the price of the shares to reach $72 in 1 year and pay a dividend of $1.50. Given a required rate of return of 14%, Shares of Fition Corp. are *most likely*:

A. Underpriced by $2.53.

B. Overpriced by $2.53.

C. Underpriced by $3.84.

Q.3620 Country A is an emerging economy. The country's financial market is characterized by a low number of market participants and high transaction costs. Concerned by the increased volatility in its equity markets, the government recently banned the short-selling of securities. The financial market of country A is *most likely*:

A. inefficient.

B. strong form efficient.

C. semi-strong form efficient.

Q.3622 The *most likely* explanation of the "January Effect" is that:

A. tax-loss selling occurs in January.

B. tax-loss buying occurs in December.

C. tax-loss selling occurs in December.

Q.3623 Which of the following is *most likely* an assumption of the efficient market hypothesis?

A. Investors behave irrationally.

B. Investors mainly invest in single stocks.

C. Successive stock price changes are independent of each other.

Q.3624 For efficient market conditions to hold:

A. every market participant must be well informed.

B. a few market participants must be well informed.

C. the majority of market participants must be well informed.

Q.3625 An equity research analyst is trying to test the efficient market hypothesis. He selects three similar mutual funds and compares the fund's return with the market return. Exhibit 1 summarizes the information collected by the analyst.

Exhibit 1: Return Generated

Period	Mutual Fund 1	Mutual Fund 2	Mutual Fund 3	Market
Year 1	12%	7%	11%	10%
Year 2	11%	14%	14%	13%
Year 3	9%	13%	10%	8%
Year 4	4%	11%	10%	9%

The analyst then makes the following comment:
"As return generated by Mutual Fund 3 has exceeded market return in all the four years, an investor must invest in Mutual Fund 3 to generate abnormal returns."

If the efficient market hypothesis holds, then an investor should *most likely* invest in:

A. Mutual Fund 1.

B. Mutual Fund 3.

C. any of the three mutual funds.

Q.3626 If the efficient market hypothesis holds, an investor should *most likely*:

A. follow a "buy and hold" strategy.

B. invest in high beta stocks to generate abnormal returns.

C. frequently churn his portfolio to generate an abnormal return.

Q.3627 During a presentation conducted by a research team in Albania, an equity research analyst makes the following comment:
"The majority of market participants do not keep track of the country's macroeconomic variables. Therefore, I believe that the stock prices will not fully reflect all available information."

Which of the following statements is *most* accurate?

If the efficient market hypothesis holds, then the stock prices will fully reflect all information:

A. if no market participants keep track of the country's macroeconomic variables.

B. if all market participants keep track of the country's macroeconomic variables.

C. even if only a few market participants keep track of the country's macroeconomic variables.

Q.3628 The shares of closed-end investment funds trade at a discount from its net asset value (NAV). This is *most likely* due to:

I. tax liabilities associated with unrealized capital gains and losses.
II. management fees.
III. the illiquidity of the fund's shares.

A. I & II

B. I & III

C. II & III

Q.3629 If the markets are strong-form efficient, then investors can *most likely*:

A. generate abnormal returns based on public information.

B. generate abnormal returns based on private/insider information.

C. fail to generate abnormal returns based on private/insider information.

Q.3630 The financial markets of country AAA is classified as weak-form efficient. Which of the following is *most likely* correct regarding the financial markets of AAA?

A. Technical analysts can never generate abnormal returns.

B. Technical analysts can generate abnormal returns consistently.

C. Technical analysts cannot generate abnormal returns consistently.

Q.3631 Which of the following will *least likely* increase market efficiency?

A. Reducing the securities transaction tax from 1.5% to 0.75%.

B. Allowing derivative transactions to be used only for hedging purposes.

C. Increasing the cap on foreign shareholding in domestic companies from 50% to 75%

Q.3632 In an efficient market, the market price of an asset is *most likely*:

A. close to its intrinsic value.

B. equal to its intrinsic value.

C. perceived to be its intrinsic value.

Q.3633 The efficient market hypothesis states that portfolio managers can *most likely*:

A. beat the market consistently.

B. beat the market using insider information.

C. beat the market sometimes just by being lucky.

Q.3634 The slow adjustment of stock prices to an unexpected earnings announcement is *most* likely due to:

A. inefficient markets.

B. studies not taking into account the transaction costs and risk.

C. slow dissemination of information among the market participants.

Q.3635 Assume that you are a researcher conducting an empirical experiment on a trading strategy using time series of returns. You find statistical evidence that there are abnormal returns. Which of the following *most likely* be the name given to your finding?

A. Evidence of market anomaly.

B. Evidence of market inefficiency.

C. Evidence of future abnormal returns.

Q.3636 During a classroom discussion on efficient markets, a student makes the following comment:
"Dot-com bubble indicates that the market is not efficient. An efficient market would never bid the stock prices to such irrational levels."

Which of the following is the *most accurate* statement?

A. The comment made by the student is correct.

B. Efficient markets may under-react, but rarely never overreacts.

C. Efficient markets may overreact or under-react, but on average markets are efficient.

Q.3637 The efficient market hypothesis *most likely* requires that:

A. the overall market must be rational.

B. every market participant must be rational.

C. only a few market participants must be rational.

Q.3638 After visiting one of the stores of a large retail corporation, Pharell Sanders, the general manager of Vizion Hedge Fund, makes the following comment:
"The store layout, cleanliness, and the prompt service show great attention to detail. I plan to invest in the company; if the company is well-organized, the investment opportunity has to be good."

Sanders is *most likely* exhibiting the:

A. narrow framing.

B. disposition effect.

C. representativeness bias.

Q.3639 Sarah Wallace, an equity research analyst, conducts an investor awareness program centered around the theme of "Behavioral Finance and the Art of Investing." An extract of her lecture is as shown below.
"Stock prices are governed by the random walk theory, which states that we cannot predict stock price movements. Therefore, stock prices are independent of each other; the price of a security tomorrow is independent of the security price today."

The behavioral bias *most likely* to be addressed by the lecture is the:

A. anchoring bias.

B. gambler's fallacy.

C. mental accounting.

Q.3640 The shares of AAA Pharmaceuticals Limited made a lifetime high at $265. A week later, the company recently received a US FDA warning letter regarding deficiencies observed in the company's drug manufacturing processes. As a result, the shares of the company crashed and currently trade at around $120. Ankit Vishnu, a retail investor who tracks the company's shares, made the following comment:
"The share's price dropped from a lifetime high of $265 to $120, a drop of 55% making it a strong 'buy."

The behavioral bias exhibited by Vishnu is *most likely* the:

A. anchoring bias.

B. conservatism bias.

C. mental accounting bias.

Q.3869 Volume information will *most likely* have predictive power on the future direction of security prices in which of the following forms of market efficiency?

A. Semi-strong.

B. Weak, semi-strong, and strong form.

C. Neither the weak, semi-strong nor the strong form.

Learning Module 4: Overview of Equity Securities

Q.110 LagRos Ltd. has total assets of $3.2 million and liabilities of $1.2 million. If its shares trade for $25, and 70,000 shares are outstanding in the open market, then LagRos' book value is *most likely*:

A. $1,750,000.

B. $2,000,000.

C. $3,200,000.

Q.111 Which of the following is *most likely* correct regarding callable common shares? Given callable common shares:

A. shareholders have the right to buy more shares at a pre-established price.

B. the company has the right to buy back the shares at a pre-established price.

C. shareholders have the right to sell back the shares at a pre-established price.

Q.112 Which of these is/are *least likely* common characteristics of private equity securities?
I. Illiquid
II. Giving the company's management time to focus on long-term value creation
III. Liquid

A. III.

B. I & II.

C. II & III.

Q.115 Which of the following statements is *least likely* accurate?

A. Management actions can directly influence book value.

B. Management actions have an indirect impact on market value.

C. Management actions do not influence book value or market value.

Q.977 Putable common shares will *most likely* benefit the:

A. firm.

B. brokers.

C. shareholders.

Q.978 YULU Company floated 1000 callable common shares in 2014. In 2015, the company exercised its call options on 200 shares at $15. The current market price of the shares is $18. Which of the following is *least accurate* about the firm's decision to exercise its call rights on the 200 shares?

A. The firm will incur losses of $600.

B. The firm will be able to reissue shares at a higher price.

C. The decision will reduce the dividends the company has to pay in subsequent years.

Q.979 The type of private investment that is a hybrid of debt and equity is *most likely*:

A. mezzanine financing.

B. initial public offering

C. private investment in public equity.

Q.982 The market value of a firm's equity *most likely* reflects:

A. its operating results.

B. its financial decisions.

C. expectations of its future performance.

Q.984 Which of the following is *least likely* a reason why companies opt for private equity?

A. To make acquisitions.

B. To take a private company public.

C. To fund the development of new technology.

Q.985 In the case of a share denominated in foreign currency, the appreciation of the foreign currency *most likely*:

A. increases the returns.

B. not affect the returns.

C. decreases the returns.

Q.987 Global Depository Receipts (GDR) are *most likely* denominated in:

A. USD.

B. the local currency of the firm.

C. the local currency of the buyer.

Q.1770 Which of the following is *most likely* an appropriate statement regarding the ownership interest of common shareholders?

A. They have a residual claim after debt holders and preferred shareholders.

B. They have a residual claim before debt holders and preferred shareholders.

C. They have a residual claim after debt holders and before preferred shareholders.

Q.1771 Which of the following parties *most likely* benefits from callable shares when the market price is greater than the call price?

A. Callable equity holders.

B. Callable equity issuing firms.

C. Debtholders of callable equity issuing firms.

Q.1772 Which of the following is *most likely* a similarity between common shares and preferred shares?

A. Both have voting rights.

B. Both can have put and call features.

C. Both make fixed periodic payments.

Q.1773 What is *most likely* the appropriate advantage of participating preferred shares?

A. Participating preferred shares can be exchanged for common stocks at the conversion ratio.

B. Any dividends that are not paid for participating preferred shares accumulate for the next period.

C. Investors in participating preferred shares receive an extra dividend if the firm's profits exceed a specified limit.

Q.1775 Stratton VCs is a venture capital firm that invests in different stages of a firm. In which of the following stages will Stratton *least likely* invest its funds?

A. Late-stage.

B. Seed investing stage.

C. Mezzanine financing stage.

Q.1776 Arabco, an oil exploring public limited company, is under financial distress due to declining oil prices. To receive quick financing, Arabco has decided to sell part of its equity to private investors. Which of the following types of investment procedures *most likely* describes this situation?

A. Mezzanine financing.

B. Leveraged buyout (LBO).

C. Private investment in public equity (PIPE).

Q.1777 Farah Jan is an investment analyst. She is evaluating methods of investing in non-domestic equity securities, and she has identified some of the obstacles of direct financing. Which of the following is *least likely* a disadvantage of direct financing?

A. The foreign stock exchange may be illiquid.

B. Investors must be familiar with the regulations of foreign markets.

C. Investments and returns are denominated in the local currency of the investor.

Q.1778 Which of the following depository receipts is *most likely* issued outside of the United States and denominated in US dollars?

A. Global Depository Receipt.

B. American Depository Receipt.

C. Basket of listed depository receipts.

Q.1779 Which of the following is the *least risky* type of equity for an investor?

A. Non-cumulative common stock.

B. Preferred stock with a put feature.

C. Preferred stock with a call feature.

Q.1780 Prion Corp is a public limited company that manufactures lifeboats. Sadin Nigaro is an equity analyst who is evaluating the equity of Piron Corp. She has summarized the most important financial information of the company in the following table:

Total Assets	\$575 million
Total liabilities	\$225 million
Revenue during the year	\$101 million
Number of shares outstanding	8.75 million
Market capitalization	\$393.75 million

Using the given data, the per-share book value of equity of the company is *closest to*:

A. \$40.

B. \$45.

C. \$66.

Q.1781 Prion Corp is a public limited company that manufactures lifeboats. Sadin Nigaro is an equity analyst who is evaluating the equity of Piron Corp. She has summarized the most important financial information of the company in the following table:

Total Assets	\$575 million
Total liabilities	\$225 million
Revenue during the year	\$101 million
Number of shares outstanding	8.75 million
Market capitalization	\$393.75 million

Using the given data, the per-share market value of equity of the company is *closest to*:

A. \$40.

B. \$45.

C. \$65.70.

Q.1782 Using the data given below, calculate Piron Corp's price-to-book value of the equity.

Total Assets	$575 million
Total liabilities	$225 million
Revenue during the year	$101 million
Number of shares outstanding	$8.75 million
Market capitalization	$393.75 million

A. 1.125

B. 1.6

C. 1.75

Q.1783 Parco Inc. is a public limited company from Turkey. Parco is the market leader in plastic hanger manufacturing. Using the data provided in Parco Inc.'s balance sheet, calculate the return on Parco's equity at the end of 2016.

Net Income for 2016	$5 million
Total Shareholders' Equity for 2016	$65 million
Net Income for 2015	$8 million
Total Shareholders' Equity for 2015	$75 million
Number of shares outstanding	7 million

A. 6.67%

B. 7.14%

C. 7.7%

Q.1784 Given the following table, what will *most likely* happen to the intrinsic value of Parco's equity if the required rate of return increases?

Net Income for 2016	$5 million
Total Shareholders' Equity for 2016	$65 million
Net Income for 2015	$8 million
Total Shareholders' Equity for 2015	$75 million
Number of shares outstanding	7 million

A. The intrinsic value will increase.

B. The intrinsic value will decrease.

C. The intrinsic value will remain unchanged.

Q.3540 AVEX Ltd. is a construction company that primarily deals in the residential construction segment. The company is planning to venture into the commercial real estate sector and has identified an upcoming project. A financial analyst working in the company's corporate finance department uses the company's weighted average cost of capital (WACC) as the discount rate to calculate the commercial real estate project's net present value (NPV). While doing so, the financial analyst is *most likely* to assume that:

A. residential and commercial real estate projects have different levels of risk.

B. residential and commercial real estate projects have identical levels of risk.

C. commercial real estate projects have a higher level of risk than residential real estate projects.

Q.3641 Harry Olsen holds 200 shares of Enric Corporation. If there are two vacancies on Enric Corporation's board, and Enric Corporation allows cumulative voting, then the maximum number of votes that Olsen can cast for a single nominee for the board of directors is *closest to*:

A. 100.

B. 200.

C. 400.

Q.3642 A firm acquired through a leveraged buy-out will *most likely* be converted into a:

A. public company.

B. private company.

C. debt-free company.

Q.3643 Which of the following American depositary receipts (ADRs) *least likely* requires SEC registration?

A. RULE 144A.

B. LEVEL II sponsored.

C. LEVEL III sponsored.

Q.3644 An exchange-traded fund (ETF) is *most likely* classified as a/an:

A. American depository receipt.

B. active investment instrument.

C. passive investment instrument.

Q.3868 Which party *most likely* benefits from callable shares when the market price is greater than the call price?

A. Callable equity holders.

B. Callable equity issuing firms.

C. Debt holders of callable equity issuing firms.

Q.3874 Greenex Inc.'s option-free perpetual preferred stock is currently selling in the market for $945.63. The annual dividend rate is quoted at 5.5%, and the par value of the stock is $1,000. If the stock is fairly valued, the required rate of return should be *closest to*:

A. 0.052

B. 0.055

C. 0.0582

Q.3950 Which of the following is *least likely* a characteristic of preferred shares?

A. Fixed preferred dividend payment with no maturity date.

B. Priority of dividend payment before common shareholders.

C. Failure to pay a preferred dividend is considered a default.

Learning Module 5: Company Analysis: Past and Present

Q.4239 Which of the following information is *most likely* contained in the analysis of new information section of subsequent company research reports?

A. Analysts updated recommendations.

B. Adjustments to prior forecasts based on new data.

C. Disclosures, disclaimers, and other legal requirements.

Q.4240 The structure, content, and tone of a company research report depend on the analyst's setting. Which of the following is *most likely* the typical structure of a "sell-side report"?

A. An extensive initial report followed by shorter reports on specific topics or updates

B. A short initial report followed by extensive reports on specific topics or updates

C. A single extensive report covering all topics and updates

Q.4241 Which of the following is *most likely* the primary audience for analysts' reports solely for internal distribution?

A. Those who are unfamiliar with the issuer or security.

B. Those who are already familiar with the issuer or security.

C. External clients.

Q.4242 Which of the following is *most likely* the term for an extensive initial report when an analyst begins covering a security?

A. Initiating coverage report.

B. Initial analysis report.

C. Primary coverage report

Q.4243 Which of the following is *most likely* the nature of updates after the “initiating coverage” report?

A. They are typically longer and more detailed than the initial report

B. They are typically shorter and focus on specific topics or updates

C. They are typically the same length as the initial report

Q.4244 Which of the following is *most likely* the primary purpose of company and industry analysis in forming a view of an issuer’s future financial results?

A. To predict the exact future earnings and cash flows.

B. To provide a mathematical model for future financial results.

C. To support and justify the analyst’s forward-looking views.

Q.4245 Which of the following is *most likely* the primary difference between “sell-side reports” and reports for internal distribution?

A. The audience they are intended for

B. The financial models they use

C. The companies they cover

Q.4246 Which of the following is *most likely* is the primary purpose of updates to a recommendation after the analyst receives new information or conducts additional analyses?

A. To provide a new mathematical model

B. To provide an update based on new information and analyses or a change in the analyst’s recommendation

C. To provide a new initiating coverage report

Q.4247 The initial step in industry and company analysis is determining a company's business model. This process helps in summarizing the key drivers of a company's financial results and position. What else does determining a company's business model *most likely* assist in:

A. focusing on areas that require further investigation and setting the analyst's expectations for the issuer.

B. determining the company's stock price.

C. determining the company's market share.

Q.4248 A business model describes a company's operations and includes several elements. Analysts investigate these elements by answering key questions. What is most likely the nature of these key questions? They are:

A. company-specific.

B. industry-specific.

C. common across industries and companies.

Q.4249 "Analysts often focus their analysis on the differences in a company's business model from a conventional model or those of its competitors". What does this *most likely* imply?

A. Analysts are interested in the uniqueness of a company's business model.

B. Analysts are interested in the similarities between business models.

C. Analysts are interested in the complexity of a company's business model.

Q.4250 Analysts use various information sources to answer key questions about a company's business model. Which of the following is *most likely* an example of an issuer source of information?

A. Free industry white papers or analyst reports from a consultancy.

B. Reports and data from platforms such as Bloomberg and FactSet.

C. Quarterly or semi-annual earnings conference calls.

Q.4251 Which of the following is *most likely* an example of an issuer source of information about a company's business model?

A. Company website.

B. General news outlets.

C. Surveys, conversations, and product comparisons.

Q.4252 Analysts in an institutional investment setting are often able to conduct initial research quickly. What is *most likely* the reason for this?

A. They have access to proprietary third-party sources, industry knowledge and experience, and prior analyses of the company

B. They have a large team of analysts working toget

C. They have access to advanced technology and software.

Q.4253 Which of the following is *most likely* the primary purpose of determining a company’s business model in the context of industry and company analysis?

A. Predict the company’s future stock price.

B. Summarize the key drivers of a company’s financial results and position.

C. Determine the company’s market share.

Q.4254 Which of the following is *most likely* the role of proprietary primary research in determining a company’s business model? It provides:

A. information about the company’s competitors.

B. information about the company’s stock price.

C. information through surveys, conversations, product comparisons, and other commissioned studies

---

Q.4255 Which of the following is *most likely* the significance of proprietary third-party sources of informaton in determining a company's business model? They provide information:

A. about the company's internal operations.

B. through analyst reports and communications, including from "sell-side" or "Wall Street" analysts and credit rating agencies.

C. about the company's market share.

Q.4256 When analyzing a company's financial position and historical results, the first step is to understand the business model. This understanding forms the foundation for forecasting a financial statement model that aids in security valuation. Which of the following is *most likely* the primary focus of this analysis?

A. Revenues.

B. Expenses.

C. Balance sheet analysis.

Q.4257 Which of the following approaches of determining revenue drivers *most likely* breaks down revenues into drivers such as sales volume and price or revenues by product line, segment, or geography?

A. Bottom-up approach.

B. Top-down approach.

C. Both bottom-up and top-down approach

Q.4258 Which of the following statements *most likely* correctly defines pricing power?

A. A company's ability to set prices and other economic terms without affecting its sales volumes

B. A company's ability to increase its market share

C. A company's ability to increase its sales volume

Q.4259 Analysts evaluate pricing power not just by examining a firm's prices over time or relative to competitors but also by comparing a firm's prices with its costs. Which of the following is most likely an important sign of pricing power?

A. Rising profitability over time.

B. Decreasing profitability over time.

C. Stable profitability over time.

Q.4260 Which of the following options *most likely* includes revenue drivers of a company?

A. Market size, product line, and pricing power.

B. Market size, expenses, and pricing power.

C. Market size, profit margins, and a company's share of that market.

Q.4261 Which of the following *most likely* defines what top-down approach to revenue analysis?

A. Looking at the overall market size, sales volume, and price.

B. Looking at the overall market size and the company's share of that market.

C. Looking at the company's share of that market and product line revenue.

Q.4262 Which of the following *most likely* describes company's operating costs?

A. Expenses related to the acquisition and production of long-term assets.

B. Payments to debt and equity investors as a return on their investment

C. Expenses related to the generation of current period revenue.

Q.4263 Which of the following is *most likely* an example of a variable cost?

A. Insurance costs.

B. Depreciation and amortization.

C. Materials and direct labor costs for a manufacturer.

Q.4264 Which of the following will *most likely* increase the degree of operating leverage (DOL) of a company?

A. increasing both the fixed and variable costs in its cost base.

B. increasing the fixed costs and decreasing the variable costs in its cost base.

C. decreasing the fixed costs and increasing the variable costs in its cost base.

Q.4265 Which of the following statements is *most likely* true regarding operating costs?

A. A significant amount of the cost of sales is fixed.

B. Depreciation and amortization expenses are variable.

C. Most operating expenses, such as sales and marketing, general and administrative are variable.

Q.4266 Which of the following *most likely* describe the economies of scale?

A. A decline in costs per unit as output grows.

B. An increase in costs per unit as output grows.

C. A decline in costs per unit as the number of business lines increases.

Q.4267 Which of the following is *least likely* a method used by independent investment analysts to determine whether there have been improvements or declines in the value creation of a company?

A. Aggregated measures.

B. Company's internal reports.

C. Investors' required rates of return.

Q.4268 Which of the following *most likely* indicates a high net working capital to sales ratio?

A. The company’s current liabilities exceed its current assets.

B. The company is efficiently using its working capital to generate sales.

C. The company is not efficiently using its working capital to generate sales.

Q.4269 The risks associated with a company’s capital structure can be measured using various methods. Which of the following is *least likely* a method used to assess these risks?

A. Company’s market share.

B. Leverage and coverage ratios.

C. Credit ratings by third-party rating agencies

Q.4270 Which of the following will *most likely* be consistent with an increase in the degree of financial leverage?

A. Higher interest expenses that are fixed with respect to operating income.

B. Lower interest expenses that are fixed with respect to operating income.

C. Higher interest expenses that are variable with respect to operating income.

Q.4271 Which of the following is *most likely* a measure of levered returns?

A. Return on equity (ROE).

B. Return on assets (ROA).

C. Return on Invested Capital (ROIC).

Q.4272 Which of the following is *most likely* the main difference/similarity between the degree of financial leverage and the degree of operating leverage?

A. DFL and DOL are primarily determined by the company's financing costs.

B. DFL is more concerned with the variability of cash flows, while DOL with the variability of sales.

C. DFL is determined by financing costs, while DOL is determined by fixed operating cost

Learning Module 6: Industry and Competitive Analysis

Q.117 A high-tech industry only has 3 large firms operating in it. This is *most likely* a:

A. concentrated industry.

B. fragmented industry.

C. low-cost industry.

Q.1024 While trying to develop a competitive strategy, a company opts for the leadership cost strategy. Which of the following is *most likely* one of the features of this company?

A. The company has less proportion of market share.

B. The company has a low cost of capital.

C. The company has the power to set higher commodity prices than its competitors.

Q.1028 What happens in a situation of under capacity?

A. Demand is smaller than supply at the current prices.

B. Demand is always equal to supply in the market.

C. Demand is superior to supply at the current prices.

Q.1030 Drug stores can be classified as a:

A. cyclical industry.

B. growth industry.

C. defensive industry.

Q.1031 Which of these characteristics best describe commodity goods?

A. High competition and high profitability.

B. High competition and low profitability.

C. Low competition and high profitability.

Q.1032 How does the oil industry *most likely* maintain a premium pricing strategy?

A. The threat of substitutes

B. The bargaining power of the buyers

C. Significant barriers of entry

Q.1033 Electricity is part of which industrial classification sector?

A. Energy

B. Utilities

C. Technology

Q.1359 Which of the following is the analysis of a specific branch of manufacturing, service or trade?

A. Industry Analysis

B. Company Analysis

C. Benchmarking Analysis

Q.1360 Which of the following is *not* one of the uses of Industry Analysis?

A. Understand a company's business and business environment

B. Identify active investment opportunities

C. Determine the performance of a company based on industry standards

---

Q.1361 Which of the following is *least likely* one of the three major approaches to industry classification?

A. Market capitalization

B. Products and/or services supplied

C. Statistical similarities

Q.1362 Which of the following is a company whose profits are strongly correlated with the strength of the overall economy?

A. Cyclical company

B. Positively correlated company

C. Defensive growth company

Q.1363 Which of the following is a disadvantage of a business-cycle classification?

A. It uses historical data

B. Different countries and regions of the world frequently progress through the various stages of the business cycle at different times

C. This method often results in non-intuitive groups of companies

---

Q.1364 Which of the following is a commercial industry classification system that was jointly developed by Standard and Poor's and MSCI Barra?

A. Russel Global Sectors

B. Global Industry Classification Standard

C. Industry Classification Benchmark

Q.1366 Which of the following is a commercial industry classification system in which each company is assigned in a sub-industry based on its principal business activity?

A. Global Industry Classification Standard

B. Industry Classification Benchmark

C. Russell Global Sectors

Q.1367 Which of the following is *not* one of the Michael Porter's Five Forces?

A. Threat of substitute products.

B. Bargaining power of customers.

C. Government regulations.

Q.1456 Earth, Sun, Moon, Star and Mars firms have market shares of 28%, 22%, 15%, 10% and 4% respectively. The 4-firm Herfindahl-Hirschman Index after the merger of the firms Moon and Star is *closest to*:

A. 1909

B. 1625

C. 1790

Q.1742 The global industry classification system is the method of grouping firms into an industry-based on the firm's:

A. size.

B. principal business activity.

C. industry life cycle.

Q.1743 In a typical industry classification system, which of the following will *most likely* be categorized under 'Basic Materials and Processing'?

A. Constructax Building Materials Corp.

B. Allegro Automotive Company.

C. James Morisson Tobacco Company.

Q.1745 Sui Gas is a firm that provides gas to the households. Which of the following is the appropriate industry for Sui Gas?

A. Energy

B. Utilities

C. Basic Material processing

Q.1746 Which of the following is *most likely* a cyclical industry?

A. Financial services

B. Telecommunication

C. Consumer staples

Q.1748 Which of the following steps is *least likely* included in a thorough industry analysis guidance?

A. Analyze industry prospects based on strategic groups.

B. Classify the life-cycle stage of the industry.

C. Analyze the independence of board members.

Q.1750 An industry where a small number of firms control a large portion of the market share is known as:

A. an industry with greater market fragmentation.

B. an industry with greater market concentration.

C. a disruptive industry.

Q.1751 Identify the factor that will increase the profitability of a firm.

A. Low barriers to entry

B. An industry with a greater market concentration.

C. Low bargaining power of suppliers

Q.1752 Which of the following is the most appropriate statement regarding the under capacity of an industry?

A. Under capacity results in lower pricing power

B. Under capacity results in higher return on capital

C. Under capacity results in excess supply

Q.1753 In which of the following cost strategies does a firm decrease its prices to drive out competitors and later increase its prices?

A. Price differentiation strategy

B. Switching cost strategy

C. Predatory pricing strategy

Q.3645 Due to increased air pollution, a government recently announced subsidies for electric cars. What is the *most likely* impact of the announcement on the electric car manufacturing industry?

A. Increase in the threat of substitute products

B. Increase in the threat of new entrants

C. Decrease in the bargaining power of customers

Q.3648 In a given industry, if barriers to entry are low and barriers to exit are high, then the firms will:

A. have a higher pricing power.

B. have a lower pricing power.

C. be able to make abnormal profits.

Q.4275 If a specific industry is characterized by high competitive rivalry and strong bargaining power of buyers, which of the following implications is *most likely* true regarding the profitability trajectory of companies within that industry?

A. It results in identical profitability for all industry participants.

B. It ensures that all industry participants have the same competitive strategy.

C. It leads to the same demand and supply opportunities and risk factors for all industry participants.

Q.4276 Based on Porter’s Five Forces analysis, which of the following is *least likely* to influence the profit potential of an industry?

A. Collective economic power of customers.

B. Intensity of advertising campaigns.

C. Threat posed by potential new entrants.

Q.4277 An analyst looking to understand the broader growth prospects of an industry rather than the potential of a specific company would *most likely* adopt which approach?

A. Focus on the competitive strategies of top-tier companies.

B. Emphasize on the PESTLE analysis of the leading company.

C. Opt for a 'basket approach' considering a range of companies within the industry.

Q.4278 Which of the following is least likely a challenge associated with industry classification schemes?

A. Deciding whether to include substitute products or services.

B. Classifying companies that operate in more than one industry.

C. Deciding whether to include companies that do not sell products or services.

Q.4279 In the context of industry classification, companies are often grouped by geography. Which of the following is *most likely* a typical basis for classifying companies by country?

A. The country where the issuer is incorporated.

B. The country where the company's largest office is located.

C. The country where the company's products or services are most popular.

Q.4280 Which of the following is *most likely* true regarding defensive companies? Their sales growth, profitability, and valuations are:

A. less affected by changes in broad macroeconomic activity.

B. more affected by changes in broad macroeconomic activity.

C. not affected by changes in broad macroeconomic activity.

Q.4281 Which of the following is *most likely* the most effective way to measure industry profitability?

A. By estimating the size of the industry

B. By calculating the historical growth rate of the industry

C. Through a time series of the distribution of returns on invested capital

---

Q.4282 Which of the following is *most likely* the use of Herfindahl-Hirschman Index (HHI) used in industry analysis?

A. Measuring the profitability of the industry.

B. Calculating the historical growth rate of the industry.

C. Measuring the degree of industry concentration.

Q.4283 If the intensity of Porter's Five Forces is high, which of the following is the *most likely* impact on the industry's profitability?

A. The industry is likely to be highly profitable.

B. The industry's profitability will remain unaffected.

C. Almost no company within the industry will earn attractive returns on capital.

Q.4284 Which of the following is *most likely* the primary focus of a PESTLE analysis in comparison to Porter's Five Forces?

A. Assessing the structure of an industry.

B. Assessing the determinants of industry profitability.

C. Evaluating the industry's evolution and market share dynamics.

Q.4285 Which of the following is *most likely* the definition of "innovator's dilemma" in the context of disruptive innovation? It refers to the challenge faced by:

A. new entrants in creating disruptive innovations.

B. incumbents in creating sustaining innovations.

C. incumbents in deciding whether to invest in disruptive innovation.

Q.4286 Which of the following best describes an unintentional competitive strategy? It is a strategy that:

A. is a result of company-wide planning.

B. arises from different teams within a company pursuing their own incentives.

C. is demonstrated by a company's history of value addition for its stakeholders.

Q.4287 Which of the following is *least likely* one of the dimensions considered in evaluating a competitive strategy on a forward-looking basis?

A. Maximization of short-term profits.

B. Defense against the five industry forces.

C. External industry influences as identified in the PESTLE analysis.

Q.4288 In the context of three well-known competitive strategies: cost leadership, differentiation, and focus, which of the following *best* describes a company that is "stuck in the middle"? The company is:

A. a cost leader, differentiated and focused.

B. not a cost leader, not differentiated, and not focused.

C. a cost leader, but not differentiated and not focused.

Q.4289 Which of the following *most likely* is the best way to judge the effectiveness of a competitive strategy?

A. Based on the company's current market share.

B. Prospectively, based on the company's future plans.

C. Retrospectively, based on the company's past performance.

Q.4290 In the context of competitive strategies, what does a "defense against the five industry forces" imply? The strategy should protect the company from:

A. competition, new entrants, supplier power, buyer power, and the threat of substitute products or services.

B. economic downturns, political instability, social changes, technological advancements, legal changes, and environmental factors.

C. internal conflicts, communication issues, coordination problems, lack of resources, and lack of capabilities.

Q.4607 Which of the following attributes is *most likely* characteristic of the industry, rather than being specific to a particular company?

A. Size

B. Business model variation

C. Sensitivity to the business cycle

Q.4608 Which of the following actions are *most likely* performed in the forecasting company analysis stage?

A. Determining business model

B. Evaluating key risks and uncertainties

C. Analyzing industry structure and external influence

Q.4609 Which of the following is *least likely* a limitation of third-party industry classification schemes?

A. Industry classifications always account for geographical variations

B. Some industries may contain companies with diverse business models

C. Companies engage in the production and sale of multiple products or services

---

Q.4610 The method of grouping companies based on industry or product is just one approach among several, and its utility may diminish when applied in contexts beyond industry analysis. Which of the following is *least likely* an approach used in contexts such as index construction and investment performance evaluation?

A. Geography

B. Statistical differences

C. Sensitivity to the business cycle

Q.4611 Which of the following industries *most likely* be classified under cyclical and mature under the industry growth style box?

A. Software

B. Natural gas

C. Pharmaceuticals

Q.4612 The semi-conductor market in the country consists of four firms with the following market shares, 33%, 24%, 22% and 21%. The Herfindahl-Hirschman Index (HHI) is *most likely*?

A. 0.2590

B. 2590

C. 50.89

Q.4615 Porter's Five Forces is a framework for assessing industry structure. Which of the following is *least likely* one of Porter's five forces?

A. Threat of substitutes

B. Threat of new entrants

C. Threats of new regulations

Q.4616 Which of the following factors in the PESTLE analysis *most likely* include the analysis in changes in GDP or personal income, inflation, interest rates and exchange rates?

A. Political influences

B. Economic influences

C. Technological influences

Q.4617 Which of the following is *most likely* a characteristic of cost leadership under the generic competitive strategies?

A. Premium pricing

B. Firms invest in advertising

C. Firms have economies of scale

Q.4618 Which of the following industry characteristics is the cost leadership strategy most appropriate?

A. Capital intensive

B. Customers value distinctiveness

C. Price is not foremost concern for customers

Learning Module 7: Company Analysis: Forecasting

Q.4291 An analyst is preparing a financial forecast for a company. The analyst has access to a wealth of information and is planning to build a highly detailed model with a long-term perspective. This scenario is *most likely* to occur in which of the following situations?

A. The analyst is an investor with a controlling position in a private company.

B. The analyst is preparing a forecast for a public issuer with a straightforward business model.

C. The analyst is publishing company research for external distribution and is focusing on quarterly forecasts of revenue and earnings per share.

Q.4292 An analyst is preparing a financial forecast for a company. The analyst needs to consider the company's business model as it can significantly influence the structure of the forecast. This is particularly important when comparing companies from different industries. Which of the following industries is *most likely* to require a different approach to forecasting due to its unique financial structure and revenue streams?

A. A company operating in the retail industry.

B. A company operating in the online marketplace industry.

C. A company operating in the oil and gas production industry.

Q.4293 An analyst is preparing a forecast for a company's financial health and future prospects. He decides to focus on the average number of stores open and the average net sales per store to predict the company's net sales. He also plans to forecast gross margin and SG&A expenses as percentages of net sales. Which forecast object is the analyst *most likely* using in this scenario?

A. Summary Measures.

B. Drivers of Financial Statement Lines.

C. Individual Financial Statement Lines.

Q.4294 A company has recently announced a material legal proceeding that could potentially impact its financial health. An analyst decides to forecast the potential loss or gain and its timing to make an investment decision. This forecast is not based on historical financial statements. Which type of forecast object is the analyst *most likely* using in this case?

A. Ad Hoc Objects.

B. Summary Measures.

C. Individual Financial Statement Lines.

Q.4295 An analyst is preparing a forecast for a company's sales and gross margin. The company discloses its gross margin only on a consolidated basis. The analyst is considering forecasting sales and gross margin by individual product line. However, the analyst is aware that if the company's reported gross margin results differ from the gross margin estimates, it will be challenging to verify the product-line gross margin estimates. In this scenario, what is the *most likely* issue the analyst will face?

A. The analyst will be able to easily verify the product-line gross margin estimates.

B. The analyst will not be able to determine if the forecast is off on individual product lines.

C. The analyst will not face any issues as the company discloses its gross margin on a consolidated basis.

Q.4296 An analyst is considering creating a complex model to forecast the revenues of Novartis AG, a Swiss pharmaceutical company, by forecasting sales for each of its individual drugs by illness and geography. The analyst is aware that such a model would take months to create and weeks to update every quarter. Moreover, the forecasts by illness are not verifiable over time based on the company’s disclosures. In this scenario, what would *most likely* be the most advisable course of action for the analyst?

A. The analyst should create the complex model but only update it annually to save time.

B. The analyst should proceed with creating the complex model as it will provide the most accurate forecast.

C. The analyst should not create a complex model and instead focus on the most important drivers and use aggregations and shortcuts where the value-added of discrete forecasting is low.

Q.4297 Assume you are an analyst working for a financial firm. You are tasked with forecasting the future performance of a company that operates in a cyclical industry and is currently undergoing a major restructuring process, including a large acquisition. Given the circumstances, you are considering the Historical Results Forecast Approach. Is this approach suitable for your task?

A. Yes, because the Historical Results Forecast Approach is the easiest and often the default method due to its simplicity.

B. No, because the Historical Results Forecast Approach is less suitable for companies in cyclical industries and those undergoing major restructuring.

C. Yes, because the Historical Results Forecast Approach is commonly used for forecast objects that are not material or that the analyst does not hold an opinion on.

Q.4298 You are a financial analyst, and you are asked to predict the future outcomes for a company operating in an industry where you do not anticipate any changes in the industry structure. The company also has a low sensitivity to changes in the business cycle. Why would the historical forecast approach forecasting approach *most likely* be most suitable in this scenario?

A. It is less appropriate for companies in cyclical industries and those undergoing major restructuring.

B. It is commonly used to forecast objects that are not material or that the analyst does not hold an opinion on.

C. It is suitable for companies operating in industries where the analyst does not anticipate any changes in the industry structure and for companies that have a low sensitivity to changes in the business cycle.

Q.4299 In which of the following scenarios would the historical base rates and convergence forecast approach be *most likely* suitable?

A. A company in a new and rapidly changing industry where calculating a base rate is difficult.

B. A leading tech company that accounts for a substantial proportion of the industry base rate.

C. A biotechnology company that recently launched its first drug and is expected to scale its operations.

Q.4300 Which of the following is *most likely* explains why the Historical Base Rates and Convergence forecast Approach is not suitable for companies in highly cyclical industries?

A. It requires a longer-term base rate and smooth convergence to it, which would obscure year-to-year volatility.

B. It requires a short-term base rate and rapid convergence it, which would highlight year-to-year volatility.

C. It requires a medium-term base rate and moderate convergence to it, which would neither obscure nor highlight year-to-year volatility.

Q.4301 A public company's management has provided a guidance range for their sales growth as 2%–4%. As an investor, you are trying to understand the management's true expectations. Based on the characteristics of guidance and management expectations, how should you most likely interpret this range?

A. The midpoint of the range, 3%, represents the management's true expectations.

B. The lower bound of the range, 2%, represents the management's true expectations.

C. The upper bound of the range, 4%, represents the management's true expectations.

Q.4302 You are an analyst considering the use of a company's guidance for your forecasts. The company in question is highly sensitive to the business cycle. Based on the principles of using guidance for forecasts, should you rely on the company's guidance for your forecasts?

A. Yes, because guidance accounts for a majority of the quarterly financial reporting information used by investors.

B. Yes, because guidance is forward-looking, and management has an abundance of industry and company information that investors do not.

C. No, because management does not have an informational advantage over investors in forecasting macroeconomic variables like GDP or the prices of commodities.

Q.4304 A financial analyst is preparing a revenue forecast for a company that discloses the volumes and prices of its products. The analyst plans to prepare individual forecasts for these quantities and then multiply them to arrive at a revenue forecast. This approach is *most likely* an example of which type of forecast object?

A. Top-Down Forecast Object.

B. Bottom-Up Forecast Object.

C. Market Growth and Market Share Forecast Object

Q.4305 A retail company is forecasting its revenues based on the number of stores and sales per store, or same-store sales growth and sales related to new-store openings. This approach is *most likely* an example of which type of forecast object?

A. Capacity-based Measures Forecast Object.

B. Return- or Yield-based Measures Forecast Object.

C. Market Growth and Market Share Forecast Object.

Q.4306 A retail company is forecasting its revenues based on the number of stores and sales per store, or same-store sales growth and sales related to new-store openings. This approach is *most likely* an example of which type of forecast object?

A. Capacity-based Measures Forecast Object.

B. Return- or Yield-based Measures Forecast Object.

C. Market Growth and Market Share Forecast Object.

Q.4307 A bank is forecasting its net interest income based on account balances and revenue yields on them. The net interest income is calculated as loans multiplied by the average interest rate minus the product of deposits and liabilities and their average interest rate. This approach is *most likely* an example of which type of forecast object?

A. Return- or Yield-based Measures Forecast Object.

B. Product-line or Segment Revenues Forecast Object.

C. Market Growth and Market Share Forecast Object.

Q.4308 If a company experiences a sudden increase in revenue due to changes in exchange rates, additional selling days in the period, or acquisitions, how should these items *most likely* be treated in the revenue forecast? They should be:

A. included in the forecast but highlighted as potential risks.

B. included in the forecast as they contribute to the overall revenue.

C. excluded from the forecast and considered separately as they do not have the same drivers as the recurring revenue.

Q.4309 The COVID-19 pandemic led to a rapid increase in e-commerce sales, which later decelerated or declined in 2022. How should an analyst *most likely* interpret this trend in e-commerce sales?

A. As an indication that the e-commerce industry is in decline.

B. As a sign of the e-commerce industry's instability and unpredictability.

C. As evidence that some of the growth in e-commerce sales during the pandemic was non-recurring.

Q.4310 Which of the following is *most likely* the primary reason the analyst to analysts may separate certain "one-time" revenues or gains from the main revenue forecast when forecasting revenue?

A. To make the revenue forecast appear more impressive.

B. To forecast the "underlying" revenue or growth apart from the non-recurring items.

C. To simplify the revenue forecast by removing complex elements.

Q.4311 In the late 2010s, GPU manufacturers saw a large increase in sales, partly attributed to the use of GPUs in cryptocurrency mining. However, the companies could not or would not quantify the precise amount. How should an analyst *most likely* treat such sales in their forecast? They should:

A. ignore these sales as they are not quantified by the company.

B. include these sales in the forecast as they contribute to the overall revenue.

C. exclude these sales from the forecast and consider them separately, judging them as non-recurring.

Q.4312 Which of the following is *least likely* one of the main approaches used for revenue forecasting?

A. Historical results.

B. Market speculation.

C. Management guidance.

Q.4313 An analyst is reviewing the financial statements of a company. The company's disclosures about operating costs are less detailed compared to revenue disclosures. The analyst has to rely on more aggregated forecast objects. Which of the following would *most likely* be an example of such an aggregated forecast object that the analyst might rely on?

A. Costs separated by different geographic regions.

B. Detailed breakdown of costs for each product line

C. Consolidated financial statement lines such as cost of sales

---

Q.4314 An analyst is forecasting for a grocery chain that also sells higher-margin items such as alcoholic products or pharmaceutical products. The analyst expects a change in the product mix sold. What is the *most likely* reason for the analyst to forecast this change?

A. The grocery chain is planning to reduce its product range.

B. The grocery chain is planning to expand its product range.

C. Food and grocery items typically have low gross profit margins

---

Q.4316 A company heavily relies on commodities for its production process. Recently, the input prices have increased significantly. The company has a hedging strategy in place. As an analyst, how would you *most likely* expect this situation to impact the company's gross margin?

A. The gross margin will significantly decrease due to the rise in input prices.

B. The gross margin may decline, but the company's hedging strategy will mitigate the impact.

C. The gross margin will remain the same as the hedging strategy will completely mitigate the impact of rising input prices.

Q.4317 You are analyzing a company that operates as a wholesaler with franchised retail operations. When comparing this company's gross margin with a retailer that owns and operates its own stores, what would you *most likely* expect to find? The wholesaler will have a

A. higher gross margin and lower operating costs.

B. lower gross margin and higher operating costs.

C. lower gross margin but also much lower operating costs.

Q.4318 Total, a German cement and building materials company, experienced a sales growth of 6.1% from 2017 to 2018. However, the company's gross profit fell by 6.5% and its gross margin declined due to the growth of other operating costs, including SG&A expenses. Despite the increase in SG&A expenses, as a percentage of revenue, these expenses declined slightly. Based on this information, what can *most likely* be inferred about the relationship between SG&A expenses and the company's sales?

A. SG&A expenses increase in direct proportion to the company's sales.

B. SG&A expenses decrease in direct proportion to the company's sales.

C. SG&A expenses do not have a direct relationship with the company's sales.

Q.4319 Which of the following is *most likely* can be inferred about the type of information typically included in segment disclosures? Segment disclosures typically include:

A. cost items such as cost of sales, SG&A, etc., by segment.

B. operating and EBITDA margin profitability by segment.

C. both cost items and profitability measures by segment.

Q.4320 A financial analyst is preparing a working capital forecast for a business. He is considering various elements to project the future financial health of the business. In this context, which of the following elements is *least likely* typically included in a working capital forecast?

A. Inventories

B. Long-term liabilities

C. Accounts receivable

Q.4322 In the context of capital expenditures, which type is *most likely* needed to expand the business and is more discretionary, tied to management’s expansion plans and revenue growth?

A. Growth capital expenditures.

B. Operational capital expenditures.

C. Maintenance capital expenditures.

Q.4323 When projecting a company’s future capital structure, which of the following ratios are *most likely* used as the forecast object to project future debt and equity levels?

A. Current ratio, Quick ratio, and Cash ratio.

B. Debt to capital, Debt to equity, and Debt to EBITDA.

C. Return on assets, Return on equity, and Return on investment.

Q.4325 Which of the following might management *most likely* provide guidance on when projecting the future capital structure?

A. Company's marketing strategy and customer base.

B. Company's market share and competitive landscape.

C. Target capital structure, debt covenant ratios, and capital expenditures.

Learning Module 8: Equity Valuation: Concepts & Basic Tools

Q.121 An equity valuation model that estimates the intrinsic value as the present value of expected future benefits is *most likely*:

A. a multiplier model.

B. an asset-based model.

C. a present value model.

Q.1098 The economic principle guiding the price multiple comparable methods is:

A. the law of one price.

B. the constant growth rate.

C. the constant required rate of return.

Q.1099 What will happen to the value of a stock if the difference between the return on the stock and the constant growth rate widens?

A. There will be no change.

B. The value of the stock will increase.

C. The value of the stock will decrease.

Q.1102 In which of the following methods do analysts adjust book values of the firm's assets and liabilities to their fair values?

A. Asset-based models.

B. Market multiple models.

C. Discounted cash flow models.

Q.1104 Which of the following is a disadvantage of price multiple valuations?

A. Lagging price multiples reflect the past.

B. Price multiples are relatively easy to use and interpret.

C. Price multiples cannot be used in time series and cross-sectional comparisons.

Q.1106 Some firms do not currently pay dividends but are expected to pay dividends in the future. Which of the following methods should an analyst *most likely* use for analysis?

A. Asset-based models.

B. Valuation using multiples.

C. Dividend discount models.

Q.1108 Which of the following is *least likely* one of the common price multiples used for valuation?

A. Price to earnings.

B. Price to dividend.

C. Price to book value ratios

Q.1109 The expected P/E ratio of a stock is 10, and the actual P/E ratio is 10.8. What can we say about the stock?

A. The stock is overvalued.

B. The stock is undervalued.

C. The stock is correctly valued.

Q.1348 What is the market risk premium if the expected return on a stock is 12% while its beta is 1.5? Assume the risk-free rate to be 6%.

A. 6%

B. 4%

C. 10%

Q.1755 Which of the following valuation models *most likely* estimates a stock's value as the present value of cash flows distributed to shareholders?

A. Multiplier models.

B. Asset-based models.

C. Dividend discount model.

Q.1756 Calculate the present value of a stock if the stock is expected to pay dividends of $1.50 and $2 at the end of the 1st and 2nd year, respectively. At the end of the second year, the stock is expected to sell for $25. Assuming that the required rate of return of 12%, the stock's intrinsic value is :

A. $22.86

B. $24.50

C. $26.36

Q.1757 Texas Corp. is a calculator manufacturing firm which is expected to pay a dividend of $2 next year that will grow at the rate of 5% for two more years. If the stock is expected to sell for $30 at the end of the third year, and the required rate of return is 11%, then the present value of the stock is *closest to*:

A. $25.00

B. $27.05

C. $31.50

Q.1758 Which of the following is the *most appropriate* formula for calculating free cash flow to equity?

A. FCFE = CFO + Net borrowing.

B. FCFE = CFO - Increase in fixed income - Net borrowing.

C. FCFE = Net income + Depreciation - Increase in net working capital - Increase in net fixed investment + Net borrowing.

Q.1759 Core Inc. has preferred stocks outstanding priced at $70 that pay a fixed yearly dividend of $3.50. Assuming a required rate of return of 8%, the value of the preferred stock of Core is *closest to*:

A. $20.

B. $43.75.

C. $63.80.

Q.1761 Which of the following is *least likely* an assumption of the constant growth model?

A. The rate of return and the growth rate is constant.

B. Dividends are appropriate measures of shareholders' wealth.

C. The growth rate will always be greater than the required rate of return.

Q.1762 Stocks of MZJ Inc. recently paid a dividend of $2. If the dividend is expected to grow at the constant the rate of 4%, the value of the stock assuming an 11% required rate of return is *closest to*:

A. $19.65

B. $28.57

C. $29.71

Q.1763 When using Gordon's growth model, which of the following conditions will *most likely* increase the value of a stock?

A. Increasing the required rate of return and the growth rate.

B. Increasing the required rate of return and decreasing the growth rate.

C. Decreasing the required rate of return and increasing the growth rate.

Q.1764 Galaxy Ceramics is a ceramic and tiles manufacturing company based in Palo Alto. Some information regarding the stock of the company is given in the following table:

Required rate of return	12%
Return on equity	10%
Earnings per share	$5
Dividend	$1.50 per share

Assuming the dividend was paid last year, the growth rate of Galaxy's is *closest to*:

A. 3%.

B. 6%.

C. 7%.

Q.1765 Galaxy Ceramics is a ceramic and tiles manufacturing company based in Palo Alto. Assuming the dividend was paid last year and using the data given in the following table, calculate the value of Galaxy's stocks using the constant growth model.

Required rate of return	12%
Return on equity	10%
Earnings per share	$5
Dividend	$1.50 per share

A. $25.75

B. $30

C. $32.10

Q.1766 Ibiza Vibe is the chain of nightclubs in southern Spain. In the last five years, the firm's stock price has doubled. The relevant information regarding the company is given below:

Required rate of return	9%
Growth rate	4%
Expected earnings per share	$4
Dividend payout	40%

Using the data provided in the table, Ibiza Vibe's price-to-earnings ratio is *closest to*:

A. 8.

B. 12.

C. 32.

Q.1767 The price-to-earnings ratio based on fundamentals is *best* known as:

A. market P/E.

B. justified P/E.

C. historical P/E.

Q.1768 An analyst has recently gathered the following information regarding the shares of Eternity Automotive Company that trade on the open market:

Share price	$25
Shares outstanding	250,000
Market value of total debt	$5 million
Cash and Investments	$1.1 million
Inventory	$500,000

Using the given data, the enterprise value of Eternity Automotive Company is *closest to*:

A. $6.25 million.

B. $9.65 million.

C. $10.15 million.

Q.1769 Which of the following is *most likely* a disadvantage of the discounted cash flow valuation model?

A. They are widely accepted.

B. They allow for sensitivity analysis

C. Value estimates are very sensitive to input values.

Q.3649 An equity analyst is tracking the stock price of an Information Technology (IT) company. The company's share currently trades at \$50. Based on the company's financial statements, the analyst predicts that the company will pay a dividend of \$3 and \$4 in the next two years. He also forecasts that the company's shares would trade at \$60 at the end of these two years. For an investor with a required rate of return of 10%, the best course of action would *most likely* be to:

A. sell shares of the stock.

B. buy shares of the stock.

C. short-sell shares of the stock.

Q.3650 An equity analyst is tracking the share price of a steel company. The company's dividends are expected to grow at a rate of 4% per year. Additional financial details of the company are given in the following exhibit.

Exhibit: Jury Steel Limited – Financial details for the year 2014

Net Income	\$55,000
Dividends	\$20,000
Number of Common Shares	8,000

If the earnings retention ratio of the company remains constant, the return on equity of the company next year will be *closest to*:

A. 6.35%.

B. 7.67%.

C. 8.97%.

Q.3651 A company's dividends are expected to grow at a rate of 4% per year. Additional financial details of the company are given in the following exhibit.

Exhibit 1: Marek Ltd – Financial details for the year 2015

Net Income	\$27,500
Dividends	\$10,000
Surplus Transferred to Reserves	\$12,500
Outstanding Shares	4,000

Assuming that the required rate of return is equal to the return on equity, the intrinsic value of the company's shares is *closest to*:

A. \$111.26.

B. \$113.54.

C. \$118.23

Q.3652 An equity analyst is tracking the share price of a PharmaCom's stock. The company's dividends are expected to grow at a rate of 12% per year. Additional financial details of the company are given in the following exhibit.

Exhibit 1: PharmaCom – Financial details for the year 2011

Net Income	\$1,300,000
Dividends	\$65,000
Surplus Transferred to Reserves	\$1,235,000
Outstanding Shares	80,000

If the company does not issue fresh equity, the earnings per share of the company next year will be *closest to*:

A. \$18.2.

B. \$5.73.

C. \$6.73.

Q.3653 A company recently developed a piece of software that is new to the market and currently has no competitors. However, equity research analysts believe that due to the huge market opportunities presented by the new software, the segment would attract fierce competition within the next 3 to 4 years. The *most* appropriate model to determine the intrinsic value of the company would be the:

A. multiplier model.

B. Gordon Growth Model.

C. multistage dividend discount model.

Q.3654 A company currently pays a dividend of $2 which is expected to grow at a rate of 8% for the next two years and then at a rate of 1% until perpetuity. If the required rate of return is 12%, then the intrinsic value of the company's shares is *closest to*:

A. $20.89.

B. $15.89.

C. $22.89.

Q.3655 An equity analyst is tracking the shares of a pharmaceutical company – Jilliax Inc. The company has an expected earnings retention ratio of 80%, a dividend growth of 4%, and a required rate of return of 8%. The leading P/E ratio of the company is *closest to*:

A. 3.

B. 4.

C. 5.

Q.3656 GGH Corp. has an expected earnings retention ratio of 75%, a dividend growth rate of 3%, and a required rate of return of 7%. Based on this information, what can a trader at HY Investment Bank expect to occur if they are currently short 500,000 shares of GGH Corp., given that the shares are trading at a P/E ratio of 8?

A. Hold on to his short position.

B. Buy back the company's shares.

C. Buy back the company's shares and go long additional shares of GGH.

Q.3657 A perpetual preferred share promises to pay a dividend of $5. If the required rate of return is 10%, then the intrinsic value of the preferred share is *closest to*:

A. $52.50.

B. $50.

C. $55.

Q.3658 An equity analyst manages a global equity portfolio. He tracks two telecom companies, the financial details of which are given in exhibit 1.

Exhibit 1: Telecom Companies

Company	IntraTelecom	SupraCom
Country of Operation	X	Y
Dividend Payout Ratio	30%	30%

All other operating and financial parameters of the companies are similar. Furthermore, both countries have identical risk profiles.
Exhibit 2 provides the central bank stance of country X and Y, respectively.

Exhibit 2: Central Bank Stance

Country	Central Bank Stance
X	The central bank is pursuing a policy of monetary easing and intends to keep the interest rates at record low levels to boost economic activity.
Y	The central bank is pursuing a policy of monetary tightening and is concerned about the increase in asset prices. It intends to keep the interest rates high.

The analyst forecasts the forward P/E of both companies assuming different growth rates. If actual growth rates of the companies exceed the analyst's projection, the impact on the P/E ratio will *most likely* be higher for:

A. IntraTelecom.

B. SupraCom.

C. neither of the two companies.

Q.3659 A telecom company acquired its competitor in a highly competitive bid. Subsequent to the acquisition, the company books a 'Goodwill' which forms 30% of its balance sheet. An equity analyst intends to value the company, the valuation methods *least likely* to be used by the analyst are:

A. multiplier models.

B. asset-based valuation models.

C. relative valuation models.

Q.3660 Consider the following statements:

I. Price multiple models allow for the comparison of companies operating in different industries.

II. Price multiple models allow for both cross-sectional and time-series relative comparisons of companies.

Which of these statements are accurate?

A. I

B. II

C. I & II

Q.3661 The shares of AAA Telematics Limited are currently trading at $50 and pay a yearly $4 dividend. In the after-hours, the company announces that it has closed-in on a $100 million project from a big investment bank. The information causes a revision of AAA's next year forecasted share price which rises to $80. If analysts expect the shares of the company to generate a yearly holding period return of 18%, then the price of AAA's stock is most likely to open at a price of:

A. $63.72.

B. $67.80.

C. $71.19.

Q.3662 Exhibit 1 shows the dividends paid by three companies for the past five years.

Exhibit 1: Dividends paid to investors

Company	2012	2013	2014	2015	2016
WWW	$2.00	$2.20	$2.42	$2.66	$2.93
ZZZ	$2.50	$3.00	$3.30	$4.13	$5.36
YYY	$1.50	$1.80	$2.34	$3.28	$3.60

The company *most* likely to be valued using the Gordon growth dividend discount model is:

A. WWW.

B. ZZZ.

C. YYY.

Q.3663 Company X does not pay dividends now, but it is supposed to do so in three years. The dividend is estimated to be $3.00 and is expected to be received three years from now. The dividend is estimated to grow at the rate of 4.5% per year to infinity. The required rate of return 7%. The current intrinsic value of the company's X share is *closest to*

A. $125.4

B. $97.96

C. $102.36

Q.3664 An equity analyst intends to use the Gordon growth dividend discount model to value a company. He assumes that the dividend of the company will grow at the constant rate ‘g’ and the company's dividend payout ratio will remain constant over the following decades.
The most consistent assumption concerning the company's earnings is that:

A. the earnings growth rate will exceed the dividend growth rate.

B. the earnings growth rate will be lower than the dividend growth rate.

C. the earnings growth rate will be equal to the dividend growth rate.

Q.3665 Exhibit 1 summarizes broad assumptions regarding JulaVista Inc.

Exhibit 1: Julavista Inc.

Dividend paid this year	$4.00
Dividends growth rate	3%
Rate of return required by equity investors	8%

The percentage of the stock's intrinsic value that's attributable to the dividend growth assumption is:

A. 39.3%.

B. 50%.

C. 60%.

Q.3666 An e-commerce firm began its operations one year ago. The company's management has indicated that it will start paying dividends from its fifth operating year and onward and expect to maintain a dividend payout ratio of 40% with a dividend growth rate of 5%. If the company pays a dividend of $5.00 five years from now, then the company's stock price today given a required rate of return for investors of 8% is *closest* to:

A. $210.10.

B. $122.50.

C. $120.10.

Q.3667 Exhibit 1 shows the financial information of Ulyss, a firm operating in the oil industry.

Exhibit 1: Financial information - Ulyss

	Dividends	EPS
After 1 year	$4.50	$12.00
After 2 years	$5.40	$14.40
Share price at the end of Year 2		$120.00
Stock beta		1.2
Market average return		10%
Yield on government bonds		3.50%

If the company's dividend is assumed to grow at the same constant rate, then the return on equity (ROE) ratio of the company is closest to:

A. 20%

B. 32%

C. 38%

Q.3668 Exhibit 1 shows the financial information of Ulyss, a firm operating in the oil industry.

Exhibit 1: Financial information - Ulyss

	Dividends	EPS
After 1 year	$4.50	$12.00
After 2 years	$5.40	$14.40
Share price at the end of Year 2		$120.00
Stock beta		1.2
Market average return		10%
Yield on government bonds		3.50%

The stock price of Ulyss today is *closest* to:

A. $106.27

B. $102.27

C. $105.27

Q.3669 The Free Cash Flow to Equity (FCFE) valuation model assumes that:

A. The cashflows left after debt payment will be distributed to the equity holders.

B. The cashflows left after debt payment and taxes will be distributed to the equity holders.

C. The cash flows left after debt payments, reinvestments and taxes will be distributed to the equity holders.

Q.3670 PPP Construction Project's Limited, a construction company, has been receiving a lot of media attention lately. The company started its operation in 1990 and was rated as one of the top 50 best-managed company for five years consecutively. However, recently, concerns have been raised by the shareholders about the company's management. The company has been incurring a substantial loss by undertaking projects with negative net present values (NPVs).
If an equity research analyst wants to value the company, the *most* appropriate valuation model(s) to be used would be:

A. the Free Cash Flow to Equity Valuation (FCFE) Model.

B. the Dividend Discount Model (DDM).

C. either the Free Cash Flow to Equity Valuation (FCFE) Model or the Dividend Discount Model (DDM).

Q.3671 A company is valued using the Free Cash Flow to Equity Valuation (FCFE) Model and the Dividend Discount Model (DDM). Both valuation models will provide the same value for the firm if the company invests excess cash in:

A. negative net present value (NPV) projects.

B. positive net present value (NPV) projects.

C. zero net present value (NPV) projects.

Q.3672 An analyst uses an equity valuation model that emphasizes on the anticipated dividends rather than the ability to pay the dividends. The model is *mostly likely* to be:

A. Free Cash Flow to Equity Valuation (FCFE) Model.

B. Dividend Discount Model (DDM).

C. either the Free Cash Flow to Equity Valuation (FCFE) Model or the Dividend Discount Model (DDM).

Q.3673 Chiasson & Alabama, a private equity fund, has investments in multiple companies. Exhibit 1 shows the private equity fund's ownership percentage across different companies.

Exhibit 1: Chiasson & Alabama Investments

Company	Ownership %	Initial Investment
CCC	80%	$200 million
DDD	20%	$50 million

The *most* appropriate valuation model to value Company CCC is the:

A. Free Cash Flow to Equity Valuation (FCFE) Model.

B. Dividend Discount Model (DDM).

C. either the Free Cash Flow to Equity Valuation (FCFE) Model or the Dividend Discount Model (DDM).

Q.3674 An analyst forecasted the dividend policy of Philly's SteakHouse, as shown in exhibit 1.

Exhibit 1: Philly's SteakHouse – Expected Dividend Policy

Year	Dividend
2018	\$3.00
2019	\$4.00
2020	\$6.00
After 2020	Dividends will grow at a rate of 4%

Assuming the required rate of return for equity investors to be 10%, the share price of Philly's SteakHouse in 2017 is *closest* to:

A. \$84.68.

B. \$84.17.

C. \$88.68.

Q.3675 An analyst forecasted the dividend policy of Bicom Group, as shown in exhibit 1.

Exhibit 1: Bicom Group – Expected Dividend Policy

Year	Dividend
2018	\$4.00
2019	Nil
2020	Nil
2021	\$5.00
2022	Nil
2023	\$8.00
After 2023	Dividends will grow at a rate of 2%

Assuming the required rate of return for equity investors to be 8%, the share price of Bicom Group in 2017 is *closest* to:

A. \$99.08.

B. \$98.12.

C. \$93.08.

Q.3676 An analyst forecasted the dividend policy of AlterOrg LifeScience, as shown in exhibit 1.

Exhibit 1: AlterOrg – Expected Dividend Polic

Year	Dividend
2018	$2.50
2018-2021	Dividends will grow at a rate of 8%
After 2021	Dividends will grow at a rate of 5%
Required rate of return for equity holders	9%

AlterOrg LifeScience's stock price in 2017 is *closest* to:

A. $57.63.

B. $67.63.

C. $77.63.

Q.3677 An extract from an equity research report on Alcalyn Info-Services Limited is presented below:

"The company operates in the highly competitive landscape of IT Services. However, the sector is expected to witness a wave of consolidation in the next 3-4 years. The dividends of Alcalyn Info-Services Limited are expected to grow at a rate of 4% for the next four years. Currently, the average return demanded by equity investors of IT services hovers around 12%, which is expected to come down to 9% as the sector matures and sees a wave of consolidation. The company expects the earnings to grow at a rate of 8% when the industry consolidates and the competition decreases."

If the company paid a dividend of $4.50 this year, the current stock price of the company according to the analyst's expectations is *closest* to:

A. $390.03

B. $376.03

C. $355.03

Q.3678 The expected dividend policy of a consumer product manufacturer is given in exhibit 1.

Exhibit 1: Consumer Product Manufacturer – Expected Dividend Policy

Year	Expected dividend growth rate
2018-2020	8%
Post 2020	4%

Given that the company plans to pay a dividend of $3.00 in 2018, and the return required by the equity investors is 10%, the company's stock price in 2017 is *closest* to:

A. $53.50.

B. $43.62.

C. $63.42.

Q.3679 An equity analyst tracks two similar companies, both of which manufacture consumer products. Company A has grown inorganically by acquiring small firms at market prices (that are significantly higher than average historical prices). Company B has grown gradually by making its factories operationally efficient. Both companies are considered to be market leaders in their industry. The company *most* likely to have a higher price-to-book multiple is:

A. Company A.

B. Company B.

C. either Company A or Company B.

Q.3680 A recent survey in a popular financial magazine indicates that investors are willing to take higher risk because of the recent price surge in cryptocurrencies. The study *most* likely point towards a/an:

A. increase in the price-to-earnings ratio of all stocks.

B. decrease in the price-to-earnings ratio of all stocks.

C. increase in the equity risk premium demanded by investors.

Q.3681 An equity trader intends to follow a momentum-based trading strategy. The trader is *most likely* to select stocks based on:

A. discounted cash flow valuation approaches.

B. asset-based valuation approaches.

C. price multiples valuation approaches.

Q.3682 An equity analyst is comparing the price multiples of two companies – Quartic Ltd. and Recon Inc. While examining the balance sheet of the two companies, the analyst finds out that Quartic capitalizes its advertisement costs while Recon expenses out its advertisement costs.
Assuming that both companies are similar in all other aspects, Quartic Ltd. is *most* likely to have:

A. a higher price-to-earnings ratio than Recon Inc.

B. a lower price-to-earnings ratio than Recon Inc.

C. the same price-to-earnings ratio as Recon Inc.

Q.3683 An equity analyst is comparing the price multiples of two companies – Welsh Inc. and Far-East Corp. While examining the balance sheet of both companies, the analyst observes that Welsh follows the straight-line method of depreciation while Far-East depreciates its assets using the double-declining balance method.
Assuming that both companies are similar in all other aspects, which company is *most* likely to report a higher price-to-earnings ratio in the early years of both companies' lives?

A. Welsh Inc.

B. Far-East Corp

C. The depreciation method will not affect the price-to-earnings ratio

---

Q.3684 According to the Management Discussion & Analysis of a publicly-traded company, the firm’s dividends are expected to grow at a rate of 4% for the next ten years. If the return-on-equity ratio of the company is likely to improve in the next ten years, then the price-to-earnings ratio of the company will most likely:

A. remain unchanged.

B. increase.

C. decrease.

Q.3686 Portions of the balance sheet of Proctor Corp. and Gator Inc. is given in exhibit 1.

Exhibit 1: Balance sheet comparatives - Proctor Corp. vs Gator Inc.

	Proctor Corp.	Gator Inc.
Fixed Assets	$10,000	$7,000
Inventories	$25,800	$27,000
Current investments	$20,000	$30,000
Prepaid Expenses	$5,000	$1,000
Total assets	$60,800	$65,000
Long term borrowings	$10,000	$8,875
Short term borrowings	$17,500	$20,000
Paid-up capital	$1,000	$1,500
Reserves and surplus	$10,000	$15,000
Accounts payables	$22,300	$19,625
Total liabilities & Equity	$60,800	$65,000

Both companies have similar growth rates and equal dividend payout ratios, but Gator Inc. currently trades at a higher P/E ratio. Which of the following is the most likely reason for the shares of the Proctor Corp. to trade at a lower price-to-earnings ratio?

A. Proctor Corp.’s current investments are lower than Gator Inc.’s.

B. The debt to equity ratio of Proctor Corp. is higher than Gator Inc.'s

C. Proctor Corp. accounts payable turnover ratio is lower than Gator Inc.

Q.3687 Exhibit 1 shows a limited amount of financial information that a private equity analyst has been able to gather from four private companies.

Exhibit 1: Financial Information

	Total Assets	Debt-to-Equity Ratio	Earnings
AAA	$250 million	3.5	$234,000
BBB	$195 million	1.2	$120,000
CCC	$300 million	2.0	$250,000
DDD	$280 million	0.35	$225,000

If the analyst wants to carry out a relative valuation of the four companies in exhibit 1, then the most appropriate ratio would be the:

A. price-to-earnings ratio.

B. EV/EBITDA ratio.

C. price-to-book ratio.

Q.3688 A trader is trying to find short-selling opportunities using price multiples. The P/E multiple of a few stocks is given in exhibit 1:

Exhibit 1: P/E Multiples vs. Industry Average

Company	P/E Multiple
AAA	2.3
BBB	3.4
CCC	6.3
DDD	2.2
Industry Average	2.2

The equity trader concludes that the shares of CCC are the most overvalued. However, to confirm his hypothesis, he tries to study the fundamental factors which may have driven up the company's P/E ratio. None of the underlying factors based on trailing earnings, such as the payout ratio, justify such a massive valuation. To further confirm whether the company is currently overvalued, the trader must *most* likely:

A. perform a discounted cash flow (DCF) valuation.

B. compare the forward price-to-earnings ratio of all firms.

C. perform an asset-based valuation.

Q.3689 The owner of a software company intends to sell his medium-sized business. However, if the owner is not willing to sell its proprietary software codes to the acquirer, then the *most* appropriate metric to value the company would be a/an:

A. price-to-sales multiple valuation.

B. asset-based valuation.

C. discounted cash flow (DCF) valuation.

Q.3690 The sole owner of a digital marketing company that started its operations a few years ago intends to sell his business. If he is willing to sell all of the proprietary software codes to the acquirer, then the most appropriate metric to value the company would be the:

A. price-to-earnings ratio.

B. price-to-sales ratio.

C. price-to-book value ratio.

Q.3691 The trailing and forward price multiples of the shares of few companies are furnished in the table below:

Company	Sector	Trailing P/E Multiple	Forward P/E Multiple
A	Telecom	4.34	1.30
B	Oil and Gas	3.20	4.25
C	Consumer Staples	3.25	3.30
D	Banking	2.30	3.28
E	Social Media	3.23	3.90

If only the price multiples are considered, then the company which appears to be the most undervalued is Company:

A. A.

B. D.

C. E.

Q.3766 The following data is available on a company:

- Comprehensive income – $ 150 million
- Other Comprehensive Income – $ 40 million
- Common Shares Outstanding – 30 million
- Stock Price Per Share - $ 40

On a net income basis, the Company's P/E is closest to:

A. 10.91

B. 8

C. 3.667

Q.3873 The most recent annual dividend declared by Creed Inc. to all shareholders is $0.78 per share. The stock is currently trading at $28 per share. Analysts expect the dividend to grow at 4 percent per year and the required rate of return on the market is 8%. The intrinsic value of the stock is *closest to:*

A. 27.59

B. 19.5

C. 20.28

Q.3875 A company has recently announced an annual dividend on its stock of $0.78. Analysts believe the dividends are expected to grow at an annual rate of 4% for 5 years and then 2% thereafter. If the required rate of return on equity is 8 percent, then the intrinsic value of the share of stock is closest to:

A. 3.49

B. 16.13

C. 14.49
